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Special Issue: Social Capital and Rural Governance in Central and Eastern Europe

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Editorial

The papers in this special edition were conducted as part of the project on Integrated Development of Agricultural and Rural Institutions (IDARI) funded under the EU 5th Framework Programme. One element of the project analysed social capital, governance and rural institutional innovation, using frameworks and methodologies from new institutional economic theory. Given this backdrop, the papers in this issue focus on the processes of achieving cooperation, with the aim to understand the success or failure of cooperative strategies in the governance of rural Central and Eastern Europe (CEE). In the preceding 15 years, the CEE countries were subjected to immense transformation, as they changed from socialist organization to market dominated economies, alongside the introduction of democratic processes. This resulted in an overhaul of institutions, both formal (defined through legislation) and informal (defined as socialised rules and codes of conduct on an individual level). There is an interplay between actors operating within formal and informal institutions, and the papers delineate between those operating in the State sector, in the market and in self ascribed communities. The first paper in this issue presents the theoretical frame, within which the local case studies were undertaken in CEE countries. It posits social capital theory within a game theoretic framework, and argues that social capital is a useful construct to analyse cooperation and trust in CEE rural space. However, this analysis should be done on a micro level, and the case studies achieve this objective. The first two empirical papers by Matczak and Kluvánková-Oravská and Chobotová are comparable as they both explore cooperation and newly forming governance in a national park in Poland and Slovakia respectively. Both papers explore network governance, which is cited as a viable solution for the governance of common pool resources. The third case study by Forgács explores how leadership affects social capital, a topic up to now overlooked in the literature. This paper looks at the situation of agricultural cooperatives, and their transformation during the transition period. Production cooperatives were not only functional from an economic perspective, but also were important as a social network. The fourth case study also examines producer groups; Banaszak's study investigates the nature of collective action from a governance perspective in Poland. The final paper by Murray, Beckmann and Hurrelmann discusses the findings from these case studies in light of policy intervention in rural CEE. This paper reflects on the rationale and

implications of extending the European formulation of rural development policy to the newly acceded CEE countries.

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Social Capital and Cooperation in Central and Eastern Europe – A Framework for Research on Governance

Catherine Murray¹

Abstract

The transition process in central and eastern Europe (CEE) had a profound effect on how individuals interact. Economic and social institutions have changed, requiring an adaptation process by individuals in the move toward a market economy. How each individual accesses, manipulates and uses their networks will determine the use of their social capital. Within CEE, there is a presumption of low levels of social capital. This paper questions the rationale of applying the contested 'western' concept of social capital to CEE countries. It argues that although the concept was developed to understand processes within established democratic systems, it nevertheless is instrumental for analysing how trust is formed, and for understanding cooperation amongst individuals. As such, this framework reconciles literature from sociological and economic disciplines and offers a comprehensive framework for the analysis of social capital on a micro level. This involves positing social capital within a game theoretic framework, while including social learning or heuristics. This is particularly important due to the path dependent social structures and institutions, given political changes in these countries in the last century. Social capital is seen as a dynamic entity, a form of institutional change, which leads to innovation in the existing governance structures.

Keywords: cooperation, social capital, governance

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Introduction

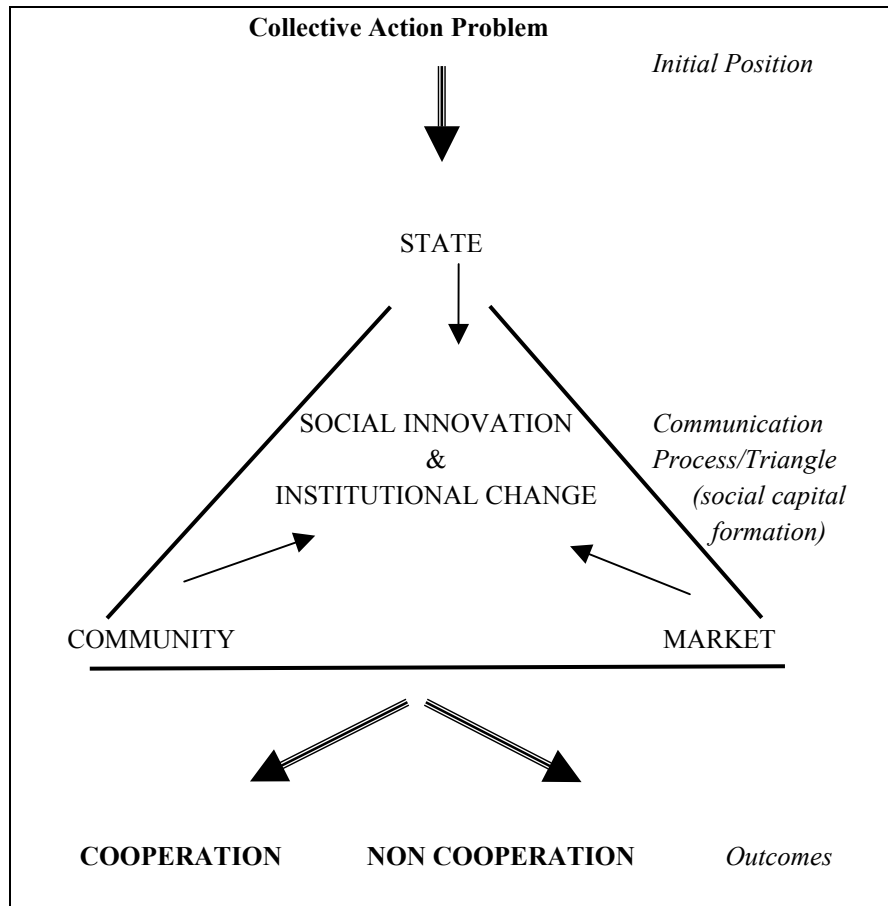
In central and eastern Europe (CEE) the processes of institutional change have resulted from external shocks, imposed by political regimes and sudden regime changes over the last sixty years. The socialist regimes and centrally planned economies changed the social fabric of CEE, and resulted in particular types of behaviour between individuals. Most notably, was the effect on interpersonal trust, which resulted in complex trust patterns (both high and low levels) between individuals and groups of individuals. Within both economic and sociological theory, a person's institutional endowment is acknowledged, and part of that endowment originates in social ties or communities of association. This has been termed social capital, and relates to the extent that individuals benefit from their personal networks and communities of association (Bourdieu, 1986). Trust is a central component of social capital, as it determines the *strength* of these social ties. The social context of trust formation is important for understanding processes of cooperation in CEE, due to central planning and control over social structures in former times. This was followed by the democratisation of the political sphere and the transition process from a planned to a market-oriented economy in the last fifteen years. The change in formal institutions, in particular legislation relating to property rights and market exchange, reverberated and effected the informal institutions, including trust and social capital.

Where groups of individuals cooperate, networks are formed, based around a shared problem. In the context of this paper, social capital enables an analysis of three sets of actors – the market, State and communities – all considered pivotal in rural CEE development. The paper exposes the role of market, State and communities in solving collective action problems, resulting in cooperation, non-cooperation or actual conflict between the actors (figure 1). It is during interactions, or communication between actors that social capital is formed.

When exposing behavioural attributes of actors leading to collective action, the role of informal institutions such as trust, communication, learning and behavioural norms become central. Indeed trust is seen as the basis for all transactions and contracts that individuals make, both within market and civil society. It is also a central component in measurements of social capital (Grootaert et al, 2004).

After reviewing the literature on social capital, this paper clarifies how it can be adapted as a framework for analysing situations on a micro-level, with particular application in rural CEE. In particular, three categories of social capital are critiqued as relevant, based on: a) rational choice theory; b) civic engagement and voluntary activity; and c) network theory. The interpretation of social capital as networks of cooperation, dependent on trust and reciprocity is endorsed and

Figure 1: Framework for analysing cooperation and communication within 3 arenas



Ostrom's (2000) framework elaborated and considered the most appropriate for exploring social processes in CEE. It is argued that a micro-level approach to social capital overcomes the methodological problems associated with its measurement, in particular due to the cultural sensitivities of the term. Thus the cultural bias of applying a theoretical construct in CEEC, which was developed specifically to analyse social processes in western democratic countries, is overcome. This paper contributes to the literature on social capital as it offers a framework for research on a micro level.

Social Capital

Social capital is seen as an indicator for the general health of a democratic market economy, with links established on a macro level between social capital and economic growth. Fukuyama (1995) suggests trusting societies have a common set of ethical principles and internalised norms, conducive to efficient dealings in the economic market. Similarly Putnam (1993:67) defined social capital as ‘the norms and networks of civil society that enable groups of individuals to cooperate for mutual benefit (and perhaps for broader social benefit) and may allow social institutions to perform more productively’. The Brehm & Rahn (1997) model of social capital is structured as a reciprocal relationship between civic engagement, interpersonal trust and confidence in government. The more that individuals participate in their communities, the more they learn to trust others; the greater trust that individuals hold for others, the more likely they are to participate with others, which in turn leads to civic participation with the State. Putnam (1993) is credited with operationalizing the above concept of social capital for empirical analysis. He saw it as being ‘embodied in forms such as civic and religious groups, bonds of family, informal community networks, kinship and friendship, and norms of reciprocity, volunteerism, altruism and trust’ (Putnam, 1993:67). His most acknowledged contribution to the theory is the proxy indicator that measured the density of voluntary organisations, termed the ‘Putnam instrument’. Social capital is in a particular position of an interdisciplinary debate. The concept has its roots in two main disciplines – sociology and economics². Individual actions generate a social order, which can benefit a group, or result in a collective activity. Groups are comprised of individuals, who choose between institutions, while also being constrained by them. Social capital has transported itself from the discipline of sociology into everyday language, and it has gained credence within economics as it conveys ideas that were missing in neoclassical economic thought. Social capital is important to overcome certain market failures in the provision of local public goods and many types of insurance. However, negative aspects of social capital have also been identified. Portes (2000:15) identified four: the exclusion of outsiders from networks; excess claims on individuals who are network members (due to ‘free-riders’); restrictions on individual freedoms of those within the network; and downward levelling norms (in networks which are considered undesirable, or sub-optimal).

There is a need to move away from the macro debate on social capital to understand the processes that mould the formation and maintenance of trusting

2 For a comprehensive discussion and overview of the evolution of the social capital concept, see Hazleton & Kennan (2000); Portes, (2000).

relationships between people, while analysing how the State, organised groups or communities and markets contribute or hinder this process. This can be achieved through a network approach. Such an approach to social capital is not novel, as indeed Bourdieu's (1986) formulation of the concept was based on networks of interaction. Studies of network structures assume causality between actions and actors involved with a network (Flap, 2002). Location and position within the network is important, while the network itself provides opportunities for individuals to exploit resources which social relations give access to. However, many of the empirical studies on social capital tend to focus specifically on the Putnam proxy (civic engagement), while ignoring network structures and the rational choice of actors (calculated trust). Integrating these three definitions of social capital integrates the formulation of the concept between the differing sociological and economic foundations of the term (Mateju, 2002; Mihaylova, 2004) and it allows for an analysis based on rational choice while including social esteem and power structures which lead to social reproduction and inequality.

The rational choice approach is based on the strategies used by individuals to interact with one another. This approach has its formulation in economic game theory analysis, while specifically analysing games involving trust. The network approach is a sociological approach to social capital. It affirms the importance of embeddedness and allows for a discussion of power structures. The civic association approach lies somewhere in between these two approaches, as the concept of trust (both interpersonal and formal institutional trust) is used, as is the connectivity of individuals to their social arenas.

The question arises over the choice or inheritance of social networks. An individual's position within a network can be embedded, yet not through their own choice. Certain literature within sociology analyses institutional embeddedness and constraint due to inheritance, or from an evolutionary perspective without necessarily including the individual's choice of association (Flap, 2002). However, although individuals are born into and become socialised into an existing social network, at some point each individual has a choice to change or modify their networks, for whatever particular reason. Thus the behavioural attributes and motivations are important. Rational choice theory allows for such conscious decision making. Concurrently it makes the analysis of social networks difficult to operationalize. Networks are not static, but constantly evolving. This is the challenge for designing a research framework relevant to the economic and social realities in CEE. The following section looks at why social capital merits attention and further empirical elaboration with particular reference to CEE. The appropriateness of the three categories of social capital is discussed in light of its relevance to social dilemmas of collective action in CEE – the rational choice of

actors, the Putnam proxy of voluntary action, and network structures resulting in power and access to resources.

