

Gramzow, Andreas

**Research Report**

## Rural development as provision of local public goods: Theory and evidence from Poland

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**Studies on the Agricultural and Food Sector  
in Central and Eastern Europe**

**Andreas Gramzow**

**Rural development as provision of local public goods:  
Theory and evidence from Poland**





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in Central and Eastern Europe

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# **Rural development as provision of local public goods:**

**Theory and evidence from Poland**

**by**

**Andreas Gramzow**

IAMO

2009

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Hamburg, in July 2009

Andreas Gramzow



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## LIST OF ABBREVIATIONS

BP	British Petrol
CAP	Common Agricultural Policy
EAFRD	European Agricultural Fund for Rural Development
EU	European Union
FAOW	Forum for the Animation of Rural Areas
ICT	Information and Communication Technology
IRWIR PAN	Institute of Rural and Agricultural Development from the Polish Academy of Sciences
LAG	Local Action Group
LEADER	Links between actions of rural development
MARD	Ministry of Agriculture and Rural Development
NGO	Non-governmental Organization
NIE	New Institutional Economics
OECD	Organization for Economic Co-operation and Development
PLN	Polish Złoty
PPP	Public-Private Partnership
RDP	Rural Development Program
SME	Small and medium-sized enterprises
SOP	Sectoral Operational Program
WTO	World Trade Organization

### Monetary equivalence

1 Polish zloty (PLN) = .24906 EUR (annual average exchange rate in 2005)



# 1 INTRODUCTION

Since the early 1990s, a shift away from a top-down subsidy-based European Common Agricultural Policy (CAP) focusing mainly on the agricultural sector and a reduction of regional disparities, towards a much broader family of policies designed to improve regional competitiveness has become apparent. This new policy approach for rural development, which will be described below, focuses on using endogenous local assets and knowledge and is commonly known as the new rural paradigm (e.g. OECD, 2006; VAN DER PLOEG et al., 2000; KORF, 2003). According to the OECD (2006) the reasons behind the policy change are manifold but are mostly seen in: (1) the declining importance of agriculture for rural economies; (2) the new challenges for farms with respect to the provision of public or semi-public goods for rural municipalities; (3) the increasing pressure the World Trade Organization (WTO) places on the distorting nature of subsidies associated with farm policy; and (4) the crucial need for a more diverse rural economy to improve rural livelihoods. Such a policy change also renews the focus on the role of governments in supporting rural development and strengthening rural actors. Hence, if governments are no longer seen as actors who intervene directly on markets, as was the case for most traditional agricultural policy instruments, how should governmental action stimulate all sorts of rural economic sectors and contribute to an increase in the local standard of living?

The literature regards the new rural policy measures as new forms of coordination and participation between many different actors in rural areas, starting from local governments, associations, and enterprises up to individual persons (OECD, 2006). Relationships in such new rural coordination and participation mechanisms can therefore be multi-faceted. Indeed, they can be based on market relations or community management, but they can also be strongly facilitated by governmental action. Altogether, a large number of studies evaluating the rural development policies of the new rural paradigm were published, though the majority abstains from any theoretical reflection and were in parts dictated by legislative body guidelines. And although those rather descriptive studies provide important information on the success and failure of single cases, authors such as BAUM and WEINGARTEN (2005, p. 218) and MAIER and TÖDTLING (2002, p. 195) express the need for a coherent analytical framework capable of guiding and visualizing the impact of rural development policies and also of defining the role of governments. This monograph, therefore, aims to contribute to the elaboration of an analytical framework that provides a basic understanding of how rural development measures

assigned to the new paradigm are functioning and which role governments should play to force rather than hinder the sustainable social and economic development of rural areas.

The empirical portion of this study focuses on rural areas in Poland. Polish rural areas are an outstanding example of pressing rural development needs, which to a lesser extent exist in all European Union (EU) member states' rural areas. The challenging situation in rural areas continued after Poland's accession to the EU in 2004 and even became more critical for small farms due to further liberalization of the agricultural markets. Within this period, Poland also began to implement rural development measures of the new rural paradigm. However, will these new ideas of the new rural paradigm, which have shown successful results in the EU-15, also work in Poland? In the 1990s, a few rural communes in Poland introduced rural development measures similar to those of the new rural paradigm. Three of these communes will serve as case studies to provide an understanding of how the policy measures of the new rural paradigm respond to crucial problems in Polish rural areas, and to what extent governmental action was necessary to facilitate local development.

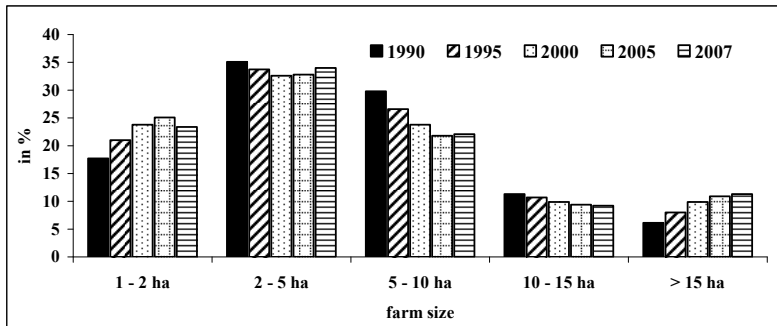
The first chapter of this monograph introduces the reader to the principal problems and policy action on rural development in Poland (Sections 1.1 and 1.2), discusses the characteristics of the policy instruments assigned to the new rural paradigm (Section 1.3), and presents a rural development theory focusing on the lacking provision of local public goods (Section 1.4). Section 1.5 contains the research questions that will guide this book, and Section 1.6 describes the monograph's organization.

## **1.1 Current situation in Polish rural areas**

Rural areas in Poland cover 93.2 % of the country's area and are inhabited by 14.7 million people (38.6 % of the Polish population) (MARD, 2006). The economic, social, and environmental impact of rural areas in Poland was often assessed as "huge" (MARD, 2007). Several studies revealed an increasing gap in family income and economic development between rural and urban regions in Poland (MARD, 2006; CHRISTENSEN and LACROIX, 1997; ZEGAR and FLORIANCZYK, 2004; ZILLMER, 2003), a problem which is typical for most rural areas in the new EU member states (BAUM and WEINGARTEN, 2005). MARD (2006, p. 14) declares that the average nominal net income of rural households was lower than that of urban households by almost 35 %. ZEGAR and FLORIANCZYK (2004) posit two main reasons for the increasing income gap between rural and urban households: First, the diminishing role of agriculture as a source of income for rural inhabitants; and second, the high unemployment rate. Agricultural incomes decreased primarily because of two opposite tendencies that were present in Polish agriculture during transition. On the one hand, farm income was affected by a decline in agricultural terms of trade caused by market liberalization and the reduction in producer and

consumer subsidies in the early 1990s (PETRICK and TYRAN, 2003). In 2002, the agricultural output/input price ratio reached just 65.5 % of the level from 1990 (MARD, 2003). On the other hand, a significant inflow of people of working age could be observed on peasant farms in the second half of the 1990s. This increase of the agricultural labor force is a result of workers being laid-off in other sectors such as rural industries and state farms. Hence, peasant farms adopted the role of "social buffers" (PETRICK and TYRAN, 2003), which led to a decrease in labor productivity and incomes on farms, as well as a lacking technical progress in farm production equipment and facilities (LERMAN et al., 2004; MARD, 2006). In 2001, agricultural investments amounted to 36.4 % of their 1990 level, while at the same time the national economy as a whole doubled its investment volume in real terms (Woś, 2004). Such stagnation of agricultural farm structures can in particular be seen in most southeastern Polish regions. According to Figure 1-1, the share of farms endowed with between 1-2 ha even increased by 2005 and in the last two years has begun to decrease. Also, the number of farms between 2-5 ha has increased, and at the same time the number of farms larger than 15 ha has increased. The latter farms, although they cultivate more than 53 % of the Polish agricultural area, make up 11 % of the total number of farms. The number of farms between 5-10 ha and 10-15 ha has remained stable or even decreased, respectively.

**Figure 1-1: Distribution of farm size in classes 1990, 1995, 2000, 2005**



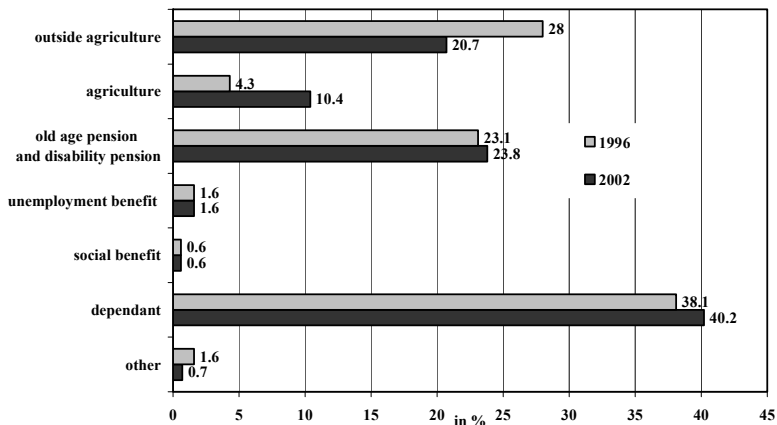
Source: GUS (2001, 2007) and MARD (various years).

While the income of agricultural households decreased from the beginning of the 1990s until Poland's EU accession in 2004 (MARD, 2005)<sup>1</sup>, 58.2 % of the rural population still depended to some extent on agricultural farm income, as the agricultural census from 2002 shows. Even in relation to the income of labor households, the income of agricultural families decreased after the late 1990s, and only in 2005, as a result of the additional subsidies farmers received due to

<sup>1</sup> As Woś (2004, p. 9) mentions, the gross disposable income of Polish farmers decreased from 1992 to 1999 by 27.4%.

EU accession, has it again reached the same level (PETRICK, 2007a). But still, as Figure 1-2 shows, the importance of agriculture as a source of income in rural areas has increased during recent years. This results mainly from the lack of non-agricultural job opportunities. The share of non-agricultural businesses in total businesses in rural areas increased only slightly, from 8.1 % (1996) to 12.4 % (2002) (MARD, various years). In contrast, the unemployment rate increased from 15 % (2000) to 17.6 % (2005) (MARD, various years) and it is further estimated that one million rural inhabitants are in hidden unemployment on agricultural farms (MARD, 2006b). Altogether, structural change in Polish rural areas is lagging.

**Figure 1-2: Sources of income in rural areas**



Source: GUS, 2002.

Problems can also be seen in the low educational level of rural inhabitants (KŁODZIŃSKI and FREDYSZAK-RADZIEJOWSKA, 2004; ZABŁOCKI, 2004; MARD, 2006b). In 2002, 43.3 % of rural inhabitants finished primary school, 29.2 % attended basic vocational training, 22.4 % had secondary or post-secondary education, and only 4.3 % went to universities or colleges (KŁODZIŃSKI and FREDYSZAK-RADZIEJOWSKA, 2004, p. 46)<sup>2</sup>. This is a result of the unfavorable learning conditions in Polish rural areas compared to urban regions. There are e.g. less educational possibilities for children, including nursery schools, as well as a lower standard of education at secondary schools (MARD, 2006b, p. 12). Furthermore, 32 % of Polish farmers only have a primary education, which as a consequence not only leads to the lower development of their professional and social skills compared to their more educated colleagues (MARD, 2006b, p.8), it also reduces their chances of finding alternative non-agricultural jobs.

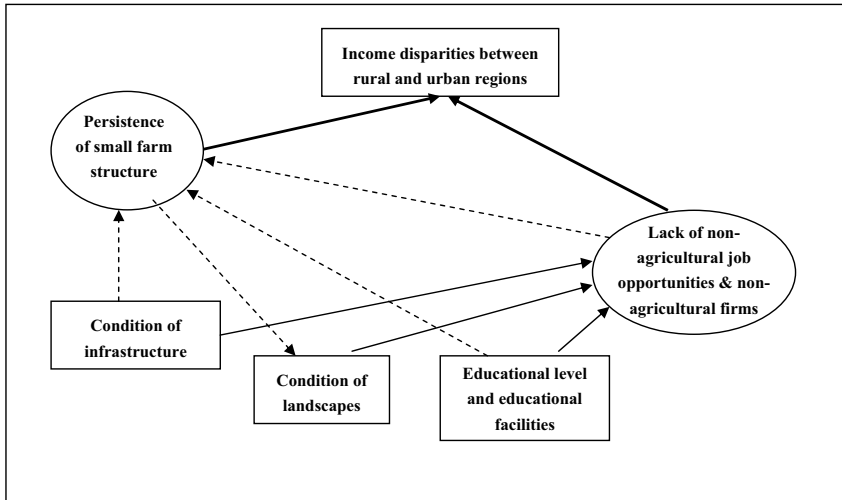
<sup>2</sup> The same figures for urban regions are: Primary education – 23.7 %; basic vocational – 21.1 %; secondary and post-secondary – 38.6 %, higher education (college and university) – 13.7 % (KŁODZIŃSKI and FREDYSZAK-RADZIEJOWSKA, 2004, p. 46).

Furthermore, as KŁODZIŃSKI and FREDYSZAK-RADZIEJOWSKA (2004) and KŁODZIŃSKI and WILKIN (1999) emphasize, Polish rural areas often lack public infrastructure. The latter influences both the standard of living for rural inhabitants and the willingness of businesses to invest in rural areas. Indeed, there is still a need for adequate sewerage and water supply systems, well-constructed roads and electricity networks (MARD, 2005), as well as access to telecommunication networks and the Internet.

Another problem in Polish rural areas, which is often seen as a relic of the socialism era, is the lack of social and economic cooperation between rural inhabitants (KŁODZIŃSKI and FREDYSZAK-RADZIEJOWSKA, 2004). Many rural village institutions ceased to exist at the beginning of the transformation process in the early 1990s. Thus, nowadays there is often a lack of community centers, clubs, libraries or associations. The Ministry of Agriculture and Rural Development writes in the National Strategic Plan: "The traditional forms of rural inhabitants' cooperation, based on neighborhood and family assistance and cultural community, as well as on rural localities' common interest, are significantly weakened or even have disappeared completely. New forms, which put more emphasis on common interest, have not been formed to a sufficient degree yet," (MARD, 2006b, p. 15). Further, KŁODZIŃSKI and FREDYSZAK-RADZIEJOWSKA (2004, p. 47) state that: "The Polish village is disintegrated, people distrust one another and are unable to co-operate. [...] the Polish village is an institutional desert [...]." This is also true for farmers' associations or producer groups. Although peasant farms in particular require producer groups or similar associations to strengthen their market position and negotiation power, or to reduce production and transport costs, of the more than 1.95 million Polish farmers who have more than 1 ha of land, only 22,112 were members of agricultural associations or producer groups (BŁĄD and KAMIŃSKI, 2004).

One last problem mentioned by some authors in recent publications concerns the environmental aspects of Polish rural areas (MARD, 2006b; WOŚ, 2004). Polish rural areas, in contrast to EU-15 member states, mostly do not face environmental problems that result from intensive farming. Rather, the opposite is often the case. Since many small farms, particularly in southern and southeastern regions, do not operate profitably and in some cases even quit farming, an increasing area of agricultural land remains unused, which may also influence the biodiversity protection of some areas, as well as change the cultural landscape of the concerned regions. The condition of the local landscape influences the image of a region and fallowed land can reduce the attractiveness of a region as a place for living, working or recreating.

**Figure 1-3: Determinants of income disparities between rural and urban regions**



Source: Author's depiction.

Figure 1-3 summarizes the situation of Polish rural areas. The increasing income gap between rural and urban households is strongly influenced by the persistence of the small-sized farm structure and the lack of non-agricultural income sources. Although farm income increased due to Poland's EU accession<sup>3</sup>, a large share of peasant farms is not able to generate a sufficient income from their farm activities. However, the lack of non-agricultural job opportunities forces peasants to remain in agriculture or to receive their income from seasonal migration. The development of farms and rural enterprises is strongly affected by the provision of infrastructural facilities and rural inhabitants' access to education services. Enterprises, particularly in the northern and northwestern regions, often abstain from investing in rural areas since they, in most cases, do not find labor with the needed qualifications, and rural inhabitants generally lack management skills and the access to capital, which enables them to start new businesses or to expand existing ones. In addition, since many peasant farms do not operate profitably and in many cases quit producing, an increasing amount of agricultural land remains fallow. This reduces the attractiveness of regions and has an impact on the regional image as a place for living and working or as a place for tourist recreation.

<sup>3</sup> For further discussions on the development of farm income after EU accession, see sub-chapter 1.2.

## 1.2 Policy action on rural development in Poland

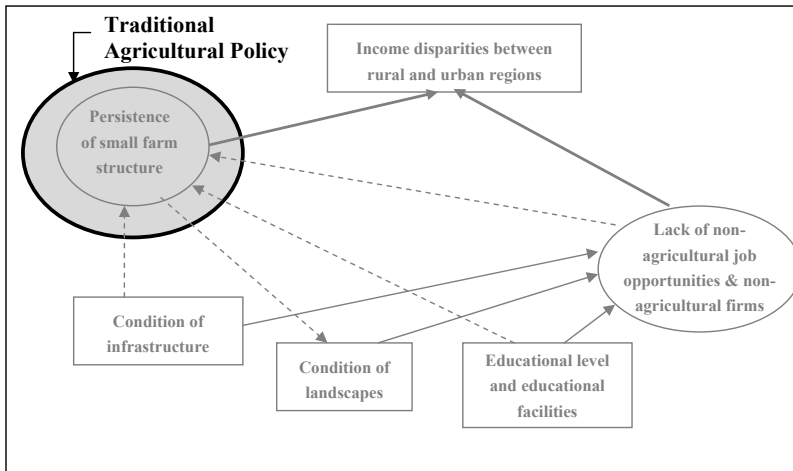
Prior to EU accession, Polish rural development policy aimed to promote rural development initiatives through support for modernizing and restructuring agriculture. This was done, on the one hand, through preferential credits for farmers and processors for investments, working capital and relief (PETRICK, 2004). On the other hand, this money was also used to subsidize training programs, agricultural information and consultancy services, as well as support physical infrastructure (CHRISTENSEN and LACROIX, 1997, p. 23). However, as CHRISTENSEN and LACROIX (1997, p. 41) assess, most public support spent on rural development initiatives went to farmers rather than non-farmers, and non-farming activities received much less governmental support for creating employment or developing infrastructure.

As a consequence of the implementation of the two pillars of the European CAP in Poland, after 2004 Polish farmers received direct payments ("first pillar"), as well. Although the direct payments started in Poland from a lower level and will gradually increase to reach parity with those provided to farmers in the EU-15 countries in 2013, they greatly contributed to farmers' income, as will be discussed below. From 2004 to 2006, the rural development policy in Poland was guided by two programs: the Rural Development Plan (RDP) and the Sectoral Operational Program (SOP). Both programs very much referred to the "second pillar" of the European CAP. Their objectives were, among others: To improve the competitiveness of agricultural farms and the quality of agricultural products; to improve rural income and living conditions; to reduce rural unemployment, as well as to preserve the natural value and environmental resources in rural areas (RDP, 2005; SOP, 2004). The RDP mainly comprised instruments such as the early retirement program, support for semi-subsistence farms, support for agricultural producer groups, payments for agricultural land in less-favored areas, agri-environmental measures, and subsidies for investments in farm facilities to assist farmers by meeting EU production standards (RDP, 2005). The SOP aimed to support investments in agricultural holdings, to provide financial incentives for young farmers, and to support investments in the agricultural market structure as well. The SOP further comprises measures that focus on the protection and preservation of cultural heritage and the development of infrastructure related to agriculture.

As recent studies show (EUROSTAT, 2004; USDA, 2007), the subsidies that Polish farmers received due to EU accession led to a noticeable increase of farm incomes; between 2000 and 2006, the average farm income in Poland increased by 80 % (USDA, 2007). According to WILKIN (2008), between 2004-2006 agricultural producers received as much as 89 % of the EU funds allocated to the CAP implementation in Poland. In 2005, just the direct payments contributed 44 % to the total income of Polish farm households. Although peasant farms benefited from the direct payments, the average amount they received was 1,250 € per farm (USDA, 2007). According to the USDA (2007) direct payments will probably not lastingly boost the structural change in Polish agriculture and may even conserve the current

structure, as they encourage peasants endowed with less than 5 ha, who might otherwise have quit producing, to continue farming. This was also shown in Figure 1-1, where we could see that between 2005 and 2007, the number of farms in the group of 2-5 ha increased, whereas the number of farms with between 5-15 ha remained stable. In addition, more than two-thirds of the rural population are not endowed with any agricultural land (KŁODZINSKI and WILKIN, 1999) and will therefore not benefit at all from those measures.

**Figure 1-4: Determinants of income disparities between rural and urban regions and the focus of the traditional agricultural policy**



Source: Author's depiction.

Thus, considering the complexity of rural development problems discussed in Section 1.1 it is a debatable point whether the abovementioned policy measures are adequate to overcome the current problems of Polish rural areas. Figure 1-4 depicts the determinants of income disparities between rural and urban regions attached to traditional agricultural policies in Poland prior the EU accession (see the darkened area in Figure 1-4). However, as discussed above, the majority of the policy measures comprised by the Polish rural development policy in the SOP and the RDP still strongly focus on subsidizing the agricultural sector, and their effects remain to be seen. KŁODZINSKI and WILKIN (1999) and CHRISTENSEN and LACROIX (1997, p. 2) argued before EU accession that the sustainable development of Polish rural areas requires policy measures focusing on the lacking investments in physical and institutional infrastructure and the provision of educational facilities, rather than traditional agricultural policy instruments that only benefit one sector of the whole rural economy.



### 1.3 New rural paradigm of rural development policy

Various authors claim that policy measures of the new rural paradigm are capable of responding more closely to institutional (see KŁODZIŃSKI and WILKIN, 1999) and educational problems (see KOZIŃSKA-BALDYGA, 2008), and to the unfavorable business environment (see HAŁASIEWICZ, 2008) in Polish rural areas. Thus, we should look at the characteristics of those policy measures and discuss why they should be more adequate than traditional agricultural policy instruments for solving the crucial problems of Polish rural areas.

The OECD (2006) confronts both the design of traditional agricultural policy and the new paradigm of a rural development policy. As shown in Table 1-1, the new paradigm not only concentrates on the agricultural sector, but also focuses on all rural economic sectors and mainly undertakes start-up financing instead of subsidization over a long period of time. Furthermore, there is currently a shift away from a pure top-down approach, which involves the European or national governmental spheres as well as farmers, towards an approach which comprises all governmental levels starting from the supra-national to local governments. This step into a further decentralization of rural development policy measures comprises non-governmental actors like local enterprises and associations as well.

**Table 1-1: The old and the new paradigm of rural development**

	<b>Old (top-down) approach</b>	<b>New (bottom-up) approach</b>
Objectives	Equalization, farm income, farm competitiveness	Competitiveness of rural areas, valorization of local assets, exploitation of unused resources
Key target sector	Agriculture	Various sectors of rural economies (e.g. rural tourism, craft activities)
Main tools	Subsidies	Investments
Key actors	National governments, farmers	All levels of government (supra-national, national, regional and local), various stakeholders (public, private, NGOs)

Source: According to OECD, 2006.

According to the comparison of the two approaches in Table 1-1, measures of the Polish rural development policy before 2004 were not similar to the policy measures of the new rural paradigm, as they mainly focused on a market interventionist policy like interest rate subsidization. It was further shown in the last section that from 2004-2006, the majority of measures comprised by the Polish rural development policy still focused only on the agricultural sector and obviously led, first and foremost, to an increase of farm incomes. Hence, most of the measures

belonging to the RDP and SOP, which by the way also constitute the majority of the measures comprised by the second pillar of the CAP, can hardly be assigned to the new rural paradigm.

A famous example of policy measures assigned to what is called the new rural paradigm is the Community Initiative LEADER (see BOLLMAN, 2006, p. 108). LEADER stands for "Links between actions of rural development"<sup>4</sup> and is based purely on a participatory bottom-up approach, which aims to elicit endogenous potentials and spatial interaction (RAY, 2000). Compared to traditional agricultural policy instruments, LEADER is seen as a method of mobilizing and delivering rural development in local communities (CEC, 2006). The core of the LEADER approach is a type of local partnership known as the local action group (LAG), which consists of local authority figures, local enterprises and NGOs. LAGs should identify and implement local development strategies, make decisions about the allocation of funds and also manage them. By strengthening local partnerships, the LEADER program also tries to replace hierarchies with mechanisms that involve all local bodies on an equal footing (OSTI, 2002, p. 172).

LEADER is already in its third generation; from 1991, when pilot projects were established, its importance for rural development policy has increased continuously. As early as 1997, the European Commission emphasized that LEADER might become the main vehicle for rural development outside a reduced area eligible for Structural Fund support (CEC, 1997). The latter has proven to be true considering that the LEADER method received its own 'axis' in the new European Agricultural Fund for Rural Development (EAFRD), which supports rural development in the EU between 2007-2013 (CEC, 2005), and must be integrated in all national and regional rural development programs of the EU member states (CEC, 2006). However, policy measures of the new rural paradigm were merely underrepresented in the budget of the two Polish rural development programs for 2004-2006. Only 1.05 % of the SOP budget, which amounts to 18 billion € in total, was spent on a pilot program of LEADER+ (FUNDUSZONLINE, 2004). However, in the Rural Development Program, which finances rural development measures in Poland in 2007-2013, funds spend on the LEADER axis also increased, though they still amount to only 4.7 % of the whole budget for rural development (BUDZICH-SZUKAŁA, 2008, p. 130).

However, although LEADER-type measures are underrepresented in Polish rural development policy, it is still worth analyzing whether the latter measures are apt to solve problems that keep Polish rural areas from developing more successfully. As mentioned above, the initial LEADER projects were first implemented in Poland after 2005, meaning that during the time this study was conducted, analyzing those projects would not have provided the researcher with broad knowledge of the impact of LEADER partnerships on rural development problems in Poland.

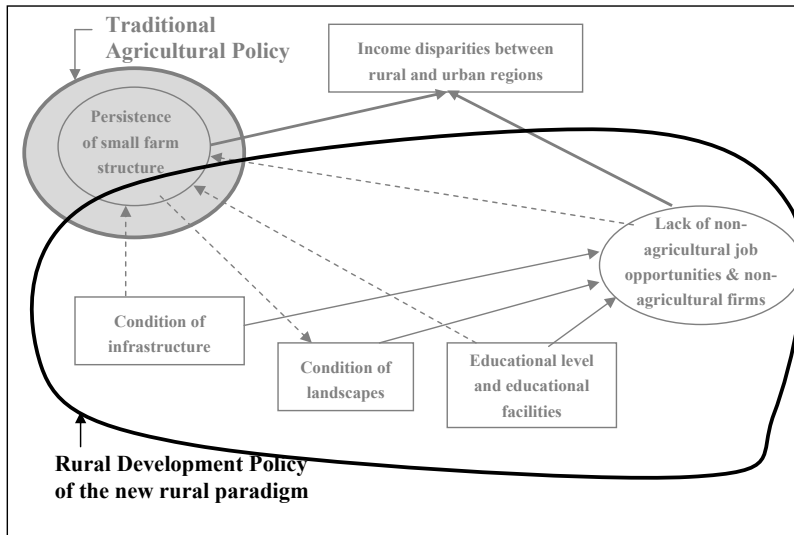
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<sup>4</sup> Translated from French: Liaison entre actions de développement rural.

However, since a few rural communes in Poland established LEADER-like partnerships in the 1990s, analyzing the performance of those partnerships may help us to understand whether the LEADER approach is well-equipped for responding to crucial problems in Polish rural areas. Three cases out of the latter partnerships will be analyzed in Chapter 4 and will have a critical look at that issue.

The very broad focus of rural development measures assigned to the new rural paradigm is depicted in Figure 1-5 (see the encircled area without the dashed lines). The latter measures not only aim to influence the performance of all economic sectors in rural areas, they also attempt to have an impact on local infrastructural conditions and educational facilities. But how do those rural development measures influence different rural sectors, local public infrastructure, or educational facilities?

**Figure 1-5: Determinants of income disparities between rural and urban regions and the focus of the traditional agricultural policy and the rural development policy measures of the new rural paradigm**



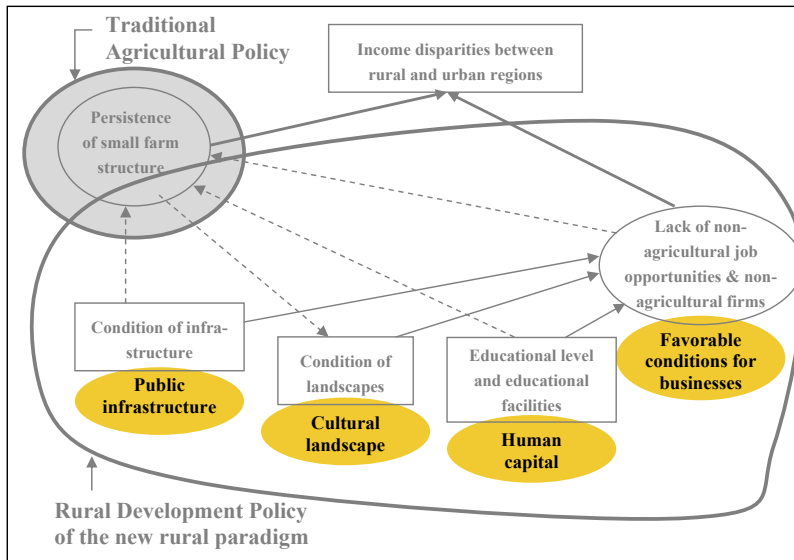
Source: Author's depiction.

#### 1.4 Lacking provision of public goods as a reason for developmental problems in rural areas

As I will further discuss in Chapter 2, in this study I hypothesize that the sustainable development of rural areas depends on the provision of different local public goods. Public goods are characterized by a non-rivalry and a non-excludability in consumption. Local public goods only benefit the inhabitants of a certain jurisdiction. Adapted to rural areas this means that local public goods such as public infrastructure, a favorable cultural landscape, a high level of human capital, and favorable

conditions for local businesses benefit all the inhabitants of a certain region, whereas only non-residents can be excluded from a permanent consumption of these goods. In Figure 1-6, local public goods are assigned to different determinants that affect the development of non-agricultural businesses and the agricultural sector. Thus, a well-constructed local public infrastructure, a high level of human capital, local cooperations and business networks, effective local service institutions, as well as a favorable image of a region, all boost local economic activities and enable the development of existing businesses or the start-up of new ones. However, although all inhabitants would benefit from, for example, good local public infrastructure or favorable conditions for local businesses, the latter local public goods are not provided or are, but only to a slight extent.

**Figure 1-6: Determinants of income disparities between rural and urban regions and local public goods facilitating rural development**



Source: Author's depiction.

Various economic theories portray the lacking provision of public goods differently. According to the welfare economists' view, which provided concepts and models suitable for giving quantitative assessments on traditional agricultural policy instruments, the lack of public goods results from market failure that can only be cured by means of governmental intervention. Considering this argumentation, rural development measures still need to fall back on direct market intervention to successfully provide public goods in rural areas. Measures of the new rural paradigm, in contrast, rely on decentralized, community based mechanisms rather than on central governmental action. Therefore, I further hypothesize in this study that policy

measures of the new rural paradigm such as LEADER aim to strengthen institutional arrangements, which then facilitate the coordination of individual motivations to contribute to the provision of local public goods. Those measures accelerate the creation of institutional arrangements (GRAMZOW and PETRICK, 2006) or local constitutional systems (SOLARI, 2004) that comprise characteristics of market or/and community mechanisms and, hence, define different forms of coordination between rural actors, which induce the latter to improve their individual contribution to the provision of local public goods.

## 1.5 Resulting research questions and organization of the monograph

Rural development policy instruments of the new rural paradigm constitute decentralized and community based measures that contribute to the development of rural areas by facilitating the provision of local public goods. If this hypothesis can be found true, the welfare economics theory, from its traditional point of view, will find it challenging to provide a comprehensive understanding of how rural development measures of the new rural paradigm work. This is because the latter theory falls back to governmental intervention as the only remedy for lacking public goods provision. However, this would further imply that the normative reference criterion of the welfare economics theory, the perfectly competitive market, which was applied to analyze policy action, loses its significance. To my knowledge, conceptual works that provide an analytical framework for rural development policy analysis, which provide a more comprehensive understanding of how those decentralized measures operate, how governmental action contributes to the development of rural areas, and which contain normative criterion that allows us to analyze policy action with respect to rural development issues, cannot be found in the recent literature. The urgent need for a well-grounded theory on rural development is also revealed by VAN DER PLOEG and RENTING (2000, p. 539).

This monograph aims to contribute to the elaboration of a rural development theory that focuses on local public goods provision in rural areas. The theoretical analysis in this study seeks to clarify the reasons for a lack of public goods in rural areas, as well as to provide a more comprehensive understanding of the mode of action of rural development measures assigned to the new rural paradigm. However, "[n]othing is as practical as a good theory" (VAN DER PLOEG and RENTING, 2000, p. 539). In this monograph I further aim to prove my theoretical considerations with empirical examples from Polish rural areas. Specifically, I seek to explain the reason for public goods problems in rural areas by means of an analytical framework elaborated in Chapter 2, and I further aspire to illustrate the effects that policy measures of the new rural paradigm have on the lacking provision of public goods. The principle research questions that are to guide this monograph can be summarized as follows:

- 1) Which theory is capable of explaining the role of governmental action in rural development policies subsumed under the new rural paradigm?

- 2) Which theory is capable of making normative statements with respect to policy measures that aim to solve rural development problems?
- 3) What are the reasons for the insufficient provision of public goods in rural Poland?
- 4) To the extent that public goods were provided in some regions, which institutional arrangements were responsible for this success?

The following chapter (Chapter 2) begins with an illustration of the impact that different local public goods have on rural development issues. Thereupon, I present three different theoretical approaches and I discuss their theoretical view on problems with the provision of public goods. I will finally discuss the normative institutional economics approach, which allows me to analyze problems of public goods provision by means of the social dilemma heuristic. The chapter closes with the presentation of three different governance structures: markets, government, and community, which are able to overcome social dilemma problems in local public goods provision.

Chapter 3 explains the empirical strategy applied to this study. Here, I will provide a description of the three case studies conducted in northwestern and southeastern Poland and I will present the different empirical research methods used in this work, with particular focus given to guideline interviews.

Chapter 4 presents the results of the empirical research. In the three case studies, I analyze the reasons of lacking local public goods provision and I attempt to demonstrate whether problems in local public goods provision can be successfully overcome by means of institutional arrangements that combine the three governance structures mentioned above.

Chapter 5 draws conclusions on the theoretical and empirical results of the study and provides some policy recommendations, as well as an outlook for further research.

## **2 RURAL DEVELOPMENT AS PROVISION OF LOCAL PUBLIC GOODS: A THEORETICAL PERSPECTIVE**

This chapter aims to clarify reasons for lacking local public goods provision in rural areas, and as such, begins with the taxonomy of public goods in rural areas before presenting four local public goods that are of importance for rural development. Section 2.2 continues with a theoretical discussion of the reasons of lacking public goods provision. I confront three different economic theories (welfare economics theory, property rights theory, and constitutional economics theory) with respect to their conclusions on the problem of public goods provision. I will discuss, from the perspective of these theories, whether governmental action is necessary to provide public goods and if so, what governmental action should look like in order to be a facilitator and not a constraint for rural economic development. Thereafter, the normative institutional economics theory will be presented as an offset to the constitutional economics theory. By means of the social dilemma heuristic, which constitutes the paradigmatic core of normative institutional economics theory, I illustrate an analytical framework for positive and normative analysis of rural development problems resulting from lacking public goods provision. Section 2.3 will then present three different governance structures, the market approach, the central government, and community governance, which are capable of overcoming problems of local public goods provision. Section 2.4 summarizes the chapter.

### **2.1 Description of local public goods in rural areas**

In Section 1.1, I discussed different problems that strongly affect the development of Polish rural areas. In particular, there exists a lack of non-agricultural jobs in rural areas, which often leaves many agricultural family members with no other choice but to keep working on the family farm or to out-migrate to a bigger city or abroad. Figure 1-3 depicts further determinants that cause the decline of rural income compared to urban ones, for example educational level and facilities, the conditions of local infrastructure, the persistence of the small farm structure, and the conditions of the landscape. In Section 1.4 I have argued that there are different local public goods, like a well-constructed local public infrastructure, a high level of human capital, local cooperations and business networks, effective local service institutions and a favorable image of a region, which all boost local economic activities by influencing the abovementioned determinants.

However, in the last chapter I did not discuss to what extent those local public goods will have an impact on the determinants that cause increasing income

disparities between rural and urban regions. Nor did I address what the characteristics are which change the latter goods to local public goods. This will be addressed, however, in the following five sections. First, I will present a taxonomy of public goods in rural areas and define the characteristics of local public goods more precisely. Then I will discuss four goods that all comprise characteristics of local public goods, and whose provision is assumed to have strong effects on the local social and economic development of regions. These goods are: Public infrastructure in good condition, human capital, cultural landscape, and favorable conditions for local businesses. After providing a description of these local public goods, the latter will be integrated in the taxonomy. Moreover, it must be mentioned that it is not always possible to distinguish these goods from each other. As will be shown below, some goods can also act as characteristics of other local public goods.

### *2.1.1 Taxonomy of public goods in rural areas*

In this section I introduce the taxonomy of public goods in rural areas. The literature characterizes pure public goods as non-excludable and non-rival to their full extent (CORNES and SANDLER, 1996). That is, a good is characterized as non-rival if any given unit can be made available for the use of every member of the public, or if the individuals' consumption of the good does not reduce the amount available to others. Non-excludability of a good exists if it is impossible or prohibitively costly to prevent individuals from the consumption of the good. Public goods according to HENRICHSMEYER and WITZKE (1994, p. 295-308) can also be found in rural areas. These authors classify e.g. the protection of wildlife as a pure public good (*ibid.*, 1994, p. 304). Also, goods provided by nature like the non-use value of landscapes and natural habitats may fulfill the characteristics of pure public goods. Residents and tourists are free to enjoy the view of a beautiful landscape without hindering others from doing so. However, most goods in rural areas fulfill the characteristics of non-excludability and non-rivalry only to a certain extent. That is, in most cases we find goods which can be seen as hybrid forms located between the two extremes of non-excludability and non-rivalry.

Table 2-1 classifies different goods available in rural areas with respect to their degree of excludability and rivalry. There are goods such as a high level of human capital or effective local governance institutions which are provided within jurisdictional boundaries. Since the consumption of these goods is combined with transport costs or residency, non-residents are more or less excluded from using these goods. Such goods are classified as local public goods. As we will see in the further course of this chapter, local public goods, once provided, benefit all residents of a jurisdiction and are of great importance for the development of a region.

An intermediate stage between non-rivalry and full rivalry in consumption can be described as congestion, implying positive crowding costs. In the case of goods like the usage value of landscapes or parks and the recreation value of forests or



other habitats, we can find non-excludability, but positive crowding costs. The recreation value of a park, which can be entered free of charge by everyone whether visitor or resident, would be reduced if a certain number of people who stroll through the park or have a picnic exceeds a certain level. We categorize those goods as open access resources. In contrast, goods like an irrigation water system or a ground-water recharge, which are only accessible for local residents, are categorized as common property or common pool resources (OSTROM, 2005, p. 79). Once any unit of these goods is appropriated or consumed by a resident, the amount of units available for consumption by others is reduced. Additionally, for those goods provided by nature or created by humans, it is difficult to exclude inhabitants of a jurisdiction from their consumption. Goods can also be non-rival and excludable. For example, in the case of large nature preserves, visitors are obliged to pay an entrance fee, whereas the preserves are often so huge that people in the park will hardly be restrained in their recreation activities by other visitors. In our taxonomy these goods are classified as toll or spite goods. If people voluntarily found a community to provide and consume certain goods, e.g. producer groups or agricultural cooperatives, we can classify those communities as club goods (HENRICHSMEYER and WITZKE, 1994, p. 305). Club goods are congestible and characterized by a particular exclusion mechanism involving voluntary membership and/or user fees. Also, regional or local brands and some country clubs belong to this category.

**Table 2-1: Taxonomy of public goods in rural areas**

		Non-rival	Congestible
<b>Consumers are</b>	<b>Non-excludable</b>	<i>Pure public goods</i> ➤ Landscape (non-use value) ➤ Protection of wildlife	<i>Open access resources</i> ➤ Landscape (use value by visitors) ➤ Parks (use value by visitors)
	<b>Excludable only if they were non-residents of the jurisdiction or outsiders of the community</b>	<i>Local public goods</i> ➤ High levels of social and human capital ➤ Effective local governance institutions	<i>Common property resources</i> ➤ Groundwater recharge ➤ Irrigation system
	<b>Excludable</b>	<i>Toll goods/spite goods</i> ➤ Recreation and amusement facilities (Natural preserves)	<i>Club goods</i> ➤ Producer groups ➤ Regional brands ➤ Country clubs

Source: Modified from TAYLOR (1982, p. 40) and PETRICK (2007b, p. 273).

In the following sections I will describe four local public goods which play an important role for rural development processes in Poland. In Section 1.4 those four local public goods were assigned to the determinants affecting the development of non-agricultural businesses and the agricultural sector in rural Poland. What follows is a description of the impact those local public goods may have on rural development processes in Poland, and rural areas in general, as well as a discussion of their public good characteristics.

### *2.1.2 Public infrastructure*

Many publications emphasize public infrastructure as a strong factor that stimulates the economic activities of a region by augmenting the productivity of private inputs or by contributing directly to output (EBERTS, 1990; ASCHAUER, 1989; MUNNELL, 1990). Public infrastructure in rural areas contains local roads, bridges, water and electricity supply, or communication networks. Different components of rural public infrastructure may have a lasting impact on lacking structural change in agriculture and the lack of business start-ups. For example, well-constructed roads, a good water and electricity supply system, and good access to telephone and internet communication infrastructure provides local farmers and firms with easy access to and use of information, enables a better technology transfer, and lowers transport costs. Furthermore, EBERTS (1990) mentions that the enhancement of local public infrastructure will also attract households and new firms, whereas the latter may contribute to the economic development of a region and reduce unemployment.

Public infrastructure in general has properties of pure public goods. For example, components of public infrastructure such as roads and bridges are characterized by non-excludability, whereas water or electricity supply systems are mostly accessible only for local inhabitants. The benefits of these facilities can be shared by inhabitants up to a certain point without reducing the benefits of other users. Congestion in consumption often only appears in the case of highways but not in public infrastructure provided in rural areas. Hence, rural public infrastructure can be categorized as pure public goods or in the case of a possible exclusion for non-residents, as local public goods (see Table 2-2).

**Table 2-2: Integration of relevant public goods in the taxonomy of public goods in rural areas**

		Non-rival	Congestible
	<b>Non-excludable</b>	<i>Pure public goods</i>	<i>Open access resources</i>
		<ul style="list-style-type: none"> <li>➤ Landscape (non-use value)</li> <li>➤ <i>Cultural landscape (non-use value)</i></li> <li>➤ Protection of wildlife</li> <li>➤ <i>Public infrastructure (e.g. roads, bridges)</i></li> </ul>	<ul style="list-style-type: none"> <li>➤ Landscape (use value by visitors)</li> <li>➤ Parks (use value by visitors)</li> </ul>
<b>Consumers are</b>	<b>Excludable only if they were non-residents of the jurisdiction or outsiders of the community</b>	<i>Local public goods</i>	<i>Common property resources</i>
		<ul style="list-style-type: none"> <li>➤ <i>Cultural landscape (use value)</i></li> <li>➤ <i>Public infrastructure (e.g. water and electricity supply)</i></li> <li>➤ <i>High level of human capital</i></li> <li>➤ <i>Favorable conditions for businesses</i></li> <li>➤ Effective local governance institutions</li> </ul>	<ul style="list-style-type: none"> <li>➤ Groundwater recharge</li> <li>➤ Irrigation system</li> </ul>
	<b>Excludable</b>	<i>Toll goods/spite goods</i>	<i>Club goods</i>
		<ul style="list-style-type: none"> <li>➤ Recreation and amusement facilities (Natural preserves)</li> </ul>	<ul style="list-style-type: none"> <li>➤ <i>Producer groups</i></li> <li>➤ <i>Regional brands</i></li> <li>➤ Country clubs</li> </ul>

Source: Modified from TAYLOR (1982, p. 40) and PETRICK (2007b, p. 273).

### 2.1.3 Human capital

Forms of human capital described in the literature are manifold. A common definition formulated by the OECD (2001a, p. 18) explains human capital as "[t]he knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being." As OSTROM (2000) states, forms of human capital differ between college education and skills. Hence, on the one hand, there are personal attributes relevant to human capital such as communication and numeracy, which mainly result from formal education. There are also intra-personal skills like motivation, self-discipline or inter-personal skills like teamwork, organizational skills or leadership that can also be partly developed due to formal education and vocational trainings, but often emerge from the social environment and work experience. However, for the economic development of a region or even a country, all the abovementioned forms of human capital are important.

As the OECD (2001a) assesses, education is positively correlated with employment, higher earnings and labor market search activities. Furthermore, it is mentioned that higher education is also linked to civic participation and increases inhabitants' political and social engagement. And finally, it is concluded that: "Education, training, and learning can play important roles in providing the basis for economic growth, social cohesion and personal development," (OECD, 2001a, p. 35). SKURAS et al. (2005) emphasize the importance of human capital with respect to entrepreneurial human capital by concluding that particularly in rural lagging and mountainous areas, where agricultural production is not competitive at cost terms, local entrepreneurship is necessary for providing employment opportunities and increasing local incomes.

Human capital in COLEMAN's (1988) perspective is seen as a private good since the investor is able to capture its benefits. Students who invest time and resources towards improving their knowledge and skills are able to benefit in terms of better-paid jobs, more satisfying work, or a better understanding of the world around them. In contrast, RAUCH (1993) mentions that it is commonly believed that individuals are not capable of capturing all the benefits resulting from investments in their own human capital. This belief is also often cited when justifying government subsidies for formal education. An example of the external effects of human capital is seen in the sharing of knowledge and skills between the workers of one company or between the inhabitants of one community. As JOVANOVIĆ and ROB (1989) state, the higher the human capital of workers, the more rapid the diffusion and growth of individual knowledge in formal and informal interaction. A high regional level of wages and a low unemployment rate as a result of a high average level of human capital lead to an increase in purchasing power, facilitate the start-up of new businesses, and attract firms to invest in a certain jurisdiction. Last but not least, as mentioned above, higher education is linked to stronger civic engagement. The latter can emerge in terms of associations or within honorary posts in the local government of a community, where local inhabitants bring their knowledge, skills or organizational competences to contribute to the local economic and social development of their community. These external benefits of human capital have mostly positive impacts on other inhabitants of a region.

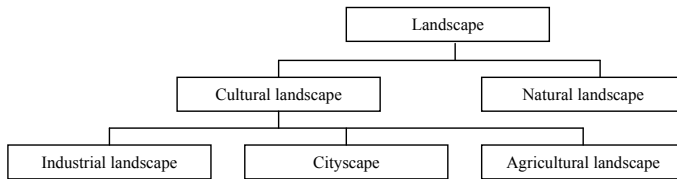
Thus, I argue that human capital comprises not only private properties, but also properties of public goods, which benefit more than the owner of this sort of capital. Local inhabitants can hardly be excluded from benefits resulting from the existing level of human capital. Such benefits constitute the advantages local businesses have from a high level of human capital or the profits local inhabitants gain from a high level of social or cultural involvement. In contrast, there is of course a rivalry between local or regional businesses for local skilled employees, but there is no rivalry between inhabitants regarding the benefits that emerge from the effective engagement of local inhabitants in social initiatives since those benefits are mostly, to a high degree, indivisible. Hence, a high average level of

human capital in a commune can to a large extent be categorized as a local public good (see Table 2-2).

#### 2.1.4 Cultural landscape

Cultural landscape, defined by HOVORKA (1997), is a "perceived unity of the spatially effective fabric of natural conditions and human influences. Cultural landscapes develop and change over time as a result of the interplay of socio-economic, cultural and natural factors". Hence, cultural landscapes are seen as parts of earth's surface, which are, in comparison to pure natural landscapes, affected by anthropogenic effects (KNIERIM, 1994). Figure 2-1 shows KNIERIM's (1994) differentiation of landscapes between both cultural and natural landscape. Cultural landscapes are further subdivided into industrial landscapes, cityscapes and agricultural landscapes. Particularly in Polish rural areas, the greatest share of cultural landscapes is constituted by agricultural landscapes, whereas pure natural landscapes, unaffected by humans, can hardly be found. Also, woods and wealds were mostly set up by humans or are already under agricultural cultivation.

**Figure 2-1: Classification of the term landscape**



Source: KNIERIM, 1994, p. 174.

