

Gramzow, Andreas

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## Experience with endogenous rural development initiatives and the prospects for Leader+ in the region Dolina Strugu, Poland

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# DISCUSSION PAPER

## Institute of Agricultural Development in Central and Eastern Europe

### EXPERIENCE WITH ENDOGENOUS RURAL DEVELOPMENT INITIATIVES AND THE PROSPECTS FOR LEADER+ IN THE REGION "DOLINA STRUGU", POLAND

ANDREAS GRAMZOW

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Theodor-Lieser-Straße 2, 06120 Halle (Saale), Germany  
Phone: +49-345-2928 110  
Fax: +49-345-2928 199  
E-mail: [iamo@iamo.de](mailto:iamo@iamo.de)  
Internet: <http://www.iamo.de>

Dipl.-Ing. agr. Andreas Gramzow is research scholar at the Institute of Agricultural Development in Central and Eastern Europe (IAMO), Division: External Environment for Agriculture and Policy Analysis, in Halle, Germany. His research mainly focuses on rural development in Poland and institutional economics.

Mailing address: Institute of Agricultural Development in Central and Eastern Europe (IAMO)  
Theodor-Lieser-Straße 2  
06120 Halle (Saale)  
Germany

Phone: +49-345-2928 125  
Fax: +49-345-2928 199  
E-mail: [gramzow@iamo.de](mailto:gramzow@iamo.de)  
Internet: <http://www.iamo.de>

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Prof. Dr. Alfons Balmann (IAMO)  
Prof. Dr. Thomas Glauben (IAMO)  
Dr. Peter Weingarten (IAMO)

### ABSTRACT

This paper presents the results of a case study of local economic development in Dolina Strugu, Podkarpackie voivodship, Poland. Its aim is to analyse local development problems and chances, to investigate the potential of endogenous initiatives to support economic development, and to examine the prospects for an implementation of the EU's initiative Leader+. The case study primarily relies on interviews conducted with local government authorities, NGOs, business owners and farmers in summer 2005. The hitherto unsatisfactory income situation in agriculture has been particularly precarious for the region because two thirds of the people in working age are employed in agriculture and alternative job opportunities are mostly absent. To respond to these problems, a number of development activities have been initiated by a local non-profit organisation called "Dolina Strugu". The initiative with the biggest influence on the regional income situation is the marketing cooperative "Chmielnik Zdrój", which is currently employing 400 local people. It buys products from local peasant farms, processes them and sells them to 70 000 households in the further ambit. "Dolina Strugu" and the local authorities successfully applied for the pilot measure to implement Leader+ within the scope of the Polish Sectoral Operational Plan. The need for a local development strategy and Leader+'s inherent incentives to improve and create income sources make its implementation a desirable objective. But there are also a number of barriers to successful implementation. Local knowledge of the community initiative should be improved, the local inhabitants' short term planning perspective must be addressed by an appropriate vision, local trust in EU institutions and programmes should be strengthened, and the cooperation between the non-profit organisation "Dolina Strugu" and the representatives of local government should be stabilised.

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JEL: P 32, Q 13, R 11

Keywords: Rural development, endogenous initiative, Leader+, cooperation, Poland

### ZUSAMMENFASSUNG

#### ERFAHRUNGEN MIT ENDOGENEN LÄNDLICHEN ENTWICKLUNGSMAßNAHMEN UND AUSSICHTEN FÜR LEADER+ IN DER REGION "DOLINA STRUGU" IN POLEN

In diesem Beitrag werden die Ergebnisse einer Fallstudie zur lokalen ökonomischen Entwicklung der Region Dolina Strugu in der polnischen Wojewodschaft Vorkarpaten vorgestellt. Ziel der Analyse ist es, Probleme und Chancen für die lokale Entwicklung der Region aufzuzeigen, das Potential endogener Maßnahmen für die wirtschaftliche Entwicklung zu untersuchen sowie die Erwartungen, die mit der Implementierung der Gemeinschaftsinitiative Leader+ in dieser Region verbunden werden, zu diskutieren. Die Fallstudie beruht größtenteils auf Interviews, die mit Vertretern lokaler Behörden, Nichtregierungsorganisationen, Unternehmen und Landwirten im Sommer 2005 durchgeführt wurden. Als prekär stellte sich für die betrachtete Region die derzeit unbefriedigende Einkommenssituation in der Landwirtschaft dar, da zwei Drittel der Bevölkerung im arbeitsfähigen Alter in diesem Sektor beschäftigt sind und es zudem an alternativen Arbeitsplätzen mangelt. Um den Problemen entgegenzutreten, wurden ausgehend von dem gemeinnützigen Verein "Dolina Strugu" verschiedene lokale Entwicklungsmaßnahmen durchgeführt. Die hinsichtlich der Verbesserung der Einkommenssituation einflussreichste Initiative ist die Vertriebsgenossenschaft "Chmielnik Zroj", die

derzeit 400 Arbeitnehmer aus der näheren Umgebung beschäftigt. Die Vertriebsgenossenschaft kauft Erzeugnisse lokaler Kleinbauern, verarbeitet diese Erzeugnisse und verkauft sie an 70 000 Haushalte im größeren Umkreis. "Dolina Strugu" bewarb sich zusammen mit den lokalen Behörden im Jahr 2005 erfolgreich für das Pilotprogramm zur Implementierung von Leader+ im Rahmen des polnischen Sektorale Operativen Plans. Aufgrund des Bedarfs an einer lokalen Entwicklungsstrategie sowie den Leader+ inhärenten Anreizen, neue Einkommensquellen zu schaffen bzw. bestehende auszubauen, erscheint eine Implementierung dieser Maßnahme als wünschenswert. Jedoch bestehen derzeit noch Hürden, die eine erfolgreiche Implementierung behindern könnten. So fehlt in der Region oftmals wesentliches Wissen über die Gemeinschaftsinitiative. Des Weiteren sollte auf den kurzfristigen Planungshorizont der lokalen Bevölkerung mit angemessenen Entwicklungsstrategien bzw. -visionen reagiert, das lokale Vertrauen in EU-Institutionen und -Programme gestärkt und die Zusammenarbeit zwischen dem gemeinnützigen Verein "Dolina Strugu" und den lokalen Behörden stabilisiert werden.

