

1. Endogenous Development: Role of Territorial Capital in Rural Areas

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Rural regions are unique territorial spaces in terms of economic abilities, social features and the settlement structure. Such areas have undergone meaningful changes throughout Europe, including Hungary. Important changes have taken place, creating functions other than agrarian production for rural regions. These new functions and their diversity requires a different, more complex analysis which in turn necessitates a different approach towards the understanding of the core elements of development in the regions in question. This includes focusing on social, economic, cultural and environmental factors and adjusts institutional design accordingly.

My work¹ concentrates on the role of endogenous regional development and territorial capital in rural areas, reviews and evaluates available relevant literature and comes to findings from them. First, I briefly introduce Hungarian countryside and the changing rural territorial processes, then the unique importance of endogenous regional development and territorial capital in this context should be easily interpreted.

In my work I intend to highlight the role of territorial capital in the development of rural areas. This special approach of endogenous development and its concept gives us a theoretical framework to measure and to compare different territorial units.

Keywords: endogenous development, territorial capital, rural areas

1. Introduction

If we examine rural and urban territories from historical point of view – as OECD (2010) does in its document -, they have been clearly differentiated from each other in terms of population. Inhabitants of rural areas largely accepted the fact that they were provided with distinct possibilities and occupational choices. Also, interaction between the population of these two types of territories was quite limited due to the fact, among many others, that available media in these regions had a tendency to discuss only local issues.

In the last few decades, major economic changes have taken place both in rural and urban territories, which process resulted in the decay of the relevance of traditional rural activities with regard to rural areas (van Leeuwen et al. 2009).

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However, the situation has changed by today – it is a huge advance that we can talk about brand new or highly appreciated functions of rural territories. Although it is true that the more complex approach of rural areas gained more and more stress, the diversity of functions and multifunctional approach were uniformly conceived and developed in the OECD (2006) „New Rural Paradigm” for the first time.

Consequently, paradigm change in the approach of rural territories, and enhanced emphasis on endogeneous development together throw a new light upon the possibilities of rural development and growth.

2. Short review of main processes of Hungarian countryside

As Sütő (2011) writes in an ESPON document, population of Hungary, and most of its part is being characterized by unfavourable demographic processes. The most unfavourable rural, peripheral north-eastern and south-western parts, and others too, of the country are typified by serious depopulation. On the other hand, Budapest and some wealthy western territories, predominantly bigger cities, show a population increase or at least stagnation.

As Enyedi (2012) articulates in relation to rural-urban dichotomy and their inequalities, neither the social nor the economic changes having taken place since the regime change provide favourable circumstances for eliminating differences.

Such a major shift necessarily has significant impacts: as Buday-Sántha (2010) notes, rural territories have undergone polarization in the last two decades. He also adds that the rising tendency of unfavourable processes in the field of economy and society is of concern. Along with the closing down of manufacturing plants and eliminating rural industry, the countryside was deprived of its economic support. Villages in rural territories lost their local economic intellectuals, former leaders of the sometime manufacturing plants who would have been able to implement locally required developments.

In relation to the countryside, the role of agriculture has to be mentioned, which was characterized by uncertainty and convulsion due to sudden changes after the economic transition (Benet 2006).

Buday-Sántha (2010) adds that development can be observed in those regions only that have been able to integrate into urban economy which, however, most of the rural territories did not manage to reach. Also, advantage of development resources can only be perceived in infrastructural improvements, while there seem to be no relevant agricultural achievements. Consequently, local governments without own income are struggling in such circumstances.

What is more, a significant polarization process evolved after the transition and remained peculiar according to Beluszky and Sikos (2007). They also add that such a process has several dimensions, for instance, one affecting the labour market, or another having impact on the composition of the local community.

3. Change of rural functions

After reviewing the Hungarian countryside, in this chapter I will discuss rural areas in more general. Despite of the many difficulties that Hungarian or Central and Eastern European rural territories need to face, we can talk about driving roles of changing processes of rural areas.

OECD (2006) confirms that nowadays rural areas face general challenges. These processes are being demonstrated by socio-economic indicators. At the same time, we can see singular heterogeneity in the development paths of rural regions which goes beyond the traditional image of less favoured situation of rural regions.

