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**Introduction to local economic development**

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Introduction to local economic development

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## Preface

There are basically two approaches to the development of the local economy: one is relying on external resources. The most important task here is to attract external capital, attract investors, businesses and mobilize external resources. The other way is to explore and mobilize the internal resources of the economy, to support local entrepreneurs, to create an environment that also provides the locals with development. Without proper mobilization of local resources (e.g. leased or sold land, HR), it is almost inconceivable to involve external resources. At the same time, external resources (such as applications) can greatly facilitate the utilisation of internal resources. Accordingly, the two approaches need to be linked in an appropriate way to effectively reinforce each other. In the book, the tools to promote the listed economy include not only the promotion of (external) investment, but also the internal structure of the economy, as well as tools to improve the competitiveness of businesses. By introducing mainly traditional (sometimes creative and innovative) device applications, the guide aims to launch as many local initiatives to promote the development of the economy as possible and to succeed in Hungary. Additionally, it is not a secret goal to publish this study, to get more and more young people into the field of regional development and rural development as there is a need for committed people in local economic development. During the construction of the book, I have taken into account the topic of the curricula that have been submitted to the students so far, and the experimented forms of the transfer of experiences accumulated so far - I think it is optimally efficient. The first chapters is the clarification of the concepts and the introduction of the literature into individual sections. This is followed by the introduction of good or less good practical examples. The chapter is always closed by an exercise that develops a deeper understanding of local economic development and contributes to the development of sensitivity to social and economic problems.

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## Chapter I. Settlements and their connections

The *settlement* is the highlight of a spatial area.

The emergence of settlements and the different settlement systems are clearly a consequence of human culture. The discipline that deals with systematisation, exploration, and comprehensive research is called urban sciences / urbanism. One area of geography is settlement geography. It deals with the spatial location of the settlements, the spatial relations between them, their development and the analysis of their internal structures.

The settlement as a concept can be defined in several ways.

### *Definition*

*According to Tibor Mendöl (1960), the settlement represents the spatial unity of the residential and workplace of a particular group of people. The focus is on the group of people that constitutes the population of the village, the size of which can range from the one, theoretically, to the upper limit.*

Another important element of the concept is the place of residence. It resembles a dwelling, satisfying man's need to distract himself from his surroundings, allowing him to relax and live a family life. In some cases, this may coincide with the place of work (e.g. a workshop within a residential building), but most of the time they are separated from each other and within the boundaries of a settlement. Based on the above definition, it is clear that for a long time the unit of residence and work was the most important criterion of the settlement.



### *Definition*

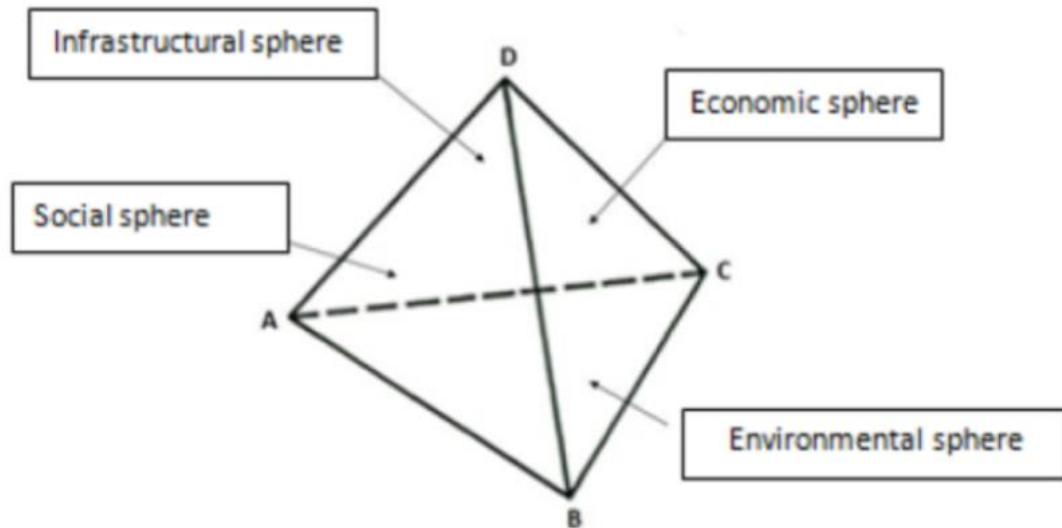
*Pál Beluszky (2007) tried to resolve this contradiction and to implement the modernisation of the settlement concept. Apart from the place of residence and the workplace, it is a part of the settlement that handles the resting place, and is the recreational space. The definition thus reflects the change, which has increased the recreational time with increasing living standards, improved working conditions and productivity.*

This means that today's settlements need to have some recreational tasks. This is a great deal of person-dependent activity, and there are countless ways of renewing mental and physical ability to work.

We can also get a comprehensive definition when we consider settlements as a system, a system of the socio-economic and infrastructural spheres.

### *Definition*

*An excellent example is the Tetrahedron model by József Tóth (1981), based on the interaction between socio-economic, infrastructural and natural spheres, and the cooperation between them. The individual spheres are shown with equilateral triangles and the settlement with a tetrahedron.*



**1. Picture: Tetrahedron-model (1981)**

(Sources: József Tóth, 1981)

The interaction of different strengths is realised along the edges of the spheres, as the settlement is created as a unit of different spheres and their interactions. By examining the complexity levels of these systems, we can distinguish between different types of settlement, such as between villages and towns.

### *Definition*

*Zoltán Kovács (2007) makes the settlement more understandable than the classical approaches. In this case, the settlement is a place inhabited by man (temporarily or permanently), consisting of residential and commercial buildings, and other associated buildings (e.g. public spaces, roads). According to this, the settlement reflects its past and present, local cultural features and serves the spiritual and physical needs of its people.*

When examining settlements, you have to dive into the study of their surroundings - mapping the center and periphery relationships.

As we mentioned above the settlement, as a privileged structure in space, is a remarkable spatial structure in many kinds of cases (*Nemes Nagy 1998, Szabó P.2008, Anas-Arnott-Kenneth-Small 1998, Strassoldo 1990, Faragó-Rácz 2011*). Not only its arrangement, but its development, the evolution of relations between settlements, in space and time transforms the specific spatial structure of a country or a special part of the country. The definition of spatial structure refers to a set of related elements in a given space (Szabó 2008). The spatial structure contains environmental, societal, economic and infrastructural elements as well. As the relationships between the elements of a particular spatial structure and their strength are rather complicated, it is difficult to define multifunctional catchment areas. The first significant milestone of classic catchment area theory was based on the work of Walter Christaller (*W.Christaller, 1933*). He drew attention to the significance of settlements' relations between cities and their impact on spatial processes.

In the following Chapter II. we are going to talk about cities' agglomerations and about the relationship between them.

## Chapter II. Urbanization – theories of cities and their agglomeration

To define a specific element of space and to determine the catchment area is a complicated task, due to urban development, as well as the complex habitus and relationships of productive forces. Development of cities and their altered role prompted researchers dealing with urban studies to attempt to model this kind of transformation. Confinement and separation of the agglomeration and the catchment area, along with their blending with the settlement group can be observed in previous studies. Settlements emerging around the initial central settlements form a settlement group. Connections appearing and intensifying further on will make this spatial element an agglomeration, a catchment area forming around a specific central settlement. This area, and therefore its confinement can be manifold. We consider different viewpoints when we examine the economic catchment area, and also when we examine the catchment area of a specific settlement from an educational or cultural respect. The first inquiries were made up of the models done by the Chicago school. The inquiries followed up the changes in land use, which took place due to the growth of urban population. Burgess' model (1925) envisions the urban development model as concentric circles.

