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**INTEGRATED RURAL DEVELOPMENT**  
THE CONCEPT AND ITS OPERATION

GUSZTÁV NEMES

Magyar Tudományos Akadémia  
Közgazdaságtudományi Intézet

Budapest



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## **Integrated rural development**

### **The concept and its operation**

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**INTEGRATED RURAL DEVELOPMENT**  
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BY

GUSZTÁV NEMES

***Abstract***

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*Our paper explores, on a theoretical level, the reason for frequent failures of rural development policies and identifies some potential improvements in rural policy making in Europe. Our approach to des/integration concerns actors, resources, institutions, knowledge, the fundamental logic of development, and the interplay between two distinct levels of rural development: the level of policies, or central intervention; and the level of local aspirations aimed at improving everyday rural life. Along these lines, two characteristic systems of rural development – the central bureaucratic and the local heuristic – can be clearly identified. Ideally, these should work in co-operation, complementing each other, forming an integrated development system, where rural policy serves to (i) channel resources, establish strategic aims and development models in a top-down mode, and (ii) convey information and mediate social, economic, political interests in a bottom-up mode. However, lack of integration and divergence of interest can lead to dysfunction, conflict and dissipation within the system. We argue that rural development policies tend to fail because the central bureaucratic system imposes top-down control and objectives throughout the development process, thus failing to sufficiently promote the reconfiguration of local resources, which is better achieved through bottom-up processes and the local heuristic system. In other words, the tendency to disjunction between the two basic socio-political systems of rural development is the main reason for the failure of rural development policy. The paper offers analytical models of integrated and non-integrated rural development systems and illustrates the argument through some examples taken from the community initiatives and the pre-accession policies of the European Union. The study is in two halves. The first half elaborates the concept of ‘integrated rural development’ based on international literature. The second part offers a few new conceptions, as a contribution to the ‘new rural development theory’ and simple models of integrated and non-integrated development.*

*Keywords: Rural development, local development, rural policy, European Union, LEADER Programme, centre-periphery, local governance*

*JEL code: O2, N5, P5, Q0, R0*

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NEMES GUSZTÁV

**AZ INTEGRÁLT VIDÉKFEJLESZTÉS ELMÉLETE ÉS GYAKORLATA****Összefoglaló**

*Tanulmányunk elméleti szinten vizsgálja a vidékfejlesztési politikák gyakori kudarcának okait, és megpróbál felvázolni néhány lehetséges fejlődési irányt az EU vidékpolitikája számára. Megközelítésünkben a vidékpolitika sikere (integrációja, illetve dezintegrációja) sok tényező függvénye. A vizsgálat során figyelembe kell vennünk a központi intervenciót, a különféle szintű szereplőket, erőforrásokat, intézményeket, tudást, a lehetséges fejlesztés filozófiai megközelítéseit és a két alapvetően különböző fejlesztési alrendszer kölcsönhatását, vagyis a fejlesztési politikák, a központi beavatkozás szintjét, illetve a vidéki élet javítására tett mindennapi helyi (lokális) erőfeszítéseket. E gondolatmenet szerint a vidékfejlesztésen belül két jellemző alrendszert – politikai-adminisztratív, illetve helyi-heurisztikus – különíthetünk el. Ideális esetben a két alrendszer kiegészíti egymást és integrált fejlesztési rendszert alkot, melyben a vidékfejlesztési politikák felülről lefelé (top-down) közvetítik a központi erőforrásokat, kijelölik a stratégiai célokat és az alkalmazandó fejlesztési modelleket, ugyanakkor lentől felfelé (bottom-up) szállítják a szükséges információkat, és közvetítenek a különféle társadalmi, gazdasági, politikai érdekcsoportok között a fejlesztés különböző szintjein. A valóságban a két fejlesztési alrendszer közti integráció és az eltérő érdekek egyeztetésének a hiánya konfliktusokhoz, működési zavarokhoz és a rendszer széteséséhez vezethet. Gondolatmenetünk szerint a vidékfejlesztési politikák gyakori kudarcának fő oka az, hogy a politikai-adminisztratív alrendszer központi kontrollt és célkitűzéseket próbál érvényesíteni a fejlesztés összes szintjén, és ennek következtében nem képes támogatni a helyi erőforrások hasznosítását (rekonfigurációját), ami a helyi-heurisztikus fejlesztési alrendszeren keresztül sokkal hatékonyabban megvalósítható lenne. Másszóval, a vidékfejlesztési politikák gyakori kudarcának fő oka a két fejlesztési alrendszer közti integráció és kommunikáció hiánya. Tanulmányunk első felében a nemzetközi szakirodalom alapján az integrált vidékfejlesztéshez vezető különféle elméleti megközelítéseket tárgyaljuk. A tanulmány második részében megpróbálunk hozzájárulni az 'új vidékfejlesztési paradigma' elméleti megalapozásához, felvázolva néhány új fogalmi elképzelést valamint az integrált (integrated) és a szét-eső (dezintegrált) vidékfejlesztési rendszerek modelljét.*

*Kulcsszavak: vidékfejlesztés, helyi fejlesztés, vidékpolitika, Európai Unió, LEADER Program, központ-periféria*



## INTRODUCTION<sup>1</sup>

In their article Van der Ploeg et al (2000) suggest that a new model of rural development that emerges slowly but persistently in both policy and practice should be followed by a paradigm shift in associated theory. They suggest that “there is a need for a new rural development paradigm that can help clarify how *new resource bases* are created, how the irrelevant is turned into a value and how, after combining with other resources, the newly emerging whole orientates to new needs, perspectives and interests.” (2000:399). They state that, the new rural development paradigm emerged as a set of responses to the old, modernisation paradigm - marking a clear divorce from the deterministic nature of the old order. Nevertheless, the new paradigm still has its roots in the past, since rural development is usually constructed on the back of existing production structures (Murdoch 2000). The new paradigm is first of all connected to those trends, which have been trying to solve problems arising from the modernisation paradigm that shaped the European rural economy and society in the post War period. Though it has also strong connections with cultural traditions and social networks that predate the recent modernisation period.

This paper explores the elements of the new rural development paradigm. It is in two halves. The first half elaborates the concept of ‘integrated rural development’. It starts by looking at the characteristics and critique of endogenous development, as an approach contrary to the earlier paradigm. This is followed by examples from the literature on local development and agro-industrial (or rural) districts and the application of the network theory in this field. Then I explore rural values and various possibilities for their reconfiguration as resources for rural development. Finally I suggest a working definition for ‘integrated rural development’ to be used throughout this study.

The rest of this study - based on my examination and analysis - tries to illuminate some important terminologies and offers a few new conceptions, as a contribution to the ‘new rural development theory’. First I clarify what I mean by centre and periphery. Then various rural values, as possible resources for rural development, are explored. This is followed by a discussion of rural problems, differentiating between possible

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disadvantages caused by the lack of various types of access, and others resulting from the inadequate resource base of an area. The following two subsections introduce the central administrative and the local heuristic systems of rural development, then explore how the various types of rural disadvantages can be tackled through these system. The next section offers and analyses simple models of integrated and non-integrated development, trying to find the reason for frequent policy failures and come up with a suggestion for a more sufficient institutional arrangement. Finally, as an early introduction to my regional case study, I outline a unique development institution, which may help to break the vicious circle of policy failures, filling the institutional and knowledge gap between central policies and rural localities.

## **1. ARRIVING TO THE NEW RURAL DEVELOPMENT PARADIGM**

### **1.1. Endogenous development**

The notion of endogenous development, as suggested by Bassand et al. (1986), has been put forward in opposition to traditional understanding, or in other words the ‘modernist’ notion of development. Endogenous development is understood as the hypothesis that improvements in the socio-economic well being of disadvantaged areas can best be brought about by recognising and animating the collective resources of the territory itself (Ray 2000). According to Bassand (1986) “the new meaning of development, that is, qualitative and structural indicators, and not just quantitative and monetary measures, are used as criteria... [and] cultural, social, political, and ecological values as well as social costs and long term effects are combined” for endogenous development (cited in Brugger, 1986 p. 39.).

In the late 70s and early 80s considerable scepticism emerged about the effectiveness of conventional development policy instruments, and some regional development analysts were looking for alternatives for the then dominant regional development paradigm (Helmsing 2001). Walter Stöhr advocated selective spatial closure (Stöhr & Fraser, 1981) and John Friedmann the agropolitan approach (Friedmann & Douglass, 1978). Although there are considerable differences between the two, they have in common the search for *endogenous* development alternatives based on *local* actors, resources and capacities.

This concept as a development approach was created as an alternative to the practice of central authorities in designing interventions which deal with sectors of social and economic life in isolation from each other and/or which assume that socio-economic problems can be solved by standard measures, regardless of location or culture. Here the emphasis has been very much upon what areas can do for themselves and support and

assistance has been geared towards the enablement of local economic growth (OECD 1996/2). According to Lowe et al (1998:12) the basic characteristics of the endogenous model of rural development are as follows:

- Key principle - the specific resources of an area (natural, human and cultural) hold the key to its sustainable development;
- Dynamic force - local initiative and enterprise;
- Function of rural areas - diverse service economies;
- Major rural development problems - the limited capacity of areas and social groups to participate in economic and development activity;
- Focus of rural development - capacity building (skills, institutions and infrastructure) and overcoming social exclusion.

According to Ray (1997:345) the main characteristics of endogenous (or participatory) development are threefold. First, it sets development activity within a territorial rather than sectoral framework, with the scale of the territory being smaller than the nation-state. Second, economic and other development activities are reoriented to maximise the retention of benefits within the local territory by valorising and exploiting local resources – physical and human. Third, development is contextualised by focusing on the needs, capacities and perspectives of local people, meaning that a local area should acquire the capacity to assume some responsibility for bringing about its own socio-economic development. ‘Partnership working’ – collaborative arrangements between public bodies or between the public, private and voluntary sectors - has been increasingly recognised as a mechanism to introduce and manage endogenous development (Ray 2000). The partners pool their resources in the pursuit of a common policy objective, in this case the socio economic regeneration of a territory. In theory, the partners cultivate consensual strategies and thereby integrate their separate responsibilities or contributions (Edwards et al, 1999).

As stated by Shortall and Shucksmith (1998:75), “development is not just about increasing goods and services provided and consumed by society. It also involves enabling communities to have greater control over their relationship with the environment and other communities.” According to this approach empowerment, capacity building, carefully designed social animation and the provision of suitable training and development institutions through central policies are key elements of the system. According to Picchi (1994), certain political-institutional arrangements can also help endogenous development patterns. These include a rich network of services, provided by local administrations for economic sectors,

planning mechanisms, aimed at strengthening development patterns and a stable climate for industrial development. Keane points out two main ways in which endogenous development differs from exogenous: first, it is seen not only as an economic concept, but also as a process dealing with the total human condition; and second it accepts numerous possible conceptions of development and pitches the objectives and paths on an appropriate local level (Keane 1990:291). He also says that the endogenous approach "represents a significant change from investment on physical capital to investment in developing the knowledge, the skills and the entrepreneurial abilities of the local population" (p.292).

The endogenous development approach has also, however, been seen to possess a number of weaknesses. Brugger (1986) states that there are significant gaps in the theory of endogenous development, though he suggests that they can be overcome through systematic analysis of practical experiences and can still be useful for policy makers (pp. 47). Nevertheless, later on this was seen as a weakness by Lowe et al (1995) who said that social theory has not been very successful in providing useful models to inform endogenous approaches. Slee (1994:191) also remarks that: "endogenous development is not so much a concept with clearly defined theoretical roots but more a perspective on rural development, strongly underpinned by value judgements about desirable forms of development".

One of the main criticisms by Lowe et al (1995) is that the endogenous approach can relegate whole areas into low growth trajectories, particularly if it has been their experience in the past. Brugger (1986) also suggests – based on the Swiss experience – that 'too endogenous', self-reliant development, which ignores external effects and global economic processes, can be highly damaging for the regional economy and society (pp. 50). A large body of literature, discussing the implementation of subsequent rounds of the LEADER Programme warned about possible problems concerning social exclusion and the legitimacy of new social groupings and associations participating in local development (see Shortall and Shucksmith 1998, Ray 1996, Kearney 1997 and others). Participatory approaches to rural development have been sought to ensure the efficient use of rural resources, but largely these have tended to provide scope for local domination of decision-making influence by powerful local actors or have been undermined by local apathy (Lowe et al 1998; Ward and Nicholas 1998).

