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STIMULATING COOPERATION AMONG FARMERS IN A POST-SOCIALIST ECONOMY: LESSONS FROM A PUBLIC-PRIVATE MARKETING PARTNERSHIP IN POLAND

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Abstract

This paper shows how the involvement of local governments and individuals allowed the successful creation of a public-private partnership for agricultural marketing in South-Eastern Poland, despite a generally negative perception of cooperation among the rural population. While the regional distribution network for agricultural products is largely market-based, the partnership only emerged due to collective action between local leaders. The partnership does not require farmers to become shareholders, uses a small decision making body and offers complementary services to farmers. However, there has been little stimulation of broader development activities within the local society, and the involvement of local governments has become unstable over time.

Keywords

Public-private partnership, endogenous initiatives, rural development, Poland

1 Introduction

In many former socialist countries, decentralised governance mechanisms are difficult to implement due to the traditional, strongly centralised administrative system. Similarly, approaches built on local collective action and participation of the civil society often meet disapproval, because they have been ideologically abused by former regimes. For example, BALINT (2004) recently investigated to what extent local cooperative arrangements in Romania could reduce development barriers such as inadequate restructuring of input and output markets in agriculture. Her findings reveal that most farmers reject cooperation, due to a lack of true cooperative tradition and negative experiences with forced cooperation during socialism.

In this paper we show how the involvement of local governments and private individuals allowed the successful creation of a marketing association in South-Eastern Poland, despite a hostile environment for decentralised governance similar to other post-socialist countries. In contrast to traditional service cooperatives, the marketing organisation we study has the form of a public-private partnership with only a small number of members, which has distinct consequences for risk allocation, decision making and funding.¹

In the sequel, we first introduce our case study region (Section 2). We then summarise a number of typical barriers to successful collective action on the local level (Section 3). Section 4 discusses the term public-private partnership according to the recent literature. Section 5 presents the public-private partnership “Chmielnik Zdroj” (Well of Chmielnik),

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¹ A detailed presentation of the case study results is given in GRAMZOW (2005). A preliminary version of this article was published as: PETRICK, M. and GRAMZOW, A. (2007): Decentralised rural governance in a post-socialist economy: a case of community-based agricultural marketing in Southeastern Poland, in: Kochendörfer-Lucius, G., Pleskovic, B. (eds.): Agriculture for Development, Berlin Workshop Series, The World Bank, Washington D.C., in print.

shows which factors contributed to its successful operation, and discusses some of its limitations. Section 6 concludes.

2 Regional background

Rural areas in South-Eastern Poland are currently dominated by small-scale farms who successfully resisted several attempts of collectivisation during the socialist period. Peasant farms have only been slightly affected by the Polish transition to a market system. Deteriorating agricultural terms of trade and hidden unemployment have conserved farm structures and led to an increasing income gap between booming urban centres and lagging rural areas, which makes rural development one of the top political priorities in the region (see PETRICK and TYRAN (2003) for a more detailed analysis).

The region of our case study, Dolina Strugu, covers an area of 300 km² in which approximately 38,000 inhabitants are living. The region's economy is strongly related to agriculture. About two thirds of the total working population work on the 8,000 individual farms located in Dolina Strugu, whereas younger farmers often have a second employment in Rzeszow, which is the next bigger city. The majority of farmers is between 50 and 70 years old and used to work in industry companies (mainly mechanic industry) in Rzeszow until the early 1990s. The average farm size is slightly above 3 ha. Soil and climate conditions are moderate but the cultivation of land is limited by the hilly relief of the landscape. As a result of the latter nearly the whole area is classified by the EU as "less favoured area". Agricultural production is dominated by plant production, predominant are soft fruits, cereals, feed and root plants. Animal production plays an inferior role, only a few farmers specialised in pig or beef production. The unemployment rate in Dolina Strugu is about 18.3% (PUP, 2005). In 2005, the Podkarpackie voivodship was the poorest Polish region with an average income per person equal to 81% of the Polish average (CSO, 2006). Due to the lack of job opportunities and the low income many young people already went to bigger cities or abroad.

To gain specific and detailed information about main problems and chances for agriculture in Dolina Strugu, non-agricultural income opportunities, investment plans of farmers, their contractual arrangements with wholesalers and their ambitions to act collectively on the market, an in-depth case study research as a qualitative approach was carried out (YIN, 2003). The following analysis is based on active, participative observations as well as on 33 qualitative interviews with farmers, local leaders, representatives of the local authorities and local entrepreneurs.