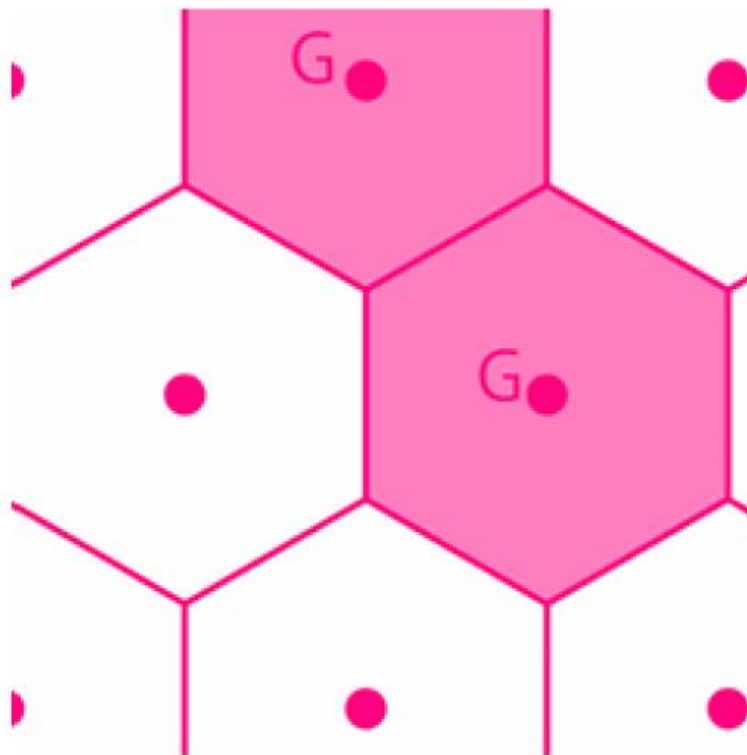
### *Definitions:*

*The Chicago school (sometimes called ecological school) was the first major body of works emerging during the 1920s and 1930s specializing in urban sociology.*

*Urban studies is a sociological study which deals with the human behavior, and human interactions in metropolitan areas. This kind of research might be helpful for economic development, for policy makers – because this is a study of cities and their role in the development of society.*

Due to migration towards the inner part of the settlement, the size of the population grows, the land use of the inner circles changes, thus the people lose ground and are forced to go to the outer circles. This new function expels those who had lived in the outer circles, therefore changes the land use, and further expels population and the existing land use schemes. Besides the monocentric models, polycentric models have also appeared. In Harris and Ullman's polycentric model there are sub-centres besides the central town core. Furthermore,

land use with identical functions also appears in several parts of the town. The models of the American school describe a pre-suburbanisation American urban development model. Therefore, in the case of Hungary and other European countries it is more practical to apply those urban development models, which were introduced and used by the German school. The next phase of the research, which took place in the 20<sup>th</sup> century can be linked to Christaller. He tested his *central place theory* in practice by examining the number and distribution of telephone lines. Christaller's work was significant in examining towns and their environment. He hypothesized how the surrounding settlements would be arranged around a specific central settlement in space if solely the market functions were taken into consideration concerning their location.



**2. Picture: Central Place Theory of Christaller**

If we examine research on the phases of urban development, we get a more complex picture compared to the urban growth models. In this case besides the town appears its environment

as well, and the models can be applied for several types of towns and their environment. In this case next to the cities' analyzations, their neighbourhoods appear as well. The urban studies started to look at the city as a part of spatial area, not only for itself but for a regional development's possible generator (Burg et al, 1982, Enyedi 1984).

Urban development can be divided into 4 phases, which indicate a universally accepted division and can be applied to a wide range of settlements.

### **First phase**

The first phase is the phase of *urbanisation*. In this period unemployment rate becomes higher in towns, while there is redundancy in agricultural areas. There is a high migration rate in the direction of towns; the number of the population in towns dramatically grows. There is significant population growth around the industrial establishments of the town centre.

### **Second phase**

The second phase is called *sub-urbanisation*. Places around the inner, industrial areas become overcrowded, driving the industries to the outskirts. Consequently, industrial workers also appear in the outskirts and move to the suburbs. Urban development can best be observed along transport lines. Together with the population certain services also appear, thus they can be accessed in the outer peripheries as well.

### **Third phase**

Due to desurbanisation the population of central areas further decreases, while the population of rural areas is growing. The residential function of the town core is outplaced by service-providing functions.

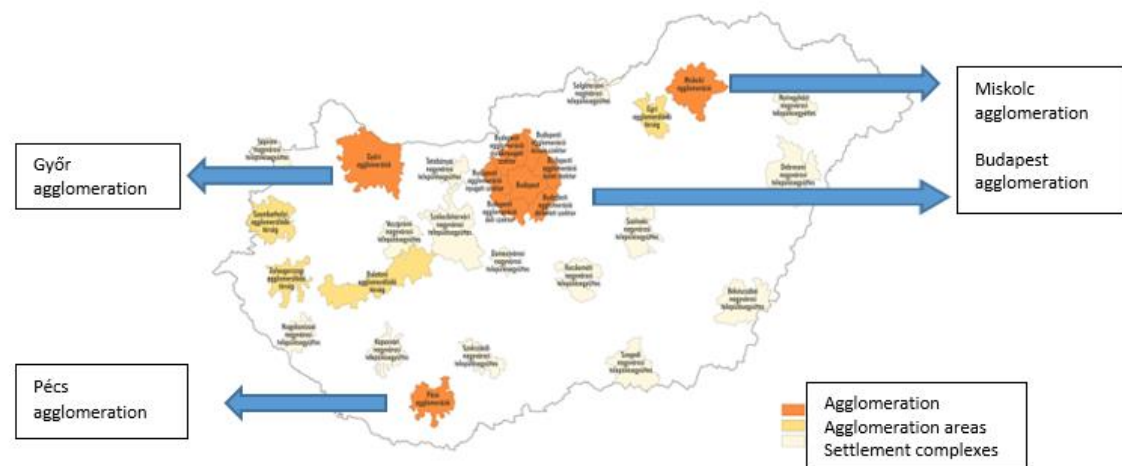
#### **Fourth phase**

In the phase of *re-urbanisation* the central core of towns begins to grow once again, along with the reconstruction of inner areas. Inner territories inside the towns gain importance.

These phases appear differently both in space and time, succeeding the economic state of development of a given society. In Hungary the first phase was fully completed. In some regions of Eastern-Central Europe the phases have not been fully completed, or not all four phases, but the phases have succeeded each other.

According to our understanding, the agglomeration should be considered as a settlement group around a centre, which is integrated into any scale at the basic productive sources. At a later stage of development, the settlement groups can become multifaceted, integrated agglomerations with complex functions. In this sense agglomerations contain a centre and a periphery area. Agglomerations are characterized by a concentration of productive forces and populations. According to József Nemes Nagy, agglomeration is a "settlement complex" resulting from concentration and centralization processes of productive forces, where an intensified connection between the highly developed city and the surrounding settlements in the environment is connected to the areas of economic and social life and where the population is around the city center "(Nemes Nagy 2005). According to György Kőszegfalvy the agglomerations are settlement structures where population growth is significant and considerable housing construction activity can be observed (Kőszegfalvi, 1979). Therefore, the area of agglomeration is characterised by the use of the intensive area, the relative density of the installation (Schuchmann 2010, 511-512). The Central Statistical Office completed the demarcation of agglomerations in August 2003. Based on this, there are 21 metropolitan settlements in the country. There are three types of metropolitan settlement complexes: agglomeration, agglomeration area and settlement complex. The denominations refer to the tightness of the interconnection of the settlement body (KSH, 2003).

A good example is György Kőszegfalvi's study, which focuses on the intensity of transport connections as one of the most important milestones of agglomerations. The transport line promotes the territorial interconnection of settlements. The phenomenon observed along the main traffic lines is the growing number of housing developments and new greenfield investments will also appear (Kőszegfalvi 1997).