Many authors assign cultural landscapes particular functions that are necessary for rural areas. For example, cultural landscapes comprise biodiversity and wildlife habitats (ROMSTAD, 2004, p. 56; ARL, 2004), the diversity of natural scenery and ecological functions like flood control, protection against erosion (HODGE, 2000, p. 260), waste assimilation or carbon storage (MATTHEWS and SELMAN, 2006). Cultural landscapes also provide recreation and aesthetic functions and display the historicity and cultural identity of a region (FÜRST, 2006, p). A favorable state of local natural resources, clean ground water reservoirs and favorable recreational conditions are all goods which strongly influence the local standard of living and contribute to the creation of a positive public image and identity of a region or locality. A positive image of a region may also have various impacts on inhabitants and local development. Thus, if inhabitants see their community as an attractive place to work and live, they will often establish bonds with their region. Such bonds may encourage inhabitants to undertake actions such as starting-up social or cultural initiatives in order to contribute to local social and economic development. Due to the important impact that landscapes, and particularly cultural landscapes, have on developing both a sense of local pride and economic stability in a region, the

second axis of the EAFRD provides additional payments which, e.g. encourage farmers in mountainous areas to continue cultivating their fields. Further measures include agri-environmental programs, which support farmers who admit to producing beyond the relevant mandatory standards so as to achieve additional environmental objectives (CEC, 2005).

According to FÜRST (2006) a cultural landscape can be categorized as a public good since consumers, whether they are inhabitants or tourists, can hardly be excluded from enjoying its non-use value and its consumption is to a high degree non-rival. Therefore, the non-use value of cultural landscapes can be categorized as a pure public good. However, there are also different benefits provided by cultural landscapes which can only be used by residents. This is true with respect to clean groundwater or different ecological functions of a landscape such as flood control. Also, local businesses that maintain tourist facilities profit from the favorable condition of the local cultural landscape. Such benefits are not accessible for non-residents. Therefore, in the categorization of cultural landscape in the taxonomy of public goods in rural areas (see Table 2-2) I distinguished between its non-use and the use value.

### *2.1.5 Favorable conditions for local businesses*

Successful local economic development requires favorable conditions for local businesses. Indeed, favorable conditions for local businesses can encourage local inhabitants to establish businesses or invest in existing ones. They can also lead foreign investors to found firms in the concerned region. According to WOODWARD (2001) small businesses in most advanced post-communist European countries, including Poland, became particularly important in the early 1990s as jobs within the shrinking state sector were lost. Writing about that time, Woodward stated, "the dynamic growth of the small business sector has not only been the chief factor driving economic growth since 1992, but has also served to absorb much of unemployment [...]" (ibid., p. 275). However, in many Polish regions, even though there were different state programs that supported small businesses, the latter did not appear as numerous as expected. The principle reasons for this are seen in the unfavorable local conditions for small businesses.

ADY (1997), who describes different factors which influence small businesses' decisions regarding investment in a certain region, categorizes these factors as follows: 1) operating costs; 2) operating conditions; and 3) quality of life.

Ad 1) Operating costs can include, e.g. labor costs, tax costs or transportation costs. While labor costs often do not vary greatly between neighboring municipalities, tax levels could do so if municipalities were endowed with the right to constitute certain taxes on their own. Furthermore, local public infrastructure has an important impact on the operating costs of small businesses, particularly with respect to transport costs.

Ad 2) Operating conditions comprise, e.g. the quality of work force, access to credits, the attitude of local officials, existing local business networks, access to local institutions and services, and the local demand for products and services. As WOODWARD (2001) mentions, many Polish entrepreneurs, when asked about the development barriers they faced, complained about the shortage of skilled laborers despite the high unemployment rate. Hence, the local labor force's high educational level and a high level of human capital in general, which were characterized as local public goods (see Section 2.1.3), constitute promising conditions for local investors. Also, local business networks, business associations or regional brands facilitate the performance of local businesses by reducing information search and transport costs (LEE et al., 2005; PHILLIPSON et al., 2006).

Furthermore, particularly in Poland, access to credits as well as the costs of credit play an important role for small enterprises' investment decisions. As WOODWARD (2001) mentions, it is commonly known that Polish banks often deny credits for small businesses by making excessive collateral demands. In addition, the uncertain market situation often leads banks to provide credits at high interest rates, which reduces the profitability of investments. In this context, formal and informal institutions like mutual loan guarantee funds or rotating credit associations can help small businesses overcome the collateral problem, since a group of small businesses can pool their resources and provide a guarantee on which lenders can rely on. These arrangements can enable small enterprises to access credits or lower their credit costs. However, local services like those which support entrepreneurs in preparing business plans or trainings for young entrepreneurs also enhance the conditions for small enterprises, since, e.g. business plans are often basic requirements for credit applications. Moreover, a positive attitude from local governments provides incentives for local entrepreneurs or foreign investors to invest in a certain community. A last important factor is the existence of a local demand for products or services. That is, a high average level of local purchasing power leads to a differentiation in demand and generates market niches for small businesses, as well as provides local businesses with the chance to sell their products and services.

Ad 3) According to ADY (1997) quality of life includes cultural activities, education capabilities, sporting opportunities or housing availabilities. These factors not only strengthen local entrepreneurs and laborers in their decision to stay in a community, they also attract new investors. A further factor already discussed above that improves inhabitants' individual comfort in a jurisdiction is the cultural landscape. Hence, individuals also appreciate, besides their working conditions, the favorable state of local natural resources (FÜRST, 2006) and the availability of housing to rent or purchase at acceptable prices.

Naturally, local conditions for businesses cover the various local public goods discussed above, and whose public good properties I will therefore not describe again. Furthermore, local entrepreneurs also gain from effective local government institutions and services or the existence of high purchasing power, which cover

properties of public goods, as well. With respect to the latter, there is barely a rivalry in consumption and local businesses can hardly be excluded from its benefits.

## **2.2 Theories explaining the lacking provision of public goods**

Based on a literature review, Section 2.1 discussed the contribution of four different local public goods to the social and economic development of rural regions. These goods were further characterized with respect to their properties. However, although studies by LEE et al. (2005) or PHILLIPSON et al. (2006) have shown that, e.g. local business associations or regional brands have a positive impact on the economic development of a region, we have seen in Section 1.1 that in Polish rural areas, goods like favorable conditions for local businesses or local public infrastructure were often provided insufficiently or were even totally absent. Why is this the case if every inhabitant of a municipality is able to profit from these local public goods?

In the following, I will analyze the question of lacking public goods provision more deeply by addressing it through three different economic theories; the welfare economics theory, the property rights theory, and the constitutional economics theory. In so doing, I aim to answer the first two research questions developed in Section 1.5. The following theoretical discussion should define the role the three different theories assign to governmental action in problems of public goods provision, and it should further reveal which normative statements each theory is able to make with respect to the adequacy of policy measures of the new rural paradigm.

Section 2.2.1 will present the basic assumptions of the welfare economics theory. Over decades, the welfare economics theory dominated the theoretical discussion on agricultural and rural development policy concepts. Indeed, it produced concepts and models suitable for providing quantitative assessments of policy impacts in all sorts of traditional agricultural policy measures. Arthur C. Pigou, an important representative of welfare economics theory, was the first to discuss approaches of governmental intervention to facilitate the provision of public goods. While the welfare economics theory perceives problems of public goods provision as problems of market failure, the property rights theory, the approach I will look at in Section 2.2.2, addresses the problem of lacking public goods provision as one of social interaction. It argues that transaction costs hamper actors from a market-based provision of public goods. The latter approach contributed to a new discussion on governmental action in public goods provision, but has often been criticized for its lacking normative significance. The third approach I present in Section 2.2.3 is the constitutional economics theory. The constitutional theory also regards lacking public goods provision as a problem of social interaction, but additionally provides a normative perspective on the issue in question.

Based on a literature review of the above three theories, the various perceptions of problems in public goods provision will be presented. In Section 2.2.4, with regard to local public goods in rural areas, I will go further into the theories' assessments on governmental action in rural development policies. By examining these



three theories I will not only discuss whether the welfare economics theory, the property rights approach, or the constitutional economics theory is capable of investigating the mode of operation of policy measures assigned to the new rural paradigm, but also whether these theories can be used to analyze the necessity and the type of governmental action normatively. Finally, Section 2.2.5 will present a new theoretical approach called the normative institutional economics theory. The latter approach constitutes an offset to the constitutional economics theory, which makes use of the normative strengths of that theory without taking over assuming its flaws in applied analyses of empirical problems.

### 2.2.1 *Welfare economics theory and market failure*

According to the welfare economics theory, the lacking provision of public goods is a classic case of market failure. Market failures exist when real world conditions differ from the ideal assumptions of perfectly competitive markets postulated by the welfare economics theory. Before I describe cases which are regarded as market failure by the welfare economics theory, I will first shortly present the theory's basic assumptions.

The ideal case of welfare economics theory is characterized by perfectly competitive markets – implying a market-clearing price – which force rational and profit-maximizing individuals to exchange resources on the market in a way that spends the highest level of utility (ATKINSON and STIGLITZ, 1980, p. 343). That is, under the conditions of perfectly competitive markets, both an efficient resource allocation and a social welfare maximum are reached. The welfare economics theory considers the latter situation as Pareto-efficient. It also implies that in perfectly competitive markets, governmental action would be redundant since efficient resource allocation leading to a social welfare maximum would emerge due to the existence of a market-clearing price.

These basic assumptions describing a Pareto-efficient resource allocation are summarized in the following two theorems (ATKINSON and STIGLITZ, 1980, p. 343). The *first theorem* states: If any individual or economic entity acted perfectly competitively by taking prices as parametric, and a full set of markets existed where complete contracts are enforced, a competitive equilibrium would be Pareto-efficient. Hence, given these assumptions, on perfect markets the utility of each actor depends solely on the actions of other market participants through goods exchanged on the market, that is, no nonmarket interactions are possible. Or, as SCITOVSKY (1954, p. 144) writes: "[...] the market economy leads to a situation of economic optimum (in Pareto's sense), provided that every economic influence of one person's (or firm's) behavior on another person's (or firm's) profit is transmitted through its impact on market prices."

The *second theorem* states: If both households' indifference maps and firm production sets are convex and the conditions of perfectly competitive markets and perfect information are given, any Pareto-efficient allocation can be achieved as

a competitive equilibrium for some assignment of initial endowments. That is, if the citizens of a society prefer the redistribution of income, it can be achieved by some reassignments of property rights. Thus, a new Pareto-efficient situation would be reached if the conditions of a perfectly competitive market with a market-clearing price remained. This further implies that governmental intervention does not have to be contradictory to the market mechanism.

Starting from these two theorems, welfare economists ask governments only to intervene when the current conditions of an economy differ from the above described assumptions of competitive markets, that is, when markets fail. Hence, it is the task of governments to correct markets in order to exploit the welfare surpluses, which remain unused in the status quo. According to ATKINSON and STIGLITZ (1980, p. 347-49) market failure is at hand when the price mechanism is not working properly due to the existence of externalities. Externalities are regarded as a reason for the divergence between private profit and social benefit. They emerge as 1) negative externalities, when the behavior of a person imposes costs on another person without compensating the latter for the additional costs; 2) in public goods provision (positive externalities), where a person receives a benefit from the action of another person without paying anything for it; or 3) due to the existence of monopolies. Monopolies themselves can also be regarded as negative externalities, since the market power of the monopolist allows him to deviate from competitive allocation, which results in a lower level of consumer satisfaction.

PIGOU (1920) attempted to discover whether any improvements could be made in the existing institutional arrangements that determine the use of resources. He advises the state to impose taxes or subsidies calibrated to implement a social welfare maximum. After the taxes or subsidies have been implemented, each individual should behave as if he would take account of the effects of his actions on others. That is, in terms of public goods, the beneficiary is supposed to receive a subsidy from the state as a compensation for the positive externalities he produces, but for which he was not compensated on the market.

However, according to which criterion can one decide whether and which amount of subsidies or taxes lead to a maximization of social welfare? Here, the welfare economics goes back to the Pareto-efficiency criterion (ATKINSON and STIGLITZ, 1980, p. 337). According to the latter, policy reform in terms of a Pigou tax or subsidy would only lead toward a social welfare maximum if at least one person is made better off due to the reform and no one is made worse off. However, strict adherence to the rule that only Pareto-efficient policies should be implemented may lead to total political standstill. This dilemma can be overcome by using a social welfare function which constitutes a more applied approach of the Pareto-efficiency criterion (ATKINSON and STIGLITZ, 1980, p. 339 et seq.). The social welfare function is consistent with the Pareto criterion, but goes beyond it as it compares individual gains and losses. In a further extension of the social welfare function, the gains and losses of every individual of a society are aggregated and maximized

to calculate a social welfare maximum. Hence, the maximization of such a social welfare or social surplus only makes sense in terms of a compensation test in line with the Kaldor-Hicks criterion, which allows the hypothetical compensation of losers by the winners of a policy change.

In summary, we can say that the welfare economics theory blames the lacking provision of public goods on market failure. Since providers of a public good are not completely compensated for the benefits they produce (as no market price for the good exists or a price that exactly contains its production costs), they will not provide the good to an extent that is actually demanded. In such cases, according to PIGOU, the government has to intervene by paying subsidies to the providers, which persuades the latter to provide as much of the good as they would have under competitive market conditions.

Critical comments on the welfare economics approach mostly address the narrow assumptions made with respect to the reference model of a perfectly competitive market, which can hardly be found in reality (CHRISTY, 1996, p. 1148; FRITSCH, WEIN and EWERS, 1999). DEMSETZ (1969) calls such an ideal state a 'nirvana'-approach that describes an unattainable paradise. SUCHANEK (2000) states that employing such an idealist first-best in order to formulate policy recommendations must lead to normative fallacies. That is, to focus on the difference between reality and unreachable paradise says nothing about reality and what can be achieved under realistic premises (EICKHOF, 1986, p. 468). However, for evaluating policy reforms, taking real-world conditions into consideration, a fictitious criterion like the Pareto-efficiency seems unfeasible.

Further literature strongly scrutinizes the state's capability of improving the allocation of resources. Many different publications influenced by Ronald COASE (1960) refer to additional costs borne by the state once the latter aims to correct markets. Thus, there are transaction costs that have to be taken into consideration when governments calculate the extent to which they intervene and the instruments that are supposed to be applied to "correct" the concerning market. Further costs arrive as decision-making costs, control costs or implementation costs since the implementation process has to pass different bureaucratic levels. Bureaucratic costs are criticized by the public choice theory as well. Shortly summarized, this theory argues that it is not correct to assume that the state consists of a benevolent dictator (social planner) who possesses all the relevant information he needs to correct markets towards a Pareto-optimal state. There are many authors who show that political actors or bureaucrats often do not search for actions leading to a maximization of a social welfare, but rather follow their own interests (e.g. see TULLOCK, 1967; KRUEGER, 1974; NISKANEN, 1971).

Furthermore, different studies, often based on empirical results, also ask whether there is only a decision between market and state when it comes to the question of how to correct failing markets. Thus, CHANG (2002, p. 546) criticizes that in the

view of welfare economics, governmental intervention is the only alternative that can be seriously contemplated, since intermediate institutions or organizations find no place in the scheme.

### 2.2.2 *Property rights theory*

This section will present the property rights theory as a research program that constitutes an extension of the traditional welfare economics theory. Representatives of the property rights theory see externalities as a precondition in the real world and analyze ways of internalizing the latter. In so doing, the property rights literature does not refer to the Pareto-efficiency criterion, as it denies a fictitious criterion that cannot be found in reality. Rather, it starts by searching for institutional arrangements that improve the welfare of a society starting from the status quo. Ronald COASE (1960), one of the founders of the research program, draws some fundamental criticisms against the welfare economics theory in a hypothetical example used by PIGOU (1920). According to PIGOU, a train drives on a railroad through farmland and ignites fires which cause damage to farmers. Here, PIGOU (1920) assesses based on efficiency grounds, that the railroad company should be liable for the damage, since the anticipation of the liability will force the railroad to take account of the effects and costs of its actions on farmers. However, COASE (1960, p. 34) argues that "it is quite illegitimate for PIGOU to draw the particular conclusions he does." He continues:

"The question at issue is not whether it is desirable to run an additional train or a faster train or to install smoke-preventing devices; the question at issue is whether it is desirable to have a system in which the railway has to compensate those who suffer damage from the fires which it causes or one in which the railway does not have to compensate them" (COASE, 1960, p. 34).

It is mistakable for COASE to see resources only as physical entities since all that matters is their institutional affiliation, that is, their property rights. In his perception, the conflict between the railroad company and the farmers results from an obvious misunderstanding between the two acting parties, who argue about the legitimacy of some actions (LESCHKE and SAUERLAND, 2000, p. 185). Here, it becomes clear that the problem does not result from the physical damage itself, but rather from the existence of conflicting interests that individuals involved in the process possess. For example, there would be no conflict if only the farmers cultivated their land and no railroad company existed. The same is true for the other way round, that is, if the train drove through the prairie where no farmer had his fields. Hence, the conflict is not a problem of physical damage, it is a problem of social interaction (LESCHKE and SAUERLAND, 2000, p. 185), a reciprocal conflict that emerges from the claims that two different parties assert over one resource. Thus, there are cases where the person causing damage imposes additional costs to others without compensation. Here, the main question for COASE emerges: Based on which criterion shall one decide whether the claimant should receive compensation

or not? If we look at the possible outcomes of such a decision, we see that in cases where the person causing damage is excused from compensating the claimant, the benefits the latter receives decrease. On the other hand, if the person causing damage had to compensate the claimant, his/her benefits would decrease.

A similar situation emerges in the case of public goods. Here, we attempt to illustrate the property rights theory's view of public goods with a local public good discussed in Section 2.1.4; the cultural landscape. Cultural landscape is for the most part provided by agricultural farms as a by-product of their market production. A farmer receives a benefit from selling the products he cultivates on his fields. While the farmer cultivates, he also contributes to the provision of cultural landscapes, since without his activities the agricultural land would remain fallow. But the farmer is not compensated for the additional benefits he provides for all inhabitants in the region in terms of nicely cultivated fields. However, when agricultural producer prices are low or when, e.g., peasant farmers in southeastern Poland are not able to sell their products, this might lead to a situation where farmers quit cultivating or continue to cultivate but in a way that is less preferred by local inhabitants. Hence, even in this case a problem of social interaction exists. Because if a farmer lived alone in a certain region and cultivated his fields, he would not think about compensation for the by-product he produces. On the other hand, in a region where people live but no farmers cultivate the land, the public good of cultural landscape would not be provided and nobody would assert his claims to it. Indeed, an interaction problem exists only because of the complementary interests of both parties, that is, the farmer will not orient his production toward inhabitants' preferences concerning the local landscape without receiving compensation, and the inhabitants prefer to enjoy the cultural landscape without paying compensation. But going back to the above question: Based on which criterion should one decide whether or not the inhabitants have to compensate the farmer for the additional benefits he provides?

COASE answers this question by arguing that the legitimacy of compensation depends on the allocation of the property rights on the cultural landscape. He proposes that under certain conditions, a solution for the interaction problem can be found by private negotiations between the involved parties. COASE would continue by emphasizing that private negotiations depend on the existence of transaction costs. That is, if transaction costs were zero, property rights were perfectly assigned, all individuals involved had perfect information and, therefore, efficient bargaining was possible, it would not matter to whom the property rights belong since the concerned individuals would negotiate as long as an efficient allocation of resources was reached. Hence, all interventions undertaken by public courts or governmental action would be dispensable if transaction costs were zero. The latter thoughts can be considered as a dramatic extension of the traditional welfare economics approach.

However, transaction costs in the real world are always positive (ZERBE and MCCURDY, 2005) and therefore private negotiations often do not take place, or do not lead to desirable outcomes. With respect to the example of cultural landscapes, the transaction costs at least emerge since no exact property rights are defined and the assignment of the latter is hardly possible. In order to find a solution for such an interaction problem, COASE would further argue that one should oppose all potential individual costs and benefits for the farmer, and for all other parties, that emerge from all potential institutional arrangements that channel the behavior of the two parties in a way that the positive externality becomes internalized as far as possible. Finally, an institutional arrangement channelizing farmers' and inhabitants' behavior needs to be found which leads to the maximization of the social net benefit surplus in comparison to the status quo (LESCHKE and SAUERLAND, 2000, p. 186). Coase argues according to the welfare economics approach when he notes:

"Economists who study problems of the firm habitually use an opportunity cost approach and compare the receipts obtained from a given combination of factors with alternative business arrangements. It would seem desirable to use a similar approach when dealing with questions of economic policy and to compare the total product yielded by alternative social arrangements" (COASE, 1960, p. 43).

Hence, according to COASE's argumentation, an adequate institutional arrangement for solving the conflict on cultural landscape provision could be one which does not concede compensation for the farmer and instead imposes additional conditions which he has to fulfill while cultivating his fields. Although the farmer would not agree on this policy change, since under these institutional arrangements he would be worse off in comparison to the status quo, COASE would approve of this policy change if the social net benefit surplus is maximized.

In the tradition of COASE, WILLIAMSON (1991) proposes searching for the most efficient conflict-solving institutional arrangements by paying attention to the transaction costs that emerge from the operation of institutions. He proposes to comparatively evaluate only feasible forms of organization (WILLIAMSON, 1993, p. 107). In this regard, the most efficient institutional arrangement would be one where transaction costs were minimal. The state can also contribute to a reduction of transaction costs, as the latter is able to assign and strengthen property rights (ZERBE and MCCURDY, 2005, p. 28). That is, if property rights become more extensive and complete, transaction costs may approach zero and private bargaining will emerge more easily (ZERBE and MCCURDY, 2005, p. 7). In addition, the state can also undertake actions to ease the trade of property rights or create more efficient bargaining environments e.g. due to the provision of moderators (BOWLES, 2004, p. 229).

Furthermore, by searching for appropriate institutional arrangements for solving interaction problems, one has to compare the costs resulting from the operation of various institutional arrangements as well as the costs combined with moving from one institution to another. Finally, we expect to discover which institution will

solve the conflicts at the lowest cost regardless of whether it is due to governmental intervention, private bargaining or different forms of formal or informal institutions. Contrary to traditional welfare economics theory, where only governmental intervention is assumed to correct markets according to the reference point of perfect competition, the property rights theory also acknowledges non-market interactions between individuals. But although the property rights approach does not refer to the Pareto-efficiency criterion, it still adheres to the maximizing paradigm, since the property rights theory prefers those institutions which operate with minimal transaction costs and therefore maximize the social net benefit surplus.

In summary, the property rights theory proceeds from its assumptions of real world conditions and negates the relevance of perfectly competitive markets as a normative criterion. In contrast to the welfare economics theory, the property rights theory does not assign lacking public goods provision to the divergence between perfectly competitive markets and real world conditions, but rather reveals it as a problem of social interaction. That is, since two or more parties assert their claims to a certain good, the provision of the latter good depends on the assignment of the property rights on the good to the different parties. In cases where property rights are not perfectly defined, a negotiation between parties for the right/duty to receive the benefits or to bear the costs of using and providing the good, respectively, can only emerge to a limited extent. A public good, therefore, which is not assigned to a single owner, will not be provided or will only be provided to a limited extent since due to its indefinite ownership, neither the benefits nor the costs of its provision can be exactly distributed. However, if private bargaining will not be successful, the state can intervene in different manners. One method of governmental intervention could be the subsidization of a public goods provision, as PIGOU has suggested. But according to the property rights theory, the state can also act as a coercive power that assigns property rights, or as moderator when different parties bargain for the property rights of resources or goods. The state can also provide other institutional arrangements, such as courts that enforce property rights or facilitate bargaining processes. Hence, governmental action can be manifold and far from direct intervention on markets like the welfare economics theory proposes. Finally, the only criterion that is relevant for the property rights approach is that governmental action should lead to an allocation of resources and goods that enables the improvement of social welfare.

However, the property rights theory also has many critics. For instance, it has been argued that the evaluation of institutional arrangements is strongly empirically-based and entails one remaining problem: Who is able to exactly measure the costs combined with the search for, as well as the implementation and maintenance of, alternative institutional arrangements? And further, if the set of rules have to be changed in comparison to the status quo, who could anticipate the transaction costs emerging under the new set of rules? These questions lead us back to the problem of the benevolent and omniscient despot mentioned in Section 2.2.1. Referring

to normative individualism, every individual has a different subjective perception of costs and benefits combined with the implementation of institutional arrangements, and no objective assessments on the preferability of institutional arrangement can be made based on the criterion applied by the property rights theory. The only hint that property rights theory will give is summarized by DAHLMAN (1979, p. 160) as follows: "[F]ind practicable ways of diminishing transaction costs by whatever kind of action is necessary, including governmental action."

The property rights theory shows a further weakness. For example, DAHLMAN (1979, p. 158) argues that if there were transaction costs and differences between traders, then it would very well matter to whom liabilities and rights are assigned. BOWLES (2004, p. 230) alludes to this by using the COASE theorem, which states that we have to distinguish between efficiency arguments and distributive justice arguments. The suggestion that the distribution of property rights does not influence allocational efficiency can hardly be verified. There are many impediments and constraints, such as the lacking access to credits or other financial sources, as well as the distribution of wealth, which limit individuals' access to resources needed for the bargaining process. This consideration was also the initial point for BROMLEY's and HODGE's (1990) publication dealing with a reconsideration of the premises of rural policy. Those authors emphasize that it does matter in the real world to whom the property rights belong, since the latter provide the owner with the legal ability to ignore the wishes of those without such rights. In their perception, the existing distribution of property rights in rural areas, a remnant from an earlier time, now leads to a situation where the state needs to bribe the farmers to adopt a set of agricultural practices that do not violate the general interests of rural or urban inhabitants. However, if property rights would be owned by the state or rural collectivities, farmers would need to bribe the state in order to undertake production activities that do not coincide with the common interests of the collectivities.

### *2.2.3 Constitutional economics theory*

The following section presents the constitutional economics theory as an alternative approach to the abovementioned theories. Although constitutional economics regards individuals as rational and profit-maximizing and refers to normative individualism, the latter theory tries to take the flaws of the welfare economics and the property rights theories into consideration. Before I discuss the constitutional economics view of public goods, I will provide an overview on the research program and its assumptions, which differ fundamentally from the approaches described above.

Constitutional economics is strongly influenced by James M. BUCHANAN (see e.g. BUCHANAN, 1975 [2002]; 1987a [2002]; 1987b; 1990 [2002]). In his works, BUCHANAN (1959; 2003) refers to the flaws of the welfare economics approach, namely the assumption of perfectly competitive markets as its reference model, the social welfare function, and the depiction of the state as a benevolent dictator.



BUCHANAN (1962) starts his argumentation by illustrating that a comparison between a theoretical ideal of perfect competition and reality will neglect relevant alternatives (PIES, 1996). Here, BUCHANAN also argues in line with COASE, as he proposes to focus more strongly on the comparison of relevant alternatives starting from the status quo. Other critics turn against the calculation of a social welfare maximum by means of a social welfare function. By calculating a social welfare maximum, BUCHANAN assesses, the economic assumption of rational, profit-maximizing individuals has been transferred from the individual level to the level of collective organizations (VANBERG, 2005). The society then becomes a single choosing entity and economists are regarded as omniscient and able to read, to aggregate, and to maximize individual preference functions. Thus, the maximization of utility aggregates by means of a social welfare function is inconsistent with normative individualism. Here, BUCHANAN (1959) does not criticize the rational choice perspective of individuals, but applies it on the level of social aggregates<sup>5</sup>. According to BUCHANAN and TULLOCK (1962) the individual is the only decision-making unit and the only one who knows his individual utility function. Hence, according to these authors, there is no objective observer who can accurately predict what individuals would choose if confronted with different alternatives, and there is no objective social value scale. That is, a normative evaluation of situations or institutional arrangements can solely be based on the assessment of the actually affected persons. In this regard, BUCHANAN and TULLOCK (1962) also argue against the criterion employed by COASE (1962), who argues that an institutional arrangement would be preferable if it led to the maximization of a social net benefit surplus in comparison to the status quo. As discussed in Section 2.2.2 regarding the example of cultural landscape, the implementation of an institutional arrangement resulting in a situation where some individuals are worse off, might possibly lead to a social net benefit surplus compared to the status quo, but will never be based on the assent of all individuals involved. Hence, the COASE criterion is inconsistent with the assumption of normative individualism, as it does not accept the veto rights of individual persons.

Furthermore, BUCHANAN and TULLOCK (1962) criticize the welfare economists' perspective on governmental action. Their objections relate to the problem of consistency that emerges when individuals on markets are regarded as rational and profit-maximizing, but politicians are, in contrast, seen as benevolent and omniscient despots. Therefore, in their monograph BUCHANAN and TULLOCK not only apply *homo economicus* to private market decision-making, but also to the political sphere. Based on this perception a new economic sub-discipline emerged, which became known as public choice theory (BUCHANAN, 2003). However, in

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<sup>5</sup> "My strictures are directed exclusively at the extension of this basic maximizing paradigm to social organization where it does not belong. This is the bridge which economists should never have crossed, and which created major intellectual confusion," (BUCHANAN, 1975 [2002], p. 80).

the 1970s BUCHANAN realized that public choice became, by analyzing the behavior of political actors like voters, politicians and bureaucrats, a set of theories of governmental failures as an offset of the welfare economics theory of market failure (BUCHANAN, 1987a [2002]). Hence, just as welfare economics confronts real-world actors with the ideal of perfectly competitive markets to identify market failures, the public choice confronts political real-world actors with a theoretical ideal in order to identify governmental failure. As a consequence, the efficiency-criterion loses its normative orientation function. Regarding this, BUCHANAN (1987a [2002], p. 585) argues that: "Any positive analysis that purports to be of use in an ultimate normative judgement must reflect an informed comparison of the working properties of alternative sets of rules and constraints."

Based on his fundamental criticisms against the efficiency-criterion, BUCHANAN introduces a different perception of markets and politics. Thus, he turns against the maximizing paradigm that considers markets only as a mechanism of social welfare maximization and introduces, in contrast, a perception of markets as institutions of exchange (BUCHANAN, 1975 [2002], p. 80). According to this perception, individuals on markets are seen as market participants who exchange products or services driven by their rational, profit-maximizing behavior, while the market order coordinates the interaction between market participants. Markets, therefore, realize exchange processes that coordinate individual maximizing efforts. Based on game theory, BUCHANAN (1975 [2002]) tries to explain his suggestions in more detail. He shows that the solution (outcome) of a theoretic game model is not a maximum, since an external observer would not operate directly on solutions to improve the game. The external observer would, instead, try to change the rules to improve the game, while he uses the observed outcomes as information input in his evaluation of the game. Outcomes, therefore, cannot be chosen directly by the observer – they only result from the individual behavior of the players, who are constrained by a certain set of rules. The observers can merely suggest changes to the rules of the game. On markets we see the same setting. There are individual actors who behave rationally and self-interested, as well as a market order constraining their behavior. Hence, the outcomes on markets only emerge from the rational, self-interested *moves* of individuals within a certain *set of rules*.

But BUCHANAN goes further. He argues that with respect to the exchange process markets are analogous to politics. As BUCHANAN and TULLOCK (1962) mention, both markets and politics are devices through which the individual maximizing efforts are organized and made possible. As BUCHANAN (1987b) explains, like persons enter markets to exchange one thing for another, "[p]olitics is a structure of complex exchange among individuals, a structure within which persons seek to secure collectively their own privately defined objectives that cannot be efficiently secured through simple market exchange" (ibid., p. 246). Hence, both markets and politics can be understood in the same two-stage structure. On the one hand, individuals choose a market order or constitutional rules that shape competition on

markets or in politics. On the other hand, market entrepreneurs as well as political entrepreneurs who behave self-interestedly are constrained, respectively, by the market order and by constitutional rules (PIES, 2000). This similarity between markets and politics allows us to analyze both in an analogous and consistent matter. Neither market nor political analysis should focus on how rational agents seek to be more successful in playing a given game, while the existing rules of a game are seen as a datum. Analysis should identify superior rules that enable the concerned individuals to play better games (VANBERG, 2005, p. 27) or as BUCHANAN assesses solely for politics: "The ultimate objective of analysis is the choice among institutions within which political agents act," (BUCHANAN, 1987a [2002], p. 4).

However, based on which normative criterion should one choose between alternative institutions or institutional arrangements? BUCHANAN proposes searching for acceptable, Pareto-superior institutions. Starting from the status quo, an institutional change would only result in a Pareto-superior situation if all individuals involved agreed on such a change. Only the agreement of every single individual assures that all individuals are better off after policy change. Therefore, BUCHANAN proposes replacing the fictitious Pareto-efficiency criterion with the consensus criterion. As discussed above, BUCHANAN and TULLOCK (1962) perceive both markets and politics as a particular form of exchange for realizing mutual gains from collective action (BUCHANAN and TULLOCK, 1962). Thus, on markets, individuals choose to constrain or to limit their potential consumption of apples in exchange for the expanded opportunity of consuming oranges. Similar processes take place in politics. Individuals in the political arena choose to constrain their own behavior as part of an exchange. That is, political actors sacrifice restrictions on their own actions in return for benefits anticipated from reciprocal restrictions on the actions of others with whom they interact along the boundaries of public spaces (BUCHANAN, 1990 [2002], p. 380-81).

With the distinction between *rules* and *moves* the constitutional economics gives way for institutional analysis in a positive and a normative manner. The positive analysis regards the individuals' behavior (moves) within a certain set of institutions (rules), whereas the normative part analyzes the choice among institutions based on the consensus criterion (BUCHANAN, 1987a [2002], p. 5).

These fundamental assumptions of constitutional economics also throw a new light on externalities and, hence, on the problem of public goods provision. With respect to externalities BUCHANAN (1984, p. 177) claims to focus on the process (exchange) rather than applying an outcome criterion to the results of the exchange process. By going back to market processes, we realize that exchange would only take place if market participants were better off after exchange. Market exchange, therefore, is always combined with agreement between both market participants. However, externalities exist "whenever the behavior of a person affects the situation of other persons without the explicit agreement of that person or persons," (BUCHANAN, 1971 [2002], p. 16). Here, BUCHANAN argues similarly to COASE

(1962), as he refers to externalities as a problem of social interaction. However, BUCHANAN (1971 [2002]) argues further that in exchange or trade, individuals are fully compensated for all costs that were suffered and that they had to pay for all the benefits they received, respectively. Therefore, trade is always a reciprocal exchange. In contrast, an externality implies that one suffers costs or receives benefits by not entering into exchange. Hence, in the case of externalities there is always an opportunity of mutual gains from exchange that is not exploited in the status quo. Considering the distinction between rules and individual moves, it becomes clear that externalities do not result from individual behavior, but from the institutional framework in the status quo, which prevents exchange between individuals involved in an externality problem. That is, the problem of negative externalities like in the example of the railway company and the farmers mentioned in Section 2.2.2 would be solved if institutional arrangements existed that would determine the behavior of all individuals involved in the process. However, the improvement of all individuals involved in comparison to the status quo requires an exchange on the level of institutional arrangements. Only if all individuals agreed on the implementation of an institutional arrangement that determined individual behavior would it be guaranteed that the former benefit from the institutional change. Hence, only consent on rules complies with an exchange and enables the individuals involved to exploit the mutual gains from trade.

BUCHANAN'S opinion, by comparison, differs from COASE regarding institutional arrangements that enable individuals to overcome interaction problems. While COASE proposes searching for any institutional arrangement leading to a social net benefit surplus in comparison to the status quo, BUCHANAN (1968) returns to individual assent. For BUCHANAN, the only way of overcoming an interaction problem is to bring those individuals involved to agreement on institutional arrangements determining individual behavior and, therefore, facilitate exchange processes. Referring to the example of cultural landscape mentioned in Section 2.2.2, COASE would approve an institutional arrangement that imposes additional cultivating standards on farmers without compensation. In contrast, for BUCHANAN such a policy change would not lead to a Pareto-superior situation since farmers will not benefit from it and therefore never agree on it. Hence, a policy change leading to a Pareto-superior situation requires at least farmers' factual compensation.

In summary, the constitutional economics theory considers markets to be places of exchange. Participants exchange goods and services under a certain market order to improve their individual utility. Exchange, therefore, only takes place if both sides are better off afterwards. Only the latter fact allows mutual agreement on market transfer. With respect to public goods, the constitutional economics theory argues that individuals benefit from other individuals' actions without compensating the latter for the benefits they receive. That is, no exchange takes place and gains from trade remain unexploited. In such a case the egoistic behavior of individuals does not prevent exchange, but rather the lack of institutional arrangements

hampers the latter parties from entering into exchange. However, an institutional arrangement that facilitates the sufficient provision of public goods and services requires the agreement of all individuals involved in the public goods problem on the latter institutional arrangement. Therefore, an institutional arrangement is needed that determines the behavior of all parties involved. Finally, for BUCHANAN, governmental action is not supposed to compensate one party or sanction the other (although it can) or to solely minimize transaction costs (although it also can), but rather the incentive of governmental action shall be to facilitate exchange between all parties involved in a public goods problem by means of forcing the implementation of institutional arrangements which find overall agreement.

However, there are also critical comments on the constitutional economics theory, as the latter are dominated by objections against the consensus criterion. SEN (1970), for example, accuses BUCHANAN of giving no assessment of the legitimacy of policy changes that are not made unanimously. He argues that: "Even a single person opposing a change can block it altogether no matter what everybody else wants. Marie Antoinette's opposition to the First Republic would have saved monarchy in France, and the world would have seen very little change. Clearly there is something grotesquely unsatisfactory about a social decision rule like this" (*ibid.*, p. 25). KOLLER (1987, p. 229) also assesses that the consensus criterion definitely leads to the apologia of the existing conditions. Even BUCHANAN (1968 [2002], p. 90) agrees that it is a natural objection to say that the consensus criterion would result in few, if any, decisions being made. Here, a modification of the scheme seems to be necessary to allow for some decisions' departure from complete unanimity. Policy reforms can be guided by a general procedure that finds the assent of all individuals. This general procedure is established by a system of institutions, i.e., a constitution (PETRICK, 2005, p. 93; HOMANN and SUCHANEK, 2000, pp. 194-197). In constitutions, individuals unanimously agree to decision procedures that are not based on universal consent, since it is too costly to find a consensus in every single case. Consensus, therefore, remains the normative idea, which nevertheless includes sub-constitutional decisions made by decision procedures deviating from universal consent. However, applying the consensus criterion only to constitutional decisions does not repeal the abovementioned objections. It remains doubtful that based on the consensus criterion, decisions on any constitutional or sub-constitutional level can be made.

I will come back to the latter problem in the next section of this monograph, where I present a confrontation of the three discussed theories. The following section will also discuss the applicability of the three theories to the problem of lacking local public goods provision in rural areas using the example of cultural landscapes.

#### 2.2.4 *Confrontation of the three theories*

Table 2-3 summarizes the view of the discussed theories regarding problems with public goods provision. Welfare economics theory starts its analysis of public goods by using perfectly competitive markets as a reference model. For the welfare economics theory, the problem of public goods therefore constitutes an exception. PIGOU was the first who referred to situations where somebody produces benefits in terms of public goods without receiving any compensation; his underlying diagnosis was market failure since actions were undertaken external to the market exchange and the production costs of the external benefit were not compensated by a market price. According to PIGOU, the only one who is able to fix markets is the state, by providing subsidies to compensate the producer of the positive externalities. Finally, if the subsidies are in the amount of the costs, the provider of the public good suffers from producing these external benefits, the market will be corrected according to the model of perfect competition and the public good will be provided according to market demand.

COASE, in contrast, does not use any idealistic case as a reference model. Rather, he starts his analysis from real world conditions. For COASE the lacking provision of public goods results from a problem of social interaction between all involved individuals. In his view, all individuals are in charge of the underlying situation, since they all assert their claims to the same scarce resource. The reason for the latter interaction problem thus lies in the imperfect allocation of property rights. That is, in a world with well-defined property rights, those problems of public goods provision would not exist. This states the COASE theorem, as it assumes that in a world with well-defined property rights and no transaction costs, externalities and, hence, problems of public goods provision will not occur. However, since transaction costs are not zero in the real world, institutional arrangements are needed that reduce transaction costs. Here, the state may undertake actions to reduce transaction costs, for instance, by defining property rights. Well-defined property rights also allow a market-based provision of public goods. In cases where the privatization of public goods provision is combined with high costs, the state may be able to provide the latter to lower costs by means of governmental services. Finally, institutional arrangements, regardless of whether they are formal or informal, should be chosen which improve the social net benefit in comparison to the status quo.

**Table 2-3: Confrontation of the theories on the problem of public goods provision**

	<b>Welfare economics (Pigou)</b>	<b>Property rights theory (Coase)</b>	<b>Constitutional economics (Buchanan)</b>
<b>Design problem</b>	- Producer of a public good does not receive compensation for benefits he provides due to market failure	- Problem of social interaction	- Problem of social interaction
<b>Positive analysis</b>	- Market price does not comprise all produced benefits - Market is not able to solve the problem	- Transaction costs prevent internalization of externalities based on private negotiation	- Current institutional arrangements prevent the exploitation of mutual gains from exchange
<b>Normative analysis</b>	- Benefactor should include the positive externalities in his individual maximization calculus	- Search for institutional arrangements that enable a social net benefit surplus in comparison to the status quo	- Searching for acceptable, Pareto-superior institutional arrangements - Based on consensus of all individuals involved
<b>Method of resolution</b>	- Pigou subsidies	- Any kind of institution	- Any kind of institution
<b>Critical objections</b>	- Nirvana approach - Governmental intervention as only possible method of resolution - Benevolent dictator	- Searching for a social net benefit surplus is inconsistent with normative individualism	- Consensus in large societies often unrealizable

Source: Author’s depiction.

BUCHANAN, in line with COASE, refers to interaction problems as the principle reasons for lacking public goods provision. He also perceives individuals as profit-maximizing actors, but due to his distinction between moves and rules, he emphasizes the importance of rules as institutions channeling individual behavior. According to BUCHANAN, lacking public goods provision results from institutional incentives that hamper individuals from cooperation. That is, individuals would contribute to the provision of public goods if they were sure that all other affected persons would also contribute. However, certainty about other inhabitants’

behavior can only be ensured by way of institutional reform. Thus, only an institutional arrangement which forces all inhabitants involved to contribute brings the latter into exchange in terms of swapping the individual contribution for the individual contribution of all others. Hence, what matters for BUCHANAN is to focus on institutional arrangements which facilitate exchange processes by channeling individuals' behavior; he therefore proposes to search for a criterion that can be applied to institutional analysis. This criterion can only be the consensus of all individuals involved on the concerned rules. Because it assures that all individuals will improve their situation by entering into exchange under the rules they agreed on, only the consensus provides an adequate incentive for all individuals involved to enter into exchange and, hence, to exploit mutual gains from trade. Finally, starting from the status quo, any set of rules has to be found that is approved by all individuals involved.

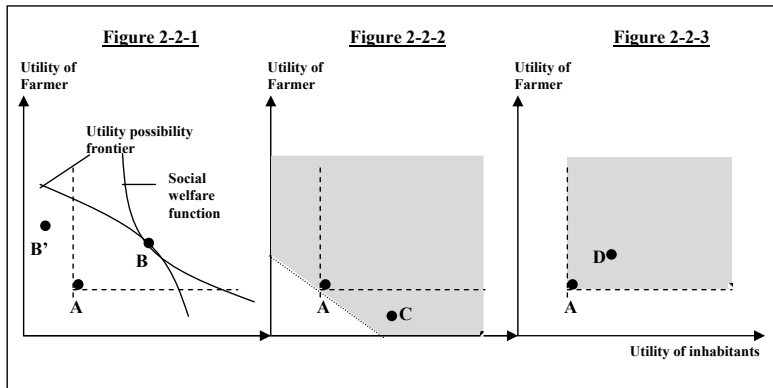
In the following, I will discuss the various suggestions the welfare economics theory, the property rights theory, and the constitutional economics theory provide with respect to the problem of lacking provision of cultural landscape. Figure 2-2 depicts changes in farmer's utility and the utility of all inhabitants involved resulting from policy changes. To simplify the illustration, I subsumed inhabitants' preferences, although it is assumed that a comparison of utility functions between individuals is not possible.

Point A in Figure 2-2-1 describes a situation of liberal agricultural policy, where a farmer cultivates his land and contributes to the provision of cultural landscape as a by-product of his production activities. Here, the farmer only obtains his income from selling his products without receiving any subsidies from the state. Therefore, in his production decisions, the farmer only acts upon the market price for potential crops he is able to produce on his fields. Additionally, the farmer contributes to the provision of cultural landscape in the region, but not to the extent that is preferred by most of the local inhabitants. The latter would prefer a change in crops in terms of an increase of rape seed and lupine production instead of wheat and barley, as well as an increasing amount of hedges surrounding the fields rather than huge fields without any natural barriers. However, since cultural landscape is not a marketable product, the farmer does not receive any compensation for additional cultivating activities on his fields. Starting from point A, all persons involved, the farmer and the inhabitants, could improve their utility by means of market exchange, but this is only possible if cultural landscape becomes a *mary* which are not exploited in point A. Hence, PIGOU would propose subsidizing the farmer. The subsidy should encourage the farmer to cultivate his fields in a way he would have done were the preferences of the regional inhabitants covered by the product price he receives or if there was a market for cultural landscapes. However, while all points in the northeast direction starting from the dashed lines in Figure 2-2-1 constitute Pareto-superior situations in comparison to point A, welfare economists would only focus on point B, since it assures that all social



welfare surpluses would be exploited. Point B constitutes the point of tangency of the utility possibility frontier and the social welfare function. While the utility frontier indicates all points of Pareto-efficient resource allocation, the social welfare function comprises the aggregated preferences of all individuals involved. The intersection of both functions constitutes the point where, due to the existence of perfect competition, a Pareto-efficient resource allocation is provided and the preferences of all individuals involved are satisfied. Hence, according to PIGOU, the state has to intervene in a way that, by means of PIGOU subsidies, B will be reached as the only point where the market failure is completely cured and the market is once again able to fulfill its allocational functions of obtaining a social welfare maximum.

**Figure 2-2: Problem of lacking provision of cultural landscape from the perspective of welfare economics, property rights theory, and constitutional economics**



Source: Author's depiction modified from BESLEY (2006, p. 54-55).

The agricultural input and output price support of the CAP during the 1970s and 80s also acted to some extent as PIGOU subsidies. Although the main focus was to improve agricultural income and supply security, those subsidies were also supposed to encourage farmers to continue their cultivation activities and to keep their fields in good conditions. However, since the price support was linked to different crops and inputs, they were not oriented to regional inhabitants' preferences, but rather to political issues. Furthermore, subsidized crops and input prices led to an increased and to some extent naturally harmful input of fertilizers instead of an improved provision of cultural landscape and the situation that was actually reached can be depicted as B'. That is, since there was no change in the institutional arrangement channeling the farmer's behavior according to the preferences of local inhabitants, the former benefited the most and intensified production according to the subsidies he received through higher producer and lower input prices. However,

the intensified production was not preferred by local inhabitants since it led to a degradation of the local cultural landscape rather than to its improvement.

Starting from point A as the status quo, the dashed area in Figure 2-2-2 located northeast from the straight line crossing point A depicts all policy changes that would lead, according to COASE, to situations which improve the social welfare in comparison to A. COASE is aware of the interaction problem inherent in a public goods situation. Therefore, as a classic solution he would propose defining property rights on cultural landscapes and bringing all individuals involved into bargaining for those property rights to secure a resource allocation that spends a higher level of utility in comparison to the status quo. Hence, he does not propose influencing the behavior of the farmer by means of subsidies without taking account of the other side, namely the inhabitants. At first glance, all that COASE asks for is to bring both parties into bargaining discussions over cultural landscape property rights. However, since cultural landscape property rights are hard to define, a COASE solution might also be to invite all inhabitants of a region to participate in round table talks, where the latter should negotiate the level of cultural landscape provision, as well as the way of provision. Such talks could be initiated by the state. If both parties, namely the farmer and the inhabitants, attended the talks, a solution for cultural landscape provision might be found that enables all attendees to improve their utility in comparison to the status quo. Such a solution would be located in the Pareto-superior area. However, the latter solutions are often combined with high decision-making costs. This is particularly true for large or highly populated regions. In those cases, according to the property rights approach, other solutions would be preferable. For instance, point C. Here, the property rights theory would also approve of methods of resolution which improve the inhabitants' situation at the expense of the farmer, under the premise of a social net benefit surplus in comparison to A. This could be true with respect to the implementation of cultivating standards any government might impose on farmers. Such conditions could be formulated in a way that inhabitants' preferences concerning the cultural landscape in terms of the field size or the selection of crops might be considered, but farmers do not receive adequate compensation for the additional costs they have to bear, and therefore the farmers' utility shrinks.

The latter solution would be rejected by the constitutional economics theory since its approach applies strictly to the consensus of all individuals involved. As shown in Figure 2-2-3, the consensus criterion approves only Pareto-superior solutions, that is, solutions that are located in the northeast direction of the dashed lines. Hence, a solution based on the consensus of all involved individuals requires an improvement of all individuals and, therefore, not only a hypothetical compensation but also a factual one. If forced to alter their crop structure or obliged to plant hedges in order to meet inhabitants' preferences, farmers, would need to receive adequate compensation. Exemplary measures which might cause policy changes towards the Pareto-superior area are CAP agri-environmental programs (see CEC, 2005).

Agri-environmental programs compensate farmers who admit to producing beyond relevant mandatory standards to achieve additional environmental objectives. Further measures are compensatory payments for farmers who produce under certain obligations in water protection areas.

In conclusion, using the example of cultural landscape, both the property rights theory and the constitutional economics theory consider problems of lacking public goods provision in rural areas to be interaction problems. In contrast to the welfare economics theory, they neither adhere to the state as the only method of resolution nor do they neglect the importance of institutional arrangements in coordinating individuals' behavior. In particular, the latter fact constitutes a necessary precondition for analyzing rural development policies of the new rural paradigm. As discussed in Section 1, policy measures of the new paradigm often cover decentralized forms of coordination and participation between many different actors, from local governments, local associations, enterprises, and farmers to individual persons. Hence, the welfare economics theory, which only distinguishes between markets and state, and does not include institutions in its theoretical framework, will not be adequate to analyze the multifaceted, formal and informal institutional arrangements which facilitate local and regional interaction between rural actors aiming to provide different public goods.