The relevance of social capital in CEE

Given the links between social capital and a 'healthy' functioning of a market economy, the logical research agenda in testing social capital theory would appear to be to monitor the levels of social capital in countries that are moving from a planned economy to a more democratic market based one. Such macro exercises have been undertaken recently³. In a comparative study, Fidrumuc and Gerxhani (2004) reveal lower levels of social capital in CEE in comparison to western Europe and explain this by the economic disparities between the two regions. Paldam & Svendsen (2000) have termed the situation in post-communist countries as displaying 'missing social capital' from the western context within which the term was conceived. Definitional and methodological issues relating to conceptualizing and measuring social capital are exacerbated by path-dependent social structures in CEE. Critics however have argued that transposing the western construct of social capital to post socialist contexts is biased, and ignores the existing social realities in these countries (Hann & Dunn, 1996; Dowley & Silver, 2002), where complex social forces result in various forms of emerging networks, differing levels of interpersonal trust among actors and oftentimes low trust levels in formal institutions. This leaves the comparative international (macro) studies on social capital somewhat lacking. The social realities in CEE have been formed by prevailing local institutions. The institutions are path dependent, shaped by the experiences during former socialist times, which comparative studies use merely as explanatory factors. These studies revealing low levels of social capital mask many social processes that are not encapsulated by the measurement techniques of the comparative studies. Whether people are predisposed to form relationships with one another depends on social norms and the prevailing social structure. Within CEE, the presumption of low levels of social capital is explained in the literature by such forces as: an increase in general mistrust brought about by experiences within a planned economy (Swain, 2000); the dictatorship theory of missing social capital (Paldam & Svendsen, 2000) which eroded or destroyed voluntary cooperative engagement, and when individuals associated their political leaders with corruption and merely having self-serving interests; an increase in mistrust

3 See Mihaylova (2004) for a comprehensive review of social capital research undertaken in CEE and Russia; Comparative international studies on stocks of social capital in CEE have been undertaken by the OECD (2001); Healy (2001); and by Fidrumuc & Gerxhani (2004).

brought about by the ‘grabbing’ strategies of certain individuals in the early transition period (Sik & Wellman, 1999); or a high reliance on family and kinship networks in countries with ‘weak’ formal institutions (Theesfeld, 2004). All these factors impose constraints on the formation of social capital in the post-communist states as measured using conventional techniques.

Rational Choice and social capital in CEE

Coleman (1988) is credited as basing social capital on methodological individualistic foundations. Methodological individualism and equilibrium strategies of game theory are used within rational choice theory for enforcing group norms even at a cost to oneself, due to the collective benefits of cooperation and potential stream of future benefits. Within this emerging theoretical literature, the role of trust is pivotal for designing individual strategies. Trust alleviates the concern for being mistreated, and it also suppresses an individuals’ own opportunistic behaviour. Although there are many different levels and taxonomies of trust⁴ Paldam & Svendsen (2000) argue that a trust definition of social capital is the most basic. Three levels of trust are specified: personal trust (informal governance), general trust among strangers and institutional trust (formal governance).

There are complex and differing levels of trust patterns emerging in CEE, with low levels of trust in one sphere offset by high levels of trust in others. Trust is recognised as the basis for commercial contracts and agreements between people. The role of trust has changed radically in the move to market based economies of CEE. Trust is required in the price mechanism within markets, in financial institutions, in new business partners (generalised trust) and fundamentally in the State (formal) and EU to uphold and protect the new property rights, which were central to the transition process. The expectations of instituting such levels of trust can be seen as a ‘leap of faith’ for many individuals, as they move from relatively closed trust networks (such as family and friends) to more open general trust of strangers with whom they interact (Cook *et al*, 2004). The experiences in former socialist times led to a climate of fear and mistrust of the State and its apparatus for many individuals (Lovell, 2001). In a study of small enterprises and private firms, Raiser *et al* (2004) examined generalised trust in business transactions, based on

4 For example, see Nooteboom (2002:50) who identifies seven forms of trust: behavioural trust (in people), material trust (in objects), competence trust (in ability, skills, knowledge and technology), intentional trust (including dedication, benevolence and goodwill), conditional trust (outside enablers), exemplar trust (in role models) and informational trust (in honesty and truth).

the contracting environment within these countries. They found that trust increases as reforms progress within the countries. It would be expected that trust would increase over time also, once relationships are established between individuals in a market setting, or through 'repeat play' in game theoretical terms. Indeed the idea of economic progress and a move to a more modern structure of society can be seen as a move away from reliance (trust) in family and informal networks to more generalised trust. However, high informal trust in family and close friends was a coping mechanism for many people during socialist times, and such institutions do not simply disappear. Another interesting finding from Raiser (2004) was that in countries where family networks play an important role, trust is significantly higher, whereas the opposite is the case in countries with significant reliance on networks based around government. Such comparative surveys do not capture levels of informal trust between individuals, as more detailed information on individual networks is required. It also should be stressed that trust is one component of social capital, and should not be treated as synonymous with it.

Civic engagement in CEE

Emphasis on civic engagement of actors has dominated studies in social capital, partly due to the early development of an indicator for its empirical measurement (the 'Putnam' proxy), and the recognition that civic engagement is essential for cooperative behaviour. A civic community is one marked by 1) active participation in public affairs; 2) political equality; 3) solidarity, trust and tolerance; and 4) widespread membership in voluntary associations (Kunioka & Woller, 1999). Within CEE, ability to participate in public affairs and political equality has been introduced only in the last 15 years. During socialist times, authoritarian politics dominated economic activity and attempted to control activities in the social sphere. The public institutions are organised along democratic principles. However, the extent to which there is effective and/or meaningful democratic participation in any country, beyond access to polling stations during elections, can be disputed. Based on recent studies in CEE, there is evidence that citizens support the new democratic regimes, and on the whole prefer them to the communist regimes that they replaced (Mishler & Rose, 1997). This does not guarantee immediate active participation in civic affairs by citizens, and indeed the reverse is argued by Rothstein (2004:16) – that the particular type of State institution produces individuals and organisations with high (or low) levels of social trust. From a study of trust in post-communist Europe undertaken by Miller *et al* (1998), it was concluded that the countries were characterised by low levels of trust in the new political institutions of democracy. In particular there was distrust and

cynicism for politicians. By contrast, trust ‘in ordinary people’ was high and uniform across most countries within the survey, but again, it does not systematically ensure high levels of civic engagement. Out of all the components in the Putnam proxy measurement of social capital, caution is warranted in over-reliance on measurement of participation in voluntary organisations in CEE. This is not to deny that it is through this process that norms are learned and shared among actors and communities. These include solidarity, trust and tolerance, which are all strengthened through repeated experiences of social interaction. However, with lower income levels in CEE, the opportunity cost of time may be too great to spend on community or social activities, or there may not be opportunities for people to engage in certain social activities that are considered ‘conducive’ to social capital – for example involvement in charitable organisations or sports clubs. Therefore from a methodological viewpoint, attempts should be made to elucidate the more indiscernible indicators where informal community networks enhance altruism and trust. This is one of the main attractions of the network approach to social capital.

Network formation in CEE

Networks are present wherever individuals engage with one another. This occurs both within social and political settings, and also within economic exchanges. Indeed a novel approach to analyse markets is purely in terms of networks of actors (White, 2002; Hurrelmann, 2004) rather than the traditional view of them as physical or tangible entities. In CEE networks are constantly changing, as their functions change. In former socialist times, being connected to the Communist party or political networks gave opportunities for some individuals to access privileged resources. Informal and family networks were also important, especially when certain goods and services were produced within the household. This reliance on family and friends may hinder the effective functioning of the new market mechanisms, or it could result in the creation of black markets, and thus is considered pervasive to economic growth (Mateju, 2002). But within these informal or ‘grey’ networks, social capital is nevertheless present albeit in a negative form – the individuals trust the network within which they operate and benefit from their association with the network, in terms of access to resources (Rothstein, 2004). Paldam & Svendsen (2000) argue that during socialist times, the ‘system’ tolerated and even needed grey/black networks. These shady networks did not disappear during the transition phase, and are prevalent in certain CEECs. The emergence of new markets during the transition process enabled some individuals to adapt and benefit from these new opportunities. Networks provide a mechanism for transmitting information and knowledge amongst its members. Thus how the

group of individuals communicate with one another, and also how they communicate out-with the network needs to be understood. The network can be used as a source of power by members in terms of limiting or denying membership to the network. From a methodological point of view, identification of the network members needs careful consideration.

Given the three approaches to social capital, and their relevance in CEEC, the following section introduces a game theoretic framework that can enable an exposition of the process of social capital formation and change. It begins from a simplistic discussion to introduce key terms developed within rational choice theory, looking at cooperative behaviour. However, as complexity is increased with an increase in the number of individuals 'playing' these cooperative games (group and network formation), the simplistic models become problematic. To cater for this network perspective Ostrom's (2000b) behavioural model is endorsed, and considered the most developed for structuring research into social capital. To operationalize her framework, a micro-level analysis of the dynamics of trust and social interaction is required.

Cooperation and Social Capital

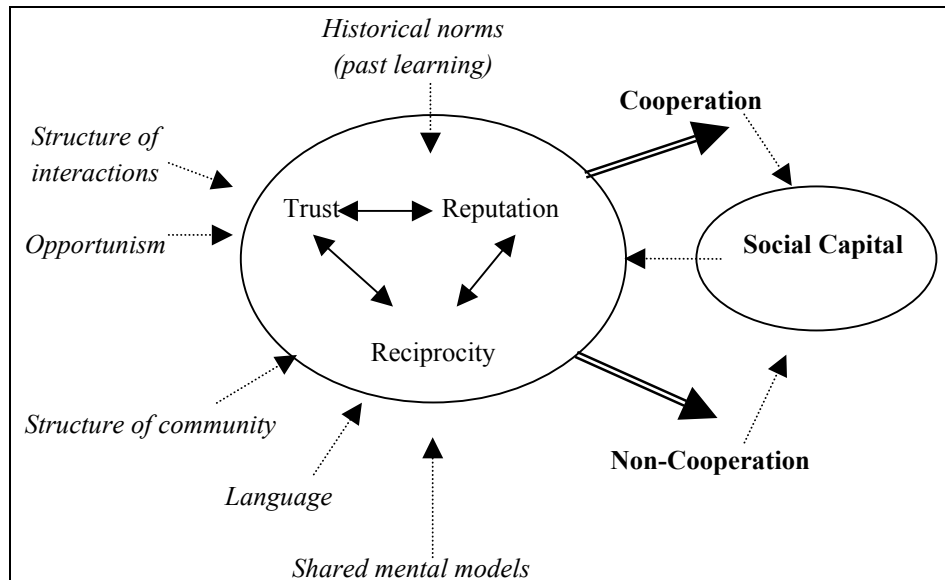
Cooperation between individuals is evident when there is visible action on a collective level (many stakeholders) for a predetermined goal (problem solving). All human communities confront collective action problems. Collectively, societies are better off when their members cooperate with one another to achieve common goals. Putnam (1993) makes the link between social capital and cooperation, and argues that cooperation is facilitated if a community has inherited a substantial stock of social capital in the form of norms of reciprocity and networks of civic engagement. Cooperation is a governance structure, or the 'play of the game' in game theoretic terms, where the game is one of social interaction between individuals bound by an identifiable common problem. From this perspective, cooperation is a strategy adopted for reducing transaction costs, or problem solving will be through the most efficient governance structure (community governance). Bowles and Gintis (2002:425) argue that 'communities often are capable of enforcing norms because a considerable fraction of members are willing to engage in the costly punishment of shirkers even when there is no reasonable expectation of being personally repaid for their efforts' and call this behaviour *strong reciprocity*. Such community governance enables a solution to social dilemma, in instances that might otherwise appear as classic market or state failures, largely because the market or State does not have complete private or localised information. An effective community monitors the behaviour of the individuals

within, making them accountable for their actions and punishing those individuals who deviate from social norms. In contrast with States and markets, communities more effectively utilise the incentives that people have traditionally deployed to regulate their common activity such as trust, solidarity, reciprocity, reputation and personal pride amongst others.