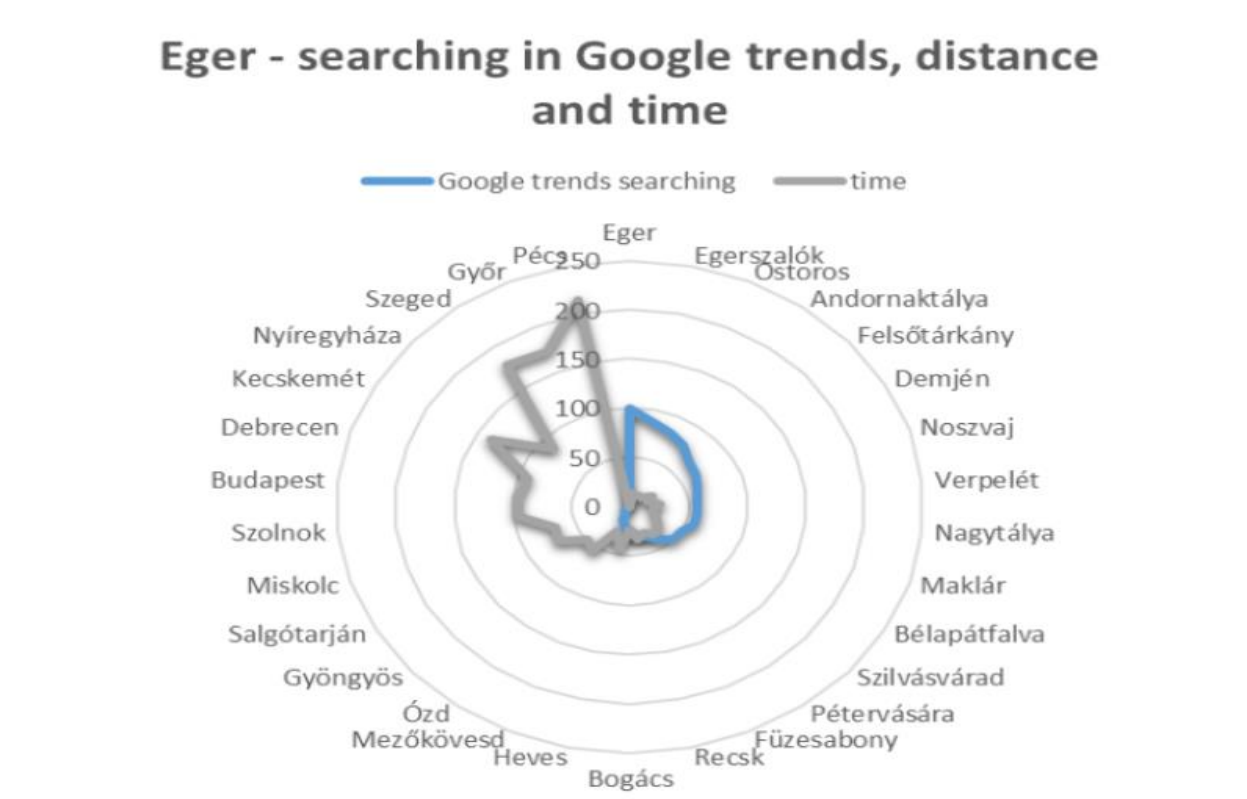
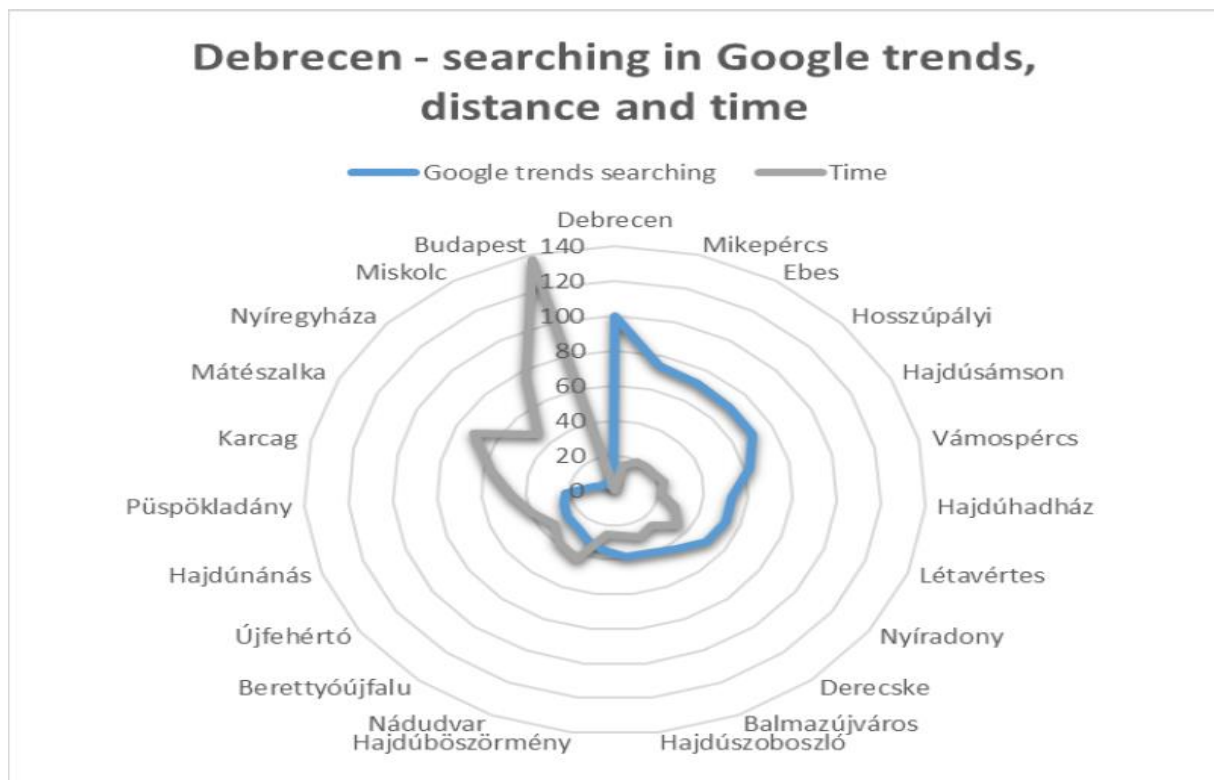
### 3. Picture: Agglomeration and agglomeration areas in Hungary

Sources: Central Statistical Office, Hungary, 2018

The calculation methods of agglomeration boundaries are basically divided into two groups: the deductive and the empirical methods of analysis. The purpose of the deductive testing methods is to calculate the degree of centralization of settlements through calculations based on statistical indicators. The delimitation of the theoretical catchment areas can be accomplished using GIS. Among the empirical methods of investigation, a population count can be traced to the characteristics of the agglomeration. Another typical method is customer counting, which is a basic analysis of sectoral catchment environments (such as traffic connections, trade, labor force, education, healthcare, or other central functions).

The accessibility of the central settlement is influenced by the traffic infrastructure which has been built around the settlement and determines it significantly. As we mentioned before, the urban transport system of the settlement will be built in the first phase of urbanization, due to the increased population. In Hungary, this first phase has been fully completed. The other phases of urbanization have only been partially completed because of communism. The availability and distance from the central settlement can provide a point of reference for delimiting the agglomeration area. It limits the list of available settlements within a reasonable time - whether it is access to a job, education, or access to health services. Access to central settlements therefore plays an important role in determining agglomeration areas. The distance and the travel time defined reasonable agglomeration to combine with Google trends searches. (Czuppon-Molnár, 2018) (Figure 1-2.)





1. Figure: Distance, travel time and Google trends searching in Hajdu-Bihar and Heves counties

Sources: Czuppon-Molnár, 2018.

In this case we used Google trends data to measure connections between county centers and the surrounding settlements. The most visited website in Hungary is *google.hu* and the third is *google.com* according to SimilarWeb findings. Thus, we decided to use Google's data. Google trends is an online facility of Google using its data to measure the frequency of the given keywords. We used the names of the cities as keywords and compared search ratios to the distances to the county center (in km and in minutes of travel) from those settlements which have measurable searches for the city's name.

