

## **NEOENDOGENOUS IN- AND OUTPUT OF SELECTED RURAL AREAS: THE CASE OF ECONOMIC CYCLES IN SLOVENIA**

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### **Abstract**

#### **Neoendogenous In- and Output of Selected Rural Areas: the Case of Economic Cycles in Slovenia**

The article focuses on neoendogenous rural development that enables development of endogenous potentials of rural areas (human, social, economic, environmental etc. as development resources of the local territorial level) and external resources (i.e. RD programmes on national and EU level). Four Slovenian case study areas were chosen to test the existence, functioning and outcomes of economic cycles. The survey was undertaken on the smallest spatial-social unit (household), additionally existing voluntary local network (associations) and locally and widely connected economic structures (entrepreneurship) were observed. The research partly confirmed that the activation of endogenous potentials of rural areas is evident through the empowerment of (regional) economic cycles.

### **Key words**

rural areas, neoendogenous rural development, development potentials, economic cycles, Slovenia.

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## **1. Introduction**

The form and focus of rural development policies have shifted over the past decades. In most cases, the main emphasis of different approaches to rural areas regeneration is no longer on attracting external investment, but rather on enhancing and exploiting local endogenous resources - also known as endogenous development (Woods 2005, 149). Two interrelated notions are central to the concept of endogenous development. These are local resources and local control. The endogeneity of rural economies refers to the degree in which local and rural economies are:

- Built on local resources (Note: We regard the concept of resource as a relative one. To be considered as a resource, something has to be recognized by someone as potentially useful and able to fulfil his/her objectives.).
- Organized according to local models of resource combination (which also implies local control over the use of these resources).
- Strengthened through the distribution and reinvestment of the produced wealth within the local or regional constellation (van der Poley and Marsden 2008, 53).

However, endogenous rural development is not a panacea for all rural ills. Not all rural localities are equally able to regenerate themselves through the enhancement of their endogenous resources, and not all rural communities are equally equipped to compete successfully for external funding and support (Woods 2005, 158). The principles of the new rural governance suggest that responsibility for shaping the future of rural areas has been shifted from the state to communities themselves. For many communities this shift has been empowering, but, as Herbert-Cheshire (2000, quoted in Woods 2005, 171) notes, communities "could not be (unfairly) held responsible for any failure to improve their own conditions because they were regarded as deficient in entrepreneurial skills because they were reluctant to self-change".

Contemporary Slovene rural areas are a very heterogeneous, dynamic and complex, multifunctional, fluid, hybrid and globalized space, not a definite and closed category, and not geographically limited. They do not have their own problems. Therefore, Slovene rural areas require small-scale in-sight research which will try to explain their restructuring and help develop sustainable rural governance of their endogenous potentials.

### **1.1 Terminology**

Relevant literature usually employs terms such as »bottom-up approach, indigenous approach, participative approach, grass-roots approach, mixed exogenous-endogenous development approach, integrated rural development or territorial approach« to embrace the idea of endogenous development (Table 1). On the other side Ray (2006, 278-291) applies the term neoendogenous rural development:

- The endogenous part refers to the animation of development along bottom-up approach that is when the search for development resources and mechanisms focuses on the local territorial level.
- The »neo« part identifies the roles played by various manifestations of the extra local (for example actors in the politico-administrative system in EU and other localities); extra locals are potentially recruitable by localities in support of their regeneration strategies (Ray 2006, 279).

The neoendogenous approach is based on the idea that socio-economic well-being (of the presently disadvantaged rural economy) can best be brought about by restructuring public intervention away from individual sectors in favour of a mosaic of local/regional territories. It is an alternative to the practice of central authorities and of designing interventions which deal with sectors of social and economic life in isolation from each other and/or which assumes that socio-economic problems can be solved by standard measures, regardless of location or culture. According to this viewpoint, vulnerable or less-economically developed territories need to resign themselves to being victims of broad, exogenous, political and economic forces; potentially, localities can effect change in their favour. Central to the approach is that a local area has, or must acquire the capacity to assume some responsibility for bringing about its own socio-economic development.

Tab. 1: Selected Features of Neoendogenous Development Approach.