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JEL: P 32, Q 13, R 11

Schlüsselwörter: Ländliche Entwicklung, endogene Initiative, Leader+, Kooperation, Polen

**CONTENTS**

Abstract .....	3
Zusammenfassung .....	3
List of Tables .....	6
List of Maps .....	6
List of Abbreviations.....	6
<b>1 Introduction .....</b>	<b>7</b>
<b>2 Perceived problems of the region.....</b>	<b>8</b>
2.1 Agricultural sector.....	8
2.2 Labour market.....	10
2.3 Lack of cooperation between local businesses.....	10
<b>3 Chances and barriers for the development of Dolina Strugu in the eyes of local inhabitants.....</b>	<b>11</b>
3.1 Cooperative organisations between farmers .....	11
3.2 Support of small business start-ups.....	12
3.3 Tourism and Agrotourism.....	13
<b>4 Endogenous initiatives to overcome local development barriers.....</b>	<b>14</b>
4.1 Chmielnik Zdrój – a self-help organisation aiming to improve farmers' income situation and rural livelihood .....	15
4.2 Other local initiatives .....	17
4.3 Impact of the initiatives.....	17
4.4 A critical view on the development so far .....	18
<b>5 Prospects of Leader+ in Dolina Strugu .....</b>	<b>18</b>
5.1 Suggestions for potential Leader-type projects in Dolina Strugu .....	19
5.2 Possible obstacles to the implementation of the pilot measure in Dolina Strugu .....	20
<b>6 Conclusions .....</b>	<b>21</b>
<b>References .....</b>	<b>23</b>

**LIST OF TABLES**

Table 1:	Would you say that most of the time people in your commune try to be helpful?.....	10
Table 2:	Would you work on common social activities for your commune without any payments? .....	10
Table 3:	Trust of local inhabitants in different national or regional institutions.....	17

**LIST OF MAPS**

Map 1:	Case study region "Dolina Strugu" and Polish voivodships .....	7
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**LIST OF ABBREVIATIONS**

LAG	Local action group
Leader+	Liaison Entre Actions de Développement de l'Economie Rurale (Links between actions for the development of the rural economy)
NGO	Non-governmental organisation
ZUS	Zakładzie Ubezpieczenia Społecznego (Social insurance scheme)

## 1 INTRODUCTION<sup>1,2</sup>

The purpose of this paper is to analyse local development problems and chances in Dolina Strugu, to investigate the potential of endogenous initiatives to support economic development, and to examine the prospects for an implementation of the community initiative Leader+. The following analysis is based on the results of thirty-three open interviews that were conducted in September and October 2005 in the communes Błażowa, Tyczyn, Hyżene, and Chmielnik, which call themselves Dolina Strugu and are located in the district Rzeszowski, Podkarpackie voivodship (see Map 1). The interviews mainly concerned assessments of the regional development, regional problems and chances, the labour market, the agricultural situation, the impact of the EU accession, and the mentality of local citizens. Most of the interviews were made in the commune Błażowa. Due to a different economic development status between the four analyzed communes, the latter fact has to be taken into consideration when interpreting the results.

**Map 1: Case study region "Dolina Strugu" and Polish voivodships**



Source: Author's depiction.

<sup>1</sup> The author is indebted to Martin Petrick and Peter Weingarten for helpful comments on an earlier version of this paper. Furthermore, the author thanks Marek Ząbek as the main contact person in the case study region for his great support to coordinate the research stay as well as Piotr Krośniak for his assistance as interpreter in the conducted interviews. Many thanks also go to Urszula Budzich-Szukała, Kinga Boenning, and Jakub Ciołkowski for their kind cooperation.

<sup>2</sup> This paper discusses one of three case studies which have been conducted in the South East and North West of Poland in the summer of 2005. The case studies constitute the empirical part of an ongoing dissertation which analysis the implementation process of the EU initiative Leader+ in Poland.



The region of Dolina Strugu covers an area of 300 km<sup>2</sup> in which approximately 38 000 inhabitants are living. The region's economy is strongly related to agriculture. About two thirds of the total working population work on individual farms, whereas younger farmers often have a second employment in Rzeszów, which is the next bigger city. The average farm size is slightly above 3 ha. Soil and climate conditions are moderate but the cultivation of land is limited by the hilly relief of the landscape. Agricultural production is dominated by plant production, predominant are cereals, soft fruits, feed and root plants. Animal production plays an inferior role, only a few farmers are specialised in pig or beef production. The unemployment rate in Dolina Strugu was about 18.3 % in 2005 (PUP 2005). In 2002, the Podkarpackie voivodship was the poorest Polish region with an average income per person equal to 71 % of the Polish average (EUROSTAT 2005). Due to the lack of job opportunities and the low income many young people already migrated to bigger cities or abroad.

This case study analysis proceeds as follows: Section 2 introduces the main problems seen by the interview partners of Dolina Strugu. Section 3 discusses chances for an economic development of the region and the barriers which hamper local actors to put more effort in realizing these chances. Section 4 presents successful endogenous initiatives which have already been undertaken by local representatives. Section 5 discusses the Leader+ implementation in Dolina Strugu. Section 6 concludes.

## **2 PERCEIVED PROBLEMS OF THE REGION**

In the following, the most important problems of the region mentioned by the interview partners are presented. The focus is on three main subjects: the agricultural sector, the labour market, and the lack of cooperation between local businesses.

To gain the information thirty-three interviews were conducted. Four interviews we made with representatives of the local authorities, five interviews with six representatives of the local non-profit organisation "Dolina Strugu", fourteen interviews with local entrepreneurs, one interview with two representatives of the local cooperative bank, five interviews with local farmers, and five interviews with other local inhabitants. It has to be annotated that six interview partners which have been counted as entrepreneurs and representatives of the local authorities gain an additional income from farming. The interviews lasted between one and two hours in general. Most interviewees were selected by the snowball principle. We had one contact person who recommended us potential interview partners. These potential interview partners were asked for further interviewees. Our interview partners were not always been involved in the local development initiatives. Basically, we chose them because of their knowledge about the local economic situation due to their economic activity and because of their knowledge about the mentality of local inhabitants.