Social capital can explain why certain groups and communities are able to resolve collective action problems cooperatively, while others are not. Networks of personalised relationships are characterised by low enforcement costs, due to reputation and admonishment, which leads to cooperative behaviour. Within rational choice theory, the mechanism that connects interpersonal trust, repeated interaction with others, and sustained cooperation has its roots in research on the prisoners' dilemma. In single shot prisoners' dilemma games, trusting individuals cooperate more readily. In repeated prisoner dilemma games, successful strategies are 'nice' ones where the player is never the first to defect (Axelrod, 1984), which assumes some initial level of trust. After the first play, successful strategies simply echo the behaviour of the other behaviour, reciprocating cooperation for cooperation, or defection for defection (tit-for-tat strategies). If cooperative individuals expect others to cooperate they are more likely to engage in cooperative endeavours, setting in motion a 'virtuous circle' in which trust promotes cooperation and cooperation promotes trust (Putnam, 1993).

Cooperation and the game theoretical approach

This section extends the prisoners' dilemma to more complex situations, drawing from Ostrom's (2000a) framework of a behavioural theory of collective action and Lubell & Scholz's (2001) model of cooperation in collective heuristic action. Social dilemma refers to situations in which individuals make independent choices in an interdependent situation and is analysed in terms of rational choice, where each individual has a choice of contributing or not contributing to a joint benefit, or a "cooperators' dividend" (Ostrom, 2000b). Ostrom (2000b) emphasised that trust and reputation also lead to cooperation or framing the governance structure in such a way that benefit the collectivity. Rule breakers are sanctioned by the community or group (Bowles & Gintis, 2002) and Ostrom (2000a) identifies reasons why cooperation prevails, largely due to communication within the network. Communication is made effective through, exchanging mutual commitment, increasing trust, creating and reinforcing norms and developing a group identity. Individuals use communication opportunities to lash out verbally at unknown individuals who did not follow mutually agreed strategies.

Figure 2: The Communication Process

Source: Adapted from Ostrom, 2000b

In non-cooperative game theory, simple communication is not sufficient to escape the dilemma. From this perspective face to face communication should make no difference in the outcomes achieved in social dilemmas. Contrary to this perspective, empirical findings show that substantial increases in the levels of cooperation are achieved when individuals are allowed to communicate face to face (Ostrom, 2000b:483). Communication increases the rate of cooperation. Therefore the question arises as to whether it is a problem of asymmetric information that leads to non-cooperative situations or whether there are other processes affecting cooperation. During the communication process, social capital is enhanced or eroded through the establishment of trust, reputation and reciprocity (Ostrom, 2000a); learning is occurring at many different levels (individual, organisational, societal); communication is affected by bounded rationality and opportunism of different actors; and historical norms and values will affect behaviour and participation rates in the process. But communication does not spontaneously result in a governance structure, although communication is required to internalise the set of rules for each individual – to internalise the governance structure.

Annen (2002:451) qualifies the definition of social capital by introducing a player's reputation for being cooperative within a social network, where a social

network is a set of players and a pattern of exchange of information and/or goods among the players. Each player not only has to behave cooperatively, but others have to know that this is the case. Therefore it becomes important that other players know the trustworthiness, or reputation, of each player. From this perspective, the unit of analysis is on an individual level, as the beneficiary of social capital is a single player, where a measure for the value of social capital in total for a given community or country is the aggregation of all the individual benefits. He argues that the functional quality of social capital is to sustain cooperation amongst players in the network, and that social capital can thus be seen as a governance structure.

Reciprocity is all important, and enables application of the models to real life complex situations. Applying the collective action heuristic model of individual decision making to the situation in CEE, the most important element of reciprocity constraining the formation of social capital is the relationship between the individual and the State. If past experiences with the socialist bureaucracy has damaged an individual's trust in the State, the mistrust may be difficult to overcome. Equally, if an individual has a bad experience with their neighbour or family member in a situation of cooperation, this can affect subsequent behaviour and attitudes toward cooperating - a process of social learning. Reciprocity is an especially important class of norms for Ostrom (2000b:489). Reciprocity is a basic norm taught in all societies, and in these 'games' there is a need use retribution to some degree to punish a defecting player. Individuals do not inherit particular reciprocity norms via a biological process. Ostrom's argument is that individuals inherit acute sensitivity for learning norms that increase their own long-term benefits when confronting social dilemmas with others who have learned and value similar norms.

Lubell and Scholz (2001) respond to Ostrom's (2000b) request to develop a behavioural theory of collective action by exploring the behavioural relevance of reciprocity and niceness in explaining cooperation, although in laboratory collective action experiments. They include the interaction between collective action strategies, past experience and institutions. They argue the collective action strategies of individuals are best understood in terms of cognitive heuristics that generate them. The set of heuristics in a given society represent specialised cognitive mechanisms for solving social dilemma problems, which they believe are an ancient and central part of human society. They suggest that heuristics are biased in favour of cooperation: individuals gain some of the potential advantage of reciprocity while protecting against exploitation. A collective action heuristic combines the introspection heuristic with bounded rationality (*ibid.* p.161). This can be seen as a constrained experiential learning process (figure 2).

This learning process is important. Given the evolutionary advantage of a *tit-for-tat* strategy, it could be tempting to argue that society dominated by nice, reciprocal individuals could evolve over time. In such a society, cooperation would be the individually optimal choice; so as to ensure that the mutual benefits of cooperation are realised by each individual. However, as strategic complexity exists and reciprocity becomes more difficult to detect in real life situations of many actors, the heuristic process that individuals use to cope with this complexity becomes more important. Also, the evolutionary process which would lead to cooperation assumes that the game is played by the same actors over time, which is not the case.

Conclusion

This paper has explored the relevance of social capital to CEE, from a conceptual and an operational basis. It argued that social capital is an important analytical concept for explaining social processes in CEE, and this paper emphasised three categories of social capital with particular relevance to the situation in post-socialist rural areas. These three categories were based on a rational choice model, a civic engagement and voluntary organisation model, and on network theory. Through an integration of sociological and rational choice approaches, the concept can be applied to CEE. However, care must be taken when operationalising the concept in empirical research. The preferred approach to empirical research would be through thorough investigation of small group/network processes for cooperation in CEE, to expose the relevance of interpersonal trust, reputation and reciprocity. Although the essence of social capital is as an aggregate concept, it has its basis in individual behaviour. The aggregation is on a group, community or network level given the interactions of individuals. In participating with their community in solving problems or social dilemmas, the individual creates a reputation. The models recognise bounded rationality, the influence of informal institutions (norms and values) and the effect of social learning on the process of cooperation. A difficulty with these models is that they do not incorporate time very well. This will prohibit an inter-temporal analysis of social capital. The variables within the model are in a constant state of flux – norms and values change, trust can turn to mistrust and vice versa. This can cause individuals to cooperate in some situations, but not in others, so an explicit recognition of a change in social strategy should be incorporated.

Of particular importance in this model is the recognition of the communication structures affecting cooperation, as these also affect norms and social learning. By focusing on communication, the institutional setting within which this process

occurs is clarified. It also allows for the concepts of trust, reciprocity and reputation to be explored, as causal effects on the communication process. A study of communication processes allows for the integration of cognitive concepts - such as learning, language and shared mental models – into institutional theory. The frameworks presented in this paper can be described as a micro-level construction of social capital, where the composition and practices of local level interaction are the focus of analysis. Although the macro structures within a country or region affect levels of social capital – such as legislation, types of regimes, level of decentralisation and level of participation in policy making - the behavioural attributes of individuals requires further exposition. The assumption of macro structures in CEE affecting trust, reciprocity and communication between individuals, brought about by the legacy of socialism, should not be the only focus of studies in social capital formation. How communities adapt and organise themselves within these macro structures through collective heurism is worthy of further investigation. The propensity to cooperate is determined by local organisation and localised responses to social dilemmas.

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Is network governance possible? The case of Polish Drawiński National Park, Poland

Piotr Matczak¹

Abstract

For poor areas dealing with economic decline, finding development engines is a crucial issue, and natural resources are often the only asset communities have. In the paper it is argued that concept of the network governance can be applied to understand the situation, where local sustainable development is desirable. In a qualitative case study of the Polish Drawiński National Park area, four barriers for the establishment of network governance were found: weakness of legal institutional framework including ambiguities about property rights; lack of bridging social capital; persistence of informal norms undermining public and formal operations; difficulties with undertaking multilateral collective action. As an alternative to network governance, the emerging structure takes a market or hierarchical form.

Introduction

Network governance is a concept emerging from the literature on economic contracting and organisation theory (Jones et al, 1997; Williamson, 1979 & 1991), whereby it was recognised that some contracts between individuals are socially –

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not legally – binding. Network governance can explain the process of a local development, and here it is applied in a case study of the Drawienski National Park region, in Poland. Coping with economic decline caused by the changes of the economic system manifests as the main problem, and the National Park with its natural resources is the main asset of the area. The conditions for the emergence of network governance are checked against the governance structure in the Drawienski National Park Region, and the conditions are considered apt for its emergence. However, there is little evidence of network governance structures at play.

The Drawa Region does not have many internal resources for economic exploitation. The nature value within the National Park is the most important development agent of the region. Thus there is a fragile balance between nature protection and economic goals. Combining environmental and economic issues is the core issue of sustainable development. With the designation of a national park, nature within the Drawienski is protected, and the main issue is economic development and improvement of the social situation.

The specificity of this case is that natural resources are relatively protected legally, while prospects for economic and social development are not promising. This leads to a problem of sustaining the community. Network governance, which assumes conditional co-operation among stakeholders, is a feasible option for achieving sustainable development. However, in Poland, the legacy of the long period of communist centralization and the resultant type of social capital poses constraints on attaining network governance.

This paper builds on the social capital framework developed by Murray (2007) in this issue. However, it develops the theoretical construct of social capital, through its focus on the institutions of governance. In respect to the negative impact of social capital, two types of social capital are distinguished: bridging and bonding. Bridging social capital is based on the relations with actors outside the group. It ‘opens’ a community for new ideas and innovations. Bonding social capital relies on internal relationships within a community. For development, bridging ties are beneficial – a ‘glue’ for co-operation, concurrently allowing information exchange with the wider environment and diffusion of innovations. For a particular community, social capital is an external factor from the developmental point of view - although it is rooted in communities’ social life

Network Governance

Taking into account ambiguities about the role of social capital and generally the capabilities of a community to achieve sustainable development or sustainable

communities (Bridger & Luloff, 1999; Coleman, 1993), the mode of governance appears to be an important factor influencing the possibilities for sustainable development of a local community.

The local governance concept is based on the view that governance is a process influenced by a variety of actors. Governance is not only connected with the execution of legal power, which is the core of a government's operations, but includes activities of all stakeholders, having various interests in the process of local decision making.

In Williamson's (1979, 1991) approach, governance is a co-ordination mechanism for transactions. Taking into consideration the type of investment (transaction), three types of governance structures were differentiated, by Williamson (1979; 1991): a) governance based on market (where transactions are non-specific – concerning contracting parties and type of goods); b) hybrid governance - based on semi-specific transactions (having a form of trilateral contracting, with arbitration); c) governance based on highly specific transactions (hierarchies, where bilateral and vertical integration dominates).