NEOENDOGENOUS DEVELOPMENT	New approach for sustainable rural development in economically developed countries in 21st century.
Synonyms	<ul style="list-style-type: none"> <li>- bottom-up approach, also indigenous approach</li> <li>- participative approach</li> <li>- grass-roots approach</li> <li>- mixed exogenous-endogenous development approach</li> <li>- integrated rural development</li> <li>- territorial approach</li> </ul>
Time frame	<ul style="list-style-type: none"> <li>- first origins in late 1970s and early 1980s</li> <li>- limited scale in 1980s and 1990s (objective 5b, LEADER)</li> <li>- starting point of EU development policies</li> </ul>
Basic values/imperatives	<ul style="list-style-type: none"> <li>- heterogeneity</li> <li>- sustainable development</li> <li>- regional solidarity</li> </ul>
Objectives	<ul style="list-style-type: none"> <li>- local economy re-vitalisation</li> <li>- local (rural) community revival</li> <li>- activation, re-evaluation and sustainable use of local endogenous potentials of rural areas</li> <li>- new rural governance/decentralization of management</li> <li>- regional disparities diminishing</li> </ul>
Conditions	<ul style="list-style-type: none"> <li>- intensive interaction among actors, local population and authorities</li> <li>- information flow</li> <li>- equilibrium between inner and outer elements of endogenous development</li> <li>- motivated local actors and developed participation approach</li> <li>- active networks</li> </ul>
Effects (expected)	<ul style="list-style-type: none"> <li>- tangible (less), intangible (especially on sociocultural field)</li> <li>- new evaluation and use of various local resources (material and human)</li> <li>- local capacity empowerment, local identity</li> <li>- strengthening of local initiatives</li> <li>- public interventions restructuring</li> <li>- infrastructure development</li> <li>- strengthening of economic diversity</li> <li>- responsibility for actions among local population</li> <li>- formation of development of public-private partnerships</li> </ul>
Special features	<ul style="list-style-type: none"> <li>- adoption of dynamics and orientation of development process to the expectations of local population and cultural features of the area, respecting local values</li> <li>- benefits returned into local environment</li> <li>- respecting the concept of heterogeneity</li> </ul>

Critiques	<ul style="list-style-type: none"> <li>- danger of development disparities increase between rural areas due to unequal capacities</li> <li>- huge responsibility for local communities</li> <li>- neoclassical economic policy (public interference seen as protectionism)</li> </ul>
Examples	<ul style="list-style-type: none"> <li>- Swiss Alps, Austria, Tuscany, Emilia Romania, Upper Franconia, Bavaria etc.</li> <li>- LEADER (various examples from EU member states)</li> </ul>

In terms of rural development, the neoendogenous approach has two other primary characteristics:

- First, economic and other development activity is reoriented to maximize the retention of benefits within the local territory by valorising and exploiting local resources;
- Second, development is contextualized by focusing on needs, capacities and perspectives of local people.

This means that this approach offers the prospect of local areas assuming greater influence over their futures by reorienting development around local resources and by setting up structures to sustain the local development momentum following an initial official intervention (Ray 2006, 278-279).

## 1.2 Methodology

The regional policy for rural areas introduced bottom-up concepts in 1970s, strategies and measures of regional policy for rural areas in 1980s, and in 1990s the »promotion of regional economic cycles with intensification of intraregional good flows and order exchanges. The other executive step was the LEADER approach after 2000, with »building up and protecting regional economic cycles with products from fields such as landscape conservation and ecological cultivation, supporting pilot projects for marketing of local products from rural areas close by agglomeration areas, etc. (Maier 2001).

In the economic theory, the term "economic cycles" is described as a representation of economic relationships (production, processing, consumption, recycling) between aggregated units – private households, enterprises, state and foreign country/ies, and is seen as a result of division of labour (Fig. 1). But in reality these product and capital flows between economic units are not, as described, closed, but open to their environment. At present, we can argue that local/regional economies do not enhance enough local/regional resources (energy, raw materials) nor are the processing capacities used sufficiently. Nowadays practiced economic cycles are more oriented outwards than inwards also at the end of the production process (waste disposal). The region itself is also not involved enough and in a proper way from the sustainable development perspective. The actual situation is characterized by the production of raw material and energy from outside, small scale processing and marketing of intermediate products in the region, and an export of final products. At the same time intermediate and final products, which could mostly be produced in the region, are imported.

There are long-lasting disputes over this theory, especially by neoclassical economists, but contemporary EU rural development policy has been encouraging them for the last twenty years, with special emphasis in the period 2007-2013. The strengthening of the (regional) economic cycles aims at reducing the raw materials

demand and waste volume at the end of the consummation process, it is headed towards covering of regional demand and strengthening of regional identity, a larger focus is on the local added value, as they are based on regional co-operation and activation of regional production-, marketing-, processing possibilities.

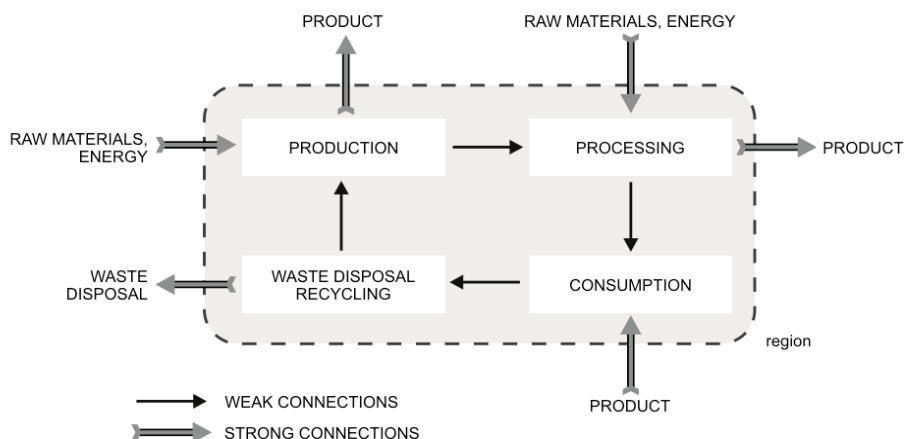


Fig. 1: Schematic model of today's economic cycles.

