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**Looking at the LEADER programme
from the angle of political accountability:
Evidence from Poland**

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Looking at the LEADER programme from the angle of political accountability: Evidence from Poland*

Abstract

The 'LEADER community initiatives' and the 'LEADER approach' have been commonly accepted as an innovative way for development of rural areas in the EU. It is widely assumed that promoting growth in rural areas can be achieved through partnerships between representatives of three classes of local actors: civil society, public administration and private/economic sector. While these partnerships certainly have the potential to improve coordination mechanisms that manage local resources, their existence is likely to have an impact on the distribution of political advantages and future economic rents of current incumbents. What follows, it is reasonable to assume that local political elites may either block or impede the adoption of this institutional innovation. This paper investigates these issues using the Pilot Programme LEADER+ experiences in Poland. The focus is on institutional aspects that are thought to affect the electoral process. Consistent with a large body of political economy literature, our results suggest that LEADER-type partnerships are more likely to occur in an environment where holding politicians to account is easier.

JEL classifications: D72, D78, H77, O18

Keywords: political accountability, local government, rural development, Leader

Introduction

The issues of governance decentralisation and private-public partnerships have long been discussed and at the centre of policy experiments (see. e.g. Bardhan, 2002). One of the leading testing grounds is surely the European Union (EU), where the exercise of powers (at different levels: (supra)national, regional, local) is regulated by the principle of subsidiarity.¹ A good example of combining a bottom-up approach and public-private partnerships in the EU is LEADER programme which is designed to promote development of rural areas. The LEADER approach aims at encouraging (network-like) cooperation between representatives of three classes of local actors: civil society, public administration and private sector. Such partnerships, often referred to as Local Action Groups (LAGs), are then expected to define and implement local development strategies. The key argument for LEADER is often that it allows local communities to more effectively voice their needs. Consequently, it is argued that having decision-making processes closer to people results in better coordination mechanism to harmonise interests and solve potential conflicts. Thanks to this, the LEADER approach is expected to achieve an improved governance in rural areas leading to a more efficient use of

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¹ See the Treaty of Maastricht and its amendments introduced by the Treaty of Lisbon (Art. 3b).

resources and a reduction in regional and social inequalities (Nemes and Fazekas, 2007; Pollermann et al., 2008).

This approach has been widely advised and is certainly a promising tool to promote local development. However, there is evidence that not all rural areas in the EU are covered with LEADER measures. For example, in the period 1991-1993 LEADER-type initiatives covered about 15% of the EU rural areas. While in the periods 1994-1999 and 2000-2006 this proportion increased it was still lower than 50% and accounted for 42% and 47% respectively.² Moreover, the funding devoted for LEADER-type measures is relatively small in comparison to the EU rural development financial resources.³ It is important then to gain better understanding of factors that determine the decision to adopt the LEADER approach.

In a general debate accompanying the implementation of the LEADER approach, it is often raised that governance through partnerships may encounter several difficulties and consequently lead to considerable inefficiencies (see, for example, Jessop, 1999). Most often one points to temptation of abusing power, misusing funds or excessive centralisation (i.e. a situation where a given partnership tries to supervise all local initiatives). In addition, one often mentions conflicts between narrowly oriented projects and broader development strategy.

Our focus is different. In this paper, we draw inspiration from the recent political economy literature and study the link between the emergence of local public-private partnerships and political accountability. The idea behind this is as follows. The LEADER approach is about delegating at least some of the authority from a local government to a public-private partnership. This shift may affect the distribution of political power and thus erode the future rents of current incumbents. Therefore, local political elites will have an incentive to block such changes, notwithstanding the fact that they may benefit the local community as a whole (see, for example, Acemoglu and Robinson, 2006; for a theoretical discussion of this argument). That said, this scenario could be mitigated or eliminated if political elites face higher accountability to their voters. Officials who want to be re-elected must act sufficiently often in the voters' interest. Therefore, as long as local community is well informed and individuals have the right to vote politicians out of office, the latter have incentives to do what the community wants (Persson and Tabellini, 2000). Consequently, with higher degree of political accountability, local political elites should have lower incentives to oppose delegating decision-making processes closer to people.

This paper aims to provide evidence on this relationship focusing on the hitherto LEADER experiences in Poland. Our unit of analysis is the smallest administrative unit

² The data on rural areas in the EU (based on the OECD methodology) was taken from EC (2010). The data on the LEADER coverage on the other hand come from EC (2006a). For the period 1991-1993 the EU-12 (without Austria, Finland and Sweden) was considered. For the periods 1994-1999 and 2000-2006, the data refer to the EU-15, the so-called 'old Member States'.