### **2.1 Agricultural sector**

Nearly all interviewees did not recognize any agricultural development or change in farming structures in the last fifteen years. Farmers reported that agricultural production costs in Dolina Strugu are in general, compared to other Polish regions, higher due to the small farm size, the fragmented land structure, the hilly relief of the landscape, and the often out-dated machinery used by farmers. Moreover, increasing prices for agricultural inputs led to a further increase of production costs. The latter, combined with a decrease of producer prices for plant products in the last few years lowered the farmers' income noticeable. With the increased quality requirements farmers have to fulfil due to the EU accession as well as the little bargaining power farms hold because of their size, peasants in Dolina Strugu often do not find a wholesaler for their products. Specialization or an improvement of production as potential

possibilities to increase the farm income, are mostly not seen as alternatives by peasant farms due to the following reasons they mentioned:

- 1) Farmers reported a high uncertainty in matters of future market prices as well as in finding opportunities to sell their products.
- 2) The low guarantees that farmers are able to offer together with the uncertain market situation detain peasants from applying for large investment loans. Interviews with representatives of a local cooperative bank exhibited that not more than 10 % of all farmer clients were using credits. Out of these 10 %, most credits were taken for consumption as also the average credit amount of 2 500 PLN [623 €] shows. In the last 10 years, only 26 out of 1 000 farmers raised an investment credit for buying land or new production facilities (this corresponds to the low leverage levels of farms reported in PETRICK and TYRAN (2003)).
- 3) Only a small amount of land is available on the regional land market. Farmers often see their land as a future insurance and are not willing to sell it. Moreover, land prices in Podkarpackie are so low, that farmers believe they would not be able to use the sale revenues to start a new existence somewhere else. The perception of low land prices is supported by ZMP (2002) data, according to which the average land price in Podkarpackie was only 73 % of the Polish average. Another fact that influences the land market on the demand side concerns the fragmented land structure. Farmers are mostly not interested in buying small plots as they see no chance to lower their average costs per production unit. The land lease market in Dolina Strugu is irrelevant.
- 4) Farms in "Dolina Strugu" are poorly-equipped and lots of farmers still cultivate their fields with horsepower. This is not only due to the lack of capital they face. As long as land consolidation does not take place the use of heavy equipment is supposed to be inefficient in this area.
- 5) Farmers' investment decisions are apparently also influenced by a lack of trust in the legal framework. Polish tax and insurance laws for businesses changed in the last few years so often that inhabitants say they cannot count on the legal framework. The missing trust in the Polish government activities is also visible in the results of a small anonymous survey we made in Dolina Strugu. 28 inhabitants were asked whether they trust different national and local institutions. 40 % of them declared that they rather not trust in the national government and 35 % stated they do not trust them at all.

Farmers in Dolina Strugu reported that even the EU accession did not change their income situation noticeably. Most farmers receive direct payments but due to decreasing producer prices as well as increasing input prices the income situation of peasant farms reportedly remains unstable. Further measures like the payments for semi-subsistence farms (1 250 €/year) and the assistance measures to meet challenges of the EU are rarely used in Dolina Strugu. Farms who apply for the assistance for semi-subsistence farms have to document an improvement in production within five years<sup>3</sup>. But farmers said because of the uncertain market situation most of them did not apply for this measure<sup>4</sup>. Small peasant farms in particular see themselves unable to apply for the assistance measures to improve production facilities to meet the EU standards, because all applicants are required to pre-finance their investments.

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<sup>3</sup> However, if they do not realise this improvement, they do not have to pay back the received support.

<sup>4</sup> This small number of applicants is actually not typical for Poland. According to FAPA, 116 780 farmers applied for the payments for semi-subsistence farms whereas 126 000 applicants have been expected (CHMIELEWSKA 2005).

## 2.2 Labour market

Lack of job opportunities in Dolina Strugu due to an absence of big industries or service companies connected with the low level of wages<sup>5</sup> reportedly caused a high outflow of young people in working age during the last fifteen years. Besides agriculture there are not many other sectors which provide inhabitants with jobs, because as a result of a lack of good roads and sanitary infrastructure an industrial settlement is not expected to happen in the next few years. And even, if there is a supply of substantially higher paid jobs, farmers often see themselves unable to get these jobs mainly because they do not have the needed qualification or are too old. Furthermore, low wages as well as the high social insurance costs assumedly have led to an appearance of illegal businesses and an increase of illegal employment, which results in a weakening of the competitiveness of local legal businesses due to their comparably higher costs of production. Therefore, there is a perceived need of small and medium-sized enterprises which provide the region with new jobs, offer young people an opportunity to stay in Dolina Strugu and earn an income as well as give agricultural labour force an alternative income source to improve their current situation.

## 2.3 Lack of cooperation between local businesses

Most of the interviewees stressed the importance of a cooperation between farms in producer groups or a cooperation between small firms in Dolina Strugu for the economic development of the region. Apparently successful examples of cooperation can be seen in different parishes of Dolina Strugu who construct churches on their own or fixed up the church roof without any financial assistance from outside. Also, the results of a small anonymous survey we conducted with 29 inhabitants of Dolina Strugu based on questions concerning people's willingness to cooperate show a great interest in cooperation. Table 1 displays that 83 % of the inhabitants answered to the question: "Would you say that most of the time people in your commune try to be helpful?" that most of the time or at least sometimes people would be helpful. Only 3 % expected no help from others at all. The results for the question concerning people's willingness to work on common social activities shown in Table 2 are even clearer. 90 % of the inhabitants we asked declared that they would always work in social projects or at least if they would have more time or money.

**Table 1: Would you say that most of the time people in your commune try to be helpful?**

Most of the time they would be helpful	55 %
Only sometimes they would be helpful	28 %
They would just help if it is in their own interest	14 %
Everybody is just looking for themselves and would not help somebody else	3 %

Source: Results of author's survey.

**Table 2: Would you work on common social activities for your commune without any payments?**

Always, even if I am not sure if most people would work on it, too	55 %
Yes, if I have more time or more money even if I am not sure if most people would work on it, too	35 %
I would just take part if I was sure that most people would work on it, too	10 %
I would not work on common social activities at all	0 %

Source: Results of author's survey.

<sup>5</sup> The average monthly gross wages in the Podkarpackie voivodship were in 2003 with 1 877 PLN [468 €] the lowest ones in whole Poland (GUS 2004).

This self-assessment of local citizens is however questionable if we consider that there rarely seems to be any cooperation between enterprises in Dolina Strugu at all. The interviewees often mentioned: "There was no big firm in this region, just always these small enterprises or just small services and they never had the idea to cooperate with each other". Inhabitants asked to explain this fact mostly said that there is a discrepancy between cooperation in social activities like in parishes or the strong company of neighbours and cooperation between small businesses. As one farmer mentioned: "It depends on the situation, maybe people cooperate when something bad has happened in your family, somebody died or something similar, but they do not help each other harvesting their fields, there is no cooperation on this way." Local business managers or farmers often answered as in the following quote: "People are willing to cooperate but when they reach the financial details of the cooperation, they always try to secure their own sources and negate their willingness to cooperate." As reasons for this behaviour inhabitants mentioned the transformation of the economical system from planning to market economy in the early 1990s, which made people more careful in terms of business cooperation. Furthermore, people from this region recognized also lots of failed business cooperations which dampened their trust in the latter, as the following two quotes of local business managers show: "Maybe if someone would come and start a cooperation, this might be possible, but you know how it looks in Poland, you always do not know if the man who started an initiative will share the profits later on" and "I do not want to have a cooperation due to my bad experiences, I know that everybody is just looking for his own profits, and I see it on other places that nobody wanted to invest in the firm but receive the profits". In addition, local citizens also stated that there is a "need of good examples for cooperation", because "if people see that a cooperation has success they would probably follow this way". And as often mentioned, a successful cooperation also needs trustworthy initiators who undertake the first steps or secure the founding sources for a cooperation, but one of these latter attributes is usually missing. Nevertheless, there is a need for cooperation between farmers and small businesses. Agricultural producer groups or cooperatives, e.g., enable the latter to lower production costs due to a sharing of equipment or to improve their market power in price negotiations with wholesalers. Likewise, a cooperation between small businesses may increase their creditworthiness if the entrepreneurs act mutually as guarantors in credit associations. Besides, a business cooperation eases also common actions of members concerning the provision of their products on national or international markets with the help of common product promotions or distribution channels.