The google trends search frequency is higher in those settlement which are closer to the county center, mostly but not exclusively. If the model were perfect, the search frequency and traveling time would be perfect inverse of each other as well.

The data suggested that there are two main components that define the size of a city's agglomeration. The first one is the number of inhabitants. Based on the urban scaling theory (Anas-Arnott-Kenneth-Small 1998) we accept that the accessible services scale with city size therefore there is no need to consider services to another variable. Obviously larger cities provide greater opportunities for employment, leisure activities and higher wages but housing prices are also much higher.

## Exercise

„I think you'd agree that the 2016 U.S. Presidential election was pretty wonderful. According to statisticians, it set all-time highs in civil discourse and social unity. How are we so fortunate? Because America — as we all know, and appreciate — is a place where people really trust one another.

*FEMALE VOICE: No, I don't think most people can be trusted because think everybody's looking for an angle.*

*MALE VOICE: Generally speaking, I don't think most people can be trusted.*

*FEMALE VOICE: Society seems to have been changing and separating and many, many people more than before, I think, are out just for themselves.*

Oh. Apparently I was wrong. Apparently we don't trust one another so much. ... What's that? Oh – and apparently we didn't set all-time highs in social unity during this election? Sorry, my mistake. I guess I was thinking of Australia?”  
<http://freakonomics.com/podcast/trust-me-rebroadcast-2/>

Listen to the podcast and take a minits from it. After that discuss your opinion with your peers.

### Chapter III. Local government

In Hungary, the term local government system came to be used in 1990, . Municipalities were established through the founding of the LXV. Law. The settlements became independent legal entities from this calendar year. This law allowed them to carry out self-employed economic activity.

The tasks and scopes of local governments are also determined by the Act and its changes.

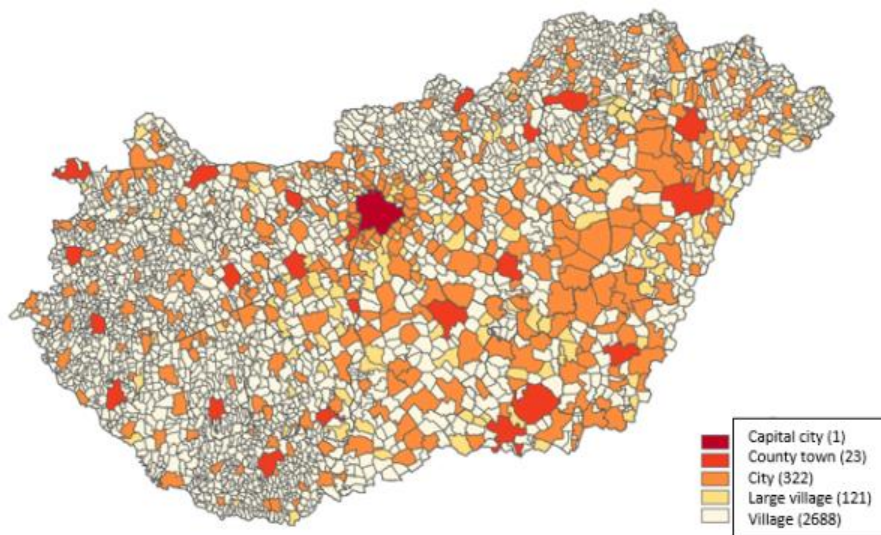
The provisions are the following:

- the settlement established the organization and operating order of the local council body;
- arranged associations with other settlements freely;
- created a union of interests;
- was able to cooperate with the local government of other countries and be a member of an international self-government organization;
- the council may elect a committee and create a local governmental office (Előházi, 2009).

This helped to create a democratic system at a local level, which was used autonomously by the local governments to fulfill the tasks specified in the statute. They became independent legal entities. They engaged in business, and they also engaged in economic activity, unlike the previous period. While carrying out the tasks, the local government can act in two ways: in a direct and indirect way. We can refer to an indirect way if a representative body takes action, makes a decision about something in a direct mode, even if a local referendum is proclaimed in the settlement (Szántó, 1994).

In the spirit of democracy, each named settlement had the possibility of independent governance, thus ensuring the development of local interests and the development ideas for the specific needs of local society and the economy.

The first initiations of local governments' organizations took place in the early 1990s, when the formation of micro-regional associations started. The first co-operations were set up to build basic infrastructure and public utilities - thus facilitating the situation of local governments in difficult financial situations.



4. Picture: Hungarian settlements' structure (KSH, 01.01.2016)

## Chapter IV. Rural development (Settlement, community development)

According to Farkas, rural development covers all activities that serve the quality of life of rural people living in rural areas, the preservation of the environment and natural landscape, as well as the preservation of the cultural landscape, and creates the sustainable development of rural areas, according to the characteristics of rural areas (Farkas 2006, 88).

Oláh says, rural development includes the development of farms, villages and small towns, including economic activities in rural areas, improving employment and earnings conditions, urban (residential) and productive infrastructure, preserving the values of the living and built environment, and rural communities (Oláh, 2003, p.22).

During the definition of the countryside, we have always determined a relationship system, and have described it. We refer to a center, like a city and its surroundings. We look at the countryside as a service zone, emphasizing its slightly underdeveloped supply system.

The country itself is most determined by its characteristic and specific geographical processes. They lead to landscape and nature conservation, exploitation of specific rural resources and food production, which can be considered a classic rural task, to residential and employment functions and to the emergence of "modernized" rural living conditions (residential, second homes and recreational functions). In addition, the territorial (e.g. economic, transport, commuting) relationships are important for urban-rural relations, and are important for the "rural areas" of service and supply systems.

### *Definition*

*According to the classic village geography, the countryside is a kind of background. It is a unique space which has separated from urban areas, with unusual economic and social environment, with rapidly changing features. (Csatári, 2004)*

According to P. Cloke's view, village and country can be regarded as the settlement and space most people in the country think of as "rural". Thus, the specific appearance, content, geographic image, conscious sight of rural functions can be taken as a determining factor itself (Cloke, 1983)

According to the National Spatial Planning Concept, spatial development activities ensure a high level of protection of resources and a long-term use of their renewable capabilities to ensure social welfare. Therefore, the purpose of regional development is to:

- develop local materials and energy management systems adapted to their ecological loadability, with the cycles of the cycle in the region;
- explore alternative natural resources and energy recovery opportunities;
- promote the functioning of local markets through the use of renewable raw materials and their local value-added processing and production of quality products

"(OTK, 2015)

The purpose of spatial development is based on the ESPD (1999), the three main dimensions and the principles of intervention are based on the following.

Society - fairness

The main goal: to reduce differences and strengthen social cohesion.

Economy – efficiency

The main goal: to increase economic prosperity and promote competitiveness.

Environment - sustainability

The main goal: to move towards environmental sustainability.

The settlement development is a development of the social and economic resources of the settlement, the quality of the environment, the technical, material and human supply of the settlement, which for the population of the settlement creates for sustainable development the conditions of the improvement of the standard of living and the improvement of the quality of life."(Settlements development thesis 24. 2002, p.5)

Community development or community organisation means a development capability of settlements, their neighborhoods in the community based development. There is a key role of citizens, and their communities, and the network of them. The community developers also play a major role in local needs, whose encouraging, informative, relationship-building work can help or reinforce existing community resources. (Varga – Vercseg, 1998, p.23, p.25)

**Exercise:**

Select a settlement in your surroundings, and analyze it following the instructions below, up to 2 pages.

1. Describe the settlement based on its natural, social, economic and infrastructural characteristics. Use the Indicators chapter's instructions.
2. Introduce a Local Economic Development initiation in the settlement.



## Chapter V. Local economic development (LED)

Local economic development is a complex process, with lots of participants, initiators and supporters, so there is no and can not be a generally accepted definition, but there are many definitions, some of which I would like to highlight.