However, the weakness of the property rights theory lies in its avoidance of normative assumptions: the theory, which has a strong positive, explanatory power on interaction problems, avoids elaborating a normative criterion, which allows a more theory-guided evaluation of institutional arrangements or policy reforms. By recurring on the criterion of social net benefit surplus, COASE builds on the possibility of the hypothetical compensation of individuals. This, however, is inconsistent with normative individualism, which assumes that any evaluation of a situation or institution can only be made based on the assessment of single individuals themselves. Hence, constitutional economics seems to be the most capable theory for analyzing lacking public goods provision in rural areas. Due to the distinction between *rules* (institutions) and *moves* (individual behavior) the impact of institutional arrangements in the status quo on the concerned individuals can be analyzed positively. In addition, the consensus criterion enables a normative analysis of institutional arrangements. Policy reforms, therefore, would only be regarded as preferable if all individuals involved approved the latter. Hence, the analysis should focus on Pareto-superior rules instead of Pareto-efficient outcomes.

However, as the critics above illustrate, the factual consensus of all involved individuals is often combined with high decision-making costs and might lead in some cases to the continuation of the status quo. Therefore, BUCHANAN mainly applied the unanimity rule to meta-rules regarding constitutional decisions in a society. In rural development issues, however, mainly regional and local decisions in formal or informal bodies are relevant. Can we also apply the consensus criterion to such local institutional arrangements in rural areas?

The normative institutional economics theory, which is to a large extent an offset of the constitutional economics theory, aims to make the consensus criterion applicable to sub-constitutional decisions. The next section introduces the normative institutional economics theory and presents its heuristic – the heuristic of the social dilemma – as a methodological framework to illustrate and analyze interaction problems in public goods provision in rural areas.

### *2.2.5 Normative institutional economics theory and the social dilemma as a method of analyzing local public good problems in rural areas*

Normative institutional economics, the main representatives of which are HOMANN and SUCHANEK (2005) and PIES (2000), is in line with BUCHANAN (1990 [2002]) on the distinction between *rules* and *moves*. Institutional analysis of the normative institutional economics theory also proceeds on the basis of positive and normative analysis. The positive portion still regards actors as rational, profit-maximizing agents and analyzes their behavior under certain rules, mainly with recourse to methods applied in the new institutional economics theory (NIE) such as the principal-agent approach, moral hazard or adverse selection (for publications with applied examples, see PETRICK and PIES, 2007, p. 263-269 and PIES, 2000). Normative analysis is strictly based on the unanimity rule of the constitutional economics theory. However, normative institutional economics not only focuses on constitutional rules, it also attempts to apply the consensus criterion to sub-constitutional decisions.

According to PIES (1996, p. 28) the consensus criterion can always be applied to decisions if the chosen level of reconstruction is abstract enough. This is because "[i]n every society its very existence meets general agreement" (ibid., p. 28). The foundation of a society is always based on exchange processes which are made by implicit consensus. That is, in their efforts to escape from the Hobbesian jungle, individuals choose to constrain their own behavior as part of an exchange. Hence, as explained previously, individuals sacrifice restrictions on their own actions in return for benefits anticipated from reciprocal restrictions on the actions of others with whom they interact in a society. However, only the unanimous agreement on rules enables individuals to exploit mutual gains from social cooperation. Or, to put it another way, without paying the cost of accepting restrictions on my own behavior (in terms of approving different formal or informal rules), I cannot benefit from social cooperation.

Apart from this abstract level, according to normative institutional economics, the consensus criterion can always be applied to situations genuinely resulting from interaction problems. For this purpose it is necessary to focus on relevant alternatives that emerge for all individuals kept in an interaction problem. This can be done by the social dilemma heuristic, which constitutes the paradigmatic core of the normative institutional economics theory.

The literature describes social dilemmas as situations in which individual rationality leads to collective irrationality (KOLLOCK, 1998, p. 183). The social dilemma is an archetypical example of the disjuncture between individual and group rationality, where individual rationality leads to a strictly Pareto-inferior outcome (SNIDAL, 1985, p. 926). That is, an outcome which is preferred by every individual less than at least one other outcome (TAYLOR, 1987, p.18). DAWES (1980, p. 170) emphasizes two important characteristics of social dilemmas: First, the social payoff to each individual for defecting behavior is higher than the payoff for co-operative behavior regardless of what the other society members do. And second, all individuals in the society receive a lower payoff if all defect compared to the situation where all cooperate.

Figure 2-3 illustrates the lacking provision of local public goods as a social dilemma situation. Members of a rural community plan to provide a local public good. The good is characterized by joint supply and consumption and there is no possibility of excluding single community members from consumption. An inhabitant A has the choice of whether to not-contribute to the good's provision, which would lead to an absence of the good if every inhabitant does not contribute. A's payoffs are given on the left-hand side of each quadrant in the matrix, whereas the payoffs of the other inhabitants are given on the right-hand side. The best case for individual A emerges if all other inhabitants contribute to the public good's provision and he does not (quadrant IV). In contrast, all other contributors prefer quadrant I, whereas individual A would be in the worst position. However, since each inhabitant anticipates that other inhabitants will not contribute, the public good will not be provided (quadrant III). This situation is equivalent to the Nash equilibrium of low returns for all. Otherwise, were every inhabitant to have contributed to the good's provision, a Pareto-superior outcome for all might have been possible (see quadrant II). However, this is not individually rational. That is, the individual is caught in a social dilemma by the nature of the situation.

**Figure 2-3: Public goods provision as a social dilemma**

		All other inhabitants: Contributing?	
		Defect	Cooperate
Inhabitant A: Contributing?	Cooperate	I -1; 4	II 3; 3
	Defect	III 0; 0	IV 4; -1

Source: Author's depiction.

Let us now look at the above described situation explicitly by way of *positive analysis*. Within the positive analysis it should be identified whether and to what degree existing rules or the lack of rules determine the productive contribution

of the actors to social cooperation (PIES, 1996, p. 27). As discussed above, individuals caught in a social dilemma behave rationally by choosing that move which from the individual perspective provides them with the highest benefits. For a better understanding, let us look at the difference between a private good trade on markets and the situation in Figure 2-3. In a private good trade the explicit agreement between two persons, a buyer and a seller, is required to enable exchange. But exchange will only take place if both market participants were better off after the exchange than prior to it. Hence, the expected profits from exchange, in turn, enable the common agreement on that exchange.

If we consider a situation where two or more persons bargain for their individual contribution to the provision of a good they plan to use in common (see Figure 2-3), there are many inhabitants who are all interested in the provision of a certain public good. Although each person of the group may recognize that he would benefit from the public goods provision, the good is not provided. The reason for this behavior lies in the free-rider problem. As in the two-person market trade where an individual would only offer a good if he can rely on the other's offering due to a common formal or informal agreement, in the situation depicted in Figure 2-3 a common agreement on rules channeling the exchange is also needed. However, in this situation one could always benefit more if the other inhabitants contributed to the public goods provision while he enjoyed a free-ride at their expense (quadrant I and IV). However, just the fact that potential free-riders could exist in the community may dissuade others from contributing voluntarily (BUCHANAN, 1971 [2002], p. 13). Even a person who might not himself consider taking a free-ride may defect by refusing his contribution if others are observed doing so. Hence, nobody will provide any contribution and all inhabitants are worse off, as the good will not be provided.

Here we come to the *normative* part of the *analysis*. We must ask: *How can potential gains from cooperation be realized by way of institutional reform* (PETRICK and PIES, 2007, p. 256)? Or considering the problem of public goods provision, how can institutional arrangements be modified by way of institutional reform to persuade all individuals involved to jointly contribute to the public goods provision?

With respect to the social dilemma in Figure 2-3 we ask the involved inhabitants, it does not matter if they are a potential free-rider or not, whether they would prefer the common defection of all inhabitants, which would lead to the absence of the local public good over a common cooperation where every inhabitant is forced to contribute? Of course nobody would prefer the first case, as free-riders also depend on others' contribution to the public good. That is, all inhabitants, including the potential free-riders, would be worse off in the first case (quadrant III) compared to a situation where everyone can rely on the individual contribution of every inhabitant (quadrant II). Hence, all individuals involved, since only the common contribution to the public goods provision would leave everyone better off, have

an interest in an institutional arrangement that prevents free-riding. That is, there is a unanimous acceptance of institutions which make exchange possible between the individuals involved in order to commonly exploit gains from trade. Exchange in this manner means that every inhabitant pays his contribution, as he can be sure that all the others will do so as well. Only based on the exchange of all individuals' contribution can mutual gains from trade be exploited. Or, as PETRICK (2005, p. 93) maintains: "...the opportunity of mutual improvements creates a basis for consensus and a common interest in regulation."

The conceptual contribution of the social dilemma heuristic should be summarized as follows (PETRICK, 2005, p. 92-93):

- The rational behavior of individuals prevents a Pareto-superior solution. In a social dilemma the behavior of actors is always mutually dependent and, therefore, the latter have only partial control over outcomes. Mutual advantage can only be realized by way of cooperation.
- In a social dilemma there are unexploited gains from cooperation. To facilitate cooperation, the interaction of individual behavior has to be analyzed. It is the lack of information about other peoples' willingness to cooperate which leads to free-riding behavior and therefore an exploitation of moral behavior.
- The exogenous variables in the social dilemma heuristic are the individual payoffs, which serve as control variables for policy action. Attainable institutional arrangements have to be identified, which allow the realization of gains from cooperation.
- The opportunity of mutual improvements due to exchange creates the basis for consensus on rules, which facilitate such exchange. Hence, individuals must in fact gain from an institutional arrangement and must rely on the cooperation of all others.

To conclude, in Section 2.2 I have shown, by means of constitutional economics theory and the property rights theory, that the lacking provision of local public goods can be ascribed to interactional problems between all local inhabitants involved in the provision and consumption of their goods. In contrast to the welfare economics theory, both theories take the existence of institutions into consideration. The constitutional economics theory, however, is the only theory which builds on a distinction between rules and moves. The latter fact allows a recurrence to a normative criterion for policy analysis, which is in accordance with normative individualism, whereas the property rights theory still refers to the offsetting of commonly received benefits and commonly shared costs, and disregards individual assent.

However, although the constitutional economics theory is well-equipped for the analysis of constitutional rules, the consensus criterion can hardly be applied to all decisions made on a local or regional level regarding rural development initiatives.

The factual consent of inhabitants on all local decisions made on local public goods provision will often lead to enormous decision-making costs and an absence of those decisions. Here, the normative institutional economics theory builds on the same foundations as constitutional economics but provides a more application-orientated use of the consensus criterion. By using the social dilemma heuristic, normative institutional economics attempts to make the consensus criterion not just applicable to constitutional decision-making but also to interaction problems that hamper individuals from exploiting gains from cooperation in everyday life. All relevant individual incentives are taken into account, even those resulting from institutional arrangements in which the concerning individuals operate. Therefore, the social dilemma heuristic allows us to break down local public good problems into relevant alternatives that can be unanimously chosen by all the involved individuals. Relevant alternatives will find consensus between the involved individuals if they enable the latter to overcome the concerning interaction problem by facilitating mutual gains from exchange. Hence, the social dilemma heuristic not only extracts the conflicting interests of the agents involved but shows, in particular, their common interests. Based on the common interest in mutual gains from trade, a consensus on the relevant rules (institutional arrangements) which facilitate exchange between all parties is possible. However, by means of the social dilemma heuristic, the number of individuals involved in the decision-making process is reduced to the number of persons who are affected by the public goods problem. Due to the limited focus on the individuals affected by the decisions made concerning the public goods problem, the objections made by SEN (1970) and KOLLER (1987) discussed above would not apply, since they focus on situations where all inhabitants of a society need to make decisions based on individual assent.

Based on the social dilemma heuristic, the normative institutional economics theory provides an analytical framework capable of analyzing interaction problems of local public goods provision in rural areas. Rural development problems are not perceived as allocational problems; they are reconstructed as coordination and interaction problems. Institutions as mechanisms of coordinating individual behavior come to the fore. Thus, it is now possible to analyze rural development problems from an institutional perspective that focuses mainly on situational incentives that individuals face in certain institutional arrangements. The social dilemma heuristic allows us to analyze the incentives that different institutional arrangements in rural areas provide and which simultaneously prevent and facilitate cooperation among local inhabitants. Policy reform, which aims to overcome interaction problems, is designed to explicitly seek the assent of all individuals involved. However, consensus implies that all parties involved obtain a factual improvement of their situation, which is solely possible due to an exploitation of mutual gains from trade. Through its use of the unanimity requirement, the normative institutional economics theory avoids a comparison of individual utility functions, as it regards individual preferences as the only source of values.



Finally, in the empirical analysis of rural development problems I will investigate, from the perspective of positive analysis, which institutions/institutional arrangements or the lack of institutions/institutional arrangements, hamper rural inhabitants from contributing jointly to the provision of certain local public goods. From the perspective of normative analysis, I will analyze whether policy measures of the new rural paradigm will find individual assent. That is, individuals would only agree on the implementation of those policy measures if it leads to a situation where all individuals involved in a public goods problem are able to improve their benefits. Thus, policy measures of the new rural paradigm will be analyzed with respect to its capability of facilitating the creation of institutions/institutional arrangements which provide local public goods based on the joint contributions of all individuals involved in the public good problem. Joint contributions are here similar to exchange between all involved individuals, since an individual exchanges his/her contribution in return for benefits anticipated from all other members' contributions. Hence, policy measures can be assessed as preferable if the latter contribute to the implementation of institutional arrangements which enable inhabitants to exploit gains from cooperation/exchange. The individual improvement of all inhabitants involved meets with the agreement of all parties involved in the public good problem. However, what do these institutional arrangements look like?

Answering this question requires an analysis of mechanisms that avoid interaction problems. That is, institutional arrangements which facilitate the provision of local public goods based on joint contributions must consist of elements capable of coordinating individual interaction. BOWLES (2004, pp. 473-501) presents three governance structures which constitute the basis of economic interaction among individuals and which all provide elements that are capable of coordinating: exchange/interaction between individuals; the privatization of goods and resources leading to a market-based allocation; governmental action via legal regulation or taxation; and community management based on close local relationships among inhabitants of a certain region. If these three governance structures characterize the basic elements of successful individual interaction, they must also constitute the basic elements of institutional arrangements that facilitate the joint provision of local public goods in rural areas. Therefore, before I can go into the empirical research to analyze institutional arrangements capable of coordinating individual interaction in public goods problems, I have to examine the three governance structures mentioned above. This I will do in the following section.

### **2.3 Three governance structures facilitating exchange among individuals**

"In modern terms, there could be coordination failure, where individual's failure to coordinate complementary changes in their actions leads to a state of affairs that is worse for everyone than some alternative state of affairs that is also an equilibrium. The obstacle to achieving the better state of affairs is not a matter

of technological opportunities (or even knowledge of those opportunities), nor resources of preferences, but only of coordination," (HOFF, 2000, p. 147).

What HOFF (2000) terms coordination failure are interaction problems between individuals that I have analyzed more closely based on the social dilemma heuristic in the last section. As discussed above, interaction problems can be overcome by means of institutions or institutional arrangements that channel individual behavior to make exchange and, hence, the exploitation of gains from exchange/cooperation possible. However, what do these institutional arrangements which facilitate exchange between individuals look like? In the last section I mentioned three governance structures which assist, according to BOWLES (2004) and others (see e.g. KIKUCHI, FUJITA and HAYAMI, 2001), individuals in coordinating their individual behavior.

In the following, I will present both advantages and disadvantages of the three governance structures with respect to their impact on individual interaction problems. Furthermore, in the real world and especially in rural development processes, we often find institutional arrangements that are not purely based on only one of these governance structures. Thus, as we will see in Chapter 4, rural development initiatives often comprise characteristics of markets, governmental action, and community governance, and they particularly benefit from the co-action of these three structures. However, first I will describe the three governance structures' characteristics and discuss their impact on public goods provision.

### *2.3.1 Market approach and privatization*

In a market-based relationship, the interaction of rational, profit-maximizing individuals is coordinated by the price mechanism. Prices assure all participants on competitive markets that the terms of exchange are equitable (OUCHI, 1980, p. 130). Competitive markets induce individuals to express their preferences, as the price at which they are willing to purchase a good reveals what would otherwise be private information, namely, the value the individual attaches to the good (BOWLES, 2004, p. 485). The same is true for producers. On competitive markets, producers have no incentive to misrepresent their productive capabilities since the provision of their products on the market at prices not equal to the marginal costs offers them lower profits than other producers, whose prices reveal the actual production costs. Hence, as von HAYEK (1945, p. 521) asserts in the tradition of Adam Smith, the competitive market reveals private information that every individual possesses and whose use would be beneficial for all individuals of a community, region or even nation<sup>6</sup>.

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<sup>6</sup> "[P]racticaly every individual has some advantages over all others in that he possesses unique information of which beneficial use might be made, but of which use can be made only if the decisions depending on it are left to him or made with his active cooperation," (HAYEK, 1945, p. 521).

The market order on competitive markets further provides an effective mechanism to impede collusion between actors in situations where those voluntary agreements are not socially beneficial. Furthermore, markets also offer what biologists call selection pressure. That is, due to their decentralized and relatively incorruptible disciplining mechanism, market competition "punishes the inept and rewards high performers" (BOWLES, 2004, p. 486; PIES, 2001, pp. 155-176).

Since markets are able to coordinate the profit-maximizing efforts of individuals, one means of overcoming the abovementioned interaction problems in public good matters is through market-based provision resulting from privatization. In a market-based provision of a public good, the price mechanism forces the providers to respond to the individual consumer preferences and to sell the good according to its actual production costs. However, privatization of public goods also requires a detailed definition or redefinition of property rights on the concerned resources or goods. In cases where property rights are not defined and contracts between market participants are incomplete or hard to enforce, market-based exchanges will also exhibit some weaknesses, as AKERLOF (1970) and WILLIAMSON (1985) show. Furthermore, in some cases a detailed definition of property rights is not possible or even desirable. For example, with respect to different classical public goods like external defense or internal defense and law enforcement, BUCHANAN (1971 [2002]) shows that simple property rights regimes can be inefficient compared to collective action, since it would cost a single individual much more to pay a security service to watch over his property than to find a solution based on collective action.

There are also various other cases where pure privatization may not solve the concerned interaction problems. One example is the public education system, where the privatization of public schools might reduce equal opportunities in education for children of different social classes. However, competition between schools could still be improved by a voucher system. That is, the state could implement a system which provides parents with financial support for the private purchase of education vouchers applicable to all schools meeting public standards (OSTROM and OSTROM, 1977, p. 31). Thus, the voucher system would increase competition between schools without reducing the children's right of equal opportunities. Furthermore, in other sectors it might also be favorable to improve competition when privatization itself does not lead to commonly desired results. This is true with respect to the privatization of enterprises that produce natural monopoly products or services. Privatizing those enterprises would enable private owners to charge higher-than-competitive prices, which may lead to results that are not commonly desired (for an overview, see, e.g. VICKERS and YARROW, 1991 or WARNER and HEFETZ, 2003). Hence, VICKERS and YARROW (1991, p. 118) conclude that competitive conditions and regulatory policies are as important as the ownership of an enterprise. However, rules and regulations necessary to enforce and maintain competition

can only be enforced by the state or other forms of collective action responsible for a certain area or sector.

TIEBOUT (1956) introduces the further possibility of implementing competition, namely the idea that jurisdictions compete for individuals. In his opinion, individuals are free to choose their jurisdiction, whereas the latter offer them various tax and local public goods packages. The mobility of residents, therefore, is the mechanism which should guarantee that public service outcomes closely match individual preferences and local taxes are supposed to act as market prices (OSTROM et al., (1993, p. 183). Hence, by "voting with their feet," persons or firms can select that jurisdiction which best serves their preferences. However, according to BARDHAN (1996) and OSTROM et al. (1993) these assumptions hardly match real-world conditions. As they argue, most residents who plan to change their jurisdiction, are confronted with problems like selling their recent properties. OLSON (1969, p. 483) also discusses the problem of spillover effects; he assesses that the provision of different local goods also requires different sized institutions that produce local public goods efficiently. Thus, it is already difficult to define a certain size for jurisdictions before bringing them into competition. Further limitations are seen in finding adequate public choice mechanisms and ways to provide local taxes for funding local public goods, as well as its implications for housing and rental markets (PETRICK, 2007b). WARNER and HEFETZ (2003, p. 715) also argue that competition between jurisdictions will have its limits. They argue that rural and urban jurisdictions exhibit strong structural differences, which can hardly be overcome without some sort of redistribution on the regional or national level.

However, although TIEBOUT's (1956) model contains great problems, it provides an opportunity to discuss approaches that do not necessarily require a redefinition of property rights, but which nevertheless increase competition between producers of local public goods regardless of whether the producers are private persons or common local initiatives.

### 2.3.2 *Government regulation*

In contrast to private individuals, governments are able to attenuate interaction problems between actors "by their ability to allow and often compel individuals to interact cooperatively in situations where non-cooperative interactions are inefficient," (BOWLES, 2004, p. 486). Hence, regulation often occurs when contracts are incomplete and difficult to enforce, as seen in the case of information asymmetries<sup>7</sup>. To solve interaction problems by facilitating exchange, collective action is

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<sup>7</sup> Insurance markets are often cited as an example of market failure due to information asymmetries: "An example involving the availability of some kinds of insurance illustrates this principle. Before they have learned the capacities, health status, and the special risks they face as individuals, all members of a population might prefer to purchase insurance. But after they have learned their own special position, those with a low probability of collecting on

often needed to: (1) ensure competition on markets; (2) establish and protect property rights; (3) enforce quality standards for products and evaluate and audit the latter; and (4) provide a market order which regulates exchange between individuals. These tasks can best be accomplished by institutions or institutional arrangements which possess some legitimate coercive power. In a democratic society this coercive power is incumbent upon the state (AOKI and HAYAMI, 2000, p. XVI).

Causes for public intervention can also lead to more efficient outcomes in the case of what OSTROM and OSTROM (1977) call the "problem of regulating patterns of use". For example, when multiple uses of a certain public good or a common property resource occur, one pattern of use may drive out other patterns of use. Particular situations appear in association with the use of public places or state-owned resources in rural areas where the contamination of those resources caused by a resident may reduce or prohibit the possibility of other inhabitants using the resource for recreational purposes or for tourism activities. Hence, the contamination of the resource by a single resident can reduce the efforts of other residents to cultivate and maintain the resource significantly, since recreational usage is no longer possible. Finally, the resource will be deteriorated as the parties affected by the contamination are not authorized to enforce sanctions against the contaminator. Therefore, "[j]ointness of use under conditions of partial subtractability may require rules for ordering patterns of use so as to reduce potential conflicts among different uses [...]" (OSTROM and OSTROM, 1977, p. 32). Here, the state has comparative advantages in the production of rules to reduce potential conflicts due to the implementation of regulations (BOWLES, 2004, p. 486).

Governmental action also has advantages over markets with respect to the provision of public infrastructure. The market-based provision of public infrastructure is often combined with free-riding, which eventually leads to the absence of such facilities. The state, in contrast, is allowed to collect taxes and can therefore provide those facilities out of its own budget. Furthermore, the state often has easier access to the scientific knowledge needed to plan and construct public facilities, or it may shoulder some larger investments that are impossible to fund solely on the community level. Also important is the state's ability to coordinate in the face of spillovers across several jurisdictions and mobilize people due to financial or other incentives to take part in local development processes (BARDHAN, 2002, p. 203).

However, governmental action also contains some flaws. Thus, in some cases public-financed infrastructure beneficiaries are unable to directly influence certain budget decisions. Hence, bureaucrats or politicians who decide on the budget for

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the insurance will not be willing to purchase it since they would be subsidizing those with a high probability of collecting. Thus the low-risk people would drop out of the market and the price of the insurance would be too high for the high-risk people. [...] By providing the insurance and compelling all agents to pay for it, the state overcomes this market failure," (BOWLES, 2004, p. 487).

a certain public good often do not meet the optimal level of expenditure due to the lack of knowledge of local circumstances. OSTROM et al. (1993, p. 50) emphasize that knowledge of local social and physical environment characteristics, human and physical capital or existing institutional arrangements are necessary to respond to local needs and existing conditions. Information on local circumstances are categorized by von HAYEK (1945, p. 524) as knowledge of time and place. Indeed, the availability of information may have an immense impact on the costs of public goods provision. BARDHAN (1996, p. 140) claims that: "Local information can often identify cheaper and more appropriate ways of providing public services, apart from getting a better fit for locally diverse preferences."

A further problem with respect to governmental action in public good provision lies in the separation of individual costs from individual benefits. Beneficiaries often do not feel the actual costs and may therefore use the public good inadequately or do not contribute to its maintenance as much as needed to realize an adequate economical life of the good. Furthermore, governmental authorities who decide on the quality and quantity of public goods often depend on voting mechanisms. However, voting mechanisms do not automatically translate diverse citizen preferences into a well-defined preference order for a variety of public goods in a community, and citizens also usually vote for officials who make many decisions regarding the provision of different goods and services.

Another problem of particular importance for transition and developing countries is rent-seeking behavior<sup>8</sup> (HAYAMI, 1989, p. 10). Rent-seeking behavior could emerge if decisions were made by national, regional or local governments concerning the kind of public services or the nature and location of public facilities. "Rent-seeking makes the productivity of any particular investment secondary to the private gains of the rent seeker," (OSTROM, et al. 1993, p. 96).

One problem associated with governmental action is commonly known as the burden of bureaucracy. BUCHANAN (1971, p. 33) mentions that there is often a large barrier between collective decisions and final governmental or collective actions. The reason for this delay often lies in the fact that bureaucrats also act in a self-interested manner and try to preserve their own carrier prospects. Since power or prestige tend to be directly related to the size of the workforce a bureaucrat supervises, bureaus or departments are often larger than what is necessary to fulfill their tasks and public sources are not always used to implement collective decisions as fast as possible (NISKANEN, 1971).

There is also a large body of literature analyzing public goods provision by means of public enterprises (see e.g. SPANN, 1977; ALCHAIN and DEMSETZ, 1972; MEGGINSON and NETTER, 2001; VICKERS and YARROW, 1991; SHLEIFER, 1998). According to SPANN (1977), private companies often provide public goods more efficiently

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<sup>8</sup> For a more detailed discussion on rent-seeking behavior, please see KRUEGER (1974).

and closer to consumers' needs than public enterprises do, since managers of private enterprises face incentives that differ from managers of public enterprises. MEGGINSON and NETTER (2001, p. 330) mention that while managers of private companies mostly follow clearly defined goals like profits or shareholder-wealth maximization, managers of public enterprises often lack clearly-defined business objectives. This is why they are often confronted with bundles of political objectives like securing high wages or a high level of employment, which can quickly change from one administration to the next and which are often not influenced by consumer demand but rather by political interest groups (SHAPIRO and WILLIG, 1990). Furthermore, while privatized enterprises are forced to perform under certain budget constraints, public enterprises are often subsidized by governmental sources. In cases where the latter face bankruptcy, the state intervenes and therefore reduces managers' willingness to constantly search for the most efficient means of production (MEGGINSON and NETTER, 2001, p. 331). Also, in order to maximize citizens' votes, political decision-makers are able to enforce low prices for goods produced by public enterprises. Such prices, if they do not recover production costs, could in the long run lead to under-investment in public facilities (VICKERS and YARROW, 1991, p. 114).

Finally, public provision may also drive out private contributions to the provision of public goods. ANDREONI and PAYNE (2003) found that private organizations which provide public goods would have significantly reduced their fundraising activities if they had received government grants.

### *2.3.3 Community governance*

A third governance structure capable of attenuating social dilemma situations is the community (AGRARWAL and GIBSON, 1999; OSTROM et al., 1993). As recent literature shows, interaction problems that emerge due to the joint consumption of public or commonly owned resources have often been overcome by community governance (BOWLES, 2004, pp. 489-93; BOWLES and GINTIS, 2002; OSTROM, 2005; SCOTT, 1998). AGRARWAL and GIBSON (1999, p. 634) posit that, "[i]f top-down programs to protect resources failed because of the inability of governments to exercise authority at a distance [...] then decentralization of those social formation that are located near the resource might work better". A similar assessment is made by BOWLES (2004, p. 490): "Communities sometimes solve problems that both states and markets are ill-equipped to address, especially where the nature of the social interactions or the goods and services being transacted preclude complete contracting."

A community, as HAYAMI (2004, p. 3) defines it, "is a group of people tied by mutual trust based on intense personal interaction." While markets organize interaction between individuals through competition under market price signals, communities organize their interaction mainly on close personal relationships and mutual trust. Due to the repeated interactions of community members, rules or norms have

been endogenously generated which help the former to coordinate their activities (AOKI and HAYAMI, 2000, p. XVI). Community norms or rules are informal institutions that guide community members toward achieving voluntary cooperation, e.g. in managing a common pool resource or in supplying local public goods.

There are different aspects that favor communities in solving interaction problems.

*First*, local residents interact regularly and more frequently with each other. They share the same geographic space (AGRARWAL and GIBSON, 1999, p. 634) and often have similar beliefs and values (TAYLOR, 1982, p. 26). This can strengthen cooperation and helps to build trust locally<sup>9</sup>. Community governance also fosters and utilizes the incentives that people have traditionally deployed to regulate common activity, e.g. solidarity, reciprocity, reputation, personal pride, respect, vengeance, and retribution (BOWLES, 2004, p. 490). These local properties enable communities to overcome free-riding problems in terms of people who want to benefit from violating agreements or contracts which emerge on commercial markets (HAYAMI, 2004, p. 3). COLEMAN (1988) further mentions norms emerging in collectivities as being institutions that lead actors to forgo self-interest and act in the interest of the collective. Those norms, reinforced by social support, status, honor, and other rewards, are often necessary to encourage people to work for public or collective matters or within social initiatives.

Due to the common knowledge about the past behavior of community members, information asymmetries between local contractors can be attenuated. Communities are more apt to wield a range of positive and negative sanctions with great effectiveness against free-riders, which might even boost cooperation<sup>10</sup>. This gives AOKI and HAYAMI (2000, p. XVII) reason to assess that community relationships are often an important basis for market development, as they help community members enforce contracts. To illustrate, Figure 2-4 displays the outcomes resulting from the sanctioning of non-co-operative behavior in local public goods provision. Here, non-cooperation is fined with four pay-off points. Because of these sanctions the pay-offs of individual A for non-contribution when all other inhabitants contribute (Quadrant IV) are lower than the pay-offs he would have received if all inhabitants and he himself had contributed to the public good (Quadrant II). The same is true for all other inhabitants, since they would individually earn lower pay-offs if they defected and inhabitant A were to cooperate (Quadrant I), compared

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<sup>9</sup> DASGUPTA (2003, p. 313) emphasizes the importance of regular interactions in terms of the constitution of trust between individuals: "You don't trust a person (or an agency) to do something merely because he says he will do it. You trust him only because, knowing what you know of his disposition, his available options and the consequences of his various possible actions, his knowledge base, ability, and so forth, you expect that he will choose to do it."

<sup>10</sup> TAYLOR (1988, p. 67) assesses that: "Community is important because it means that individual behaviour can more easily be monitored and because a strong community has at its disposal an array of powerful, positive and negative sanctions which are highly effective in maintaining social order."



to the case, where all inhabitants cooperated with each other (Quadrant II). This is because the members of a local community can predict other inhabitants' behavior. Here, every inhabitant constrains his behavior by acknowledging the sanction system as a part of exchange in return for the benefits anticipated from reciprocal restrictions on the actions of others with whom he interacts in the community. Furthermore, that knowledge of other actors' behavior in an interaction process and the existence of sanction mechanisms encourages people to cooperate and to maintain cooperation is also shown in different experimental studies (PAGE, PUTTERMAN and UNEL, 2005; FEHR and GÄCHTER, 2000).

**Figure 2-4: Overcoming the free-rider problem regarding the provision of a local public good due to a mechanism of sanctions**

		All other inhabitants:	
		Contribute to the public good?	
		Defect	Cooperate
Inhabitant A: Contribute to the public good?	Cooperate	I -1; 4 (-4)	II 3; 3
	Defect	III 0 (-4); 0 (-4)	IV 4 (-4); -1

Source: Author's depiction.

*Second*, public goods provision or common pool resource management on the local level relies on dispersed private information, which is unavailable for the state or large formal organizations (BOWLES, 2004, p. 490). Community management of a common pool resource or of public goods supply also eases access to information about local preferences. This may lead to a precise response to local needs (OSTROM et al., 1993, p. 85). Close interactions often enable residents to monitor their own behavior and to make collective decisions on low costs. OSTROM et al. (1993, p. 78) mention that: "In very small groups those affected are usually able to discuss their preferences and constraints on a face-to-face basis and to reach a rough consensus."

*Third*, community governance increases the accountability of actors for failures in public goods provision. Also, representatives of the local government, which are often involved in community activities, have strong incentives to keep some of their constituents (in order to secure their re-election) and will therefore try to provide public goods and services for local inhabitants as adequately as possible. Furthermore, local representatives attempt to keep themselves informed about changing preferences in their community (OSTROM et al., 1993, p. 181).

In addition to these unique capacities of community governance, there are limits and disadvantages of community management. For example, community management is based on personal and durable contacts that require a relatively small group

(BOWLES and GINTIS, 2002; GREIF, 2000, p. 4; AOKI and HAYAMI, 2000, p. XVIII). In general, strong and intense relations between community members also build strong entry barriers, and this smallness and homogeneity might hamper communities from exploiting gains from trade and economic diversity (BOWLES, 2004, p. 491). On this topic, AOKI and HAYAMI (2000, p. XVIII) mention that an outcome from competition within a small group is naturally inferior to that evolving in a market with a large number of participants. Moreover, mutual trust among community members often provides a basis for collusion, which suppresses competition even within the group. And finally, the small size of communities will also, to some extent, prevent municipalities from realizing large investments in certain public goods<sup>11</sup>.

As many different studies show, it is difficult to find communities that comprise just one group of individuals. This fact implies a need for institutions that enable different interest groups to discuss their various points of view. An absence of such institutions often results in conflicts between different interest groups, which may constitute developmental barriers for small municipalities (AGRARWAL and GIBSON, 1999; STRECK and SCHMITTER, 1985). Additionally, in small communities local political elites can also achieve monopoly or monopsony positions that enable the latter to profit at the expense of poorly organized groups.

#### *2.3.4 The three governance structures as complements in institutional arrangements*

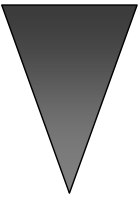
All three governance structures are endowed with different elements capable of attenuating interaction problems in public goods provision. In three different ways markets, the state, and communities enforce exchanges between individuals that enable the latter to realize gains from cooperation. The three modes of exchange enforcement are depicted in Table 2-4. Exchange on markets is mostly linked to contracts between market participants, whereas the formality of contracts depends on the availability of a legal (market) order. The market price has two purposes. On the one hand, it is a precondition for the exchange itself, since without the possibility of negotiating a market price or the existence of a market price, individuals would have no incentive to exchange. On the other hand, it provides relevant information that market participants use to decide whether they enter into an exchange or not. In exchange processes where market prices are difficult to arrive at, e.g. in the case of public goods, the state is able to enforce contracts by its coercive power. In situations where the price does not reflect the actual value of the good, the individuals involved in the exchange make their decision about

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<sup>11</sup> This is especially true for many Eastern European Countries. As NAM and PARSCHE (2001, p. 161) assess, the small size municipalities, which were created, e.g. in Poland in the early 1990s, "quite often limited the expansion of local economic base for generating own revenues and hindered the realization of economics of scale in collecting municipal tax revenues and providing public goods and services."

entering it depending on the availability of formal rules, regulation and standards. The latter rules enable the concerned individuals to anticipate the behavior of the exchange partner before the exchange has taken place. Exchange between community members, in contrast, is strongly embedded in intense relationships or even networks. Community members exchange goods or resources based on informal contracts, whereas the handover of a good from, e.g. exchange partner I to exchange partner II does not require an immediate response from exchange partner II. In this situation, exchange partner I can be sure that exchange partner II will respond to his action in the near or not-too-distant future. The certainty regarding the response of exchange partner II results from the existence of social control and trust between community members. Only because of the fact that the exchange partners are subject to an informal social control system and are concerned about their reputation in the community can the exchange be enforced. However, to make these exchanges take place, trust, social, and local proximity, shared values or informal rules are basic requirements that will enable exchange partners to anticipate the behavior of others.

**Table 2-4: Enforcement of exchange between individuals**

	<b>Ways of enforcing exchange between individuals</b>	<b>Preconditions for exchange</b>	<b>Anonymity of exchange partners</b>
<b>Market</b>	<b>(Formal) contracts</b> depending on the availability of a legal (market) order	Market price	
<b>State</b>	<b>Coercive power</b> based on legitimate authority	Rules, regulations, standards	
<b>Community</b>	<b>Social control</b>	Social/local proximity, trust, shared values, informal rules	

Source: Author’s depiction, modified from OUCHI (1980, p. 137).

Finally, as the last column shows, from markets to state to community, the anonymity among exchange partners continuously decreases. In a globalized world (we take the most liberal case) individuals from countries all over the world, without showing their identity, are able to contract only on the basis of a market price that reflects the value of the good. Governmental enforcement in exchange processes requires a citizenship of the concerned exchange partners, whereas their personal characteristics or their social background do not matter at all since all citizens should be treated the same. Exchange between community members, in contrast, strongly depends on personal characteristics, their social background, their local reputation, et cetera.

Table 2-5 summarizes the disadvantages and advantages of all three governance structures. The depiction is based on a strong distinction of the three approaches, as was often proposed in the literature. The contradictions between markets and state or governments (for discussion, see CHRISTY (1996) and OSTROM (1990, p. 17-19)) or between markets and communities (for discussion, see GREIF (2000) and AOKI and HAYAMI (2000)), can be found in many different publications. However, all the mentioned authors also reach the conclusion that these governance structures, whether it is market and state or market and community, should not be seen as substitutes, but rather as complementary. For example, markets would only be able to reach commonly desired outcomes if a market order existed that was reached by non-market decisions (OSTROM, 1990, p. 19). And solutions for interaction problems based on market relations would only emerge if commonly accepted property rights were established by the coercive power of the state. But on the other hand, bureaucracies would work more efficiently if (market) competition between different administrations or jurisdictions existed.

Communities, in contrast, often constitute a precondition for functioning markets. As GREIF (2000, p. 5) assesses, communities enable the operation of markets, or as AOKI and HAYAMI (2000, p. XV) argue,; "[...] markets and community norms may sometimes be complementary rather than substitutes, in that the presence of the latter may facilitate the development of markets, just as the state may sometimes enhance the ability of the private sector to coordinate through markets." This is, e.g. the case in farmers' associations as well as farmers' access to credits from local money lenders. Here, due to personal relations between farmers and the moneylender, as well as the existence of a social control system, contracts between the latter parties were enforced. HAYAMI (2004, p. 15) further asserts that it is also necessary and a basic condition for the effective use of community relationships to maintain contestable markets, since otherwise community relationship could provide a mechanism for developing a monopoly that would only benefit local political elites. Communities can also benefit from the state. The latter, e.g. may encourage community development by contributing to larger public good investments or by mobilizing community initiatives due to financial incentives.

**Table 2-5: Advantages and disadvantages of the three governance approaches: Market, state and community**

	Market	State	Community
<b>Advantages</b>	<ul style="list-style-type: none"> <li>• Price mechanism on competitive markets allows producers to respond closely to consumer preferences (price mechanism reveals information that would otherwise be private)</li> <li>• Effective decentralized mechanism to impede collusion where voluntary agreement is not socially beneficial</li> <li>• Generates selection pressure which "punishes the inept and rewards high performers"</li> </ul>	<ul style="list-style-type: none"> <li>• State is able to enforce cooperation where non-cooperation is inefficient</li> <li>• Due to its coercive power the state is able to establish property rights, rules and standards to channel exchange between individuals</li> <li>• Watchdog for secure quality standards and property rights</li> <li>• Collect taxes and invest tax money in public goods where free-riding would drive out private provision</li> <li>• Coordination between jurisdictions in the face of spillovers</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring of community members through social control system but without formal rules</li> <li>• Access to local, private and dispersed information</li> <li>• Use of traditional incentive systems based on high frequency of interaction (e.g. trust, solidarity, reputation, pride, retribution)</li> <li>• Increase of accountability – Members of local governments account for public investment decisions and have to stay informed about local needs</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>• In the case of public goods, natural monopolies or externalities, prices do not reveal the actual scarcity of the resource or good</li> <li>• Undefined or problems in redefining property rights, as well as information asymmetries between market participants reduce the function of markets and may lead to the non-enforcement of contracts</li> </ul>	<ul style="list-style-type: none"> <li>• Lacking access to consumer and producer preferences</li> <li>• Costs of government action often widely separated from beneficiaries</li> <li>• Making and enforcing decisions often not transparent for outsiders</li> <li>• Voting mechanisms do not always reflect the citizens' order of preference since citizens vote for officials who make many decisions</li> <li>• Vulnerable to lobbying and rent-seeking activities</li> <li>• Burden of bureaucracy – Delay between collective decision and collective action resulting from self-preservation interest of bureaucrats</li> <li>• Public investments can drive out private contributions</li> <li>• Corruption of civil servants</li> </ul>	<ul style="list-style-type: none"> <li>• Small scale and homogeneity prevent exploitation of gains from trade, economic diversity and economies of scale (including lacking access to innovations)</li> <li>• Mutual trust can provide a basis for collusion to suppress competition</li> <li>• Social exclusion of minorities possible</li> <li>• Local elites can reach monopoly/monopsony positions at the expense of poorly organized groups or groups without political power</li> <li>• Small budget hampers larger infrastructure investments</li> </ul>

Source: Modified from BOWLES (2004, Chapter 14).

As we have seen, markets, the state and communities should be treated as complementary with respect to the development of institutional arrangements capable of attenuating interaction problems between individuals. That is, the interaction problems which often lead to a lacking provision of local public goods cannot in most cases be solved solely through the impact of one of these three governance structures. A successful provision of local public goods in rural areas requires institutional arrangements which constitute a synergy of market approaches, government regulation, and community management. Only a joint action of elements from these three governance structures may force individuals to contribute to the provision of the concerned goods.

## **2.4 Summary**

This chapter aimed to make some contributions to the elaboration of an analytical framework for analyzing rural development policy measures of the new rural paradigm. In Chapter 1, I hypothesized that rural development problems result, to a large extent, from a lacking provision of various local public goods, which lastingly influence the social and economic development of rural regions. In Section 2.1, after presenting the taxonomy of public goods in rural areas, I illustrated four local public goods to demonstrate their importance for local economic growth in rural areas.

In Section 2.2 I presented the welfare economics, the property rights, and the constitutional economics theory with respect to their suggestions on public goods provision. In these theoretical considerations, the problem design each theory applies to the lacking public goods provision was shown and the normative criterion each theory uses to decide about the desirability of different methods of resolution of public good problems were discussed. The theoretical concept of the welfare economics theory seems to be unfeasible for analyzing rural development policies, as it neglects the existence of institutions in principle. But in particular, rural development measures of the new paradigm strongly focus on the implementation of formal and informal institutions and participative approaches, which coordinate individual efforts in rural development issues. The property rights theory, in contrast, approves the coordination capacity of institutions, as it refers to the interaction problems inherent in public good problems, but it fails to elaborate a normative criterion capable of evaluating the impact of policy changes on local public goods provision. Constitutional economics theory, by distinguishing between rules and moves, throws a different light on the capacity of institutions to solve interaction problems. However, the latter theory strongly focuses on the consensus of all individuals on institutions coordinating individual behavior. As a factual consensus between all individuals seems to be unfeasible in most cases, or combined with high decision-making costs, constitutional economics generally applies the consensus criterion to the constitutional level, whereas rural development institutions, for the most part, are located on the local or regional level.

Because of that, I presented the normative institutional economics theory, as it builds on the constitutional economics theory, but aims to apply the consensus criterion to situations genuinely resulting from interaction problems. As shown on a general model of public goods provision in Figure 2-3, the social dilemma heuristic, as the paradigmatic core of the normative institutional economics theory, seems to be feasible for analyzing interaction problems of local public goods provision. In this regard, rural development problems are not conceived as allocational problems, but are rather reconstructed as coordination or interaction problems. Institutions as mechanisms of coordinating individual behavior thus come to the fore. Therefore, rural development problems have to be analyzed from an institutional perspective that focuses mainly on situational incentives that individuals face in certain institutional arrangements. Based on the social dilemma heuristic as an analytical framework, even conflicts of interests between local inhabitants can be analyzed. This will allow us to look more closely at the incentives that different institutional arrangements in rural areas provide, incentives which both prevent and facilitate cooperation between local inhabitants, regardless of whether they have a governmental, entrepreneurial or agricultural background. Policy reform, which aims to overcome interaction problems, is designed to explicitly seek the assent of all individuals involved in order to be considered as legitimate and incentive compatible (PETRICK, 2005, p. 101). However, consensus can only be found if all involved parties obtain a factual improvement of their situation, which is solely possible due to an exploitation of mutual gains from trade. The normative institutional economics theory, because it regards individual preferences as the only source of values, avoids a comparison of individual utility functions by using the unanimity requirement.

Section 2.3 presented three governance structures, the market approach, government regulation, and community, which all cover elements that facilitate the coordination of individual behavior in interaction problems of lacking local public goods provision in rural areas. However, since these governance structures are not themselves able to solve the complexity of interaction problems of local public goods provision in rural areas, it is the *synergy of elements* of these three structures which composes institutional arrangements capable of attenuating interaction problems by bringing local inhabitants to the position of taking advantage of the mutual gains from cooperation.

In Chapter 4 I will apply the analytical framework developed in Chapter 2 to rural development problems in three regions of Poland. However, before I go into the details of the empirical research results, I will first present the research methodology in Chapter 3.

### 3 METHODOLOGY

The following chapter presents the empirical research strategy of this study. A methodology must be elaborated which is capable of applying the theoretical considerations made in Chapter 2 to the real world problems discussed in the first chapter of this monograph. In Section 1.5, I developed two questions for empirical research: 1) What are the reasons for the insufficient provision of public goods in rural Poland; and 2) To the extent that public goods were provided in some regions, which institutional arrangements were responsible for this success?

To answer these questions, the analytical framework for rural development policy analysis elaborated in the last chapter has to be applied. This analytical framework allows the empirical research process to differentiate between positive and normative analysis. Both parts of the analysis approach the object of investigation from an institutional perspective and focus mainly on situational incentives faced by inhabitants that behave in certain institutional arrangements. In the positive analysis I will analyze, in three different case study sites, whether certain local public goods were not provided because of interaction problems that hampered cooperation among inhabitants in the past. That is, I will analyze which institutions (or the absence of institutions) persuaded inhabitants to not contribute to the provision of local public goods, although inhabitants would have benefited from the provision of these goods. Then, for regions where certain local public goods are now successfully provided, I investigate which institutional arrangements facilitated this successful provision and whether market-based relations, government regulation and community relations attenuated interaction problems that formerly prevented the successful provision of those local public goods. Thereafter, in the normative part of the analysis, institutional arrangements can be assessed as preferable if exchange in terms of a successful joint provision of local public goods is realized and mutual gains from exchange/cooperation are exploited. Finally, if policy measures of the new rural paradigm facilitate institutional arrangements capable of coordinating individual interaction so that inhabitants contribute jointly to the provision of certain public goods, they can be assessed as preferable.

Such an empirical analysis requires in-depth case studies in Polish rural areas that provide an understanding of which local public goods are only provided to a slight extent in a particular region, as well as which barriers hamper local communities from providing the concerned local public goods. With respect to the second question mentioned above, case study regions need to be analyzed that have already implemented initiatives which go back to the main ideas of the new



rural paradigm. That is, they have to be based on local partnerships consisting of members of local NGOs, local governments and local entrepreneurs. Furthermore, it has to be investigated whether these initiatives, due to governmental support, facilitated the provision of certain local public goods, and which institutional arrangements made successful provision possible.

Section 3.1 provides insight into the two research paradigms and introduces the research strategy applied in this study. Section 3.2 presents the case study research as a basic structure for combining different qualitative and quantitative research methods. Section 3.3 introduces the three case study regions analyzed in this monograph. In section 3.4, I then discuss the guideline interview technique and other qualitative and quantitative methods which were used in the case study research. Finally, I will expound on the content analysis, i.e., the qualitative method that guided me through the interpretation of the interview results.

### **3.1 Research paradigms and strategy**

Reality is always approached from certain perspectives and a researcher is therefore obliged, in order to select adequate empirical research methods, to define his perspective on the object under investigation. In this regard, empirical research methods constitute a link between theoretical considerations and real world phenomena (THEESFELD, 2005, p. 95). Particularly in social sciences, the researcher must clarify for himself whether he looks at the object under investigation as a collective phenomenon or he ascribes phenomenon to the actions of single individuals (SCHNELL, HILL and ESSER, 1999, p. 104). Furthermore, the researcher also needs to be certain whether he attempts, on the one hand, to explain a real world phenomenon by testing hypotheses on the object under investigation to deduce objective principles or, on the other hand, he aims to comprehend and interpret individual actions while also being aware of his subjective perspective (LAMNEK, 1995a, p. 219).