### **3 CHANCES AND BARRIERS FOR THE DEVELOPMENT OF DOLINA STRUGU IN THE EYES OF LOCAL INHABITANTS**

In this chapter chances for developing the region Dolina Strugu are discussed, based on suggestions made by the interviewees. The main focus is on cooperative organisations between farmers, the support of small enterprises, and tourism development.

#### **3.1 Cooperative organisations between farmers**

Many interviewees regarded cooperation of farmers in cooperatives or producer groups as a viable solution to improve farmers' income. According to statements made during the interviews, producer groups or cooperatives that process milk products, soft fruits, or vegetables and bring them on the local or regional market would be favourable for this region. However, the results of the case study show that various constraints are likely to prevent successful cooperative action on the local level. Due to the failure of wheat, soft fruit and milk producer groups in Dolina Strugu, people have seen few successful examples for agricultural producer

groups in the last fifteen years. In particular, the following concerns were expressed by local interview respondents or emerged as a result of our data collection:

1. *Individual reservations against economic cooperation.* This is locally called the "Polish mentality" and was characterised by two local farmers in the following statements: "If the one who cooperates with me will earn higher profits from this cooperation than I do, I don't see any reasons to cooperate." and "If I join the cooperation, I will not get anything and the other farmers will increase their profits".
2. *Lack of critical mass to form bargaining power.* There is the widespread belief that, even if farmers joined a producer group, their bargaining power would still increase only marginally. Without a significant increase in bargaining power farmers could not negotiate higher prices, their main incentives to join a producer group.
3. *Difficulty of finding consensus.* It is estimated that producer groups in Dolina Strugu need more than a thousand members to achieve some bargaining power. But to find a consensus and to pass decisions in such a big group leads to high transaction costs and paralyses decision making.
4. *Risky business environment.* Producer groups which are specialised in a particular crop are supposed to face a greater risk of financial losses due to low prices or low yields in a given year. Farmers of Dolina Strugu made this experience within a soft fruit producer group in the middle of the 1990s. It collapsed after a few years due to a dramatical decrease in prices for soft fruits. As the farmers realized that they will not make profits within the producer group anymore they left the group.
5. *Lack of finance.* Respondents believed that producer groups in Dolina Strugu could only be successful if they process and market their products on their own. This requires founding capital that small peasant farms are not able to provide. Even if a bank agreed to give credits, a suitable guarantor would be hard to find. If guarantors were group members, a trust problem between guarantor and the remaining members appears. Questions raised during the interviews were such as: How can the guarantor be sure that the producer group will exist for a longer period and will be able to refund the credit? And how can the guarantor be sure that all members will contribute as best as possible to the success of the producer group?

As these concerns show, cooperation between farmers based on producer group or cooperatives in the region of Dolina Strugu seems to be fraught with difficulties.

### **3.2 Support of small business start-ups**

Most interviewees affirmed that local inhabitants are in general willing to start small businesses and to take responsibility that is linked with own initiatives. This is supported by the fact that the share of enterprises owned by natural persons in the total number of enterprises in the district Rzeszów is with 85 % in 2003 7 percentage points higher than the Polish average (GUS 2004). However, the total number of enterprises per 10 thousand inhabitants in the district Rzeszów is with 604 way below the national average of 938 (GUS 2004). Inhabitants reported that their decision to start-up small businesses or shops is constrained by the following barriers:

- 1) *High costs for social insurance.* Business start-ups used to pay 760 PLN [189 €] per month to the social insurance scheme (ZUS – Zakładzie Ubezpieczenia Społecznego) irrespective from their monthly revenue<sup>6</sup>.
- 2) *Lacking demand for offered products.* As a result of the low average income level in the region there appears to be a lack of demand for products or services. A local business manager described the problem as follows: "There is a problem with selling your products, it is hard to say, but I do not want to increase my production. If I would take a credit and employ somebody and produce more, the question arises: 'To whom should I sell my products?' I will not sell them, that is the problem." And another inhabitant said: "It is maybe not to difficult to start a business but it is hard to survive".
- 3) *Lack of founding capital.* Founder of businesses reported that they are often not able to receive credits due to a lack of guarantees. Furthermore, the risky business environment causes banks to demand high interest rates which lower the profitability of new investments and hamper young business start-ups to take loans. In addition, a local shop owner made the following observation: "If the young people face problems to find some sources to start a business, they mostly give up and often go to other countries."
- 4) *Lack of marketing skills.* Founder of small businesses often feel that they do not have enough knowledge to overcome problems of bureaucracy as well as how to promote and market their products.
- 5) *Missing trust in the legal framework.* The uncertainty concerning changes in the legal framework impedes inhabitants to undertake investments in their businesses or start new ones. On this a local business manager said: "The changing of law is the problem, you cannot be sure how the law will be in some weeks."

### 3.3 Tourism and Agrotourism

As a further chance for regional development nearly all interviewees mentioned investments in tourism and agrotourism. As most of the asked inhabitants assess, the beautiful countryside, the favourable state of the natural environment as well as the proximity to the next bigger city Rzeszów provide Dolina Strugu with advantageous preconditions for tourism and agrotourism. Despite this assessment of the local inhabitants, a development of the tourism sector in the concerning region seems hardly visible. In 2003 the district Rzeszowski provided on average only 3.2 beds for tourists per 1 000 inhabitants of which only 18.5 % were offered by hotels, motels, or boarding houses<sup>7</sup>. Compared to this the Polish average offer of tourist beds per 1 000 inhabitants is 15.6 (GUS 2004). Besides a lack of hotels, pensions and restaurants or cafes also recreation infrastructure like lakes or hiking trails are missing. Different initiatives are already undertaken by the communes to create an artificial lake and a cross-country skiing area, but most of these initiatives are hampered by financial resources, a lack of coordination between local inhabitants and representatives of the communes, an insufficient endowment with good roads and canalisation infrastructure as well as property right conflicts regarding the areas where the recreation infrastructure should develop on. Respondents complained that there is no strategy for tourism development of the local region, and the initiatives which are undertaken by the different villages frequently seem to have no connection. Due to the need of new income sources for small farms, some agrotourism facilities have

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<sup>6</sup> This law was changed in 2005 due to a new one that enables new business start-ups in Poland to pay a reduced amount for social insurance for the first two years.