### *Definitions:*

*The goal of local economic development is to improve the economic performance and the living quality of all areas in the region. Local economic development is a process in which public, entrepreneurial and civil spheres work together to create better conditions for — economic growth and employment. "(World Bank, Swinburn et al. (2006, p.1))*

Two basic approaches to local economic development have spread to our country. One of them gives the potential of local economic development to both big cities, towns and small settlements as well. The other one is the one that defines local economic development as part of rural development. I am also of the position that, due to its nature and characteristics, LED is not linked to metropolitan spaces, rather to rural areas, settlements and their agglomerations with strong communities. Within this perspective, local economic development is nothing but development through the local community. This development builds on internal resources and values. These values could be local peoples - these people are the laurels.

According to Mezei, the notion of development means strictly speaking an intervention that results in a qualitative improvement, the ultimate aim of which is to increase the standard of living of the population.

Economic development – we mean conscious interventions that are intended to influence the direction of economic processes and the extent of economic change. Local economic development must be distinguished from concepts (also used and interpreted in various ways) such as spatial development, urban development, regional development, local development, community development or rural development.” (Mezei 2006/4. 85-96. p.)

It is difficult to define the process as local economic development is not unequivocally distinct from rural-, settlement-, and community development.

***Definitions:***

*The local economy is motivated by a locality or subregion motivated by its own characteristics, a process that is sustainable in a sustainable way. Harmonized actions and activities operated by the mobilization of its internal resources. The sum of people, institutions, materials, resources and procedures...” (Czene 2010, 14 p.)*

The concept of development is to improve the economic processes with the aim of creating more favorable conditions for the locals. There are two types of these interventions:

- One is when the settlement is based on external sources. These may be investors or subsidies. In this case, the resources are extracted from the outside.
- The other approach is to explore and find out the usage of local based and available resources. Thus, striving for efficiency, sustainability and profitability.

These two approaches in practice do not exclude each other, and the use of their optimal alloy leads to a good solution.

***Definitions:***

*„Local Economic Development (LED) is a conscious local community intervention in economic processes for sustainable local development.” (Lengyel, 2010)*

Accordingly, local economic development is the joint action of central government economic policy and local economic development actors. Its main feature is a bottom-up strategy and an economic development strategy developed by local players. Another important feature is the validity of traditions and community attitudes. (Czene, 2010)

LED goes beyond the distribution and accumulation of traditional, centralized economic instruments. Its basic idea, therefore, is to overcome local conditions, to locate local resources, and to build local initiatives. (For more information on LED features: Chapter VIII. LED features).

### ***Definitions***

*Based on the above mentioned authors and on my own perception and definition, the development of the local economy is a series of conscious decisions based on the local community, and on the account of local values. By which not only the economy but also the society of the settlement and its environment develop, and is capable of survival and sustainability.*

**Exercise:**

Precisely define in the previous section analyzed settlement's local economic initiation stakeholders. Determine the development needed of this settlement. To do so, check the settlement website and contact the Mayor or an SME's.

## Chapter VI. LED tools

There are several ways to develop the right solutions to the local needs. In this chapter we will discuss the possibilities and tasks of *local government roles*, incentives within the economy. The following chapter includes grouping of direct and indirect tools.

The different roles of local governments and, consequently, the potential economic incentives for local governments can be traced, as these functions are strongly linked to the various economic stimulus tools. Different roles and synergic effects can be exploited, and some of the tools of targeted and effective application can enhance positive effects on a device that is related to another feature. Accordingly, the successful device application is a big challenge, as the tools that connect to different functions assume different approaches, competencies, attitudes, while typically the same actors associate each device with the same mandate.

*Tools related to the political role:*

- the development of the main direction and the spirit of the development strategies,
- partnership building,
- generating collaborations,
- conclusion of association agreements.

These tools fundamentally define the development directions and the cooperative partners. Decisions on these are related to political function. Less formalized, but important local government (political-oriented) feature is a lobby that can help the success of a fundraiser essential to development.

*Tools related to the regulation role:*

- establishment of rules on local taxes,
- construction rules.

A regulatory role is the rule of law for municipalities, where they are compulsory, and are freely decodable. It is easy to see, for example, the establishment of rules on local taxes - even if within limits – this is a valuable tool in economic stimulus: what taxes and keys are defined in order to generate a sufficient income, but to create a favorable environment for investors in competition between municipalities. In addition to taxes, construction rules may also have an influence (they can support, but may also limit) the processes of the economy.

The ongoing revision of the settlement plan, adapting it to the needs and development plans of enterprises, can be an important tool in the hands of settlements. Taking into account the activities of prospective businesses, if known, is important. This tool enables the local

government to involve several SMEs (small and medium-sized enterprises) that are looking for an area with an appropriate settlement. It is important that, in order to attract SMEs to the settlement, it is also necessary to apply the appropriate tax policy to the designated industrial area. This lies in the determination of the tax rates in the hands of the local government (business tax, land tax, building tax). The two tools together have a significant appeal.

*Tools related to the real estate owner role:*

- well-organized public services,
- development and rental of real estate suitable for farming purposes.

The municipality owns many real estate properties that can be used for different purposes. The ownership role, on the one hand, is the organization of public services (the property of institutions providing public services) and, on the other hand, it is closely related to asset management, since this means that the real estate portfolio (and other property elements) should be managed as a good host, which requires serious management. At the same time, both elements can be linked to economic stimulation: the attractive effect of well-organized public services have an attractive effect, and the development and rental of real estate for economic purposes could undoubtedly be an effective stimulus tool as well.

*Tools related to the authority role:*

- price and charge: water fee, for example.

Economic incentives are also linked to authority functions. Here, price and charges can be mentioned. For a large water user, a decisive factor may be the local water fee. The determination of additional compensation fees with municipal authority is less or only indirectly served by the development of the local economy, but it is worth considering. Indirectness means that, if it is well calculated, the difference between the cost and revenue of services has a positive effect on the state of the budget and may remain a source of the use of direct economic incentives.

Tools related to the *market role*:

- customer,
- local government's businesses are on the market.

The role of the market in economic stimulus is also decisive. The local government appears as a customer in the regional market but also appears as a market player. By means of a policy of protection, local businesses are able to support the merits, so it can curb the outflow of incomes.

Tools related to the *employer role*:

- largest employer,
- organizer of public employment,
- founder of a social (municipal) co-operative.

Finally, local governments are typically significant employers. Not only in small villages, but in big cities as well, the largest employer may be the local government. This also has an impact on economic processes. In the outlying regions, the effective and creative organization of public employment is an important task, but social co-operatives also provide many good examples of well-organized local government-managed employment and its impacts.

**Exercise:**

You are the Mayor. What are the options for the local government if you want to start a business?

- 1) Outline the process of becoming a business of local government.
- 2) Make a plan of stakeholders and financial instruments you want to involve.



## Chapter VII. Direct and indirect tools

When choosing instruments, it is important to take into account the built-up of the planned activities and to achieve synergies.

Plans should be formulated along priorities. The tools assigned to the causes serve efficient development. The more the development process relies on its own strength, the more important the organic bottom-up planning is. The top-down design and development model can only be effective if central resources are dominant in local development. Design based on the bottom-up model provides greater social support, so it is worth doing so. The two of them can not be ruled out. The emphasis is on the cooperation between the two outbreaks of effort, complement one another.

We distinguish two major groups of devices used in marketing.

One of the (1) *direct tools*. These are the set of tools that support the economic operators involved in the organization and organization of the economy, and their development is effectively promoted. By using them, we give space to economic development concepts, ensuring their basic needs.

The other group includes (2) *indirect tools*. These are the tools that are not indispensable for the organization of the economy and the proper structure. Their observation, however, can help them facilitate, increased operation and the production of economic operators as well as improveingtheir profitability.

Features of them:

- the range of tools is continuously expanding,
- their grouping is possible in several ways,
- the impact and significance are variable at each settlement.