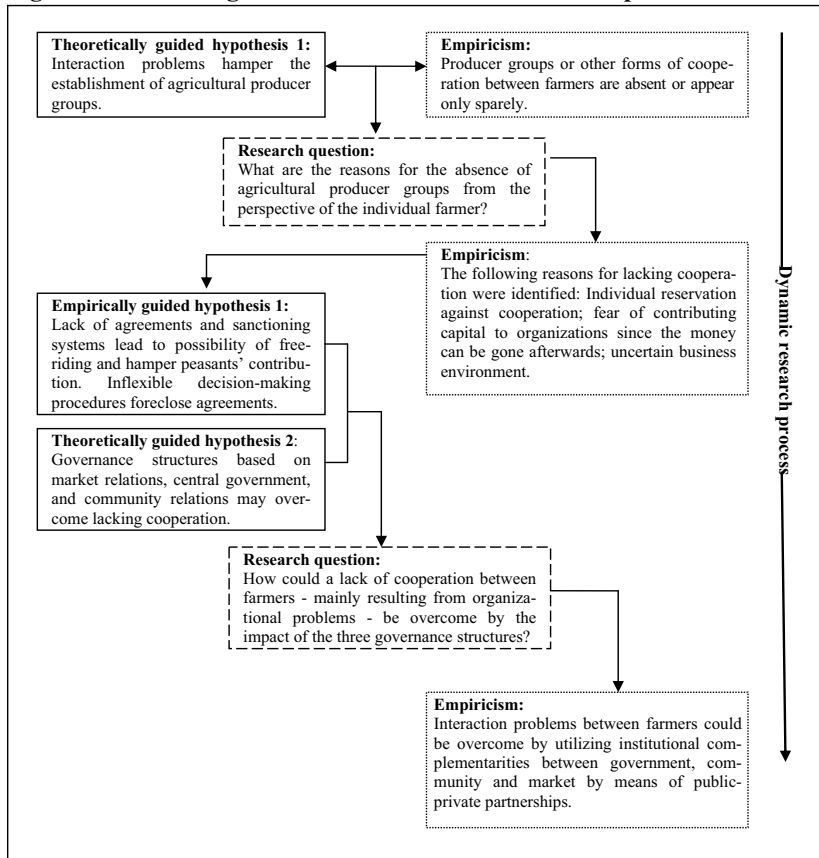
Values, perceptions and individuals' purposes are subjects of constant changes and can hardly be ascribed to certain objective principles or models (LÜTTEKEN, 2002, p. 157-160; LICHTENBERG, 2003, p. 110). The sole application of quantitative research methods, which comes from natural sciences, would thus be deficient, as the latter do not regard a social scientific interpretation of social phenomena (LAMNEK, 1995a, p. 219). Qualitative approaches which proceed inductively, rather than following a deductive logic, seem to be more adequate. That is, theories were generated and developed by proceeding from empirical observations (THEESFELD, 2005, p. 96).

However, a polarization of the two paradigms of quantitative and qualitative research methods seems to be misleading. As THEESFELD states, "It hampers method integration and with this it unnecessarily constraints empirical social inquiry" (THEESFELD, 2005, p. 96). A quantitative research approach, for instance, does not necessarily exclude the application of qualitative methods. On the contrary, qualitative data can

even help the researcher develop a better understanding of the quantitative data he collected, and qualitative methods may guide the researcher in his efforts to collect significant quantitative data. LAMNEK (1995a, p. 223) further argues that qualitative research approaches do not refuse the testing of hypotheses. The qualitative research approaches only criticize the restriction on testing hypotheses and thereby neglect the development of new ones. A researcher cannot approach an object of investigation without a theoretical concept or hypotheses. Indeed, he should remain open and prepared to constantly test his hypotheses during the data collection process.

The main object of analysis is the individual in interaction with other individuals. The individual is always influenced by actions or even the absence of actions of other individuals, whereas those actions can be formalized or not, and may be desirable or not. Hence, empirical research methods appropriate for investigating interaction problems in local development issues need to go back to the individual and the incentives influencing his behavior, and they need to discover what impact the individual behavior of many different actors in a single region has on the development of common initiatives facilitating local public goods provision. A very complex context needs to be analyzed. This further implies that although the existence of interaction problems between rural inhabitants are presumed, analyses of single individuals' behavior forces us to remain open to developing new hypotheses regarding the reasons influencing individual behavior in certain situations. That is, in preparing the empirical research strategy it is impossible to pre-estimate the incentives which hamper local inhabitants in their efforts to commonly provide local public goods.

Figure 3-1 aims to simplify the latter considerations on linking theory with empiricism using the example of lacking cooperation between farmers in a region. Starting from the first hypothesis that was theoretically defined with recourse to empiricism, I proceeded deductively as I analyzed the individual reasons peasants cited for co-operating with other peasants, or not co-operating based on the proposition of finding interaction problems between individuals. Then, based on the empirical results I inductively defined a hypothesis to describe the link between individual behavior and the collective phenomenon of lacking cooperation. However, as discussed in Section 2.3, interaction problems can be overcome by three governance structures. Based on the latter theoretically guided hypothesis I had to go back to the empiricism to test whether lacking cooperation between peasants can be facilitated by institutional arrangements that comprise properties of markets, government regulation, and community management.

**Figure 3-1: Linking theoretical considerations and empiricism**

Source: Author's depiction.

The empirical research strategy developed for the purpose of this study is a dynamic approach. It is guided by the case study research approach that combines different research methods to elaborate a comprehensive image of a situation that can be observed in reality. The empirical part of this study aims, on the one hand, to discover interaction problems which led, in Polish rural areas, to a lacking provision of local public goods and, on the other hand, to analyze institutional arrangements which enabled inhabitants to overcome the latter problems of local public goods provision. First, three case study regions were selected in three different areas in rural Poland. All of these regions have shown a lacking provision of one or more of the local public goods defined in Section 2.1, but could also recently implement institutional arrangements that allowed the latter communities to provide those public goods

jointly. In the case study regions, the inhabitants' individual perceptions had to be analyzed in order to understand those incentives which hampered inhabitants from contributing, or forced them to contribute, to the local public goods provision. In order to identify these individual perceptions, guideline interviews were conducted. The empirical results I received from the guideline interviews were then reassessed and completed by participant observation, document analysis, and a small quantitative survey conducted in one of the three case study regions. The interpretation of the empirical data was done in accordance with the content analysis by MAYRING (2000).

### 3.2 Case study research and data collection

Case study research is not a single method but rather a research approach (LAMNEK, 1995b, p. 5) which analyzes the interaction of different factors. Case study research aims to develop a holistic and realistic impression of social reality. Thus, the case study as a qualitative research approach differs from other quantitative approaches as depicted in Table 3-1. A common concern about case studies is that they provide little basis for scientific generalization since they often comprise a few or even only one case. YIN (2003, p. 10) shortly comments on this objection, "that case studies, like experiments, are generalizable to theoretical propositions and not to populations or universes". A case study will not represent a sample, rather, it aims to expand and generalize theories in terms of an analytic generalization and not the enumeration of frequencies like in statistical generalizations (*ibid.*, p. 10). Hence, with the case study approach I attempt to test whether the analytical framework developed in Chapter 2 would apply to the analysis of rural development problems or not.

According to the different case study designs discussed by YIN (2003, p. 39-53), the design selected for the purpose of this study is a holistic multiple-case type. Yin distinguishes between holistic and embedded case studies with respect to the existence of different subunits which are available in embedded case studies but do not exist in holistic cases. An example of an embedded case study is the evaluation of a program which coordinates different projects as sub-units (YIN, 2003, p. 42-43). In this study, each case study represents a region, whereas in these case study regions, different individuals live and work. Further, these individuals can be categorized as e.g. farmers, entrepreneurs, local authorities, etc. However, all individuals, regardless to which subgroup they belong, will be analyzed according to the same theoretical considerations. Hence, from the theoretical point of view there are no logical sub-units since the theory underlying the case study is of a holistic nature.

**Table 3-1: Confronting characteristics of the case study approach and quantitative research approaches**

Case study approach	Quantitative research design
Few cases	Many cases
Much information	Much information
Profound information	Broad information
Multiple methods	One method
Holistic perspective	Particular perspective

Source: LAMNEK, 1995b, p. 8.

In addition, more than one case study site was selected because none of the requirements for single-case studies (i.e., cases must be rare, unusual or critical) applies to the objects of investigation. But it was further decided to limit the number of case studies to three, since every single case study, not least due to the different empirical methods applied to obtain a profound knowledge, is a very time-extensive process. According to YIN (2003, p. 47), each case study must be carefully selected so that it either predicts similar results (a literal replication) or contrasting results, but for predictable reasons (theoretical replication). In this study the focus was on theoretical replication. I presumed that initiatives in all three case study regions would not show the same results in social and economic matters as they arose from more or less different social and economic starting points, e.g. being endowed with different capabilities. Hence, the case study served to test whether a generalization to theory is possible or not.

### 3.3 Selection and description of the case studies

#### 3.3.1 Selection

Above all, the theoretical background of this study requires a very careful selection of the case study regions. As mentioned previously, this study not only aims to discover (according to the theoretical considerations in Section 2.2) interactional problems as reasons for lacking local public goods provision, it also attempts to analyze whether institutional arrangements starting from a market, a central governmental or a community background are able to overcome such interactional problems or not. Therefore, the selection favors regions that formerly faced lacking cooperation in local public goods provision but could overcome internal or external hurdles towards a better cooperation between rural inhabitants by means of policy measures assigned to the new rural paradigm. For this reason I looked for regions where local rural partnerships of the LEADER-type already started initiatives that sustainably influenced the social and economic development of the concerned region. LEADER-type partnerships were chosen since the LEADER program belongs to policy measures of the new rural paradigm. However, by the time the case study

research was conducted, no LEADER groups existed in Poland. LEADER+ started in Poland as a pilot project in 2005. Hence, I searched for LEADER-like partnerships which followed the idea of cooperation between local authorities, local entrepreneurs, and associations. Besides a LEADER-like organizational structure, the following selection criteria were taken into account by reviewing different existing partnerships:

- Areas are located in a predominantly rural region;
- Cooperation exists between local authorities, entrepreneurs and NGOs;
- Local economy has an agricultural background;
- Areas are from multiple Polish regions and have a different agricultural farm size structure;
- All areas are confronted with similar problems in terms of lacking non-agricultural job opportunities, low average income, and negative net-migration rate.

The case studies were selected from different areas to make the study results more robust against objections intended to ascribe the success or failures of the case studies to conditions or capabilities that apply to particular wider areas (districts or voivodships) of Poland. There were, however, no requirements prepared regarding the initiatives undertaken by the partnerships. Here, it was assumed that the local initiatives which built on the unique conditions of the small rural community would always differ between villages, because to some extent every village or commune is a unique unit.

The three case study areas were selected from 90 small regions, because at least one rural development partnership was active in these regions. These 90 partnerships were registered in the database of the Polish Rural Forum (Forum for the Animation of Rural Areas – FAOW)<sup>12</sup>. The database provided basic information on the year of foundation, the main objectives, and the initiatives of the partnerships. However, it did not provide any assessments concerning the success of the partnerships' initiatives. That is why expert interviews were conducted with the executive staff of the FAOW and a scientist of the Institute of Rural and Agricultural Development from the Polish Academy of Sciences (IRWIR PAN) to select case study areas that would fulfill the above discussed requirements.

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<sup>12</sup> FAOW is the national platform of cooperation for rural organizations in Poland. The Forum comprises different rural partnerships which work together towards the more effective functioning of Polish rural communities. Therefore, the forum organizes trainings for local actors and promotes rural areas in national and international committees.

### 3.3.2 Description of the case study regions

The selected case studies<sup>13</sup> are located in southeastern (Bałtów and Dolina Strugu) and northwestern (Dębrzno) Poland (see Map 3-1). The case study in Bałtów and Dębrzno was conducted on the area of one commune. Dolina Strugu, in contrast, is a coalition of four communes which initially founded a partnership together.

**Map 3-1: Geographical position of Bałtów, Dolina Strugu and Dębrzno**



Source: Author's depiction.

Table 3-2 shows different characteristics of the case study regions. The local economy of all three regions is strongly related to agriculture. Bałtów and Dolina Strugu are characterized by very small and partly semi-subsistence farms, whereas in Bałtów, in addition to peasant farmers, larger farms also exist. Farms in both southeastern regions are poorly equipped and generally endowed with a fragmented land structure. As a result of the low farm mechanization and the lack of non-agricultural job opportunities, there is still a high level of agricultural employment. In Dolina Strugu, e.g. agricultural employment amounts to two-thirds of the economically

<sup>13</sup> More detailed descriptions of the case studies can be found in GRAMZOW (2005; 2006a; 2006b).

active population. Although the local economy in Dębrzno is strongly related to agriculture as well, agricultural employment is lower compared to the southeastern regions. Farms in Dębrzno generally emerged from former state-owned farms and are both larger and better-equipped. Agricultural laborers in Dębrzno mostly lost their jobs due to the shutdown of the state-owned farms and a military base located in the town in the early 1990s. The latter development, plus the fact that in Bałtów and Dolina Strugu hidden unemployment in agriculture is still present, together constitute the main reasons for the higher unemployment rate for Dębrzno compared to the southeastern case studies.

**Table 3-2: Data on case study regions**

	Bałtów	Dolina Strugu	Dębrzno	Poland
Inhabitants (2005, heads)	3,970	38,976	9,434	38,218,531
Population density (2004, inhabitants/km <sup>2</sup> )	38.5	95	42	122.1
Area (in ha)	10,492	29,899	22,417	31,268,502
Unemployment rate (2004, district level in %)	29.0	19.0	34.3	19.0
Average farm size (in ha, 2004)	5.3	3.0	16.5	7.5
Economy dominated by	agriculture (plant production), tourism	agriculture (plant production)	agriculture (plant production)	
Average monthly gross wage (2004; compared to the Polish average)	1,923 PLN [424 €] 84.6	1,819 PLN [401 €] 80.0	1,939 PLN [428 €] 85.3	2,273 PLN [501 €] 100
Net-migration rate (2002)	-1.4	-1.9	-4.1	-1.1

Source: CROSS BORDER FRIENDSHIP DATABASE (2006); GUS (2005); STATISTICAL OFFICE OF THE OSTROWIECKI DISTRICT (2006).



The lack of non-agricultural job opportunities is a characteristic of the labor market in all three case study regions. In the southeastern region, the shutdown of the rural industrial companies at the beginning of the transformation process led to a tremendous layoff of workers, forcing many rural inhabitants to return to their small family farms. In the northwestern case study area, the situation was quite different. Agricultural workers, who moved to where state-owned farms emerged during socialist times, were mostly low-skilled and poorly endowed with entrepreneurial skills. These people often could not find new jobs after the state-owned farms disappeared. Additionally, due to their age and their low job prospects, these people were often highly unmotivated, which resulted in a low level of social capital. The high unemployment rate in all three case study regions further led to a low level of wages, which, combined with the lack of job opportunities, forced younger inhabitants to emigrate. Furthermore, there is a lack of small businesses in all three study regions.

### 3.3.3 Further preparations for the case study

The further process of preparing and conducting a case study has been shortly summarized in the time schedule in Table 3-3. After selecting the three case study areas with the help of the experts from FAOW and IRWIR PAN, first contacts with the partnerships in the case study regions were made. During the same time, interview guidelines for different groups of inhabitants in the case studies were also formulated. The interview guidelines were tested in a pilot case study consisting of a German LEADER-partnership called "Naturpark Duebener Heide", located in Saxony-Anhalt and Saxony. A German pilot case study was chosen due to the immense expenses of a pilot case study located in Poland. Although there were some characteristics which differed between the German case and the Polish case studies<sup>14</sup>, there were also many similarities between, for instance, the high unemployment rate, the negative net-migration, and the increase of workers laid-off in the early 1990s due to the shutdown of state-owned companies. The pilot case study served to answer the following questions: 1) What is the relevant data to collect; 2) Are the interview guidelines adequate to gain significant information; 3) How does cooperation between local authorities, local entrepreneurs and NGOs proceed?

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<sup>14</sup> The largest difference was seen in the farm size structure. The agricultural sector of the German case study region is characterized by a large farm structure, whereas in the southeastern Polish regions mainly small farms exist.

**Table 3-3: Time schedule of the dynamic research process**

Month	Activities done
September 2004-January 2005	<ul style="list-style-type: none"> <li>- Literature review on Polish rural development and Polish rural partnerships</li> <li>- Reviewed the Polish Rural Forum database on 90 Polish rural partnerships</li> </ul>
January-February 2005	<ul style="list-style-type: none"> <li>- Expert interviews with members of the FAOW and a member of IRWIR PAN concerning the selection of three partnerships out of the 90</li> <li>- Expert interviews on the development of rural partnerships in Poland, as well as the progress made regarding the implementation of LEADER+ in Poland</li> </ul>
March-May 2005	<ul style="list-style-type: none"> <li>- Contacted partnerships and arranged the period of case study research</li> <li>- Drafted the interview guidelines in cooperation with the experts from FAOW</li> <li>- Conducted a pilot case study in the rural partnership "Naturpark Duebener Heide" (Germany) to test the relevance of interview guidelines</li> <li>- Revised interview guidelines</li> </ul>
June-July 2005	<ul style="list-style-type: none"> <li>- Arranged accommodation and translation of the interview guidelines into Polish</li> <li>- Final preparations for the case study</li> </ul>
August-October 2005	<ul style="list-style-type: none"> <li>- Conducted the case studies</li> </ul>

Source: Author's depiction.

After conducting the pilot case study, the interview guidelines were revised, finalized and translated by means of the executive staff of the Polish Rural Forum and a Polish intern who assisted me in preparing the case studies. Final preparations for the field work were undertaken in June and July and the case studies were conducted from August to October 2006.

### 3.4 Empirical research methods

As YIN (2003, p. 57) asserts, the quality of case study results increases with respect to the number of different empirical research methods applied (methodological triangulation), as well as with respect to the different data sources that were used. In the following, after providing some insights into the research team, I will present the different techniques used in the data collection process, the content analysis, and the method that guided me through the interpretation of the data.

The research team mainly consisted of the researcher and a translator. The latter changed for each case study. Three months before the case studies were conducted, a Polish student assisted me (due to his language skills) in contacting the partnerships, arranging the research stay and translating the interview guidelines into Polish. For conducting the three case studies, in each case I received assistance from a Polish student. These students not only facilitated the research stay as translators, but also contributed with their cultural knowledge, their knowledge on the Polish agricultural sector and rural development issues. The students were also valuable in arranging the interview contacts in each location. In particular, their communication skills and their co-operative personalities eased the case study research immensely.

All three Polish students were trained immediately before the case study stay started. The students received a general introduction to the research topic and were provided with the theoretical knowledge necessary for conducting the research study. Another training session was taken on interviewing skills and finally the interview guidelines were extensively discussed with the students.

### *3.4.1 Guideline interviews*

A focal empirical research technique for our case studies is the guideline interview. The advantage of guideline interviews over interviews which are based on structured, standardized questionnaires lies in its ability to generate open discussion with the respondent (SCHNELL, HILL and ESSER, 1999, p. 355). In guideline interviews, the interviewer conducts the interview according to thematic guidelines. These guidelines provide the interviewer with flexibility because he can easily add new questions during the interview to draw new information out of the interviewee. In comparison to standardized questionnaires, the interview partner is therefore able to emphasize the relevance of the information he provides in his answers. But guideline interviews are often more time-consuming, the quality of the information extracted from the interviews depends more strongly on the interviewer and the interviewee, and there is sometimes limited comparability of the extracted information. However, for the purpose of this study the guideline interview was more appropriate since we aimed to discover individual incentives which can strongly vary between individuals. In this context, the interviews *inter alia* were supposed to discover the individual perspective on local developmental problems and chances, as well as the inhabitants' individual incentives to cooperate or not cooperate in local development initiatives.

As mentioned above, qualitative research does not generalize. That is, qualitative research does not focus on the frequency of actions, but rather aims to reflect as many different individual behavioral models as possible for a certain situation (LAMNEK, 1995b, p. 92). Hence, in the three case studies, interview partners were not selected according to the random principle, they were chosen because of their ability to identify as many different individual behavior models as possible in the

study region. But to have some orientation, I divided the interview partners into five subgroups: 1) representatives of regional or local authorities; 2) members of the local development partnership; 3) local farmers; 4) local entrepreneurs; and 5) local villagers in general<sup>15</sup>. These subgroups, however, only provide some orientation. They do not represent the behavioral model of all respondents comprised by the subgroups. This is true, e.g. for the subgroup of local farmers. Here, the opinions of small farmers often differed from those of big farmers, from those of agro-tourism farmers, or even between small farmers themselves.

For each subgroup, different guidelines were formulated in the preparation period of the case studies. The general structure of the interview guidelines is depicted in Table 3-4. The interview guidelines, of course, changed slightly and in a few cases strongly with respect to the interview partners. Members of the local developmental partnerships were additionally questioned regarding the organization, initiatives, financing, and cooperation between members of the partnership. Farmers, on the other hand, were interviewed more deeply regarding agricultural development in the region, and interviews with entrepreneurs also comprised the conditions for local enterprises. Furthermore, the perception of the local social and economic development often varied between interviewees. While local farmers, local entrepreneurs and villagers in general mostly focused on their own villages, representatives of local authorities made their assessments with respect to the concerned commune. Members of the local developmental partnerships, in contrast, often looked at local developmental processes from a perspective that went beyond the commune's borders.

**Table 3-4: General structure of the interview guidelines**

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1	General questions and questions on local development
2	Assessments of local inhabitants
3	Local developmental partnership
4	Impact of the partnership on local development
5	Agriculture and agricultural development in the region
6	Entrepreneurship in the region
7	Economic cooperation in the region

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Source: Author's depiction.

For all three case studies, 104 guideline interviews were conducted. The listing of the interview respondents according to the different subgroups is shown in Table 3-5. In general, the interviews lasted from one and a half to two hours, but this varied between interviewees. For instance, some interviews with villagers

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<sup>15</sup> Further details on the background of the interviewees can be found in the Appendix.

were finished after half an hour and others, e.g. with members of the development partnerships, lasted four to six hours (though the latter interviews were conducted over two or more sessions).

Since no random principle was used for the selection of respondents, we had to use informal contacts to choose the concerned persons. In each case study region we had different contact persons who helped us arrange the interviews, introduced us to the local circumstances and existence of village institutions, as well as provided us with insider information. In all case studies these local informants were manifold. They were members of the local development partnerships, representatives of the local authorities, or owners of the agro-tourism farms where we found our accommodation. Most of the interviews were arranged with the help of these local contact persons. In other cases, the snowball principle was also used, that is, persons previously interviewed were asked for further potential interview partners. Finally, we also approached people we met in the villages as they were working in their front garden or went to shop owners while they were working and asked them for an interview. Information was also extracted from short discussions on the village road, at local village festivals as well as from longer talks during dinners in the agro-tourism farms. Those discussions often enabled us to collect additional details on local political issues and provided us with additional cultural knowledge and stories that took place in the case study regions during the socialist era.

**Table 3-5: Listing of respondents according to subgroups**

Subgroups of interview respondents	Bałtów	Dolina Strugu	Dębrzno
	Number of interview respondents per subgroup		
Representatives of the region/local authorities	11	5	6
(Of these, representatives of the local cooperative bank)	(0)	(2)	(1)
Members of the local development partnership(s)	9	9	11
Local farmers	5	6	6
Local entrepreneurs	3	10	9
Local inhabitants	7	4	3
<b>Total</b>	<b>35</b>	<b>34</b>	<b>35-</b>

Source: Author's depiction.

Additionally, it was a challenge to direct or lead respondents during the interviews to talk about the local social and economic conditions in the case study

region during the early 1990s and to compare the situation at that time with the current situation. In this context, we had to prevent respondents from only answering shortly and generally on that question and not to provide their individual perspectives on the issue. Therefore, at first we asked them to explain their job situation as well as the social and economic situation of their family in the early 1990s. After having asked about their personal experience with the past, we could also address some more general questions about the socio-economic conditions of other villagers, as well as about social and economic initiatives and associations that existed during the first period of the transformation process. Based on the personal experiences we gleaned from the interviewee, we could then ask for specific changes that might have taken place in his/her everyday life and the everyday life of his/her family nowadays compared to the situation 15 years ago. After that, we addressed some questions about the general conditions that have changed in the case study region during the same period of time. However, this procedure enabled us to discover the individual incentives that influenced the respondent to contribute or not contribute to the common social or economic initiatives which have taken place in the region during the last 15 years.

The locations where the interviews were conducted were manifold. Interviews were held in the house or yard of the respondents, in the offices of the local authorities or the development partnerships, on benches beside the village road, or in small shops. We also often invited respondents to come to the agro-tourism farm where we were accommodated. Our aim was to choose a location which was most convenient for our interview partners.

Furthermore, in order to build confidence between local villagers and the research team it was very useful to stay in the same village overnight, to attend local festivals, and to participate in partnership initiatives. We further assured interviewees that we would keep their information confidential and anonymous. Moreover, at the beginning of every interview, we attempted to answer all open questions of the interview partner regarding our research team and our research study. Then, interview partners were asked whether we were allowed to record the interview to ease the translation afterwards, which was granted in most of the cases. We further assured the interview partners that we would use the recording only for translation and not give it to others.

All interviews were conducted in the presence of the investigator and the translator. First I asked the question in English, which was then translated into Polish by the translator. The answers were then translated from Polish into English. The continuous translation of the answers and questions was necessary to keep the interview flexible. While I made notes during the interview, I was always able to skip or adapt some questions or to introduce new ones in order to draw some more detailed information out of the respondents. The detailed translation of the interviews was done in the time between the interviews or particularly in the evenings on our agro-tourism farm. Here, by listening to the recording, the translator again

gave a detailed translation of the interview. The translation was often followed by a discussion between the translator and myself on the interview content. Those discussions often led to new questions on the object of investigation. Such questions were then included in the upcoming interviews. The latter discussion on the interview results also motivated the translator to become more involved in the research process. The latter fact can be illustrated by the following quote made by one translator: "In doing the interviews with those people here in [...], I feel more and more like an inspector who attempts to investigate a crime."

At the end of every case study we always had a concluding discussion with our main contact persons in the villages. In these final discussions, any remaining open questions were clarified and a short summary of the research stay was given by the research team.

### 3.4.2 *Other qualitative and quantitative techniques used for data collection*

A further qualitative method applied in the case study research stay is the participant observation. In participant observation, the investigator is not merely a passive observer. Instead, he actually participates in the events being studied (YIN, 2003, p. 93-96). Based on this, the investigator expects to observe objects which are inaccessible for people who, for instance, do not belong to a certain community (MAYRING, 2002, p. 79-84).

In this study the observations correspond to a level of more passive participation. Passive participation means that the investigator was present at the scene and interacted with people to various degrees (THEESFELD, 2005, p. 114). For instance, as mentioned previously, the research team participated in village festivals or public informative meetings on the Community Initiative LEADER+. During such events the research team mostly attended rather passively and had discussions with other participants in small gatherings during the breaks. More difficult to access were association meetings, city council meetings, and receptions of local associations. Here, we were invited and took part in the discussion as guests. Participation in the latter events enabled us to particularly observe the performance of local leader personalities as well as their acceptance in the local community. This observation *inter alia* also served to check the meeting attendance and to notice the length and the frequency of participants' statements as an indicator characterizing the activity of local associations.

With respect to case study research, YIN (2003, p. 99) emphasizes, in addition to methodological triangulation, the importance of triangulating data from multiple sources of evidence. For example, the latter data triangulation comprises in our three case studies the oral material received from different interview partners, the written notes I made during and after the interviews, and observations on local community or partnership initiatives. It further includes documents I received from the local development partnerships regarding local and regional initiatives, the history of the village/town, and the history of the partnership. Further documents

concerning statistical information at the community and district level, as well as brochures promoting the commune as a tourist attraction and/or a place for business investments were also provided by the local authorities. All these various sources of information were considered during the preparation of the three case study reports, which were finalized after the research stay.

The only quantitative technique applied during the case study research was a standardized questionnaire. The latter served as a survey to determine the confidence level that local inhabitants have in different governmental and state institutions in comparison to local persons like the mayor or the members of the local development partnership. The survey was only conducted in one of the case study areas to quantitatively confirm assessments which had already been made by inhabitants in the qualitative interviews. Twenty-eight local inhabitants were surveyed, whereas it was assured that the latter do not belong to the local authority or development partnership.

### 3.4.3 *Qualitative content analysis*

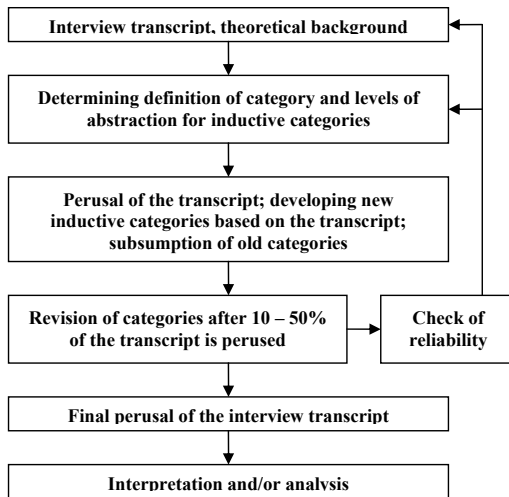
The qualitative content analysis consists of a bundle of techniques for systematic text analysis (MAYRING, 2000). For the purpose of this study I applied the qualitative content analysis according to MAYRING (2000, 2002, 2003) to analyze the guideline interviews conducted in the three case study regions. In general, content analysis aims to investigate any kind of material that represents human behavior or social interaction (LAMNEK, 1995b, p. 172). As a method, it objectively and systematically describes the linguistic characteristics of a text in order to draw conclusions on the non-linguistic characteristics of actors or social aggregates (ibid., p. 172). The qualitative content analysis facilitates analyzing interviews in a way that, based on the respondents' assessments on local development issues, conclusions with respect to their behavior and their previous actions can be drawn. The subject of qualitative content analysis can be all sorts of recorded communication (e.g. transcripts of interviews, protocols of observations, documents, etc.) (MAYRING, 2000).

The center of the qualitative content analysis is defining its categories. MAYRING (2003, p. 74-76) distinguishes here between inductive category development and deductive category development. The aim of inductive category development is to define categories as closely as possible to the material, that is, categories should be developed only based on interview transcripts. In contrast, deductive category development proceeds with previously formulated, theoretically derived aspects of analysis that have to be applied to the transcript. In this context, the deductive definition of the categories results mainly from theoretical considerations made before the transcript was perused, whereas the inductive definition is rather based on the content of the transcript. For the purposes of this study it seems to be misleading to develop categories based on this strong distinction. It would be more productive to include both approaches in the derivation of the concerned categories.



There are two reasons for the latter consideration. On the one hand, the interview transcript results from guideline interviews, and the guidelines were already formulated according to the theoretical approach discussed in Chapter 2. Hence, it would be misleading to not involve the theoretical considerations within the process of category development. On the other hand, different information discovered during the interviews was not anticipated at the time the interview guidelines were prepared. Hence, for determining the categories it makes more sense to involve both theoretical considerations and the interview content.

**Figure 3-2: Model of category development**



Source: Modified from MAYRING (2000) and MAYRING (2003, p. 75).

The whole process of categorization is illustrated in Figure 3-2. In a first step, the object that should serve as the basis for developing categories needs to be determined. In this study only the interview transcript constitutes the basic raw material. In a second step, first categories are defined based on the theoretical background. Additionally, the level of abstraction for the categories, which needs to be developed based on the interview transcript, must also be formulated. Then, in a third step, we can start to peruse the interview transcript. In so doing, every passage of the transcript needs to be assigned to a category. If no such category exists, a new one has to be formulated. The fourth step is the revision of the categories. Here, after reading 10-50 % of the interview transcript, it is helpful to again revise the categories and to define, if necessary, the level of abstraction for the categories. In the fifth step, the whole transcript can be perused. Finally, based on the resulting material, different forms of analysis and interpretation can be undertaken. For example, the frequency of categories can be calculated or main categories can be formulated to structure the interview transcript. For the purpose of

this study, categories were defined to compare the assessments of different interview respondents with each other on, e.g. local development issues. The formulation of the categories, therefore, was done by considering content-related aspects more than formal ones. Table 3-6 shows two examples of categories formulated while perusing the interview transcript and also provides some examples of passages from an interview transcript.

**Table 3-6: Examples of categories and exemplary passages from an interview transcript**

Category	Definition	Example from the interview transcript
<b>Cooperation between agricultural farms</b>	<ul style="list-style-type: none"> <li>- Assessments dealing with common input purchase or common market sale of agricultural farms</li> <li>- Assessments on formal or informal cooperation between farmers</li> </ul>	<ul style="list-style-type: none"> <li>- "Fruit farmers are not doing very well, and there are two reasons for the weakness of the soft fruit market in this region: First, the producers are not organized, and second, there is no processing company here."</li> <li>- "I think a characteristic of Polish farmers is that they are individualists."</li> </ul>
<b>Entrepreneurial skills of inhabitants</b>	<ul style="list-style-type: none"> <li>- Assessments describing entrepreneurial skills of inhabitants (willingness to take risk, creating ideas for personal or local development, etc.)</li> <li>- Self-assessment on personal background regarding having a business, previous tries in starting-up a business, or labor background</li> </ul>	<ul style="list-style-type: none"> <li>- "People in this rural area are at the moment more passive and more against everything. They do not believe that they are able to reach their destinies with their own hands."</li> <li>- "They [people from the case study region] are more interested in finding a job in other bigger cities, where they get paid and do not have to take the risk."</li> </ul>

Source: Author's depiction.

Preparing the case study reports also benefited from additional information I received from different sources external to the interview transcript. However, for gaining a better understanding of different interview passages, other passages of the same interview transcript were primarily used (narrow and wider context analysis (see MAYRING, 2003, p. 77-82)). Within these efforts additional information about the interview respondent, as well as passages of the same category from other interview transcripts were also included. Further along in the preparation of the case study report I referred to additional documents like, for instance, brochures,

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texts, reports and applications I received from the local development partnerships or the local authorities, and different notes I made myself during the interviews and the participants' observations. Finally, based on the transcripts of the 104 conducted guideline interviews, as well as on the additional documents mentioned above, the respondents' perceptions of local development issues, common local initiatives, social and economic cooperation, as well as regional developmental chances and problems were compared, discussed, and summarized in the case study reports (see GRAMZOW, 2005; GRAMZOW, 2006a; GRAMZOW, 2006b).

## **4 RURAL DEVELOPMENT AS PROVISION OF LOCAL PUBLIC GOODS: AN EMPIRICAL ANALYSIS IN RURAL POLAND**

This chapter presents the results of the empirical investigation of local development initiatives in rural areas of Poland. While the applied empirical methods and the case study regions were discussed in the previous chapter, Chapter 4 will provide detailed insights into the local public goods that were initially lacking in the case study regions. Thereafter, I discuss the institutional arrangements which have been implemented in those regions to provide these goods by means of local cooperative initiatives. In so doing, the focus of the empirical analysis will be placed, on the one hand, on the barriers which hampered local inhabitants from cooperating and, on the other hand, on the institutional changes which brought inhabitants into exchange in terms of a joint contribution to the provision of the concerned local public goods.

The chapter proceeds as follows: The first section, 4.1, presents the creation of a local telephone co-operative in Dolina Strugu as part of the local public infrastructure. Section 4.2 analyzes a public-private marketing partnership in Dolina Strugu which provides local peasant farmers with access to markets as a form of favorable conditions for local businesses and contributes to the preservation of the local cultural landscape. In Section 4.3, I discuss a local non-profit organization and a regional partnership which serve inhabitants with facilities to improve the local level of human capital and provide local businesses with access to markets and capital. The last section, 4.4, presents the results of the case study in Bałtów, where favorable conditions for local businesses in terms of an improvement of local infrastructure facilities and natural conditions, and an increase in demand for tourist offers, were provided by means of local development associations.

### **4.1 Local public infrastructure – A telephone cooperative in Dolina Strugu**

This section presents the joint provision of a telephone network in the case study region of Dolina Strugu. After a short introduction on the importance of communication systems for rural development (Section 4.1.1), I will describe crucial barriers which hampered local inhabitants from constructing a telephone network jointly before the cooperative was founded in 1992 (Section 4.1.2). Section 4.1.3 presents the founding process of the local telephone cooperative. In Section 4.1.4 I will discuss the success factors and the limitations of the approach before I draw some conclusions in Section 4.1.5.

#### *4.1.1 Telecommunication systems and rural development*

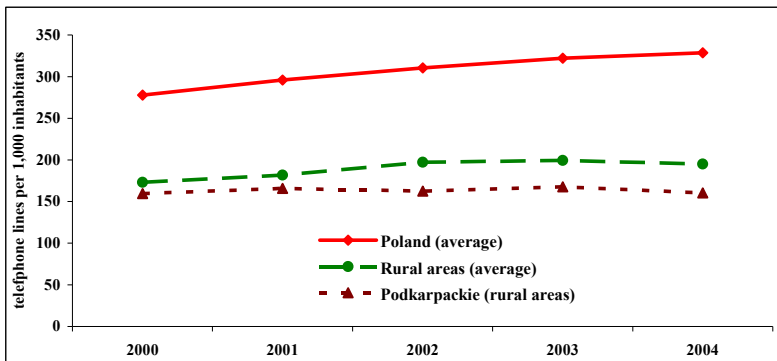
As discussed in Section 2.1.2, public infrastructure in terms of local roads, bridges, water supply systems or communication networks contributes to the sustainable economic and social development of rural areas. In this respect, communication infrastructure like telephone lines, and since the middle of the 1990s Internet access as well, is of the utmost importance. The impact of information and communications technologies (ICTs) on rural enterprises is emphasized by many different publications (MALECKI, 2003; CHAPMAN and SLAYMAKER, 2002; OECD, 2001b; GRIMES, 2000; MITCHELL and CLARK, 1999). Indeed, MITCHELL and CLARK (1999, p. 447) state that: "ICTs encompass an extensive range of telecommunications and computing services and applications, which enable improved communications, increased business efficiency and wider access to suppliers and customers [...]. Such benefits, [...], are of particular value to rural firms which are disadvantaged by distance and the small and scattered nature of local supply and demand." MALECKI (2003, p. 201) also assesses that: "[t]elecommunication technologies and the internet diminish, if they do not entirely erase, the tyranny of space and distance."

In recent decades, the provision of communication infrastructure in urban and rural regions was generally undertaken with governmental support. Telephone companies that were subsidized or even owned by the state provided telephone networks and connections to private and public customers. However, as in other economic spheres, the predominant role of the state also entails various flaws in the telecommunication sector. For communication infrastructure, such flaws are often seen in an enormous underutilization of networks since the companies often did not correspond to potential users' expectations and abilities (GRIMES, 2000). As GRIMES (2000) states, technological determinism has given rise to false expectations, waste of funds, and increased skepticism about the potential of ICTs. Only a greater emphasis on enhancing the human dimension will bring more rural inhabitants and enterprises to the position of benefiting from those technologies.

Inefficiencies, combined with governmental provision of communication infrastructure, were supposed to be reduced by deregulation efforts in the telecommunication sector and by further privatization of governmental telephone companies. The market-based provision of telephone networks thus aimed to respond more closely to customers' needs. Indeed, the deregulation of telecommunications often led to a more efficient provision of ICTs, but on the other hand it also diminished the likelihood of universal service for advanced services such as Internet access "in favor of letting the market determine what goes where," (MALECKI, 2003, pp. 201-202). Thus, deregulation in the telecommunication sector has in some cases even led to under-investment in rural communication infrastructure, as the following example from Dolina Strugu will show.

Polish rural areas are poorly equipped with communication infrastructure. As Figure 4-1 shows, the number of telephone lines per 1,000 rural inhabitants, at roughly 195, was far below the average figure for Poland. In contrast, rural areas of the former EU-15 were equipped with more than 470 telephone lines per 1,000 inhabitants (SOP, 2004). With respect to Internet access the situation looks quite similar. In 2004, only 15 % of Polish rural households had access to the Internet (NSP 2007). For rural areas in the EU-15 member states, this indicator was 62 % (MARD, 2006b).

**Figure 4-1: Number of telephone lines per 1,000 inhabitants in Poland (2000-2004)**



Source: GUS (various years).

As depicted in Figure 4-1 the number of telephone lines per 1,000 rural inhabitants in the Podkarpackie voivodship is even below the Polish average for rural areas, and increased only slightly between 2000 and 2004. During the deregulation process of the state-owned telephone company in the early 1990s, the company refused to invest in telecommunication networks for many rural communes in the concerning voivodship, as they expected tremendous investment needs due to the mountainous topography of these regions. This was also true for the case study region of Dolina Strugu, which is located in the center of the Podkarpackie voivodship. In 1990, only 900 subscriptions were being provided to the 38,000 inhabitants of Dolina Strugu, and the national telephone company declared it would not undertake any investments in the local telephone network.

#### *4.1.2 Barriers hampering inhabitants from a joint provision of a telephone infrastructure*

In the early 1990s, private provision of a local telephone network in Dolina Strugu was hardly possible due to the enormous investment requirements and a lack of businesses that were willing to invest in the region's telecommunication system. During socialism the state provided, although not to a level that satisfied all

inhabitants' needs, a telecommunication network by means of governmental funds. And since the state refused to undertake further investments, the provision of the local telephone network depended solely on the initiative and cooperation of local inhabitants.

However, although all inhabitants would have benefited from the provision of such a telephone network, it was not constructed based on joint contributions. This is because the inhabitants' joint investments in a local telephone network would entail free-riding options. That is, even if a group of local inhabitants decides to contribute its own shares in terms of funds or working time to the construction of a local telephone infrastructure, none of the contributors can be sure that single inhabitants do not take advantage of these investments by retaining their shares while others contribute. Hence, simply the availability of the free-riding option keeps local inhabitants from contributing to those common investments. Therefore, inhabitants are caught in a social dilemma where they are not able to exploit the gains of cooperation. From this it follows that the telephone network will only be provided when an institutional arrangement is implemented which assures contributors that only those who deliver their individual shares to the common pool will be able to benefit from the network. The interaction problem, which resulted from the absence of an institutional arrangement that coordinates inhabitants' contributions to the local telephone network and which sanctions non-contributors, became even more difficult because of the following reasons interviewees from Dolina Strugu gave for not founding an initiative that would have jointly provided a local telephone network when the state company declared it would withhold further investments:

- 1) *The thinking that "the government is supposed to provide a telecommunication infrastructure" was deeply rooted in local inhabitants' minds.* Interviewees mentioned that local inhabitants did not agree to invest in the telephone network, as they felt that the public sector has to do it. One respondent stated that: "People are saying, 'I pay taxes and the state should do something'. There were many situations where people came to the local authorities and said: 'I need a road in front of my yard, why don't you come and build it. I paid taxes, so you have to do it'." (DS-12). The same interviewee further mentioned that local inhabitants always felt separated from governmental decisions and even from decisions made by local administrations. He assessed: "People in this region were thinking that the state is on one side and inhabitants are on the other side. [...] They always depended on the administration. The administrations could really change your life if they wanted to. The local administrations were the ones who could give you a passport if you wanted to go somewhere. There was no connection between them and us. They were always on the other side. And old people here are still thinking like this" (DS-12). Due to this separation between the local population and authorities, inhabitants were not involved in the planning and the provision of local public infrastructure and, therefore, were

lacking scientific knowledge and management skills for undertaking actions in order to install a new telephone network on their own.

- 2) *Lack of local leaders that manage local initiatives.* Initiatives on the local provision of public infrastructure also need local leaders who take responsibility, encourage local inhabitants to cooperate, manage common activities, and are trusted by the local community. Interviewees mentioned that during socialism and in the early 1990s, voluntary initiatives in villages in the Dolina Strugu region were mainly conducted by the local churches and aimed to improve the church or church facilities. In those cases the local priest distributed different tasks among local inhabitants, as a respondent stated: "When the priest said he needs someone to clean up or to build something, he called a house number and one person of the household had do the work" (DS-20). Another interviewee assessed: "When you work for the church, your work will stay in the village and you do not have to give your money for something that you cannot see," (DS-09). However, with respect to non-church activities there was a lack of local leader personalities who were authoritative and who had a local reputation for leading local inhabitants in voluntary cooperative activities.

Finally, the implementation of institutional arrangements that coordinate inhabitants' contributions to a common telephone network is further hampered by a lack of local leaders who would monitor the process, as well as by the lack of know-how concerning how those institutional arrangements have to be constructed.

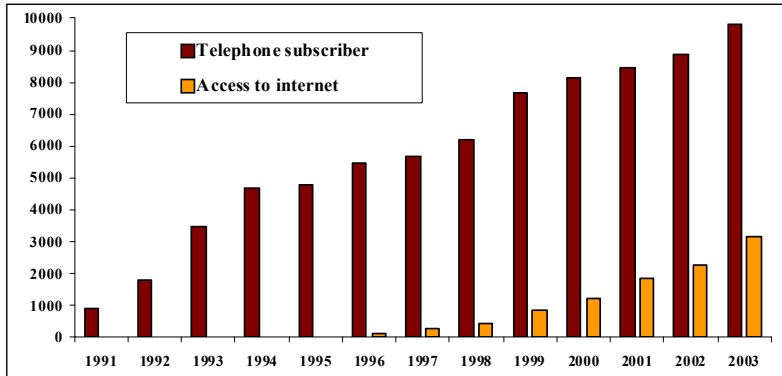
#### *4.1.3 Founding a telephone cooperative in Dolina Strugu*

In 1992, the local authorities of the four communes belonging to the Dolina Strugu region, together with local inhabitants, founded a telephone cooperative to provide local inhabitants with access to telephone subscribers. The seed capital for the cooperative was taken from membership fees every inhabitant who joined the company had to pay, and credits for which the four local governments of Dolina Strugu acted as guarantors. The initial concept was consistent with a local telephone co-operative located in rural areas of the USA. The concept also worked out successfully for the region of Dolina Strugu. Within a short period of time the telephone cooperative made profits and was able to operate without any additional financial support. As Figure 4-2 shows, from 1991 onwards, the number of telephone subscribers in Dolina Strugu increased continuously and amounted to more than 9,800 in 2003. During the same period more than 6,500 households signed up for membership in the cooperative. In 2003, due to the telephone cooperative, the number of telephone lines per 1,000 inhabitants in Dolina Strugu exceeded, with 258, the national average for rural areas (199 telephone lines per 1,000 inhabitants) and the average of rural areas in Podkarpackie (168 telephone lines per 1,000 inhabitants) even more so. Furthermore, since 1995 the local telephone co-operative also started to provide Internet access to local inhabitants. In 2003, 3,150 households in Dolina Strugu, 39 % of the total number of households, had access to the Internet, which also



exceeded the average number for Polish rural areas. In addition, the telephone cooperative provides local calls for free and has created more than 50 new non-agricultural jobs.

**Figure 4-2: Access to telephone and access to Internet provided by the telephone cooperative in Dolina Strugu**



#### 4.1.4 Success factors and limitations

The successful development of the local telephone cooperative depended on various factors mentioned by different interview partners. In the following, I will present three success factors that strongly facilitated cooperation among local inhabitants in the telephone cooperative. At the end of this section, some limitations of the approach will also be discussed.

- 1) *Integrated organizational structure overcomes free-riding.* "The co-operative is really integrated. People really feel like being part or even like being an owner of the cooperative," (DS-22) a respondent stated. The telephone cooperative can be regarded as a club good according to the taxonomy discussed in Section 2.1. Beneficiaries were obliged to join the cooperative and to pay a monthly fee as well as a single fee per subscriber. The latter fact also excluded free-riding since only contributors were provided with services. The cooperative employs a management team which is monitored by the general assembly consisting of one representative per 100 cooperative members and the members of the local governments. This organizational structure gives members the opportunity to influence decisions made in the cooperative. Additionally, the whole management of the telephone cooperative is of local provenance and keeps everyday contact to local inhabitants. This facilitates trust between management and customers and makes a response to local needs easier. Furthermore, the organizational structure of the cooperative also comprises market aspects, as it is a commercial entity on a national market for telecommunication. In the late 1990s, with increasing investments in the national telephone networks, other telephone

companies also tried to attract customers from the Dolina Strugu region. However, its quick response to customers' needs, as well as its good value for services enables the cooperative to compete successfully against other providers.

- 2) *Capital given by the communes facilitated start-up investments.* The majority of the local inhabitants did not join the cooperative right from the beginning. Many of them were skeptical and intended to join the cooperative only in case of its success. Hence, the first seed capital was not taken from membership fees. Rather, it came from credits borrowed by the local communes. After the initial investments were undertaken and the first successes were realized, the number of memberships started to grow and, thus, the budget of the telephone cooperative also increased. Although the money spent on the cooperative was, to a large extent, not from governmental sources, the involvement of local governments was necessary to fund the start-up investments.
- 3) *Local leaders developed the vision, coordinated collective activities, and established the contact between local inhabitants and local authorities.* As mentioned above, the inhabitants needed to be convinced by the concept of the telephone cooperative. Therefore, local leaders were needed who followed their vision of a local telephone cooperative and who could encourage others to join. In all four communes of Dolina Strugu there were local commune leaders who were elected in the first free local elections after the socialism era. These local leaders were enthusiastic and willing to improve the local conditions in the region. One of these leaders stated in the interview: "At the beginning we knew, if we cooperate we can do something. And once we start to cooperate, other people will follow us," (DS-33). Another former member of the local governments gave a similar answer: "As we started this cooperative, we used to be about 100 members. However, as inhabitants realized that the co-operative is working successfully, they joined and said: 'Oh, I want a telephone, too.'" (DS-02). These local leaders also elaborated on the first concept of the cooperative and went to every local household and asked household members to join the cooperative as well as to come to the initial meetings. Among these leaders there was one person, Mr. J., who was the mayor of one commune and strongly headed the initiatives. He was also the one who convinced the regional bank to provide credits for the telephone cooperative. A local inhabitant mentioned: "There is this story about Mr. J.: It says he went together with the priest to the bank to ask for a credit. He stayed there until they agreed to pay a credit for the telephone co-operative" (DS-11). Another interview respondent emphasized the role of Mr. J. within the first initiatives as follows: "Most people of the area did not believe that this [telephone cooperative] will work. They thought they won't have the money. And we needed him [Mr. J.] to convince the local population. Without Mr. J. the telephone cooperative would not exist" (DS-02).