³ According to article 17 (2) of Council regulation 1698/2005, EU Member States are obliged to use 5% of the Community rural development financial resources for LEADER-type initiatives.

in Poland, a municipality (*gmina*).⁴ This is the level, at which the decision to form/join the LEADER-type partnership is made. Poland seems to be particularly suitable for this kind of analysis for two key reasons. First, although there have been several projects in support of the LEADER-type approach prior to accession, a great majority of the existing partnerships were formed only since 2004, i.e. when Poland joined the EU and took advantage of the Pilot Programme Leader (PPL+) (Borek et al., 2006). What follows, this mode of operation is relatively new in Polish rural areas. It is interesting therefore to see to what extent the adoption of this institutional innovation was driven by political accountability in general, and factors thought to affect the electoral process in particular. Second, Poland provides a natural testing ground as it is characterised by important institutional differences at local level. Most importantly, some municipalities use first-past-the-post and some use proportional electoral systems. Moreover, they differ from each other in terms of a size of a local government with regard to a number of seats awarded. What follows, one can test how do these different institutional arrangements affect the emergence of partnership modes of governance.

Our results suggest a positive impact of political accountability on the adoption of LEADER-type measures. More specifically, LEADER initiatives have been implemented in municipalities with majoritarian rather than proportional electoral rules. This shows that local partnerships are created where people vote for individual candidates rather than for political parties, i.e. where political elites have stronger incentives to please their electorate since they are based on their competences rather than on average competences of their parties. We also find that local public-private partnerships are located in municipalities where a government size (in terms of a number of seats awarded) is smaller. Given that higher number of politicians in power makes it more difficult to link their individual actions with actual policy outcomes, this again points to the fact that partnership mode of governance is more likely in municipalities where holding politicians to account for their actions is easier.

The remainder of the paper is organised as follows. Section 2 presents briefly the relevant literature and discusses how political accountability may affect the adoption of the LEADER approach. Section 3 provides some background discussion about the history of LEADER initiatives in Poland. Section 4 presents the data, whereas Section 5 discusses our empirical strategy and results. Finally, Section 6 concludes.

Background

The political economy literature has long recognised that voters respond to changes in the economy. As here it is not the place to develop any kind of survey of these studies, we refer the reader to Nannestad and Paldam (1994) and Besley (2006) for a comprehensive tour of the field.

A crucial aspect that affects the relationship between politicians and electorate is information that voters have about implemented policies and politicians' actions. This information will determine the extent to which a conflict of interest between politicians and electorate can be solved. As long as voters can link the implemented policies with

⁴ According to the EU Nomenclature of Territorial Units for Statistics the Polish *gminas* are classified as NUTS 5 regions. For more on this classification see: http://epp.eurostat.ec.europa.eu/portal/page/portal/nuts_nomenclature/introduction

politicians' actions, politicians can be held to account for what they do while being in office. Consequently, if their actions can be observed, they have stronger incentives to act in favour of voters' preferences and a conflict of interest can be prevented. A specific class of models which are very well suited to study political accountability and its consequences are political agency models, which are based on the assumption that voters condition their voting decision on incumbent behaviour (see, for example, Barro, 1973; Ferejohn, 1986).

An increasing body of the literature studies effects of political accountability by investigating the role of media in improving politicians' actions and politics (Besley and Burgess, 2002; Djankov et al., 2003; Stromberg, 2004). However, as noted in many studies, incentives for politicians' behaviour could well be grounded in institutional underpinnings of political system (see, for example, Persson and Tabellini, 2000; 2003; or Cox, 2008; for a literature review). Moreover, the latter may also affect the voters' information on actions undertaken by current incumbents and hence determine their voting behaviour. Of particular importance seem to be the rules that are thought to affect the electoral process. In this paper, we take a closer look at two of them, namely the fact whether votes are cast for individual candidates or for parties (lists of candidates) and the magnitude of electoral districts. It is important to note that in our case this is identical with the number of seats in local government. Below we briefly describe the theory that provides the link between electoral rules and political accountability. The presented discussion draws on Persson and Tabellini (2000) and Cox (2008).