The effects of tool may not be traceable. Since it is not an in vitro test, it is only in some cases that the direct economic impact of the devices can be measured.

(1) *Direct tools:*

- definition of a suitable area for economic activity,
- the establishment of an industrial park or logistic center (in the case of settlements are close to the big cities)
- creation of local markets (it is relevant if it is producer in the settlement)
- creating local currencies (it is relevant if a local government or business are alongside the initiation and are continuously supporting it, Chapter XI. Local currencies),
- tax discount (Chapter XI. Support for Local SME's),
- other self-sufficient discounted land / building purchase options.

(2) *Indirect tools:*

- community development,
- development of local products and their sales, local brand building,
- settlement marketing (Chapter IX. Settlement marketing),
- built-up infrastructure (line-like <roads> and point-like <buildings>),
- involvement of local businesses into local governments' investments (where the enterprises in the settlement are strong enough to be able to participate significantly in the post-funded tendering structure and public procurement),
- encouraging entrepreneurs,
- support of entrepreneurs' creation,
- encouraging cooperation between entrepreneurs,
- launching a rental housing program (restructuring, renovating and leasing of houses owned by the local government to alleviate housing problems in the settlement),
- expanding knowledge of environmental consciousness of residents,
- strengthening customer awareness among residents (to help buy local products),
- strengthening the relationship between a producer and consumer (possibility of short supply chains),
- providing nursery and nursery facilities (opportunity to meet increased needs),
- the organization of cultural and traditions (for the purpose of strengthening identity, the involvement of SMEs is needed),
- organization of child-friendly programs and events (it is also necessary to involve SMEs),

- information days or publications (on tenders, tax changes, discounts availabilities, etc.),
- compliance with other fulfilling requests that come from companies.

**Exercise:**

You are the mayor. What tools would you use if the following problems arise in your locality?

- 1) A meat company comes to the settlement to employ 150 people. (2500 populated village).
- 2) There are few producers and inhabitants in the local market.

## Chapter VIII. LED characteristics

The LED is interpretable throughout its characteristics and these characteristics helps us to separate it from basic development economics. LED's essential criteria is to know the „spirit of the locus”. Knowledge of the locality's natural, social, economic and infrastructural properties is just as important as the knowledge of the local traditions on a geographical scale. Locality is the pinpoint of the level of intervention as well as the level of planing of the intervention.

The local society driven development, *LED characteristics*:

1. tight cooperation between the agents of the settlement in the field of the local economy (local govenrment, businesses, civil society),
2. strong community,
3. initiated localy,
4. representation of local interests,
5. based on local values,
6. it usually uses local resources but can use resources from outside as well if it's necesseary (however the development is determinated by the local resources),
7. it has territorial benefits (as it is based on local recources, values and characteristics it strenghtens not just the settlement's but the subregion's economic and social position in the region),
8. operated under the local community's supervision,
9. utilized localy,
10. it aims to organise local markets,
11. the economic benefits are significantly less than the social or community benefits but not negligible,
12. it has a significant role in local employment (mostly because it builds from local traditional industries, uses traditional knowledge),
13. swiftly adapt to changes (because it's controled by local community and could be easily manipulated),
14. proactive,
15. it pursues the environmental-social and economic sustainability,
16. uses its values doesn't exploit them,

17. the economy based on LED is self sustainable, there is no need for external intervention,
18. it can reduce the vulnerability of the settlement and the region, but doesn't aim to create an absolutely independent (autarch) economy,
19. the implemented developments are sustainable and made for the long term.

**Exercise:**

Evaluate the following economic development ideas. Mark those ones which meet the requirements of LED.

1. Creating an acidification plant.	
2. Creating a bike path.	
3. Village Fest, supported by local SME's.	
4. Creating a car component assembly factory.	
5. Information Days organized by the local government.	

## Chapter IX. Settlement marketing

Considering settlement marketing we have to deal with highly complex and complicated processes, which are significantly different than the tools used in business processes.

In this chapter the key steps of the process and the main components of successful application will be described. The appropriate design of the marketing strategy depends immensely on properly created and prepared situation analysis.

Based on Piskóti's model, the first step of a possible orientation of situation analysis is the analysis of the wider environmental impacts and trends. The second step is the analysis of the direct market, followed by the determination of the strategic position. (*Piskóti István: Régió- és településmarketing, 2011*)

The analysis of the wider environment refers to the position of the settlement in the region and its role in the county. In this case the direct market is the settlement and the immediate area. After the description of the direct market various audit activities must be carried out.

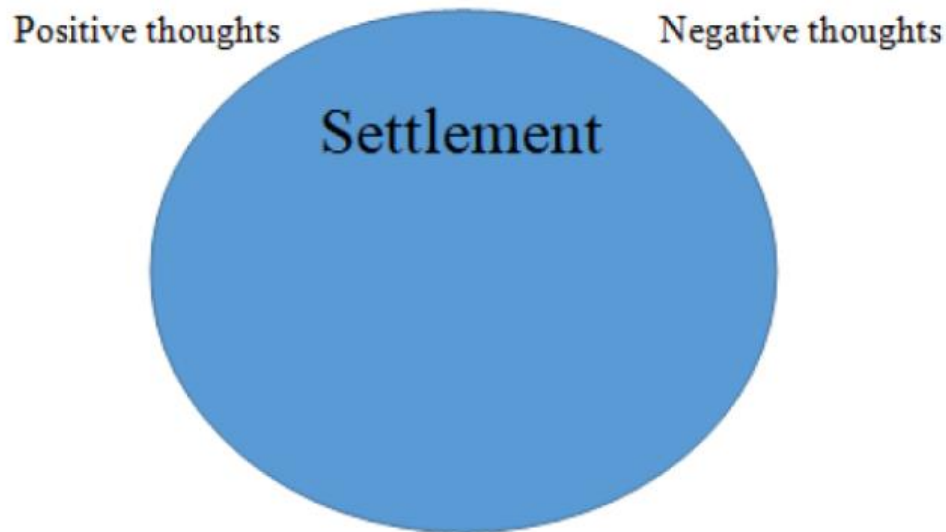
5 Audit elements of the Piskóti model:

- Value audit
- Image audit
- Customer audit
- Concurrence audit
- Activity audit

The first element is the *Value audit*, which reveals the characteristics and capabilities, inner values, strengths and weaknesses of the settlement and region, including natural, social, economic and infrastructural values as well.

The second element is the *Image audit*. For this segment the exploration of the opinion and impression about the settlement gets priority, considering both the local residents and the people who do not live there but are familiar with the settlement. A suitable assessment method is the model based on free association:





This model helps to determine the ideas and notions associated with the settlements by the given respondents, based on gender, age, residence and education factors.

The third element is the *Customer audit*. In this case it is a target group audit, which determines what group the settlement has targeted with the given developments and activities. The fourth element is the *Concurrency audit*, which must contain the analysis of the other settlements located in the narrower and wider areas of the settlement with similar attractions and features.

By carrying out this audit before the project and investment, the settlements which are situated close to each other or are similar in attributions, may avoid repelling guests from each other, since both settlements would be worse off.

The fifth and final element is the *Activity audit*, where assessment should be made of the previous marketing activities and their effectiveness, content, and how the settlement strengthens the created image.

Another situational analysis method based on the diversity of factors and on internal and external factors, is the SWOT analysis. This is a tool for analyzing and evaluating facts, which can be carried out by anyone who possess the following knowledge:

*Strengths*: internal factors, positive things that work effectively, and factors that can be influenced in order to work even better.

*Weaknesses*: internal factors, negative things that do not work correctly, and can be developed in order to work better.

*Opportunities*: external factors, capabilities that we can not influence, but are potentially beneficial, can be exploited and built upon.

*Threats*: external factors and constraints, which we can not influence, they might reduce the chances of success, or pose a risk.