However, small sized telephone cooperatives like the one in Dolina Strugu compared to telephone companies that operate nation-wide do also entail disadvantages. Thus, although those small sized cooperatives may work more efficiently with respect to problems of bureaucracy, they will not be able to exploit economies of scale as well as be in the position to participate on the latest technological progresses. Additionally, since customers of the cooperative are to the same time members of the latter, there are also emotional bonds that prevent them from reacting as fast to changes in the quality of the services as they would if they solely had the status of customers of a large telephone company. Furthermore, it has to be emphasized that the telephone cooperative is strongly based on special local features like the strong involvement of Mr. J., who headed the initial steps, or the willingness of the four local communes to cooperate beyond local administrative boards. As other telephone cooperative projects in rural Poland have shown, if those features are not locally available, similar efforts like the ones made by inhabitants from Dolina Strugu may, somehow, not show similar successful results.

#### *4.1.5 Conclusions and prospects for further initiatives*

As mentioned above, in the early 1990s the joint provision of a local telephone network in Dolina Strugu was hampered by the existence of free-riding options among contributors. An institutional arrangement had to be found, which excluded free-riding and thus encouraged inhabitants to contribute jointly to the telephone network in order to exploit gains from cooperation. Such an institutional arrangement is the telephone cooperative. As shown in Table 4-1 the foundation and the performance of the telephone cooperative was influenced by all three governance structures discussed in section 2.3.

The interaction between members of the telephone cooperative is first of all market-based. That is, inhabitants join the cooperative and pay a regular fee as well as a single fee per subscriber and receive in return a subscriber, access to the local telephone network and local calls for free. Exchange among inhabitants in terms of a joint contribution, hence, is coordinated by the market mechanism and the membership of inhabitants constitutes inhabitants' approval for this institutional arrangement. Free-riding in the latter arrangement becomes negligible. The cooperative also operates as a commercial entity on the national market for telecommunication networks and is, therefore, forced to serve its customers with competitive and good value services. To remain on the market the telephone cooperative has to operate efficiently so that it can stay attractive for its customers and to keep its creditworthiness.

A successful implementation of the telephone cooperative had not been possible without the impact of the four local governments. In order to join the cooperative inhabitants needed to be encouraged. This was solely possible due to first successes the cooperative had to boast. In this respect, although public funding was negligible for the creation of the telephone cooperative, local authorities does play an important

role in the initial stage as they funded initial steps of the cooperative based on credits borrowed by the communes. The creditworthiness of the four communes is achieved due to their public status. That is, the communes are funded by tax money allocated by the state (governmental regulation) which assures their creditworthiness compared to many small local enterprises lacking any kind of collateral. Hence, also governmental action played an important role with respect to the implementation of the telephone cooperative as public credit guarantees encouraged inhabitants to continue investments in the local telephone network.

However, as discussed in section 2.3.2 public investments alone, can often lead to inefficiency as they miss to take local preferences and conditions into considerations. In this regard, community governance played an important role as it contributed to a successful performance of the telephone cooperative, too. First of all the local provenance of the main initiators of the cooperative allowed the latter to orientate the services of the cooperative closely to the local customers needs and to spend profits on projects, which are of public interest like the provision of local schools with internet access or further investments in new telecommunication technologies. Furthermore, due to their local provenance it was easier to call the main initiators of the cooperative to account if credits for which the communes guaranteed were not spent on projects which were publicly desired. In addition to the public interest, the main initiators were also encouraged by their local reputation. As mentioned above, most of the initiators were members of the local government and had a strong interest in becoming re-elected in the next local election. This is in particular true for one local leader, Mr. J, mentioned above. He, as the mayor of one of the four communes, was interested in developing the region. Due to his relations to rural telephone cooperatives in the USA he was able to acquire the basic know-how necessary to implement such a telephone cooperative. Community relations between local inhabitants had also an important impact on the development of the cooperative. As mentioned above, inhabitants had to be encouraged to join the cooperative and this was often done through talks between inhabitants on the road, discussions with neighbors over the fence etc. However, due to these community relations local trust in the cooperative increased and the joint investments could be realized.

**Table 4-1: Success factors of the telephone cooperative distinguished by market, governmental, and community background**

Market approach	State (Governmental levels)	Community
<ul style="list-style-type: none"> <li>- Telephone cooperative enabled a joint contribution to the telephone network based on market relations</li> <li>- Members of the cooperative still remain customer, what encourages the cooperative to provide the latter with good value services</li> <li>- Use of commercial credits compared to public funding provides incentives for efficient business management (see section 2.3.1)</li> </ul>	<ul style="list-style-type: none"> <li>- Communes acted as guarantor for commercial credits that were essentially used as seed capital for the cooperative</li> <li>- Coordination and cooperation between the four communes was foremost possible due to local government relationships</li> </ul>	<ul style="list-style-type: none"> <li>- Local provenance of initiators enable the cooperative to respond to local needs and forced the initiators to take responsibility for their decisions</li> <li>- Local provenance of the initiators eased to create trust between the cooperative and local customers</li> <li>- Due to community relations inhabitants encouraged each other to join the cooperative</li> </ul>

Source: Author's depiction.

The outcomes of the local telephone cooperative are not only seen in the telephone network, the access to telephone subscribers and internet. The cooperative also strongly contributed to the strengthening of local capabilities like local trust. An interview respondent, who did not belong to the initiators of the telephone cooperative, stated: "But one thing that still consolidates local trust is the telephone cooperative. People worked together to create the telephone network and still cooperate in the telephone company. And they communicate through their telephones and the internet access is important to provide them with new information" (*DS-07*). Furthermore, the experience of successful cooperation also encouraged local inhabitants to undertake further common initiatives in Dolina Strugu. A member of the telephone cooperative assessed: "After we were successful, we still wanted to cooperate and wanted to change something in the region. That is why we started further associations to find solutions for the problems of this region" (*DS-19*). One of these initiatives, a local agricultural marketing cooperative, will be discussed in the next section (Section 4.2). The following section will also present further outcomes, which can, to some extent, also be ascribed to the impact the telephone cooperative had on the local economic development in general.

## **4.2 Improving market access for peasant farms and preserving local cultural landscape – A public-private marketing partnership in Dolina Strugu**

This section presents a public-private marketing partnership that provides local peasant farms with access to markets and contributes more than 400 non-agricultural jobs to the local labor market. After describing the situation of local peasant farms prior to when the public-private partnership was founded (Section 4.2.1), I will discuss different barriers which hampered local farmers from founding producer groups or similar agricultural associations in Dolina Strugu (Section 4.2.2). In Section 4.2.3 I will then present the local public-private marketing partnership. Section 4.2.4 discusses the success factors of the marketing partnership and also mentions different barriers that could not be overcome. Section 4.2.5 provides insights into the partnerships' impacts on the local economic development. Section 4.2.6 concludes.

### *4.2.1 Lacking market access for peasant farms and an increasing neglect of the cultural landscape of Dolina Strugu*

Agricultural production in the case study region of Dolina Strugu is dominated by peasant farms. About two-thirds of the total working population work on the 8,000 individual farms located in the region. Younger farmers often have additional employment in Rzeszow, the next bigger city. The majority of farmers, however, are between 50 and 70 years old and worked in industrial companies in Rzeszow until the early 1990s. The average farm size is slightly above 3 ha, with moderate soil and climate conditions, but the cultivation of land is limited by the hilly topography. As a result, nearly the whole area is classified by the EU as a "less favored area." Agricultural production is dominated by plant production, especially cereals, potatoes, soft fruits, feed and root plants. Animal production plays a lesser role, with only a few farmers specializing in the production of pork and beef.

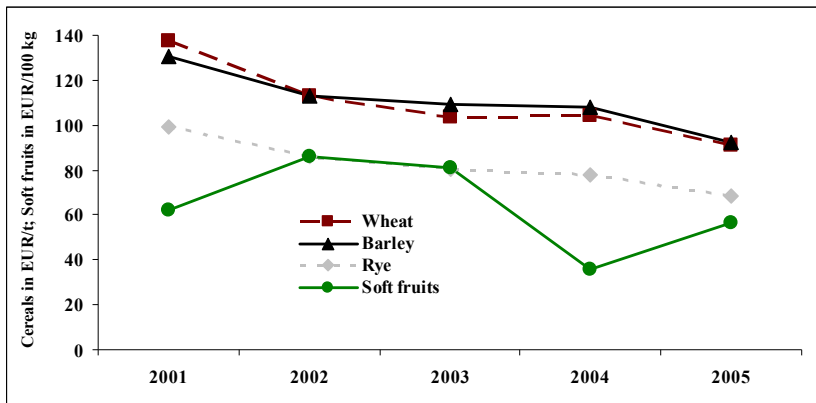
Farming in Dolina Strugu is strongly affected by a fragmented land structure, the hilly landscape, and the often outdated machinery used by farmers. Further problems mentioned by local peasants were seen in the increasing agricultural input prices<sup>16</sup> and the decrease of producer prices. As Figure 4-3 shows, in 2005 prices for wheat, barley and rye amounted to only 70 % of the prices from 2001 and the producer prices for soft fruits varied strongly during the same period of time. Furthermore, because of their small farm size and their outdated machinery, farmers from Dolina Strugu are often not able to fulfill the newly implemented EU quality requirements and do not hold any bargaining power in negotiations with wholesalers. In many

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<sup>16</sup> In 2005, prices for agricultural inputs were more than twice as high as in 2000 (MARD, 2006, p. 15).

cases, local peasants were even left with their crops because they were unable to find a wholesaler. Related to that, two local farmers commented: "Agriculture in this area is not a very good idea. You often have no income from agriculture and you do not have a place, to which you can sell your products," (DS-07). "Farmers here have just one or two hectares and they have really big problems selling their crops. Because if you want to sell your crops to wholesalers, they would not take it or the transport costs would be higher than the price you receive for just 20 tons or less," (DS-13).

**Figure 4-3: Development of producer prices for cereals and soft fruits in Poland (Cereals in EUR/t and soft fruits in EUR/100 kg; 2001-2005)**



Source: FAOSTAT, 2008.

Thus, many peasants of Dolina Strugu have already quit cultivating and left their fields fallow. A local farmer assessed the situation as follows: "In the last years, I think most of this land here became unused. There are already lots of fields which are fallow. All of my neighbors do not cultivate their land anymore" (DS-30). According to respondents, the increasing share of fallow land has reduced the attractiveness of the regional landscape and lessens the chances for the local economy to develop in a more tourist-based direction. Hence, inhabitants often felt powerless because they appreciated the preservation of their cultural landscape and the quality of their locally grown products, but did not know how to maintain farming without access to larger wholesalers or to local or regional markets. Hence, peasant farms in Dolina Strugu are confronted with unfavorable conditions in terms of lacking access to markets. These unfavorable conditions further result in a lacking provision of another local public good, namely, the cultural landscape.

#### 4.2.2 *Barriers hampering farmers from common marketing initiatives*

A common solution for improving peasant farms' market access is cooperation among farmers. According to BALINT (2004, p. 247) the advantages of a cooperative comprise the reduction of costs "of accessing input and output markets and strengthening the farmers' negotiation power." ESCOBAL et al. (2000) note that, "[...] small farmers lack human and organizational capital embodied in management skills [and] [t]hat lack creates both production and marketing inefficiencies." These authors regard lower input prices and lower interest rates as a result of group borrowing, higher producer prices, and saving of transport costs as important advantages of farmers' service cooperatives. Particularly for southeastern Polish rural areas (including the Dolina Strugu region), where agricultural production is dominated by peasant farms, any kind of cooperation between farmers may provide chances for peasants to concentrate their production on markets and to increase farm income due to a common price negotiation. However, as ZAWOJSKA (2006) mentioned, governmental efforts to create small farm associations or producer groups generally failed, except in a few cases. Also, BANASZAK (2005, p. 3) states that the latter groups currently still possess only "a very marginal share in terms of both volume of the goods marketed and the number of associated farmers." However, which barriers prevent local peasant farms from cooperating?

Lacking cooperation among the peasants of Dolina Strugu is a result of a particular social dilemma inherent in their situation. That is, although peasants would improve their income and economic situation by joining a cooperative, the former continue the status quo, where gains from cooperation remain unexploited. In Dolina Strugu, reasons for the lacking cooperation among peasants were seen in the following barriers:

- 1) *Individual reservations about cooperation.* Locally, this is called the "Polish mentality." Reservations against cooperation in general still have an ideological background resulting from the experiences of farmers from the south of Poland during the socialist era. During that time, the majority of peasants successfully defended their farms against governmental collectivization efforts, but were often discriminated by political decision-makers in the time that followed. Interviewees also mentioned a further decrease in trust between inhabitants resulting from income disparities between rural households that have strongly increased in the transformation process. An interview partner stated: "Farmers do not cooperate too much. This is because there is jealousy between people and there are problems we did not have 15 or 20 years ago. When we used to dig potatoes in the field, lots of people came and were helping and we helped them. But now, everybody just takes care of his own family," (DS-22). Another peasant argued as follows: "If the one who cooperates with me will earn higher profits from this cooperation than I do, I do not see any reasons to cooperate. And how can I trust that he does not take advantage of me?" (DS-30). Similar assessments were given by a respondent who owns a bigger farm: "Maybe if someone comes



to the region and will attempt to start a cooperative; farmers would cooperate in a group. That might be possible. However, you know how it looks in Poland, you always do not know here, whether the man who started the initiative will share the profits later on," (DS-25). The lack of trust can also be ascribed to experiences residents had in former agricultural producer groups. In the middle of the 1990s, as different interviewees mentioned, a soft fruit producer group was founded and collapsed after a few years due to a dramatic decrease in prices for soft fruits. As farmers realized that they would not have any profits from the producer group, they left the group.

- 2) *Inflexible decision-making procedures.* Efforts to found producer groups with a small number of members failed because the groups were not able to gain enough market power. One farmer mentioned that: "In Blazowa [one of the villages in Dolina Strugu] there used to be a producer group for wheat [...] and I was a member, too. But this group collapsed since there was no market for our production. We tried it two or three years but also in the producer group we could not sell our production," (DS-22). Inhabitants have estimated that producer groups need more than a thousand members to achieve some bargaining power in Dolina Strugu. However, to find a consensus and to pass decisions on a sanction system or other agreements in such a big group leads to high bargaining costs and paralyzes decision-making. A farmer stated: "A further problem lies in the fact that there are too many farmers and it is hard to find a consensus with all members of a producer group. And this would be more complicated if farmers were not only from a single Gmina [commune], but are working in a wider region," (DS-06). Hence, it is difficult to bring the numerous peasants into exchange with respect to an agreement on a common set of rules that should constitute the foundation of a producer group. Furthermore, the often neighborly or even friendly relationship between producer group members also hampers the application of formal rules or sanctions against each other and reduces, therefore, the effective functioning of a producer group.
- 3) *Definition of product standards.* The establishment of producer groups which commonly supply their products to wholesalers implies different opportunities for free-riding. Wholesalers often link product prices for certain quantities of products with certain production standards. In this respect a social dilemma situation emerges. Although members of a producer group force each other to produce to certain standards to provide the wholesaler with a quantity of equal quality, some members could enjoy the higher price linked to a certain product quality, but deliver their products without fulfilling all quality standards that were required, as they fear undertaking the additional investments necessary to deliver their products to the same high quality standards. That is, a farmer, since he is not able to predict how others with whom he cooperates behave, may not work as hard to fulfill the standards as he would if he was sure about the product quality others provide or/and if others were able to sanction him

for not producing to these standards. Consequently, if the quality of the products that every member delivers cannot be controlled separately, the free-riding option hampers peasants from joining a producer group with other farmers and from exploiting gains from cooperation.

- 4) *Principal-agent problems between management and members.* Negative experiences with producer groups not only resulted from external market impacts, but also from managerial problems. Farmers from Dolina Strugu attributed problems of former producer groups to a lack of trustworthy management. For instance, the manager of a dairy producer group embezzled money, which led to a collapse of the group. A local inhabitant mentioned that: "They also tried few times to have a common milk plant. There were two men who wanted to create this milk plant but finally, they cheated lots of farmers and the latter lost their trust again. It is not a good idea if one man gets a lot of money for a short period of time," (DS-09). If a management team is employed by a producer group, members have to be aware of opportunistic behavior. Therefore, a control system or a particular incentive system has to be established which will lead to an increase in operational costs. However, since members of agricultural cooperatives are, compared to shareholders of a firm, not able to buy or sell stocks of the organization to make speculative gains based on future flows of firm profits, incentives for cooperative members to monitor management will be lower (DEININGER, 1995, p. 1319). Hence, the willingness of members of agricultural cooperatives to bear additional costs for a monitoring and sanctioning system might be generally low.
- 5) *Lack of finance.* Producer groups in Dolina Strugu will only succeed if they process and market their products on their own. However, those processing activities require different facilities and above all they require capital. To provide a sufficient amount of seed capital from membership fees is, as one interviewee assesses, hardly possible for a producer group consisting of peasants from Dolina Strugu: "Farmers in this region would maybe decide to start a producer group and every farmer decide to give some money of his income to this producer group, however, their incomes are so small that it will not work," (DS-11). In addition, farmers would face the decision of whether to contribute to a common pool of money or to keep the money and to continue working individually. If they decided to contribute to a common pool, other members of the group could decide to not pay their contributions. Thus, since peasants cannot be certain about other group members' behavior, they will decide not to contribute. And even with regard to bank credits as founding capital, a social dilemma between peasants emerges. This is because although a bank agreed to give credits to a group of peasants, a suitable guarantor is hard to find. Here, a guarantor as a group member is confronted with the free-riding option for all other group members summarized in the following question: How can the guarantor be sure that all members will contribute as best as possible to the success of the producer

group? Hence, due to these interaction problems, efforts to found producer groups in Dolina Strugu mostly failed at the very beginning.

Finally, if farmers, due to a lack of market power, the high costs resulting from inflexible decision-making procedures, and a lack of proper and trustworthy leaders were not able to improve their incomes by means of producer groups, there would be no incentive for them to continue working in the group or even to join a cooperative with farmers. However, the majority of the abovementioned reasons for the absence of farmers' associations or producer groups in Dolina Strugu can be ascribed to interaction problems among local farmers themselves and inhabitants, respectively. Therefore, although there is an urgent need of any kind of institutional arrangement that allows farmers in Dolina Strugu to gain from mutual exchange and cooperation respectively, these reasons make the establishment of such arrangements more or less impossible.

#### 4.2.3 *"Chmielnik Zdrój" – A public-private agricultural marketing partnership*

An institutional alternative to agricultural associations that are purely based on farmers' membership are public-private partnerships (PPP). As we will see below, PPPs combine characteristics of all three governance structures mentioned in Section 2.3 and are therefore able to respond to local interaction problems like the ones described above. The term public-private partnership covers a wide variety of institutional interactions (SPIELMAN and GREBMER, 2004, p. 8). With respect to the agricultural sector, PPPs were often found in developing countries as cooperation between governments, research institutes and local businesses or farmers (e.g. HARTWICH, GONZALEZ and VIEIRA, 2005; SPIELMAN and GREBMER, 2004). In this monograph I define PPPs according to SPIELMAN and GREBMER (2004) and HARTWICH, GONZALEZ and VIEIRA (2005), that is, as a collaborative effort between private and governmental sectors in which each sector bears responsibility and risk, participates in the decision-making process and contributes in planning and investments to achieve shared objectives. Activities undertaken within the scope of PPPs should "bring together the efficiency, flexibility, and competence of the private sector with the accountability, long-term perspective, and social interests of the public sector," (SPIELMAN and GREBMER, 2004, p. 10). In the following, I will present the public-private partnership "Chmielnik Zdrój" (Well of Chmielnik), which is a commercial entity based on a bottom-up initiative of local governments, a local non-profit organization, and local entrepreneurs. After presenting the concept of the partnership, I attempt to demonstrate why it was successful despite the previously mentioned local interaction problems.

"Chmielnik Zdrój" is a joint-stock company located in Chmielnik, one of the four communes of Dolina Strugu. Associates of "Chmielnik Zdrój" are the four local communes of Dolina Strugu, a local non-profit organization called "Dolina Strugu", and various local entrepreneurs. The roots of this initiative go back to the telephone cooperative discussed in the last section. Based on the successful experience of

cooperation, leading members of the telephone cooperative and local governments founded a non-profit organization called "Dolina Strugu"<sup>17</sup>, which was supposed to solve communal infrastructure problems, support the environmental protection of the area, and stimulate economic activity in the region. As one of the first initiatives, "Chmielnik Zdrój" was founded with start-up funds partly from the communes (especially the Chmielnik commune) and the non-profit organization "Dolina Strugu", as well as partly from loans secured by using local entrepreneurs' houses as collateral.

The initial idea of "Chmielnik Zdrój" was to create new jobs with the help of a mineral water company located in Chmielnik, to provide a marketing channel for local peasants, to provide people from the region with local, traditionally-made products, and to keep the environment and fields in good and environmentally-friendly condition. Since the production of mineral water requires a specific treatment of the local groundwater resources, the initiators of "Chmielnik Zdrój" decided to enter into a particular exchange with local peasants. That is, local peasants were obliged to produce without the input of any pesticides or mineral fertilizers, but received in turn the opportunity to sell their crops to "Chmielnik Zdrój", where the latter were processed and packed for regional customers.

When "Chmielnik Zdrój" started in 1994, the partnership provided the regional population with mineral water, ordered by telephone and delivered to their homes. In the following years, they added further products and increased their production capacities very quickly. The farmers' relation to the partnership is market-based, they are usually not members and do not pay any fees. In 2005, the partnership employed 400 people and bought agricultural products from more than 500 peasant farms of Dolina Strugu. In the region surrounding the cities of Krakow, Rzeszow, Tarnow and Lublin, they use 170 vehicles to provide 70,000 households with processed products (vegetables, fruits, honey, bread, fruit juice, soups, and pasta). Customers place their order by phone or Internet, and their purchases are delivered to their home. Farmers have short- or medium-term contracts with the partnership, which enables them to sell their products without having to deliver them to a distant wholesale company. The partnership provides them with a basic source of income and certainty about next year's market situation. Furthermore, due to "Chmielnik Zdrój's" strategy of direct marketing, they are able to provide peasants with higher than market prices. In addition, "Chmielnik Zdrój" supports farmers in applying for ecological certification. This certification is provided by a government agency and is combined with a regular control of farmers' products. In the near future, this will free "Chmielnik Zdrój" from testing the quality of the delivered products. Farmers also receive assistance in production planning. "Chmielnik Zdrój" has

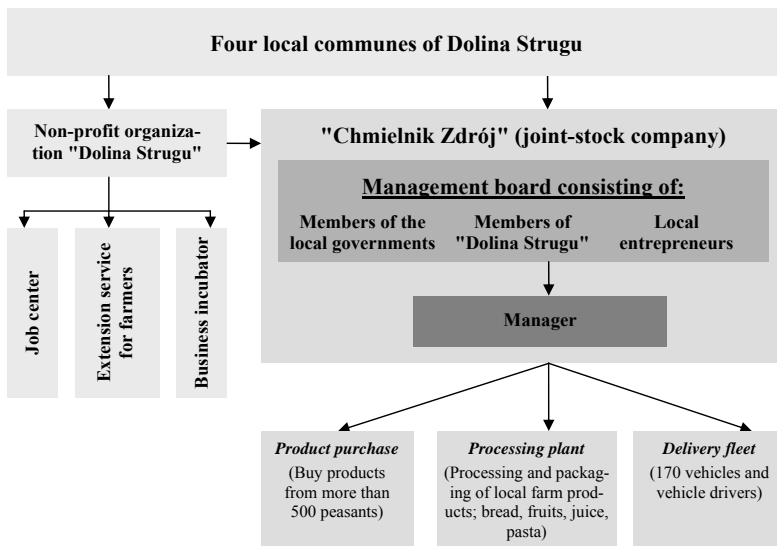
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<sup>17</sup> The name "Dolina Strugu", when used in quotation marks, indicates the non-profit organization "Dolina Strugu". The name Dolina Strugu used without quotation marks refers to the analyzed region.

further social tasks: It conducts and finances vocational training for local inhabitants, provides 10 % of its turnovers for local "Caritas" (charity) projects, and supports local initiatives against alcoholism.

The structure of the main local initiatives in Dolina Strugu is depicted in Figure 4-4. All three groups (local governments, "Dolina Strugu", and local entrepreneurs), which provided founding capital to the PPP, also hold shares of the company and are represented in the management board. Additionally, the management board authorized a manager to head the company and the various business areas.

**Figure 4-4: Structure of the main local initiatives in Dolina Strugu**



Source: Author's depiction.

The non-profit organization "Dolina Strugu", as a further important local initiative in Dolina Strugu, is also closely connected to "Chmielnik Zdrój", as shown in Figure 4-4. They have various tasks which are supported by, among others, the public-private partnership. "Dolina Strugu" undertook initiatives explicitly directed to improve the regional labor market; they provide a labor agency for local inhabitants where job applicants receive assistance to find new jobs. In particular, young job applicants gain knowledge concerning the proper way to prepare job applications and how to behave in job interviews. Moreover, "Dolina Strugu" provides farmers with information on EU programs and assistance in applying for direct payments or other funds free of charge. Additionally, "Dolina Strugu" organizes workshops for people who plan to start-up a business and for young entrepreneurs. In 2002, with the financial assistance of a World Bank program, an advisory

agency for new business start-ups was created as a further initiative. This agency now assists business founders and existing small enterprises in overcoming bureaucratic problems, finding financial sources or improving their current production. It also offers loans to entrepreneurs. The only requirements for access to such loans are the nomination of two guarantors and the preparation of a business plan. In this way borrowers do not have to provide any collateral. The interest rates are below those of commercial credits, which is supposed to ease the performance of small businesses in the early years of their existence. From its foundation until the summer of 2005, the agency provided advice to more than 400 inhabitants; this advice is free of charge for clients, as the costs were covered by the financial assistance of the World Bank program.

#### *4.2.4 Success factors and limitations of "Chmielnik Zdrój"*

"Chmielnik Zdrój" is a prime example of the rule that successful cooperation critically depends on the initiative of the affected individuals and their willingness to contribute to their own development (MÜLLER, 1994). However, actively participating members are only a small number of local government representatives and local leaders. This makes "Chmielnik Zdrój" a public-private partnership distinct from traditional farmers' service cooperatives. The approach overcomes a number of obstacles to cooperation mentioned earlier, but also creates problems for broader participation. In the following, I summarize the major success factors of "Chmielnik Zdrój" but also discuss some limitations of the public-private partnership. The success of "Chmielnik Zdrój" can be ascribed to the following factors:

- 1) *Market-based approach limits risk of long-term involvement for farmers.* The partnership uses its own distribution network and has a regional marketing label. Thus, it successfully developed a regional niche market and is independent from the big retail companies. Farmers also do not have to become shareholders or invest their own funds, and they do not have to take the risk of setting up the organization. This eliminates the free-rider and moral hazard problems that would emerge with respect to the funding of a producer group. Due to farmers' market-based relation to the partnership, there is little danger of a hold-up for them. Furthermore, a contract between the commune of Chmielnik and the partnership guarantees local farmers that they can sell their products to the organization before it is permitted to buy products from other regions. The main risk has thus been taken by the communes and by local leaders who are engaged in the management of the partnership. In addition, the wide array of products that "Chmielnik Zdrój" provides limits the risk of a product failure that former producer groups in Dolina Strugu have already experienced.
- 2) *Setting up as a public-private partnership with a limited number of members eases decision-making and allows professional management.* The principal agent problem between management and the associates of the partnership was minimized because the executive manager, who is originally from Dolina

Strugu, is subject to supervision by a board of trustees and was already involved in the telephone cooperative. However, the professional management is also strongly appreciated by the local peasants. As the latter assessed, the former producer groups were often lacking leaders since peasants generally do not have managerial skills and no additional funds were available for professional management. As a farmer mentioned: "It is helpful when those agricultural associations like "Chmielnik Zdrój" have a management which takes care of farmers' production, advises farmers, makes decisions, and gives also information about the products to the consumers" (DS-07). The associates are a small group of local inhabitants who already cooperated successfully within the telephone cooperative. 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 a quality control mechanism.* The non-profit organization "Dolina Strugu" provides farmers with complementary assistance in applying for EU programs, which is particularly important for the high number of part-time farmers. From "Chmielnik Zdrój", farmers receive assistance in applying for ecological certification, which also works as an additional quality control system for the marketing partnership. This ecological certification frees "Chmielnik Zdrój" from starting negotiations with farmers about production standards and from having additional costs resulting from the implementation of a quality control system.
- 4) *True bottom-up approach secures the support and trust of the local population.* The engagement of associates from "Chmielnik Zdrój" in the telephone cooperative served as a reputation-generating mechanism in the local community. It was particularly well received that the telephone company gave a share of their profits to the local community by offering them free local calls. Furthermore, the social initiatives undertaken by "Chmielnik Zdrój" have also secured local trust. This trust can be recognized by the fact that the partnership's vehicle drivers have the key to many of their clients' houses or flats in Dolina Strugu and other regions, which allows them to deliver goods when the client is absent. The trust in local leaders and the non-profit organization was also evident in a small survey. Table 4-2 summarizes the results of the survey, conducted in the Dolina Strugu region, where inhabitants were asked to fill a questionnaire concerning their trust in various national and local institutions. The table shows that the trust in representatives of the local institutions (members of "Dolina Strugu" and the mayor) is much higher than in national institutions. The latter fact can be proved by a quote made by a local farmer. With respect to "Dolina Strugu" he assessed: "Yes, the region trusts in this association. They have much more problems with the state agency. They prefer to go to "Dolina Strugu" because they do not trust state agencies although they

have offices in the same village. And the second thing is, we really need those places, where farmers receive information," (DS-22).

**Table 4-2: Trust of local inhabitants in different national or regional institutions**

	A lot	A bit	Not much	Not at all	N
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. <sup>1)</sup> (%)	12	65	24	0	17
Mayor (%)	0	63	26	11	27

Source: Author's survey.

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

However, in addition to these factors which contribute to the sustainable development of the region, there are still some areas left, where the public-private partnership only has little positive impact or where it even hinders a broader cooperation between rural inhabitants. This is true with respect to the vitalization of the rural civil society. Here, "Chmielnik Zdrój" has shown only limited successes. Due to its slim management structures, the partnership has had little effect on harnessing the broader civil society for rural development. Besides some rural women's groups in small villages, whose members tend to be older, associations or clubs contributing to regional identification or development are practically absent. This situation is worsened by a perceived myopia of local inhabitants as a result of the poor social and economic situation. People still do not trust their own ability to become agents of change and generally expect the government to initiate any development process. A local teacher mentioned that: "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. However, if they were in committees without any power and any money, what should they do?" (DS-12).

Furthermore, because of the periodic change of local governments in three of the four communes of Dolina Strugu, there is a decline in cooperation between the non-profit organization and representatives of the local government. This is primarily a result of the frequent turnover of local government members. As some interview partners mentioned, the relationship between the local governments seems to be characterized more by competition than by cooperation. Due to the success of the organization and its high acceptance among local inhabitants, local government authorities apparently fear a loss of power. This in turn results in coordination problems between the local governments and the organization's initiatives. For



example, there is no common strategy for regional tourism development. Actions undertaken by the local authorities, such as creation of an artificial lake, are not coordinated with "Dolina Strugu."

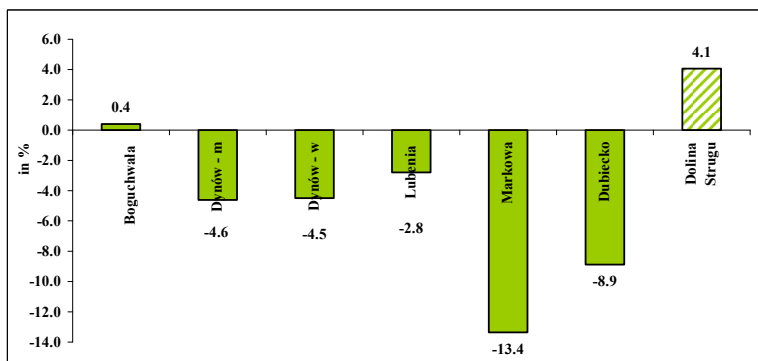
Finally, the marketing problems of bigger farms also remain unsolved. Despite its success in developing outlets for regional products, "Chmielnik Zdrój" has been unable to solve the marketing problems of bigger commercial farms. One farmer couple reported: "They consolidate mostly small farms, which have half a hectare of potatoes. I remember there were some situations, where farmers had very good yields and then they had problems selling their crops because they ["Chmielnik Zdrój"] did not need that much," (*DS-18*). Different interviewees, therefore, expressed the need for further initiatives or producer associations. The director of the local bank said that: "Farmers here are waiting for another place to sell their crops. A small processing plant is really needed," (*DS-29*). However, the partnership might be a positive example and a promising incentive for similar cooperative initiatives.

#### *4.2.5 Impact of the initiatives on the local and regional development*

The telephone cooperative discussed above, "Chmielnik Zdrój", as well as "Dolina Strugu" had a widely perceived impact on broader rural development goals. They provide non-agricultural jobs, contribute to the local infrastructure development and thereby improve the economic situation of rural households, thereby counteracting out-migration of young people. In addition, consumers' demand for regional and environmentally beneficial products is met and the local agricultural land stays under cultivation. "Chmielnik Zdrój" further provides seedlings to local peasants free of charge to contribute to the reforestation of the local forests, which altogether lastingly contributed to the preservation of the local cultural landscape.

An indirect impact of the telephone cooperative "Chmielnik Zdrój", and a slightly direct impact of the non-profit organization "Dolina Strugu" can be demonstrated by the increased number of businesses in Dolina Strugu compared to other neighboring communes. In the four communes of Dolina Strugu, the number of businesses per 1,000 inhabitants increased from 22 to 51 on average between 1995 and 2001, whereas in other neighboring communes near Rzeszow this number increased only slightly, from 22 to 23 per 1,000 inhabitants in the same period of time (UNDP, 2003). This process continued as shown in Figure 4-5. Also, between 2002 and 2005 the number of enterprises per 1,000 inhabitants increased more in Dolina Strugu compared to other neighboring communes. In the majority of the communes depicted in Figure 4-5, the number of enterprises per 1,000 inhabitants even decreased between 2002 and 2005.

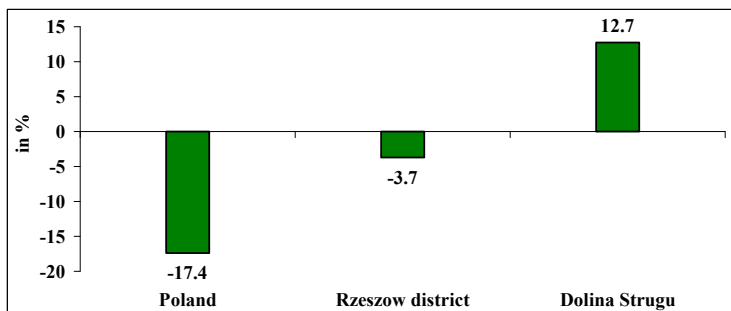
**Figure 4-5: Change in number of enterprises per 1,000 inhabitants in Dolina Strugu and neighboring communes between 2002 and 2005 (in %)**



Source: CROSS BORDER DATABASE, 2008.

The sustainable economic development of the Dolina Strugu region in comparison to the Rzeszow district and to Poland in general is also visible with respect to employment opportunities. As Figure 4-6 shows, employment in the Dolina Strugu region increased between 1995 and 2001 by 12.7 %, whereas it decreased in the Rzeszow district by 3.7 %, and nationwide by 17.4 %.

**Figure 4-6: Change in employment between 1995 and 2001 (1995=0; in %)**



Source: UNDP, 2003.

Furthermore, local inhabitants appreciate the success of "Chmielnik Zdrój" and the initiatives undertaken by "Dolina Strugu". A local farmer stated that: "Chmielnik Zdrój is a very positive initiative and it is a good way to defend Polish products. Because now, all the small shops like butchers and bakeries are collapsing since the big supermarkets are coming from the west and provide things much cheaper," (DS-07). Positive assessments on the partnership were also provided by the owner of a peasant farm: "It is a very good idea and I am very proud of this company. It is

a good idea to cooperate like they do," (DS-09). Although the initiatives of "Dolina Strugu" are not as famous in the region as "Chmielnik Zdrój", many interviewees declared that they themselves, their children, or their neighbors had already benefited from the latter organization. A farmer mentioned: "Yes, those associations are what we need. Farmers do not have enough time and not enough knowledge to get all the relevant information that is provided by "Dolina Strugu". They should keep doing this," (DS-22).

#### 4.2.6 Conclusions on "Chmielnik Zdrój"

Cooperation among peasants in Dolina Strugu was hampered by different barriers. First, there was a general reservation about cooperation among peasants. Furthermore, peasants who planned to supply their products jointly had to negotiate about common product standards, how to manage a producer group, as well as how the latter will be financed and organized. That is, successful cooperation among local peasants requires an institutional arrangement that coordinates peasants' behavior, e.g. with respect to production standards, financing the group, the organization of the group, etc. Since local farms in Dolina Strugu are very small, in order to gain some negotiation power a large number of peasants has to agree on an institutional arrangement that channels farmers' behavior so that every farmer constrains his behavior as part of exchange in return for benefits anticipated from reciprocal restrictions on the actions of others. Neither the development nor the implementation of such an institutional arrangement took place in Dolina Strugu until "Chmielnik Zdrój" was founded.

Starting from the engagement of local initiators, an institutional arrangement, namely the public-private partnership "Chmielnik Zdrój", was implemented which was able to coordinate peasants' interaction in a way that the latter were able to exploit gains from cooperation. As summarized in Table 4-3, "Chmielnik Zdrój" constitutes a synergy of all three governance structures.

The market-based relationship between peasants, as well as between peasants and "Chmielnik Zdrój", improves the decision-making procedures compared to producer groups, secures flexibility, reduces inefficiencies combined with public funding, and enables a cost efficient monitoring of the management. "Chmielnik Zdrój's" organizational set-up as a commercial entity coordinates peasants' individual efforts based on market incentives. Although there is no set of rules on which all peasants have agreed based on factual consensus, "Chmielnik Zdrój" brings local farmers into exchange so that common goals like market access, higher prices, or a decrease of transport costs can be achieved. Farmers who were not able to find factual consensus on a set of rules regarding membership fees, financing of the organization, or common production standards were now brought into exchange under the umbrella of the marketing partnership. Furthermore, due to "Chmielnik Zdrój", the local provenance of products as well as the provision of the local public good "cultural landscape" became marketable goods. That is, through "Chmielnik

Zdrój", farmers supply, in addition to their products, a way of producing crops that is preferred by local inhabitants. Local inhabitants in turn prefer to buy those products because they expect, in addition to the product, the conservation of their cultural landscape. In former times, without "Chmielnik Zdrój" such an exchange did not take place or did, but only to a slight extent.

There are further impacts derived from government regulation. "Chmielnik Zdrój" would not exist if the four local communes had not acted as guarantors for commercial credits used as seed capital, as was the case for the telephone cooperative as well. However, this was not done by subsidization, but was achieved by risk-sharing between private and public borrowers. Involvement of the local governments in the management board of the public-private partnership should further strengthen the impact of local social interests on management decisions. Furthermore, that the governmental agency developed standards for ecological production, implemented a control system to secure standards, and conducted the testing of farmers' products was of great importance. In this regard, exchange between farmers was facilitated through governmental regulation. This freed "Chmielnik Zdrój" from starting periodic negotiations with farmers about production standards, as well as from having additional costs on the implementation of a quality control system.

Just as important as market-based relations and governmental impact was community governance. Most "Chmielnik Zdrój" associates had been politically active in the local government and, thus, generated an eye for local problems. As local politicians, they had an incentive to respond to local needs. Because of their detailed knowledge of local conditions, the founding members of the partnership were able to create an organization that provides locally viable solutions for current problems in agriculture and agricultural cooperation, as well as the rural economy in general. The local rooting of the partnership did not in the end secure the trust of local peasants in the company and consumers' trust in the products. As interviewees mentioned, local inhabitants combine their purchase of local products with the preservation of the local cultural landscape, the creation of local jobs, and a certainty they have about the product quality due to the local provenance of the products. Consequently, local inhabitants must have a close connection (community bonds) to their region to prefer local products over products from further away.

However, the market-based strategy comes at the cost of only limited involvement of the broader civil society. The majority of the rural population perceives the marketing partnership from the perspective of the producer or consumer, but not as a stimulus to become personally involved in rural development activities. The development barriers emanating from a widespread reluctance to become involved in collective action have thus been circumvented but not overcome. Furthermore, the involvement of local governments has become unstable over time, which has led to a lack of coordination within the partnership. Finally, while a marketing network for peasant farmers could be established, the demand potential in the region

has its limits. For this reason, bigger farms must still look for marketing or processing outlets beyond the regional network.

**Table 4-3: Success factors of the public-private partnership "Chmielnik Zdrój" distinguished by market, governmental, and community background**

Market approach	State (Governmental levels)	Community
<ul style="list-style-type: none"> <li>- Market-based relationship between peasants and "Chmielnik Zdrój" sets incentives to provide peasants with competitive prices and contracts</li> <li>- Due to "Chmielnik Zdrój" local provenance of products and cultural landscape became marketable goods</li> <li>- Market-based approach of "Chmielnik Zdrój" secures its flexibility compared to producer groups consisting of a large number of members</li> <li>- Monitoring "Chmielnik Zdrój's" management by a committee of shareholders lowers monitoring costs</li> </ul>	<ul style="list-style-type: none"> <li>- Communes acting as guarantor for commercial credits enabled access to funds</li> <li>- Local government members brought social interests and long-term perspective into decisions made by the management board</li> <li>- Ecological production standards enforced and controlled by the government agency frees the partnership from monitoring and enforcement costs</li> </ul>	<ul style="list-style-type: none"> <li>- Local provenance of initiators enabled "Chmielnik Zdrój" to build on local needs</li> <li>- Local provenance secured peasants' and consumers' trust in the partnership</li> <li>- Participation of local government members in the management board of the partnership secures social control by the local population as well as accountability, since the re-election of local authorities is related to the local results achieved</li> <li>- Community bonds persuade local inhabitants to buy products from "Chmielnik Zdrój"</li> </ul>

Source: Author's depiction.

### 4.3 Development of human capital and a favorable business environment in Dębrzno

This section presents a local and a regional development association both of which strongly forced the improvement of human capital and the provision of a favorable business environment in the commune Dębrzno. Section 4.3.1 describes the situation on the labor market and introduces the local business environment of Dębrzno shortly after transition. In Section 4.3.2 I discuss factors which hampered local inhabitants from joining common initiatives to improve the qualification of the local labor force and also to enhance the start-up conditions for local businesses. Thereafter, I present a local and a regional association as important driving forces,

both of which facilitated local social and economic development in Dębrzno (Section 4.3.3 and Section 4.3.4). Section 4.3.5 then discusses different success factors and limitations of the development process in Dębrzno. Section 4.3.6 aims to show impacts the local development association had on the commune's economy, and in Section 4.3.7 I draw some conclusions.

#### *4.3.1 Lack of human capital and unfavorable conditions for businesses in Dębrzno*

The commune of Dębrzno is located in the southwest of the Pomorskie voivodship. It is a predominantly rural region, and although about 92 % of the commune's area is agricultural land or forest, agriculture is not the main employer in the region. In Dębrzno 15 % of all employed persons find their job in the agricultural sector, 25 % work for industrial companies, and about 60 % are employed in the service sector. The official unemployment rate for the district of Człuchów, where Dębrzno is located, was 37 % in 2005. According to a representative of the local government, the unofficial unemployment rate for Dębrzno exceeds 45 %. This high unemployment rate is mainly a result of the immense number of workers laid-off in the commune in the early 1990s. During that time the state-owned farms, a local military base, and various other state-owned enterprises, such as a brick company, were dissolved and left a large share of the local inhabitants without a job. The loss of jobs had a strong impact on local economic development. In 2002, Dębrzno was characterized by a low average income equal to 78 % of the Polish average and a net-migration rate exceeding -4 %.

The unfavorable economic situation and the high unemployment rate had lasting impacts on the social life and the social activities in the commune. A local teacher summarized the situation as follows: "The biggest problem in this region is unemployment. After people became unemployed all the other problems appeared. People are poor [...]" (D-05). Inhabitants from Dębrzno and the surrounding region strongly depend on the income they receive from employment since the governmental assistance for unemployed people is very low and inhabitants of Dębrzno do not have small peasant farms for subsistence farming like in southern regions of Poland.

According to many respondents from Dębrzno, the constantly high unemployment rate in the commune strongly results from two major determinants: the lack of skilled labor, which can be identified as lacking human capital, and the unfavorable conditions for local businesses. Both determinants were presented as local public goods in Section 2.1.

A high share of local inhabitants are poorly educated and thus only qualified for simple jobs. After the Second World War, because of the jobs and flats offered by the state-owned farms and the military base, people from the south of Poland moved to Dębrzno. Generally, those people who moved to Dębrzno were poorly trained: they often only had primary education and did not receive any specific vocational training. In the early 1990s, as those people lost their jobs they could not find any

other. As an interviewee stated: "... some of them went back [to the south of Poland]. However, many of them [...] bought their flats in Dębrzno. And since they had their freehold flats in Dębrzno and they were not able to sell them, even if they wanted to go to some other places, they could not move. They were also not sufficiently educated to find a job somewhere else," (D-01).

Another local public good poorly provided in Dębrzno are favorable conditions for local businesses. Rather, there are barriers that hamper young people or people with entrepreneurial spirit from starting-up their own business in Dębrzno. Above all, there is a lack of funding. A local shop-owner said: "People here have ideas but there are barriers. Capital is the highest barrier. People have not enough money to invest," (D-11). For the majority of local inhabitants, bank credits are not a viable option. An interviewee held the belief that: "Credits are too expensive and also the application procedures are too difficult," (D-11). Often credits are only available at unfavorable conditions. An inhabitant who invested in his agro-tourism farm said: "If you want to start a business there will be nobody whom you could ask for a credit. [...] The only credit they offered us was a medium-term loan for eight years. But almost everywhere is written, that after eight years the earliest investments in agro-tourism will provide you with first benefits. So how should we repay the credit?" (D-04) The same interviewee further mentioned: "Young people have not yet produced anything. They are not able to provide any guarantees. So how should they take any credits to start-up a business?" (D-04) Also, representatives of the local cooperative bank confirmed that guarantees are always required. A further barrier for local businesses is seen in the lacking access to markets. "You can try and develop but there has to be a demand for the products or services you offer. If there is no demand you cannot do anything, you must sell the products you offer," (D-23). This quote describes a major problem that existing enterprises in Dębrzno face.

Hence, the situation on the local labor market can be characterized by two aspects. On the one hand, there is a large share of local inhabitants who are under-qualified, long-term unemployed, and of an older age. These people will hardly adjust to new challenges on the labor market. However, the lack of a qualified labor force constitutes a disincentive for larger companies to invest in the region. Finally, new jobs stay away and the region remains poor. This will, on the other hand, reduce the market chances for small- and medium-sized businesses. Further, younger inhabitants who are interested in opening businesses and in improving their skills are lacking access to capital and markets, which forces them to leave the region rather than to invest time and funds in new business start-ups.

#### *4.3.2 Factors hampering the improvement of local human capital and local business conditions*

Two local public goods, a high level of human capital and favorable conditions for local businesses, were both poorly provided due to interaction problems that hampered local inhabitants from exploiting gains from cooperation.

Inhabitants improve their skills in order to be well-prepared for jobs that provide them with a sufficient income. Educational initiatives such as seminars, vocational trainings, etc., which assist inhabitants in improving their skills have to be financed jointly. However, those joint investments entail free-riding options since inhabitants could directly (by attending workshops, trainings, etc.) or indirectly (by benefiting from the outcomes of a higher level of human capital like an increase of social activities in the region without attending those workshops, etc.) benefit from investments in local human capital without contributing to its enhancement. Governmental regulations which coordinate a joint provision of education facilities through tax legislation attenuate the problem. In the case of Dębrzno, as assessed by respondents, public facilities often did not prepare the inhabitants according to the requirements of the local labor market. Public education programs thus were lacking knowledge about the conditions on the local labor market and did not respond to its needs. This even constituted a disincentive for local inhabitants, as they did not expect to find a job after they attended such vocational trainings. Therefore, they often stayed away from trainings, seminars or workshops. Additionally, there were no local enterprises which invested in the education of labor since there was a general lack of new investors in the region. Hence, although all inhabitants of Dębrzno would benefit from an improvement of the local level of human capital (since, for example, the attractiveness of the commune for new investors would increase), such investments remain absent and a large share of low-skilled inhabitants have never attended any workshops to improve their skills. That is, if every inhabitant had improved his/her skills as well as contributed to the provision of local educational facilities, the local level of human capital would have improved and gains from cooperation would have been exploited by all inhabitants.