<sup>7</sup> Similar findings for the development of tourism in Polish rural areas can be found in BAŃSKI (2004).

already appeared in Dolina Strugu. But except for a few training workshops there is rarely any assistance for these businesses. There appears hence to be little help to promote offers and little advice for preparing facilities and standards for accommodations.

#### **4 ENDOGENOUS INITIATIVES TO OVERCOME LOCAL DEVELOPMENT BARRIERS**

In the previous chapter the respondents views concerning chances for local development as well as internal and external barriers are presented. In this chapter a number of endogenous initiatives aiming to overcome the described barriers and to respond to local needs are analysed.

The impetus to start endogenous initiatives in order to respond on local needs was set in 1991, when a telephone cooperative was founded by the mayors of the four communes together with other representatives of the local authorities. The idea was to improve the communicational infrastructure of the four communes to provide small businesses with a better technical infrastructure. In 1991 these four communes had only access to 800 telephone subscribers and the state-owned telephone company was not willing to invest in this region any further. The founding capital of the cooperative consisted of fees (900 PLN [224 €]) every inhabitant joining this telephone cooperative had to pay. Additional capital was taken from bank credits whereas the communes and some local leaders acted as guarantor. With the help of this founding capital a new telephone network was set up and the number of subscribers in Dolina Strugu increased until now to about 9 600 in 40 villages. Besides this, for the 6 500 members of the telephone cooperative local calls have been costless. To influence the telephone cooperatives decisions, every 1 000 members or every village, if it had less than 1 000 members, elected a representative who participates in the annual cooperative meetings. Since 1993 the telephone cooperative has been able to work without any additional financial support.

On the basis of the successful experience of cooperation, leading members of the telephone cooperative as well as of local authorities founded a non-profit organisation called "Dolina Strugu"<sup>8</sup>. One of the founding members of the non-profit organisation explained their ambitions as follows: "After we had success we still wanted to cooperate and wanted to change something in the region, and that is why we started this association to find solutions for the problems in this region". Its objectives were to solve communal infrastructure problems, support the environmental protection of the area, promote the region, and stimulate economic activities in the region. During the period of the association's establishment the idea of a partnership between local authorities, private businesses, and non-governmental organisations (NGOs) became more important. Their work was also influenced by Leader+ experts from Portugal which cooperated with "Dolina Strugu" in 1996. Since 1994, this non-profit organisation has formed different local initiatives based on involvement and motivation of local inhabitants, all operating under the name "Sami Sobie (Ourselves for Ourselves)". In addition, one important task of the non-profit organisation is to apply for national and international grants and commercial investments. In the following it is examined to which extent endogenous initiatives starting from this organisation responded on local needs and contributed to the development of the region.

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<sup>8</sup> If the name "Dolina Strugu" is used in quotation marks it concerns the non-profit organisation "Dolina Strugu". The name Dolina Strugu used without quotation marks means the region of analysis.

#### **4.1 Chmielnik Zdrój – a self-help organisation aiming to improve farmers' income situation and rural livelihood**

As one of the first initiatives of "Dolina Strugu", "Chmielnik Zdrój" was founded with start-up funds partly from the communes (especially the Chmielnik commune) and partly from a loan secured by using local leaders' houses as collateral. It is a limited liability entity located in Chmielnik, one of the four communes of Dolina Strugu. The most important associates are the four communes of Dolina Strugu and the members of the local non-profit organisation "Dolina Strugu", which was the main initiator of "Chmielnik Zdrój". Farmers' relation to "Chmielnik Zdrój" is market based, they are usually not members and do not pay any fees. As "Chmielnik Zdrój" was founded in 1994, its main objectives were to create new jobs for people from the Dolina Strugu region, to give farmers the opportunity to sell their products, to provide people from the region with local, traditionally made products, and to keep the environment and fields in a good and environmentally friendly condition. They started with providing the regional population with mineral water. In the following years they added further products and increased their production capacities very fast. In 2005, "Chmielnik Zdrój" employed 400 people and bought products from more than 500 small farms of Dolina Strugu. In the closer region as well as in the regions around Kraków, Rzeszów, Tarnów and Lublin, they provide 70 000 households with processed products (vegetables, fruits, honey, bread, jam, soups and pasta) and beverages, with 170 vehicles. Clients just have to call or use the internet to order their purchase and it will be delivered to their homes. Farmers have short or medium-term contracts with "Chmielnik Zdrój" which enable them to sell their products without delivering them to a far away wholesale company. It provides them with a basic source of income and a certainty about the future market situation in the next year. Furthermore, "Chmielnik Zdrój" processes farmers' products and sells them directly to the clients. It also supports farmers in applying for ecological certification. For the next years they plan to assist farmers in their decisions concerning their production programme. Local farmers receive information about EU programmes and assistance in applying for direct payments or other funds for free from an office which is mainly financed by the local non-profit organisation "Dolina Strugu".

Besides agriculture, there are clear signs that "Chmielnik Zdrój" has also influenced the rural development and the regional income noticeably. It provides non-farm jobs, which leads to an improvement of the economic situation of rural households and counteracts the migration of young people in bigger cities or foreign countries. Furthermore, the local population is able to buy products from their region with the knowledge to support the regional development and to keep their environment in good condition.

The key factors that made "Chmielnik Zdrój" so successful are its specific organisational set-up as a public-private partnership, its market-oriented way of risk sharing, as well as the fact that it was built on local needs, and thus emerged as a true bottom-up self-help organisation. Most associates used to work for at least one legislative period for the local governments and due to this, they generated an eye for local problems and had, as local politicians, an own incentive to respond to local needs. Due to their detailed knowledge about local circumstances, the founding members of "Chmielnik Zdrój" were able to create an organization that provides locally viable solutions for the current problems in agriculture and the rural economy. It is a prime example for the rule that successful cooperation critically depends on the initiative of the affected individuals and their willingness to contribute to their development. However, the actively participating members are only a small number of local government representatives and local leader persons. This makes "Chmielnik Zdrój" a public-private partnership distinct from traditional farmers' cooperatives, an approach that helps to overcome a number of obstacles to cooperation mentioned earlier.