Combining the different segments allows us to establish cutting-edge strategies:

- Strength Opportunity Strategy: build on strengths to take advantage of market opportunities;
- Weakness Possibility strategy: exploit market opportunities by eliminating weakness;
- Strength Threat strategy: build on strength to eliminate an external threat;
- Weakness Threats strategy: eliminate weakness by eliminating an external threat.

**Exercise:**

Choose one of the situation analysis methods and then perform a settlement analysis of your choice in the learnt way.

Model of Piskóti

or,

SWOT analysis.

## Chapter X. Data collection methods

Good databases are needed to carry out situation analyses in order to create the best results.

There are two ways to do this:

- collecting (1) *secondary data* (from national, international statistical databases);
- (2) *primary data* collection (interviews, questionnaires, focus group inquiries). In the field of LED we deal with these kind of methods. We do not deal with observation and experiment.

(1) Important aspects of collecting secondary data:

- the exact definition of the goal,
- the selection of appropriate data and documents,
- overview and processing of known databases and documents,
- comparability (with previous data surveys, results, analyzes),
- use a fresh database,
- dynamic data usage (check data in the long term not only in a selected few years).

A summary of the results of the collected data and documents is an important basis for making useful and usable development plans.

Our motto should be: long-term sustainability, short-term useful developments needed.

(2) To plan your primary data collection one must consider the following:

- definition of target group,
- definition of goals to be achieved,
- determination of the planned number of interviewed people,
- selecting a useful method of recording data.

*Outline of the structured interview* (we deal only with this in our research):

- similarly to a questionnaire, we also prepare questions, the respondents answer in their own words, write them down, or audio record their answers,
- all of our questions have to be answered,

- this type of data collection gives us more information than a questionnaire survey. It is also possible to record soft data as there are no anticipated / specified answers in contrast to the questionnaire.
- It is more difficult to measure and compare the answers than a questionnaires' closed questions,
- comparability with other interviewees is important, that is why we ask the same questions from everyone,
- the order of questions is not bound, we may deviate from the ordered outlined above but return to the unanswered questions,
- however, it has more depth and detail than the other type of survey as the interviewee can explain themselves and we will have more specific data
- it is very important that this kind of interview is not equal to an in depth interview. In that, the focus is on the conversation and the questions are answered in accordance with the state of mind of the respondent. In depth interviews are most commonly used by psychologists.

*Outline of the questionnaire:*

- it's important to have a pre-designed goal, the questionnaire's direction, the type and depth of the required information, the phases of its: preparation (direction and purpose), editing (compilation of appropriate questions), testing (trial questionnaire with one of our partners, parents), completed questionnaire.
- The following basic rules must be observed:
  - be no longer than 2-3 pages,
  - contain short, concise questions,
  - it is important to include basic data at the beginning of the questionnaire (name, age, residence, education, other data we consider to be important),
  - it has to be easy to answer (closed questions with the possible answers given before, but always give the opportunity to express 'other' opinions),
  - to build the questionnaire logically, from the simplest to the more complex point,
  - do not influence the respondent, do not answer the question instead of them,
  - do not be too personal (if it is necessary, then add categories, eg: income),
  - do not provoke the respondent,
  - if somebody doesn't want to answer all the questions, thank them for their time and leave.

- Avoid any conflict.

There are *different types of questions* that can be combined with each other:

- *personal questions*: the first questions of the questionnaire, on which we can create clusters, groups,
- *closed questions*: in this case only the respondent needs to be checked, it is easy to evaluate,
- *open questions*: we get more information here, it is harder to evaluate,
- *direct questions*: issues of resolution, issues to decide,
- *indicative questions*: calls for more resolutions on more issues, more complex and more attention,
- *scales*: measure opinions and attitudes. The Lickert scale expresses a degree of agreement or disagreement with a statement on a scale of 5 or 7 degrees. The Osgood scale can measure transitions between two opposite states (5 or 7 degree scale).

*Outline of the preparation of focus group inquiries:*

- it is a special type of interview, when it comes to a specific topic, people from different parts of life are summoned to a specific date,
- an important point is that everyone has some preliminary knowledge about the questioned issues,
- in this case, it is important to have a prepared structured interview (like a questionnaire), but it is also important to receive answers to each of our questions. This gives us the chance to get the expected results we have planned before.

**Exercise:**

Choose one topic from the followings and plan your data collection's method. Use your Facebook profile or Instagram or Twitter.

1. students' opinions about local products;
2. teachers' opinions about local values;
3. citizens' opinions about current problems in Veszprém;
4. relationship among local government and entrepreneurs.

Plan your questionnaire with this app: <http://www.pollsnack.com>

### **Local values**

he 2012/XXX. act deals with Hungarian national values and Hungaricums (in the field of agriculture and food economy, health and lifestyle, built environment, industrial and technical solutions, cultural heritage, sports, natural environment, tourism and hospitality), by defining local values and grouping them. According to the XXX. act, the hugaricum is: is a collective term, a uniform classification, and registration system, which represents a distinctive and remarkable value that is the peak performance of Hungarians with its characteristic, uniqueness, distinctiveness and quality.

Local and potential energies, which are value-added at a local level and are valuable in the legal definition, while playing an important role in the development of the economies of settlements.

The aim of exploring the values is to cover all the areas related to the five classic areas of local economic development (LED). Like local currencies, local products, development of small and medium-sized enterprises (development of tourism in this subject), local, alternative energy utilization (biogas, solar energy, wind energy, biomass, geothermal energy, etc.), and social economy (often led by local government).



## Local currencies

Local currency is a kind of economic cash-substitute. Economic substitutes also play a role in economic regulation, and even more importantly, secondary market turnover is emphasized: substitutes can be transferred, so they can be paid more than once in a particular area or network. The local currency links economic and non-economic factors. These payment instruments can not be used as money outside of the given area. The most important purpose of their creation and use is to improve the economic and social conditions of the given community.

Local money is considered as an additional currency, it does not take over the role of official central bank money. Its most important role is to maintain internal resources for local or regional development and to better link existing, but unused capacities and unmet needs.

It is a basic condition that a local money program supported or operated by a local government should be based on a broad public policy consensus and a long-term commitment, bearing in mind the interests of the community. The essence of using local currency is the enforcement of common local interests.

According to national law, local currency only means money in an economical approach, but it is a cash-substitute voucher, and it has a 100% back-to-back forint cover at a financial institution that has (at all costs) a local savings co-operative.

For example, in the case of the Kékfrank of Sopron (first local currency in Hungary), the issuer and the forint treasurer is a local bank. Due to the peculiar nature of the legislation, local currency is the largest volume of traffic, as is the deposit stock of the savings co-operative, which can finance investments of local interest, so that the currency program can be multiply advantageous for the local economy. The social trust is an important condition for successful use (Consider Freakonomics podcast in Chapter II) .

## Local foods – local products

One of the most important and most popular elements of the LED is local products. Their importance is significant not only in employment but also in feeding. Although we are talking about them at a local level, it is clear that the Earth's population also plays a major role. Its significance and appreciation are enhanced by the awareness of the environment, the number of conscious buyers, and their soundness and traceability.

Basically, two groups can share the local produce: food and non-food products. The non-food category includes the tools and objects created by a folk artist or a man of old craftsmanship. Thus, the production of food products has a significant impact on the number of employed people in the settlement. On the other hand, it contributes to the nutrition of the Earth's population and the supply of healthy food. However, it is of utmost importance that these products be used within a 40-kilometer range. The reason for this is to minimize environmental pollution, transport pollution, and to ensure healthy foods that are free of preservatives. This can only be achieved through short food supply chains (SFSC).

The rural development policy 2014-2020 of the European Union puts more emphasis than before on short food supply chains, aiming to support SFSCs and local markets, as a way of ensuring a fair price for producers and reconnecting food products with their locality of origin. Due to the growing supply of local, ecologically-friendly and traditional products, well-organized shopping networks can be considered as having a chance at economic success, but they also become opportunities for the development of small farms. Collaborative networks and social innovations are crucial factors forming successful SFSCs (Wieliczko et al, 2017), and the proximity to consumers and their demands leads to the need for more environmentally responsible farming practices.