As it can be read in an ESPON (2012) paper, over the years, rurality has generally been identified with the circumstances of being rural, and also, many functions and meanings have been tied to this concept in different contexts. Historically, rurality has had a tendency to be associated with often contrasting characteristics such as a happy agricultural lifestyle, and the struggle with harsh conditions at the same time.

The ESPON (2012) paper highlights the differences between equity and efficiency oriented politics. According to the paper, the first one aims at mitigating internal social, economic and territorial diversities in development and income, whilst the aim of efficiency oriented policies is to support economic growth with assets of improved efficiency and competitiveness. To place social, economic and territorial cohesion as top priority in all areas is the main focus of cohesion-oriented policy. Environmental and health related concerns are also being handled as of significant importance. In a cohesion based scenario diversification plays an active role and opportunities for SMEs, tourism and residential functions are promoted.

In this respect, it is not a coincidence that OECD (2006) introduces a new rural paradigm, which approach has a focus on places rather than sectors and stresses investments rather than subsidies. These key orientations are the result of at least three factors that have great influence on rural policy making across OECD countries (OECD 2006, p. 57-58.): (1)

increased focus on amenities, (2) pressures to reform agriculture policy, (3) decentralisation and trends in regional policy.

Besides the new rural paradigm, another change is also apparent. As Ward and Brown (2009) describes exogenous subsidy and support as old redistributive approach, now when we see the shift in thinking in regional policy, endogenous assets and capacities have a more dominant role as part of an investment-oriented approach.

4. Theory of endogenous development

The author of this article agrees with the general idea that while growth induces quantitative change, development results in qualitative change. By social economy, development is generally interpreted as economic development (Farkas 2002). However, it is worth noting, as Lengyel (2012) does, that economic development encompasses economic growth, because besides basic economic indicators it is advisable to take some other economic features into account as well.

In relation to regional economic development, Capello and Nijkamp (2011), besides others, give the examples of healthy living environment, access to social facilities and high-quality education.

When discussing regional economic development, Stimson and co-authors (2011) differentiate quantitative and qualitative attributes. The following factors are all of concern while carrying out measurements and monitoring regional economic processes such as changing wealth and income levels, employment levels, generating creative capitals, social and financial equity, or sustainable development.

Though this paper does not aim at discussing the subject in detail, further measurements in this field are definitely required.

Benko (1997) dates back the appearance of endogeneous development to the end of the 1980's though it is a fact that then he talked about industrial and urban territories.

The tone of regional development theory and its focus has shifted from exogenous factors to a focus on endogenous factors during the past few decades (Stimson et al. 2001).

Essentially, endogeneous development means a region's reliance on and the best possible utilization of local resources and facilities. The question of endogeneous growth² also emerges in relation to the above mentioned concept.

Two major strands can be differentiated in the theory of local endogeneous development (Capello 2007, p. 184.): neo-Marshallian inquiry that has been dominating for years and which views local growth as a result of externalities having impact on the static efficiency of firms; the neo-Schumpeterian literature that defines development as resulting from the impact of local externalities on the innovative capacity of firms.

Stimson and co-authors (2011) point out a further change in the focus of processes towards the principles of sustainable development in regional development and planning in the last two decades. According to this statement, the latter strategies would aim at creating favourable conditions for a region in order to make it able to better utilize its local resources. The primary focus of such attempts would be on endogeneous processes that would be designed to encourage collaborative advantage across the private, public and community sectors.

In the present conditions of focusing on sustainable development in regional economic development strategy it becomes more and more emphatic to concentrate on taking advantage of endogeneous factors while aiming at regional growth and development.

With the help of Stimson et al.'s work (which processes Nijkamp et al.'s and Capello et al.'s writings, too), and the application of the pentagon model of success factors, sustainable innovative development can be framed (Figure 1).