3 Typical constraints to rural collective action in a post-socialist context

A common solution to improve income in rural areas which are based on agriculture is the cooperation of farmers in cooperatives or producer groups. According to BALINT (2004: 247) advantages of a cooperation comprise "the reduction of transaction costs in accessing input and output markets and strengthening of the negotiation power of the farmers". In economies characterized by incomplete markets and a lack of technical knowledge, service cooperatives are supposed to be most beneficial (Deininger, 1995). 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." The latter authors regard lower input prices, lower interest rates as a result of group borrowing, higher producer prices, and the saving of transport costs as important advantages of farmers' service cooperatives.

In particular for Polish rural areas, including our case study region, where the agricultural sector is dominated by small farms, producer groups may provide chances for peasants to concentrate their production on markets and to increase farm income due to common price negotiation (Banaszak, 2005: 3). However, as Zawojcka (2006) mentioned, governmental efforts to create small farm associations or producer groups generally failed, except in a few

cases. In 2000, 2003 and 2004 different laws were passed by the Polish parliament to provide a legal framework and financial incentives to establish producer groups. However, as Banaszak (2005: 3) states, 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." As case studies in North-Western and South-Eastern Poland have revealed, there are often local constraints preventing the successful formation of agricultural service or marketing cooperatives (Gramzow, 2006a; 2006b). Similar findings are presented by Banaszak (2005), too. She suggests, based on a study comprising 62 interviews with managers of agricultural producer groups in the voivodship Wielkopolskie, that not only the economic and market environment hampers the success of such groups, but also collective action problems.

The results of our case study show that various constraints are likely to prevent successful cooperative action on the local level. The following concerns were expressed by local interview respondents or emerged as a result of our data collection:

1. *Individual reservations against cooperation.* This is locally called the "Polish mentality" and was characterised by a local farmer as follows: "If the one who cooperates with me will earn higher profits from this cooperation than I do, I don't see any reasons to cooperate. And how can I trust that he does not take advantage of me?" The reservation against cooperation is even boosted by the income disparities between rural households, which strongly increased within the transformation process.
2. *Principal-Agent problems between management and members.* If the management is employed by a producer group, members have to be aware of opportunistic behaviour of the manager. Therefore, a control system or a particular incentive system has to be established which leads to an increase of transaction 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 of cooperative members to monitor the management will be lower (Deininger, 1995: 1319). Hence, in particular the willingness of members of agricultural cooperatives to bear additional costs for a monitoring and sanction system might be generally low.
3. *Free-riding among members.* Producer groups in general produce different club goods as they provide e.g. marketing facilities and negotiate product prices which are often linked with certain production standards and quantities (see also Banaszak and Beckmann, 2006). The provision of such club goods enable free-riding activities among members. Such free-riding situations emerge as it is individually rational for every member to produce to lower production standards respectively to non-contribute to common producer group facilities, although it would be in the interest of every member if all members contributed or produced to commonly defined production standards. Additionally, investments in the producer group are processes with a long time perspective. Hence, the question arises: How can members be sure that if they pay their fees and invest in the producer group, other members would do the same, too? According to OLSON (1965), this problem increases significantly with the number of members of an organisation.
4. *Inflexible decision making procedures.* It is estimated that producer groups in Dolina Strugu need more than a thousand members to achieve some bargaining power. But to find a consensus and to pass decisions in such a big group leads to high transaction costs and paralyses decision making. Furthermore, the often neighbourly or even friendly relationship between producer group members also hampers to apply formal rules or sanctions against each other and reduces therefore an effective function of a producer group (similar findings were given in Banaszak, 2005).

5. *Highly uncertain business environment.* Specialised producer groups face permanent threats from crop failure or unexpected changes in the market and legal environment. Farmers of Dolina Strugu made this experience within a soft fruit producer group in the middle of the 1990s. It collapsed after a few years due to a dramatic decrease in prices for soft fruits.
6. *Lack of finance.* Producer groups in Dolina Strugu could only be successful if they process and market their products on their own. This requires founding capital that small peasant farms are not able to provide due to a lack of suitable assets to borrow money and very conservative lending practices among rural banks (PETRICK, 2004). Even if a bank would agree to give credits, a suitable guarantor would be hard to find. If guarantors are group members, a moral hazard problem between guarantor and the remaining members appears.