With respect to the favorable conditions for local businesses, a similar interaction problem exists. Banks do not provide credits, as local entrepreneurs often lack sufficient collateral. Hence, a purely market-based provision of credits is very limited. However, access to capital could be facilitated with local funds funded by entrepreneurs and other local inhabitants who pay in a regular contribution that is given, in whole or in parts, to each contributor in rotation so that every member of such a rotating credit association is able to receive some funds for investments. Local entrepreneurs could also commonly vouch for credits from commercial banks, which would also ease their access to capital. However, although all inhabitants, or at least all local entrepreneurs, benefit from the existence of such institutional arrangements, the latter have not emerged in Dębrzno. The improvement of market access



for local businesses also requires collective action in terms of a joint marketing concept, local labels, or a common local development strategy for businesses.

Both access to capital and access to markets can only be provided through exchange. Inhabitants have to contribute their own shares in terms of working time or funds. However, since they are not able to anticipate other inhabitants' contributions as an institutional arrangement which coordinates individuals' contributions, and excluding free-riding is not an option, gains from cooperation in terms of improved access to capital or markets cannot be exploited. According to interviewees from Dębrzno, the following three reasons in particular hamper inhabitants from joining local common activities to improve human capital, as well as to improve access to capital and markets for local businesses:

- 1) *Lack of trust between people.* "Such a thing [trust] does not exist in this town. It is getting worse and worse," (D-15) an interviewee assessed. According to the local respondents, local trust diminished as a result of the income disparities that have greatly increased between local households since the early 1990s. Regarding this issue, a respondent stated: "Basically no, they [inhabitants] do not trust each other. In situations with that high of an unemployment rate, people do not trust others who are in a better position than they are," (D-10). A local entrepreneur answered similarly: "With respect to trust it is a little bit more difficult in this region. Those people, who are in better positions, who have a good job and who have an income, they do trust each other. However, those who are frustrated because they are unemployed for many years already, and who are now in a very bad financial situation, those people do not trust in others," (D-27).
- 2) *Expectation that the state will provide all services.* A further constraint for common initiatives on local public goods provision is seen in the attitude of the local population. During the socialist era, the state-owned farms and the military base provided many social services, and some people still expect government bodies to provide different public services. A representative of the local social aid center held this belief: "However, the problem is to change inhabitants' attitude. They still have this attitude from the socialist era. They still think that they do not have to take care of anything since everything will be provided to them," (D-09). Another interviewee stated that local inhabitants took for granted "[...] that everything will be provided to them. And now, they do not know how to find themselves in the new reality and on the free market," (D-32).
- 3) *Lack of local leaders.* Some interviewees also mentioned a lack of local leaders as a reason for the absence of social activities. A representative of the local labor agency said: "Maybe they [inhabitants] would [work in social projects] but in this region, there is a lack of persons who can organize and manage those projects. There are no leaders whom people could follow. Basically, people have ideas and they are willing to do something, but nobody starts the initiative," (D-06). Another inhabitant added: "People who are associated, they undertake

actions. What is important is that somebody gives the idea and manages the initiative, then, people will work with them," (D-33). A short story told by a local entrepreneur explains the situation obviously: "During the 1970s, we had a dentist in Dębrzno who was very interested in boxing. He managed a club for boxers and promoted boxing in Dębrzno very much. So much that we even organized the championship for the district. However, the dentist then moved to another city and I told him: 'If you move out of Dębrzno, the boxing association will collapse.' And he answered: 'No, that won't happen. I leave many people here who will take care on everything.' But one year after he left, everything was gone," (D-32).

#### *4.3.3 Initiatives to overcome developmental constraints on the local level*

Starting from the above discussed initial situation in Dębrzno, a local non-profit organization called "Association for the development of the city and the commune of Dębrzno" was founded in 1999. The association involves more than 70 local partners of various social and economic backgrounds. The majority of partners are representatives of the local or regional government, local entrepreneurs, and members of local NGOs. In addition to these partners, other members like the local cooperative bank, farmers, teachers and inhabitants of the commune are involved in projects undertaken by the association. By means of the "Association for the development of the city and the commune of Dębrzno", the local government, together with local NGOs, aimed to conduct projects and initiatives that improve the local standard of living, create new jobs, and enhance the attractiveness of the commune as a place for recreation and tourism activities.

The first stimulus was provided by the local government of Dębrzno in 1998. At that time, the local government, representatives of local NGOs, and local entrepreneurs elaborated a regional development strategy that defined the economic and social goals of the commune Dębrzno for the next decade. The principal goals were the establishment of a local business incubator, the support of local tourism initiatives, and the realization of other activities that contribute to the improvement of the local standard of living. While preparing this development strategy, participants in this elaboration process decided to found an association that is able to fulfill tasks that a local government is not able to do due to the lack of staff, its internal bureaucratic standards, or its public status. Such tasks are, for example, applying for funds only available for non-profit organizations or the promotion of the region. In addition to the local government, the newly founded non-profit organization in Dębrzno was also supported by the national "Batory Foundation" from Warsaw and the "Environmental Partnership Foundation" from Krakow. Above all, as a first step the partners of the local association all applied for national and international funds and initiated local activities.

Some important achievements of the association after its first years of existence comprise projects provided to the local population within a building locally called

"The Incubator". These projects aim to support local entrepreneurship, to create new jobs, to assist unemployed people in job-seeking, and to promote the rural capabilities of the commune. Important projects, amongst others, are: (a) the Canadian Loan Program and (b) the local labor agency.

a) The Canadian Loan Program started in 1997 and provides small- and medium-sized enterprises (SMEs) with loans up to an amount of 50,000 PLN [12,435 €]. This program is part of the Polish Entrepreneurs Foundation, which is one of the most successful projects of Canada's technical cooperation program in Poland. The budget for the Polish Entrepreneurs Foundation amounts to 57.7 million PLN [14.5 million €] and was established to provide loans to SMEs as well as to offer training and business advisory services to SMEs and participating financial institutions. Presently, the Polish Entrepreneurs Foundation is under control of the Polish government, represented by the Ministry of Finance and the Ministry of Economy. The Polish Entrepreneurs Foundation cooperates with specially chosen local entrepreneurship centers (local incubators) within the scope of the Canadian Loan Program (CANADIAN INTERNATIONAL DEVELOPMENT AGENCY, 2006). The association in Dębrzno also cooperates with the Polish Entrepreneurs Foundation to support local SMEs that are, although interested in increasing their production facilities, not able to receive commercial bank credits due to a lack of guarantees. The credit period is three years at an interest rate of 7 %. An early repayment even reduces the interest rate to 6.25 %. Compared to commercial bank credits, which are generally available in the region at an interest rate of 14 %, these loans constitute advantageous conditions for local enterprises. However, in addition to a clearly-stated investment project and a business plan with a capital flow calculation, the program also requires the enterprises to exist for more than three months at the time of application. The Canadian Loan Program acts as a credit fund. That is, if lenders repay their credit, new loans for other enterprises will be available. Guarantees are not necessarily needed. If a lender is unable to provide guarantees, he has to sign an agreement declaring that the object of investment remains the property of the fund until the whole credit amount is repaid. Agricultural farms, the military sector, and sectors which produce in a non-environmentally friendly way are excluded from this program. For the first nine months of 2005, about 25 local enterprises from the region around Dębrzno successfully applied for these loans. Applicants mainly invested in facilities like trucks, furniture for restaurants, or interiors for small shops.

b) In April 2005, based on the initiative of the "Association for the development of the city and the commune of Dębrzno" a local labor agency was founded in Dębrzno. The agency basically assists inhabitants with finding employment and prepares job-seekers for job interviews. Inhabitants who come to the agency also gain knowledge about the right preparation for job applications. The job agency in particular tries to connect local businesses with the job-seeking inhabitants in the commune. This is mainly done through meetings organized by the employment agency where enterprises and other employers contact unemployed people from the

closer region. According to interview respondents, this is already well-established in the region and is generating first successes. The job agency also facilitates the job-seeking process for the local population, as it tries to reduce bureaucratic hurdles and transport costs for local inhabitants who otherwise would need to go to the district's town, which is about 20 km away from Dębrzno. Furthermore, job seekers will be trained in how to behave in job interviews and will be further motivated in their job search. These services are financed by funds from the European Union and, therefore, can be provided to customers for free.

#### *4.3.4 Initiatives to overcome development constraints on the regional level*

Aside from these local projects, the "Association for the development of the city and the commune of Dębrzno" also initiated different projects on a larger, regional level. In 1999, the association organized a first conference for representatives of regional and local governments, as well as NGOs. This conference was supposed to focus on discovering principle regional problems and to elaborate common solutions for the latter problems. However, the conference became a kick-off meeting that eventually led to the foundation of a new regional partnership. In 2000, local governments, NGOs, and local businesses from thirty-two communes founded the "Partnership of the Northern Necklace". This partnership comprises a region of 450,000 inhabitants, involves twelve different districts, and four voivodships. The partnership's purpose was to organize trainings for writing project proposals and managing development projects, among other things. They also elaborated a catalogue of biking and hiking trails for the region and designed a catalogue of regional craftwork products. In 2000, the "Association for the development of the city and the commune of Dębrzno" became the coordinator of the "Partnership of the Northern Necklace". The first steps the partnership undertook were funded by the "Environmental Partnership Foundation" from Krakow and the "Batory Foundation" from Warsaw. In 2004, the "Partnership of the Northern Necklace" registered and became a legal entity.

The idea of the "Partnership of the Northern Necklace" is based on cooperation between local governments, local businesses, and NGOs. A strong stimulus within the founding process was provided by the "Environmental Partnership Foundation" from Krakow. The idea of a rural partnership implied that every institution or group of citizens in the region is eligible to become an equal partner and to contribute ideas to the partnership's initiatives. Additionally, due to common applications for national and international programs, the partnership facilitates the access to funds for every member. In the following, the major achievements of the Northern Necklace's Green Way and the local brand of the "Northern Necklace" will be presented.

The main project of the "Partnership of the Northern Necklace" is the Green Way. Green Ways are pro-ecological bike trails located in various European countries. Presently, Poland has seven of these bike trails, which are mainly located in the

south. In 1999, the "Partnership of the Northern Necklace" undertook steps to create the first Green Way in the northwest of Poland. This project was based on an agreement made by all thirty-two communes that are members of the partnership. The agreement covered the creation of an 870 km bicycle loop route called "Northern Necklace's Green Way". Besides the "Environmental Partnership Foundation", the Polish government also contributed some financial means to the project. The Green Way goes through different national and landscape parks and leads tourists to many natural monuments.

Based on another project called "Local products as a chance for additional incomes apart from farming for inhabitants of the Northern Necklace's area" the "Partnership of the Northern Necklace" provided unemployed inhabitants of the region with training, workshops, and seminars to improve their skills. This program started in 2001 and was funded by the pre-accession program PHARE. The project's main focus was supporting unemployed, poorly-educated, and poorly-skilled women. During workshops, attendants were taught to create handicraft products like bouquets of flowers, herbs and cones, ceramic products, and glass paintings. Besides these handicraft skills, attendants also received briefings and support on the legal and financial aspects of running a shop or a business, and gained skills in the marketing and selling of products and services. In total, 48 unemployed people attended these trainings. According to the attendants, another important result of these trainings was mentioned; they also encouraged local inhabitants to again become active and generated new motivation, particularly for those attendants who were already long-term unemployed. A representative of the local labor agency reported: "People often believed that they are not able to do anything. That is why it was important to show them that they are able to do something on their own, and often it was for them like a brainstorm. After these workshops, they came up with new ideas. It was a strong encouragement for them," (D-06).

Additionally, in 2001, in cooperation with the "Environmental Partnership Foundation" from Krakow, the "Partnership of the Northern Necklace" initiated the project "Local brand of the Northern Necklace". In this project 25 persons were trained in promoting and marketing local products. Members of the "Partnership of the Northern Necklace", together with trainees, defined different requirements for local products and issued a certificate and a logo for the local brand "Northern Necklace". According to the project regulations, the following products and services can be promoted under the logo of the local brand: local handicraft products, other useful local products, local services, and important commune initiatives. Every year within an annual contest, local businesses and stores can apply for certificates which enable them to provide their products and services by means of the local brand "Northern Necklace". In addition, a catalogue of local handicraft products was prepared. Those local products will also be promoted on international, national, and regional fairs with the help of different representatives of the "Northern Necklace".

#### 4.3.5 Success factors and limitations

In this section, the most important factors that influenced the success of the "Association for the development of the city and the commune of Dębrzno", and the initiatives starting from the "Partnership of the Northern Necklace" will be presented. Also, the program's limitations will be discussed. The success of the local association in Dębrzno and the "Partnership of the Northern Necklace" is strongly based on the following four factors:

##### 1) *Close cooperation between the local government and the association in Dębrzno.*

Nearly all members of the association and the local government identified the close cooperation between the local government and the association as an important factor for the success of the association's activities. An association member stated: "But the key element is certainly the cooperation with the local government. Without them, there would be no noticeable outcomes, no results," (D-09). Both sides provided different reasons for the beneficial cooperation. One reason was seen in the association's initial task. As mentioned above, the association was founded to implement the regional development strategy, which was elaborated by the local government, local NGOs, and local entrepreneurs. Therefore, representatives of the local government always had a strong interest in a successful association and supported the latter with a building, financial contributions, and necessary information. In addition, the chairwoman of the association is employed by the local government and assessed the situation as follows: "The fact that I get paid by the commune provides me with the opportunity and the duty to take care of those projects and programs. So I am managing the strategy. This close relationship with the local government was very helpful for the implementation [of the strategy]," (D-01).

Besides the chairwoman, other association members also work for the commune council. After the last local elections, seven members of the association were elected as members of the commune council. This led to an even better cooperation between the local government and the association. Furthermore, it also emphasizes that local inhabitants appreciate the activities originating from the association. A respondent explained: "Here [in Dębrzno], when it comes to local elections, people vote for certain persons and not for political parties. Usually, citizens vote for people who are socially active, people who did something for the city or the region. A simple example is that our city council contains seven representatives of the association. And it is not like two or three months before the election somebody starts his campaign and nobody heard anything about him before. People are voting for people who are active all the time and who contribute to the development of the city or commune," (D-12). In this context, it is also interesting to see that voter turnout for local elections are higher than national elections (see Table 4-4). According to respondents, this is because local inhabitants expect changes due to the results of the local

elections and attach their votes in local elections with more importance than in national ones.

**Table 4-4: Voter turnout for past elections in the Dębrzno commune**

Election	Year	Turnouts of voters
Local election	2003	58 % <sup>1</sup>
Election to the senate	2005	29 % <sup>2</sup>
Presidential elections	2005	37 % <sup>2</sup>

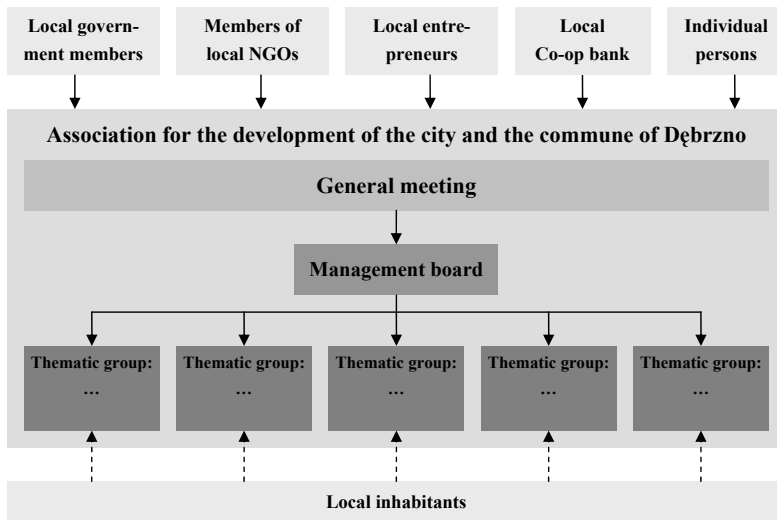
Source: <sup>1</sup> Reported by a local inhabitant; <sup>2</sup> NATIONAL ELECTORAL COMMISSION, 2005.

3) *Organizational structure of the association.* The organizational structure of the association constitutes a further reason for success (see Figure 4-7). In searching for a proper organizational structure, the association received valuable advice from the Environmental Partnership from Krakow. Twice a year the association has a general assembly where all members discuss major projects and new directions in which the association plans to go. The operational work and questions are mostly handled not at the general meetings, but by the board, which meets once a month. The main activities of the association take place in thematic working groups. These thematic working groups are constituted to elaborate and implement the projects. Attendants of these thematic groups are chosen because of their occupational background and their knowledge of the problems in question, and it is not necessary that the groups consist only of association members. Often, inhabitants were also asked to take part. Association members appreciate this cooperation with non-members very much, as the latter often provide helpful comments and different views on the initiatives. An association member said: "They tell us for example, whether the trainings or workshops they took part in worked out successfully in their eyes and responded to their needs or not," (D-09). Therefore, the association also stays in contact with the local population. An association member pointed out: "The remarks of people from this region are very important for the association, because they know the needs of the local society. They tell us what is needed and what is not needed," (D-02). Furthermore, the fact that most association members have their origins in Dębrzno and belong to the small local society also eases their work. A member reported: "[T]he society here is a small group, and it is not hard to get into contact with them since, e.g., people who are working in the association also have contact and relations to the people from this region, and they talk to them and can see their needs," (D-09). Members of the association also believed that the involvement of local inhabitants in the association's activities is only possible due to the association's promotional activities in the local newspaper and on the local TV channels.

A further important partner and member of the association is the local cooperative bank. The local cooperative bank finances many projects undertaken by

the association. This is of particular importance for EU programs. With respect to the latter programs, applicants are forced to pre-finance a large amount of the investments, which is hardly possible for non-profit organizations like the association in Dębrzno. Hence, due to the close cooperation between the local cooperative bank and the association, projects were realized which would not have been managed by the association alone. Regarding this, it also has to be mentioned that the association's office building, which was received from the local government, acts as an important guarantee for the bank. Moreover, the association also pre-finances their projects with financial contributions from the Batory foundation or by reallocating funds between projects that were implemented in different periods.

**Figure 4-7: Organizational structure of the association**



Source: Author's depiction.

- 3) *Emergence of a strong leader in the association.* Some members of the association in Dębrzno emphasized that the successful performance of the association was positively influenced by the leadership personality of the chairwoman. A member assessed: "The key to the association is Mrs. Chairwoman. She wants to do her work and she does it very well. She has her closest assistants, and she can delegate the responsibilities very effectively. Sometimes, I am wondering where she finds that much power to do so many things. She works for the city council, for the association, and for the incubator," (D-08). Besides her successful leadership within the association, the chairwoman is also an important representative of the association in the local society. Due to her former job as director of the local school, as well as her work in the local city council, she receives



widespread acknowledgement, not only in the small society of the Dębrzno commune. This was important to make the association better known in the local society, as one association member reported: "So people were wondering what that [the association] could be. But later on, they heard the name of Mrs. Chairwoman, and then, they already knew that this is a person they can trust in and this is for sure a good thing. [...] The name of the chairwoman is like a trademark and it is important that representatives of these organizations are well known in the region," (D-02). The trust that the local society has in the chairwoman is also important for encouraging local inhabitants to work in the association and contribute to certain projects. An inhabitant mentioned that: "If the chairwoman asks somebody, they will always help her [the chairwoman] to accomplish something. If they hear that the chairwoman is connected with the initiative, people will trust in the initiative and will take part in it. She is well known and very famous in the region, in the district, and even in foreign countries," (D-13).

- 4) *Elaboration of a regional development strategy.* A last success factor identified by the members of the local association was seen in the existence of a commonly elaborated regional development strategy. As interviewees mentioned, the elaboration of the strategy was a difficult process. The representatives of the different local groups, that is, the members of the local government, the local NGOs, and the local entrepreneurs had to contribute ideas, suggestions and visions to the strategy. And as mentioned by different respondents, it was often very difficult to come to common positions. A member of the association stated that: "It took us three years to come to a consensus regarding the strategy. At the beginning, the city council did not know whether it was a good idea to spend money on it [the strategy]. They did not see the results that might emerge from the strategy over time. Finally, when we had elaborated the whole strategy, we were also able to reach consensus," (D-01). The elaboration of the regional development strategy eventually resulted in three outcomes. First, the participants were forced to deal with various positions that were represented in the elaboration process. As mentioned above, this sometimes complicated the situation, but it finally led to the better coordination of individuals' actions in the process of local development. Therefore, in some cases participants had to give up their individual positions to achieve the goals that were commonly accepted. However, as the following quote shows, the often heated discussions at the beginning finally led to better cooperation between the partners of the three local sectors, namely, members of the local government, the local NGOs, and the local entrepreneurs. "For instance, during the first day of elaborating the strategy we only created one sentence, because it was so difficult to find an agreement between all the persons. However, later it went more smoothly and now, after 5 or 6 years in the association, the partners have experience. They could see that it was necessary to elaborate the strategy. Now, partners know each other, they know what the needs of other partners are and they know how to cooperate. That is why it goes even more smoothly now," (D-02). Second, the strategy was also

necessary to define the direction in which the local economic development aims to develop. It thus provides local businesses with the opportunity to coordinate their activities and investments and enables the members of the local government and NGOs to represent a commonly accepted picture of their region. Therefore, it was necessary to identify local needs and to point out the chances that emanate from local capabilities. Within this process, participants agreed on the development of ecological tourism and implemented a tourism strategy comprising, *inter alia*, the provision of accommodations, tourism activities, and products. All projects undertaken by the local association, therefore, aim to make the local population capable of following this commonly defined direction and to provide them with assistance in order to benefit from this process. Finally, third, the strategy also serves as an important instrument for explaining to local inhabitants how they can contribute to and benefit from local economic development. Related to this, a member of the association mentioned that: "The problem that associations like us sometimes have is that nobody in the region really knows what the association is doing and also the partners of the association often cannot explain all the things they are doing. Therefore, sometimes it would be good to have somebody who informs all the people in the region. And that is why the strategy is necessary and helpful to explain everything we do. And we can therefore explain how inhabitants can contribute to the development process in the region," (*D-01*).

Besides these success factors, there are still some limitations which hamper the success of initiatives and projects that originate from the association. According to respondents, the limitations are external rather than internal. That is, in contrast to the case study conducted in Dolina Strugu (see Section 4.2) the local development initiatives are not so affected by the lacking vitality of the rural civil society. However, since compared to Dolina Strugu the association in Dębrzno depends more on public funds, they are also more strongly constrained by the legal frameworks. This to some extent hinders the local association from working more efficiently. According to respondents, a main problem is seen in the varying organizational structures that are required if associations apply for national and international programs. As mentioned above, the association in Dębrzno gained positive experience in coordinating their projects with the help of thematic working groups. However, applying for the EU Community Initiative LEADER, for instance, requires the establishment of a local action group (LAG), which is strongly limited regarding its application activities for LEADER projects. Hence, LAGs are not able to apply for other national or European funds. The association in Dębrzno and the "Partnership of the Northern Necklace" therefore had to register different legal forms to apply for different types of national and international programs. One partner assessed his concerns as follows: "Now, since we applied for the pilot measure of LEADER, we had to change our organizational structure, because one requirement of LEADER is that partners be from these three different sectors. Earlier, the partners were selected with respect to the projects we wanted to implement. And this worked out well,

because we were looking for people who were interested. Now, it is a completely new situation for us, we have to select partners due to their affiliation to the three different sectors," (D-01). Furthermore, the strong dependence on national and international programs also increases the dependence of the local initiatives on governmental standards and decisions. In cases where those standards hinder local associations from responding to local inhabitants' needs, the costs of wrong decisions and mistaken investments emerges.

#### 4.3.6 *Impact of the initiatives on local and regional development*

In the following, the initial impacts of the initiatives undertaken by the "Association for the development of the city and the commune of Dębrzno" and the "Partnership of the Northern Necklace" on local social and economic development will be discussed. In Section 4.3, the low level of human capital and unfavorable local business conditions in terms of lacking access to capital and markets were identified as development constraints for the Dębrzno commune. Although the impacts of the initiatives starting from the association and the partnership on the local labor market and the business environment are hard to quantify so shortly after the initiatives began, initial results and in particular qualitative assessments of local inhabitants will be presented.

With respect to the development of local human capital, interview respondents emphasized two different changes that had occurred on the local labor market over the previous five years: 1) local inhabitants' skills and motivation increased; and 2) the cooperation between local inhabitants increased, which led to further initiatives aiming to improve local economic development.

Ad 1) A member of the "Association for the development of the city and the commune of Dębrzno" assessed: "The first visible change is that the awareness of people has changed. People became more active and also the local authorities have changed. They are more open now," (D-02). But it is not only the members of the association that share this opinion. A representative of the local cooperative bank also held the belief that: "The trainings and courses they [the association] organized, made people who attended these courses more open-minded and improved their skills. They provided them with the chance to find a position for themselves," (D-28). Local inhabitants often regarded the improvement of people's professional skills as an important result of the association's activities. Another interviewee emphasized the impact of the workshops on unemployed older women from the commune: "They [the association] provided training for these women. During this training they learned to improve their craftwork skills. And quite a lot of these people succeeded in this work, and now, they sell their products under the local brand. [...] They also prepared women for working in flower shops. Women from Dębrzno were provided with those skills and these women received a certificate afterwards. By means of the certificate, these women found a job in the closer region," (D-03). These assessments were affirmed by a further respondent, who argued: "The

association organizes different courses and trainings. Hence, people can change their profession and improve their skills. At the beginning, inhabitants did not know that such an association exists here. But now they know the association and they convince each other to attend the workshops. They say: 'The workshops they provide are very good and helpful'. They accept the association and they are willing to come and attend the workshops," (D-05). Furthermore, the association also organizes learning workshops and seminars for members of the local government and for local NGOs. During these workshops, the people gain insight into the application process for national and European programs and funds.

Moreover, the local association also provides local entrepreneurs with seminars to improve their skills and give young inhabitants the opportunity to conduct an internship in the association. A local entrepreneur whose daughter worked as a volunteer in the association commented on the association's influence on young people: "What they do is really good. Because this is the way for young people to find a reason to stay in Dębrzno. They can learn something in the association. Basically, the association supports them during their first steps," (D-33). However, many local respondents also emphasized the new perspectives and opportunities for inhabitants which were provided by the association. An interviewee stated: "After the old system with the state-owned farms collapsed, people were used to receiving money. And later on, people had to adjust to the situation where everybody is responsible for himself, and that what you achieve is related to the efforts you put into doing your work. So there were lots of people in the region who were willing to do something, and these are really good people. So the association gave them the opportunity to become active and to do something. So supporting these people reduced a little bit the problems in this region," (D-01).

Ad 2) Due to the association's and the partnership's successfully conducted initiatives, local inhabitants were encouraged to undertake actions to improve their personal situation by means of cooperation with other local inhabitants. Pertaining to this, a local teacher offers the following assessment: "Generally, the association had a big impact. They assisted inhabitants in writing project proposals, and finally, after the application was successful, they came again and started a new initiative. The association has a positive impact, although not all people could profit from it, yet," (D-05). According to association and partnership members, the success of different initiatives also encouraged the former to develop new projects and to apply for larger funds. A member of the association said: "For sure, the biggest success the association has made are the experiences we gained and the assets we could acquire. That is, people are capable of doing projects and I believe at the moment there is no project we are not able to manage. We can write proposals and coordinate projects," (D-09). A similar assessment was given by another member who emphasized the increasing cooperation between members: "[...] the second most important result is the cooperation between partners. We applied for different projects and in these projects different partners were always working together.

[...] So, within this process we learned how all these partners are working and what kind of projects we are able to do," (D-02).

In addition to the association's and the partnership's investments in local human capital, the latter organizations also contributed to improvements in the conditions for local businesses. Those improvements are subdivided into three different aspects: 1) improvement of access to capital; 2) creation of new sources of income for local businesses; and 3) improvement of public investments in the local infrastructure.

Ad 1) Access to seed capital and funds in general has been facilitated by means of the business incubator and the opportunity for local businesses to apply, together with the association, for various national and international funds and programs. With the help of the business incubator and the Canadian loan program, local businesses were able to gain additional funds for investments but, as entrepreneurs assessed, they also received very important assistance in overcoming bureaucratic barriers and were provided with workshops and seminars to improve their entrepreneurial skills. A few local businesses were also able to finance their first steps based on funds they gained from EU programs. However, most of these entrepreneurs, due to their lack of knowledge about international funds, would not have been able to apply for those funds without the assistance they received from the association. The positive impact of the local association on local business development can also be displayed in the following two quotes: "Thanks to the association, a few enterprises have started. And they [the new enterprises] have already become independent and do not need any support from other sources," (D-12). "Definitely, there are lots of changes that took place in the last few years. The incubator here in the association is one of the most important changes. This is because it is actually really hard for small businesses to get any financial sources, but the incubator already provided funds to many different enterprises," (D-05). However, since the activities had not lasted longer than a few years when the case studies were conducted, it is hard to quantify the impact of the association's and the partnership's initiatives on local business development. And since the Canadian loan program is only accessible for enterprises that have existed for more than three months, it is also not clear whether new businesses only started to make use of the new possibilities provided by the loan program.

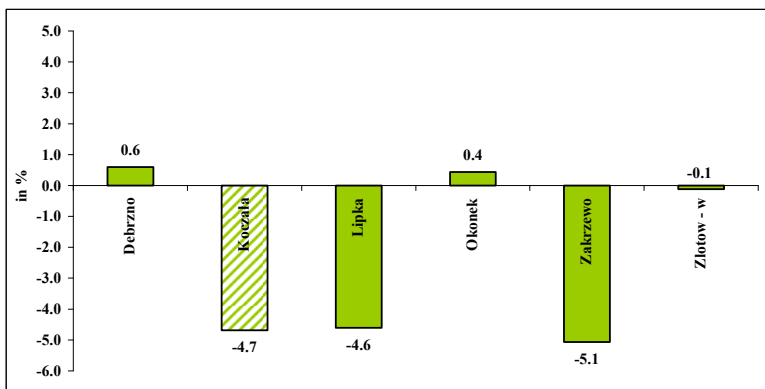
Ad 2) In addition to access to funds, activities of the association and the partnership also provided local businesses with new sources of income as a result of tourism projects related to the "Green Way". In 2005, the first year of the bike trail's existence, it attracted almost 35,000 tourists and already in this initial status, first impacts on the regional economy were visible. Hotels and agro-tourism farms emerged that created an additional source of income for the local population. About 70 new tourist accommodations and small businesses producing regional handicraft products were founded next to the bike trail. For the next years, the partnership members expect about 300 new entities to be founded. These new businesses will provide

tourists with accommodations, gastronomy, handicraft products, sport equipment, and tourist information. One member of the partnership reported: "People who are living next to the "Green Way" are changing their minds and attitude. They start to open small shops or provide accommodations for tourists," (D-12).

Furthermore, the new local brand provides local inhabitants with access to regional, national, and international markets. Also, local products which are not connected with tourism activities, like the local ecological mill or a confectionary were promoted in the region and entered new markets. The increasing popularity of the town and the commune Dębrzno was also recognized by local inhabitants. A respondent stated: "Thanks to the activities of the association, Dębrzno is known in the district, in the voivodship, in Poland, and even outside of Poland. Dębrzno is famous," (D-08). A local entrepreneur also observed an increasing number of tourists in Dębrzno within the last few years. He explained this development as follows: "Definitely, this is thanks to the local authorities, who try to encourage people to create tourism facilities. But the greatest job was done by the association and by the incubator," (D-32). Hence, promotion activities also emerged as being very important for the economic development of the region.

Finally, in Dębrzno, not least due to the impact of the local association and the "Partnership of the Northern Necklace", a slight increase in the number of businesses compared to other neighboring communes has become apparent; the number of businesses per 100 inhabitants increased in Dębrzno between 2002 and 2005 by 0.6 % (see Figure 4-8). In most of the neighboring communes like Koczala, Lipka, Zakrzewo, and Zlotow, the number of businesses per 100 inhabitants even decreased during the same period.

**Figure 4-8: Change in number of enterprises per 1,000 inhabitants in Dębrzno and neighboring communes between 2002 and 2005 (in %)**



Source: CROSS BORDER DATABASE, 2008.

Ad 3) A third outcome that influences local business development more indirectly than directly results from the infrastructural projects the local association had applied for on behalf of the local government. For instance, the association successfully applied for different national and European programs which contributed noticeably to the commune's budget. As a representative of the local government reported: "At the moment, the cooperation between the commune and the association is very useful and fruitful for both sides. Lots of projects are carried out by the association on behalf of the local government and the commune supports the association with financial input. [...] The outcomes of these projects are useful for the whole region. The application for these projects is the commune's task, but we do not have that many employees nor enough time. So we are simply not in the position to complete these applications. The association assists us on how to develop the region and this is a good combination," (D-07). During the last six years the association successfully applied for programs amounting to 1 million PLN [249,066 €]. Of these funds, 80 % were used for infrastructural projects in the town and commune of Dębrzno. A noticeable amount of the funds acquired by the association were also used to create a business park close to Dębrzno. This business park is well-connected with access to energy, water and a local sewage plant and should attract larger companies.

#### 4.3.7 *Conclusions on the initiatives starting from the association in Dębrzno and the "Partnership of the Northern Necklace"*

Both the association in Dębrzno and the "Partnership of the Northern Necklace" implemented institutional arrangements that were capable of providing local public goods, namely an improved level of human capital as well as improved conditions for local businesses. As summarized in Table 4-5, in so doing all three governance structures enabled inhabitants to coordinate their actions in order to exploit gains from cooperation.

Though in the 1990s there was a lack of educational facilities and vocational trainings, or such trainings did not provide the inhabitants of Dębrzno with skills required on the local labor market, the local association and the partnership acted themselves as institutions that established workshops, seminars, trainings and a local labor agency so that inhabitants were encouraged to improve their skills. Those facilities, largely financed by public money, prepared local inhabitants for the requirements of the local market because the main initiators of the workshops and seminars were community members who were familiar with the local conditions and needs. Therefore, local job-seekers benefited since they were able to improve their skills and to receive employment or start-up their own business. Local businesses also benefited as they were able to employ workers sufficiently skilled for the jobs they offered. The local labor agency works similarly, as it simply constitutes an institutional arrangement which improves the performance of the local labor market by facilitating contact between employers and job-seekers. Inhabitants

were able to inform themselves about what local businesses require and local businesses were able to inform themselves of the job-seekers available on the local labor market. The labor agency was financed by public funds but managed by community governance. Inhabitants who make use of the labor agency, regardless of whether they are employers or job-seekers, thereby visualize their agreement on this institutional arrangement. Finally, in Section 4.3.2 I argued that although all inhabitants would benefit from an improved level of human capital in Dębrzno, a large share of inhabitants rarely undertake actions to improve their own skills since they did not expect to be prepared properly for local job offers, or to start-up their own businesses. The association and the partnership, however, provided inhabitants with incentives as they prepared them for the local labor market, as well as with a favorable business environment so that inhabitants began to improve their skills, which also improved the attractiveness of the region for new investors.

**Table 4-5: Success factors of the association and the "Partnership of the Northern Necklace" distinguished by market approach, governmental regulation, and community management**

Market approach	State (Governmental levels)	Community
<ul style="list-style-type: none"> <li>- Application of national and international funds in competition with other regional entities</li> <li>- Local label prepares local entrepreneurs for competitive markets and also secures a sustainable economic development when public support decreases</li> </ul>	<ul style="list-style-type: none"> <li>- Initial public investments were necessary to found a fund that was further managed by the community</li> <li>- Financial contribution from local government enables application for funds that require prefinance</li> <li>- Excludes free-riding in financing projects like the Green Way or the local brand</li> <li>- Fiscal equalization enabled larger investments in the region</li> </ul>	<ul style="list-style-type: none"> <li>- Local provenance of initiators facilitates trust between local inhabitants and association members</li> <li>- Local provenance of initiators enable the association to build on local needs</li> <li>- Close contact between association members and inhabitants, e.g. in thematic working groups, enables the association to develop projects together with local partners</li> <li>- Use of traditional incentive systems like reputation is possible due to the local provenance of the association members</li> </ul>

Source: Author's depiction.



Local entrepreneurs' access to capital was facilitated through the local business incubator. With the help of the latter and the Canadian Loan Program, access to capital for local entrepreneurs became a good that is now to a large extent managed by community governance. Since access to capital based on market mechanisms was lacking, the fund, which was publicly provided, is now managed by local inhabitants. Community members did not make any initial contributions to the fund since there were no institutional arrangements capable of monitoring and coordinating inhabitants' contributions to prevent the free-riding option. That is why it was useful that the initial sum of money was publicly provided. However, now the conditions under which inhabitants can apply for credits were adjusted to the local situation. The local business incubator thus constitutes an institutional arrangement that enables local inhabitants to exploit gains from cooperation. Local inhabitants enter into exchange under community governance. The latter pay interest rates for the credit, whereas those interest rates repaid by lenders enhance the fund so that new loans for other local businesses are available. Consequently, the conditions for local businesses improved and investment activities were enhanced.

The local brand implemented by the partnership facilitated the coordination of investments undertaken by local businesses. While in the 1990s, local businesses did not coordinate their investments and, therefore, did not exploit gains from cooperation, the local association provided the basis for common local economic development by elaborating a local development strategy in the late 1990s. Projects conducted by the local association and the partnership, whether its focus was on the development of human capital or the improvement of local business conditions, were always oriented towards the following principle objectives: a) to strengthen environmental-friendly production of all types of products in local businesses; b) to facilitate access to or create markets for those products; and c) to combine the latter business development with ecological tourism activities. Local businesses were able to integrate their investments in the strategy and new businesses were also encouraged to undertake investments according to the strategy. Due to the advice they gave and the projects (e.g. the Green Way) they conducted, local businesses received additional coordination from the local association and the partnership. Furthermore, due to the local brand, local businesses were also able to enter new markets and thus benefit from a competitive market environment. The local brand also constitutes an institutional arrangement that enables local businesses to coordinate their actions in order to improve market access. While local businesses make use of the brand and produce according to the standards defined, they also agree on this institutional arrangement.

The idea that Dębrzno elaborate a local development strategy was suggested by the Environmental partnership from Krakow, who generally advised the association and the partnership in many different matters.

The local development process would not have taken place without crucial public support. Based on public sources, large projects like the Green Way could be

financed which would otherwise not have been realized due to a lack of money. Those investments, in contrast, were also possible due to the financial equalization among regions that was coordinated by governmental regulation. However, in applying for public funds, the association and the partnership had to compete with other local or regional entities for limited public sources. The competition between regional entities thus ensures the most efficient use of public funds, since applicants are forced to develop profound concepts for regional development projects.

One of the most crucial barriers that hampered local inhabitants from cooperation, the lack of trust, was overcome by the local provenance of the association and partnership members. The latter, and in particular the chairwoman, had a local reputation even before the association was founded. This encouraged other inhabitants to get involved in projects and activities and enabled the association to formulate and conduct initiatives according to local needs. Furthermore, the association also became more and more a connecting link between local inhabitants and the local government, since the association brought the latter groups into close contact with each other. Inhabitants were strengthened in their impact on the local government and, thus, local development decisions. Local inhabitants and in particular local businesses can also, without having to join the association officially, contribute directly to the development projects undertaken by the association by means of the thematic working groups.

#### **4.4 Improving conditions for local businesses in Bałtów**

Section 4.4 presents the results of the case study in Bałtów. Based on the initiative led by two local associations, the conditions for local businesses in Bałtów have improved sustainably due to the creation of a dinosaur park and other mainly tourism-oriented projects. Section 4.4.1 discusses the unfavorable conditions local businesses in Bałtów faced after transition. Section 4.4.2 goes on to explain different reasons that hampered local inhabitants from initiating cooperative initiatives to improve the local business environment and the natural and infrastructural conditions in the region. Thereafter, local endogenous initiatives will be presented, which finally led to the creation of a tourism infrastructure in Bałtów (Section 4.4.3). In the following, different success factors and limitations (Section 4.4.4) will be described, and the impact of the latter initiatives on the local social and economic development (Section 4.4.5) will be discussed. The section ends with some conclusions (Section 4.4.6).

##### *4.4.1 Unfavorable conditions for businesses in the Bałtów commune*

Bałtów, located in the northeast of the Świętokrzyskie voivodship, is a rural commune. In 2002, approximately 1,000 of its roughly 4,000 inhabitants cultivated a small farm as their main source, or at least an additional source, of income. The average farm size was 5.3 ha (GUS, 2003). Thus, local inhabitants are still strongly related to agricultural production, although the quality of soil is very poor. Until

the early 1990s, most farmers in Bałtów received additional income from jobs in a state-owned steel company, which was located in the next bigger city Ostrowiec, 10 km from Bałtów. In the early 1990s the state-owned steel company collapsed, and agricultural production remained the only source of income for the majority of families in Bałtów. In 2004, the unemployment rate in the district amounted to 29 %. The immense layoffs of workers in the early 1990s had a strong impact on the social and economic development in Bałtów and other surrounding communes. One inhabitant stated: "In the last ten years, people in this region have had a very hard time. Nearly everyone here worked in the steel company. By the time the steel company was shut, 38,000 people had become unemployed and these unemployed people became desperate and often started drinking," (B-01).

Besides the high unemployment rate, the shut down of the steel company left further effects on regional development. In the 1980s, the majority of the regional population found a job in the steel company. Thus, there was no need for local inhabitants to diversify and to start their own businesses. An interviewee said: "If we think about the time fifty years ago, this was a very good and creative region with a high educational level. However, the steel company appeared and people started to think just in one way. They started to do the same work and to behave in the same way," (B-09).

Since the middle of the 1990s, inhabitants started to see the only chance of developing their region as using their natural resources for tourism activities. Respondents argued that agricultural farms could not provide families with sufficient income and other employers, e.g. bigger companies would not invest in Bałtów – not least because of its geographical position in a valley. Therefore, the only chance for the region was seen in tourism activities. Although inhabitants aspired to develop as a tourist region, there were many doubts that had to be overcome. In addition to natural resources, respondents were aware they would have to provide accommodations, different sites, and other tourist attractions. An interviewee mentioned: "Bałtów does not have the tradition of a tourist city. People from Bałtów do not travel a lot. They do not know how tourist places are supposed to look like and how their resources have to be used. They need time and education," (B-33).

Investments in the local tourism infrastructure had to be undertaken collectively. Tourist development required investments and initiatives providing different facilities, which all led to a unified picture of the commune as a place of recreation. Single investments, which were not coordinated with investments undertaken by other local entrepreneurs, would not have been entirely sufficient and would not have shown sustainable results. And if such single investments had not shown the expected results, they also would not have encouraged others to invest in the same direction. Hence, there were gains from cooperation which remained unexploited in Bałtów. If local businesses, local NGOs, local inhabitants and the local government had coordinated their initiatives in order to provide a unified tourist region, every inhabitant would have benefited from, e.g. the increased inflow of tourists,

the new jobs created, the increased demand for products or the improved image of the region. However, to coordinate local investments, contributions to public infrastructure and activities, institutions or institutional arrangements had to be implemented which assured every inhabitant who contributes to the tourist development, regardless of whether he is an investor or a member of an association organizing local actions, that others would also contribute to tourist-based local development. Without such an institutional arrangement coordinating local activities and investments, no one has the incentive to invest in the same tourist development strategy or to invest at all, since he/she does not expect enough benefits from it. But who implements those institutional arrangements and how can investors be sure that others invest in the same tourist initiatives?

Hence, a development framework is required that encourages and coordinates local entrepreneurs in their ambitions to invest in accommodations, services, shops, or other small businesses to provide a tourist facility in the valley of Bałtów. Furthermore, for Bałtów there were two more areas closely combined with tourist development in which gains from cooperation remained unexploited; access to public infrastructure and the provision of natural resources as a place for tourist recreation.

Regarding the local infrastructure, one respondent assessed: "Still in 2002, just 23 % of all people in Bałtów had access to water, nearly nobody had a telephone, and the roads were in really bad condition. We also had old and ruinous bridges. Only two of them were from concrete," (B-28). A further problem was seen in the treatment of local garbage. In 2002, there was no firm that picked up the garbage from the local households in Bałtów, meaning that the family members often disposed of their waste on their own. Furthermore, according to other respondents, the local infrastructure, in particular in the Bałtów commune, was in very poor condition compared to neighboring communes since the local government did not undertake any infrastructural investments over the last ten years. Joint investments in local infrastructure would benefit all inhabitants. However, as discussed in Section 4.1.2 with respect to a local telephone infrastructure, such investments always entail free-riding options. Since no one can be sure about other inhabitants' contributions to the local infrastructure, such investments fail to appear.

Bałtów is located in a forested and hilly region, which provides promising conditions for recreational tourism. However, according to respondents, for the past few decades nobody took care of the natural resources. The forests and the riverside of the local Kamienna River was untended and overgrown, and, due to the lack of garbage collection for local households, also riddled with garbage. An inhabitant mentioned: "Ten years ago we were like a big hole without any infrastructure. [...] The natural resources were in really bad condition. Everything was full of garbage and the riverside was full of plastics and the nice places were overgrown," (B-19). The local preacher, who moved to Bałtów in the middle of the 1990s, described the conditions of the natural resources as follows: "When I saw this place for the first time, it was hard to imagine that this place could change.

The natural resources were really nice, but they were in a very bad condition. They were overgrown, full of garbage and not used. There was this beautiful forest with lots of animals. [...] The people needed to understand what a beautiful place they have. [...] At the beginning, Bałtów was an absolutely uninteresting place, the beauty was not discovered," (B-24). Hence, collective action is required to discover the natural potential of the region and to make use of it in terms of a tourist development which pays heed to the natural resources of the region. However, those actions also entail free-riding options. That is, even if people undertook actions to clean up the riverside or the forest, others might enjoy the benefits of those actions without contributing to the cleaning of the natural resources in terms of working time or funds.

#### 4.4.2 *Reasons for lacking cooperation between local inhabitants of Bałtów*

The exploitation of gains from cooperation which result from an all-encompassing tourist development, the provision of local public infrastructure facilities or the cleaning of natural resources requires the implementation of institutional arrangements that coordinate individuals' interaction with respect to local activities, investments in infrastructure and tourist offers, and initiatives to discover the natural capabilities of the region. By the end of the 1990s, collective investments in Bałtów had hardly emerged due to interaction problems among inhabitants. Interviewees mentioned that inhabitants did not cooperate with others since they were suspicious and could not anticipate other inhabitants' behavior. Cooperative initiatives between local businesses were more or less absent. Only small groups of close friends or neighbors organized small initiatives. But those small groups also did not coordinate their initiatives, as the following quote illustrates: "[A]ssociations [...] did not cooperate with each other. There was a big disintegration. It has not often happened that different associations cooperate with each other. They often had the same aims but they did not realize them together. Often it is more a kind of competition, but they could have worked much better," (B-14). The lack of cooperation pertained not only to local associations, it particularly concerned local businesses. A local inhabitant who attempted to undertake the first steps towards starting a cooperation between a few local businesses mentioned: "Six years ago, I worked together with some local businesses and they did not exactly want to say what they do. They did not want to explain what kind of plans they have, because they were afraid of others to use their ideas," (B-09). In the following, I will present important factors which hampered local inhabitants from starting common initiatives to provide basic conditions (e.g. infrastructure, clean natural resources, or tourist facilities) as incentives for local businesses to invest in tourism:

- 1) *Lack of trust among inhabitants.* Interviewees have recognized a stronger separation between local inhabitants and a decrease of common initiatives since the transformation process started in the early 1990s. The interviewees mostly asserted a lack of trust between inhabitants as the main reason for the absence

of cooperative actions and common initiatives in the commune. The main reason for the lack of trust was seen in the increasing income disparities between inhabitants. "[U]nemployment, on the one hand, and a higher standard of living, on the other, have a strong impact on trust between people," (B-18) a respondent stated. A local farmer explained the lack of trust similarly: "That is our mentality after communism. Right now, we have big differences in the standard of living between people. One is poor and the other one is rich," (B-11). These income disparities often led to a decrease of social contacts between the inhabitants of Bałtów, as an interviewee assessed: "It used to be better. People were nicer to each other and much more kindly. There was more communication. They helped each other, and they saw each other more often. Now, life is more anonymous. People are not very interested in their neighbor's house and just care for their own problems," (B-28).

- 2) *Passivity of the former local government.* Until 2002, an important impediment that hampered the local economic development in Bałtów was the local government. Actually, the local government should have acted as a facilitator of cooperation between inhabitants. However, in Bałtów it was the opposite. An interviewee said: "The second problem was the old local government. They were not interested in the development of the region [...] or in EU programs. They already heard that these programs are working successfully, but they did not want to apply for them. And people in this region could not influence the decisions of this old local government," (B-26). Local inhabitants reported that the old local government did not undertake any actions to invest in the local infrastructure. Besides this passivity, the previous local government also interrupted initiatives undertaken by local associations to develop the region. A local entrepreneur who took considerable part in the latter initiatives, commented: "[T]here were only difficulties. People from the previous local government were all communists and in particular the mayor. The mayor did not see the possibilities and undermined the different initiatives that attempted to develop the region. People who were against the mayor had to emigrate and lots of people emigrated finally. The ones who were not allowed to show what they feel and think, and who were not able to change what they wanted to change, they emigrated. We had the high danger of unemployment in front of our eyes and the local government did not react on it," (B-33). Another inhabitant assessed: "We wanted to change the situation in the commune and the previous local government did not cooperate with the people in this region," (B-26). A further respondent claimed: "About eight years ago, I was a member of the local council, and I tried to encourage the members of the old local government. I told them to use these beautiful natural resources and they answered that it is a stupid idea to use them," (B-19). Finally, there was no cooperation between local inhabitants and the local government. However, due to the lack of candidates the local government remained the same from the socialism era until 2002.