The first distinction that is worth making here is between the so-called majoritarian and proportional electoral systems. In the former, voters vote for an individual candidate and his/her electoral success is solely dependent on a number of his/her votes. In the latter system on the other hand, votes are casted for a list of candidates (most often for a party list). In this case, an electoral success of an individual candidate depends predominantly on a number of votes for the whole party and his/her position on the list. These differences between the two systems may have important consequences for both politicians' incentives to please their voters and the extent to which it is possible to link their actions to specific policy choices and outcomes. In general, accountability should be more pronounced under majoritarian elections. The reason for that is as follows. In majoritarian systems, voters can judge their current incumbent on the basis of his/her performance. What follows, during elections, a single agent can either be rewarded or punished for his/her effort. Under proportional elections, on the other hand, rewarding or blaming individuals is harder as votes are cast on the list of candidates. In effect, the accountability mechanism (e.g. voting poor politician out of office) cannot be used as effectively as under majoritarian elections. This has also an important consequence for the agency costs. Since satisfactory individual performance is not certain to guarantee an incumbent's reappointment, his/her incentives to perform well are weakened. What follows, under proportional elections rent seeking problem may be more intense.

A distinct but related source of potential inefficiency in accountability mechanism is linked to a number of seats in (local) government. Here, again, it is plausible to assume that the larger the number of incumbents the more difficult it might be for the voters to stay informed about the relationship between policy actions and outcomes, i.e. about who is responsible for what.

Below we aim at testing whether the above mentioned theories could account for the establishment pattern of LEADER-type partnerships in Poland. We argue that the role of political accountability in advocating this kind of measures could have been crucial as political elites had incentives to oppose it. Our idea is based on the theoretical considerations developed, among others, by Acemoglu and Robinson (1999; 2006). It could be argued that the LEADER-approach to promote rural development, especially in new Member States, could be regarded as an institutional innovation. Its adoption therefore, might affect the distribution of political and economic rents. What follows, current incumbents may either block it or impede it as their future rents could be endangered. This prediction finds some confirmation in qualitative findings coming from Knieć (2009) and Furmankiewicz et al. (2010).⁵ Our contribution is to provide some quantitative evidence on this account.

To do so, we study the cross-municipality determinants of setting up local partnerships using data over 187 such partnerships and more than 2000 regions. Given the theoretical discussion presented above, it is reasonable to assume that establishing local public-private partnerships should be more common in municipalities where holding politicians to account for their actions is easier. Therefore, we expect the probability of establishing the partnership to be higher in municipalities with majoritarian elections (as opposed to proportional ones) and negatively correlated with the number of seats in local government. Before we move to our empirical strategy, we briefly describe the hitherto experiences of LEADER-type initiatives in Poland to build the context for our analysis. In what follows, also some more details on the organisation of local elections in Poland are provided.

Leader programme in Poland

The Leader programme has been introduced in Poland since May 2004 when the country joined the EU.⁶ At that time Poland was one of the six new Member States that decided to implement LEADER type measures. During 2004-2006 period they were implemented under the Polish Agriculture and Rural Development Sectoral Operational Programme. These measures focused around two things. In the first phase (Scheme I), which was carried out from the end of 2004 till the end of 2006, the emphasis was put mainly on the acquisition of skills such as training and building local development partnerships (LAGs). In the second phase (Scheme II), which commenced in 2006, the selected partnerships started to fund projects under local development strategies.

Selection of LAGs was hedged with several conditions. We mention here only those that we think are the most important given our focus. For a more comprehensive description

⁵ It should be noted that similar evidence, though still only qualitative, can be found for other countries as well. To our knowledge, it is best documented for the UK (see, for example, Edwards et al., 2000; or Pemberton and Goodwin, 2010).

⁶ In the EU the LEADER programme started in 1991 with LEADER I. It continued with LEADER II (1994 – 1999), and LEADER+ (2000 – 2006). In the current financial perspective (2007-2013) it has become an inherent part of the EU Rural Development Policy and some of the funding must support projects based on the LEADER approach. For the overview of the LEADER history see, for instance, European Commission (2006b).

see, for example, Furmankiewicz et al. (2010). First, the LEADER measures were designed only for rural and rural-urban municipalities without towns above 20,000 inhabitants. Further, the density of population for the LEADER area was a maximum of 150 inhabitants per km² and the total population leaving in the area within which a strategy was supposed to be carried out had to contain between 10,000 and 100,000 inhabitants. Last but not least, at decision-making level the economic and social partners and civil society must have made up at least 50 % of the local partnership.

The Scheme I was completed with the selection of 167 partnerships (from 248 applications submitted to the programme). In the Scheme II, there were 187 applications (155 from beneficiaries of the Scheme I) and 150 contracts were signed (Borek et al., 2006).