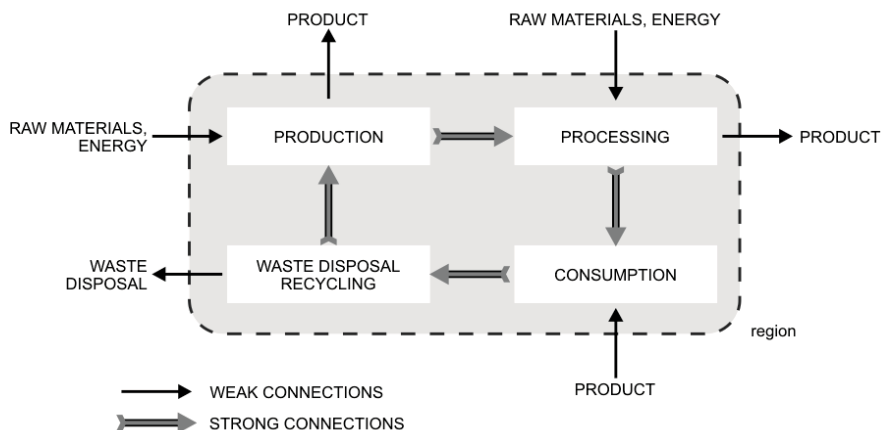


Fig. 2: Strengthening of inner-economic relationships of the future economic cycles.

Regional economic cycles support the reduction of transport costs, include the developments inside the region, have positive impacts on local labour market; this

kind of economy creates more transparent production circle and closer participation of social groups as well (Maier 2001). The targeted situation is characterized (and seen by the ideal model in Fig. 2) by clear strengthening of the economic relationships inside the region

The fundamental criticism emerges mostly from the neoclassical economic theory/policy, whose advocates identifies the supporting of regional concepts as an intervention in the market regulations and strictly rejects it as a "protective" measure. But since the shift in rural development policy, where the endogenous development approach has received support from both rural development professionals and neo-liberal politicians seeking to restructure the state, there has been "a green light for the implementation of this type of projects".

How can we argument this by empirical research? There are some individual studies of local initiatives - for example PRIDE study of local partnerships or LEADER projects evaluation. Some empirical examples are to be found in the studies of Spehl (1994) on wood industry in Rheinland-Pfalz in Germany, and production of beef (Maier 2001). An excellent survey (Bätzing et al. 1999) was performed in the Bavarian district Neumarkt in the fields of market potential, regional self-supplying and regional in-out put relationships between different agricultural and commercial products (milk, dairy products, and beef). Our article will focus on analysis of (regional) economic cycles with examples from four different Slovenian rural areas.

## 2. Case study areas

We have deliberately chosen different types of rural areas that are mostly considered as border or peripheral (Fig. 3):

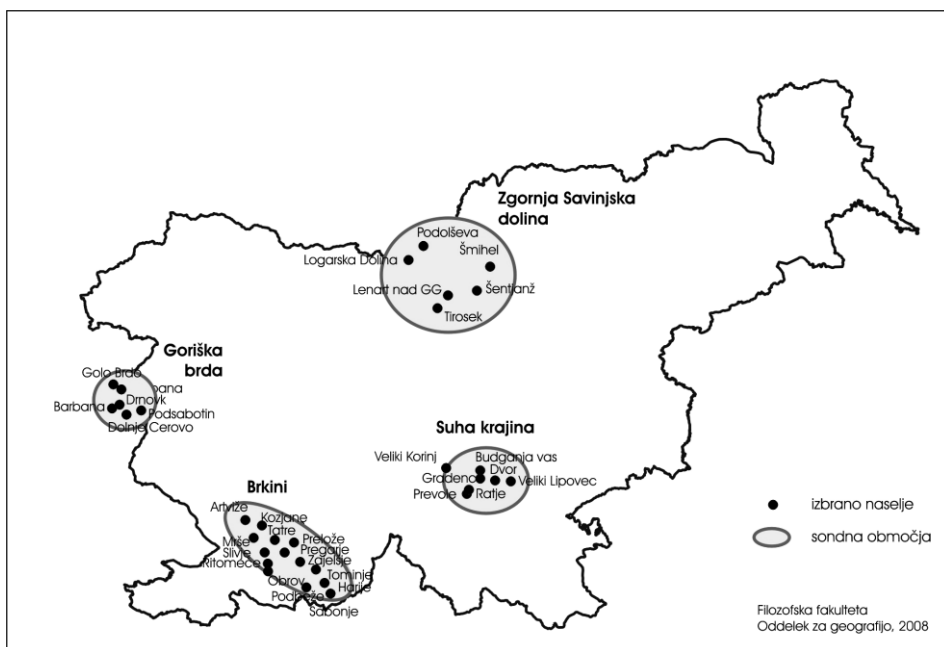


Fig. 3: Selected Case Study Areas.