Based on the case study results, the major success factors of "Chmielnik Zdrój" can be summarized as follows:

1. *Market-based approach limits risk of long-term involvement for farmers.* Farmers do not have to pay any fees or invest own funds and they do not have to take the risk of setting up the organization. Due to farmers' market-based relation to "Chmielnik Zdrój", there is little danger of a Hold-up for them. Furthermore, a contract between the commune Chmielnik and "Chmielnik Zdrój" guarantees local farmers' that they can sell their products to the organization before it is allowed to buy products from other regions. The main risk has been taken by the communes as well as by local leaders who are engaged in the management of "Chmielnik Zdrój". Furthermore, the wide array of products "Chmielnik Zdrój" provides limits the risk of a product failure.
2. *Set-up as a public-private partnership with a limited number of members eases decision making and allows a professional management.* "Chmielnik Zdrój" is employing a professional management that covers the tasks concerning processing and marketing of farmers' products. Likewise, according to its marketing concept, „Chmielnik Zdrój" sells its products not to a wholesaler and therefore, it is not forced to use any bargaining power in price negotiations. Additionally, there is also trust and a close cooperation between the management of "Chmielnik Zdrój" and the other associates. This is due to the fact that the manager was already involved in the telephone cooperative and that the associates are a small group of local inhabitants who already made successful experiences in cooperation within the telephone cooperative. Thus the problem of individual reservations against cooperation could be overcome. The engagement of local governments as guarantors greatly eased the funding problem of the public-private partnership.
3. *Complementary services offered to farmers provide incentives for a long-term business relation and serve as quality control mechanism.* Due to the service of the non-profit organisation "Dolina Strugu", farmers receive assistance in applying for EU programmes as well as direct payments. This is particularly important for the high number of part-time farmers. In addition, farmers receive assistance in applying for the certification for ecological production from "Chmielnik Zdrój". If local authorities prove that farmers fulfill the criteria for ecological production, this works as an additional product control system for the marketing cooperative.
4. *True bottom-up approach secures support and trust of the local population.* The engagement of associates of "Chmielnik Zdrój" in the telephone cooperative served as a reputation-generating mechanism toward the local community. It was particularly well received that the telephone cooperative gave a share of their profits to the local community by offering them free local calls. Moreover, 10 % of the profits from "Chmielnik Zdrój" are donated to local soup kitchens. This is stated on all product labels and improves the local trust as well. Vehicle drivers of "Chmielnik Zdrój" were given the keys to many houses or flats of their clients in Dolina Strugu and the surrounding regions to deliver them when they are absent. The trust in the local products of "Chmielnik Zdrój" can also be seen in the following two quotes of local farmers: "It is a very good idea and I am very proud that we have that in our region" and "It is a very positive programme and it is a good way to defend the Polish products against all the companies which came from the West and produce cheaper as the small butcher shops and bakeries. These small butchers and bakeries are all collapsing right now." The trust in local leaders and in "Chmielnik Zdrój" also became visible in the small survey mentioned above, during which we also asked about trust in different national and local institutions. Table 3 shows that trust in representatives

of local institutions (i.e., members of the non-profit organisation and the mayor) is way higher than in national institutions.

**Table 3: Trust of local inhabitants in different national or regional institutions**

Question: *Whom do you trust?*

	<b>A lot</b>	<b>A bit</b>	<b>Rather not</b>	<b>Not at all</b>	<b>N</b>
President (%)	4	50	32	14	28
Government (%)	0	25	40	35	28
Local Administration (%)	0	39	54	7	28
Members of the non-profit org. (%)	12	65	24	0	17 <sup>1)</sup>
Mayor (%)	0	63	26	11	27

Notes: <sup>1)</sup> Remaining 12 respondents said they do not have enough knowledge about the non-profit organisation to answer this question.

Source: Results of author's survey.

## 4.2 Other local initiatives

Besides the previously mentioned marketing cooperative, "Dolina Strugu" also undertook initiatives explicitly directed to improve the situation on the regional labour market. "Dolina Strugu" provides a labour agency for local inhabitants, where job applicants receive assistance to find new workplaces. Especially young job applicants gain knowledge concerning their right preparation for job applications and their behaviour in job interviews. Additionally, Dolina Strugu organises workshops for people who want to start-up a business and for young entrepreneurs. In 2002, with the help of financial assistance from the World Bank, an advisory agency for new business start-ups could emerge as a further initiative. This agency as-

sists interested business starters and existing small enterprises to overcome bureaucracy problems, to find financial resources or to improve the current production. It also offers loans to entrepreneurs if they can nominate two guarantors. The interest rates are way below the ones of commercial credits, which is supposed to ease the start-up of small businesses. Since its foundation the agency has advised more than 400 inhabitants. This is free of charge for the clients, because the costs are covered by the financial assistance of the World Bank.

## 4.3 Impact of the initiatives

The current major initiatives to improve rural livelihood in the four communes of Dolina Strugu are a) the initial telephone cooperative founded in 1991, b) the marketing cooperative "Chmielnik Zdrój", c) a local labour agency, and d) an advisory agency for business start-ups which also runs a credit facility. The latter three initiatives all emerged from the positive experience of the telephone cooperative and are managed by the non-profit organisation "Dolina Strugu". The impact of these initiatives was primarily as follows: The telephone cooperative meets an important consumer need. Furthermore, it strengthens the competitiveness of local businesses. In the four communes of Dolina Strugu, the number of businesses per 100 inhabitants increased between 1995 and 2001 from 2.2 to 5.1, whereas in other rural communes near Rzeszów this number moved up only slightly from 2.2 to 2.3 per 100 inhabitants (UNDP 2003). "Chmielnik Zdrój" contributes to the improvement of the rural livelihood by providing small farmers with the opportunity to sell their products. It consolidates their income situation and employs 400 rural people. Inhabitants who used to be engaged in the management of the telephone cooperative as well as representatives of the local authorities emphasized the generally increased willingness to cooperate in this region. There is a bigger

trust in local institutions compared to national institutions, which is likely a result of the endogenous initiatives.