The hybrid structure, based on semi-specific transactions, is interesting. It can be located between pure market and pure hierarchical organization and it is partially regulated by market incentives and partially by administrative control. Williamson calls transactions within this area 'idiosyncratic', because the specific identity of the parties has cost-bearing consequences, benefits are realised upon successful execution, and goods or services are non-marketable. For such transactions, if special conditions appear - particularly institutional and personal trust – transaction costs are reduced.

Jones, Hesterly, and Borgatti (1997, p. 914), based on the Williamson's work, proposed the notion of 'network governance', by which they mean "a select, persistent, and structured set of autonomous firms (as well as nonprofits agencies). These firms are engaged in creating products or services, based on implicit and open ended contracts, to adopt to environmental contingencies and to co-ordinate and safeguard exchanges. These contracts are socially – not legally – binding." The network governance is neither bureaucratic nor a market-type but lying in between. It can appear in special circumstances. From an economic perspective there are several conditions which create demand for network governance (Jones, Hesterly and Borgatti, 1997). First, it is demand uncertainty (with stable supply) which is caused by: rapid changes in consumers' preferences; technological changes; seasonality. It can bring, in case of firms, solutions like outsourcing, and subcontracting. The second condition is the specificity of assets, or the peculiarity/uniqueness of products which are not easily sold on the open market, and special skills are required to produce them. The third condition is connected with constraints in the production process, where complex tasks are under time

pressure for completion.. Fourthly, frequent exchanges occurring among parties comprising of a network are conducive for network governance.

Network governance helps to reduce transaction costs. It can be treated also as strategic behaviour tending to get a better competitive position, or a mechanism to find a better source of knowledge (Gulati, 1998). It is a phenomenon observed in several business sectors such as the film industry and the construction sector. It takes the form of voluntary agreements between firms involving exchange, sharing, co-developing of products, technologies and services (Gulati 1998). Providing that there is a demand for network governance, the issue arises as to its process of development. Organizations are exposed to external challenges and they have to adapt to changes. However, the adaptation is a path dependence process, which stems from the existing context (Williamson, 1991). The important elements of the context are the institutional framework (containing the “rules of the game”, such as formal norms and property rights) and the informal norms (existing at the small group level).

Network governance and local sustainable development

The concept of network governance usually applies to the business sector. However, it can also be used for analysing local development, how communities interact and in environmental management protection. The approach taken by Bowles and Gintis (2002) suggests that a community can be treated equivalent to the hybrid governance. Also the concept of co-management is the idea of shifting the responsibility from governmental institutions to local communities with co-operation from NGOs and private agencies (Mburu, Birner, & Zeller 2003). Relationship marketing applied to tourist services involves relations not based on exchange, but on trust and commitment, exchange of information, and mutual promises. It shifts attention from products to human relations (Saxena, 2005).

In applying the concept of network governance to the development of communities, local sustainable development can be treated as a specific product of a community, equivalent to a commercial product within the business sector. Network governance can be an efficient solution for development “production”, despite its establishment being difficult.

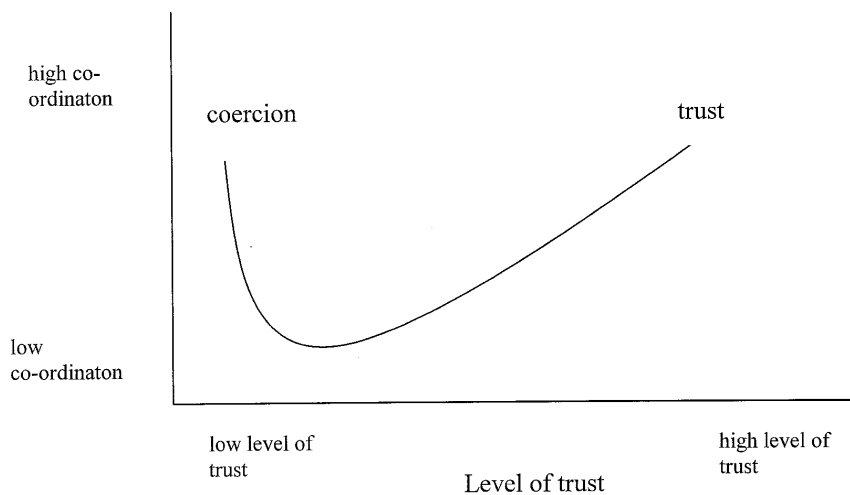
In post-communist countries, where low levels of trust are observed (Rose-Ackerman 2001; Chloupkova et al. 2003; Mihaylova 2004) this seems to be a particularly important obstacle for network governance. The social and economic life as well as governance systems, are based on the low level of trust.

Concerning possibilities of network governance in post-communist countries, two basic equilibria of co-ordination can be indicated. Firstly, low level of trust

combined with the direct coercion regime can lead to co-operation. Co-ordination is enforced in such systems. Secondly, co-operation can be achieved basing on trust and voluntary agreements. In the latter case, co-operation relies on mutual obligation and informal enforcement. In the cases of Poland and other CEE countries low level of trust in the formal, public relations (as in the relations to state institutions) is combined with the shift of trust, which is channelled into personal, face to face relations.

The move from co-ordination based on low level of trust (coercion) to co-ordination based on high level of trust is difficult as it involves loss of co-ordination efficiency in the transition period. The simplified model of the relation between level of co-ordination and level of trust is presented in Fig. 1.

Figure 1. A model of dynamic relation between trust and co-ordination in post communist countries.



Institutional framework of network governance

The institutional framework consists of the fundamental political, social, and legal background. It includes constitutional definition of rights and obligations (Coleman 1990) such as providing property rights and specifying rules of conflict resolution. The institutional arrangement regulates co-operation and competition between units (Williamson 1991). The institutional framework provides incentives and restrictions to individuals. The previous governance structure is important,

especially concerning security of expectations. If for example, actors consider that government's operations leave property rights unsecured, they lose confidence in their investments. This is particularly relevant in Poland, given the transition process from communism to a market economy. Sustaining network governance and – more importantly – establishing network governance involves coping with collective action problems to achieve the level of co-ordination making network governance possible and efficient. Within a network, organizations have to cooperate and they are not regulated in an administrative way. Thus, the network is vulnerable to free-riding. Since network governance is based on voluntary cooperation, there are incentives for opportunistic behaviour and maximizing self interest at the expense of the group. In order to overcome social dilemma connected with collective actions, institutions have to be established since cooperation is conditional, while at the same time - brings optimality. Institutions, after North (1990), are understood as the rules of the game.² They are measures to solve social dilemmas. However, to reap benefits from collectively established institutions is problematic –time is needed to establish them, and to overcome problems with collective action (Bruns & Bruns, 2004).

The role of social capital and trust in network governance

Social capital plays an important role in establishing network governance, through establishing background enhancing institutions . Social capital can also replace formal institutions and strengthen informal rules. A high level of social capital promotes the establishment of a network governance structure, rather than market based structures. For effective network governance a certain level of social capital is necessary, as relations between partners is not dependent on market mechanisms. Meanwhile, relying entirely on the legal mechanism would be very costly (and, in fact, would move a governance structure to hierarchical model). Many authors treat trust as a core aspect of social capital. Within network governance, trust can be embedded in persons and institutions in bilateral monopoly building. It relates stakeholders' interests, economizes costs of writing contracts, and costs of execution (Williamson, 1979). Trust is treated as an important element of a social relation, influencing co-operation. It is assumed that the higher level of trust the easier is co-operation.

What happens if the level of trust is low? Within Williamson's model, it is postulated that if one takes two systems - one with a low level of trust and the

2 Institutions are treated equally with norms (especially in J.Coleman's usage of the term), since norms are in the sense the prescriptions for actions.

second with high trust - and if both experience the same demand for establishing network governance, the second one will find it easier to achieve competitive advantage against the first one. If the level of trust is low, markets and hierarchies appear prevail, instead of building the network form of governance. Thus, low levels of trust are the crucial obstacle for establishing network (hybrid) mode of governance. Williamson suggests that this mode is possible to apply by the use, for example, of ethnic communities, where trust is already embedded. Network solutions cannot be done unilaterally, nor by hierarchy, but they require co-operation. Network governance is a system of informing about performance and consequently, reputation building. That's why, according to Williamson (1991), ethnic communities work well in hybrid contracting, while non-ethnic ones move rather to market or hierarchical structures. According to Bowles and Gintis (2002) communities are based on the trust and ability of monitoring norms' compliance, or community governance.

Trust is an element facilitating collective action and required for introducing innovations. Low levels of trust make it necessary to introduce formal rules, which as a consequence involves arbitration from the state role of a state (and higher transaction costs, of course).

When communities move from low to high level of trust a certain institutional innovation is required. Lin (1989) differentiates two types of institutional change: a) spontaneously induced and b) enforced (top-down). At the level of individuals, when the trust manifests in a group, individuals can be engaged in productive exchanges. Trust makes it easier to establish initial co-operation, and as a crucial element of social capital, can be beneficial for the environment, through the management of common property resources. However, Yamagishi (cited in: Ostrom 2000) found that individuals with high levels of trust are more willing to contribute to the collective good, although those with lower levels of trust are willing to contribute to sanctioning system. It suggests that low level of trust does not entirely block co-operation.

Network governance in Drawa region

Presentation of the research area

The Drawa region is located in the West-central Poland. The six municipalities, within which the territory the Park is located, in total cover 1650 square kilometres. The area has almost three thousands inhabitants. The Drawiński National Park was created in 1990. Its area is 1140 square kilometres. Most of the Park area consist of forests (79%), 10% is wetland, 5% is covered by abandoned fields and meadows, and 6% by other habitat types. The Park represents the typical

landscape of postglacial outwash plain, with a complicated net of gullies, partially filled by lakes. There are two main rivers - the Drawa and Plociczna, and the area as a whole can be characterised as a young post-glacial landscape, because of the rivers' rapid current, relative stability of annual flux, and winding river-bed. A Natura 2000 site is located within the park, which is part of a European-wide conservation network.

The Park is attractive for visitors mainly for kayaking tours and fishing. Although the number of tourists visiting the Park is not massive, tourism creates a burden for the environment. Nine thousand of tourists get through the Park annually, which is about 0.8 person per hectare. This is little in comparison to the average for national parks in Poland (29 persons per ha). However, the problem is that the tourism in the Drawa Park is concentrated in the heart of the Park and in fact exploits only a few of the most attractive routes.

The area is mostly dependent on agriculture. As it is situated far from the economic centres of the country, it is in a very difficult economic situation. The unemployment rate is high – 23%, which is higher than average for the country. Following the collapse of State owned agricultural enterprises after 1990, no real employment alternatives appeared – neither in the area nor in other parts of the country.

The set of main actors identified as important for network governance of development plans for the park comprises: local self-governments; the Park administration; farmers, inhabitants; environmental NGO (Lubuski Naturalists Club); non-environmental NGOs; tourist sector; the Park Council; the Ministry of Environment; National Board for National Parks. The main actor responsible for the local development is the local self-government (gmina). There are six of them in the Park area. Members of their council are elected. From 2002, mayors (the executive body) are also elected. The council and the mayor are entirely responsible for local development and for all the issues of the local community (education; local physical planning; environment protection; local infrastructure – like roads, water supply system). Surveys in Poland show that local governments are trusted more than central institutions, central government and parliament. Only 21% trust central government while 53% of Poles trust local governments (Public Opinion Research Centre, 2004).

Self-governments are partially independent financially: they share (with central government) income from taxes, have their own assets, but a substantial part of their income comes from subsidies given by the central government.

The Park directorate is the actor responsible for nature protection within the National Park. The management is financed by the central government, rather than the local self governments. Due to financial constraints, part of its income has to be self-sourced. The imperative to search for additional income puts the Park

directorate in a competitive position against local businesses. The Park is not financed by the local self-governments. The Park independence from the local financing is understandable, since the Park is of national importance. It allows however reservation concerning the co-operation for the local development. Formally, the Park is not directly involved in shaping the local development.

The bodies related to the Park do not play active role in the local development. The Park Council members are academically rooted, and mainly involved in monitoring of the Park management from nature protection point of view, while the ministry and National Board for National Parks monitor the Park performance from legal point of view.