Another criticism by Slee (1994) is that concerning state policies, local areas remained almost as dependent under the endogenous approach as they used to be in the previous regime. Development agencies realised that rural areas may possess a growth potential of their own just waiting to be unlocked. As a result, the same agencies and officials who once favoured exogenous development started enthusiastically promoting bottom-up

approaches. Slee states that: “Development agencies have thus adapted their modus operandi, without altering their fundamental aims and objectives. They have recognised that long-run developmental gains are likely to be secured more effectively by encouraging local entrepreneurship than by inducing footloose branch-plants into the area. The same packages of infrastructure development, grant-aid, loan finance and business and community support services are still in evidence, but the agencies have learned to adapt elements to local social and cultural context” (Slee 1994:193). Lowe et al (1995) supplement these criticisms saying that the endogenous development approach often does not address the important question of how local circuits of production, consumption and meaning interact with extra-local circuits. Furthermore they suggest that the crucial distinction should be between local and external control of development processes, and that an institutional focus which specifies precisely how the links between local actors and those situated elsewhere are established and the nature of the relations specified is a useful way to proceed. This approach, they conclude, recasts endogenous and exogenous concerns into the analysis of economic relations as power relations (Lowe et al 1995:94).

## **1.2. Agro- industrial (rural) districts**

The rural district literature applies the old concept of industrial districts in the rural development arena (Marshall 1890 and 1927 cf. Fanfani 1994; Lowe et al 1995). This literature, furthering the endogenous approach, offers a more complex understanding of the connection between local and extra-local factors of development. Authors, through examples of economically successful rural districts, attempt to account for the success of industrial districts in endogenous development. They consider long standing socio-economic networks, originating from the agricultural past, as a crucial factor for success. “Collective action enables small entrepreneurs to mobilise social relations to improve their economic performance and create new opportunities for growth. Successful cases of rural development demonstrate that collective action produces a local framework in which a constructed environment, institutions, symbols, and routines facilitate the activities of small firms by giving them access to resources that could not be accessed by individual action alone” (Brunori and Rossi 2000:409).

Lundvall (1992 & 1993) leads the way in stating that the capacity of local areas to engage in processes of learning and innovation through networks is subject to underlying supportive influences of the local cultural context fortified by a certain institutional thickness. Some areas are more suited to network development and hence will benefit more from endogenous development than other more remote areas. Rural industrial districts are understood in the framework of flexible specialisation and a growing

integration between food production, processing and retailing. According to Lowe et al (1995:95) “closely networked relations between local farms, processors, distributors and retailers make for flexibility in adapting to technological and market changes, but at the same time, allow value-added in the non-agricultural aspects of the food chain to remain within the regional economy, rather than being captured by exogenous, and often multi-national, food companies.” Successful innovation is bound up with the “associational capacity” of local actors (Cooke & Morgan 1993).

“The logic of the industrial district is self-reinforcing. The more distinctive each firm is the more it depends on the success of other firms’ products to complement its own. Repetitive contracting, embedded in local social relationships, cemented by kinship, religion and politics, encourages reciprocity...The vibrancy of the districts is not due to their geography alone, but to their social practices” (Powell and Smith-Doerr 1994: 386). This may suggest that rural areas may be endowed with greater development potential, where rural actors are more embedded in local cultures and social structures (Brunori and Rossi 2000; Brusco 1996; Murdoch 2000; Paloscia 1991). Fanfani (1994) identifies over sixty Italian districts that had been successful through endogenous development and claims that the success of agro-industrial districts originates from the relationship between agricultural specialisation and strong local artisanship. Examples of these local development triumphs are in the production of poultry and pork meat and Parmesan cheese.

Though, rural industrial districts need not necessarily specialise in food production. Cooke and Morgan (1994) show how local networks of farm families can seek mutual benefits through co-operation and yield rural development that is sustainable and innovative, through the case of Capri in Emilia-Romagna. Here social networks provided a useful development resource throughout the 20<sup>th</sup> Century. Initially, these families co-operated in the manufacture of straw hats until the market collapsed in the 1950s. Since then they have diversified into the manufacturing of textiles, furniture, leather and food.

According to OECD (1996), there are four key requirements for the success of a rural district, understood as a socio-economic network: flexibility, competences, efficiency and synergy. Flexibility is needed to respond to, and to pre-empt through strategic planning, changes in the market: This would lead to diversification from single sector dependency to a broader rural economy. Shared competencies may be discovered with other firms in the local area and beyond through network linkages; the exchange of information may aid the development of common business strategies, identifying best practice and moving towards greater efficiency. Efficiency includes developing economies of scale through the pooling of ideas and resources to reach mutual aims, for example encouraging joint processing,

distribution and retailing of production in order to ensure that value-added remains in the local area and is not swallowed up by middlemen en route to the market. Synergy is best achieved where information, innovation and business transactions flow most freely. Unlike in Italian success stories, most regions are not as endowed with independent artisan associations. However networks can offer an alternative, “enabling very small producers to collectively purchase or contract for business functions, locate new markets, and share technologies.” (OECD 1996: 38).

Nevertheless, not all rural regions have the chance to become successful agro-industrial districts, working their way up with no (or with hardly any) external help. As it appears from the literature, only in rural areas with existing long-standing agricultural or processing networks have bottom-up innovations proved successful without significant government intervention. “Innovations have failed when introduced to societies with non-supportive cultural and institutional traditions.” (Cécora 1999:6) It should be recognised that the exceptional nature of these successful case studies may suggest their specificity to the locality, thereby reducing the efficacy of transfer of endogenous rural development models across different contexts. Varied socio-economic and geographic conditions of localities as well as the nature of their external relation, results in uneven development. As Lipietz (1993) puts it, the current socio-economic development of European rural areas results in a “leopard skin” quality with some areas becoming incorporated into dynamic sectors and systems while others are left outside (Saraceno 1994). “This mosaic of regional development draws our attention to the various ways in which new economies are superimposed on the old” (Murdoch 2000:415).

### **1.3. The ‘network paradigm’ in rural development theory – the ‘Third way’?**

Given this mosaic, it may be that endogenous and exogenous approaches are not necessarily mutually exclusive or antagonistic. A proposed theoretical solution to bridge the perceived divide is to harness the rural development potential of networked relationships (Amin and Thrift 1994; Cooke and Morgan 1993; Murdoch 2000). However, this new understanding of networks is somewhat different from that used in endogenous development theory to describe a relationship between local firms and social actors, based on trust, reciprocity and mutual understanding that lays the foundations for local economic development. Instead, the network paradigm seeks to establish a ‘third way’ (Lowe et al 1995) or synthesis between endogenous (local, bottom-up) and exogenous (extra-local, top-down) links in order to foster learning and innovation processes (OECD 1993 and 1996). These are deemed to be central to economic growth by many authors (Camagni 1995; Capello 1996; Cooke

and Morgan 1993; Powell 1990; Powell and Smith-Doerr 1994). From their work, it appears that networks offer the most appropriate means through which to deliver innovation and learning. Powell (1990) argues that it is the open-ended, relational features of networks that facilitates transfer and learning of new knowledge and skills. However, bringing back some elements from the earlier understanding of networks, others say that these goals prove easier to accomplish in flexible networks that are built on trust (Powell & Smith-Doerr 1994; OECD 1996).

Latour (1986) sees networks as sets of power relations where power lies in the links that bind the actors and entities together. Lowe et al (1995) follow this perspective to identify the asymmetries of power and hence the inequalities in the benefits gained by local firms as a result of networks. Others state that: “a network is generally defined as a specific type of relation linking a defined set of persons, objects or events... Different types of relations identify different networks... [T]he structure of relations among actors and the location of individual actors in the network have important behavioural, perceptual and attitudinal consequences both for the individual units and for the system as a whole” (Knoke and Kuklinski 1990:175-6). Essentially the network provides a good framework for analysis. Some commentators go further to suggest that networks should be perceived as key aspects of innovation and their existence or non-existence can be a key determinant in success or failure (Morgan and Murdoch 1998). As yet though there is little empirical evidence from rural areas relating to the role of networks in facilitating learning and innovation. Proponents of the approach refer to the same set of examples in support of their perspective, largely in review articles. Nevertheless, from these few cases, the potential transfer of lessons has inspired many academics to analyse the importance of such networks.

The crucial issue, as Van der Ploeg and Long (1994) suggest, is the balance of ‘internal’ and ‘external’ elements. Therefore, the contribution of networks is to focus our “attention upon successful mixtures of ‘internal’ and ‘external’ economic linkages. Unlike the idea of the ‘district’, which tends to concentrate on local or ‘bottom-up’ development, the notion of ‘network’ forces us to identify how local and non-local linkages facilitate success.” Even though some networks might prove to be “regionally specific”, they are likely, particularly in the EU context to be “linked into complex relations with other organisations outside the region” (OECD, 1996). In this way, the network paradigm provides a dynamic and flexible structure to integrate the internal and external factors that will promote greater innovation and improved rural development even in remote areas. The difficulties are to strike a balance between continuity of routines and creative change and between internal and external involvement.



To clarify these questions, Murdoch (2000) seeks to identify the role of networks in the formulation of rural development strategies. For this he identifies two axes of networks: vertical and horizontal. Vertical networks are political economic interdependencies that are formed with rural businesses as a result of the food chain. Working examples of these networks can be found in the 'hot-spots' of European agricultural and food industries, where intensive production and processing (organised into vertical integration often by multinational companies) has been and is likely to remain the most influential factor for the local economy. Horizontal networks are spatially determined and imply the co-ordination of a range of activities in a local area, facilitating access to markets. This entails "a strengthening of local productive capabilities in ways that benefit the rural economy as a whole" (Murdoch, 2000: 412). Examples of these networks can be found in successful rural districts, where network-based local development could create a sound basis for competition in the global economy, without significant external intervention.

Nevertheless, Murdoch (2000) - rejecting the network paradigm as the 'third way for rural development' - does not choose to link these two networks together into an integrated system, but rather just highlights where these networks are useful. He differentiates three types of rurality. The first type ("clusters of innovation") is dominated by horizontal networks, small- and medium-sized enterprises, trustful relationships and co-operation – such as the 'Third Italy'. He suggests that in these areas the literature on innovation networks and learning regions is applicable and can demonstrate how economic success can be maintained. The second type ("hotspots of standardisation") is dominated by vertical networks, intensive forms of agricultural production and trans-national networks of the food sector. These areas can develop their economic and social structure based on mainly endogenous resources and can penetrate global markets with their products. However, as suggested by Murdoch, in these areas the new 'network paradigm' is not applicable, development and socio-economic processes can better be explained with commodity chain analysis. In the third type of rural areas neither horizontal nor vertical networks work effectively. These areas (much of European rurality) have lost their resources during the industrialisation period and have become reliant on continued state assistance (in terms of both agricultural and non-agricultural support). These areas have little or no chance to improve their situation based on endogenous resources and need external intervention through rural development agencies. As stated by Murdoch, intervention complying with the network paradigm (support in capacity building, empowerment, soft infrastructure, etc.) is not necessarily appropriate in these areas, since it might reinforce existing weaknesses. Thus, besides the provision of 'soft infrastructure', other more traditional state support should also be applied.

Another study by OECD (1996) offers a different typology of rural areas, according to the degree of their integration into the global economy. Three areas of rural diversity are outlined: integrated, intermediate and remote. In economically integrated rural areas there is a broad range of technically advanced firms that possess the capacity to support vertically integrated networks and supplier networks, even without government encouragement. Nevertheless, since services, expertise and capital are easy to access in these areas, firms may not view horizontal networks to be as critical as in less populated areas. In intermediate areas, although blessed with some diversity of production, there are likely to be stronger links between firms in the dominant sector, usually linked to commodity production. Traditional agricultural co-operatives choose to establish processing and marketing measures collectively. However, other firms outside traditional vertical networks may choose to form their own networks to provide better information, reduce transaction costs or to enter new markets. Remote rural areas are the least likely to develop networks, but when they do, based on strong local connections, it often provides for better external linkages to other firms and customers outside their region. The study argues that the network approach offers many opportunities for rural development, such as: adding value; creating economies of scale and scope; diversifying regional economies and creating synergy among micro-enterprises.

As stated by many authors, the state (or the political/economic centre) has a role to play in promoting rural development: encouraging the development of networks, entrepreneurial culture, assisting with economic transformation and providing resources to enhance co-operation between local actors. It may be appropriate for government to intervene at various points in the vertical network. However, in remote areas where vertical networks have been unsuccessful in making a contribution to local rural development in the past, what sort of government intervention can stimulate the growth of successful networks for joint learning and knowledge transfer to allow successful innovation and development in the future? According to the OECD (1995), this may be accomplished through four measures:

- Direct aid targets specific enterprises and provides assistance in the form of subsidies, aid for technological innovation, training and job creation;
- Indirect aid is defined to strengthen the overall economic environment of a local area for the benefit of existing firms. In providing services to facilitate technology transfer, marketing assistance and dissemination of information, it is likely to be the most effective general rural development tool;

- Enhancing human resources entails policies and programmes that aim to improve levels of education and training amongst the workforce and to encourage entrepreneurial behaviour; and
- Infrastructure programmes that usually involve the construction of roads, sewers, telephone lines and public buildings. The provision of infrastructure should increase the level of services and amenities available to the local population and aid the establishment of economic enterprises.