#### **4.4 A critical view on the development so far**

Despite these successful outcomes of the locally based initiatives, there are still several problems remaining in Dolina Strugu region. In fact, "Chmielnik Zdrój" has a lasting positive influence on farmers' income and rural livelihood, but it is not able to contribute to a structural change in agriculture. The problem of a missing willingness to cooperate in producer groups could not be overcome. This self-help organisation is able to provide small farms in the area with the opportunity to sell their products, but medium-sized farms with about 5 ha and more still face the problem of finding no wholesaler or receiving comparably low prices for their products due to a lack of market power. One farmer reported: "They consolidate mostly small farms which have a half ha of potatoes. I remember, there were some situations where farmers had very good yields and then they had problems to sell their crops because they [the marketing cooperative] did not need that much." Therefore, medium sized farms and even larger farms are still looking for possibilities to sell their products or as a farmer stated: "farmers here are waiting for another place to sell their crops, a small processing plant is really needed in here". On this account "Chmielnik Zdrój" might be a positive example and a promising incentive for similar cooperative initiatives, such as founding processing plants. Furthermore, the advisory agency of "Dolina Strugu" eases farmers' access to additional financial sources which could lead to further farm investments and an improvement of their competitiveness.

The periodical change of local governments in three of the four communes of Dolina Strugu led to a decline of cooperation between the non-profit organisation and the representatives of the local authorities. This is primarily due to the frequent replacement of local authority representatives. As some interview partners mentioned, the relationship between the local governments seems to be more characterised by competition than by cooperation. Supposedly, due to the success of the organisation and its high acceptance among local inhabitants, local government authorities fear a loss of power. This in turn results in coordination problems between the local authorities and the organisation's initiatives. For example, a common strategy for regional tourism development is still missing. Actions undertaken by the local authorities like creating the artificial lake are not coordinated with "Dolina Strugu".

### **5 PROSPECTS OF LEADER+ IN DOLINA STRUGU**

In 2004, the non-profit organisation "Dolina Strugu" together with the local authorities of the four communes of the region applied for the pilot measure to implement the community initiative Leader+. In the EU-15, Leader-type programmes have been implemented since 1991. Leader+ is based on the creation of local development strategies by using local capabilities. The core of Leader-type projects constitute "local action groups (LAGs)" consisting of representatives of local authorities, local businesses and local NGOs<sup>9</sup>. With the help of a pilot measure which is part of the Sectoral Operational Plan, Poland undertakes actions to implement a Leader-type measure in the period of 2004 until 2006. The implementation measure consists of two schemes which mainly focus on the elaboration of regional development strategies, the formation of LAGs as well as the promotion of the community initiative Leader+ in the regions. In the following, it is discussed how the pilot measure and also potential Leader-type projects could contribute to the regional development of Dolina Strugu. How the

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<sup>9</sup> For more detailed information on Leader+ see EUROPEAN COMMISSION (2000).

community initiative Leader+ will be implemented in Poland after 2007 is as yet unknown. The feasibility of the suggestions for potential Leader-type projects presented below will be influenced by the specific design Leader+ will have in Poland.

### 5.1 Suggestions for potential Leader-type projects in Dolina Strugu

The applicants for the pilot measure hope for a stronger assistance in regional development. The following three project suggestions of the author may contribute to stronger economic development of the region after Leader has been fully implemented in Poland:

- Leader-type projects could support the creation of local processing plants for milk, vegetables or soft fruits. The first initiative may start from the LAG. It could essentially contribute to the creation of a marketing concept and organise common meetings with farmers which would help to overcome the problem of the often missing first initiative. Due to financial assistance from Leader, the LAG could contribute partly to the processing plant with some founding capital. Also, if the local cooperative bank or other interested investors would be involved in the planning process of the marketing concept of the processing plants, it would enable these potential investors to bring in their requirements of credit-worthiness and may secure additional financial sources.
- An idea mentioned by the applicants for the pilot measure in Dolina Strugu concerns the creation of a local fund for small businesses. As already mentioned in section 4.2, there is a great interest of local citizens in the business start-up programme financed by the World Bank. On this account a local fund partly financed by Leader sources could provide further business start-ups with founding or investment capital to reasonable conditions. Furthermore, the experiences which have been made with the World Bank programme may contribute to a successful realization of this initiative. To finance local funds, however, will approximately not be possible only with Leader-sources due to the limited amount of money the LAG will receive. But sources from Leader may contribute to a local fund which is in the literature of rural credit markets known as rotating credit association (BOUMAN 1995). The latter is based on a group of inhabitants who agree to contribute regularly a certain amount of money to a fund which is given, in whole or in part, to each contributor in rotation. Every member of this rotating credit association could therefore receive after a fixed period some capital which he can invest to increase the production of his firm or to start-up a new business. It goes without saying that this rotating credit association requires a certain amount of trust between the contributors, but positive experiences with the telephone cooperative, which also based on individual contributions of the members as well as a control mechanism conducted by a board of trustees, as which the LAG could act, may secure contributors' trust in the association. A local fund could help small businesses to overcome the bureaucracy problems which are connected with application for EU funds or bank credits and also the founding capital which could be taken from Leader-sources eases to undertake the first actions to found a local fund.<sup>10</sup>
- A Leader-type project, especially the LAG as its core, could assist the local civil society to develop an economic development strategy for the region Dolina Strugu. It could also prompt the four communes to work together on a regional development concept and prohibit therefore that all four communes take separate ways. In particular, for a further development of tourism and agrotourism, a common strategy may support local initiators and local

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<sup>10</sup> Formally, a rotating credit association is not allowed under the current Polish law. The so called "Argentinian credit system" has been banned since it supposedly opens opportunities for fraud. But further investigations on this topic might be useful.

investors to plan and coordinate their activities as well as to promote their region. It may also ease to create common standards for tourist accommodation, to coordinate tourist attractions like hiking trails, cycling paths or a common ski area which have been mentioned by local inhabitants as ways for tourist development. Furthermore, Leader-sources could support investments in the tourism infrastructure as well as in particular projects like the creation of the artificial lake or further investments in accommodations. A strategy itself may also ease the involvement of other investors like the local cooperative bank, which would perhaps not be willing to support just single investments.