Our study focuses on the second scheme. The reason for this is that the first phase, although important for establishing partnerships, was not about implementation of local development strategies, which was the core only of the second scheme. What follows, it could be argued that this was mainly the latter phase that could influence decisions and thus disturb the balance of forces and potentially affect the distribution of future political and economic rents. We study the differences between municipalities that applied for funding and those that did not. We prefer to look at applied/not applied distinction rather than with/without funding since we believe that the decision to apply for funds could already be regarded as an indication of the existence of the partnership wishing to share the decision-making process and implement local development strategy. This choice also increases the number of the 'treated' municipalities, which might be important for the quality of our estimates. To confirm the robustness of our results, we re-estimate the impact of political accountability measures on the LEADER approach on the sample restricted to those partnerships that signed the contract for implementation of their integrated local strategies.

Data

We will estimate the effect of political accountability on the adoption of the LEADER approach at municipalities level. This is the smallest administrative unit immediately under the Polish *powiat* (NUTS 4), sub-region (NUTS 3) and voivodship (NUTS 2)⁷. In 2006, Poland had 2478 municipalities, of which 1589 were rural, 582 were rural-urban and 307 were urban. Given that the eligibility criteria in LEADER programme excluded urban municipalities, we focus only on rural and rural-urban municipalities. After cleaning the dataset, 2148 observations were left for the analysis.

Our analysis exploits data from three sources. First, data on municipalities that applied for funding under the Scheme II of the PPL+ were obtained from the Foundation of Assistance Programmes for Agriculture which was the implementing authority of this measure. As the call for applications was announced on March 31, 2006 and closed on June 19, 2006, this data refer to 2006. Second, our key variables of interest, capturing different organisational aspects of elections, were based on data provided by the National Electoral Commission, which is in charge of supervising elections in Poland. These data refer to local elections that were held in 2002 and were the last elections before the

⁷ In Poland, there are 379 *powiats*, 66 sub-regions (before 2007 there were 45 of them) and 16 voivodships.

Scheme II was put in place.⁸ Finally, information on municipalities' demographic and economic characteristics come from the Municipium database. These data refer to 2006. Taking into account that a decision to form/join a local partnership is made at the lowest administrative level, a municipality-level analysis presents an important advantage. However, it has also an important cost. The main problem is that a number of socio-economic variables available for this administrative level is very limited.⁹ To address this problem, all our regressions include full set of regional dummies, either at the voivodship (16) or *powiat* (379) level. Given that (local) commercial centres are localised predominantly in cities (most often in capitals of voivodships and/or *powiats*), this should help to mitigate, at least to some extent, the omitted variables problem. That said, the absence of data on a number of socio-economic indicators at municipality level is certainly a limitation of our analysis. We believe however, that it nonetheless provides a new opportunity to understand how the adoption of LEADER approach may be influenced by political institutions in general, and characteristics of electoral systems in particular.

Empirical strategy

As noted above, in order to investigate the impact of political accountability on the adoption of the LEADER approach, we exploit the variation in electoral rules across the Polish municipalities. What follows, our empirical strategy is strictly related to characteristics of the electoral system governing the selection process of local authorities. There are three key cross-municipality institutional differences.¹⁰ The line of division runs between municipalities containing less and more than 20,000 inhabitants. In municipalities with less than 20,000 inhabitants electoral formula is based on plurality rule; voters vote for specific candidates (casting as many votes as the number of seats to be awarded in a given district); and the number of seats per electoral district ranges from 1 to 5. In contrast, in municipalities containing more than 20,000 inhabitants elections are organised according to proportionality rule; voters cast just one vote for a party list; and a number of seats per electoral district ranges from 5 to 8.

With this description in hand, we now move to a detailed description of our econometric approach. Our basic specification to be estimated is a simple logit model of the following form:

⁸ The next elections were held in November 2006, i.e. already after the decision to apply had to be made.

⁹ Most of the available data preceding the year 2006 concern higher administrative levels, i.e. *powiats* and voivodships. Some more data (e.g. on local government budget) is available only starting from 2006. While we run some regressions using also these data, their results need to be interpreted with care. That is because, they may suffer from the reverse causality problem.

¹⁰ This part of the text is based on the 'Local elections statute Act' passed on July 16th 1998 with later amendments (Ordnacja wyborcza do rad gmin, rad powiatów i sejmików województw, Dz. U. Nr 95, poz. 602 zm. Dz. U. z 1998 r. Nr 160, poz. 1060 Dz. U. z 2001 r. Nr 45, poz. 497 Dz. U. z 2001 r. Nr 89, poz. 971 Dz. U. z 2002 r. Nr 23, poz. 220 Dz. U. z 2002 r. Nr 113, poz. 984 Dz. U. z 2002 r. Nr 127, poz. 1089). The text (in Polish), unified by the National Electoral Office, can be accessed here: <http://www.pkw.gov.pl/katalog/artyku/17982.html>