4 Public-private partnerships and their ability to cope with collective action problems

Gramzow and Petrick (2006) discuss three different governance structures (market, government, community) capable of coping with collective action problems in rural areas.² Any of these three structures has unique capacities to respond to certain aspects of local collective actions, whereas it also contains disadvantages for the development of such initiatives. First, the privatization of resources, leading to a market-based allocation, forces producers to represent their productive capabilities as the provision of their products on the market at prices not equal to the marginal costs offer them lower profits than other producers whose prices reveal the actual production costs. Consumers were induced to show their private preferences for a good as the price they pay expresses the worth they attribute to the good. Market allocation may work poorly in the presence of externalities or even when contracts are incomplete and difficult to enforce. Second, governmental action in contrast is able to reduce externalities by implementing property rights or regulations. It may also finance the provision of public goods where free-riding behaviour cannot be excluded. Nonetheless, in particular higher administrative levels often lack information about local circumstances and therefore do not consider local problems adequately or fail to provide public goods efficiently. Third, pure community initiatives, however, possess such local information unavailable for the state. They are also able to monitor and sanction local initiatives more efficiently due to the existence of common objectives, beliefs and a high frequency of interaction between individuals which produces e.g. trust, reputation, reciprocity and solidarity. Unfortunately, the small size of communities strongly limits the amount of common investments or lead to discrimination of local minorities by the accomplishment of local initiatives.

As we will see below, public-private partnerships (PPP) combine characteristics of all three governance structures and are therefore able to respond to local collective action problems like the ones described above. The term public-private partnership covers a wide variety of institutional interactions (Spielman and Grebmer, 2004: 8). With respect to the agricultural sector, PPPs were often found in developing countries comprising cooperation between governments, research institutes and local businesses respectively farmers (e.g. Hartwich et al., 2005; Spielman and Grebmer, 2004). Also in Germany PPPs focusing on rural development issues are newly existing (German Contact Point LEADER+, 2005). We define PPPs according to Spielman and Grebmer (2004) and Hartwich et al. (2005) 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 to the planning and

² A more detailed description of the three governance structures can be found in GRAMZOW and PETRICK (2006: 12-18).

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: 10). Furthermore, PPPs should not only pursue goals of the private sector but also of the local or more global society in terms of providing e.g. (local) public goods (Schaeffer and Loveridge, 2001; Spielman and Grebmer, 2004: 10).

The following section will present the public-private partnership "Chmielnik Zdroj" (Well of Chmielnik), which is working as a commercial entity based on a bottom-up initiative of local authorities, local leaders and local businesses. We attempt to demonstrate why it was successful despite the previously mentioned obstacles of local collective action as well as how it combines private sector objectives with the provision of certain public goods for the region.

5 "Chmielnik Zdroj" – a public-private partnership in South-Eastern Poland

5.1 Objectives and impact

"Chmielnik Zdroj" is a limited liability entity located in Chmielnik, one of the four communes of Dolina Strugu. The most important associates are the four communes of Dolina Strugu and the members of a local non-profit organization also called "Dolina Strugu", which was the main initiator of the public-private partnership. Farmers' relation to the partnership is market-based, they are usually not members and do not pay any fees. When "Chmielnik Zdroj" started in 1994, its main objectives were to create new jobs for people from the Dolina Strugu region, to give farmers the opportunity to sell their products, to provide people from the region with local, traditionally-made products, and to keep the environment and fields in a good and environmentally friendly condition. In 2005 the partnership employed 400 people and bought products from more than 500 small farms of Dolina Strugu. In the region around the cities of Krakow, Rzeszow, Tarnow and Lublin, they provide, with 170 vehicles, 70,000 households with processed products (vegetables, fruits, honey, bread, soups and pasta). Customers order their purchase by phone or internet and are delivered at home. Farmers have short or medium-term contracts with the partnership, which enables them to sell their products without the need to deliver them to a distant wholesale company. It provides them with a basic source of income and certainty about next year's market situation. Furthermore, the partnership processes farmers' products and sells them directly to its customers. In addition, it supports farmers in applying for ecological certification. In the future, farmers will also receive assistance in production planning. Local farmers receive information about EU programmes and assistance in applying for direct payments or other funds for free from an office which is mainly financed by the local non-profit organisation "Dolina Strugu".

"Chmielnik Zdroj" has had a widely perceived impact on broader rural development goals. It provides non-farm jobs, contributes to the local infrastructure development thereby, improves the economic situation of rural households and counteracts out-migration of young people. In addition, consumers' demand for regional and environmentally beneficial products is met.