- A typical border rural area (in political as well as climatological and cultural sense) is the hilly area of Goriška Brda, up to 250 metres high, a winegrowing region next to Italy with approx. 5,800 inhabitants joined in a small municipality and with an extraterritorial road connecting it to Slovenia, but with a very pronounced local identity and strong attachment to land.
- Brkini, a hilly area up to 800 metres high, not suitable for winegrowing, but with excellent conditions for fruit growing, for centuries being the hinterland of Trieste port. After the London memorandum in 1950s, the area was cut-off from the core region and started to be more and more peripheral and marginal.
- The Suha Krajina region with karst features and the Krka River Valley as a dominant economic axis was high-tech region in the 19<sup>th</sup> century. It was deprived of railway and highway connection, as the invasive industrialisation of mid 20<sup>th</sup> century avoided the area due to political reasons and put economically active population in a daily commuting relation.
- The Upper Savinja Valley (Zgornja Savinjska dolina in Slovene language), a typical Alpine valley with upper part being peripheral from transport view, is an amenity based area of 7 municipalities: tourism in a unique Alpine region and 95% of the area covered by forest represent the economic base of the region. Regarding Slovenian circumstances, it is usually labelled as a fertility island; however the inhabitants are proud of their local identity.

### **3. Former and contemporary wood-processing in the Upper Savinja valley**

Rare literature on economic cycles proposes wood industry as suitable for this kind of research. We managed to indicate two development periods: one before 1989 (Fig. 4) and the second reflecting the present situation. Before 1989, wood was a common property, and after WW2 (established in 1953) specific firms were established - like Wood Management Company in Nazarje that was responsible for concentrated primary and secondary large scale wood-processing: huge saw mill, furniture industry, and other products. Also smaller firms for wood- processing were established: wooden cottages, two saw mills, industrial wood for the mine in Velenje, a few smaller craftsmen. More than 70% of the raw material, cut in the area, was processed inside the region. Other products were directed mostly to Yugoslavian market and export. The forest that was managed by the mentioned company (16.5 ha) was nationalised from private owners and the Ljubljana Archdiocese. The firm took care of cut-off planning, reforestation, marketing and sale, but also for forest infrastructure. The employees were also included in public infrastructure set-up (road, telephone, electricity in this area with dispersed settlement). The forest represented regular employment and income source mostly for the men in the region, but was also important in a wider sense. It had 380 (up to 500) employees, mostly local population, so it had besides economic and ecosystem also exposed social and development function. The development of transport activities was connected with wood - mostly men from farms would consider that as important, suitable source of income which helped with farm modernization and gave the very first entrepreneurship experience to the locals.

In the year 1989, the moratorium on wood-cutting in state owned forests was implemented; it caused disturbances in wood industry supply. Huge problems appeared, such as new market economy, primary sector crisis, denationalization, financial receivables, over dimensioned wood-processing industry, and it was hard to adapt to new circumstances. The polygon for the mentioned firm declined to only 300-500 ha, also the number of employees declined (to 50 before liquidation in

2008). Nowadays, the wood-supply market is dispersed, the same as purchase and processing: 30 bigger purchasers, there is no opportunity for stronger wood centre set-up, which would be capable to compete on the EU market. This valley is now more fragile and can be easily grabbed by better organized, capitally rich and adaptable systems (especially Austrian wood-system). Private owners consider the forest as a reserve for rainy days. Official services nowadays play rather an administrative role; the supervision service does not operate efficiently. Small and big forest owners and church authorities are cutting down the wood. Raw material is now exported to Austria, some to Bosnia and Slovenia. We are faced with shortage regarding final wood-processing in the Upper Savinja Valley.