Formal institutions need to identify important links to the development potential offered at the local level. This has been considered important by Bazin and Roux (1995) in their study of remote rural areas around the Mediterranean. They identify several variables that support local economic capacities. These include:

- Achievement of market position – avoiding dependence on state funding
- Self-reliance of local actors – due to the local and small-scale nature of firms
- Firms should control production, processing and marketing in house
- Use of available local resources: natural, biological and human in production
- Producer group cohesion and solidarity supporting the promotion of images of local quality of products.
- The positive interaction between local and outside institutions in interventions.
- The successful generation of local development often required grants, investments, technical assistance and co-ordination from outside the target area.

#### **1.4. Multifunctional agriculture as a way for rural development**

According to a number of authors (Lowe et al 2002; Durand and Huylenbroeck 2002; and others) ‘multifunctionality’ could also be considered as a ‘third way’ for rural development, alternative to the opposing liberalist and interventionist models. Nevertheless, multifunctionality differs from the rural development approach (referred to as the ‘new paradigm’, the ‘network paradigm’ or ‘integrated rural development’ by these authors) in that it remains primarily targeted upon agriculture and agricultural enterprises.

Some authors - underlining the importance of the agricultural sector - suggest that, although constructed under the new paradigm, agriculture and farmers are still central to rural development success. Van der Ploeg et al (2000), for example, building on the literature and practical experiences

agree that rural development processes can involve many different actors, yet reject the notion that rural development can only proceed through the 'expropriation' of agriculture. They state that [integrated] "rural development can be constructed very effectively using the innovativeness and entrepreneurial skills present in the agricultural sector itself." (401) Furthermore, rural development is a "new development model for the agricultural sector" that "is reconstructing the eroded economic base of both the rural economy and the farm enterprise" (395); and can be seen as "newly emerging livelihood strategies developed by rural households in their attempt to increase the 'pool' of livelihood assets at their disposal" (396). As stated by their approach, new rural development practices break away from the specialisation of the modernisation period, where agricultural production was excluded from alternative activities. Rural development is understood here as a kind of 'repeasantisation' of European farming where "the highly diversified flow of outputs, the re-grounding of productive activities in relatively autonomous and historically guaranteed types of reproduction, and increasing control over the labour process, results in higher levels of technical efficiency" (403).

## 1.5. Rural disadvantages - access and resources

We said earlier that rural areas need protection because, resulting from a different development trajectory, they have serious comparative disadvantages in the context of growing global market competition. One of the main aims of rural development is clearly to eliminate or overcome these comparative disadvantages, to ensure fair competition and social and economic cohesion between different areas. The current 'comparative disadvantages' originate from two different sources<sup>2</sup>:

- one is underdevelopment of different infrastructures, resulting in limited communication of people, products, money and information; I will call these *access-type disadvantages*;
- the other is the limited ability and resources to produce goods and services, saleable on the global market; I will call these *resource-type disadvantages*.

*Access-type disadvantages* are usually visible and quantifiable results of uneven development, based on imperfect resources. They limit different types of access to, and from, peripheral areas, namely: *physical*; *economic*; and *political (or policy) access*.

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<sup>2</sup> In fact, they both originate from being on a different development trajectory, experiencing slower social and economic change, having weak representation in political decision-making and gradually losing natural, economic and human resources to the benefit of the 'centre'. However, the two areas of disadvantage, described here, represent different type of problems and need different approaches and solutions.

The most obvious example is bad *physical access*, due to poor physical infrastructure (roads, telecommunications, amenities, etc.), which sets strong constraints on the movement of people, goods and information, limiting 'physical access'. For example the lack of good roads limits: the possibility of commuting from a peripheral area into a nearby industrial centre, the transport of goods produced or the number of tourists attracted. On the other hand, it also limits the attractiveness of an area for industrial inward investment. The lack of so-called soft infrastructure (such as: business and financial services; educational institutions; or health services) is less visible, but causes similar results. It limits the movement of money (investment) and businesses, again, into and out of these areas, constraining *economic access*. For example, the lack of local banks and personal connections to them limits entrepreneurs to access financial resources and the banks access to their potential customers. Large outside investors usually use their central facilities for financial services, often even build their own training centres, but the lack of these services can easily become an obstacle for smaller investors. The third type of deficiency is due to the shortage of public and civic institutions, such as: public administration; organised interest groups; various agencies and umbrella organisations for civil societies; development associations; and often even representation of political parties. The lack of these hinders *policy access*, or the ability of central organisations to reach the peripheral areas to enforce regulations or to offer resources for development. Without a functioning local administration it is impossible to maintain even basic services, or to distribute government benefits to those in need. Without working civil society it is difficult to know what people of a certain locality wish for their future. The consequence of all of these deficiencies is *limited access*, resulting in limited communication (of capital, goods, people, information and policies) into and from the peripheral areas. This causes the exclusion of these areas from mainstream economic, political and cultural life and maintains their underdeveloped status.

*Resource-type disadvantages* of rural areas are the result of their long-term economic and political dependency on urban centres, their unfavourable economic structure and/or geographical location and their limited access to goods, information and central resources. These disadvantages limit the ability of rural areas to produce goods and services saleable on the global market and they could be classified as low *financial, human, and institutional resources*.

The most obvious example of a resource-type disadvantage is the lack of *financial resources*. In peripheral areas, businesses, people and even local authorities are poorer and have limited capacity. Capital accumulation (if there is any) is slow in primary production, the risk is very high and there are often other factors limiting the ability of entrepreneurs and local

authorities to find capital for investment<sup>3</sup>. The scarcity of different types of infrastructure can also be understood as a resource-type disadvantage, if it sets constraints on local production and the development of businesses<sup>4</sup>. Another group of disadvantages arises from the weakness of *human resources*. Rural areas are often sparsely populated, providing less manpower and purchasing power than urban ones. Apart from numbers, the make-up of the population can also be an impediment with a high proportion of poorly educated, ageing residents and, in the CEECs at least, disadvantaged ethnic minorities. As a result of severe out-migration, whole generations can be absent in certain rural localities and those who left were usually the most educated and resourceful young members of the community. As a result of weak human resources and long-term economic and political dependency, there is often a weak culture of entrepreneurship and community resources can be on a low level. In general, there is a lower capacity for innovation and learning than in urban areas<sup>5</sup>. *Institutional resources*, or a certain thickness of local institutions (formal and informal), (argued by Amin and Thrift (1994) and others) can also be absent. Moreover, in those areas where human resources are the most eroded, even a culture of mutual trust and willingness to co-operate can be missing, making it difficult to initiate or carry out any sort of development. The shortage of public and civil institutions, also mentioned as an access-type disadvantage, inhibits the ability of backward areas to recognise and efficiently express their needs and to attract aid and financial resources<sup>6</sup>. These *resource-type disadvantages* would disable rural areas in global competition, even if they have appropriate access to the markets.

Amongst the core EU policies, promoting the cohesion of underdeveloped areas, measures aimed at access-type disadvantages predominate. Resource development and empowerment of backward areas have always remained marginal targets in the policy arena. However, access is a two-way concept. Isolation can be very damaging for a locality, but it provides some

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<sup>3</sup> In Hungary, for example, agricultural land, livestock or machinery cannot serve as a deposit for bank loans. This makes it simply impossible for many agricultural entrepreneurs to get a loan. Much local infrastructural development has failed, because local authorities were unable to provide even 10 or 20% of the investment. Therefore, according to the generally applied additionality requirement, they were not eligible for government or PHARE aid. The lack of money is most often quoted as the main reason for backwardness of rural areas.

<sup>4</sup> The lack of roads between villages, for example, limits local communication, the development of social networks, co-operation and businesses. Missing amenities and tourism infrastructure (hotels, B&Bs, restaurants, craft shops) makes it impossible to encourage tourism potential. The lack of banks, financial and advisory services or just a local post and other offices in an area makes the running of any business more costly and time consuming.

<sup>5</sup> Nevertheless, in other cases innovation and flexibility, co-operation and learning are the main factors for flourishing rural economies.

<sup>6</sup> In the world of bidding and competitive applications for almost every available resource it is crucial to have local partnerships and a well functioning local development organisation, preferably with a somewhat charismatic leader. To reach positive results it is also essential to have at least a degree of consensus about the main direction and areas of local development.

protection against global competition. Suddenly removing this protection without reinforcing the local economy can cause serious further damage. Access, therefore, might be a necessary, but is certainly not a sufficient condition for the development of backward rural areas. Promoting the reinforcement and utilisation of local resources from central sources is difficult and problematic but critical for rural development and a lack of such resources may result in policy failures.

## **1.6. The reconfiguration of rural values as local development resources**

Rural areas have traditionally been a field for primary production. Additionally, they have not only supplied industrial areas with food and raw materials, but used to be the main source of human resources and original capital accumulation, which provided the basis for the economic and demographic growth of the *centre*. At the same time, there are a number of values which are generally considered to be positive and have been sustained better in rural, than in urban areas. These *rural values* (clean environment, natural beauty, cultural traditions, etc.) ‘have always been there’ in the countryside. However, until primary production was able to provide a solid base for the rural economy, these values were not considered to be important or special. They were natural parts of rural life and nobody thought about them as important resources for economic development.

Nevertheless, primary production has lost its weight within national economies<sup>7</sup> over time. Moreover, many rural areas - lacking a sufficient economic basis - continue losing their population and are in danger of becoming deserted or losing their original character [rural values] completely. To overcome the socio-economic crisis of rural areas new economic bases was needed. At the same time, however, *rural values* gained new importance for affluent western societies and became ‘marketable assets’ for local rural economies. Yet, these values can rarely be marketed directly. They need to be converted – or with a frequently referenced expression reconfigured - into development resources. Van der Ploeg et al (2000) states that ‘old rural resources [values]’ (land, eco-systems, landscape, animals, social networks, craftsmanship, etc.) should be reconsidered in the context of rural development. As Molle and Cappellin (1988, p.7) stated: “the development of the local economy depends on its capacity to transfer its resources from old activities to new ones, notably by mastering new production technologies” (cited in Terluin,

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<sup>7</sup> Agriculture, the main traditional economic factor in rural areas, concerning its share in GDP and employment, has become almost irrelevant in the more developed EU Member States. However, in the Southern Countries, especially in terms of employment, agriculture is still an important sector.

2003, p.331). The authors conclude that rural development should consider both, newly emerging and historically rooted realities. Old rural values, therefore, after their reconfiguration, can be used as capital assets -in other words development resources - under the new paradigm<sup>8</sup>.

Bryden (1998, cited in Terluin, 2003) elaborates the theory of immobile resources for creating competitive advantages for rural areas. He suggests that with the process of globalisation the mobility of traditional resources for economic development (such as capital, information, skilled labour, etc.) was increased to such an extent, that they do not create any more a solid bases for the economic development of rural areas. He argues that rural areas should base their development strategy on immobile resources, which are not open for competition (such as social capital, cultural capital, environmental capital and local knowledge capital).

The transformation of the countryside has been recognised by western societies and has resulted in a 'rural renaissance' and a change in the perception of rurality in general<sup>9</sup>. Today, the political *centre* of Europe perceives rural values as important assets for the whole society and would like to sustain them for the long term. The traditional foci on food production and safeguarding farm incomes as the main functions of rural areas have been replaced by the provision of public goods (such as clean environment, open space etc.) for the whole society. In Western Europe, rural tourism (the provision of services, leisure activities and living space) is becoming a core economic activity for the countryside. A study by Harvey (2001) on the effects of the last 'foot and mouth' epidemic on the British countryside pointed out that agriculture only accounted for ten percent of the losses of the rural economy as a whole. The fact that 'foot and mouth', being essentially a crisis of primary production, still had most of its effects on other areas of the rural economy (tourism being particularly affected), emphasises the great extent of recent changes and served to raise strongly the profile of a *new rural economy*, which is not based on primary production any more, but on special assets of the countryside. (Lowe et al. 2001).

Concerning this process, a number of questions could be raised: What are the most important *rural values*? From where do they originate? How and

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<sup>8</sup> Through this study I use two expressions for those special assets of rural areas which result from the countryside being on a different development trajectory compared to urban areas. They are entitled as *rural values*, when we talk about their origin, their possible loss or their protection. Though they are called as *rural resources*, when some of these *values* are considered as marketable assets or possible *resources* for local socio-economic development in rural areas. Therefore rural resources are those rural values which are converted and utilised during rural development processes.

<sup>9</sup> The most visible signs of this are the growing counterurbanisation and rural tourism in Western Europe. Rural areas in general are getting more attention and more voice through democratic procedures as well as simply through well connected newcomers.



by whom are they valorised? What benefit can they bring to an area? How could they be sustained for the future? How could/should they be reconfigured to be utilised as resources for rural development?