- 3) *Lack of local leaders.* Furthermore, interviewees also assessed that there was a lack of local leaders who could organize activities, collect ideas, and even coordinate the realization of common initiatives: "Those persons [local leaders] are important. They should collect all the ideas and should present these ideas to the local government and to all the other people in the region," (B-12). Besides the needed organizational skills, the presence of local leaders in common initiatives is also important to increase inhabitants' trust in activities: "People who organize the festivals or picnics usually do everything on their own. Small exhibitions are mostly organized by local inhabitants. They are willing to do something. And other people may join them, when they see something is happening. However, if they saw that the local leaders work with them, they would also contribute," an interviewee assessed (B-14).
- 4) *Lack of seed capital.* The last important reason that often hampered inhabitants from undertaking common investments in public facilities is the lack of access to financial sources. When the steel company in Ostrowiec was shut down, peasants mostly lost their employment and gained only a small income from farming. Therefore, they mostly do not possess seed capital to start-up businesses and small shops, or to save money to undertake larger investments, e.g. in regional marketing or infrastructure. Hence, not only did the free-riding option hinder members of groups which planned to invest in common facilities, but the limited access to financial sources itself also hampered local inhabitants from undertaking collective investments. Moreover, inhabitants were afraid of taking commercial credits or credits to be used for non-agricultural investments. Unsuccessful investments undertaken in the early 1990s still discourage inhabitants in their decisions of whether to undertake investments. An interviewee said: "The transformation of the political system is the main reason. In the transformation process lots of people started a business and they lost everything. That is the main reason why people are afraid of starting a business," (B-33). Besides, due to a lack of guarantees peasants rarely have access to commercial investment credits.

#### 4.4.3 *Endogenous initiatives to provide a local tourism infrastructure*

Local economic development in Bałtów strongly required institutional arrangements that combine a large number of local inhabitants in their efforts to overcome the abovementioned barriers. The first steps in this direction were taken in the late 1990s. In 1998, motivated by the high regional unemployment rate and the inactivity of the previous local government, a small group of inhabitants started to cooperate and to ponder ideas of supporting local economic development in Bałtów. At the beginning, there were only eight to ten people who initially acted to counteract the increasing decay of natural resources. This small group met regularly and elaborated objectives and initiatives for the development of the Bałtów commune. In further public meetings, inhabitants were invited to discuss different prospects

for their commune. Then, first initiatives were organized to clean the local natural resources i.e., the local forests and the riverside of the Kamienna River. Based on those actions, more and more inhabitants joined the group and the meetings became more official. In 2001, an association was founded that was called Bałt (Association for the development of the Bałtów commune). According to the founding members, the principle objectives of Bałt were:

- Promotion of tourism in the Bałtów commune;
- Development of the local economy and initiation of cultural activities;
- Protection of cultural and natural heritage;
- Vocational activation of local unemployed people.

One of the first initiatives undertaken by a few members of Bałt was to write a guidebook about the history and different natural monuments of the region. Further activities followed. Among others, the members of Bałt created tourist facilities, like the first rafting and canoeing trail in Poland, bike trails, and tourist paths. A member of the local government, who is also a member of the association Bałt, assessed: "The cleaning was the first thing [...] and then, we thought about doing further steps. These were not very expensive steps, but as we started to implement projects, people recognized the change," (B-26). Another association member reported: "But thanks to the good ideas we could encourage inhabitants to change something and we mobilized 50-60 people from this village to be active in the association. We had easy slogans and talked to inhabitants to change their way of thinking. We wanted to open the commune for new investments from outside and to apply for funds from the EU," (B-33).

The first steps of Bałt were funded by the Polish "Environmental Partnership Foundation" from Krakow, which also assisted the "Association for the development of the city and the commune of Dębrzno" (mentioned in Section 4.3) with its first steps. The Environmental partnership foundation additionally provided Bałt with knowledge about organizing local development associations. Further input and seed capital came from British Petrol (BP). The Polish "Environmental Partnership Foundation" also provided association members with trainings on collective initiatives among local NGOs, local businesses, and local governments aiming to achieve common goals in the economic development of the region.

By the time Bałt was founded, the association also started to cooperate with another association called Delta, which was mainly acting on a regional basis. Delta was founded in 1998 and its activities mainly targeted Ostrowiec, the next biggest city in the region. The Delta association originally focused on actions that support the education of inhabitants in the region around Ostrowiec. Therefore, they organized vocational trainings and provided workshops in local schools. Delta also implemented different actions on the regional level that should not only lead to a



more efficient use of natural resources for tourism, but should also strengthen the economic development in Ostrowiec and the surrounding communes.

In 2001, as members of Delta recognized the first activities of Bałt, they offered their cooperation for common initiatives. After that, plans arose to create a local park as a further tourist attraction in Bałtów. In 2003, when scientists found Dinosaurs' footprints on a rock close to Bałtów, a member of Bałt came up with the idea of creating not just a recreation park, but to construct a Dinosaur park that serves as a unique tourist attraction. During that time, Bałt became more and more famous in the region and its number of members doubled. In 2004, more than 120 local associations, small businesses, and other individuals had joined Bałt.

In 2003, Bałt and Delta, together with the local inhabitants, began construction of a Jurassic Park theme park, restaurants, and accommodations. Both associations applied for various funds, and the total amount spent on the park and other facilities exceeded €800,000. These funds were to a large extent taken from European funds, in particular from the SAPARD program, but also from commercial credits for which a local businessman acted as guarantor. Further investments in Dinosaur models, a Dinosaur museum, horse paddocks, a soccer field, and other tourist facilities followed these initial investments in the park. Delta was mainly responsible for the investments in the park, whereas: "In contrast to Delta, Bałt is responsible for the local population," (*B-01*). Bałt organized large local meetings where inhabitants discussed the creation of the park and where those who were willing to contribute to the construction of the park and other facilities were introduced to their tasks. Association members also attended workshops organized by FAOW and the Environmental Partnership Foundation, where they received valuable knowledge and skills. The association also trained inhabitants in new jobs that will be created in the park or which will result from other activities undertaken by Bałt and Delta. Such vocational trainings for local inhabitants were strongly supported by the European Community Initiative EQUAL. Due to the funds from EQUAL, external experts, in addition to already trained association members could be invited to give lessons. Mainly three types of trainings were conducted, namely: 1) trainings on the organization and management of enterprises in heritage tourism; 2) trainings on the marketing of services of cultural heritage; and 3) trainings on the organization of heritage tourism. Participants received lessons in, e.g. English, informatics, teamwork and team management, strategic management, client services, local product marketing, or budget administration. In addition to these training sessions, Bałt organized workshops on agro-tourism and encouraged local inhabitants to participate in local tourism development by opening local shops and stores, or through diversifying in agro-tourism.

The abovementioned activities were successful for the two associations, but in particular for the local population. In 2004, the Dinosaur park opened for the first time. The park is situated on an area of three hectares and comprised of different natural monuments, as well as about thirty Dinosaur models. The number of

Dinosaur models has increased in recent years and the park has become one of the most famous tourist destinations in the Świętokrzyskie voivodship. In 2005, the Dinosaur park had already attracted about 156,000 tourists. Both Bałt and Delta offer jobs to long-term unemployed people and young inhabitants from the Bałtów commune. The income earned by the park and other initiatives is allocated to mainly social purposes. That is, further investments were made to create new jobs, to provide further vocational training, to encourage the development of new local initiatives, as well as to support the protection of cultural and natural heritage. Further association earnings were also spent on the local infrastructure. Thus, a new pedestrian way next to the main road, as well as road construction, were undertaken by means of the profits made by Delta. Furthermore, Bałt also pays teachers to provide English lessons in the local school of Bałtów, where no foreign language lessons were taught before.

Another initiative undertaken by Bałt is the "Good cooperation is beneficial – project", which was implemented to encourage cooperation among local authorities and inhabitants. This project was subsidized with 52,100 PLN [€12,976] by a national program and enabled citizens to elaborate a map of local needs, as well as to develop a local development strategy. Finally, a local information point for citizens' concerns was established and other formal and informal groups like rural women circles were reactivated.

Inhabitants who were active in Bałt or Delta were related through market exchange and community bonds. The main activities within the associations were based on community relations between an increasing group of local inhabitants. The associations started various initiatives to clean up the natural resources, but they also transformed into active marketing measures. From market-based initiatives, the Dinosaur park was created, which now employs other local inhabitants and, therefore, brings them into exchange with each other. In return for doing their job, employees of both associations receive a salary, but they additionally contribute to a tourist-based development of the region. Since profits made by Delta were reinvested in the region, local inhabitants, just by doing their job, also contribute to the provision of public infrastructure, contribute to further tourist investments and make use of local natural resources as tourist offers. Inhabitants, hence, enter into exchange by means of Bałt or Delta, whereas the latter act as institutional arrangements coordinating individual interaction so that gains from cooperation can be exploited.

#### *4.4.4 Success factors and limitations*

At the beginning, it was firstly important for Bałt and Delta to encourage local inhabitants to take part in the common initiatives undertaken by the two associations, as well as enter into successful cooperation with the local government. Besides these two aspects, other factors also strongly contributed to the success of Bałt and Delta. Below, the following success factors will be discussed: 1) the close

contact to local inhabitants; 2) the cooperation with the local government; 3) the presence of leaders in the associations; as well as 4) the organizational structure of the two associations. Finally, at the end of this section various limitations of the presented development will be discussed.

1) *Close contact to local inhabitants.* The success of Balt and Delta is strongly related to the local inhabitants' activities. In particular, a higher acceptance of tourist offers like the Dinosaur park, which appeared to most inhabitants as non-typical for the region, could only be achieved by means of open meetings and other common events organized by Balt. It was necessary to involve citizens in the local initiatives and to convince them to make use of the individual chances that emerge from tourism activities. Besides organized workshops or meetings and the creation of new jobs, the implementation of English lessons in the local school, the founding of Junior Balt and the provision of local infrastructure also showed inhabitants that the associations are not primarily interested in making profits, but in contributing to common local development. These projects' success encouraged further inhabitants to join existing initiatives or to realize their own ideas within new actions. As various interviewees mentioned, right from the beginning it was clear that close cooperation between the local society and the two associations would be a basic requirement. Therefore, many workshops were organized to motivate inhabitants to become active, as the following two quotes from villagers show: "People are very well informed. They have regular meetings that are organized by Balt, and those who take part in these meetings are usually leaders of small local associations or fire brigades. And they inform their own group about what has happened. J. [a member of the association] also tries to inform people by visiting them in their village," (B-18). "They explained in different meetings what they want to do and they tried to keep a good contact to the inhabitants. [...] To inform people is very important. You have to inform people about everything you do, because people have to feel important," (B-23).

2) *Close cooperation between the two associations and the local government.* The close cooperation between the local government in Bałtów and the local associations of Balt and Delta mainly resulted from the successful election of an association member in the local government in 2002. Additionally, other members of Balt and Delta are also representatives of the commune council and maintain the cooperation. However, both the local government and the two associations always tried to maintain a strict distinction between local government's tasks and the tasks of Balt and Delta. Thus, the local government coordinates all developments in the commune and mainly contributes to the construction of good infrastructure. The associations, in contrast, focus on tourism development and provide support to all inhabitants who are interested in these activities. A member of the local authorities assessed: "The local government has to think about everyone and everything. Every inhabitant should be satisfied.

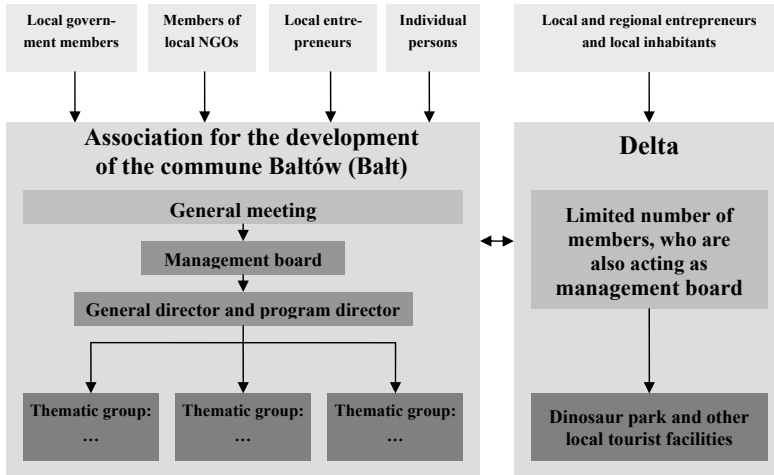
The association has to follow their direction and they work only on the place of Bałtów and develop tourism activities. What the association does is good for the commune, they promote the commune. However, the local government has to provide a good framework for the association and all inhabitants, but the local government is not able to focus just on tourism," (B-28). A partnership member also emphasized the possibility of Bałt motivating rural inhabitants, whereas the local government is not endowed with the financial and human resources to undertake similar actions. "The information the local government provides concerns the legal framework of businesses. Bałt shows people how to make use of their region and how local inhabitants are able to influence local development. The local government should inform people about business start-up sources and the legal framework, but Bałt should collect partners for developing this region. And both should cooperate," (B-16). In consequence, due to this strict distinction of tasks, both the local government and the two associations learned how to coordinate their initiatives and acted as partners instead of competitors on the local level.

3) *Impact of local leaders.* "The most important person, who created the idea and this dynamic process, is L. He always knows how to realize ideas, how to sell the park. We organized workshops where people taught us how to sell the attractions of the region. However, by the end of the workshops we realized that L. always had the same ideas just by instinct. This was most important. It is not important to create something, it is important to know how to sell it. Everything became so successful because of L.'s engagement as an entrepreneur. He was able to gather people around him and he made them believe that they are able to achieve everything. We had lots of problems with bureaucracy and I thought it was not possible to overcome these barriers, but he showed me that there is always a solution. He treats people always nicely and everybody thinks that meeting him is a pleasure," (B-35). This quote by a member of Delta, who was involved in all activities right from the beginning, shows the importance of one natural leader who contributed considerably to Bałt's and Delta's success. This local leader formulated important ideas which were then further elaborated upon and realized by the associations. He also acted as guarantor for bank credits, which provided important seed capital for the investments in the Dinosaur park and other local activities. Furthermore, due to his acceptance in the commune, inhabitants started to trust in the associations' initiatives and also contributed to them. As interviewees mentioned, he was able to make them believe in what they do. L. also motivated other local inhabitants to take responsibility, to manage projects, and to become leaders in various fields of the local development initiatives.

4) *Organizational structure of Bałt and Delta.* Members of Bałt mentioned the composition of the association, which consists of local government members, NGOs, and businesses, as an important factor for the success of the undertaken

initiatives. Interviewees strongly emphasized the possibility of exchanging information and perspectives on current local problems as helpful and beneficial. A member of Bałt provides this assessment: "In the association we work with local businesses and entities. We have mobilized the local government, and we started to cooperate with the latter," (B-33). Only due to the broad basis of Bałt was the encompassing local tourism development in Bałtów implemented. The composition of Bałt, however, also features the problem of contrasting perspectives. This was confirmed by association members, but they also assessed conflicts as useful for understanding problems in a more complex way. "Often we are waiting for conflicts. Every organization needs conflicts. Cooperation is a process and one part of this process is the conflict. Especially when we start to distribute the money, or when we have different projects and we try to implement them, then we have to decide. [...] We want to have conflicts, because we want to know the reasons for these conflicts and we want to fight to overcome these conflicts. Only this enables us to find the most efficient solution," (B-01).

As depicted in Figure 4-9, Bałt consists of three different bodies. First, 5-10 times a year there are general meetings. These general meetings are open for everyone and those interested in attending receive information on what has happened in the region and which projects are going to be implemented. Further discussions concern future local projects and questions over the association's budget. The general meetings also act as a platform for members and non-members to present new project ideas and to discuss the funding and implementation of projects. Decisions in these general meetings will only be passed by the members of Bałt. The other two bodies are the management board and the thematic groups. The management enforces the decisions made in the general meetings, continues the operational tasks of Bałt, and assists the thematic groups in conducting different projects. The management board also employs a full-time general director and a program director, both of which coordinate the daily work in the association. The thematic groups are similar to those in Dębrzno (see Section 4.3) in that they serve not only as a body to implement projects, but they also unify different inhabitants that work on similar local problems and initiatives. A member of Bałt assessed: "The different thematic groups are important. There are people of varied experience in these groups. And they solve problems much easier than somebody who does it on his own," (B-32).

**Figure 4-9: Organizational structure of the associations Balt and Delta**

Source: Author's depiction.

Delta, which consists of members of Balt, other local and regional entrepreneurs, and local inhabitants, has a limited number of members which fluctuates between 10 and 15. Delta is the owner of the Dinosaur park and also manages other local tourist activities. Due to its status as a for-profit organization and the collateral it has purchased during recent years, Delta, in comparison to Balt, is able to apply for commercial credits. Projects and activities undertaken by Balt and local infrastructure investments were funded with the profits made by Delta. A large amount of Delta's profits, however, serves as seed capital for further investments in the local tourism infrastructure. According to members of Balt and Delta, those further investments comprise tourist facilities that prolong the tourist season, e.g. the construction of skiing and other sports facilities. Since some members of Balt are also members of Delta, it is easy to coordinate between these associations.

However, the persons involved in the local tourism development process were also confronted with various limitations. An important limitation, which acts at the same time as an important incentive for local inhabitants to cooperate and undertake local initiatives, was seen in the access to capital. This problem, already discussed in Section 4.4.2, was only partly solved. On the one hand, interviewees appreciated the ability to apply for national or European funds, as one interviewee stated: "The important thing is that we are in the EU and able to apply for funds now. And not only the association, also the commune is able to apply for these sources. This is very helpful," (B-26). On the other hand, respondents often criticized the time-consuming and complex application process that European programs require.

A member of Bałt mentioned that: "Money from the EU is like a UFO. Everybody has heard something about it but nobody has ever seen it. It is hard to apply for EU sources because they are changing their forms and rules all the time," (B-01). And another association member argued: "EU funds! Oh, it is not easy to receive them. The funds, which are connected with education like e.g. workshops, you can easily apply for, but it is hard to find sources for investments. If you wanted to counteract unemployment it would not be enough to organize workshops, you have to make investments to overcome this problem. In this situation, workshops would not help people if there was no place they could find employment. Generally, the EU spends too much money for workshops and not enough for investments," (B-35).

Furthermore, members of Bałt and Delta, as well as members of the local government, emphasized the problem of pre-financing projects that were approved by European funds. Neither the local government nor local NGOs have access to liquid funds, as a member of the local government reported: "A big problem is still bureaucracy. Often the application forms are too difficult to fill in. For the commune it is also not possible to apply for different programs since we are forced to pay large amounts as our own finance. However, no bank will give us a credit for those investments," (B-31).

Further limitations are the inhabitants' passivity and lack of skills, as well as their lessened but ongoing distrust of one another. A member of Bałt assessed: "A problem is still the lack of human capital as a result of the lack of tourist tradition in this village. It is important that people contribute to this tourism development which takes place in Bałtów. It sounds strange, but what should we do? Should we start everything a little bit more slowly to wait for them," (B-33)? Some older people still do not trust in the current development. One inhabitant stated that: "We have the worst situation with people between 40 and 65. They always complain and say: 'This is not a good way'," (B-03). As justification for their attitude, older inhabitants mostly asserted that tourism activities and events were mostly specific to young people. That is why some older inhabitants feel somewhat passed over. Finally, although Bałt tries to involve local inhabitants in its actions, changing the minds of the older local population still needs some time.

#### *4.4.5 Impact of the initiatives on the local and regional development*

In the following, I will discuss different outcomes for the Bałtów commune that resulted from the actions and initiatives conducted by Bałt and Delta. Just as for Dolina Strugu and Dębrzno, for Bałtów it is also difficult to present outcomes that can be solely ascribed to the analyzed initiatives. Therefore, I will show some impacts the two associations had on the provision of local public infrastructure and the valorization of local natural resources. Furthermore, I will discuss Bałt and Delta with respect to their contributions to common local tourism development.

Finally, I will also describe how those initiatives which started from the two associations led to an increase of trust and cooperation among local inhabitants.

Although Bałt and Delta had a direct impact on the provision of local infrastructure facilities by funding, e.g. the construction of the local pedestrian way and the repair of some local roads, even more important for the development of the region was the indirect impact they had on local government. As mentioned in Section 4.4.2, an important development barrier for the Bałtów commune and the social cooperation in the commune was seen in the previous local government, which tried to impede the association's initiatives, as well as all kinds of collective actions on the local level because they were afraid of losing power and influence over local inhabitants. A member of the present local government reported: "Three years earlier, the association Bałt had no opportunity to work successfully. The old local government was eager to interrupt them and gave them no chance to work," (B-28). In 2002, as Bałt noticed that there was no way to cooperate with the previous local government, they decided to nominate their own candidate for the local election. A member of the association explained: "We then tried to do something against the local government. The local government did not do anything for this region. So, we started on the local election. As we won the election, one member of our association was elected with 90 % of all votes," (B-19). Since 2002, when the new local government was elected, there has been good cooperation between the new local government and the Bałt association. An association member assessed: "The present mayor cannot help us a lot, since he has to solve the infrastructure problems in the commune. However, he does not interrupt our work in the association and this is very helpful. So we do not lose energy by fighting against the local government anymore," (B-35). The newly-elected local government then successfully applied for European funds and invested in the local water supply and sewage system, constructed new roads, repaired local bridges, and spent funds on further local infrastructural projects. In 2005, all households in the commune had access to water, a new sewage treatment plant was constructed, and the garbage from 95 % of the local households was collected by a local company.

As mentioned above, members of Bałt started in the late 1990s with various activities to clean up local natural resources. Although only a small group of inhabitants joined these actions in the beginning, other inhabitants noticed the changes in the environment and also started to become members of such initiatives, too. One inhabitant mentioned: "They [members of Bałt] started with small initiatives, like cleaning the forest or the riverside, but they convinced more and more people to take part in these initiatives. At the beginning, they tried to show local inhabitants the beautiful natural resources in the commune. It was like they opened the window and showed them the beauty that belongs to this village," (B-23). Finally, these initial actions not only led to a better handling of natural resources, it also encouraged inhabitants to think about how to use these resources, e.g. with respect to local tourism. Respondents further mentioned that inhabitants also started to



take care of their yards, to paint their fences and houses, and to encourage each other to take responsibility for different public places. Related to this, two interviewees mentioned: "People start to think about how to use the natural resources in this commune and how to develop tourism based on the latter. The association here encourages the inhabitants to use the opportunities we have in this village. And people also start to take care of their village. They clean their yards and everybody looks at the yard of his neighbor to see whether they do the same," (B-16). Another interviewee mentioned: "Bałtów looks much nicer now. A few years earlier it was not that green everywhere. Everything changes in a good direction and Bałtów looks much nicer than before," (B-22).

Initiatives undertaken by Bałt and Delta resulted in two strong impacts on the local economy. First, the Dinosaur park in particular became an important employer for the commune. Eighty people found a job in the park or in the offices of Bałt and Delta, and 95 % of these employees come from the Bałtów commune. In the last four years, this has led to a decrease of the local unemployment rate in the commune from 29 % (2001) to 17 % (2005). As an inhabitant reported: "Thanks to the associations and the partnership, some people have already found a job. They [Bałt and Delta] are the only institutions here which try to reduce the unemployment rate. People who have received a job feel much better and much stronger now. The best thing the associations could do was to create new jobs," (B-18). A member of the Delta association emphasized the importance of creating new jobs: "The association is not working to make money. This is merely important for realizing its main objective: the creation of new jobs. We want to counter unemployment and the effects of unemployment. We create new jobs and help people to find new sources for living. And it is working and we are now the biggest employer in the region. We employ eighty people just in the park. So, more than one hundred families can find their sources of living thanks to this," (B-35). Additionally, at the workshops organized by Bałt, local inhabitants receive the opportunity to improve their professional skills. And the ones who attended these workshops received a diploma, which improves their opportunities on the labor market.

Second, in addition to the new jobs created in the Dinosaur park, the local standard of living, as well as the demand for products provided by local shops and other stores, has increased. The most market-stimulating aspect is the influx of tourists who sleep in the local agro-tourism farms and make use of offers like the rafting course, the hiking trails, or the horse riding school. In a short period of time, such tourist offers have attracted a large number of paying tourists. Bałt and Delta also assist local businesses in applying for national or European programs and they support farmers who plan to found an agro-tourism farm. Bałt organizes workshops where all those interested receive information on the legal requirements for agro-tourism, assistance in creating a business plan and fulfilling other bureaucratic requirements. In 2005, nine agro-tourism farms were established and a few shops opened around the park. An owner of a small shop in Bałtów mentioned: "First

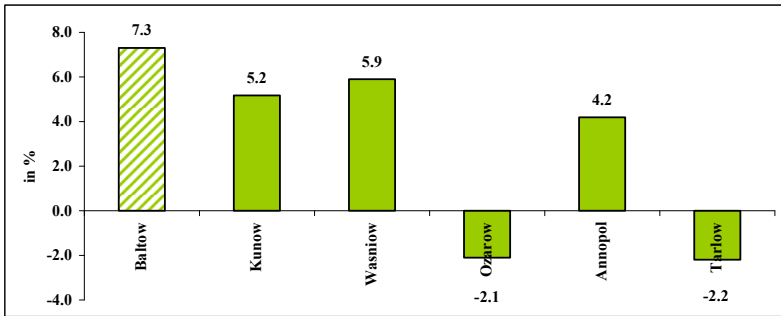
of all, the possibility to earn some money increased. This is a beginning. The influx of people is much higher than before, and that means there are better opportunities for shops and all kinds of other stores. [...] It is hard to see no changes. Everything is still changing. The villagers here have many more chances now. The economic situation is much better. There are many more jobs, and villagers can improve their standard of living. This gives people the chance to feel better. [...] In the future, I think villagers will choose tourism and agro-tourism. What has happened here can encourage other people to take part in this development. It can also encourage young people to come back to the village. However, it does not need to be like this. But it could be preferable for young people to come back. This will be a tourist village and it will be much better to move to Bałtów than to stay in Ostrowiec. In Ostrowiec, they just build new supermarkets, here, they really create new jobs. In particular, young people take an active part in this development," (B-25).

A further positive impact on the local economy is seen in the promotion activities undertaken by Bałt, which promotes Bałtów at different fairs in Poland and also in foreign countries. Those promotion activities encouraged many tourists from Warsaw and Krakow, and other parts of Poland to come to Bałtów. An employee of a local media company from Ostrowiec mentioned: "Thanks to Bałt, this region is being promoted. A few years ago there was nothing and now, we have lots of guests from the whole country. [...] A few years ago, tourists came to Ostrowiec, and now, they go to Bałtów. They do not just create commercial festivals, they also organize exhibitions. They also start cultural activities," (B-14).

As shown in Figure 4-10, the number of local enterprises per 1,000 inhabitants increased in Bałtów between 2002 and 2004 more rapidly than in other neighboring communes. This fact cannot solely be ascribed to the impact of Bałt and Delta. But respondents also mentioned that there is no doubt that the favorable conditions for local businesses that were provided due to the actions undertaken by the two associations also strongly encouraged and still encourage local inhabitants to diversify their sources of income. However, since in most cases existing farms diversified into agro-tourism, small local shops or other tourist activities and family members of local farm households found employment in the Dinosaur park, local economic development will not affect the number of business start-ups as much as it affects the income of local households.

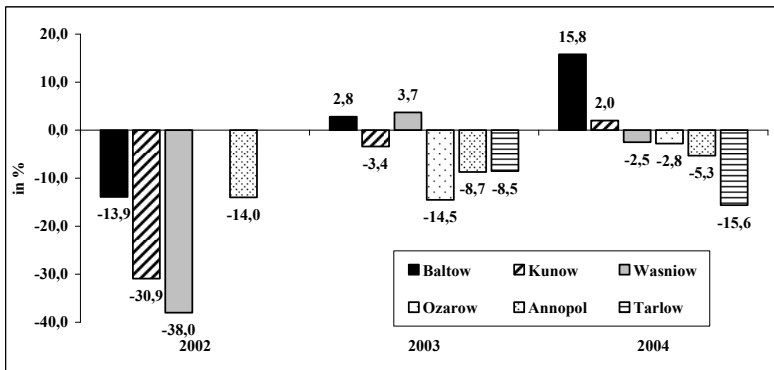
Respondents further mentioned the positive impact of Bałt and Delta on the attractiveness of the Bałtów commune. Inhabitants stated that in particular more and more young people who grew up in Bałtów are moving back to their home village. This is also noticeable by the positive net migration to Bałtów compared to neighboring communes in 2002 and 2004 (see Figure 4-11).

**Figure 4-10: Change in number of enterprises per 1,000 inhabitants in Baltów and neighboring communes between 2002 and 2004 (in %)**



Source: CROSS BORDER DATA BASE, 2008.

**Figure 4-11: Change in migration in Baltów and neighboring communes between 2002 and 2004 (in- and decrease per 1,000 inhabitants)**



Source: CROSS BORDER DATABASE, 2008.

According to respondents, Bałt and Delta have also influenced the attitude of local inhabitants directly. In Section 4.4.2, the lack of trust between local inhabitants was identified as an important barrier for cooperative initiatives in the Bałtów commune. The impact of Bałt and Delta on the local population was noticed by respondents in three different ways: a) an increased level of activity; b) an increased identification with their region; and c) an increase in trust between inhabitants. The impact of Bałt on the local population was summarized by a member of the local government as follows: "Yes, people start to build networks and the activities of the association can encourage other people to be more active. You can see it in this commune. However, also in other communes people become more

active," (B-28). Another member of the local government also recognized an increase in its inhabitants' identification with the region: "Inhabitants of Bałtów are beginning to be proud of this place. They want to show their home village to other people from Poland," (B-26). Another villager also mentioned: "It is a small revolution and only with the help of the inhabitants could we do so much in this short period of time. This was a small village, and now we have a town with attractions," (B-19). Furthermore, the success of the undertaken initiatives, as well as the contribution of inhabitants to common activities also increases the trust between villagers in general. An interviewee mentioned that: "The associations can help to increase trust. If people recognize that they receive support, they will feel much more comfortable. And that also increases the trust of other people," (B-18). Furthermore, in addition to the jobs Bałt and Delta provide, in particular for young inhabitants older than 20 years, the associations also try to strengthen the identification of local students with their home village. For instance, a local association called Junior Bałt was founded, which consists of local students who organize small local events, improve their Internet skills, and spend parts of their holidays on jointly-organized trips. Junior Bałt also applied successfully for national programs which focus on improving the Internet and language skills of local students. The leader of Junior Bałt assessed: "It is important to show those young people that it is not necessary to go abroad and look for a job there. It is also possible to find a job right here and they should try to do something in Bałtów. They should learn to express their mind, they should not be afraid to say what they are thinking," (B-17).

#### *4.4.6 Conclusions on the local development initiatives starting from Bałt and Delta*

The encompassing local development process in the Bałtów commune, although it started from the local association Bałt, is strongly based on a successful cooperation among three local entities, namely, the associations Bałt and Delta, and the local government. In what manner each of the three different governance structures contributed to the successful exploitation of gains from cooperation between local inhabitants is summarized in Table 4-6.

Bałt was founded by inhabitants who shared similar interests and community bonds and who noticed the same problems in the region. Although they were often not friends until they joined the group, they knew each other for years, which helped them to establish a trust-based cooperation among members. Cooperation between the members of Bałt and Delta was based mainly on traditional incentives like trust, reputation or reciprocity, which generally facilitate community life. Bałt also strengthened those incentive systems as it enabled more frequent interaction between community members. Furthermore, the success of Bałt also strongly resulted from the involvement of local leaders who were able to motivate the association members and other local inhabitants to contribute to the initiatives.

Bałt always acted as an important information channel for Delta. Members of Bałt who were also members of Delta were able to voice their perceptions of local needs and thus enabled the coordination of activities between both associations.

However, development based solely on community relations would probably not have shown the successful results now found in Bałtów. The initiatives that started from Bałt and Delta also go back to market exchange between inhabitants; the Dinosaur park is a commercial entity and at the same time an institutional arrangement which enables local inhabitants to coordinate their interaction in order to exploit gains from cooperation/exchange. As mentioned above, inhabitants contribute working time and receive a wage while working for the Dinosaur park or for one of the associations. But they also contribute to the economic development of the region since the profits made by the park and other activities will be further invested to create new jobs or will be simply used to improve the local public infrastructure. Therefore, under the umbrella of the park and other local commercial entities established by Bałt and Delta, inhabitants enter into exchange and thus exploit gains from cooperation.

**Table 4-6: Success factors of the local development initiatives conducted in Bałtów distinguished by market, governmental, and community background**

Market approach	State (Governmental levels)	Community
<ul style="list-style-type: none"> <li>- Application of national and international funds in competition with other regional entities</li> <li>- Dinosaur park as commercial entity coordinated inhabitants' contribution to local development based on market-exchange</li> <li>- Organizational structure as for-profit organization enabled Delta to obtain commercial credits</li> </ul>	<ul style="list-style-type: none"> <li>- Public funds contributed essential financial means for initial investments and workshops to improve human capital, whereas those investments would not have taken place privately due to free-riding options</li> <li>- Local government provided basic infrastructural facilities that would not have been provided privately due to free-riding options</li> </ul>	<ul style="list-style-type: none"> <li>- The foundation of Bałt was only possible due to traditional incentive systems like trust, reputation and reciprocity, which minimize monitoring costs</li> <li>- Local provenance of initiators facilitates trust between local inhabitants and association members</li> <li>- Local provenance of initiators enabled the association to build on local needs</li> <li>- Community relations encourage all inhabitants to take part in local development by cleaning their yards, etc., as they feel controlled by neighbors</li> </ul>

Source: Author's depiction.

Due to the investments made by Bałt or Delta, local inhabitants and in particular local businesses who neither worked for Bałt or Delta nor maintained a membership in the associations, felt encouraged to invest in local tourist offers like agro-tourism farms or small shops and additionally received advice from the association by making those investments. The tourist offers implemented by the two associations also stimulated investments in other local businesses since they constitute a certain direction for the local economic development.

To undertake initial investments and to organize workshops and seminars in order to train local inhabitants, Bałt and Delta had to apply for public funds. Making use of these funds prevented any free-riding options that would emerge if local inhabitants attempted to finance such initial investments jointly. But, as in the other case study areas, in Bałtów the local associations had to apply for those public funds in competition with other regional entities. Additionally, since Delta was organized as a for-profit organization, commercial credits could be obtained as well.

Finally, it again goes back to the community relations that inhabitants contribute to local development by cleaning their house, painting their fence and cutting the lawn in their yards, as they feel encouraged by neighbors who also maintain their homes in such a way.

#### **4.5 Summary**

In Chapter 4, I discussed local public goods that were successfully provided by various local institutional arrangements in three case study regions located in rural Poland. In Sections 4.1 and 4.2, I focused on the local provision of a telephone infrastructure, the improvement of local conditions for local peasant farms, and the preservation of the cultural landscape in the Dolina Strugu region. With respect to Dębrzno, in Section 4.3 I analyzed human capital and favorable conditions for local businesses as local public goods which were indispensable for initiating a local development process. Favorable conditions for local businesses was also the public good that I analyzed in the last case study (Section 4.4) located in the Bałtów commune. In the three case studies I aimed to first illustrate the different reasons for a lacking provision of the particular local public good in the concerned regions. I further presented the development of institutional arrangements which were capable of providing those particular local public goods, and I then discussed the impact of these local public goods on local development. Finally, I defined the success factors and limitations that made the development of such local institutional arrangements possible, or restrained them, respectively.

In the early 1990s, in all three case study regions, independent of the local public good I was focusing on, interaction problems among local inhabitants hampered them from jointly contributing to public goods provision. Since the provision of the local public goods would have benefited all inhabitants, the absence of these goods constitutes unexploited gains from cooperation. In most cases, inhabitants were suspicious that once they contributed certain shares like working time or capital to

initiatives that, e.g. aimed to create a local telephone network or implement a common processing plant for agricultural products, others would not contribute and would hence enjoy a free-ride. In those cases a social dilemma defined the situation. However, in other cases it was not necessarily the fact that others could take advantage of their contributions that hampered inhabitants from cooperation, but rather the lack of institutions coordinating inhabitants' contributions that kept them from exploiting gains from cooperation. That is why certain local public goods, although they might enable all inhabitants to improve their individual standard of living, were not provided. Moreover, efforts to overcome the social dilemma were additionally weakened by different barriers. The joint provision of local public goods was hampered by a few barriers which could be identified in all three cases as independent of the kind of local public good that was in question. These barriers were: a) the lacking trust of local inhabitants among each other; b) the lack of local leaders; and c) the lack of seed capital.

The implementation of institutional arrangements capable of providing the particular local public goods was, in all three case studies, strongly influenced and forced by local partnerships. Those partnerships consisting of local NGOs, local government members and local entrepreneurs elaborated institutional arrangements which combined, to a larger or smaller extent, all three governance structures; namely, the market approach, government regulation, and community. In so doing, the core idea of the arrangements was to force individuals to contribute to the local public goods and to exclude free-riding behavior. This was possible because the institutional arrangements assured inhabitants that they could only benefit from the local public goods if they contributed their own share to it. Thus, various arrangements, e.g. clubs in the case of the telephone cooperative, a public-private partnership in the case of "Chmielnik Zdrój", a local brand in the case of Dębrzno, or commercial entities managed by local development associations, as was the case in Bałtów, were established. Those arrangements differed from each other regarding the involvement of local inhabitants. In some cases, like with the telephone cooperative, inhabitants had to join, whereas in other cases, like "Chmielnik Zdrój" or the Dinosaur park in Bałtów, inhabitants were related to the institutional arrangement based on a market relationship.

The three case studies have further shown that there are governance structures which seem to be more suitable for overcoming certain local barriers that hamper inhabitants from contributing jointly to the provision of local public goods. For instance, the lack of trust among inhabitants could best be overcome through community governance. Thus, local institutions that increased the frequency of interaction between inhabitants also improved local trust and resulted in stronger cooperation among community members. However, in cases where the lack of trust among inhabitants was not overcome, the implementation of institutions that brought inhabitants into market-based relations (e.g. in the case of "Chmielnik Zdrój" or the Dinosaur park) has shown positive results, too, whereas the foundation of those

institutions still goes back to community relations. With respect to the lacking access to seed capital for local projects, the availability of public funds played an important role. Projects might often have failed had inhabitants financed the initial investments solely from their own contributions. The access to public funds enabled inhabitants to overcome free-riding problems which are often strongly related to a joint funding of projects. Also, the availability of public funds set up important incentives for inhabitants to first of all think about common initiatives in their local commune.

However, independent of the organizational structure of the local partnerships and the institutional arrangements they have implemented, there are a few factors which contributed to the success of all three case study regions. They are: a) the existence of local leaders who were able to inspire and encourage local inhabitants<sup>18</sup>; b) the elaboration of a common local development strategy based on the involvement of local inhabitants, local governments, and local entrepreneurs<sup>19</sup>; c) the close cooperation between local partnerships and local government members; and d) the availability of a permanent staff which takes care of operational tasks, the realization of projects, and connections between single projects, as well as specializing in different program application procedures. Limitations, in contrast, differed strongly between partnerships and ranged from the limited involvement of the local population to organizational problems resulting from organizational standards for partnerships which were defined by European agencies.

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<sup>18</sup> According to the research I completed for this study, I assume that regions in general have more than one natural leader. But these leaders do not always provide their skills for stimulating local development based on local projects that benefit all inhabitants. The success of local development projects strongly depends on whether local leaders were trained in organizing development associations, whether these leaders received inspiration from external projects or institutions, and whether they were already successful in a private local business or as local government members so that they already had gained the local inhabitants' respect.

<sup>19</sup> This success factor applies only for the partnerships in Dębrzno and Bałtów.



## 5 CONCLUSIONS

This chapter aims to put forth some conclusions regarding the major findings of this study. The first section focuses on the results of the theoretical analysis. Section 5.2 presents the findings and the main conclusions derived from the empirical analysis. In Section 5.3, I offer some policy recommendations, and Section 5.4 suggests an outlook for further research.

### 5.1 Theoretical conclusions

In Chapter 2, based on a discussion of three economic theories, an analytical framework was developed which is compatible with policy measures of the new rural paradigm. This section will summarize the main elements of the framework and will draw further conclusions on the role of governments in rural development policy.

- 1) The first part of Chapter 2 emphasized the importance of local public goods for rural development and identified the lacking provision of these goods as an important reason for development problems in rural areas. Local public goods like, for example, local public infrastructure, human capital, cultural landscape, and favorable conditions for local businesses are to a large extent characterized by non-rivalry in consumption and the non-excludability of consumers. Although inhabitants of a region benefit from those local public goods, the latter are often provided only to a slight extent or are even absent, which discourages a large share of local actors from starting up or continuing economic or social activities. However, since local public goods are a necessity for successful rural development, rural development policy needs to be analyzed with respect to its capability of facilitating the provision of local public goods in rural areas.
- 2) Before it is possible to have an understanding of how rural development policy measures should work, the problems that the policy measures have to address, i.e., the lacking provision of local public goods, has to be perceived theoretically. Hence, in this study the views of three different economic theories on problems in local public goods provision and the role of the state in public good problems were analyzed. As Section 2.2.1 shows, the welfare economics theory perceives public goods as resulting from positive externalities provided by individuals who do not receive adequate compensation for the profits they provide for others. According to the welfare economics theory, once positive externalities exist, the state has to intervene by subsidizing the producer of the positive externalities to prevent a cessation of its production. However, since the welfare economics

theory neglects the importance of institutions as mechanisms that coordinate individuals' behavior, its explanation of the role of local institutions like cooperations between local NGOs, local governments, and local entrepreneurs, which constitute the core element of rural development policies of the new rural paradigm, is less than satisfying. Also the application of a world with perfectly competitive markets as a normative reference criterion for policy evaluation does not adequately regard real world conditions.

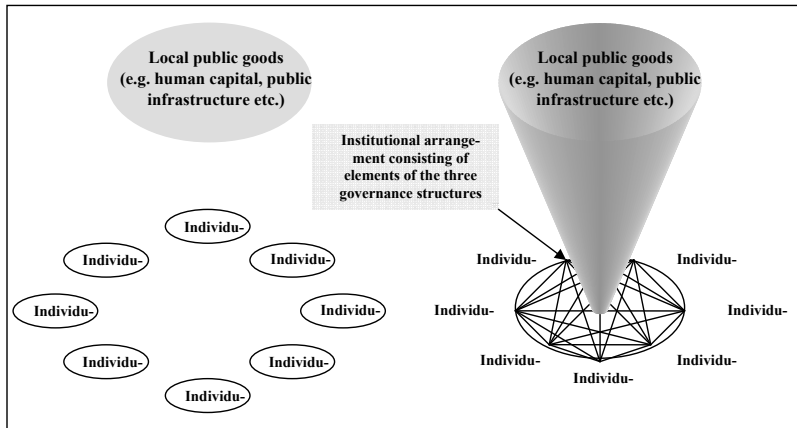
- 3) The property rights theory discussed in Section 2.2.2 also considers institutions as it identifies lacking public goods provision as a problem of individual interaction. Since all individuals involved in a public goods problem claim to benefit from the concerning good, but the costs of its provision cannot be distributed completely, the property rights theory proposes to define property rights on resources or goods such that individuals are able to negotiate for the right to use the concerned resources. Since in most cases the exact assignment of property rights is not possible in the real world, in addition to a property rights regime, other institutions involving, e.g. governmental action or public courts might solve the public good problems. Which institution would be most adequate for solving the latter problem depends on its ability to coordinate the individual use of the concerned goods or resources. According to the property rights theory, an institution is most preferable when it maximizes the social net benefit surplus. Governments, therefore, do not necessarily have to intervene directly as the welfare economics theory suggests, but should solely facilitate the implementation of institutions which enable, compared to the status quo, an improvement in social net benefit surplus. However, this also entails an offset of individual costs and benefits of all parties involved which is inconsistent with normative individualism. The property rights approach, therefore, provides a suitable framework for analyzing public goods problems positively, but neglects to propose a normative criterion.
- 4) As described in Section 2.2.3, the constitutional economics theory perceives problems of public goods as interaction problems similar to the property rights theory, but also introduces the distinction between individual behavior (moves) and rules, which broadens the perception of interaction problems. While on markets individuals change goods under a certain set of rules to improve their utility, in public good problems the current set of rules treated at least one individual unfavorably, which hampered the individual from improving his/her utility through entering exchange. The constitutional economics theory thus proposes, with respect to public good problems, to change the current rules in a way that all individuals involved would approve of them. Only then would individuals enter exchange and thus gains from cooperation (formerly perceived as externalities by the welfare economics theory) could be exploited. Hence, according to the constitutional economics theory, the consensus of all individuals

involved in the concerned rule changes constitutes the only criterion for normative policy analysis.

- 5) Factual consensus on rules can hardly be applied to all kinds of sub-constitutional decisions. The normative institutional economics theory, which I presented in Section 2.2.5, proposes, in accordance to the constitutional economics theory, to distinguish between moves and rules but introduces the social dilemma as a heuristic to analyze policy action in a more applied positive and normative manner. According to the normative institutional economics theory, problems of public goods result from the existence of free-riding options in the status quo, which hampers individuals from contributing to the public goods provision. Hence, the abolition of the free-riding options by a certain set of rules would find individual assent and would lead to a joint provision of a public good. However, although it might often be too costly to reach factual consensus, the individual contribution of all individuals involved to the provision of the concerned public good as a kind of exchange determines individuals' acceptance of the concerned set of rules. Exchange, therefore, is an applied characteristic of general consensus on the current set of rules.
- 6) Normative institutional economics theory provides an adequate framework for rural development policy analysis by applying the social dilemma heuristic. Thus, individual moves within a certain set of rules can be analyzed positively and the consensus, specifically the exchange criterion, allows for policy evaluation in a normative manner. Thus, policy action should aim to implement a set of rules (institutional arrangement), which facilitates the joint contribution of all inhabitants in a certain region to the provision of local public goods. If such an institutional arrangement induces the involved individuals to contribute to the provision of the public good and therefore enables the latter to improve their individual benefits (due to exploiting gains from cooperation), the latter arrangement will find general agreement and can thus be assessed as preferable.
- 7) In Section 2.3 I discussed how institutional arrangements which facilitate exchange between individuals have to appear. The literature discusses three different governance structures which are able to attenuate interaction problems between individuals and which therefore are able to facilitate the provision of public goods. Those governance structures are: market exchange, governmental regulation and community management. On the one hand, market-based provision of public goods in terms of privatization has advantages over government regulation and community management. Due to its effective decentralized price mechanism, markets reveal information that would otherwise be private. On the other hand, in the case of asymmetric information or problems of property rights definition, the market approach also shows weaknesses. Due to their coercive power, governments are able to establish property rights or rules and can enforce cooperation where non-cooperation between inhabitants is inefficient. However, with respect to public goods provision, governments often lack access

to local information concerning consumer preferences or different local circumstances and are prone to rent-seeking behavior. The community management of public goods can involve traditional incentive systems like trust, reputation or reciprocity and thus can implement sanction systems at low costs. But this is only sustainable in small-sized communities, whereas the small size may prevent the exploitation of gains from trade, economic diversity, and economies of scale.

**Figure 5-1: Institutional arrangements facilitating cooperation among inhabitants in local public goods provision**



Source: Author's depiction.

- 8) According to the literature it is often a synergy of all three governance structures which can be found in the real world (see OSTROM (1990, p. 17-19), GREIF (2000) or AOKI and HAYAMI (2000)). That is, local public goods in rural areas are provided by institutional arrangements which combine elements of all three governance structures. Figure 5-1 shows, on the left, a situation of lacking public goods provision in a rural community. Here, individuals find no common agreement on rules facilitating the joint provision of a certain public good like public infrastructure. On the right, we see inhabitants entering exchange due to a certain institutional arrangement which ensures the joint provision of a local public good. Because of this institutional arrangement, every individual community member constrains his/her behavior as part of exchange in return for benefits anticipated from reciprocal restrictions on the actions of others. Here, exchange is similar to the consensus on the concerned institutional arrangement.
- 9) Finally, governmental action should aim to support local inhabitants in their efforts to elaborate institutional arrangements which consist of all three governance structures and which are capable of bringing all local inhabitants into exchange in terms of a joint contribution to a certain local public good. In so

doing, governments, on the one hand, can act on the meta-level, e.g. by defining regulations and property rights, as well as by providing and allocating public funds for and among communities in order to attenuate interaction problems on the community level. On the other hand, governments can also act directly on the community level by means of local governments. On the community level, e.g. by undertaking public investments or advising local inhabitants, local governments can participate in the local development process and assist inhabitants in overcoming interaction problems.