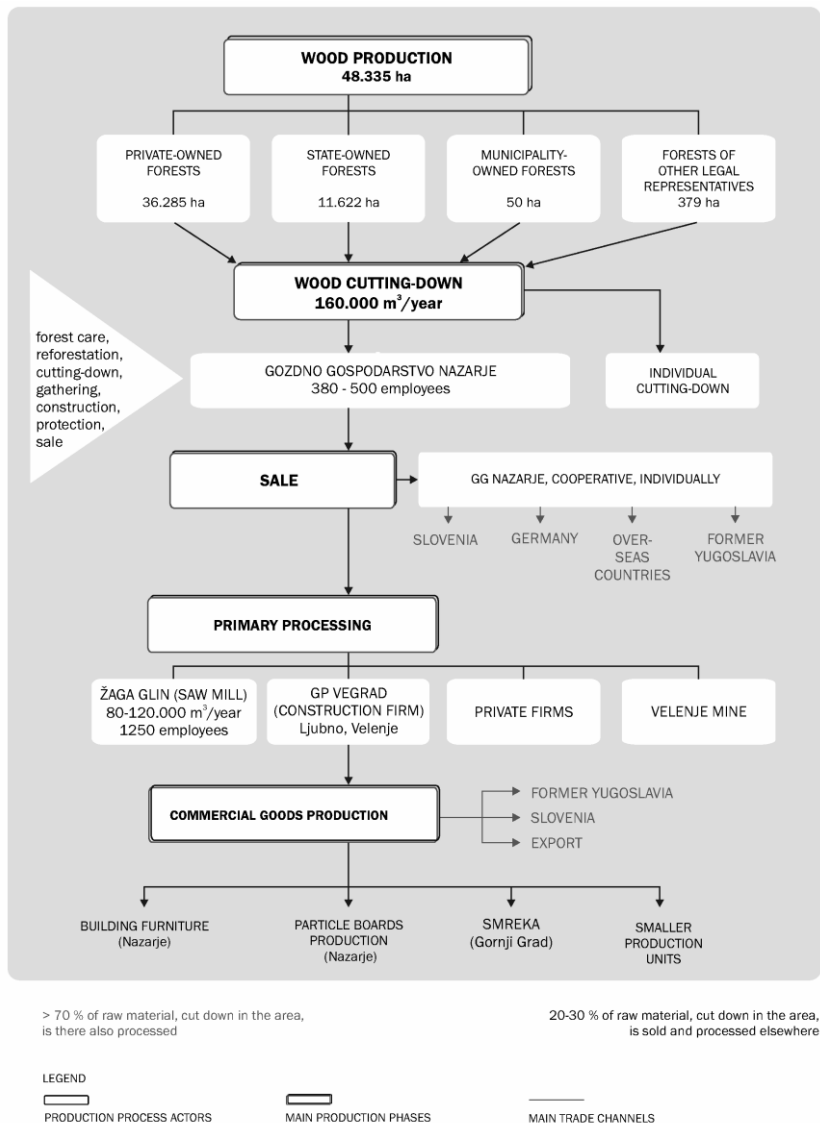


Fig. 4: Wood-Processing in Upper Savinja Valley before 1989.



The wood of the Upper Savinja Valley is evaluated as of extremely high quality because of long-term sustainable wood development, but this competitive advantage can be easily erased. Former employees found jobs in domestic appliances firms, but are not used to in-door jobs. There has been also a wood auction as an innovative market channel, but traditional market channels prevail. The use of biomass is quite popular for public heating in some municipalities, but dispersed settlements prevail – so smaller and more innovative systems should be introduced. We consider contemporary wood potential exploitation as regressive in comparison to the former one.