To answer these questions, first I suggest classifying rural values into three main categories:

- ecological values  
(clean environment, biodiversity, possibility for the production of clean and healthy food, good productive conditions for high quality, specific agricultural products, open space, natural and cultural<sup>10</sup> landscapes)
- cultural values  
(rural culture, folklore and the built environment, local cuisine, arts and crafts, locally specific products and production methods, minority languages, traditional ways of life)
- community values  
(social networks, kinship relations, mutual trust and understanding, special ways of communication)

### *ECOLOGICAL VALUES*

Ecological values, until quite recently, were not considered to be important. Biodiversity, clean water and open spaces, seemed to be in ‘endless supply’ throughout rural and urban places of Europe. However, especially during the 20<sup>th</sup> century, human activities (construction work, agriculture, industrial production of goods and services) have diminished ecological values to such an extent that they have become inaccessible to much of society. At the same time, western societies reached a level of development and economic well being, where people could afford to become aware of these problems<sup>11</sup>. They had money, time and physical possibility to access nature, but natural values were rapidly disappearing from their close environment. All these factors paved the way for green consumerism and other green movements of recent decades. Politicians and policy makers recognised problems and the strong social demand for sustainable solution. As a result, environmental standards were set, and many programmes launched to protect remaining values and where possible to reverse the damage. Environmentalism, from being a revolutionary idea, has become mainstream policy and natural values are recognised as crucial public goods, which should be maintained for the future. However, when it comes to conflicts between long term environmental sustainability and short term

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<sup>10</sup> Cultural landscapes are historical results of human activities, especially agriculture and animal husbandry.

<sup>11</sup> In certain parts of Africa, for example, where there is not enough water and basic food, somewhat higher nitrate content in the drinking water, obviously, does not seem to be quite the same problem than in Germany. While the main danger is dying of hunger, there is probably no demand for expensive, but ‘clean’, ecological food products.

economic and political profit, central policies and directives often prove to be ‘half hearted’ and inefficient<sup>12</sup>.

Agricultural production, depending on its kind, can both threaten and maintain environmental values. Consequences of over-intensified production (pollution of water and soil, erosion, etc.) can cause irreversible damage, seriously reducing biodiversity and resulting in socio-economic problems. At the same time, centrally supported environmental friendly agriculture providing livelihoods for local people can maintain social structures as well as cultural landscapes, flora and fauna - all results of a symbiotic relationship between nature and human activities. Environmental issues can be considered as constraints as well as resources for agriculture and rural development, depending on the approach taken. For a development philosophy, building on intensive, industrial agricultural production and processing industry, environmental rules that protect natural assets may be obstacles in the way of making profits. In contrast, for a sustainable, integrated development approach they can even be the main resources for a particular area, especially in the light of the expected increase in support for agri-environmental and rural development policies.

For rural development, therefore, environmental values provide one of the most important resources, hallmarked with the expression of ‘multifunctionality’ or ‘multifunctional agriculture’. The multifunctionality of agriculture is defined by Durand and Huylensbroeck (2002:1) “as the joint production of commodities and non-commodities by the agricultural sector.” Agriculture, unlike in the modernisation paradigm, is considered to have multiple roles, such as: to perform its market function, providing customers and the processing industry with healthy, high quality food and renewable materials; to carry out its environmental functions, ensuring the sustainable use of natural resources, safeguarding the wide variety of ecosystems and performing new functions for which there is increasing public demand, such as tourism or in the social sector and; to play a major role in providing employment in rural areas (Commission 1999/3).

The EU, as a central principle to legitimate further support of agriculture, has adopted the concept of multifunctional land use. “Central to multifunctionality as a funding paradigm is the notion that agriculture provides not only ‘private’ or tradable goods but also public goods, the costs of whose provision cannot be met by market mechanisms. Hence, if they are to be retained and promoted in the public interest, public funds must be reallocated to them” (Buller 2002:12). This approach provides legitimacy for a range of EU policies and funding schemes, such as agri-environmental support; through this it has had considerable influence on

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<sup>12</sup> There are plenty of examples for this: further increase of green-house gas emission or the repeated failure of an effective, ratified, worldwide agreement on sustainable strategy in Rio, Kyoto and, most recently, in Johannesburg are to be mentioned here.

the structure of CAP support, delivering financial aid to the farmers of backward rural areas.

### *SOCIO-CULTURAL VALUES*

Rural culture, alongside its economy and society, has remained more traditional than its urban counterpart. In a modernising and globalising world this ‘traditionality’ was (and still is) often seen as the sign of (or even the reason for) backwardness and underdevelopment (Tucker 1999). Rural people, for many years, tried to ‘modernise’ their lives and get rid of signs of traditional culture. As a result, the richness of this culture could only survive in the most isolated regions, and/or in those places where it had particular political functions usually connected to territorial or national identity<sup>13</sup>. Nevertheless, the rural renaissance of the last decades has led to the rediscovery of rural culture. Special, high quality agricultural products, local cuisine, folk music, minority languages, built environment, arts and crafts have become valuable resources for the so called new ‘culture economy’ - a central term for the new rural development literature (Ray 1998/2 and 2001). The main idea behind this term is that the rural economy is moving away from traditional standardised primary production into a direction, where economic development is increasingly based on local cultural repertoires, identity and territorial strategies. Thus, rural localities can greatly increase the added value of their products through connecting them to local cultural traditions, emphasising their unique and peculiar nature. “The idea of culture economies comes from three sources: the changing nature of consumer capitalism, the trajectory of rural development policy in the EU, and the growth of regionalism as a European phenomenon” (Ray 2001:17). Proponents of this approach suggest yet another term for describing the ‘third way’: ‘neo-endogenous development’ – which is used to indicate that ‘true endogenous development’ is an unachievable ideal and that ‘the extra-local’ has to be considered when planning rural development.

With the spreading of ethno/cultural/green tourism, the emerging new market for locally specific products and services has provided a new possibility for livelihoods and economic activities, exactly in the

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<sup>13</sup> In Hungary, for example, most traditional peasant houses were replaced or modernised in the ‘70s. In remote, poor villages, however, it was often officially forbidden to build new houses, therefore, in these locations the traditional built environment has usually survived until now. Another example: in Romania, Hungarian national minorities were strongly oppressed under the communist regime. They used their distinctive folk culture and religion to reinforce their national identity and cultural separatism. Together with their economic and geographic isolation this resulted in the survival of an extremely rich Hungarian folk culture (music, dance, costumes, customs, etc.) in Transylvania. During the last ten years decreasing repression, opening borders, strengthening connections with Hungary, possibilities to work abroad and the appearance of satellite television have brought a slightly better standard of living, but have also caused vast damage to local culture and social networks.

economically most backward rural locations. Once deserted, remote villages are reborn and become favourite tourist destinations<sup>14</sup>. Economically better off, but culturally poorer areas try to rebuild their cultural identity, digging out old, forgotten customs, recipes and traditional products, to be able to participate in this business. This was acknowledged by policy makers as a possibility for solving rural problems. To reinforce the process, many rural regeneration programmes have been launched all over Europe. All this has resulted in the revaluation of rural cultural values: from being a sign of backwardness, they became marketable assets, the basis for a new rural economy. Rural people and the wider society started to value rural cultural traditions again. However, similarly to environmental values, this process is not without conflicts and contradictions, especially in the context of counterurbanisation (Cloke 1993, Murdoch 1997, Woodward, 1996). Local people and newcomers from cities often have varying value systems and very different ideas about the necessities of preservation and development<sup>15</sup>. This can result in the preservation of some cultural values, but the inevitable loss of others. If original dwellers are forced out of their villages by high property prices, then the built environment can be preserved. However, incoming, affluent city workers or pensioners will not maintain other, equally valuable aspects of traditional rural culture and community life: old production methods, minority languages and other values. These may be lost for ever, resulting in a preserved landscape and built environment, but otherwise an entirely suburbanised society – such as that found in much of Southern England by Marsden et al (1993).

### *COMMUNITY VALUES*

Community values are also often attributed to rurality. Social networks, kinship relations, mutual trust and understanding are important to all human communities, regardless to their location. However, they seem to be better sustained in more traditional (or less modernised) societies (Tonnies 1972), and especially connected to small scale, traditional agriculture (OECD 1996/2) so are easier to find in rural than in urban areas. A small village where everybody knows each other and says hello even to strangers can be pretty attractive to ‘post-modern, alienated city dwellers’. On the other hand, strong social networks and trust can make the basis for co-

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<sup>14</sup> In Hungarian villages, many old, but modernised houses are reconstructed again in traditional style, usually by well off urban newcomers. Folk music and dances in Transylvania, after deepening decline, was reborn again, and today old Romanian gipsy musicians have successful tours all over Europe and the USA.

<sup>15</sup> Well off people, buying second (or first) homes in remote villages, usually do not want tourism or industrial development in ‘their village’. They keep their connections and income in the cities, hardly need local services and want to stop further development. Indigenous people, on the contrary, want to make a living through marketing local cultural and environmental values, and would like to improve local services and other conditions of everyday life.

operation in social and economic activities. In fact, community values - named as 'networks', 'mutual trust', 'collective action', 'associational capacity' or 'social practices' by authors cited earlier in this paper - seem to be essential circumstances for 'new rural development activities', and their lack in certain areas can seriously limit the possibilities of local rural development.

With the long erosion of human resources in many rural areas, social networks and kinship relations disappeared or were weakened. Community values, therefore, are different from the two other forms of values. As it was argued before, the richest ecological and cultural values can be found in the most isolated areas, which were left out of mainstream development. Nevertheless, remote places, for the same reason, were also likely to lose most of their human resources and social networks, which is a serious obstacle for rural development today.

Another important difference is that, while ecological and cultural values became 'marketable assets' (or part of local development repertoires (Ray 2000) in the new rural economy, and are often 'taken away' by external investors. Community values are the inherent 'property' of the indigenous population. Houses land, even cultural attractions can be sold for money, on the contrary, 'kinship relations', 'mutual trust' or 'social practices' cannot be bought by newcomers and can only be of advantage to the 'locals' and to those who become truly integrated into local society.

A third difference is that, while ecological and cultural values can be directly protected and supported by central regulations and policies, community values are hard to capture and extremely difficult to support externally. However, with the recently established trans-national networks of local development groups, originating from the EU LEADER Programme, an important new aspect appeared in the European rural development arena. A trans-national set of networks is emerging here with strong values and growing influence, supported by European programmes and new communication technology. Local groups, participating in this network can change experiences, get up to date information and can even have some indirect political influence on domestic and EU policy matters (Esparcia 2000, Ray 2001). All this can greatly empower local communities and can reinforce community values. This trans-national network also provides policy makers (*the political centre*) with an 'access point', through which they can (indirectly but effectively) help local communities.

Consequently, the three types of rural values are rather different. They can bring various advantages and possibilities for rural development. They all need protection in today's global competition. However, they require different kinds of treatment to be maintained, and can even be in conflict with each other. Natural habitats might be preserved through enforced,

strict environmental regulations. Although, if production is thereby rendered too difficult or costly that could damage the local economy; cause out-migration thus ruining culture and community; and could even harm those natural values which are the result of the symbiotic relationship between nature and human activities. If we ‘build thick walls’ around nice villages trying to ‘close out globalisation’, some cultural values (built environment, for example) might be saved. Nevertheless, those, wishing to improve their lives will desert the place and most values connected to people (other cultural and community values) will be lost. In prospect of harmonic (not distorted) development of a certain rural locality as many different values as possible should be considered, utilised and reinforced. On the other hand, if values lose their economic and social functions, they cannot be kept alive for long artificially. They will disappear or go to museums, just like old ways of production or most of Western Europe’s peasant culture has. Only those values can be saved, which can find a new place or function in today’s globalising world<sup>16</sup>.

### **1.7. Towards a definition**

The above review well demonstrates that, though we do not have an exact definition yet, the literature feeds a number of elements into the ‘new paradigm’. The founding fathers of the endogenous development paradigm (Bassand et al. 1986) already established most important elements – such as the importance of endogenous resources, their marketing, the control of the process, external relations, local participation and leadership, subsidiarity, integration of economic sectors, etc. (Brugger 1986, pp.47) – subsequent theories concentrating on various aspects of rural development all offer valuable contributions. The ‘endogenous paradigm’, contradicting modernisation, put the main emphasis on the importance of participation, empowerment of local actors and unlocking of local resources. This was seen as the only way to protect rural values and enhance the rural economy at the same time. Nevertheless, when disregarding extra-local influences and possibilities (positive and/or negative), this approach may close whole areas into low trajectories and misses the chance to explain important developments connected to global processes.

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<sup>16</sup> An example: Old Transylvanian peasant culture (especially folk dances and music) from the late ‘70s, became the basis of a widespread urban subculture in Hungary. A large number of music- and dance-groups were established, and the so called ‘dance-house movement’ became an important part of urban culture. At the same time it reinforced cultural rural values and provided a market for many native musicians, dancers and other indigenous rural people, where they could ‘sell’ their knowledge, arts and crafts. Without the dance-house movement, for today, these cultural values could have been lost altogether. Instead, though in an adapted form, they are part of everyday life in Hungary, and are enjoyed by more people than they have ever been.