An indirect impact is the increased number of businesses in Dolina Strugu compared to other rural communes in the region. In the four communes of Dolina Strugu, the number of businesses per 100 inhabitants increased between 1995 and 2001 from 2.2 to 5.1, whereas in other rural communes near Rzeszow this number increased only slightly from 2.2 to 2.3 per 100 inhabitants in the same period (UNDP 2003).

5.2 Steps on the way to "Chmielnik Zdroj"

The roots of this initiative go back to a telephone cooperative that was founded by five representatives of the local government together with twenty local business administrators in 1991. In 1991 these four communes had only access to 800 telephone subscribers and the

state-owned telephone company was not willing to invest in this region any further. The founding capital of the cooperative consisted of fees every inhabitant had to pay to join this telephone company. Additional capital was taken from bank credits whereas the communes and some local leaders acted as guarantors. With the help of this founding capital a new telephone network was set up and the number of subscribers in Dolina Strugu increased until 2005 to about 9,800. Additionally, more than 3,200 households have internet access, too. For the 6,500 members of the telephone cooperative, local calls were free. Since 1993 the telephone cooperative has been able to work without any additional financial support. On the basis of the successful experience of cooperation, leading members of the telephone cooperative as well as of local authorities founded a non-profit organisation called “Dolina Strugu”, in order 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 Zdroj” was founded with start-up funds partly from the communes (especially the Chmielnik commune) and partly from a loan secured by using local leaders’ houses as collateral. Initially, the partnership provided the regional population with mineral water, to be ordered by telephone and delivered to their homes. In the following years they added further products and increased their production capacities very fast. Further important initiatives of the non-profit organization “Dolina Strugu” have been the support of local business start-ups and the formation of a local employment agency.

5.3 Success factors

The key factors that made “Chmielnik Zdroj” a success were its specific organisational set-up as a public-private partnership, its market-oriented way of risk sharing between the public sector and local businesses, as well as the fact that it was built on local needs, and thus emerged as a true bottom-up self-help organisation. Most associates 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 the current problems in agriculture and agricultural producer groups and the rural economy in general. It is a prime example for the rule that successful cooperation critically depends on the initiative of the affected individuals and their willingness to contribute to their development (Müller, 1994). However, the actively participating members are only a small number of local government representatives and local leader persons. This makes “Chmielnik Zdroj” 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 of broader participation.

In the following, we summarize the major success factors of “Chmielnik Zdroj”:

1. *Market-based approach limits risk of long-term involvement for farmers.* The partnership uses its own distribution network and established a regional marketing label. It successfully developed a regional niche market and is hence independent from the big retail companies. Even so, farmers do not have to become shareholders or invest 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. 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 Chmielnik and the partnership guarantees local farmers’ that they can sell their products to the organization before it is allowed to buy products from other regions. The main risk has been taken by the communes as well as by local leaders who are engaged in the management of the partnership. Furthermore, the wide array of products “Chmielnik Zdroj” provides limits the risk of a product failure that farmer producer groups in Dolina Strugu already experienced.

2. *Set-up as a public-private partnership with a limited number of members eases decision making and allows a professional management.* The principal agent problem between management and the associates of the partnership could be minimized because the executive manager, who grew up in Dolina Strugu, is subject to supervision by a board of trustees and was already involved in the telephone cooperative. The associates are a small group of local inhabitants who already cooperated successfully within the telephone cooperative. This enabled a professional management and circumvented the problem of individual reservations against cooperation so prevalent in the rural society. The engagement of local governments as guarantors greatly eased the funding problem of the public-private partnership.
3. *Complementary services offered to farmers provide incentives for a long-term business relation and serve as quality control mechanism.* The non-profit organization “Dolina Strugu” provides farmers with complementary assistance in applying for EU programmes, which is particularly important for the high number of part-time farmers. From “Chmielnik Zdroj”, farmers receive assistance in applying for ecological certification, which also works as an additional quality control system for the marketing partnership.
4. *True bottom-up approach secures support and trust of the local population.* The engagement of associates of “Chmielnik Zdroj” in the telephone cooperative served as a reputation-generating mechanism toward 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. Moreover, 10% of the profits from the partnership go to the local welfare organization “Caritas”. This is stated on all product labels and improves the local trust as well. Local trust can be recognized by the fact that vehicle drivers of the partnership have the key to many houses or flats of their clients in Dolina Strugu and other regions to deliver them when they are absent. The trust in the local leaders and the non-profit organization also became visible in our case study interviews. Table 1 summarizes the results of a small survey we made in Dolina Strugu region in summer 2005, where we asked people to fill a questionnaire concerning trust in different national and local institutions. It shows that the trust in representatives of the local institutions (members of the non-profit organization and the mayor) is way higher than in national institutions.