$$t_i = \beta x_i + \mu_i + \varepsilon_i$$

where t_i is a dummy equal to one if a municipality participates in a LEADER programme and equal to zero otherwise. x_i is a vector of economic and political variables that we expect to influence community's participation decision. μ_i is a full set of regional dummies and ε_i is an error term capturing all other omitted factors. Importantly, vector x_i contains variable capturing the effect of political accountability. Given the theoretical discussion presented above, in our analysis we use two variables aimed at capturing the effect of political accountability. On the one hand, we use a dummy variable equal to one for municipalities with majoritarian electoral system and zero for municipalities with proportional systems. On the other hand, we use a variable denoting a number of seats awarded in each municipality. As these variables – by definition (see above) - are highly correlated (correlation coefficient equal to 0.93), we use them in different specifications to confirm the robustness of our results.

Other covariates included in the vector x_i are population and population density of a given municipality. The former variable assures that the impact of our key dummy (majoritarian vs. proportional) which distinguishes municipalities containing more than 20,000 inhabitants does not capture the effect of larger population. The latter variable on the other hand, is included given the fact that population density was among the requirements taken into account by the selection of LAGs. Both these variables enter the regressions in logs. In addition, we control for the type of a given municipality by including a dummy equal to one for rural municipalities and zero for rural-urban municipalities.

Before we move to reporting our results, a word of comment is needed concerning the robustness of our approach. Typically, the cross-sectional studies concerned with the impact of institutions on policy choice face the problem of unobserved heterogeneity. As the institutional characteristics are likely to be endogenously determined, a fixed-effects or instrumental variables methods are preferable to simple cross-section OLS or logit models. That said, it should be stressed that we think Polish municipalities provide a natural experiment for looking at the impact of electoral rules and in our case the problem of endogeneity is unlikely to appear. In effect, using less sophisticated econometric approach seems to be a plausible strategy. Our belief stems from the following reasons. First of all, the electoral system at municipalities' level have been designed by the central government and not by local authorities. Consequently, it is not possible that local elites could have manipulated the rules of the electoral process. In addition, these rules have not changed over time (since 1999 when the administrative reform has been put in place in Poland) so they have not been specially adjusted before the LEADER-type measures were potentially available. This gives further credence to our strategy. Overall, we believe that our key variables of interest that aim to capture the role of political accountability are strictly exogenous. What follows, their implications can be investigated simply by comparing LEADER-type partnerships' occurrences in municipalities with majoritarian and proportional electoral rules/with different number of seats awarded.

Given the limited space, we present our results only in words. The main message that arises from our analysis is as follows. Establishing LEADER-type public-private partnerships is more likely in municipalities where holding politicians to account is easier. This result is derived from the fact that LEADER-type initiatives are more likely

to appear in municipalities with majoritarian rather than proportional electoral rules. Similar conclusion can be drawn from an alternative specification where political accountability is measured by a number of electoral seats awarded. This analysis suggests that LEADER-type initiatives are present in municipalities with lower number of seats. This again points to the fact that delegating power closer to people occurs more often where those holding politicians to account are more likely to have sufficient information about the politician's action. To further confirm the robustness of our results, we also estimate this specification for the sub-sample of municipalities with majoritarian election rules. This is done since our two measures of political accountability are highly correlated with the number of seats awarded being significantly higher under the proportional system. It could be argued therefore, that our variable measuring a number of seats simply captures the difference between municipalities with majoritarian and proportional electoral rules. Our results however, reject this hypothesis and our variable remains highly significant and negative also within the majoritarian sub-sample.

Conclusions

The LEADER-approach, which is based on establishing local public-private partnerships, has become a widely promoted mode of rural development in the EU. While this approach has a potential to achieve improved governance in rural areas, there are reasons as to why such partnerships may not be established. The most important ones point to the fact, that delegating (at least some) authority closer to people is likely to affect the distribution of political and economic rents. Consequently, current incumbents may either block it or impede it. This paper studies the determinants of the establishment of such partnerships in Poland. Based on the recent findings of the political economy literature, the focus is on institutional aspects that are thought to affect the electoral process. The results are interpreted in relation to a theory that puts models of political accountability at the front. They suggest that local public-private partnerships, which are the core of LEADER-type initiatives, are positively correlated with measures capturing the effects of political accountability. More specifically, they are established in municipalities with majoritarian rather than proportional election rules and lower number of seats in local government. Both these results indicate that LEADER-type measures are more likely to be adopted where holding politicians to account for their actions is easier. This in turn, is consistent with a large body of literature suggesting that politicians engage in pro-voters' initiatives when the information about the relationship between politicians' actions and policy outcomes is more transparent.

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