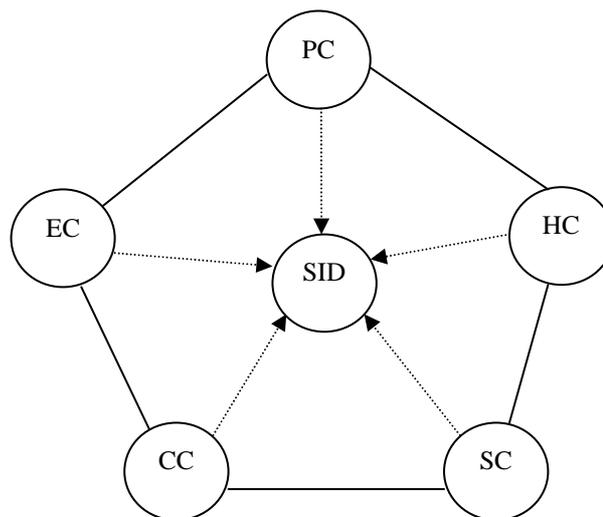
These elements of the model need to be mobilized in order to enhance regional development processes (Stimson et al. 2011, p. 10-11.):

1. The availability of productive capital (PC): this corresponds to neoclassical production theory where output is determined by the traditional production factors labour and capital.
2. The presence of human capital (HC): this refers to the quality of labour input obtained by means of education, training or new skills (for example, in ICTs) and may be seen as a productivity- enhancing factor. Clearly a balanced distribution of human capital over people is of great importance.

² The principle of endogenous growth relies on local endowments and capabilities of a certain region (Kengyel 2012). Reflecting on Romer's classic work, Kengyel (2012) and Varga (2009) argues that in the case of the above mentioned principle technological knowledge and human capital are the two determining factors.

3. The access to social capital (SC): this condition comprises interaction and communication between people, socioeconomic bonds, social support systems, business networks (formal and informal), relations based on trust, and so on.
4. The usage of creative capital (CC): this may be seen as a great ability to cope with challenges and new opportunities, and is reflected in entrepreneurial spirit, new ways of thinking and acting, trend- setting artistic expressions, innovative foresights, and so forth. Such a factor is often found in a multicultural urban melting pot.
5. The existence of ecological capital (EC): this condition takes for granted that a favourable quality of life, an ecologically benign condition in a city, presence of green space and water, or an attractive living climate (for example, recreation and entertainment possibilities) contribute significantly to the innovative and sustainable potential of a region.

Figure 1 A pentagon model of creative forces for sustainable regional development



Source: Stimson et al. (2011, p. 10.)

As it is described in an ESPON (2011) paper, most of the theoretical literature on intangible assets comes from the fields of regional development or entrepreneurship, and mainly places emphasis on urban territories.

The document (ESPON 2011) mentions two attempts which adapt these ideas in rural policy context. The first one is the assets-based approach to development (Braithwaite 2009), the second one is an examination of Camagni's (2008) concept of "territorial capital" by Courtney and co-authors (2010). I summarise Braithwaite's approach hereunder, while I do

not review the paper of Courtney et al., only mention their opinion very briefly in the next chapter.

Braithwaite (2009) uses a seven-element capital framework which corresponds to categorising assets (Table 1). The importance of this approach is that the framework includes political and cultural capital, which are particularly important in a rural context.

Table 1 The seven forms of sapital recognised by asset based community development

<i>Capital</i>	<i>Definition</i>	<i>Examples in rural context</i>
Financial	Financial capital plays an important role in the economy, enabling other types of capital to be owned and traded.	The liquid capital accessible to the rural population and business community, and that held by community organisations.
Built	Fixed assets which facilitate the livelihood or well-being of the community.	Buildings, infrastructure and other fixed assets, whether publically, community or privately owned.
Natural	Landscape and any stock or flow of energy and (renewable or non-renewable) resources that produces goods and services, (including tourism and recreation).	Water catchments, forests, minerals, fish, wind, wildlife and farm stock.
Social	Features of social organisation such as networks, norms of trust that facilitate cooperation for mutual benefit. May have "bonding" or "bridging" functions.	Sectoral organisations, business representative associations, social and sports clubs, religious groups. 'Strength' relates to intensity of interaction, not just numbers.
Human	People's health, knowledge, skills and motivation. Enhancing human capital can be achieved through health services, education and training.	Health levels less variable in an EU context. Education levels very much generational. 'Tacit knowledge' is as important as formal education and training.
Cultural	Shared attitudes and mores, which shape the way we view the world and what we value.	Perhaps indicated by festivals, or vitality of minority languages. Some aspects - e.g. 'entrepreneurial culture' - closely relate to human and social capital.
Political	The ability of the community to influence the distribution and use of resources.	Presence of, and engagement in, 'bottom up' initiatives, the most local part of 'multi-level governance'. Relates to local empowerment v. top-down policy, globalisation.