Sustainable economic development (SED) and Local Economic Development (LED) are at the centre of attention among customers, NGOs, as well as policy makers in the European Commission (EC CAP, 2011). There is a great demand for environmentally friendly and sustainable methods in food systems since it is a key factor in the long term for both LED and SED (Sonnino et al, 2014). The purpose of Short Food Supply Chains (SFSC) is to minimise the intermediates of stakeholders involved in production, processing, trade and consumption of food in a defined reduced geographical area as the ideal being a direct contact between the producer and the consumer (Marsden – Sonino, 2007).

SFSCs favour the direct interaction between farmers and consumers, thus promoting the development of trust and social capital, contribute to quality of life of rural areas and a higher

share of value added to be retained locally (EC 2013), while it might contribute to more efficient resource use in the region, reduce the generated food waste and the pollution arising from unnecessary transport (Parfitt et al, 2010).

## **Support of local SME's**

Local governments can support businesses in many ways. Most of them do not cost money, but require some time on the part of the local government. On the other hand, settlements have to invest money. Collaboration must be continuous, as interdependence is also constantly present in the relationship between them.

The local government can therefore support the SME's in the settlement both directly and indirectly. We have already presented these forms of support via direct and indirect tools (Chapter VII) but support must be bilateral. Not only the local government support businesses, but businesses need to take part in settlement events, they have to do something to develop their own settlement.

One of the possible forms of this, in the context of CSR (Corporate Social Responsibility), is if for example they paint a nursery room, keep the playground clean, take part in events organized by the town - whether as a sponsor or as an exhibitor.

## Usage of local alternative Energy

Utilization of local alternative energy usually depends on two things: the local conditions, and the available resources at the settlement.

In the integrated use of renewable energy, by which we mean the collective community utilization of renewable energy sources at a regional level. Renewable energy sources include biomass, wind energy, hydropower, geothermal energy and solar energy. There is a range of alternatives that can be most effectively applied to the region, but their use is only effective over the long term.

In the Hungarian and in the European Union policy the promotion of sustainable development plays a central role, due to sustainability. The number of applications and benefits are increasing to aid local governments and NGOs. According to the European Union's strategy, rural areas have to play a prominent role in the "energy turnaround" process (fossil change), since they have major renewable energy potential.

Apart from the environmental importance of renewable energy, it is also an ideal choice from an economic point of view. Keeping it at minimum costs, in this case we do not pay for energy, but we only have to pay for maintenance costs. It contributes to reducing the energy dependence of the region, and it is also a form of autonomy.

Following the current trend, in the future, the abundant natural resources of rural areas can produce more energy than they need locally, so they can export.

## Social economy

The emergence and operation of the social economy or the local government economy is a part of a very specific process, and its socio-economic history is important.

According to the ILO (International Labour Organization), the answer to the challenge of unemployment can be solved by embedding the economy into society by shifting the economy based on competition to a more solid economy. A Socially-embedded economy is called social economy. Which is, at the same time, a neoliberal economic model based on the market and the public stakeholders, however, it is also based on solidarity of the narrower economic factors in the European Union. It is important that in this case profit making is not the most important criteria. Another important element is the participation of community in economic activity.

In past years the Hungarian National Public Employment Programme has started to work on the reduction of the number of the unemployed. This program was the first successful one in order to reach some economic growth in the most disadvantaged micro regions. Over the last years, there have been many initiatives to increase the number of successful growth businesses but without long-term solutions.

The most important characteristics of social economy :

- it is based on the principles of solidarity and individual involvement in civic activity;
- creates high quality jobs and a better quality of life,
- provides a framework suitable for new forms of business and work;
- plays an important role in local development and social cohesion; socially responsible;
- is a factor in democracy;
- contributes to the stability and pluralism of economic markets; meets the priorities and strategic objectives of the European Union:
- social cohesion, full employment, combating poverty and exclusion, participatory democracy, better governance and sustainable development. (Czene, 2010)

## Exercise

Find an event, product, development plan of all the 5 above mentioned areas in a settlement you have chosen. Show them your peers and evaluate them in the approach of the settlement economy.

## Chapter XII. Mapping A)

Examples, best practises

### *Situation analysis in case of Nemesvámos – organized and effective cooperation between Pannon University and the settlement*

The economy and the local government sector are seeking and demanding constantly changing and innovative solutions. Universities are trying to incorporate the practical knowledge of theoretical material delivered during lectures according to the subject requirements, in accordance with their possibilities. The aim is to provide practical knowledge to students. It is possible to participate in dual training courses - by students jointly signing up for university and employment.

For some degree programs, a compulsory subject requirement is the fulfillment of professional practice, which can be fulfilled in both municipal and civil spheres. There are plenty of possibilities for local governments as well. Current legislation allows for the provision of a free practical training site for students. (Here, however, we would like to point out that, , a student who may be employed by a municipality, will be more enthusiastic to complete their practical months in this sector if they receive at least their travel expenses,

Some of the training courses at Pannon University's Faculty of Economics are available in dual training mode, but for most courses, compulsory practice is required. One such training is Management training, which includes 12 weeks of compulsory internships. Students from all three spheres (corporate, municipal and civil) choose the place of employment.

The Faculty of Economics contacted Nemesvámos local government with the possibility of research camps in the settlement. for which they received a positive response. The areas explored during the research were determined jointly by the local government and the research leader, taking into account the following criteria:

- the subject requirements to be met by the students;
- the specialized knowledge of the students;
- the ideas and plans of the local government;
- the possibilities of the local government in implementing the proposals made during research (taking into account the budget of the given year)



During the research, based on the example, students and trainers focused on collecting information that is not available in other databases. Such a case was the demand survey for the construction of rental housing in the settlement. Here, the research team has also provided information to those interested in a rental apartment, which made it easier for them to make decisions, choices and provided them with valid information. Thanks to the fact that all lecturers and students attended the preliminary meeting with the Mayor and already had knowledge in the field work, which enabled them to give correct and accurate answers to the questions that arose in the residents. In this case, the research team was funded by the University of Pannonia as it provided its students with practical experience. Following this, the local government came to the university asking for a new project, which we would like to apply for. In this research, the task was to estimate the number of primary producers, small producers, and changes in the number of settlements in the area compared to the previous years; how the volume of products produced changed and how the municipality can support the producers, what kind of support they will require from the local government. In this case, the research revealed other features not known by other organizations, which made the collaboration of the local government and the local community more advanced, raising the level of cooperation.

## Chapter XII. Mapping B)

Examples, best practises

Define development directions for the chosen and analyzed settlement and present your results with the use of Microsoft Power Point. The presentation should not be longer than 15 minutes.

*Make sure there is coherence in the structure below:*

- natural values and characteristics;
- social values, expectations, opportunities based on the age structure;
- outline economic development concepts in line with traditional industries and related knowledge;
- infrastructure development needs assigned to the development that is being implemented.

## Chapter XII. Mapping C)

### Exercise

Evaluate the investment and economic environment of Hungarians citie. Choose one of them and plan your business there. Check the settlements' websites as well to create your plan.

Pay particular attention to these parts of your essay: introduction of choosen settlement; maps, diagrams; indicators; SWOT analyzation, business plan, stakeholders.

#### *Bakonypölöske*

Number of active SME's/1000 inhabitants: 29,6

Active NGO's/1000 inhabitants:2,7

*Community*: moderately strong

#### *Nemesvámos*

Number of active SME's/1000 inhabitants: 70,8

Active NGO's/1000 inhabitants: 8,7

*Community*: strong

#### *Felsőörs*

Number of active SME's/1000 inhabitants: 78,8

Active NGO's/1000 inhabitants: 7,5

*Community*: very strong

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