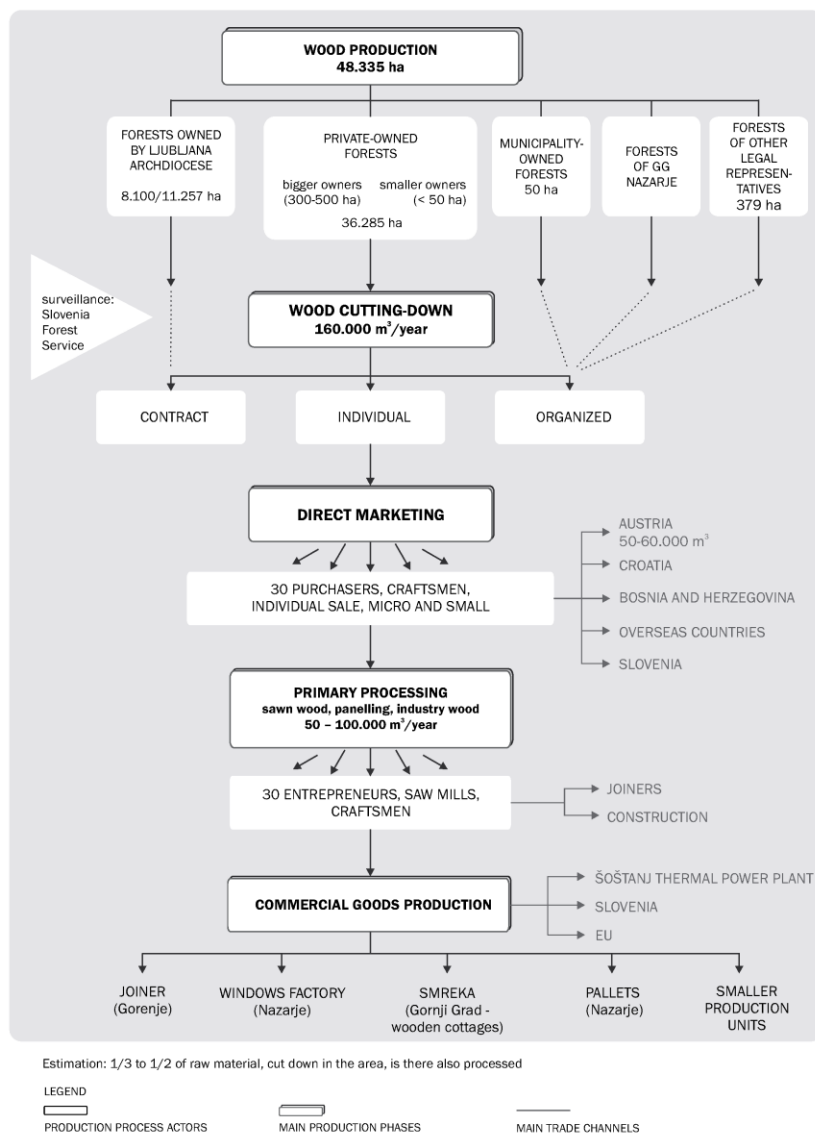


Fig. 5: Contemporary Wood-Processing in the Upper Savinja Valley.

4. Goriška Brda: specialization in wine-production

There are approx. 2,000 ha of vineyards in Goriška Brda, 1,400 ha are private owned with 700 owners as co-operants of wine co-operative Goriška Brda, established in 1957 (Fig. 6). Co-operants usually own 2 ha of vineyards (considered as »very big« for Slovenian circumstances), the biggest one measures 20 ha. An average co-operant is a part-time farmer, besides a regular job he is dealing with wine- and fruit growing and olive trees. The former monostructural directions were unsuccessful; nowadays polystructural orientation and specialization prevail. 600 ha of vineyards are private owned (approx. 100 farmers), bigger with 10-15 ha.

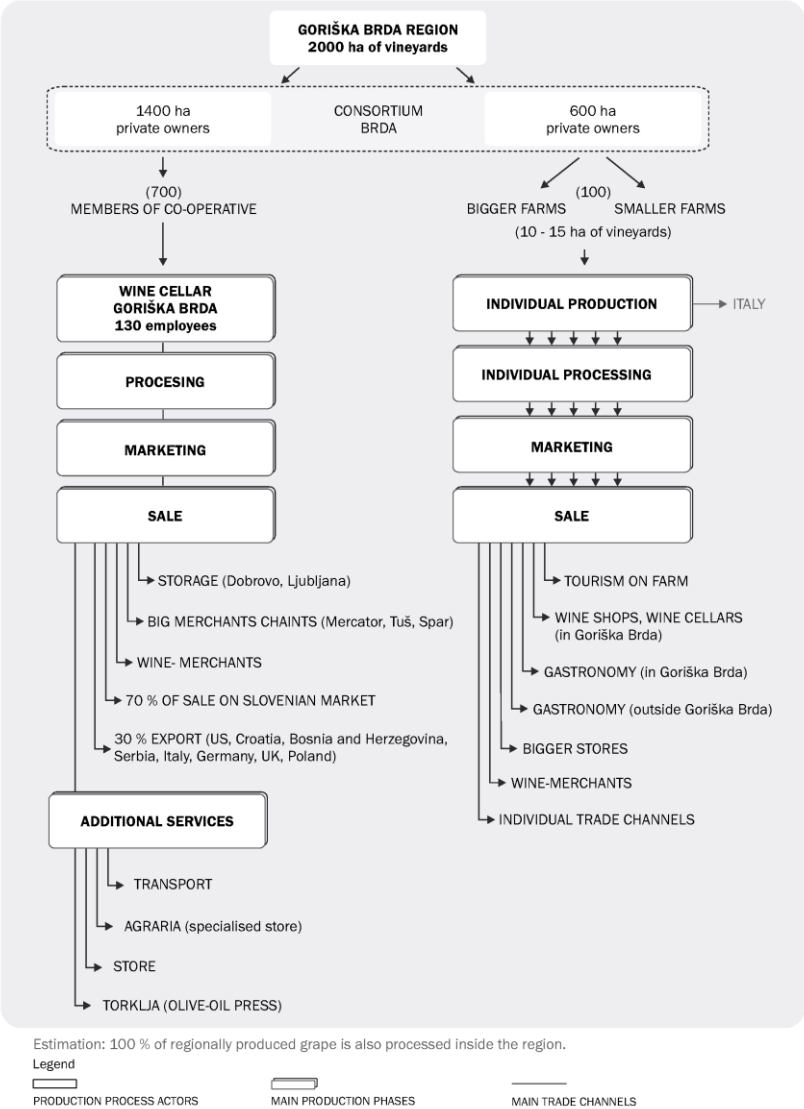


Fig. 6: Organization of Wine Production in Goriška Brda.