Source: ESPON (2011, p. 33.) based on Braithwaite (2009)

Braithwait (2009, p. 2.) describes the usefulness of the framework as „...*it can act as a 'prompt' to remind rural residents of the attributes of their area and of the potential they have for development*”.

5. Territorial capital

As Blakely (2001) explicates, the basic concept of endogeneous development – or using local resources to achieve better results – is supported by a theory according to which local resources are considered to be primary factors in achieving or producing any outcome, let it be tangible or intangible goods. Planning is always based on indigenous activities and/or endogeneous development, because the core of planning as a policy science is the application of principles that are crucial in relation to both space and location.

When working with the framework of the numerous types of capital we can talk about the appearance of territorial capital as a special approach of endogeneous development. This concept originally occurred in so called „policy” documents (OECD 2001, EC 2005). Thus it has been formulated in the OECD (2001) document with regard to territorial capital that the territorial dimension has a determining effect on profitability and competitiveness of economic activities. However, a more scientific and sophisticated approach of the subject has emerged recently which belongs to Camagni (2008, 2009).

Camagni (2008, 2009) has worked out a framework which incorporates all tools that are important in relation to regional development. His approach provides the possibility of a homogeneous, theoretical framework, which is suitable for describing present regional processes, and also might be useful when making prognoses.

In this perspective, according to definitive approach territorial capital itself is a set of assets which determine a given territory's character (Camagni 2008).

When working with the Camagni territorial capital framework, it can be seen that the components of territorial capital are examined in terms of two factors (Figure 2): degree of materiality and rivalry. Private goods (such as the fixed capital stock or pecuniary externalities) are characterised by the highest degree of rivalry and materiality. Human capital has the highest degree of rivalry, but the degree of materiality is implicitly lower for this dimension. Materiality and rivalry are both low for social capital, while public goods (such as natural and cultural resources) is a dimension with high materiality, but low rivalry degree. Thus these goods that are positioned in the four corners of Camagni's taxonomy table can be treated as basic components of territorial capital. Also, they may be regarded as resources of regional endogeneous development (Lengyel 2012). Besides these four components, mixed goods – club goods and impure public goods – make up Camagni's taxonomy.

Figure 2 Territorial capital

R i v a l r y	High rivalry (private goods)	Private fixed capital stock Pecuniary externalities (hard) Toll goods (excludable) c	Relational private services operating on: - external linkages for firms - transfer of R&D results University spin-offs i	Human capital: - entrepreneurship - creativity - private know-how Pecuniary externalities (soft) f
	(club goods)	Proprietary networks Collective goods: - landscape - cultural heritage (private 'ensembles') b	Cooperation networks: - strategic alliances in R&D and knowledge - p/p partnerships in services and schemes Governance of land and cultural resources h	Relational capital (associationism) - cooperation - collective action capability - collective competencies e
	(impure public goods)	Resources: - natural - cultural (punctual) Social overhead capital: - infrastructure a	Agencies for R&D transfer Receptivity enhancing tools Connectivity Agglomeration and district economies g	Social capital: (civiness) - institutions - behavioural models, values - trust, reputation d
	Low rivalry (public goods)			
	Tangible goods (hard)	Mixed goods (hard+soft)	Intangible goods (soft)	

M a t e r i a l i t y

Source: Camagni (2008, p. 38.)

As Tóth describes (2010), what is unique about territorial capital is that it highlights difference between different geographical regions by allowing people residing in a certain territory to expect higher return for their investments. Success (return) of an investment is highly dependant on the location („genius loci”), which means that return rates also vary by region.

As we shall see, territorial capital with its approach and being structured in a framework goes far beyond the traditional economic conceptions applied both in the case of growth and development measurements (Lengyel 2012).