The tourist industry is at an early stage of development, with a low standard of infrastructure; for example there is little culinary service provision in the villages.

The legal document guiding long-term nature protection principles in the park is the 'Nature Protection Plan'. Such a document is required for all the national parks in Poland. Preparation for the plan began in 1996, bringing conflict, mainly between the nature protection NGO (demanding stricter protection standards) and the Park directorate (taking more pragmatic approach). The nature protection NGO consists mostly of environmentalists; as a result, the discussion was professionally oriented and did not mobilize the local inhabitants.

An interesting initiative in the area was the establishment of a fish shop. It was instigated by the Park management, to organize a place where fish could be legally sold. Through such institutionalisation of the market, it would help local inhabitants get an additional income and for customers it would be a place where products were easily accessible. The idea failed however, since legalizing the fishing market was not economical for the locals.

For some local inhabitants, the illegal use of the Park's natural resources contributes to their income. Furthermore, it is a unique economic opportunity for them, as there are no real employment options available. The scale of illegal poaching is difficult to assess, but was reported as being problematic amongst certain actors interviewed.

There is very little spontaneous co-operation among the inhabitants – except direct, personal relations, based on family and neighbourhood ties. Parochial life grows in the areas close to religion but hardly precipitates to the secular ones.

Although the case study reveals community conflict, there is evidence of community co-operation in the region, albeit limited. The initiative of the "Drawno Picnic" is organised by the Drawno municipality in the summer annually. It attracts thousands of tourists. Although the main organizer is the local government other stakeholders co-operate. There was an unsuccessful attempt to organize an association (based on partnership) for a EU sponsored INTERREG project.

Methods and data

The research is based on the case study methodology. The case was chosen to evaluate network governance in a situation where there was need for development, where assets were restricted, and where they have the common goods characteristics – hence the selection of the National Park.

Data was collected between March and August 2005. Thirty in-depth interviews were recorded. Interviewers prepared reports on the interviews, containing the contexts of the interviews, the reliability of the interviewees, and additional information on the area.

Several representatives of the seven actors (categories) were interviewed. The reports based on personal observation were also prepared. Leaflets, brochures, newspapers, and similar materials concerning the area were collected. Reports published by the local governments (on tourism and investments), and statistical data were collected and use to confront the oral information.

Results

Due to economic decline, development impulses are crucial for the Drawa region. The Drawiński National Park with its natural resources is the main asset of the region.

Actors in the Drawa region are stakeholders contributing to the production of development of the area. Particular actors can produce wealth separately within their scope of interest. However, the local development requires co-ordination and can be regarded as a common “product” of stakeholders. The tourism is a knowledge-based industry involving both co-operation (virtual and horizontal integration) and competition. Network governance helps in the production, offering higher flexibility, and synergies which result in better performance of the whole region, decreasing transaction costs. In this respect, both alternative modes of governance – based on market and on the hierarchy, offer solutions which are more costly.

The question is, however, how far network governance is feasible in this case. The theoretical framework suggests, that there can be obstacles in the establishment of a network mode of governance. It can be assumed, taking into account the low level of trust in the region, the weaknesses of formal institutions and the weakness of measures for regional development, that network governance is difficult to establish and sustain.

Conditions for network governance in the Drawa region

Taking conditions creating demand for network governance indicated by Jones, Hesterly and Borgatti (1997), the questions arise whether the Drawa region is a place where network governance can appear. The first condition relates to uncertainty, and actors are in an environment of uncertainty. For example, in the communist era, full employment was to be kept, and for a long time the industrial type of development was promoted. This provided security in employment and economic life for many. After 1989, new conditions and new ways of development appeared, such as the idea of sustainable development. EU and national sources of local and regional development funds impose certain requirements and restrictions. Thus from the municipality's perspective, they are operating and taking decisions in an unpredictable and changing environment. Despite the regime change from former times, requirements are still externally driven, by outsiders' logic. The interviews show a mixed opinion about the EU and a negative attitude towards central government. (*"They constantly change the decisions, and those preparing laws are uneducated. There are so many mistakes in the laws that it is impossible to trust them. They prepare regulations for their interests, so when they leave the office they can take benefits. I do not trust them at all."* – a worker in the tourist information office. *"Many people are disadvantaged. Unemployment is a result of government's stupidity. There are strong social tensions, some people get benefits while others are deprived."* - a member of the Park's supervisory board).

The second condition concerns specificity of assets. Due to physical location, local development is always specifically located, produced for predefined customers (the local communities), and cannot be sold elsewhere. Thus, taking into account the specificity of assets, the national park fits the conditions conducive to network governance.

The third condition involves frequent exchanges among actors in the network. In the Drawa region, there was little evidence of frequent contact between stakeholders. The interviews revealed a lack of a forum for stakeholders interaction. It is exacerbated by the mutual distrust among stakeholders. The theory and research suggest that civic life based on non-governmental organizations could play a role of a "meeting place" for variety of stakeholders. Civic life in the region is weak, however. An example of a successful NGO is the Association of Unemployed, carrying a well-equipped internet café funded by the Ministry of Labour. It plays a role as a centre for youth and for other people – the main intention aiding job search. The association disseminates information about meetings and job opportunities. This NGO is quite active, however it is a young initiative and does not provide a platform of exchange for stakeholders in this case

study. Moreover, due to scarcity of resources, generally NGOs are in a competitive position, which makes building civic life as a side effect of their actions difficult.

To summarize, treating local development as a product of local actors, the characteristics of the context suggest that network governance could be a feasible way for the region. Additional factor strengthening the demand for the network governance is the fact that the National Park is a main asset and tourism offers a momentum for development. In order to avoid the “tragedy of the commons” effect, co-ordination is necessary. At the same time tourist business unavoidably is based on competition. Thus, the network governance seems to be a mode of governance which could aid sustainable development. However, frequent contact and exchanges among stakeholders is missing, which seems to be an obstacle for establishing the network governance.

Does network governance exist in the Drawa region?

Despite displaying favourable conditions for the emergence of network governance in the Drawa region, it hardly exists. Co-operation between the actors is not structured and not stable. There are isolated instances where co-operation appears, as mentioned preparing the Nature Protection Plan for the Park, organizing the summer feast and organizing a fish shop, but such cooperation is not consolidated. They do not contribute to the establishment of a governance system. Interviews show that when co-operation happens it is based on direct economic interests (*“When tourists call and my places are occupied, I inform about others”* – owner of a tourist company). Collective sanctions are also not developed. Even in subgroups, like tourist entrepreneurs, co-operation is on a very basic level combined with reservations (*“I wouldn’t say we love each other but we tolerate each other”* – owner of a tourist company). A reputation system is hardly developed, neither is co-ordination through values. At the same time tourist entrepreneurs noted that not keeping standards by some tourist sites destroys the image of the whole tourist industry in the region.

The role of the institutional framework –formal and informal

In the Drawa region conditions favourable for network governance exist, but it has not appeared. The explanation for this anomaly can be sought in the institutional framework, which helps understand the establishment of norms of co-operation, or lack thereof.

The institutional framework shapes affects governance by providing the legal background. Firstly, property right are of crucial importance. Williamson (1991) suggests that uncertainty on property rights, caused for example by the possibility of expropriation without just compensation, causes myopia in business plans. The situation in Drawa region supports this view – tourist entrepreneurs do not invest in a long perspective because of weak financial resources and uncertainties about future. Also for local governments, the institutional framework creates uncertainties. Since 1990, when the local governments were re-established, major changes affecting administration were experienced: establishment of counties; new regions (with border changes); and EU accession. These substantial changes happened within only 15 years, not allowing the local authorities to adapt.

Secondly, the legal system in Poland is not efficient relative to other countries. In research prepared by the World Bank on conditions for business, Poland is ranked 105 out of 156 countries, concerning contracts enforcement (World Bank, 2006). Also, earlier research showed that the legal system does not offer a feeling of ‘security’ to citizens (Drozdowski & Pawlowska 1995)

At the same time there are norms at the institutional level which enhance co-operation. The law on the access to public information is strengthening the position of NGOs and inhabitants. Public administration is becoming more transparent, with a mandate to provide information on its operations. The integration of EU institutions, and specifically the EU’s rural development policy with its focus on partnership building (evidenced in the transition period with the PHARE programme) requires cooperation. In specific relation to the Drawienski park, the legal requirements of the Nature Protection Plan, enforces co-operation among stakeholders. Despite these developments, to date the institutional framework does not provide stability, for co-operation.

Informal rules are a prerequisite for the network governance. Ideally, informal agreements prevail, with formal law playing a supportive role. Contracts based on such informal agreements decrease transaction costs.

When informal norms and formal rules are inconsistent, informal norms can evolve into opposition norms. In Poland and other post-communist countries, the legacy of the former system in the form of the second society and the second economy still exists. The second economy, described by Kornai (1986) and Marody (1991) was individualistic and based on personal, informal ties. This approach has survived. Some parts of the economic life in tourist sector belong to the “grey”, out-of books economy. There is also a deep distrust towards public bodies, especially towards central government. It is a legacy of communist times. The informal norms do not directly undermine co-operation among stakeholders, but weakness of co-operation can be treated as a side-effect of informal norms, and

contribute to difficulties in establishing network governance. Public activities are treated with trepidation.

Instigating collective action

Collective action in the context of development rarely appears in the region. Preparation of the Nature Protection Plan shows the mandatory co-operation, since the plan is legally required and involves the participation of stakeholders. However the case revealed unresolved conflict in its preparation.

Among tourist entrepreneurs, there is little co-operation. It appears it is based on personal and family relations. Associations of agrotourist farms do not enhance co-operation. Farmers choose membership in order not to be excluded from the information network but collective actions are not generated there.

The Park directorate and local self-government were the most optimistic about the possibility of collective action in the community, while farmers and environmental NGO were the most sceptical. For farmers it was caused by their marginalization in economic and public life, while in the case of environmental NGO the reason of the pessimism seems to be rooted in their lack of connectivity to others in the area. It is not a grass root organization but an issue (nature protection) oriented, professional one.

The role of social capital

Social capital is crucial for establishing network governance, since it helps to establish co-operation within non market (or semi market) conditions. However, network governance stems from a particular social capital. Firstly, social capital has to be strong enough to allow initiation of governance relations among stakeholders. In this respect societies with weak, anomic relations are not able to set up network governance. Secondly, the capital must be of a bridging type, enhancing co-operation between actors, and enlarging social networks. Thirdly, the capital cannot be too strong, since it could block information exchange and could lead to clique formation.

In this respect the social capital observed in the Drawa region was not promising. Social relations in the Drawa region are based on personal ties. Personal type of social capital can be a source of underdevelopment, as North (1990) argues. Personal connections tend to close the information exchange, which in turn blocks innovative practices. At the same time, Bowles and Gintis (2002) argue that personal ties are crucial for a vital community. Social capital based on personal ties

is necessary for establishing the network governance. In the region, in terms of communication face to face contacts are of primary importance as an information source. Personal contacts are treated as the most efficient in dealing with public issues. Moreover, in Drawa region a weak type of social capital can be found. Voluntary organizations do not play an important role, and they have been present for only some years. Institutions are not treated as reliable. Personal relations are relied upon over formal rules. Relationships in the case study between stakeholders are strongly personalised, as evidenced with the Park directorate and tourist entrepreneurs. Individual's behaviour is attributed to personal traits - not to the rule of norms.

The type of social capital which can be observed in the region creates obstacles to network governance development. Also trust in institutions is problematic. Among the actors influencing local development, local stakeholders trust the least national officials and the EU, while the most trusted are scientists and owners of agrotourist farms. At the same time, involvement of governmental agencies is considered as the most important factor of community development. Thus the actor considered the most important is the most distrusted.

Conclusions

The Drawa region is in economic decline. Its main asset is the National Park. Thus the development has to be organised around tourism. Since the National Park is a common good, institutions are necessary to avoid overexploitation while leading to development.