The theory of 'rural districts' is standing on a similar platform. However, it emphasises the importance of long standing socio-economic networks and a certain institutional thickness, trying to explain the economic success of these areas and clarify how they can penetrate global markets with their local products. Nevertheless, this approach can only be applied in a very limited scope, since these practices are difficult to transfer from one place to another and successful rural districts are still exceptions, rather than a rule for much of European rurality. The 'network paradigm', embracing previous exogenous and endogenous approaches, offers 'a third way', calling attention to the connections between local and extra-local networks. It explains rural development in the framework of innovation, learning and external intervention; and understands it as a set of power relations, 'who holds control', being the most important factor for local areas. However, as critics say, this approach is still too deeply rooted in the endogenous paradigm, and offers little help for the most backward rural areas, which, lacking resources and/or human capacity, have hardly any chance to develop sufficient networks or to be 'ahead of the game' in any way. Multifunctionality and the 'cultural economy approach' offer different routes for rural development, subsequently seeing the way forward in the role of renewed agricultural production and connected activities (small scale processing, the maintenance of environment, etc.) or in the marketing of socio-cultural traditions, through ethno/green tourism and locally specific production. Nevertheless, these alternatives should be understood as complementary, rather than mutually exclusive possibilities for rural development.

The formulation of the new rural development paradigm, therefore, benefits from existing practices and a range of theoretical considerations. The literature offers a number of definitions for rural development, concentrating on various aspects and considerations. However, there is a wide agreement amongst authors that the 'new rural development paradigm' is still nascent concept informed by contemporary procedures and practices; therefore, we should not rush into exclusive, generalising definitions. Van der Ploeg et al (2000:396) believe that "the concept of rural development is above all a heuristic device. It represents a search for new futures and reflects the drive of the rural population. It goes beyond modernization theory where the problems of agriculture and the countryside were considered resolved. Definitive answers, however, are missing and if offered should be mistrusted. Rural development theory is not about the world as it is, it is about the way agriculture and the countryside *might be* reconfigured."

Nevertheless, I would like to offer here a working definition. It does not intend to be a final or an exclusive one, but tries to give a broad framework for this study and to indicate my approach to rural development,

agriculture, EU policies and connected matters. The definition of what I call 'integrated rural development' is as follows:

*Integrated rural development is an ongoing process involving outside intervention and local aspirations; aiming to attain the betterment of groups of people living in rural areas and to sustain and improve rural values; through the redistribution of central resources, reducing comparative disadvantages for competition and finding new ways to reinforce and utilise rural resources.* It is integrated in the sense that - as opposed to central development - it is controlled and managed locally; but – opposed to local development – besides local resources it also leans on the professional and financial support of the centre. In other words, *integrated rural development* could be called the theory of the 'new rural development paradigm' which tries to identify how local development and/or the reconfiguration of rural resources can be helped by the centre; for the benefit of rural localities; at the same time maintaining rural values for the future.

'*Integrated rural development systems*', in this understanding, are particular setups of central and local institutions (such as: administration, knowledge, information and decision-making systems, social networks), working in coherence and so being able to realise the ideas of integrated rural development theory.

## **2. THE CENTRAL, THE LOCAL AND THEIR INTEGRATION**

The following sections intend to clarify various elements of the above definition, such as: what I understand on centre and periphery, central and local development systems, how I differentiate between rural disadvantages and how they can be tackled through different strategies. Then I outline simple models of non-integrated and integrated rural development systems suggesting that through the latter one integrated rural development might be achieved.

### **2.1. Centre and periphery**

Rural development marginality is usually understood in geographical terms and is often synonymous with peripherality or remoteness. In this sense, it has long been recognized that people living in rural areas have suffered problems of physical exclusion from urban-based services and jobs (Lowe et. al. 1995). Nevertheless, for rural development '*centre*' and '*periphery*' can be seen in a number of dimensions. For this study, besides the geographic interpretation, I also consider economic and political understandings as follows:

The '*economic centre*' for this study consists of large European economic players, such as: particular Member States; large interest groups (the European Farmers' Union – COPA – for example); and the so-called



'eurogiants' – multinational business corporations (Amin and Tomaney 1995). All of these economic players have significant power and resources to influence the flow of goods, services and investments, acting as bastions of the European economy in conditions of increasing global competition. On the other hand, they can have enough political influence to effect changes in the ruling policy paradigm. In contrast, local rural economies, with a high ratio of primary production and low value added, consisting mainly of very small firms, are often at the bottom end of vertical integration. These have negligible economic, financial and political weight and could be called the '*economic periphery*'<sup>17</sup>.

The '*political centre*' for this study is the 'political building of the European Union'. This 'building' is not easy to capture, since the political power of the EU is spread between different political, juridical and bureaucratic institutions (such as the European Council, the Parliament, the European Court of Justice and the Commission) and financial institutions (such as the European Investment Bank) of the EU. The EU as a political centre is said to be largely influenced by the most powerful Member States; by the 'euro giants' and large international organisations (WTO, NATO e.g.) (Amin and Thrift 1994, Korten 1996, Tucker 1999). Nevertheless, the EU is a political entity, having its own traditions, rules and procedures and bureaucratic power and a growing influence in many areas of economic, social and political life throughout Europe. The political centre designs and implements most of the policies and initiates changes (first and second order changes, *ibid.*) within the ruling paradigm, as part of normal policy evolution. In contrast, rural areas of the EU are usually sparsely populated, having neither a strong electoral basis, nor economic power. There is a smaller density of governmental and non-governmental institutions and there are generally fewer informed and influential people living in these areas. As a consequence it is difficult to get political representation or influence here, and these areas are most of the time on the 'receiving end' of the policy line. Therefore, rural areas are usually in the '*periphery of political life*'<sup>18</sup>.

The '*geographical centre*' for this study is a highly urbanised geographical area, with a dense network of cities, industrial and service centres, extremely well developed infrastructure (of all sorts); rich human and institutional resources and networks. According to Eurostat 'peripherality index' (European Commission 2002) the central area of Europe consists of the Southeast of England, the North of France, the Benelux countries and West Germany. With a buffer zone around this area, everything else (such

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<sup>17</sup> Some rural economies of Europe, such as Emilia Romagna in Italy, are remarkable exceptions from this rule (Brusco 1982).

<sup>18</sup> However, counterurbanisation, rural renaissance and not in the least international networks of rural regions, developed or encouraged by EU policies have brought significant changes in this issue. Rural regions of Europe are becoming increasingly powerful.

as Ireland, most of Scandinavia and Southern Europe and of course all the applicant countries) is on the geographical periphery. According to another approach, often cited as the 'developed banana' of Europe (Amin and Tomaney 1993) the North of Italy should be added to the developed areas. Undoubtedly, these regions are the most urbanised ones in Europe, while, the ones on the periphery, with a much looser network of smaller cities and generally lower level of infrastructure and resources, are the most rural ones.

The three aspects of *the centre*, described here, complement and reinforce each other in a number of different ways. Some of these are obvious, such as the highest degree of economic and political power (e.g. headquarters, political institutions). These are concentrated in central geographic locations, leading to far-reaching consequences for the development of these regions. Others are more obscure, such as the ways economic power is converted into political influence and vice versa<sup>19</sup>.

## **2.2. The central and the local system of rural development**

Europeanisation is about opening up political, economic, geographic and social space. This is being carried out through the reduction of a wide range of traditional protection mechanisms of these spaces. The process serves the interests of the *economic centre*, the market, international capital and multinational companies. Nationally or regionally specific rules and regulations currently represent obstacles for the free movement of people, goods and capital. Business needs to have *access* to local and regional economies. To achieve this, generally accepted regulations and policies, to ensure the necessary conditions (stability, proper relations, common technical standards, etc.), are needed. The European Union, the *political centre* of Europe, can be seen as a central organisation, which can design, negotiate and enforce these conditions. The continuously growing common regulations on markets, trade, safety, environment and different aspects of production, aim to provide for the access required by the *economic centre*. All these regulations are supposed to create similar circumstances for businesses and capital investment in all areas of the EU. In other words, Europeanisation essentially means growing accessibility to all areas, participating in the game. Like this, the playing field for competition becomes the same global economic space of production and consumption of goods and services for all areas. All this results in a growing 'global' competition, the rules of which are set by the '*centre*'.

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<sup>19</sup> It is often difficult to capture, how economic corporations or powerful Member States do actually influence political decision making. To reach their aims, these actors do not only use their political representation. Most of their influence is reached through lobbying, holding back or distributing information or affecting public opinion through networks, financial or political power.

Europeanisation, therefore, exposes peripheries to growing global competition. As a result of being on a different development trajectory, rural areas usually have a weak starting position and a low level of control during the process and thus have a comparative disadvantage. Consequently, they can easily lose much of their remaining resources that can jeopardise their future development possibilities<sup>20</sup>. At the same time this could also endanger the existence of those ecological, cultural and community values, which have been maintained in rural areas. This would entail a significant loss for the whole society and it is this which provides moral and democratic legitimisation for rural development. The resultant social, economic and environmental problems in rural areas can have a knock on effect on urban areas which provides additional political-economic legitimisation for rural development. Therefore, in parallel with the ongoing process of Europeanisation, intervention is needed to avoid or lessen its negative effects on peripheral regions. This intervention is usually called *rural development* by policy makers and it is done through: setting new rules for protection (replacing traditional domestic protection mechanisms); redistribution of resources through aid, agricultural subsidies and development policies; and providing assistance for local actors to unlock local resources.

On the other hand, *rural development* can also be seen as not an outside intervention, but the aspiration of local people living in rural areas for taking the challenge themselves and improving their life circumstances and their immediate environment. According to Van der Ploeg et. al. (2000:395) “rural development is reconstructing the eroded economic base of both the rural economy and the farm enterprise... (and) represents the well understood self-interest of increasing sections of European farming (rural) population.” This aspiration is embodied in the work of individuals, private businesses, local institutions of public administration and political parties, and various forms of civil society. Local actors, seeking more influence and better results (and/or to fulfil the requirements of external aid for development), often form development associations and partnerships. They try to achieve these aims through both unlocking local resources and attracting external ones (aid, public investment, direct private investment). This type of rural development is a ‘heuristic device, which “represents a search for new futures and reflects the drive of the rural population” (2000:396).

Along these lines two types of complementary rural development systems could be distinguished, existing in parallel, though often being in conflict with each other. They carry significant and characteristic differences

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<sup>20</sup> Newcomers or external investors can buy up houses, land and other means of production, depriving locals from the utilisation of these assets in local development in the future.

concerning their aims, actors, motivations, constraints, resources and overarching logic.

One type could be called the *central administrative system* of rural development, based on fundamentally top-down interventions of the political centre. It comprises such elements as: European and domestic policies; centrally redistributed resources; institutional networks; skills, technical and procedural knowledge of various level bureaucrats; strategic development plans; central rules and regulations; representation of high level interest groups and NGOs, etc. It has a formalised and *institutionalised* character. It is based on written rules, established procedures and controlled by bureaucratic institutions. It uses external resources for intervention, usually works with a very narrow flow of information, with high transaction costs and aims at quantifiable results. At the same time it can have a large scope and embrace higher level or long term strategic objectives, which are above short term economic rationality<sup>21</sup>. It is dependent on and driven by the modernist technological regime, and a central development logic<sup>22</sup> - in other words by the ruling policy paradigm. The central system contains various levels, including EU or domestic level, but depending on its size and the kind of intervention, the regional level can also belong to here. Vast majority of EU and domestic rural policies belong to this system. Its overarching aim is to serve the interests of *the centre*, providing access to local economies and creating a reasonably balanced and 'peaceful' environment for economic development.

The other type could be called the *local heuristic system* of rural development, based on essentially endogenous, bottom-up processes. It comprises such elements as: local economic, political and social actors; local development plans; social networks and kinship relations; local authorities, innovative individuals, development associations and partnerships as well as the development skills and experiences of these local actors. Although it builds upon local resources, rural values and synergistic effects of multiple activities, it often needs external finance and

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<sup>21</sup> The central system can give preference to environmental protection before economic growth, for example. As a result, agri-environmental programmes or ecological regeneration plans can be designed, which are costly, but in the long run improve the environment and the livelihood of the people at the same time.

<sup>22</sup> A technological regime is a more or less coherent set of laws, procedures, agendas, artefacts, knowledge, organizational patterns, designs, etc. that together structure technological development (Van der Ploeg and Renting 2000). According to the modernist regime, development was seen in concentration of economic power, exploiting economies of scale, and creating formalised institutions in an attempt for centralising decisions and operations (Brunori and Rossi 2000). In agricultural production, for example, the main targets were cost reduction, intensification and specialisation, which resulted in widespread monocultures on the European countryside. This process could be identified as one of the main components of what could be called the *central development logic*.

encouragement (financial resources, technical assistance, mediation, expert knowledge, etc.). It is usually based on deep and responsive knowledge to local matters, very wide information flows, and an often loose network of public sector and civilian organisations of a certain locality. Institutionalisation and formalisation is usually low. This type of development tries to give flexible responses for internal and external challenges and possibilities in order to protect and improve local life and values, keeping benefits mainly for the locality. The resulting local development systems, in compliance with varied circumstances, can be very diverse or specific and difficult to transfer to other localities. The geographic level for this type of development varies according to local circumstances, though the sub-regional and other 'more local' levels below that seem to be the most appropriate. The overall logic of the local development system is rooted in the 'new rural development paradigm',<sup>23</sup> (see examples earlier in this study).