## 5.2 Empirical conclusions

The empirical analysis served to prove: a) whether interaction problems among rural inhabitants are the reason for the lacking provision of certain local public goods in rural Poland; b) whether different institutional arrangements which emerged through local initiatives are able to overcome the lacking provision of certain public goods; c) whether those institutional arrangements comprise elements of the three governance structures; and d) whether consensus constitutes a useful normative criterion for the evaluation of institutional arrangements. While the first three issues belong to the positive analysis undertaken in the three case studies, the normative analysis had to examine the last issue.

- 1) The empirical results of three rural case studies in Poland have shown that in the early 1990s inhabitants of the case study regions refused to contribute their own shares in terms of capital or working time to the provision of certain public goods because they were not able to anticipate other inhabitants' willingness to contribute. The joint provision of the concerned local public goods failed to appear, although all inhabitants would have benefited from them. Hence, an interaction problem characterized the situation.
- 2) In all three case studies, institutional arrangements were formed to successfully provide local public goods. The core idea was to establish an institutional framework to coordinate the provision of local public goods. To enable the provision of such goods, it was necessary to induce inhabitants to contribute their own shares to the provision. This was only possible if the contributors were sure they would improve their benefits by providing their individual shares. Hence, institutional arrangements enabled the provision of local public goods as they facilitated cooperation among inhabitants, which finally led to gains from cooperation in terms of the successful provision of certain local public goods. Further, by making use of these goods, all contributors were able to improve their situation. These institutional arrangements emerged due to the strong engagement of rural partnerships involving local NGOs, local entrepreneurs, and local government members. The partnerships' composition is equivalent to the local action groups that constitute the core element of the Community Initiative LEADER, which belongs to development policy measures under the new rural paradigm.

- 3) The partnerships facilitated cooperation among inhabitants in terms of joint contributions, as they created institutional arrangements which enabled inhabitants to benefit from contributing a particular share in terms of, e.g. working time or capital to the public goods provision. With respect to the telephone cooperative in Dolina Strugu, local inhabitants joined the cooperative as a club good and paid regular fees, which led to a joint provision of a telephone network and local calls free of charge. Other institutional arrangements like the public-private partnership ("Chmielnik Zdrój") in Dolina Strugu encouraged peasant farmers, due to its market-based approach, to jointly provide their agricultural products without being a member of the partnership. With respect to Dębrzno and Bałtów, the development associations set up incentives for inhabitants to undertake actions to improve their personal skills or to invest in their local businesses, which can be seen as individual contributions that finally resulted in the provision of a higher level of human capital or of more favorable conditions for local businesses identified as local public goods in Section 2.1. These individual contributions, however, were only made since the involved individuals knew that they would have benefited to a greater extent if they had contributed their own share to the provision of the local public good than if they had not contributed.
- 4) The institutional arrangements coordinating inhabitants' contributions to local public goods provision comprise elements of all three governance structures mentioned above. The market approach in all three case studies assured an efficient use of public sources. Thus, with respect to the rural partnerships, a competition for public sources between rural entities provided those partnerships with funds which contained the most profound concepts for local development. The concept of the public-private partnership "Chmielnik Zdrój" in Dolina Strugu further involved local governments as market actors in a joint stock company and forced them to combine efficiency and social objectives. Moreover, the market approach in the case of "Chmielnik Zdrój" eliminated the free-riding option for peasants too. While, for example, in a producer group peasants were able to free-ride with regard to the funding of the group, if peasants are market participants, as in the case of "Chmielnik Zdrój", these free-riding options do not exist. Furthermore, by means of the local brand in Dębrzno, the regional provenance of products becomes a marketable good which benefits businesses selling their products under the brand, and at the same time contributes to the image of the region. Further, the Dinosaur park in Bałtów induced inhabitants, from a market based-relation, to contribute to the favorable conditions for local businesses as well as to the provision of local public infrastructure.
- 5) First of all, governmental regulation played an important role by providing public funds for initial investments within the local development projects. Many projects would have failed without governmental support since free-riding options had hampered inhabitants from making their contributions to such projects.

The impact of governmental action was further visible in the case of ecological production standards that peasants of Dolina Strugu had to fulfill in order to deliver their products to "Chmielnik Zdrój". Here, the definition and control of standards by state agencies reduced the negotiation and control costs between peasants. Local governments also played an important role as guarantors for the credits the telephone co-operative, "Chmielnik Zdrój", and the development associations in Dębrzno and Bałtów had applied for. Here, the principal-agent problem between the guarantor of a credit and the credit users was overcome, or in some cases, the access to credits became possible in the first place. Not least due to the local governments' different investments in the public infrastructure were undertaken, which would otherwise have failed due to free-riding options connected with joint investments in the latter local public good. Altogether, governmental action in the three case studies acted as a facilitator of local cooperation to enable a joint provision of public goods rather than as a subsidizer of public facilities.

- 6) Community relations enabled local initiators to have recourse to traditional incentive systems like, e.g. reputation and trust in the first place. Their local reputation, be it to improve their chances in local elections or to receive credit in general, encouraged local leaders to become actual leaders in development projects, whereas their local provenance persuaded them not to belie inhabitants' expectations and trust. The local provenance of the main initiators also enabled the latter to respond directly to local needs and conditions with their activities, something that became visible in all three case study regions. In addition, due to the institutional arrangements that were implemented by the local partnerships, the frequency of interaction among people increased, which further led to an increase in trust among inhabitants. Also with respect to the thematic working groups in the development associations in Dębrzno and Bałtów, new contacts and cooperation between inhabitants could emerge, which would otherwise not have come about.
- 7) There are governance structures, which seem to be more suitable to overcome certain local barriers, preventing inhabitants from joint contributions to the provision of local public goods. In cases, where a lack of trust among inhabitants hampered individuals from cooperation, community governance has shown advantages over the two other governance structures. Thus, local institutions, which increased the frequency of interaction between inhabitants, also improved local trust and resulted in a stronger cooperation among community members. Furthermore, in all three case study regions the reputation of certain local leaders encouraged other inhabitants to join common initiatives and to begin cooperating. The access to public funds by local partnerships through governmental regulation would almost certainly have been inefficient as governmental institutions often lack access to local information. Also, in many cases community management would not apply as it only works on a limited regional level.

In contrast, market competition among partnerships resulted in a more efficient use of public funds. In addition, the privatization of the cultural landscape and the image of the region like in the case of Dolina Strugu or in terms of the local brand in Dębrzno, led to a more efficient use of the latter public goods. A lack of funds for initial investments in the local infrastructure or in development projects was often overcome by means of public funds. In all three case studies many projects might have failed, if inhabitants had financed the initial investments solely based on their own contributions. The use of public funds enabled inhabitants to overcome free-riding options that are often related to a joint funding of projects.

- 8) Finally, it has to be discussed whether consensus constitutes a useful normative criterion for the evaluation of policy measures of the new rural paradigm. First of all, the consensus criterion with respect to the evaluation of rural development policy measures focuses strictly on all individuals involved. That is, in my analysis the focus was only on individuals who were to some extent influenced by the provision or lacking provision of certain local public goods. The latter fact implies that in order to implement institutional arrangements for local public goods provision with support of policy measures of the new rural paradigm, individuals who constitute potential veto-players have to be convinced and involved in the (joint) provision of local public goods as well. This is only possible, if a factual compensation of potential veto-players exists. In the case of "Chmielnik Zdrój" local peasants would not have accepted a situation, where they were obliged to cultivate under certain standards without receiving any factual compensation for that. On the other hand, inhabitants of Dolina Strugu would not have bought local products from "Chmielnik Zdrój", if they were not sure that the production of those products contributes to the preservation of the local cultural landscape. Therefore, "Chmielnik Zdrój" constitutes an institutional arrangement which is based on local approval. This local approval becomes visible since local peasants use "Chmielnik Zdrój" as market channel to sell their products and the majority of local inhabitants buys those products processed by "Chmielnik Zdrój". All three case studies have shown similar situations, where potential veto-players were able to profit from the implementation of an institutional arrangement for local public goods provision and therefore approved the arrangement by way of contribution. Those institutional arrangements enabled inhabitants to exploit gains from cooperation. Successful cooperation in terms of a joint contribution of individual shares, like working time or funds contributed to common activities, or the joint provision of products, like in the case of "Chmielnik Zdrój", was facilitated by elements of the three governance structures that were combined in different institutional arrangements. The fact that due to the implementation of certain institutional arrangements, inhabitants involved in a local public good problem started to cooperate, demonstrates their agreement with the respective institutional arrangement. Thus, an institutional arrangement which facilitates cooperation among individuals, so



that the latter are able to exploit gains from cooperation, finds approval among all inhabitants involved. Finally, in many cases such as in the three case studies a successful provision of local public goods requires the contribution of a large share of the local inhabitants and therefore must be based on the approval of the latter.

### 5.3 Policy recommendations

The policy recommendations refer to the implementation of rural development policy measures in Poland. These recommendations might be useful for policy makers of the Polish government, specifically for representatives of the Ministry of Agriculture and Rural Development (MINROL), for policy makers in pre-accession countries planning to implement LEADER-type policy measures, for members of the EU Commission dealing with rural development policy, and for NGOs promoting the implementation of rural development policy measures of the new rural paradigm.

In this study, I aimed at elaborating an analytical framework compatible with development policy measures of the new rural paradigm. I have given a theoretical understanding of major problems in the rural development process as I emphasized the lack of certain local public goods as important development barriers for the economic development of rural areas. I further discussed whether policy measures of the new rural paradigm are suitable for overcoming such problems. The theoretical considerations were tested within case studies conducted in three different Polish rural regions in 2005.

Only when Poland joined the EU in 2004, were the first policy measures of the new rural paradigm implemented, whereas the implementation of the most famous representative of these policy measures, the Community Initiative LEADER, started within pilot projects between 2005 and 2006. That is why I was unable to make use of important results of LEADER in Poland while conducting the empirical research for this study in 2005. Therefore, in this monograph I analyzed rural development partnerships in Poland, which were based on the same characteristics as those of LEADER, as they involve local government members, members of local NGOs and local businesses in the rural development process as equal partners.

All three case studies present successful examples of rural partnerships which are able to overcome crucial development problems that are characteristic for Polish rural areas. The success of the partnership resulted mainly from the implementation of institutional arrangements that induce inhabitants to contribute jointly to the provision of certain local public goods, which are necessary for an economic and social development in the respective regions.

In his discussion on local public goods in rural areas, PETRICK (2007b) concludes *inter alia* as follows: "After all, the question is not whether the state should provide public goods or not, but how complementarities between different institutional

arrangements, notably various layers of government, market and community, can be combined best to achieve this end" (ibid., p. 17). This statement implies the question, which was essential for this study, namely: how rural development policy is able to contribute to the successful provision of different local public goods in rural areas? The case studies have shown that governmental action is successful and its results are sustainable, where it assisted local initiators in elaborating and implementing institutional arrangements capable of providing local public goods. This further includes the statement made by PETRICK (2007b) above, that is, to facilitate the creation of institutional arrangements for local public goods provision, which combine basic elements of all three governance structures in a way that closely responds to local conditions and needs.

Since the analyzed partnerships were successful in overcoming crucial development problems typical for Polish rural areas, local action groups (LAGs) that are supported by the Community Initiative LEADER and that are equal to the rural partnerships analyzed in the case studies, may show similar positive results in Poland. The LEADER approach itself combines all three governance structures mentioned above. It contains market elements (by forcing competition among LAGs for public funds), governmental levels (by involving local governments to represent social and long-term aspects of local investments), and community (by involving local actors in the local decision making process). According to my theoretical and empirical considerations, the LEADER approach appears to be capable to facilitate local public goods provision in rural Poland and, therefore, to contribute to a sustainable development of rural areas. But still some further recommendations should be made to render policy measures of the new rural paradigm more eligible for responding to specific problems in Polish rural areas:

- 1) *Training and inspiring of local leader personalities.* In all three case studies, local leaders contributed crucially to the success of the local development projects. However, in addition to the skills they are naturally endowed with, leaders also have to be inspired and trained. Therefore, more efforts should be spent on the training of local leaders. In addition to basic bureaucratic and business skills, local leaders have to be instructed in organizing local associations, in dealing with people, and in elaborating local development strategies. In order to not concentrate knowledge and skills on only a single local actor, it might be useful to train more than one person per municipality as well as to organize local trainings and workshops, promoting the idea of local partnerships.
- 2) *Creation of platforms to promote rural development initiatives in the community.* In addition to the LAGs, other platforms have also to be implemented to involve non-members in local initiatives and to enable local inhabitants to express ideas and needs. Moreover, these platforms have to be used for calling inhabitants' attention to rural development programs and for illustrating successful examples of local development initiatives. In particular, the case study

in Dolina Strugu has shown that the lack of knowledge about rural development measures causes widespread reluctance to become involved in the local collective actions.

- 3) *Organization of trips to successful rural development projects to inspire local actors.* Knowledge about rural development measures in general as well as about its application to crucial local development problems in particular was also missing among local partnership and local government members. Here, a greater number of organized trips to successful partnerships can supply those wants. Interviewees who already attended similar trips stated to have obtained important information, inspirations, and visions from the latter.
- 4) *Provision of external monitoring and advice during the founding process of the partnerships.* As discussed above, within the founding process of the partnerships in Dębrzno and Bałtów, it was very useful to receive valuable advice from the Environmental Partnership Foundation from Krakow on the organization of rural partnerships and the preparation of local development strategies. In section 4.5, I mentioned that the common elaboration of a local development strategy among local governments, private persons, and enterprises was emphasized as an important success factor in two case studies. However, it was also shown that the elaboration of such a strategy is often a long-term and tough process, which in many other cases of rural development initiatives was not crowned with success. External monitoring, though, can facilitate this process by pointing out common interests and by structuring local development problems and prospects. This external monitoring, as well as other financial and technical assistance for strategy development, can be provided by governmental or European funds. A public provision of those funds minimizes the probability of interaction problems on financial issues that could already emerge in the beginning of the strategy elaboration process.
- 5) *Differentiation between general and local-based success factors.* All three case study regions were based on specific local success factors, which cannot be easily transferred to other rural partnerships. For instance, the successful development of "Chmielnik Zdrój" definitely resulted from the positive experience with cooperation that local initiators in Dolina Strugu had already made in the telephone co-operative. Also, the initial idea for the innovative approach of the telephone co-operative resulted from the previous contacts of Dolina Strugu's inhabitants with an US American municipality that had a telephone co-operative with a similar approach. The same is true for Bałtów. There, the discovering of dinosaurs' footprints and the idea to commercialize this discovery in terms of a Dinosaur park cannot be easily applied to other rural communes in Poland or elsewhere. But there are a few factors, which can be transferred to other rural regions. For example, the image of a region as a place for natural tourism, organic products or with unique characteristics can become marketable products by means of local brands. And furthermore, a market-based business

concept of those local brands or other local marketing concepts, e.g., for agricultural marketing cooperations increases flexibility in cases where producer associations would require a large number of members like in "Chmielnik Zdrój" or Bałtów. Moreover, in cases, where a lack of trust among inhabitants hampered individuals from cooperation, the implementation of local institutions, which increased the frequency of interaction between inhabitants, also improved local trust and resulted in a stronger cooperation among community members. That is why partnership projects on the local level, in addition to economic objectives, should first aim at increasing interaction between local inhabitants.

- 6) *Facilitate access to capital by means of local credit funds.* The case study in Dębrzno has shown that a local business incubator, combined with the implementation of a local credit fund, contributes successfully to the development of local businesses. Public guarantees constitute an important incentive for local inhabitants to found a credit fund that eases local businesses' access to capital. While the state may define basic standards for a local credit fund, local partnerships may also determine further locally-based requirements. On the one hand, the requirements should guarantee the sustainability of the fund. On the other hand, these local-based requirements should enable local businesses to receive utility through entering exchange. The constitutional economics theory thus proposes, requirements to local conditions. While banks in rural Poland often provide credits only at high interest rates<sup>20</sup> or do not provide local businesses with loans at all due to the lack of collaterals, community relations, like trust, reputation or pride might reduce the trust problem among credit lenders and borrowers within local credit funds. Hence, local partnerships could also be introduced to the idea of local credit funds, and public guarantees would help them to realize those ideas in their local communities.

## 5.4 Outlook for further research

Further research on local public goods in rural areas could complement this study. The definition of local public goods in section 2.1 followed in particular different studies conducted in rural areas of western European countries. There is a lack of studies dealing with local public goods provision in central and eastern European countries, especially however, in Poland. Further research is required in eastern European countries to expose special features of local public goods provision, which go back to the countries' socialist and transition background. Other studies need to be conducted as well to define different local public goods, which are necessary for a successful rural development process, but they have not been discussed in this monograph.

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<sup>20</sup> Problems of local businesses regarding the access to bank credits as well as the high costs combined with bank credits were discussed for Dolina Strugu in GRAMZOW (2005, p. 13) and for Dębrzno in GRAMZOW (2006a, pp. 16-17).

Furthermore, the success factors and limitations of local partnerships presented in this study resulted only from the three qualitative case studies conducted in Poland. Further research could aim at developing success factors and limitations of partnership activities based on quantitative analysis. A larger number of cases should be studied in Poland or other countries. In this context then, the impact of local leaders, the importance of the tourist background of a region, the impact of external monitoring and external animators or the embeddedness of the partnership in development networks could be analyzed more thoroughly by means of econometric models.

Future research may also concern the further implementation process of the Community Initiative LEADER in Poland. In this study, I was unable to rely on the results of the pilot projects of LEADER. However, in the case study regions the implementation of LEADER projects started in 2005. For those areas it will be interesting to analyze if the newly founded LAGs turn out to be successful local institutions, which continue the development process, or if the new organizational standards the existing partnerships had to implement due to LEADER may now hamper local collective action. Not least such investigations may yield interesting insights into the advantages but also into the flaws of the Community Initiative LEADER.

## EXECUTIVE SUMMARY

Since the beginning of the 1990s a new rural development policy, which has later been called the "new rural paradigm" by the OECD, has received increasing attention in the European Union (EU) and elsewhere. It is expected that these policy measures attenuate social and economic problems in rural areas on a broader basis than the agricultural sector alone. They support local stakeholders like non-governmental organizations, local governments and local businesses in implementing local development strategies that are based on endogenous potentials and spatial interaction.

Polish rural inhabitants, suffering among many other issues, from a lack of non-agricultural jobs, an unfavorable business environment and an insufficient public infrastructure, pinned high hopes on those new measures. However, it is not proven whether those measures of the new rural paradigm will stimulate the economic and social development of Polish rural areas. So far, their impact on the local development processes was mostly analyzed empirically, and those studies were strongly dictated by guidelines of legislative bodies. Studies with theoretical reflections can rarely be found. This study aims at elaborating an analytical framework for rural development policy analysis that provides a basic understanding of governmental action in rural development processes as well as allows a normative evaluation of rural development policy measures. This analytical framework could further be used to empirically analyze the impact of those policy measures on the development of Polish rural areas.

Central to this analysis is the perception of rural development problems as a consequence of a lacking provision of local public goods. Local conditions, like a well constructed public infrastructure, a favorable local business environment, a high level of human capital, or a local landscape in sound conditions, can be defined as local public goods as they are characterized by a low rivalry in consumption and non-excludability. Local public goods, however, although they benefit all inhabitants of a region, are often poorly provided or even remain absent. This study hypothesizes that precisely the latter deficiency is tackled by policy measures of the new rural paradigm. It is argued that those policy measures aim at facilitating the implementation of local institutional arrangements that provide inhabitants of a region with certain local public goods.

In order to understand the effects of measures of the new rural paradigm, the lacking provision of local public goods was analyzed theoretically and empirically. Theoretically, the lacking provision of public goods was discussed by means of three

different theories. Welfare economics, the first theory presented, understands market prices as the only mechanism coordinating individual interaction. Hence, once market prices fail to reveal the scarcity of a good, like in the case of public goods, market failure comes to the fore and can only be cured by governmental intervention. But institutions like trust, reciprocity and property rights, which coordinate individual interaction, find no place in the welfare economics scheme. However, rural development measures of the new paradigm strongly focus on the implementation of formal and informal institutions, which coordinate individual efforts in rural development processes. The property rights theory, the second theory discussed, approves the coordination capacity of institutions as it refers to the interaction problems inherent in problems of public goods provision. Institutions channel individual behavior and enable therefore the provision of local public goods. For the evaluation of institutions the property rights theory proposes the offset of costs and benefits that are borne/gained by individuals within different institutions which, however, is inconsistent with normative individualism. Constitutional economics theory, the third theory presented, by distinguishing between rules and moves, avoids the flaws of the latter theories and proposes to evaluate institutions with respect to their approval by all individuals involved in a public good problem since only consensus guarantees that no individual will be worse off after implementing the institution. But factual consensus on institutions, which should coordinate the provision of local public goods in rural areas, seems to be unfeasible and to be combined with high decision making costs.

Because of the latter fact the normative institutional economics theory was presented, which introduces the social dilemma as a heuristic to apply the consensus criterion to all kinds of institutions in everyday life. A social dilemma describes a situation in which, because of unresolved coordination problems, actors of a group do not make full use of their opportunities. That is, they do not exploit all gains from cooperation. The social dilemma enables to analyze public good problems in a positive and normative manner. Positively, individuals' behavior channeled by certain institutions can be analyzed. The normative analysis asks whether institutions can be modified by way of institutional reform so that individuals, involved in a public good problem, will jointly contribute to the public good provision, and gains from cooperation will be exploited. In consequence, institutions which channel inhabitants' behavior in order to jointly provide a certain public good, find general agreement. And policy measures, which facilitate the implementation of those institutions, will therefore also find general agreement.

This leads to the questions of how institutional arrangements have to be composed to facilitate the provision of public goods in rural areas. Three governance structures, the market approach, government regulation, and community management were presented, which all cover unique elements that facilitate individuals' cooperation, so that a joint provision of local public goods can be realized.

Whether the implementation of institutional arrangements, capable of providing local public goods in Polish rural areas, is facilitated by policy measures of the new rural paradigm was analyzed within three case studies conducted in south-eastern and north-western Poland. The case study regions were all endowed with local partnerships that reflect the idea of the new rural paradigm as they consist of cooperation among local government members, local businesses and local NGOs. The case studies comprise 104 guideline interviews with local government members, members of local NGOs, local entrepreneurs, farmers and local inhabitants in general. Guideline interviews were also completed by participant observation and a small standardized questionnaire.

In the early 1990s, in all three case study regions particular local public goods were not provided due to interaction problems that hampered individuals from a joint contribution. By means of the social dilemma heuristic, the public good problems in the case study regions were analyzed positively and normatively. The positive analysis focused on the institutions that formerly hampered inhabitants from a joint contribution. Then, for regions where certain local public goods were successfully provided, the institutional arrangements, facilitating the successful provision, were investigated and the impact of market-based relations, government regulation and community relations on public good problems was analyzed. In the normative analysis, institutional arrangements were assessed as preferable only if exchange in terms of a successful joint provision of local public goods was realized and mutual gains from cooperation were exploited. Finally, if policy measures of the new rural paradigm facilitate institutional arrangements capable of coordinating individual interaction so that inhabitants contribute jointly to the provision of certain public goods, they were assessed as preferable.

It turned out that the foundation of local partnerships facilitated the implementation of institutional arrangements, which induced inhabitants to jointly contribute to the provision of certain local public goods. And those institutional arrangements comprise elements of all three governance structures. But there were governance structures which seem to be more suitable to overcome certain barriers, hampering a joint provision of local public goods, than others. For instance, in cases where a lack of trust among inhabitants hampered individuals' cooperation, community governance has shown advantages over the two other governance structures. With respect to local partnerships' access to public funds the implementation of market competition among partnerships for funds, enabled a more efficient use, while the access to public funds in general often enabled inhabitants to overcome free-riding problems that were related to a joint funding of projects.

Furthermore, in all three case studies the success resulted among other things from the following factors: a) local provenance of main initiators; b) the existence of local leader personalities; c) the elaboration of a common local development strategy; d) a close cooperation between the local development partnership and



the local government; and e) the availability of a permanent staff taking care of operational tasks.

Finally, the empirical analysis has shown that within policy measures of the new rural paradigm, governmental action rather acts as a facilitator of public goods provision than as a subsidizer of rural economic sectors. The latter measures stimulate the socio-economic development as they facilitate the implementation of institutional arrangements, consisting of elements of three governance structures that are capable of providing local public goods successfully. In this case, the institutional arrangements induce all inhabitants involved in a local public good problem to contribute to the provision of the good as they enable inhabitants only to improve their individual benefits through contribution. However, a joint contribution constitutes the exploitation of gains from cooperation and visualizes the agreement of all involved inhabitants in a public good problem on the institutional arrangement that enables the joint contribution. Thus, consensus among inhabitants involved is a normative criterion that should be taken into consideration when evaluating development measures of the new rural paradigm.

## ZUSAMMENFASSUNG

Seit Beginn der 1990er Jahre gewinnt in der EU und über EU Grenzen hinaus ein neuer Ansatz ländlicher Entwicklungspolitik zunehmend an Bedeutung. Von diesem neuen Konzept, welches von der OECD als "neues ländliches Paradigma" bezeichnet wurde, wird angenommen, dass es sich im Gegensatz zur traditionellen Agrarpolitik sozialen und ökonomischen Problemen im ländlichen Raum durch wesentlich komplexere Ansätze nähert. Politikmaßnahmen des neuen Paradigmas unterstützen besonders lokale Partnerschaften, bestehend aus lokalen Interessengruppen wie Vereine, Kommunalverwaltungen und lokalen Unternehmen bei der Implementierung von lokalen Entwicklungsstrategien. Diese Entwicklungsstrategien sollen vor allem auf endogene Potentiale der jeweiligen Regionen und räumliche Interaktion gründen.

Die ländliche Bevölkerung Polens, die unter anderem durch fehlende außerlandwirtschaftliche Beschäftigungsmöglichkeiten, ein ungünstiges Unternehmensumfeld und eine wenig ausgebaute Infrastruktur in ihrer Entwicklung gehemmt ist, erhoffte sich von diesen neueren ländlichen Politikmaßnahmen eine Verbesserung der Lebensqualität. Es ist jedoch nicht erwiesen, dass Maßnahmen des neuen ländlichen Paradigmas tatsächlich eine stimulierende Wirkung auf die soziale und ökonomische Entwicklung im ländlichen Raum Polens haben. Bislang sind überwiegend empirische Studien vorhanden, die sich sehr stark an vom Gesetzgeber formulierten Richtlinien orientieren, und, teilweise theoretisch unreflektiert, den Einfluss neuerer ländlicher Politikmaßnahmen auf lokale Entwicklungsprozesse in Polen beschreiben. Diese Arbeit zielt darauf ab, einen analytischen Rahmen zu entwickeln, der einerseits staatliches Handeln im Bereich der ländlichen Entwicklungspolitik erklärt und beschreibt, andererseits aber auch als Grundlage für empirische Untersuchungen im ländlichen Raum Polens genutzt werden kann.

Ein zentraler Gedanke dieser Arbeit ist die Annahme, dass ländliche Entwicklungsprobleme aus einer unzulänglichen Bereitstellung lokaler öffentlicher Güter resultieren. Lokale Voraussetzungen, wie beispielsweise eine gut ausgebaute öffentliche Infrastruktur, ein günstiges Unternehmensumfeld, ein hohes Niveau an Humankapital oder eine gepflegte Kulturlandschaft können als lokale öffentliche Güter aufgefasst werden, da sie durch fehlende Rivalität im Konsum und Nicht-Ausschließbarkeit geprägt sind. Jedoch werden lokale öffentliche Güter, obwohl sie allen Einwohnern einer Region zugute kommen, nur unzureichend oder gar nicht bereitgestellt. Hier lautet eine zentrale Hypothese dieser Arbeit, dass gerade Politikmaßnahmen des neuen ländlichen Paradigmas an dieser unzureichenden Bereitstellung

lokaler öffentlicher Güter ansetzen können. Es wird angenommen, dass jene Maßnahmen die Gründung von institutionellen Arrangements fördern, mit deren Hilfe bestimmte lokale öffentliche Güter im ländlichen Raum bereitgestellt werden können.

Die Untersuchung der Wirkungsweise von Politikmaßnahmen des neuen Paradigmas erfolgt theoretisch und empirisch. Theoretisch wird zunächst die fehlende Bereitstellung lokaler öffentlicher Güter mit Hilfe von drei verschiedenen ökonomischen Ansätzen rekonstruiert: der Wohlfahrtsökonomik, der Theorie der Eigentumsrechte und der Verfassungsökonomik. Die Wohlfahrtsökonomik sieht den Marktpreis als einzigen Mechanismus, der individuelles Handeln koordiniert. Das heißt, wenn ein Marktpreis nicht die genaue Knappheit eines Gutes wiedergibt, wie im Falle von öffentlichen Gütern, so liegt nach Meinung der Wohlfahrtsökonomik Marktversagen vor, welches lediglich durch das Eingreifen des Staates überwunden werden kann. Institutionen wie Vertrauen, Reziprozität oder Eigentumsrechte, welche ebenfalls das Verhalten von Individuen beeinflussen, werden hingegen von der Wohlfahrtsökonomik nicht berücksichtigt. Ländliche Entwicklungsmaßnahmen des neuen Paradigmas zielen aber gerade auf die Stärkung von informellen und formellen Institutionen ab, die die Kooperation zwischen ländlichen Bewohnern in sozialen und wirtschaftlichen Prozessen stärken. Die Theorie der Eigentumsrechte führt die fehlende Bereitstellung öffentlicher Güter auf Interaktionsprobleme zurück, welche zwischen allen Individuen bestehen, die an der Bereitstellung und Nutzung der Güter beteiligt sind. Des Weiteren hebt sie hervor, dass mit Hilfe von Institutionen individuelles Handeln so koordiniert werden kann, dass öffentliche Güter erfolgreich bereitgestellt werden können. Eine Bewertung dieser Institutionen erfolgt aus Sicht der Theorie der Eigentumsrechte durch die Gegenüberstellung aller individuellen Kosten und Nutzen. Letztere Vorgehensweise ist jedoch mit dem normativen Individualismus unvereinbar. Die Verfassungsökonomik, die dritte Theorie, die in dieser Arbeit vorgestellt wird, erkennt die Unzulänglichkeiten der obengenannten Theorien und versucht diese aufzuheben, indem sie die Unterscheidung zwischen Aktionen und den Regeln (Institutionen), welche die Aktionen beeinflussen, einführt. Das Hauptaugenmerk liegt hierbei zunächst auf der Akzeptanz der Regeln. So empfiehlt die Verfassungsökonomik die allgemeine Zustimmung aller Individuen zu einer Institution als alleiniges normatives Kriterium für die Bewertung von Institutionen bzw. Regeln, denn nur die Zustimmung aller zur Implementierung einer bestimmten Institution beugt möglichen Benachteiligungen Einzelner vor.

Im Hinblick auf Institutionen, welche die erfolgreiche Bereitstellung öffentlicher Güter im ländlichen Raum regeln sollen, kann festgestellt werden, dass eine faktische Zustimmung zu diesen Regeln unmöglich scheint bzw. mit sehr hohen Entscheidungsfindungskosten verbunden ist. Aus diesem Grund wurde die Normative Institutionenökonomik, die teilweise eine Erweiterung der Verfassungsökonomik darstellt, ebenfalls in dieser Arbeit diskutiert. Die Normative Institutionenökonomik

nutzt das Soziale Dilemma als Heuristik, um das Konsenskriterium auch auf Entscheidungen anzuwenden, mit denen Individuen im täglichen Leben konfrontiert sind. Das Soziale Dilemma beschreibt eine Situation, in der aufgrund von Koordinationsproblemen Mitglieder einer Gruppe kollektiv unter ihren Möglichkeiten bleiben. Das heißt, sie sind nicht in der Lage, Kooperationsgewinne zu erzielen.

Mit Hilfe des Sozialen Dilemmas kann die fehlende Bereitstellung öffentlicher Güter aus zwei Perspektiven, einer positiven und einer normativen, nachvollzogen werden. Positiv wird das Verhalten von Individuen analysiert, die durch bestimmte Institutionen (Regeln) beeinflusst werden. Normativ lässt sich fragen, durch welche institutionellen Reformen Individuen dazu bewegt werden können, gemeinsam ein lokales öffentliches Gut bereitzustellen, sodass von allen Beteiligten Kooperationsgewinne erzielt werden können. Dies bedeutet, dass die Aussicht auf Kooperationsgewinne alle Beteiligten dazu veranlassen würde, der Einführung von Institutionen zuzustimmen, welche eine gemeinsame Bereitstellung lokaler öffentlicher Güter regulieren. Politikmaßnahmen, die die Einführung ebensolcher Institutionen unterstützen, müssen deshalb ebenfalls allgemeine Zustimmung unter den Beteiligten finden.

Dies führt weiter zu der Frage, aus welchen Elementen sich Institutionen bzw. institutionelle Arrangements zusammensetzen sollten, wollen sie die gemeinschaftliche Bereitstellung lokaler öffentlicher Güter ermöglichen. Um diese Frage zu klären, werden in dieser Arbeit drei Arten von Governance-Strukturen untersucht – der Marktansatz, die staatliche Regulierung und die Gemeinschaft – die mittels spezieller Elemente die Zusammenarbeit zwischen Individuen fördern und somit die gemeinsame Bereitstellung lokaler öffentlicher Güter in einer Region ermöglichen.

Anhand von drei Fallstudien im Südosten und Nordwesten Polens wurde daraufhin untersucht, ob Politikmaßnahmen des neuen Paradigmas tatsächlich in der Lage sind, die Implementierung von lokalen institutionellen Arrangements zur gemeinschaftlichen Bereitstellung lokaler öffentlicher Güter zu forcieren. In allen drei Fallstudienregionen existieren lokale Partnerschaften, die auf einer Kooperation zwischen Kommunalverwaltung, lokalen Vereinen und lokalen Unternehmen beruhen und daher der Idee des neuen ländlichen Paradigmas entsprechen. Die Fallstudien umfassen im Wesentlichen 104 Leitfadeninterviews mit Mitgliedern von lokalen und regionalen Behörden, Mitgliedern lokaler Vereine, lokalen Unternehmern, Landwirten und Einwohnern. Die Leitfadeninterviews wurden zusätzlich durch beteiligte Beobachtung und einen kurzen standardisierten Fragebogen ergänzt.

Zu Beginn der 1990er Jahre gab es in allen drei Untersuchungsregionen einen Mangel an bestimmten lokalen öffentlichen Gütern. Dieser Mangel wurde weitestgehend auf lokale Koordinationsprobleme zwischen den Einwohnern der Regionen zurückgeführt. Diese Koordinationsprobleme hielten die Einwohner davon ab, gemeinsam in die Bereitstellung bestimmter lokaler öffentlicher Güter zu investieren.

Auf Grundlage der Heuristik des Sozialen Dilemmas wird nun das Problem der fehlenden Bereitstellung lokaler öffentlicher Güter in der Region analysiert. Die positive Analyse zeigt auf, durch welche Institutionen bzw. das Fehlen derselben die Einwohner einer Region früher davon abgehalten wurden, gemeinsam lokale öffentliche Güter bereitzustellen. Weiter wird in Regionen untersucht, in denen bestimmte lokale öffentliche Güter erfolgreich bereitgestellt werden, welche institutionellen Arrangements diese Bereitstellung ermöglichen. Hierbei wird ebenfalls analysiert, welchen Einfluss Marktbeziehung, staatliche Eingriffe und Gemeinschaft auf die erfolgreiche Bereitstellung haben. Die normative Analyse ermöglicht nun, lokale institutionelle Arrangements zur Bereitstellung lokaler öffentlicher Güter als wünschenswert bzw. nicht wünschenswert zu beurteilen. Institutionelle Arrangements sind demnach dann wünschenswert, wenn sie eine gemeinschaftliche Bereitstellung von bestimmten öffentlichen Gütern ermöglichen, sodass Kooperationsgewinne für alle Beteiligten entstehen. Maßnahmen des neuen ländlichen Paradigmas können demzufolge auch nur dann als wünschenswert angesehen werden, wenn sie die Implementierung von institutionellen Arrangements forcieren, mittels derer die Bereitstellung von lokalen öffentlichen Gütern durch alle Beteiligten ermöglicht wird.

Grundsätzlich stellt sich in allen drei Fallstudien heraus, dass durch die Gründung von lokalen Partnerschaften solche institutionellen Arrangements implementiert wurden, welche die Einwohner einer Region dazu veranlassen, gemeinschaftlich Beiträge für die Bereitstellung lokaler öffentlicher Güter zu leisten. Diese institutionellen Arrangements enthalten jeweils unterschiedliche Elemente aus den drei verschiedenen Governance-Strukturen. Einige der Governance-Strukturen scheinen jedoch besser geeignet, bestimmte lokale Koordinationsprobleme zwischen Individuen zu überwinden. So zeigt sich, dass in Fällen fehlenden Vertrauens zwischen den Einwohnern einer Region die Gemeinschaft als Governance-Struktur vorteilhaft gegenüber den anderen beiden Ansätzen ist. Im Gegensatz dazu führt die Einführung von Wettbewerb zwischen lokalen Partnerschaften um öffentliche Mittel zu einer effizienteren Nutzung staatlicher Ressourcen.

Es wird des Weiteren herausgearbeitet, dass der Erfolg in allen drei Fallstudien unter anderem aus folgenden Faktoren resultiert: a) die lokale Herkunft der Hauptakteure; b) das Vorhandensein lokaler Führungspersönlichkeiten; c) die gemeinschaftliche Erarbeitung einer lokalen Entwicklungsstrategie; d) eine enge Zusammenarbeit zwischen der lokalen Partnerschaft und den lokalen Behörden; und e) der Verfügbarkeit von festen Mitarbeitern in den Partnerschaften zur Durchführung von operationalen Aufgaben.

Es zeigt sich in den theoretischen und empirischen Untersuchungen dieser Arbeit, dass der Staat im Rahmen der Maßnahmen des neuen ländlichen Paradigmas eher die Bereitstellung von lokalen öffentlichen Gütern in ländlichen Regionen forciert, als dass er, wie im Falle der traditionellen Agrarpolitik, einzelne ländliche Wirtschaftssektoren subventionierte. Die Politikmaßnahmen des neuen Paradigmas

unterstützen die sozio-ökonomische Entwicklung einer Region, indem sie die Implementierung von institutionellen Arrangements vorantreiben, mit deren Hilfe wiederum eine erfolgreiche Bereitstellung lokaler öffentlicher Güter ermöglicht wird. Diese institutionellen Arrangements veranlassen die Einwohner einer Region, zur Bereitstellung eines öffentlichen Gutes beizutragen. Dies kann geschehen, indem allen Beteiligten nur dann ermöglicht wird, von diesem Gut zu profitieren, wenn ein individueller Beitrag zur Bereitstellung geleistet wird. Die gemeinschaftliche Bereitstellung lokaler öffentlicher Güter entspricht der Erzeugung von Kooperationsgewinnen, von denen alle Beteiligten profitieren. Somit sichert der individuelle Anteil eines jeden Beteiligten an den Kooperationsgewinnen folglich auch dessen Zustimmung zu den institutionellen Arrangements, durch welche die Kooperationsgewinne erst gemeinschaftlich erzielt werden konnten. Deshalb sollte die Zustimmung aller Beteiligten auch als normatives Kriterium für die Bewertung von Politikmaßnahmen des neuen ländlichen Paradigmas mit in Betracht gezogen werden.

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## APPENDIX

### 1 Interview partners from Dolina Strugu

#### Interview partners from the local government:

- DS-13:* Member of the local government of Błazowa, member of the commune council, has a farm with 2 ha.
- DS-27:* Member of the local government of Błazowa, responsible for cultural events.
- DS-28:* Employed by the local government of Błazowa, works a bit on LEADER.
- DS-29:* Representative of the local co-operative bank in Błazowa.
- DS-34:* Representative of the local co-operative bank in Błazowa.

#### Interview partners from the local association "Dolina Strugu"

- DS-01:* Member of "Dolina Strugu", responsible for a loan program for local businesses.
- DS-02:* Member of "Dolina Strugu", head of the office, previous mayor from Tyczyn.
- DS-03:* Employee of "Dolina Strugu", works in a program bringing unemployed people back to work.
- DS-04:* Employee of "Dolina Strugu", works in a program bringing unemployed people back to work, writes also applications for EU projects.
- DS-05:* Employee of "Dolina Strugu", works in a program bringing unemployed people back to work.
- DS-06:* Employee of "Dolina Strugu", advises farmers in applying for direct payments and other programmes like structural rents.
- DS-11:* Member of "Dolina Strugu", works for Chmielnik Zdrój.
- DS-19:* Member of "Dolina Strugu", works for the telephone co-operative.
- DS-33:* Member of "Dolina Strugu", former member of the local government of Hyżne, national politician.

**Interviews with local entrepreneurs and local inhabitants in general**

- DS-09:* Woman, works for the local library and the local newspaper, attended meetings of Dolina Strugu.
- DS-10:* Young woman, works for the local library.
- DS-12:* Teacher of the local high school, has an own museum of local history, representative for 100 telephone co-operative members.
- DS-14:* Owner of a local pet shop.
- DS-15:* Owner of a clothes shop in Błazowa.
- DS-16:* Owner of a clothes shop in Błazowa.
- DS-17:* Insurance agent who has his own agency, worked for a few years in Austria and speaks very good German.
- DS-20:* Young entrepreneur, produces caskets, started the enterprise with the help of credits from the World Bank program with the assistance of "Dolina Strugu".
- DS-21:* Mechanic who has his own garage with 4 workers, started his garage with the help of credits from the World Bank program with the assistance of "Dolina Strugu".
- DS-23:* Owner of a local kiosk.
- DS-24:* Owner of a small shop selling garden tools, has a 2 ha farm.
- DS-26:* Employed by the state agency for agriculture, advises local farmers.
- DS-31:* Director of an old people home, co-operates with "Dolina Strugu".
- DS-32:* Local entrepreneur, has a bakery and delivers different shops in the region.

**Interviews with local farmers:**

- DS-07:* Owns, together with his wife, an agri-tourism farm, has additionally 9 ha and one cow, he used to work for a governmental agency before he retired.
- DS-08:* Owner of an agri-tourism farm, her husband works abroad, owns 3 ha in 15 small plots.
- DS-18:* Owns, together with his wife, one of the biggest farms in the region, owns 11 ha.
- DS-22:* Owner of an ecological farm, cultivates 11 ha and has 2 cows, works additionally in the local school.
- DS-25:* Owner of an agri-tourism farm, owns 32 ha of grass land and 20 horses.

*DS-30:* Owns a large farm with 20 ha and 120 pigs, took the farm over from his father.

## **2 Interview partners from Dębrzno**

### **Interview partners from the local government:**

- D-07:* Representative of the local government, member of the city council of the commune of Dębrzno.
- D-08:* Representative of the local government, member of the city council of the commune of Dębrzno, member of the "Association for the development of the city and the commune of Dębrzno".
- D-22:* Representative of the regional government in the administrative district Czulchów, Department for regional development and EU integration.
- D-34:* Employee of the local government of the commune Dębrzno, accountant.
- D-35:* Representative of the local government, member of the city council of the commune of Dębrzno.

### **Interview partners from the "Association for the development of the city and the commune of Dębrzno" and the Partnership of the Northern Necklace:**

- D-01:* Chairwoman of the "Association for the development of the city and the commune of Dębrzno", member of the city council of the commune Dębrzno, employed by the local government.
- D-02:* Member of the "Association for the development of the city and the commune of Dębrzno", her tasks in the association concern the introduction of the pilot measure to implement Leader+ in the region.
- D-03:* Works for the business start-up agency which provides the Canadian Loan Programme, the business start-up agency is an initiative of the "Association for the development of the city and the commune of Dębrzno".
- D-05:* Two members of the "Association for the development of the city and the commune of Dębrzno", their tasks in the association concern the coordination of the project "Youth patrol for the environment", teachers in the local school.
- D-09:* Vice chairman of the "Association for the development of the city and the commune of Dębrzno", works for the local social aid centre.
- D-12:* Member of the "Association for the development of the city and the commune of Dębrzno", his tasks in the association concern the coordination of the "Clean Business Club" as well as initiatives on the "Green way".

- D-17:* Chairman of the "Association for the Development of the centre and the commune of Kamień Krajeńskie", (Association is member of the partnership of the Northern Necklace), member of the city council of the commune of Kamień Krajeńskie.
- D-18:* Member of the "Association for the Development of the centre and the commune of Kamień Krajeńskie", (Association is member of the partnership of the Northern Necklace), responsible for the entrepreneurship incubator of the association.
- D-21:* Employee of the Forestry office, commune Lipka, (Forestry office is member of the partnership of the Northern Necklace), one of the main initiators who rebuilds the local park in the city of Lipka.
- D-23:* Members of the Association of Stare Gronowo (female inhabitant, local shop owner, a local farmer, head of the local fire brigade), the association was founded to restore an old estate in the middle of the village, the association of Stare Gronowo is a partner of the "Association for the development of the city and the commune of Dębrzno".
- D-31:* Two members of the Environmental Foundation for the countryside of Chojnice and Zaborski (Foundation is member of the partnership of the Northern Necklace), both are teacher of a local high school.

### **Interviews with local entrepreneurs and local inhabitants in general:**

- D-04:* Owner of an agrotourism farm in a village close to Dębrzno, member of the "Association for the development of the city and the commune of Dębrzno".
- D-06:* Works for the local labor agency in Dębrzno which is an initiative of the "Association for the development of the city and the commune of Dębrzno".
- D-10:* Owner of a store for sporting goods and toys in Dębrzno.
- D-11:* Owner of a hardware store in Dębrzno.
- D-13:* Owner of an agrotourism farm in Dębrzno.
- D-15:* Owner of a hardware store in Dębrzno.
- D-16:* Owner of a hardware store in Dębrzno.
- D-19:* Representative of the local government of the commune Kamień Krajeńskie, this commune is close to Dębrzno.
- D-25:* Priest in Dębrzno, also works as a teacher in the local school and lives in the local house for priests.
- D-27:* Owner of an insurance agency.

- D-28:* Representatives of the local co-operative bank in Dębrzno.
- D-32:* Owner of a bakery in Dębrzno, member of the "Association for the development of the city and the commune of Dębrzno".
- D-33:* Owner of an agrotourism farm and a clothes store in Dębrzno, used to work for the state-owned farm, retired.

**Interviews with local farmers:**

- D-14:* Owner of a large farm in Dębrzno, member of a local producer group.
- D-20:* Owner of a large farm in a village close to Dębrzno, member of a local producer group, member of the "Association for the development of the city and the commune of Dębrzno".
- D-24:* Owner of a small farm in village close to Dębrzno.
- D-26:* Owner of a small farm close to Dębrzno.
- D-29:* Owner of a large farm in a village close to Dębrzno, member of a local producer group.
- D-30:* Owner of a large farm in Dębrzno.

**3 Interview partners from Bałtów**

**Interview partners from the local government:**

- B-06:* Representative of the regional government in Ostrowiec.
- B-07:* Representative of the regional government in Ostrowiec.
- B-08:* Representative of the regional government in Ostrowiec, Department for Regional development.
- B-09:* Representatives of the regional government in Ostrowiec.
- B-26:* Member of the local government in Bałtów.
- B-27:* Member of the local government.
- B-28:* Member of the local government, has also an agricultural farm.
- B-29:* Representatives of the local government in Lipsko (neighbouring commune of Bałtów), representatives from the departments for agricultural and regional development as well as local entrepreneurs.
- B-30:* Representative of the local government in Solec (commune close to Bałtów).
- B-31:* Representative of the local government in Chodz (commune close to Bałtów).

- B-34:* Representative of the regional government, department of agricultural development.

**Interview partners from the Association Balt or Delta:**

- B-01:* Member and employee of the association *Balt*.
- B-02:* Employed by the cultural center in Ostrowiec.
- B-14:* Works for a local media company, lives in Ostrowiec.
- B-15:* Works for a local media company, lives in Ostrowiec.
- B-16:* Works for an association that organizes events in memory of the Polish writer Witold Gombrowicz.
- B-17:* Youth group of the association *Balt*, 12 young students and the group leader.
- B-32:* Employee of a cultural foundation in Ostrowiec, lives in Ostrowiec.
- B-33:* Member of the association *Balt*, local entrepreneur, lives in Bałtów.
- B-35:* Member of the association *Delta*.

**Interviews with local entrepreneurs and local inhabitants in general:**

- B-03:* Employee of the association *Delta*, lives in Bałtów, works in the Dinosaur park.
- B-04:* Employee of the association *Delta*, lives in a small town close to Bałtów, works in the Dinosaur park.
- B-10:* Employee of the association *Delta*, lives in a village close to Bałtów, works in the Dinosaur park.
- B-12:* Employee of a regional agricultural agency close to Ostrowiec, responsible for direct payment applications of farmers, lives in a village close to Bałtów.
- B-18:* Employee of a shop in Bałtów, lives in a village close to Bałtów, has a small farm together with her husband.
- B-21:* Owner of a small shop in Bałtów, has an additional income from a small farm.
- B-22:* Owner of a small shop in Bałtów.
- B-23:* Priest from Bałtów.
- B-24:* Unemployed inhabitant from Bałtów.
- B-25:* Owner of a small shop in Bałtów.



**Interviews with local farmers:**

- B-05:* Inhabitant of a village close to Bałtów, lives on a small farm with her family.
- B-11:* Owner of a small farm next to Bałtów, has an additional job in Ostrowiec.
- B-13:* Owner of a small farm with agritourism, lives in Bałtów.
- B-19:* Owner of a small agrotourism farm in Bałtów.
- B-20:* Owner of a small farm in Bałtów, retired.



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