There is a need for network governance in the area. Co-operation of stakeholders can bring value added results and lower the transactions costs. Nevertheless, network governance is not present in the region.

What can be observed in the Drawa region is the individualistic strategy of the stakeholders: there is little co-operation among tourist entrepreneurs, weak co-operation between local government and the tourist industry, reservation between the National Park management, local government, and tourist industry. The institutional framework does not offer stable norms. Uncertainties about property rights, the transformation of the economic, and political system started in 1990 which brought the radical change of the rules, resulted with individualistic, risk avoiding strategies of inhabitants and stakeholders.

Network governance requires voluntary co-operation among stakeholders based on trust. Low level of trust and embeddedness of trust in personal relations create obstacles to co-operation for the development. Since the level and the type of trust does not allow relying on network governance, the market and hierarchies

prevail instead. Taking the National Park as the regional asset, it needs institutions restricting overuse of the resource. Relying entirely on the hierarchical (legal and administrative) measures of nature protection is expensive and not effective in terms of searching for innovative actions combining protection and development. Market solutions would cause overuse of the resources in the Park. This in fact can be observed: the amount of kayak tours reach the level of overcrowded.

Network governance cannot be established unilaterally or by hierarchy but it requires co-operation. Network governance can be established when several conditions are kept and these conditions are fragile. The level of trust has to be high enough to enhance successful co-operation, but not too high, in order not to produce clique-type, closed groups. The trust has to be depersonalised but cannot be completely formal at the same time. The appropriate mix is not possible to define by an outsider. It is always local context driven and locally established.

Taking into account the initial conditions and the rational strategies of the main actors – the co-operation for the development, intended as a win-win strategy is not easy. Network governance, bringing such co-operation cannot be imposed from outside. It is a result of internal learning process. The problem is that the stakeholders are used to external help, they perceive governmental institutions as a main factor stimulating development. At the same time these institutions are not trusted. What can be observed in the case is a kind of developmental trap: internal resources are too weak to establish network governance, while outside help is not trusted. One can predict that EU funds which started to be available will be used. It can be hypothesised however, that they will rather strengthen hierarchical governance, and weaken the chance for self-established network governance.

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Shifting Governance in Slovensky Raj National Park.

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Abstract

This paper explores the role of social capital and governance in rural development within Slovensky Raj National Park. Based on the theory of common pool resources and network governance, the case study explores the external and internal influences on cooperation. Current decision making in the Park is still affected by post socialist relations. In particular inefficient institutional design and non-robust governance of the resources have resulted in over-exploitation of natural resources and treating common property as open-access. Evidence emerged of domination of interpersonal trust and failure of institutional design. These were found as barriers for the National Park to be viewed by various actors as an asset. Concurrently, municipal and tourism networks reveal that cooperation is gradually moving from being externally to internally driven, while displaying characteristics of bottom-up development. A hierarchical governance structure is thus slowly opening up, shifting towards networks.

Keywords: Network governance, common pool resource management

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Introduction

Generally, it is accepted that totalitarian regimes destroy social capital (Paldam & Svenson, 2000; Putnam, 1993) and that low social capital leads to a number of dysfunctions. It was also proven (Putnam, 1993) that there is a correlation between the duration of a dictatorship and deformation of trust and cooperation. Within democratic countries of Europe, low social capital has been identified as one of the major reasons for the inefficient local governance (Banfield 1958; Putnam 1993). In contrast with western European countries, the regulatory processes of former command and control economies of central and eastern European countries (CEECs) can be characterised by closed, unidirectional decision-making with the domination of elites lowering trust to formal institutions. Transition to a market economy cannot be understood as a free evolution, since both democratisation from 1989 and EU integration in 2004 were driven externally, resulting in the transposition of formal norms and rules without either sufficient change in the institutional environment or the evolution of social capital to build internal norms. Evidence of growing participation and cooperation in transition countries of the CEE has been reported by several authors in this issue. Against this backdrop, the situation of governance in the Slovakian Slovensky Raj National Park (SRNAP), is addressed in this paper.

Democratisation since 1989 and EU integration since 2004 form the key drivers in our study. Under investigation are the property rights regimes, in particular the failure of the State in managing natural resources, in de facto open access regimes. Determinants studied within EU integration are the effects of EU membership on the rural context, in particular trust building and emerging institutional innovations such as multilevel governance. Such drivers are considered as key factors of bottom-up development, with effects on cooperation. The general objective of this research is to analyse processes of cooperation in rural development and multi-actor interactions in the Slovensky Raj National Park (SRNAP). In particular the role of multiple drivers in institutional change and how they interact within a multilevel governance of SRNAP is analysed in a case study form. This paper tests the hypothesis that regardless of whether cooperation was initiated by external drivers, it gradually moves towards being internally driven. This allows the establishment of a robust governance structure for common pool resource management. Diverse methods for data collection were adopted. These methods were semi-structured interviews which were conducted in the period of May-July 2005. In total 28 actors were approached and 26 interviews completed. The average length of interview varied from 30 to 90 minutes. Secondary data sources were also employed and interview records of primary data gathered for

another case study on tourism activities within SRNAP were consulted. Data collected were analysed in qualitative way.

The next section describes the evolution of governance in the Slovak Republic. Following this, the theoretical framework is elaborated. This is novel as it integrates two interlinked trajectories: the role of trust and learning in cooperative processes; and how social mechanisms can influence multilevel governance and effective management of common pool resources. The empirical section examines barriers for network governance, and introduces a taxonomy of actors in the SRNAP, defined by markets, hierarchies and networks. Processes undertaken to increase trust and community cooperation, improvement of management and governance are demonstrated.

Governance in the Slovak Republic

Despite commonalities found in former communist states, the situation in the Slovak Republic may be unique. Firstly, the Slovak Republic, historically a part of a larger political unit (Austro-Hungarian empire 1300-1918, Czechoslovak Republic 1918-1993), was generally under-represented at both the policy and decision-making levels, and as such was very seldom governed by its own representatives². Thus, in comparison with neighbouring countries (Sauer 2005, Jílková 2003, Romancikova 2004) that built their national or regional governance structures themselves, there is an evident lack of skills in such institutions in Slovakia. Secondly, Slovak society is largely based on rather closed rural Roman-Catholic communities, with anti-reformist behaviour. The above-mentioned factors, add to the overall status of social capital in Slovakia. Furthermore, informal cooperation is also hindered by “grey/black” networks.

Prior to EU membership, most decisions were taken at the level of district administration. Harmonisation with the EU legislation introduced a shift of competencies from administration at former district offices to municipalities and the newly established elected regional governments, meaning more power to the regional and local level. In the area of environmental protection, the Ministry of the Environment serves as a central body at the national level, coordinating most responsibilities in nature conservation under the State Nature Conservation agency. The system of nature conservation territories was established in 1948, the main stress being on conservation. Because of the absence of a market economy, outdoor recreation was limited by the State, who controlled visitors. Today national parks

2 Prior to 1945, most public representatives including teachers, attorneys or public servants were from Hungary (up to 1918) or the Czech Republic (1918-1939).

in the Slovak Republic are greatly increasing their tourist numbers, creating pressures for investment, and thus parks are also being viewed from competing interests. The existing governance structure in nature conservation has not adequately adapted yet. The Park Administration acts as the first contact point in rural development processes, but paradoxically, it has only an advisory position to the 'hierarchy', who formally makes decisions (State Nature Conservation agency and regional administrative units). This results in various institutional weaknesses such as failure to adopt proper zoning of the parks, or compensation for removal of opportunities for non-state owners within protected areas. To make matters worse, an effect of transformation is that several cases of institutional miss-interplay can be recorded, especially those falling under the responsibility of the Ministry of Agriculture³. Failure of the State to manage natural resources in an effective manner resulted in a de facto open access resource regime (Ostrom, 1990). It is too early to analyse the effect of decentralisation of environmental governance as the process was initiated only in 2002, and is still not fully effective.

The Concept of Social Capital and Governance

Social capital can be characterised according to the variety of different views or dimensions that have originated in the interdisciplinary character of this concept. This study endorses a rational choice theory approach, while also acknowledging the importance of social and political engagement or network approach. The rational choice theory sees social capital as a set of informal norms that promotes cooperation to make effective market transactions (Fukuyama, 2000). Using political or social engagement theory, social capital is viewed as the social ties or communities of association. According to Putnam (1995) social capital is represented by features of social life, norms and trust that enable actors to cooperate. Ostrom and Ahn (2003) define social capital as rules used by those governing, managing, and using the system and those factors that reduce the transaction costs associated with the monitoring and enforcement of these rules. Despite variations in the origin and differing definitions of social capital, the concept has common characteristics based on the formation of social networks. We see this as crucial for understanding the transformation of social capital in transition countries of CEE. An approach based on community bottom-up

3 For example, the Act on Nature Conservation declares the protection of nature as a fundamental priority within protected areas; however, the Act on Forests allows timber production within areas of nature conservation, even providing subsidies for activities in areas with extreme climatic conditions.

cooperation linked to social capital is seen as important for later stages of policy reform, in particular for countries in transition from directive to democratic regimes (Valentinov, 2004). The concept as adopted in our study is based on a network definition of social capital and endorses the notion of social capital as the nature of relationships between people and the social networks that they form (Murray, 2005). Trust as a major determinant of social capital is framed within the context of interpersonal trust (informal governance), which is developed through learning processes into the institutional trust (formal governance).

This paper argues that through the process of repeated interaction and learning, individuals are willing to cooperate (Brehm and Rahn 1997). Here the learning process can be understood as long-lasting change of behaviour that is founded on change in knowledge. Within the process of learning, past experiences in the situation of cooperation can affect subsequent behaviour and attitudes toward cooperating (Murray, 2005). In the context of the emerging multilevel governance structure, governance is shifting to new ways of conceptualization where the citizen is playing an active role (Goodwin, 1998) and boundaries between and within public and private sectors have become blurred (Stoker, 1998). New European official policy statements now emphasize the role of partnerships and networks beyond the formal structure of governance (notably in the Cork Declaration 1996, and more recently in the Rural Development Regulation 2007-2013) characterized by informal social systems rather than by bureaucratic structures. Such a concept of governance has gained widespread attention across many scholars (Williamson, 1979, 1991; Stoker, 1998; Jones *et al* 1997; Goodwin, 1998; Gulati, 1998) and is known as network governance. The concept implies that governance is a complex and multilevel institution, partially usurping competences from the central State (Jessop, 1995) and relying on networks of interconnected actors such as private, public or non profit rather than a hierarchy dominated and defined by the State (Stoker, 1998). This shift has the potential of increasing the role of actors from outside the formal decision making boundaries and therefore greater participation in the governance process. Our approach integrates a general theory of network governance (Jones *et al.* 1997) and the new concepts from common-pool resource theory (Ostrom, 1990 and 2004).

It asserts that this type of governance, by using different social mechanisms other than authority, bureaucratic rules, standardization, or legal resources enhance cooperative behaviour and at the same time enable local actors to organise collective arrangements that will promote their locality (Goodwin, 1998). Jones *et al.* (1997) defined these alternative social mechanisms as the: restriction of access,

collective sanctioning, macroculture⁴ (norms, routines, conventions) and reputation. Restricted access limits the number of actors, macroculture reduces transaction costs of communication and coordination among actors, reputation provides information about participants' actions and credibility, and collective sanctions discourage participants from yielding to incentives for short-term opportunistic behaviour. The above social mechanisms within network governance dovetails with Putman's (1993) approach to conditions that favour cooperation (the number of actors are limited, information about each person's past behaviour is available, as well as graduated sanctions against violators) as well as Ostrom's (2004) analysis of the attributes of communities, that affect cooperative behaviour of actors. Moran and Ostrom (2005) identify the values of behaviour generally accepted in the community norms, the level of common understanding that participants share about the structure of the action situation, size of the community and distribution of resources among those affected. The ways in which small-scale communities negotiate access to resources by setting up self-organized systems of participation and control are seen as more effective than government imposed regulations (Ostrom, 1990). Thus in our understanding the social mechanisms derived from the theory of network governance reflect Ostrom's theory of long term robust institutions for governing the common pool resources (Ostrom 1990) defined by a set of general principles⁵ that increase performance of institutional design and robust governance of the resources and at the same time safeguard sustainable use of common-pool resources. The principles together help to solve core problems associated with free riding and subtractability of use. Governance of the resources (Williamson 1979, 1991; Ostrom 1999; Vatn 2005) may lead to an open access regime which may have tragic consequences in the overuse or unregulated management of natural resources and biodiversity values. In the lack of appropriate institutional design, network governance can be seen as dynamic process of organizing transactions, by explaining the influence of social processes over the costs of transaction exchange.