Concerning human actors of the two systems, additional important differences can be pointed out. Dynamic actors of local rural development systems, such as leaders of rural development associations, organisers of local co-operatives or private entrepreneurs, work for the betterment of their immediate environment. Their work often has a very direct effect on the lives of themselves and their friends, neighbours, families. Therefore, due to their local embeddedness, they are under the moral control of their own community. Beside public money and aid, they usually risk their own savings and other resources as well. They usually have deep, insightful background knowledge and a continuous flow of information about their area, but often cannot deal with the bureaucratic rules of central policies. They are often very committed and have strong views on the future. This might mean less objectivity and can make them prone to mistakes during the development process<sup>24</sup>, but it also keeps them going and preserves their faith in times of decline or problems. In certain respects, they have a short timescale on the one hand, since they have to produce results quickly, to convince others to join, and encourage the outside world to support their ideas. In other respects they operate to a very long timescale, since they stay where they are and 'have a whole life to spend there'. The main concern of their work is to attain the betterment of rural life and reach results often of a non-quantifiable nature.

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<sup>23</sup> Opposed to centralisation and specialisation tendencies in modernism, new rural development activities go back to historic traditions, re-moulding the social and the material, based on diversity and pluriactivity to an extent, when researchers talk about 'repeasantisation' of the European countryside and agricultural production (Van der Ploeg et al. 2000). This process could be understood as one of the basic elements of a *local development logic*.

<sup>24</sup> Such as: exclusion of those who they do not like or do not agree with; supporting and investing public and private resources into unrealistic ideas. These can cause legitimacy problems and can damage local economy and society.

Actors designing, administering and controlling central policies (politicians, bureaucrats, public servants) come from a very different perspective. They have to deal with other people's lives and ideas, which usually have no effect on their own. They are high up in the system, seeing a broader picture, similarities, differences, successes achieved and mistakes committed elsewhere. As a result, they can take a more objective perspective which considers long term or indirect objectives. They are far from the field, have very limited knowledge and information about certain localities and never have enough time or resources to process and understand even the data they have gathered. They are under administrative and political control, deciding about public money, having imperfect information and resources for this, and a failure may put their career at risk. At the same time they have power and control by themselves, hence one of their main concerns can be risk avoidance, shifting the responsibility on to somebody else (officials lower in the hierarchy or the beneficiaries) if possible. They have an insightful knowledge of the bureaucratic structure, are used to strict rules and administrative procedures but also are the best placed to know how to 'interpret' them. They are often constrained by political commitments and other considerations, not recognised by outside observers. The main concern of their work is to fulfil the will of the political centre, achieving measurable results, designing and implementing policies in a transparent and accountable way, taking as few risks as possible.

Summing up it could be said that there are deep philosophical disparities between the two systems, or in other words they work according to significantly different development logics. One is rooted in the modernist tradition, the other in the new rural development paradigm, one works with a central, the other with a local development logic. As a result, the two systems (and their contributing actors) often cannot fully understand each other and it is hard to find good examples of long term, dynamic, balanced co-operation between them. Nevertheless, in reality any development process has to incorporate elements of both logics to have a chance to be successful. For example: central aims, such as the cohesion of different areas through structural development, are usually initiated by powerful central actors (e.g. the EU Commission), although the consideration of local interests and possible local effects, as well as the participation of local actors, is usually required for success. At the same time, a local development initiative, started by locals and aimed at their own environment usually needs some sort of technical or financial assistance (provided by the 'centre') to be able to take off, or at least needs broadly to comply with central regulations and strategies for the future.

### **2.3. Tackling rural disadvantages through different development systems**

According to my initial definition of integrated rural development, the aims of rural development can be achieved through: the reduction of comparative disadvantages for competition and the finding of new ways to reinforce and utilise rural resources. Access- and resource- type disadvantages, (discussed above) are not independent. They are interconnected and often reinforce each other, multiplying negative effects in certain regions. Although they are difficult to separate, they should be tackled on different levels, through different approaches, institutions and procedures. The following section will explore how different rural disadvantages can be faced through the two identified development systems.

#### ***TACKLING ACCESS-TYPE DISADVANTAGES***

Traditional development policies, determined by 'the modernist technological regime', recognise *access-type disadvantages* as the main cause of backwardness, as well as social and economic problems. According to this approach, through improved *access*, structural backwardness can be mitigated and peripheral areas can be connected to the circulation of economic life. The market, supposedly, will do the 'rest of the job'. This is good for *the periphery* since it brings in external capital and other resources (information, expertise, etc.), thereby revitalising the local economy. It is also good for *the centre*, since it opens up new space, markets, natural and human resources and supports the continuous growth of the global economy. Such an approach can be based on the following principles:

- development can best be achieved through large financial investments and by building infrastructure, agencies and administration;
- it should be based on programming, have large scope in terms of time and geographical space, and consider higher or longer term objectives (such as environmental goals or the cohesion of different areas);
- resources should be concentrated; this presumably brings better results, and also means large projects, which can be administered, controlled and evaluated by the central institutions all the way - enabling transparency and accountability of public spending;
- development resources should be additional to private and (domestic) public money, helping projects that could not be realised otherwise (this, again, often means expensive, large projects, such as building of motorways);
- during the development process, policies should consider and be continuously informed by local interests, effects and reactions.

All this corresponds well with what was said about the *central administrative system* of rural development<sup>25</sup>. The main target for this approach is the lack of physical access and infrastructure, understood as one of the most important causes of structural backwardness. The deep involvement of the central system in this seems to be rational, since it would be impossible to carry out large infrastructural developments (roads, communication lines, sewage systems, etc.) without central control, strategic planning and large external investments. This is also in line with modernisation and globalisation tendencies, economic growth and the usual bureaucratic and political requirements for spending large sums of public money. Nevertheless, if only some types of access are improved - namely the physical infrastructure, which is the easiest to plan, control, legitimise and carry out from a central perspective – it can lead to uneven development and the reinforcement of structural inequality.

Tackling other *access-type disadvantages*, however, is less straightforward for the central system. Creating soft infrastructure for economic access (financial and market support institutions, vertical and horizontal integrations, all sorts of services, training, etc.), for example, requires less money and engineering work, but more organisation, connections, local knowledge and social engineering in general. In a free market economy, local level institutions for market, education and services can be financially supported by the centre, but it is usually better that they be organised and maintained locally. Policy access is a similar case. Local authorities and various units of lower level public administration must be financially supported and often have strong political connections with the centre. Nevertheless, in democratic states they usually have a high level of local autonomy too. This is even more applicable to other local institutions, such as NGOs, civil societies, development associations and other local or regional partnerships. They also need financial support from the centre; however, their political, financial and organisational independence is crucial for freedom and democracy.

In other words, to successfully improve access to (and from) backward rural areas, local level institutions should be deeply embedded in local economy and society. They should be based on insightful knowledge of local circumstances and should give flexible, innovative responses to external and internal challenges, which assumes diversity, small scale and networking with a high level of independence. All this is difficult to achieve through conventional formalised institutions, top-down procedures

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<sup>25</sup> This model is followed by traditional top-down development policies of the EU. Typical examples could be the Cohesion and the Structural Policies. To improve the three different types of access there are even different funds set up, such as the Cohesion Funds to improve physical access, the European Regional Development Fund (ERDF) and the Guidance section of the European Agricultural Guarantee and Guidance Fund (EAGGF) to improve economic and business access, and the European Social Fund (ESF), to improve social, policy access.



and tight bureaucratic control of the central administrative development system. These types of institutions correspond better with bottom-up processes and the *local system of rural development*. Of course, it does not mean that central resources (money, expertise, coordination, strategic planning, etc.) are not needed, but rather that, some of them should be channelled through the local development system. This reduces transaction costs, targets resources more effectively to those places where they are the most needed. On the other hand, if these institutions are deeply embedded in local economy and society, they are more likely to improve access both ways, for the benefit of the locality as well<sup>26</sup>. Additionally, besides creating policy access, local institutions are essential for unlocking local resources too, and therefore, their development also helps to tackle resource-type disadvantages.

Improving access does not necessarily favour the local economy and society nor helps to sustain rural values and improve life circumstances. If the local economy is not reinforced at the same time as the opening and if it cannot protect itself in the field of global competition, then improved access can take away as many or even more resources than it brings to the area (Douthwaite 1998). The results of asymmetric patterns of resource allocation and of diverse development trajectories cannot be eliminated simply by providing access and space for competition. This would be similar to setting up a race between a horse-drawn carriage and a modern racing car<sup>27</sup>. If local resources are inadequate or unprepared for the production of marketable goods and services, then the locality would not have anything to sell on the market and would lose out on the business. Improved transport and communication links can accelerate the loss of labour and local markets, squeezing out local businesses and reinforcing out-migration.

### ***TACKLING RESOURCE-TYPE DISADVANTAGES***

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<sup>26</sup> An example could be a local institution created to support the marketing of regional products on external markets.

<sup>27</sup> Just two examples: The IMF (International Monetary Fund) has recently admitted that taking the North and the South as broad clusters, during the last three decades there has been a divergence of per capita income levels between the two groups of countries. The number of low-income countries in the lowest quintile has actually risen from 52 in 1965 to 102 in 1995 (Tucker 1999). And a European example: According to EU experts, after fifteen years of Structural and Cohesion Policies, the gap between the Southern Member States and the rest of the EU has been reduced. However, regional disparities, within the Southern States have grown, significantly (European Commission 2002). In practice, the central urban areas of the less developed states (which always have been better off) are developing rapidly, a consequence of structural aid, growing production and improved access to the global economy. At the same time backward rural regions do not benefit much from the development, but are going into even deeper decline and depopulation.

To be able to take an active part in 'the game', the ability of backward areas to produce marketable goods and services has to be improved. In other words, *resource-type disadvantages* have to be tackled as well. I argue that without advanced *local level systems* of rural development and a hospitable environment, created by the central system, resource-type disadvantages cannot be faced efficiently.

Improving the productive capacity of a certain region can be based on two basic strategies: relying on external resources, by attracting aid and direct private investment; or on internal resources, by unlocking them through local development. However, at the end of the day, every development is based on the utilisation or unlocking of some sorts of internal resources. Even large industrial foreign direct investment (FDI), as a classical example of exogenous development, chooses a particular location for new plants to utilise certain local possibilities. They can be attracted by geographical location, cheap and/or skilled labour, natural resources, cheap space or looser control and regulations, for example. They can also be induced by regional development policies, offering special taxation or financial assistance for those, investing in a certain geographic area. All these can be understood as internal resources, particular to an area. However, the way in which FDIs unlock them is very specific. It involves large financial investment, advanced knowledge, world-wide networks, and creates huge value added.

Nevertheless, there are certain characteristics of large external or induced investments, which often prove to be disadvantageous for the well-being of the localities involved (Cécora 1999). Large external investments in a relatively poor environment, changing everything overnight, can cause a shock to the local economy and society. What is called the “creaming” of regional resources by Stöhr (1986), they might use only a very limited part of the local resources (for example cheap labour, or space) creating over dependent, one-sided local economies. Whole regions can become dependent on one firm or industry, which carries the danger of total collapse in case of bankruptcy or relocation of investments<sup>28</sup>. Alternatively, a firm can remain completely alien from its environment, offering little help to the local economy, but creating huge obstacles to any alternative forms of development<sup>29</sup>. Competition for local resources and markets between external investors and local entrepreneurs is another important

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<sup>28</sup> If labour gets more expensive, environmental and welfare regulation stricter, or tax holidays end, firms, having no roots, local supply networks or need for skilled workforce, can (and often do) move forward to less developed areas. This is currently a strong trend in several Hungarian regions. For a comprehensive analysis of these and the following issues see Kortén D. C. *When Corporations Rule the World* (1996) or Douthvaite, R. *Short Circuit* (1996).

<sup>29</sup> A chemical, or a waste disposal plant, built in a rural location, employing few, highly qualified workers, can be a major obstacle for the development of rural businesses in the field of tourism, or agricultural production, for example.

issue, limiting local development possibilities<sup>30</sup>. Decisions about large private (and public) investments are made far away, with small (or no relevance) to local interests, such as employment, income levels, accessibility of services and the protection of local (rural) values. If investments have to comply only with laws and central regulations (which mainly support central interests), there are no effective safeguards for the betterment of local people, or the protection of rural values.