Individuals had more land at the time when the specific semi-feudal system decay occurred in the 1950s; they got more land in the period of agrarian reform. More successful and known are those with entrepreneurial experiences from the beginning of the 1990s: using the national subsidies they decided for a change - they changed the prevailed fruit growing for high-quality vinery, mostly individually owned, with individual procession, filling, labelling, marketing and selling. Those, whose small patches of land did not enable them an individual path, have decided for a co-operative: they pay regular contribution, they regularly deliver grape and are registered under common trade mark. The wine cellar processes only the grape that is produced inside the Slovenian part of the region Brda/Italian Collio (one third of the region is in Italy). Nowadays, they sell 70% of their wines in Slovenia, they export 30% (the biggest Slovenian wine exporter): to the USA, the former Yugoslavia, Italy, Germany, UK, Poland and Israel. The trade channels: their own store in Goriška Brda (next to the wine cellar), big stores in Ljubljana, hypermarkets (Mercator, Tuš, Spar) and wine merchants. The 130 co-operative employees are locals (40 work in cellar), they practice also transport activities, specialised store and sales experts on the field. Innovative ideas came from Italy. Nowadays the producers from Italy are keen to buy grape on the Slovenian side due to higher quality.

100% processing of grape inside the region, existing trade channels, positive regional image, high quality products, local identity, innovation implementation, co-existence of wine- with fruit growing and tourism on farm and local gastronomy are part of transparent and good-functioning territorial/regional economic cycle with huge potentials (spa formation, hotels in renovated castles, casino approved by locals etc.).

## **5. Suha Krajina: artificial formation of rural periphery**

The area was deprived of beneficial development impulses after WW2 and fell into semi-colonial relationship. Small local firms were established in 1950s (wood-processing), 1960 (metal industry) and 1970s (textile industry), which tried to stop active population out-migration. As in the past, the labour force is today still strongly attached to daily commuting towards the central part of Slovenia as well as towards other regional/local employment centres. The small business area in Žužemberk is a successor of the former dislocated industry; there are no bigger employment firms in Suha Krajina. The majority of entrepreneurs are concentrated in the area of the Krka Valley, which is at the same time also a main transport and demographic axis. We consider entrepreneurship development as positive from mid 1990s, although it started a bit late! But the entrepreneurs are focusing on the local market; firms are micro or small scale, also limited in capital. Out-migration lasted for decades, with huge effects on cultural landscape: intensive forest overgrowing. Wine-growing is self-sufficient and contributes to landscape attractiveness. It is also an element that attracts the return-migration of elderly people, but also an important element of tourism image. The empowerment of specific elements is needed: local population activation, the set-up of infrastructure, high quality products promotion, strengthening of local identity.

## **6. Cellular capacities for endogenous potentials activation**

250 years of integral dependency on the port of Trieste, partly and later also on the port of Rijeka (Croatia), when the area produced numerous food- and wood

products for nearly 220,000 inhabitants of Trieste, being also the area of labour force origin, shows that this type of mechanisms have their date of expiry which can easily be cut-off due to political reasons and have unexpected huge and fatal impacts on landscape – it has not recovered after a few decades of local revitalisation and state support. A fundamental role of extra locals is needed here: reanimation of eroded human capital, modern revitalisation of traditional sustainable economic activities (cheese and wood products), which might in long-term animates local identity, contribute to better image of the area which could be observed through new job opportunities and return migration.