## **5.2 Possible obstacles to the implementation of the pilot measure in Dolina Strugu**

Based on the case study research, a number of potential barriers to the implementation of the community initiative in this region can be identified:

- Knowledge about Leader-type projects in the local society is not very widespread. Most representatives of the local authorities and the local population except the representatives of the non-profit organisation "Dolina Strugu" are not endued with necessary knowledge about Leader and its potential influence on local and regional development.
- As the application for direct payments showed, there is a lack of trust among the local society in the reliability of sources coming from the European Union. For this reason, in 2004, only 42 % of local farmers applied for direct payments. Similar reasons may also dilute their incentives to contribute to a successful implementation of the pilot measure. However, this prejudice might possibly change, since more than 90 % of the farmers applied for direct payments in 2005.
- A further barrier could be the lack of local associations or NGOs in general. Besides some rural women circles in small villages, with mostly older members, there are almost no associations which undertake any actions to improve the regional identification or to contribute to regional development. Due to the absence of local associations, important contact persons between the local authorities or applicants for the pilot measure to implement the community initiative Leader and the local civic society are missing. Therefore, it is necessary to increase endeavours to promote the idea of Leader in local presentations, local newspapers and other media to persuade local inhabitants to take part in the LAG and the development activities.
- Obstructive on the way to a successful implementation of Leader could also be the limited cooperation between local authorities and "Dolina Strugu" as explained in section 4.4. But the new possibility of cooperation the LAG provides may help to overcome the latter problem. The local authorities could cooperate with the non-profit organisation in realising the common aim of regional development without joining the non-profit organisation and therefore without biasing their objectives.
- An obstacle for the involvement of local inhabitants in the realisation of common development projects seems to be the perceived short term perspective or even myopia of local inhabitants as a result of the poor social and economic situation many inhabitants face currently. On this account many local citizens will not contribute to the elaboration of economic development initiatives since investment sources from Leader will be available in the distant future (see section 5). Within the pilot measure there will be no investment sources for local inhabitants.
- A further obstacle for the involvement of local citizens might be the missing trust in their own ability to contribute conspicuously to local development. People generally attribute

the responsibility for any local development to local government authorities. This can be seen in the following statement of a local inhabitant: "Everything depends on the mayor, people here have no money and no power, so they cannot do anything. The people here will not be against new activities, but if they are in committees without any power and any money, what should they do?"

- The involvement of local inhabitants is also biased by the strong position of the non-profit organisation "Dolina Strugu", which will be a main pillar for the implementation of Leader due to its large experience in rural development. However, its overwhelming presence may also dampen the local population's interest in additional initiatives. Therefore, an early involvement of the local population with the help of large meetings and workshops as well as the explicit invitation to local citizens to bring in their ideas is indispensable.
- The lack of capital of most local inhabitants might inhibit the implementation of Leader-type projects in 2007. As Leader-type projects have to be pre-financed as well as funded with own financial contributions, this may unduly favour local governments as compared to small businesses or private initiatives, which do not have sufficient financial sources available.

## 6 CONCLUSIONS

This case study analysis contains an overview of the main problems and chances, the self-help initiatives undertaken to encourage regional development and the main current results of the latter as well as a discussion on the appliance of the pilot measure to implement the community initiative Leader in the region Dolina Strugu.

The poor income situation of local farms, the lack of employment opportunities and the missing economic cooperation between inhabitants are regarded as the major difficulties. To counter these problems, local endogenous development initiatives starting from a telephone cooperative and widely conducted by a single non-profit organisation named "Dolina Strugu" emerged in the early 1990s. One successful initiative based on the latter activities has been the public-private partnership "Chmielnik Zdrój". This organisation buys products from local peasant farms to process and sell them to clients in the further ambit. Besides its influence on farmers' income, "Chmielnik Zdrój" also employs 400 rural inhabitants and contributes therefore noticeable to an increase of rural livelihood in the region. Furthermore, a labour agency and a start-up fund for small businesses have been created by the non-profit organisation "Dolina Strugu".

In 2005, the region Dolina Strugu was accepted for the pilot measure to implement the community initiative Leader which should strengthen the realization of endogenous activities. Furthermore, Leader-type projects may assist the elaboration of further initiatives to force the regional economical development. Three possible Leader-type projects have been suggested by the author in this paper. But the feasibility of the suggestions for potential Leader-type projects will be influenced by the specific design Leader+ will have in Poland. How the community initiative Leader+ will be implemented in Poland after 2007 is as yet unknown. The suggestions regarding: 1) the creation of a marketing concept for processing plants for milk products, soft fruits or vegetables as well as to contribute partly with Leader-sources to the initial investments; 2) the initiation of a local fund for small businesses assisted with Leader-sources and based on a rotating credit association; 3) the development of a local tourism strategy which coordinates local activities on tourism development between all involved actors.

There are still some obstacles which may hamper a successful implementation of Leader in the region. First of all, a successful appliance of the pilot measure to implement Leader

requires a strong commitment of the local civil society to the undertaken actions. This may be impeded by a missing knowledge the local inhabitants have about the community initiative as well as by a lack of associations in the region which could act as contact persons between the local authorities and the local society in order to ease first implementation activities. Therefore, an extensive promotion of Leader-type projects with the help of workshops and presentations in the region Dolina Strugu is indispensable. A further obstacle is the short term perspective in which local inhabitants often plan and the disregard they attribute to Leader which follows from the fact that investment sources from Leader may be disposable in 2007 at the earliest. To overcome the missing initiative due to the short term perspective of many inhabitants, a number of steps may be undertaken. It seems necessary to present successful Leader-type projects from other European member states, to explain the core idea of Leader, and to discuss its possible outcomes. This would create incentives for local inhabitants to contribute to a successful implementation even if the results show up only in a few years. The fact that the Leader budget will not be allocated by the local authorities but by the LAG, and because local inhabitants may actively become involved in the LAG, the willingness of the local society to contribute with ideas and concepts to local development may be strengthened. The appliance of the pilot measure to implement Leader in the region strongly depends on the non-profit organisation "Dolina Strugu". Therefore, it would probably increase inhabitant's participation if the non-profit organisation would explain their ideas concerning Leader-type projects within local medias, introduce their already made experience of cooperation with the help of presentations or workshops and, this is most important, involve them more strongly in the undertaken activities. This non-profit organisation, not at least due to the confidence local inhabitants have in this organisation (see section 4.1), might be an important key to encourage the local society to contribute to local development initiatives. Furthermore, a lack of cooperation between the local authorities and "Dolina Strugu" as well as the different political attitudes of local leaders which may reduce their willingness to cooperate could complicate the implementation of Leader. However, the requirement for participants to closely work together in the LAG might force them to overcome this problem.

Nevertheless, the community initiative can be seen as a significant chance to contribute experience in rural development in order to elaborate a coordinated strategy for Dolina Strugu. It offers the opportunity to involve the local society in these activities, which may result in a better coordination and higher acceptance of activities. Leader-type projects should foster

cooperation between local businesses and farms. But it has to be conceded that Leader will not solve all current problems. It may strengthen endogenous initiatives, but questions concerning the funding of bigger activities like "Chmielnik Zdrój" will not be solved by Leader. Non-profit organisations like "Dolina Strugu" rarely receive commercial bank credits, which led to a reliance on local authorities to secure investment credits from banks. Also the community initiative requires pre-funding of investments and equity like other EU programmes. This is a major obstacle for non-profit organisations, small business start-ups or private initiatives. On this account, it might be worth considering to concentrate ambitions on creating a local fund, which will contribute to one of the currently most important problems, the lack of capital for small businesses.

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