However, if the local development system is well advanced, then a region or a certain locality is less exposed to the dangers, carried by large external investments. If a region has a well thought out, widely known and agreed development strategy, it is easier to decide if a certain investment is likely to bring benefits, or simply intends to exploit particular resources for profit - leaving environmental and social problems behind. If an area has advanced local development institutions and democratic procedures, it is easier to make legitimate decisions, and, should the occasion rise, to bargain and make a better deal with investors. It is also easier to find alternative possibilities (external and internal) for development or to stop an ongoing project, if necessary, to safeguard local values. External investment is neither good nor bad for rural development necessarily. If well prepared and controlled, it can be a boon to the local economy and society - providing jobs, supporting business networks, feeding into local infrastructural investment and improving the well-being of the whole community. The critical distinction for rural development and the 'betterment' of an area is: whether the bulk of the value is created/captured locally or externally; how sustainable is the unlocking and use of local resources; and who controls the whole process. To achieve a good position in this game, besides central rules, rural areas need extra, 'tailor made' protection, which might best be offered by their local-heuristic development system.

Compared to FDI, local development initiatives unlock internal development capacity in a very different way. Having far less money and usually no advanced technical knowledge or international networks, they have to work with what they have: local knowledge, skills and traditions; primary production; natural environmental beauty and social networks. They have to unlock local resources – in other words have to reconfigure

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<sup>30</sup> Retail business could be the most obvious example. Large department stores, built by international chains, often force small retailers out of business. Another, more unusual example: In a small rural area of the Great Hungarian Plain the National Park and the local development association together planned to start an environmentally friendly, extensive cattle business. An essential asset for this would have been the unused animal breeding plant of the old co-operative. The plan was supported by all important local actors, however, at the auction, a large agricultural investor, having better resources and political connections, managed to buy the plant. Today, instead of the environmentally- and community friendly local solution, there is an intensive goose-feeding plant on the site, threatening the environment and limiting tourism potential.

rural values as development resources – to be able to compete on the market. According to Stöhr (1986) endogenous initiatives aim at diversified multisectoral development standing on “more than one leg” (p. 70.). These rural development practices include a wide variety of new activities such as the production of high quality and region-specific products, farming economically, nature conservation and landscape management, agri-tourism and the development of short supply chains. They can be characterised by pluriactivity, multidimensionality, multifunctionality and a high degree of integration. Creating cohesion between farms and other rural businesses is also a crucial factor, and the simultaneous take up of different rural development activities may well provide some clues to how potential impacts can be enlarged by triggering synergy mechanisms. Rural development practices often require a difficult and complex reconfiguration of farm activities, new skills and knowledge or the creation of new networks.

Local economic development initiatives can bring about very different benefits and have to face different problems than external investments. It is usually based on or aimed at a high degree of local-regional identity (Stöhr 1986). The scale of the development and of economic and social change is usually smaller, therefore it does not bring a shock to the locality. The change can be organic, built mostly on endogenous knowledge and resources, unlocking local development potential. Farms and other rural businesses, when diversifying their activities, can make gradual changes, based mainly on the reconfiguration of rural values and their existing resources (buildings, skills, land, etc.) and on their family labour, rather than significant financial investments. This type of development does not create economic dependency and cannot be disrupted by outside forces through cutting the flow of external resources or simply relocating the investment somewhere else. Nevertheless, as it is shown in the literature there are many difficulties in reinforcing the economy through local development. As a result of economic and social degradation, resources are often simply inadequate or difficult and costly to unlock or utilise. Remoteness and lack of infrastructure restrict local development as much as external investment and the lack of local financial capital brings further difficulties. Nevertheless, the most difficult problems arise from the deficiencies of the local development system: poor human resources, the lack of legitimate institutions, weaknesses of trust and entrepreneurial culture. Without these and other necessary factors like co-operation and innovation, successful local development is impossible to realise.

New rural development activities, therefore, assume both a well working local development system and appropriate interventions of the centre. As one of the most important elements, an environment hospitable for local economic projects is much needed. This includes a variety of factors, such

as: appropriate rules, regulations (market, hygienic, animal welfare, etc.) and accessible legal services, which can help (but also hinder) the production and marketing of locally specific products; supporting state agencies (technical, financial); long term development strategies; educational and training organisations. If appropriate information about local needs is available and respected, these factors clearly can be efficiently facilitated by – and hence can ultimately be part of - the central system of development. Nevertheless, other aspects of hospitable environment, such as advisory services; local business associations; local development plans or marketing strategies are more efficiently provided by the local system.

Direct aid for economic development, investments or the creation and maintenance of jobs, for example, is also needed. Nevertheless, significant financial resources usually are only available from the central administrative system, which is not able to (and does not intend to) deal with the diversity of self driven local economic development projects. Traditional production subsidies under the CAP or domestic schemes could be mentioned as examples. After all, these can be considered as financial support for local economic development in the agricultural sector. These are traditionally significant subsidies, which are channelled through the institutions and procedures of the central development system. According to this, strict bureaucratic control has to be applied from the top all the way to the beneficiaries. Therefore, variations, different circumstances and local innovations cannot be taken into account. The money is distributed normatively according to simple, quantifiable indicators and eligibility criteria. The result is that: there was probably no policy in recent history of the EU criticised more for being ineffective, expensive, not reaching the targeted social groups and bringing possibly more socio-economic and environmental damage than benefits for rural Europe than the CAP.

We would like to argue that: efficient redistribution of external aid and unlocking of local resources call equally for: a deep, insightful knowledge of local circumstances. Building networks, achieving synergistic effects and working out innovative solutions require trust and mutual understanding amongst the participants; and diversity, local variations, innovative solutions should be considered during the process. It is difficult to imagine achieving all this through formalised institutions and administrative procedures of the central development system. Advanced local systems of rural development seem to be much better suited for these purposes.

For balanced development of backward rural areas - ensuring parallel improvement of various access- and resource-type disadvantages - harmonic co-operation between central and local systems of development would be needed. If this is achieved that could be called an *integrated*

*system of rural development*. Such a system might be able to solve the problem of ‘how to support local development centrally’, and realise ideas of integrated rural development theory. The following section offers simple models to explore the connections between the integration of central and local development systems and the effectiveness of rural development policies, delivered by the system as a whole.

## **2.4. Integrated versus non-integrated rural development – two simple models**

Integration in rural development can be discussed in various ways. Its most common understanding concerns the integration of various economic sectors - agriculture, industry, services. Another frequently mentioned aspect is the integration of those disadvantaged social groups in the development process (women, elderly people, national and ethnic minorities, etc.), which could suffer even more if left out of improvements. Nevertheless, now I concentrate only on the lack of integration of the two development systems: central and local. Building on the above discussed concepts, I intend to provide simple models of integrated and non-integrated rural development systems, which could give some explanation about the failure and success of rural development policies. The models at this stage can be understood as a vertical slice of the whole rural development system (including the *central system* and one (any) particular *local system*), thus it tries to explain the process from the perspective of a single rural locality.

Components of the model are derived from the previous analysis:

**Central Administrative System of Rural Development** – characterised by top-down, exogenous interventions, high level of institutionalisation, bureaucratic control, written rules and procedures, the modernist technological regime and quantifiable targets;

**Central Development Resources** – financial resources in the central development budget, available for redistribution through the central system;

**Local Heuristic System of Rural Development** – characterised by bottom-up processes, heuristic aspiration of local people to improve their lives, flexible responses to challenges, social networks, diversity, multifunctionality, and synergistic effects;

**Local Development Resources** – rural values (natural, cultural, social), understood as resources, which often have to be unlocked or reconfigured if they are to be used for local economic development;

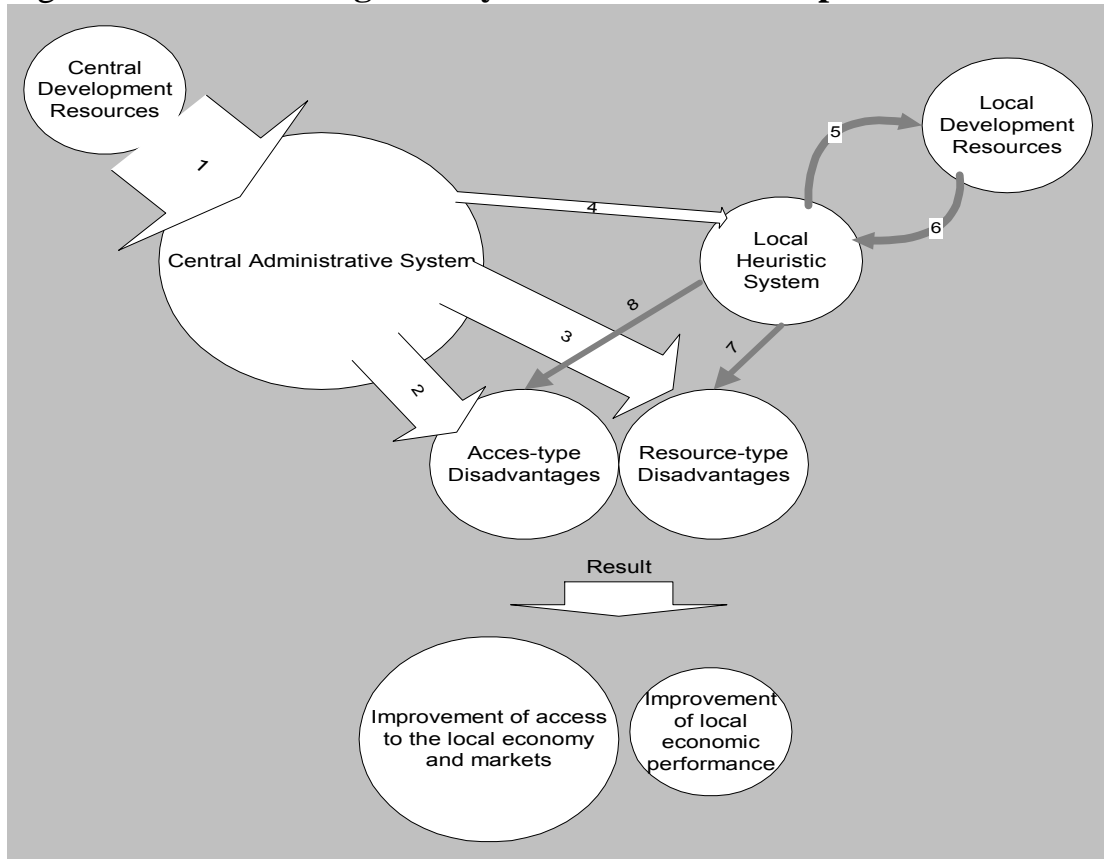
**Access-type Disadvantages** – limiting access (physical, economic, policy) and the free movement of goods, people and capital to and from backward areas;

**Resource-type Disadvantages** – (financial, human, institutional) limiting the ability of rural areas to produce goods and services saleable on the global market;

**Result** – the outcome of the development process: to a certain extent upgraded access and enhanced production capacity, resulting in either more balanced or biased environment for local economy and society.

The direction and thickness of **arrows** (1-8) represent the flow of resources between different components of the model; and the size of the circles indicates the level of institutionalisation (and advancement) of the local and central development systems.