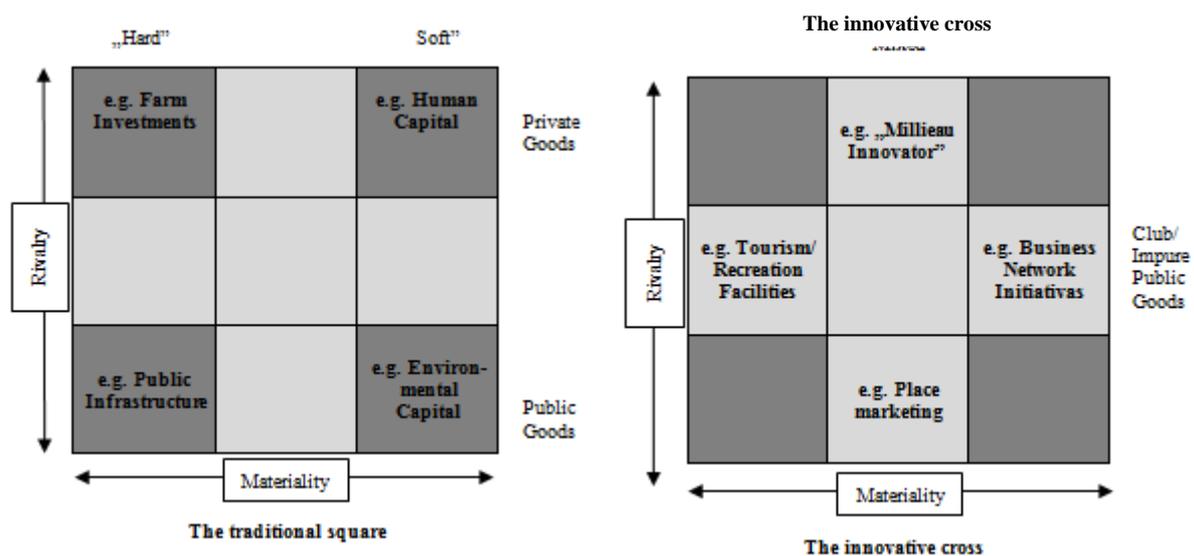
In relation to its usefulness Capello and her co-authors (2009) state that territorial capital and certain cognitive factors of it facilitate economic interactions. It is capable of enhancing the effect of certain factors on regional growth by increasing the efficiency of personal interactions.

When Camagni (2008) writes about the four extreme classes, he summarizes them as the 'traditional square'. The intermediate of the three-by-three matrix is called the 'innovative cross', because it has interesting and innovative elements which attention should be focused upon.

Courtney and his co-authors (2010) analyse the innovative cross and as a critique they examine the limited applicability of Camagni's model. They mention that cultural and political assets do not feature strongly in the framework.

In terms of rural policy, Copus et al. (2011) write about the dominance of the left hand side of the diagram (Figure 3) incorporating farm investments or public infrastructure. They make a suggestion to reinforce policy efforts in the case of the right hand side of the diagram, by supporting 'softer' forms of capital.

Figure 3 Application of Camagni territorial capital framework in a rural policy context



Source: Copus et al. (2011, p. 128.)

Copus and co-authors (2011) give some examples in the diagram on the right side. However, they add that selecting examples demonstrates that the clear distinctions of Camagni framework is not easy to apply in the real world. They also state that the use of the „right side” components in practice will also be difficult for policy makers, though it does not mean of course that the concept would not turn into the part of policy discourse.

I agree with Copus and co-authors (2011) and I have to mention the difficulty in measuring the right side (innovative cross), which at the same time, in my opinion, can be suitable for significantly expanding the possibilities of a 'hard' quantitative analysis. And by doing so, it might provide a strong practical basis for statistical measurements in general.

5. Conclusion

In my work I reviewed endogeneous development, and a special approach to it - territorial capital -, through pointing out the latter notion's expediency in terms of rural territories.

First, I introduced certain processes of Hungarian rural territories after the regime change. In connection with rural areas I also discussed international trends and the changes in their functions affecting policies.

Endogeneous development relies on local resources of a certain territory instead of external intervention. The concept of sustainable regional development or even territorial capital could be mentioned as a wide approach to the subject.

Territorial capital might be handled as a sort of concept of endogeneous growth. In the Camagni framework, territorial capital is determined by the degree of materiality and rivalry of different goods. Traditional and innovative components of Camagni's concept together could be suitable for making up a framework that would be useful in carrying out measurements in the long term. We shall see that a number of critiques have been formulated in connection with the concept. In my opinion, besides their diverse quantifiability, traditional and innovative elements can be adapted to rural territories, as well.

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