Thus in our empirical study we develop a framework for understanding the interplay of those social mechanisms and design principles - especially

- 4 Macroculture is a system of widely shared assumption and values comprising knowledge that guide actions and create typical behaviour patterns among independent entities and is shared by all participants not only top managers. In general, macroculture are enhanced by close geographic proximity, because of the increased likelihood and ease of interaction (Jones, et al 1997).
- 5 There are the following: clearly defined boundaries, proportional equivalence between benefits and cost, collective-choice arrangements, monitoring, gradual sanctions, conflict resolution mechanisms, minimal recognition of right to organize and nested enterprise.

macroculture, reputation and conflict resolution - that can affect durable networks, and increase cooperation between rural actors while at the same time preventing tragedy of the open access.

Presentation of the Region and Problem Situation

The Slovenský Raj ('Slovak Paradise') national park SRNAP – with an area of 19,760 ha was established as a protected area by law in 1964, and in 1988 its status was changed to that of 'national park'. The most valuable natural aspect of the park is the relief that comprises of deep canyons, waterfalls, and small rivers, thus making it scenic and of value for tourism. The economic situation in the SNRAP region is considered disadvantaged. The regional disparities are due to poor infrastructure, geographical barriers and an under utilisation of human resources, leading to recent expansion of tourism. This is especially the case in areas with high biodiversity, which have the potential of income generation for the local population. Slovenský Raj is the only park in the country aiming to join European network of protected areas 'Pan Parks'⁶. Two major problem areas related to rural development and nature conservation can be identified in SRNAP, namely property rights and conflicting user interests; inefficient governance structure leading into the lack of cooperation .

Property Rights and User Interests

Property rights and regimes represent the fundamental barrier to nature conservation in the Slovak Republic. As documented in all former communist CEECs, State property was promoted against private and common property. The government failed to manage the Park in an effective manner (design and implementation of effective rules limiting access and defining rights and duties) and created *de jure* State property but *de facto* open access (Ostrom, 1990), with all the inherent effects such as free-riding and overexploitation. The privatisation of land in the 1990s, oriented more toward moral and political targets rather than effectiveness, resulted in an increase of land fragmentation and market failure which has been called the 'tragedy of the privates' (Hann, 2000). The present ownership structure in the Slovak national parks is diverse, with almost 50% held

6 The mission of the Pan Parks project, initiated by WWF International, is to promote synergy between nature conservation and local development through sustainable tourism in protected areas. See www.panpark.org

in either private or community hands. An absence of appropriate incentives to encourage sustainable behaviour of non-State owners⁷ and an absence of robust governance of the resources has resulted in the expansion of unsustainable economic activities, namely intensive tourism and timber extraction. The key question today revolves around who will control the local assets, either generating decent revenues in the long term (if managed in a sustainable way) or much greater short-term benefits based on natural resource exploitation.

Governance Structure

The park territory is held under the competence of numerous mainly hierarchical authorities and divided between more administrative units. Such multiple decision-making structures without proper governance rules have a significant effect on the coordination of responsibilities, resulting in various conflicting responses to forest fires, resource overuse, illegal activities in the park or the ignoring of several legal provisions. For example, the general territorial competences presiding over the park are shared by 15 municipalities and two regional governments; specific competences are held by several State organisations, such as the water management, fire and forest authorities. The Nature Conservation Administration lacks any legal power but is responsible for preserving biodiversity, and thus is heavily limited in carrying out its responsibilities. As a result, unique park territories have been seriously affected by fire and/or by uncontrolled numbers of visitors. The existing governance structure seriously affected cooperation in rural development. Innovative policy incentives (financial or institutional) have not been sufficient to motivate cooperation. An illustrative example is the difficulties in implementing the Pan Parks certification, in particular, a ‘Sustainable Tourism Development Strategy’ that requires multi-level actor’s cooperation.

Presentation and Clustering of Actors

The selection of actors for our analyses was based on previous experience and knowledge from SRNAP and on the impact/importance approach. With the latter

7 The Act on Nature Conservation, adopted in 1995, introduced compensation for the removal of opportunities for the loss of potential income generation by private and municipal owners. The governmental order to administrate such a right came into force at the end of 2001 and the application process is very complex, not transparent and is lacking State support. By the end of 2002 only two owners were able to get compensation but none of them from SRNAP.

approach, 'importance' is gauged by the actors' role in the community, for example how powerful actors are in influencing action situations in the community. 'Impact' is determined by the effect of action situation on actors or how strongly they are influenced by a particular action situation. Using the concept of network governance described above, actors were clustered according to types of governance (Williamson, 1991), into the following three groupings of: the 'hierarchies'; the 'market' and the 'networks' (Figure 1). Cooperation between the groups, the interaction of formal and informal institutions and the role of trust in the adaptation process for multilevel governance formed the major attributes of clustering.

Hierarchies

The 'hierarchical' cluster is composed of organisations with formal responsibilities in a specific field of expertise. Their cooperation relates to their exercise of these responsibilities by means of formalised institutions. None of them are economically active in the regions. The cluster comprises of the State agriculture authority, forest authority, the park administration and the regional government.

The State agriculture authority (the Chamber of Agriculture) coordinates, informs and supports the implementation of State agricultural policies. Agrotourism is seen as an economic opportunity for underdeveloped regions. Due to the cross-over of responsibilities with the Ministry of the Environment and several controversial provisions in the legal setting⁸ the State agriculture authority and forestry authority have an antagonistic relationship with the park administration. Relationships with other actors are regarded as rather neutral.

The regional government, enforced in 2001 by EU regional policy, received major responsibilities in regional development, environmental protection as well as social policies. This body is rather new in the regional executive, therefore analysis of the impacts of its activities in the region is not yet possible. The administration of the Slovenský Raj National Park, with its limited competences in nature conservation, serves as the State expert body for the management of protected areas and holds a very delicate position in this grouping. Due to this position, the park administration suffers from a relatively poor reputation in the region, perceived as presenting a barrier to economic development. However, its initiative to certify the park under the Pan Parks scheme is unique and goes beyond both its formal responsibilities and standard practice in other Slovak national parks. It is possible to state that the park administration on one side acts as hierarchical actor fulfilling legal obligations given by State, on the other side, elements of network

8 Conflicting categorisation of the forest resulting in adverse subsidies for timber within nature protected forestland.

approach can be identified. Such an initiative is based on interpersonal trust to key representatives.

Market

The 'market cluster' consists of non-state agricultural and forest land owners, with different, often competing economic interests within the park territory and its buffer zone. A common characteristic of the cluster is their exclusion from the decision making process. The Nature Conservation Act (1995) restricted their private property and user rights, and the State failed to compensate them for the restriction of income generation potential. Thus willingness for cooperation outside the group is largely affected by these factors.

The grouping of farmers is relatively diverse with respect to orientation and type of activity, but the farmers tend to be rather passive in terms of cooperation outside of their grouping. More dynamics are associated with those farmers intending to adopt rural innovations, for example rural tourism, as they began to form rural-tourism associations, of which some of them are founder members. They also declared an interest to cooperate with the tourism network. Another type of landowner belonging to the market cluster is forest owners (state forestry, city forestry, cooperatives and individual owners). They have economic interests mostly in the forest industry. In summary, the market cluster is characterised by competing, mostly economic interests and formalised cooperative rules applied exclusively within each group.

Networks

The final cluster is that of the 'networks', which are voluntary groupings of individual or collective actors with rural interests, whose actions are based mainly on informal rules, in contrast with bureaucratic structures within firms (market) and formal contractual relationship (Jones *et al* 1997). Open-ended contracts within 'networks' are not derived from authority structures or from legal contracts. However, some members may establish formal contracts, but these do not define the relationship among all of the members (Jones *et al*, 1997). Their voluntary character and rural interests determine their relative dynamic activities in the region. The process of institutionalisation of some informal rules into their operation, such as access to information, mechanisms of conflict resolution and costs sharing, is specific to this grouping. Two actual networks represent this cluster: the tourism network and the self-government municipal network.

The self-government municipal network is based on municipal activities, has voluntary membership and was formed through a bottom-up process. The Group consists of two actors Microregion Slovenský Raj ('Microregion') and the Association of Municipalities of SRNAP ('the Association'). These two actors

integrate municipalities located around the park boundary, three of these located directly within the territory of the park itself. The original motivation for their formation was due to concern over the execution of the new competence of several municipalities. This was given to them in the early stage of decentralisation, and now they have exclusive competencies in the maintenance of technical equipment (wooden and iron ladders and steps) owned by municipalities. Thus they control access to the park. 'The Association' was established in 1992, using existing experience and heritage of the former regime's tourism agency. Due to this, cooperation was mostly restricted to the original competence, which was the maintenance and upkeep of pathways in the park; funding for this activity was controlled by the most powerful member municipality. Based on dissatisfaction of several members, 'Microregion' was established in 2003 as an entirely new structure with new rules of operation derived from partnerships and experience obtained during the transition process (1989-2003). In contrast with 'the Association', its aims were to support the joining of PAN Parks, support nature conservation in SRNAP, diversify cultural activities, support traditional crafts and cooperate in the provision of tourism services. These groups represents the first informal partnerships and cooperative processes in the region.

The tourism network is based on a specialised interest. The grouping is composed of different kinds of actors with mixed interests and activities connected to tourism. There are formal agencies, operating on formal- post socialistic rules. Two associations of tourist entrepreneurs are new organisation, based on voluntary paid membership of independent entrepreneurs offering various tourism services. The main benefit of being a member of that kind of association is reducing transaction costs for promoting individual tourism.

Shifting governance in SRNAP

In general, trust between actors was observed on an individual level, based on interpersonal attitudes and relations between individuals. There were low levels of trust expressed in formalised networks, evidence of this came from the low levels of membership. There are still a considerable number of actors who display opportunism and behave as free-riders (not being a member). Membership in regional or local non-hierarchical groupings was perceived in positive terms as representing a benefit for members' activities. They especially appreciated the possibilities for cooperation, the realisation of common projects and information dissemination. Only two representatives, both from municipalities, declared an eventual loss (or costs) of membership in the case of non-realised projects; as well

as this, the subscription fee was assessed as a loss in the case of formal membership.

The study concluded that the more local the governance, the higher the trust; or that interpersonal trust prevails in the SRNAP community. A reciprocal relationship between trust and cooperation was evident in our case study.

Most of the actors declared a degree of reservation in trusting the park administration, which, despite limited competences, is misperceived as the State representative for nature conservation in the park. The governance structure currently in place has resulted in the inefficient use of resources and the treatment of common property as though it were open-access. Thus it is possible to argue that it is the failure of the national government in creating adequate institutional support for rural development regarding nature protection.

This weakly established governance structure creates various barriers also to market development. At present, decision-making allows the development of power games, in which individual interests prevail over the public: actors often behave strategically in order to put themselves in more powerful positions with information and control over ongoing processes. In contrast, those whose positions are not strong enough can be characterised by a loss of interest, apathy or even opportunism. In-depth interviews disclosed that many actors were not able to assess the competitiveness of their activities on the market, and that the role of active marketing was generally underestimated. Thus the national park is not understood as a product of regional economy but rather as an economic barrier to the execution of private or common property rights and rural policies.