Figure 1. **The non-integrated system of rural development**

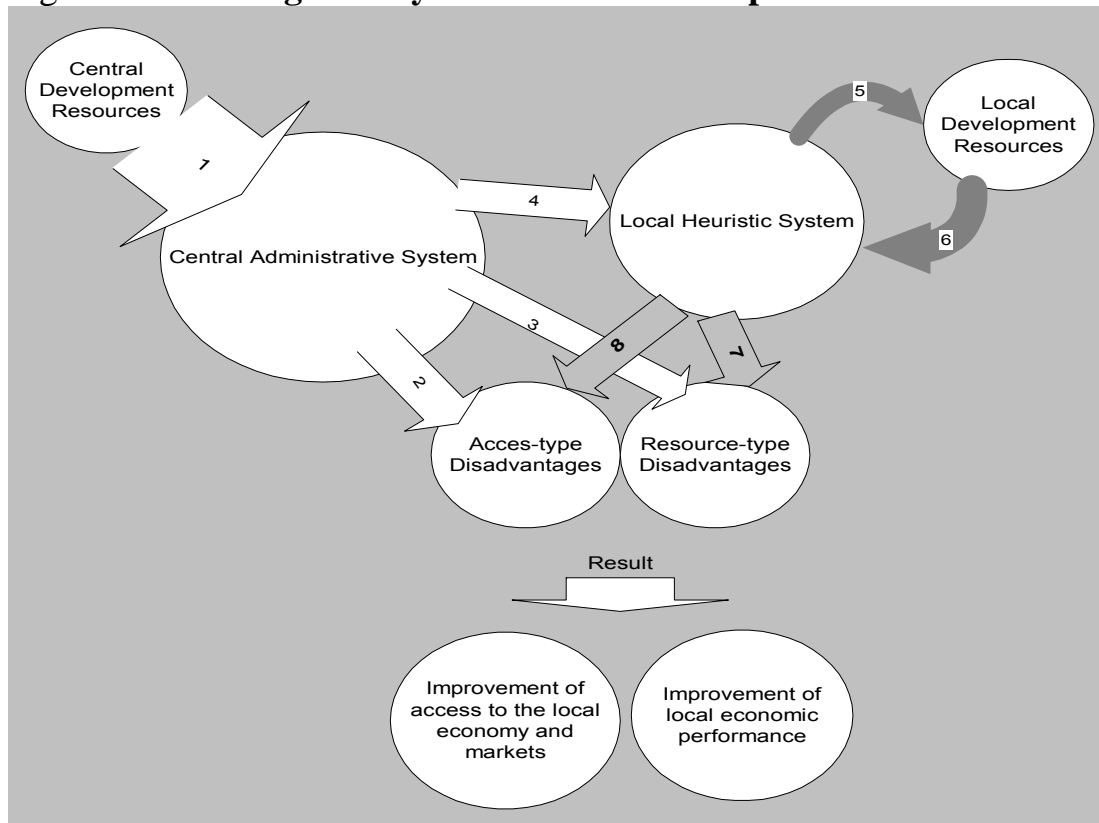


In a *non-integrated system* there is little or no co-operation between central and local systems of development. Control is kept in the centre and the local system is underdeveloped and barely institutionalised. The vast majority of *central resources* (1) are delivered by policies and institutions of the *central system* directly to the beneficiaries. Large amounts (2) are invested into tackling *access-type disadvantages* however; they aim largely the improvement of physical access. There are also large sums (3) for local economic development, however, mostly in the form of simple normative payments (production subsidies), which are ineffective and can carry significant dysfunctions. Very few resources (4) are assigned to the reinforcement of local development institutions or to unlock latent local development resources. The *local system* of rural development is weak, hardly institutionalised and does not have adequate resources to release local development potentials (5). Thus, much of these remain unexploited and the added value (6) of *local resources* (or rural values) remains small. The contribution of the local system to the elimination of *resource-type disadvantages* (7) is not likely to be significant. Non-physical access, backing the local economy and rural products to penetrate global markets can also expect little or no support (8). All these can lead to unbalanced development where, in a certain rural locality, access (especially physical access) improves much faster and further than production capacity. Here we end up in a vicious circle. If there is nothing to sell, then rural areas



cannot withstand the competition brought by improved access, and finally most values that have been preserved by rurality are likely to be lost. In this case, rural development is not successful and central policies fail to fulfil their role.

Figure 2. The integrated system of rural development



In an *integrated system*, local and central development systems should work in a dynamic cooperation with each other. Control, resources and responsibilities should be dispersed throughout different levels of the system. The existence of advanced local development institutions is a necessary condition in this model. *Redistributed resources (1)* are still channelled through the *central system*, although their allocation is quite different. A significant share of resources (2) is still directly spent on tackling *access type* (mainly physical) disadvantages. However, those resources, allocated for supporting local economic development directly from central sources (3) represent a much smaller share of the budget. They are still normative payments, but rather aiming at the maintenance of public goods (agri-environmental schemes, for example) than simply subsidising conventional agricultural production. A significant part of central resources (4) is devoted to the reinforcement of the local development institutions and the unlocking of local resources. As a result, the *local development system* is well advanced and institutionalised. It is able to invest (5) in the protection of rural values and their utilisation in the development process.

Like this, *local resources* can be exploited and can contribute with considerable added value to the development process (6). This value flows into the economic resource base of the local area (7), creating marketable products and greatly reducing *resource-type disadvantages*. At the same time, the local development system can also make a significant contribution against *access-type disadvantages* (8), primarily improving business and policy access, for the benefit of the local area. All this can lead to a much more balanced development. The production capacity of the locality is reinforced and a two way access (from as well as into the locality) is provided. Thus the rural area, utilising its resources and finding its segment of the market can become independent, keep its population and sustain its values for the future.

Three main differences can be highlighted between integrated and non-integrated models. One concerns the *flow of resources*, the second the *flow of information*, and thirdly the *level of advancement and/or institutionalisation* of local development systems.

The difference concerning *resource-flows* is quite obvious. In the non-integrated model the central system distributes the vast majority of the budget directly through its administrative institutions, applying strict bureaucratic control and simple indicators all the way down to the beneficiaries. The inevitable result is low effectiveness, since much of the money cannot reach those places where it is most needed. At the same time, lacking central financial resources and technical/political support, local systems are not reinforced and there is often insufficient capability to unlock local development resources, or even to absorb central aid. Consequently, the value added of the local system to the development process remains small.

In an integrated model, a significant part of the budget is not delivered directly by central policies, but channelled through the local development system. This strengthens this system and allows for the reinforcement of local institutions and social networks, etc. It can also directly provide financial aid for the exploration and exploitation of local resources for local economic development. All this can result in the rapid growth of local added value and the expansion of available development resources, for the development system as a whole.

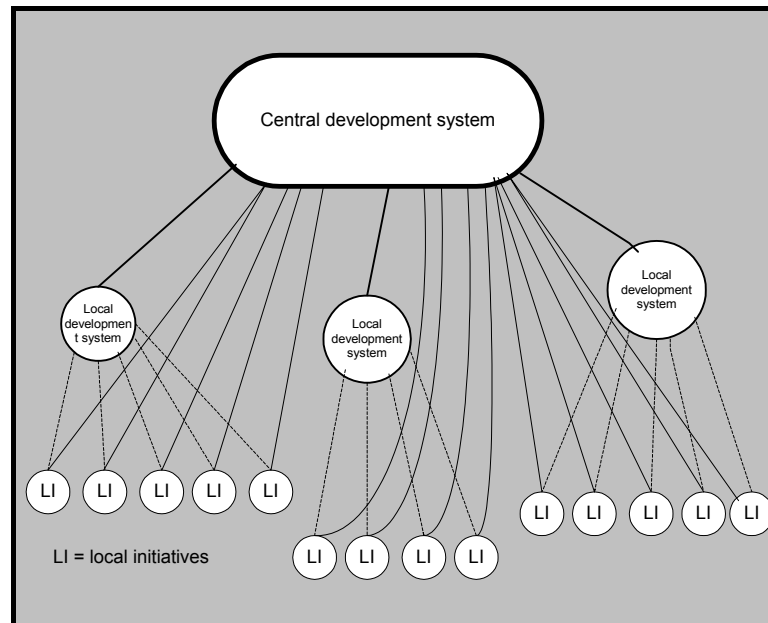
By including the *flow of information* in the model, the differences of effectiveness between integrated and non-integrated development can be partly explained. Accurate and detailed information about problems and possibilities, disadvantages and resources is the key starting point for any action in rural development. To explore the differences in information flows between integrated and non-integrated development, additional figures are needed, showing not only one slice (representing the viewpoint of one locality), but the system as a whole. In the non-integrated model (see

Figure 3.), the central system, through institutions and bureaucratic procedures tries to supervise the whole development process. For making appropriate strategic and operational decisions about development, information has to be collected, processed and analysed centrally. For tackling resource-type or some non-physical-access-type disadvantages, masses of very diverse information should be handled from a large number of rural localities. Information would be needed not only about access- and resource-type disadvantages, but also on many other aspects, such as conditions of social networks, local development institutions, condition of the local value bases, and so on. Moreover, taking this logic further, different level institutions of the central system should monitor and control each of the development projects<sup>31</sup> as well. This would involve huge diversity, large number of decisions and huge transaction costs, creating enormous difficulties for normal bureaucratic institutions. Possible (usual) solutions are: fighting mainly those disadvantages, which are easier to grasp without detailed information of a qualitative nature (problems of physical access, for example); supporting large projects instead of small ones; or to give normative payments based on simple quantitative indicators and political decisions, rather than detailed, quality information. Nevertheless, all these result in low effectiveness, significant gaps in the development process and the exclusion of certain activities, social groups and geographic areas from central aid.

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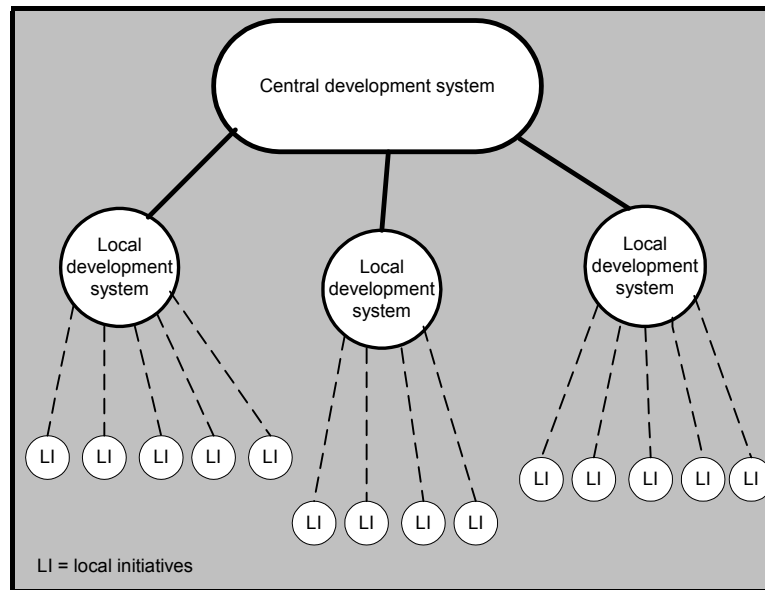
<sup>31</sup> Looking at EU pre-accession policies, the PHARE Programme works this way most of the time, giving the right (and the burden) of controlling each project to the Brussels institutions. The SAPARD Programme has a similar system, though in this case the main controlling/commanding body was established in the Candidate Countries, according to strict rules, determined by the Commission in Brussels.

Figure 3. **Information flows in the non-integrated development system**



In an integrated model (see Figure 4.), information is still needed, however, it is collected, processed and used on a much lower level, in the relevant local development system. Every single local system, belonging to a certain region or rural locality (institutions, social networks, businesses, etc.) deals only with information of its own area. In this way transaction costs can be kept lower, background information, innovative local solutions, tacit knowledge and social networks can be utilised and latent resources are easier to unlock. Limited central control can still be applied through regulations and the allocation of central resources. However, this allocation can be based on diverse, qualitative information, already processed by local development institutions. Strategic and operative decisions can be negotiated with local representatives, for example through integrated local development plans. By utilising diverse, high quality local information in a dynamic, iterative way, local development initiatives can create significant added value and generate synergistic effects, thereby making the use of central resources much more effective in the development process.

Figure 4. **Information flows in the integrated development system**



Several obstacles, hindering the dynamic integration of central and local systems of rural development can be identified in the above model. A more philosophical reason - arising from the differences in their basic logics, and causing frequent misunderstandings between them – was explored above. Another, rather practical reason originates from the absence or immaturity of local development systems. If there are neither established decision making procedures, legitimate leaders and representatives nor carefully planned local development strategies in the localities; if local development associations, public-private partnerships, advisory services, paid development managers and agencies, and other local institutions are lacking; if social networks are undeveloped; there is no culture of entrepreneurship and innovation and human resources are insufficient in general - that seriously limits the possibility of both local development and central policies. Legitimate and formalised institutions play a key role here<sup>32</sup>. Paying local people to work for the common good can concentrate and accumulate human resources on local rural development tasks. These people then can accurately collect and process information, making it available for both central and local use. They are also crucial for accessing central development resources. The central system, which is based on bureaucratic institutions and procedures, needs ‘something comparable’ to communicate with. Without formalised institutions and representative bodies the local/sub regional level can neither negotiate with the central system nor access aid from the ‘rural development budget’. Institutions are

<sup>32</sup> In the literature this is often referred to as a certain ‘institutional thickness’ (Amin and Thrift 1994).

also necessary for accountable and transparent spending of financial aid. Consequently one could say that, an integrated system can only work if the local development system reached a certain level of *institutionalisation*, which is the third important difference between the two models described above.

A fundamental difficulty for integrated rural development can be identified here. The most appropriate levels for local rural development – sub-regional and below – often have few historic roots and weak public, civil and business institutions. Especially in the most backward areas, these have to be newly created or largely developed to be able to fulfil central requirements. For the centre, it is not easy to find ways to support this process, for several reasons. First of all, central aid, according to the rules, is tied to accountability and complicated bureaucratic procedures. This often proves an impossible condition for newly emerging rural development networks. On the other hand, for organic development, aiming at structural changes, local institutions should progress through bottom-up, participative processes, which cannot be driven or closely controlled from outside. Once the local development system has fully operational, advanced institutions, they can translate and mediate; they can help to access central resources for local economic development; explore and defend local interests; or can offer both, information and a channel for the central system to provide technical and financial aid. Nevertheless, local development systems with their institutions can already be considered as ‘process type results’ of previous rural development themselves. Therefore, it is very difficult to find an entry point in this cycle and to initiate the process. Surely, it should be a gradual process, involving many compromises and a combination of local and central efforts. Nevertheless, I would like to argue that reflexive intermediary agents, translating and mediating between central and local systems, could be of a great help in this process.

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