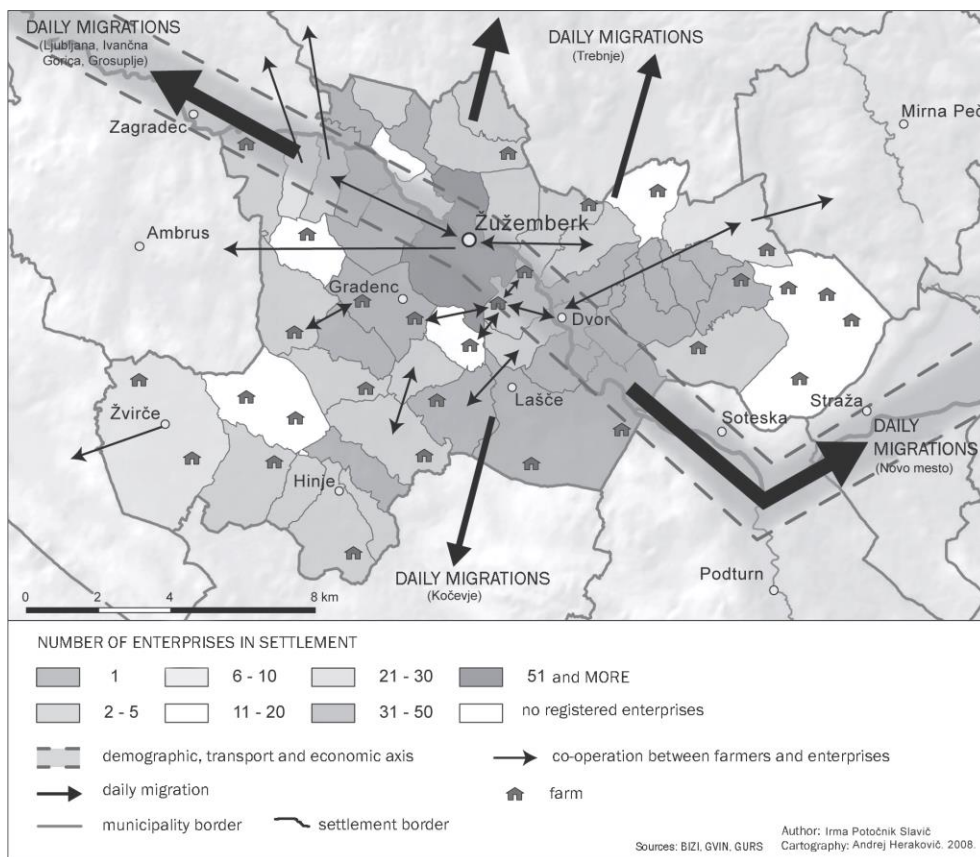


Fig. 7: Entrepreneurship Set-up in Suha Krajina.

## 7. Conclusion

Positive development impulses are to be seen through the activation of economic cycle in the Goriška Brda region (wine production); a kind of stagnation is evident in the Upper Savinja Valley region (wood-processing). Due to long-term attachment to outside economic cycles, the situation is slowly improving (the Suha Krajina region), or their factors, actors and potentials are so weakened (although they were very strong in the past) that nowadays they do not appear in a recognized form (the Brkini region). There are also rural areas which activate and empower their development potentials, but are not involved in economic cycles for various reasons

(e. g. tiny product quantities, limited recognisability, fear of fast changes on the world market and awareness of the fragility of rural areas etc.). Slovene rural areas constitute enormous endogenous development potentials that should be developed by neoendogenous development approach, enabling its sustainable use, but also demand the appropriate restructuring of national/regional/local institutions, local population activation and responsible acting of all stakeholders.

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### **Summary**

Rural development territories have multiple functions: they are units in which government, European and NGO policies are implemented; they are geographical clusters of potential collective strategic activities; many are the domain of new organizations (for example local action groups) which function as interlocutors between locality and its politico-economic environment; and they provide rationales for reviving or inventing local cultural identity (Rye 2006). The notion of pure endogenous development in which change is animated solely by local actors independent of assistance from external agents is useful but only as a heuristic device. The theorization of rural development should go beyond endogenous and exogenous models by focusing analysis onto the dynamic interactions between local areas, their component actors and political, economic and natural environments in which they unavoidably exist. Neoendogenous development retains a bottom-up core in that local territories and actors are understood as having the potential for (mediated) agency, yet understands that extralocal factors, inevitably and crucially, impact on – and are exploitable by – the local level (Rye 2006). Neoendogenous development is, essentially, a manifestation of the contemporary fashion in what is fast becoming mainstream European politics.

We partly confirmed that the activation of endogenous potentials (economic, human, social, cultural, environmental and organizational) of rural areas is evident through the empowerment of regional economic cycles. Their activation was surveyed on the smallest spatial-social unit (household), later on with the existing voluntary local network (associations), as also on locally and widely connected economic structures (entrepreneurship). Positive development impulses are to be seen through the activation of regional economic cycles in the Goriška Brda region (wine production); a kind of stagnation is evident in the Upper Savinja Valley region (wood-processing). In both cases, we noticed that local community has network capacity for endogenous potentials activation. Due to long-term attachment to outside economic cycles, the situation is slowly improving (the Suha Krajina region with zone capacity) or their factors, actors and potentials are so weakened (although they were very strong in the past) that nowadays they do not appear in a recognized form (the Brkini region with cellular capacity of endogenous potentials activation). There are also rural areas which activate and empower their development potentials, but are not involved in regional economic cycles for various reasons (e.g. tiny product quantities, limited recognisability, fear of fast changes on the world market and awareness of rural areas fragility etc.).

Our survey pointed out that only a few of the numerous possibilities of regional economic cycles are used and the potential for an increase in regional added value is immense. Maier (2001) states that the most important reason for this is the large-scale structure of the distribution and the trade with extensive up to global function strategies which are rarely integrating regional peculiarities. There is tremendous pressure on rural locales to construct their own unique "niche" to attract development, but at the same time they are caught in the conflict of interests. This contradictory process is full of interesting and provocative lines of research.

Slovene rural areas constitute enormous endogenous development potentials that should be developed by neoendogenous development approach, enabling its

sustainable use, but also demand the appropriate restructuring of national/regional/local institutions, local population activation and responsible acting of all stakeholders.

Therefore, it has been confirmed again that contemporary Slovene rural areas are at present in the exceptional situation in which the traditional elements (either in anachronistic or in revitalized modern form) are interwoven with the contemporary trends (heterogeneity, fluidity and hybridization). We confirm at the same time that at least part of its heterogenic structure will turn up as a constant also in the future, but in a slightly different form - therefore constructing a basic starting-point for planners of modern rural development policies. If they choose the uniformed approach, they would/could damage, hinder or even destroy the existing activation capacities of (neo)endogenous development potentials; this would be an irreparable damage, as the factors, structure and networks of their activation is usually a long time process.