Table 1. Trust of local inhabitants in different national or regional institutions

	A lot	A bit	Rather not	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. ¹⁾ (%)	12	65	24	0	17
Mayor (%)	0	63	26	11	27

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

Source: Own analysis

5.4 Limitations

The public private-partnership had little positive impact in the following areas:

1. *Vitalisation of the rural civil society has been limited.* 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 circles in small villages, with mostly older

members, 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 in their own ability to become agents of change and generally expect the government to initiate any development processes. "Everything depends on the mayor, people here have no money and no power, so they cannot do anything. The people here will not be against new activities, but if they are in committees without any power and any money, what should they do?", as one interviewee said. It appears that there also have been deficits in information transmission concerning national and European programmes for rural development.

2. *Interest of local governments has been eroding.* The periodical change of local governments in three of the four communes of Dolina Strugu led to a decline of cooperation between the non-profit organisation and the representatives of the local authorities. This is primarily due to the frequent replacement of local authority representatives. As some interview partners mentioned, the relationship between the local governments seems to be more characterised by competition than by cooperation. Supposedly, due to the success of the organisation and its high acceptance among local inhabitants, local government authorities fear a loss of power. This in turn results in coordination problems between the local authorities and the organisation's initiatives. For example, a common strategy for regional tourism development is still missing. Actions undertaken by the local authorities like creating an artificial lake are not coordinated with "Dolina Strugu".
3. *Marketing problems of bigger farms remain unsolved.* Despite its success in developing regional product outlets, "Chmielnik Zdroj" has been unable to solve the marketing problems of bigger commercial farms. Farmers reported: "They consolidate mostly small farms which have a half hectare of potatoes. I remember, there were some situations where farmers had very good yields and then they had problems to sell their crops because they [the marketing cooperative] did not need that much." "Farmers here are waiting for another place to sell their crops, a small processing plant is really needed in here". However, the partnership might be a positive example and a promising incentive for similar cooperative initiatives, such as establishing a processing plant. Furthermore, the advisory agency of "Dolina Strugu" eases farmers' access to additional financial sources which could lead to further farm investments and an improvement of their competitiveness.

6 Conclusions

The presented public-private partnership is an example for a decentralised rural development approach and gives reason to reconsider alternative institutional arrangements in regions where agricultural producer groups failed due to local collective action problems. In our case study such problems could be overcome successfully by utilising institutional complementarities between government, community and market. While the regional distribution network for agricultural products is largely market-based, the partnership came into being only as a result of local collective action. Local government officials played a crucial role in this founding process and part of the seed capital came from public sources.

As a public-private partnership the marketing cooperative does not only reach private business goals, it also serves different public objectives like the improvement of local infrastructure, the provision of jobs and the enhancement of local purchasing power. It further gives local peasants the opportunity to sell their products and to continue farming which led to a reduction of fallow land and therefore increased the attractiveness of the region not at least for the residents and for tourism.

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.

The impact this true bottom-up initiative has made since its foundation as a telephone cooperative in the early 1990s is impressive. However, it should not be overlooked to what extent this success is due to specific local circumstances. In particular, the availability of (a few) leader personalities and their willingness to voluntarily contribute to public development goals has been of pivotal importance in Dolina Strugu. This latter success factor is often crucial, but hard to transplant to other regions.

Nevertheless, similar initiatives in other regions are conceivable. An impetus can emanate from governmental side within the scope of rural development measures like the former Community Initiative LEADER+ (European Commission, 2000). Such decentralized policy measures combine the public and the private sector by implementing so-called "local action groups" in different regions, who consist of local government members, local businesses and local NGOs. Local action groups constitute institutions, where local actors formulate regional development plans and decide about the spending of public sources on different projects, whereas all private respectively public-private investments require co-payments by the actors involved. However, to establish such initiatives a broad involvement of residents and commercial institutions like banks is needed to respond to local problems and to establish a close cooperative environment for local actors. Decentralized measures gain in importance in the rural development policy of the EU. This is true, if one considers that the LEADER approach received an own 'axis' in the new European Agricultural Fund for Rural Development (EAFRD), which supports the EU rural development in 2006-2013 (CEC, 2005).

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