Based on our findings, it is possible to say that the absence of appropriate formal institutions to govern common pool resources hinder cooperation and market development in the region. Low trust in certain formal institutions (hierarchies) allows for the emergence of new ways of governance in which State and market can be integrated to provide effective coordination, new structures, more efficient and more effective blend of governmental and nongovernmental forces (Goodwin, 1998).

The initiative of SRNAP to introduce the Pan Parks scheme serves as a good example, offering sufficient economic incentive and marketing instruments to support the local economy via biodiversity values in the park and thus promoting synergy between nature conservation and local development through sustainable tourism. Moreover the Pan Park scheme promotes cooperation within the park community. It joins the activities of park administration and the tourism association while the park administration membership (as an observer) in the municipalities' network, shifts the park administration towards a network governance structure. Such kinds of associations allow actors to interact with one another more frequently and to use open-ended contracts. This enables social

mechanisms such as macro-culture (common values and norms shared across actors), reputation and conflict resolution to improve coordination and thus better cooperation in multi-actors situation such as SRNAP community.

The presence of macroculture in geographically concentrated areas enhances the likelihood of network governance emerging and thriving (Goodwin, 1998). This was also proven in our case study where actors declared that due to geographic distance and thus different common set of values of the communities, cooperation and establishment of one common tourism network within the territory of the park is not possible. As a consequence three different tourism networks have emerged in the territory of the national park.

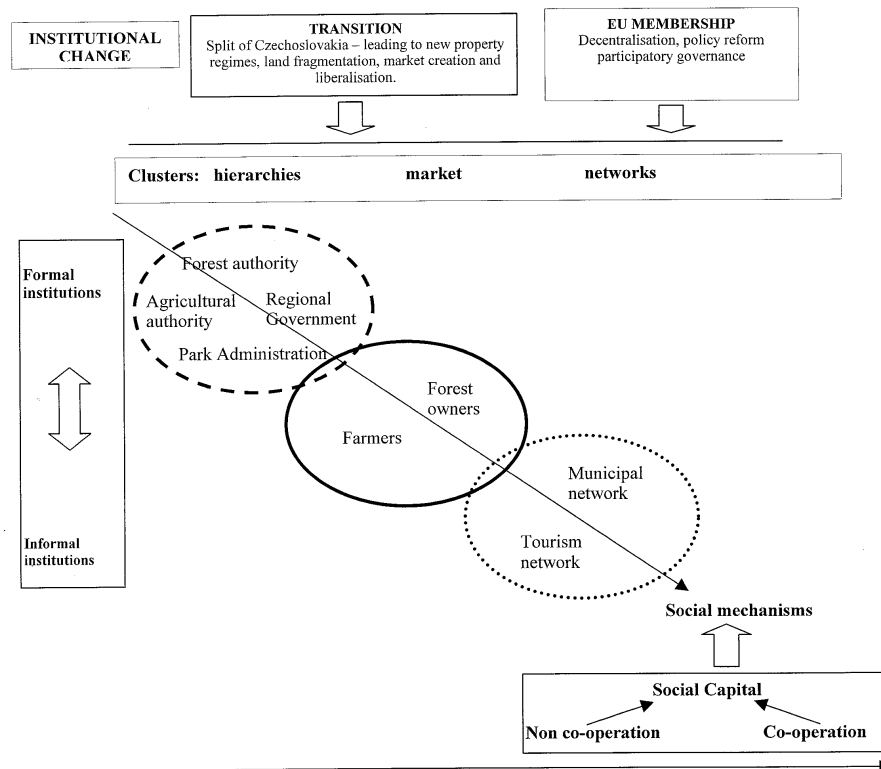
Reputation together with previous experience in cooperation and interpersonal trust emerged as the two key factors essential for actors' cooperation. One of the examples is the association of tourism entrepreneurs, which exists for almost 15 years. Trust and reputation developed within this association, increased the willingness for collective problem-solving and thus increased the potential for cooperation (to attract more guests to their guesthouses, they support infrastructure construction and improvement of tourism services within the region). Another example is the establishment of 'microregion' as a consequence of negative experience in 'the association'. Now 'microregion' is concentrated on coordination of different tourism activities, publishing of advertising tourism brochures and utilising EU funds.

Social mechanisms for cooperation have not been fully developed yet. Thus we may conclude that cooperation within hierarchies and imperfect markets is not understood as a vital part of governance, nor as a mechanism to reduce transaction costs. Such evidence was exhibited in our analyses where questions related to the costs of meetings and extra costs borne in building cooperation such as time and effort. These were not taken into account or were underestimated by almost all actors.

To sum up, trust based on interpersonal relations dominate this case study. This is not trust of the organisation as a whole; it is trust of known representatives. The State plays a central role in the issue of trust, although in this case, it is only perceived in a negative sense due to inefficiency in the prevailing governance. However, behaviour of newly established actors shows openness to discussion and formalisation of modern institutional components into their rules of operation. The hierarchical post-socialistic system, with a limited exchange of information, is slowly opening and allowing the emergence of network forms of governance. The use of social mechanisms enhances co-operative processes amongst particular actors as manifested also in Figure 1. The most visible evidence of this can be observed within networks, where the character and intensity of cooperation is rapidly growing. Further dynamics of this grouping may generate additional

expansion and increase the potential of the community to facilitate self-organisation and shift to multilevel governance.

Figure 1: Shifting governance in SRNAP



Conclusion

The governance structure in place is still traumatised by post socialist relations, particularly inefficient institutional design and non-robust governance of the resources. It has resulted in inefficient use of resources and treating common property as open-access. Trust observed in our case study was relatively high, but dominated by interpersonal relations. This is not trust in an organisation as a whole; it is trust of known representatives. Thus the level of general trust in

formalised rules lags behind interpersonal trust. The State plays a central role in the issue of trust, in particular failing to ensure a robust governance structure for common pool resources in protected areas under the multilevel actors situation and market economy. This was found as a barrier for market development and prevented the national park being viewed as an asset. Instead it was seen as an economic barrier to the execution of private or common property rights. Therefore we summarise, that there is a reciprocal relationship between civic participation and interpersonal trust, but no evidence of causal relationships relating to confidence in the government, which is a crucial component of social capital. Revealed low trust in formal institutions determines the establishment of complex, and multilevel networks of interconnected actors, rather than hierarchical governance defined by the central State. The theoretical foundation applied in our study integrated a general theory of network governance and common-pool resource theory by using different social mechanisms or design principles in order to manifest the positive effect of such structures in enhancing cooperative behaviour. The use of social mechanisms, such as macroculture, reputation and conflict resolution enhances co-operative processes and the learning process amongst particular actors. The most visible evidence of this can be observed within the networks cluster, where the character and intensity of cooperation is rapidly growing. Participatory governance is forming the new institutional setting and establishing rules of cooperation. Thus there is a shift in governance structures within the Slovensky Raj national park. Further dynamics in this grouping has the potential for community self-organisation and a shift to multilevel governance.

Cooperation is gradually moving from being externally to internally driven. The hierarchical governance structure is slowly opening up and enhancing coordination and cooperation between various actors. But radical changes in governance structures and management of the park are required in order to safeguard the high natural values of the Slovensky Raj national park as well as the expansion of a sustainable rural economy.

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Leadership and Importance of Social Capital in Cooperatives during Transition: A Case Study of Two Cooperatives

Csaba Forgács¹

Abstract

In Hungary an increasing number of agricultural cooperatives have gone bankrupt or have broken up due to a lack of competitiveness under market conditions, in the aftermath of radical reforms. Others, however, have been able to maintain or even improve on previous levels of success. Individual farmers have also established new cooperatives and are working toward deepening cooperation. The paper discusses the importance of leadership of cooperatives during transition, a topic which is not well addressed in the literature. Production cooperatives are not only economic units, but also social networks. Two successful cooperatives in the same town, one old and one new, have been compared with respect to their social capital, development and leadership. The findings show that, in the traditional agricultural cooperative, a more social oriented leadership has helped to overcome economic, social, and psychological barriers arising during transition, while, in the case of the new co-op, improving cooperation has depended mainly on the increased level of social capital after the radical reforms.

Keywords: Hungarian Cooperatives, leadership, social networks.

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Introduction

Most Central East-European countries (CEECs) had a system of large-scale farms which had to be restructured during the transition to a market system. Prior to the radical reforms in Hungary, agricultural cooperatives (co-ops) had a 48-50 % share in Gross Agricultural Output (GAO) while another 33-35 % came from household production integrated with co-ops. After the end of communism, members of co-ops had to choose whether to continue farming cooperatively or to leave the co-op and start individual farming or establishing partnership. Two major lines of cooperation, a traditional production co-op and a new marketing coop, are evaluated in this paper. The case study is based on research in literature and interviews. Field work was carried out in a traditional cooperative, Béke, and in a newly-established Purchasing and Marketing Cooperative, Hajdú Gazdák (PMCHG).

At the beginning of the 1990s, the existing co-ops from communist times continued their activities. Between seven and ten per cent of co-op members decided to leave their co-ops in the early 1990s. The average size of new individual farmers' holdings was 2-3 ha. Some of them decided to join newly-established cooperatives later on. The paper gives an insight into the motivations of private farmers as well as those of co-op members and underlines the factors motivating private farmers to join cooperatives on the one hand, and on the other, pushing members of traditional co-ops to maintain their cooperation. Besides the directors of PMCHG and of the Béke Co-op, another key person from PMCHG was also interviewed. In addition, based on a standardized questionnaire, five members of each co-op were interviewed. Relevant documents and observations were also used to complete the case study. The objective of the case study is to compare the development of a traditional and a new type of cooperative after radical reforms and to underline key factors affecting cooperation.

Radical reforms

The political changes, which took place in the early 1990s, greatly changed the political and economic environment of farming. The major pillars of the new agricultural policy were: "a) the country must have internationally competitive agriculture, b) subsidies should be reduced to a much lower level, and c) as in the EU, the family farm must be supported in becoming the prevailing structure" (Ministry of Agriculture, 1992).

Only in the case of land was there an opportunity to claim back in physical terms property owned by individuals up to 1949. Due to four laws relating to

partial restitution on assets and compensation in 1991 and 1992, an additional million landowners, with an average of between 1.7-1.8 hectares of land appeared, resulting in fragmented land ownership (Varga, 2000). This is in addition to the existing 1.5 million landowners,

Changes in the institutional framework for marketing products

Concerning institutions, the loss of the old regime's role in helping small farmers to access markets has created the following problems: a) local markets existed and accepted limited supply; but b) the earlier General Consumer and Marketing Cooperatives (GCMCs), which functioned well, mostly disappeared; c) a number of inexperienced new middlemen appeared and started business in the vertical chains; d) production co-ops no longer felt an ethical responsibility for the marketing of products from small individual farmers; e) former procurement and processing companies were no longer obliged to purchase agricultural products; f) social capital in this context was destroyed before building up of a new competitive distribution system; and g) to establish a new system starting from the bottom up needed more time and resources.

There have been several new institutions dealing with establishing a new environment for coordinating market performance under the Ministry of Agriculture and Rural Development, including: a) Office of Agricultural Market Regime, b) Center for Agricultural Intervention, later named Office of Agriculture and Rural Development c) Product Councils (PCs) established by producers, processors, traders and consumers of selected products or groups of products, d) Producers' Organizations (POs).

In addition, some other institutions have also represented the interests of agricultural producers, for example the Agricultural Chamber, the National Federation of Agricultural Producers and Co-operators (NFAPC), and the National Federation of Farmers (NFF).

Transformation of production co-operatives

In 1992, a law was passed detailing how cooperatives could be transformed to meet new requirements and allowing members to leave their cooperative if they wanted. In transformed co-ops three major groups of landowners have appeared; first, people who are really engaged in agricultural production; secondly, retired people who are still co-op members, and; thirdly, 'outsiders' or new landowners not interested in private farming. Besides the land itself, the means of production

(machines and other tools) have had to be redistributed among landowners in the form of co-op shares and business shares. An increasing number of business shares are in the hands of pensioners, resulting in conflicts of interest. Success in restructuring agricultural co-ops and of new co-op developments have very much depended on the expertise of leaders on the one hand and members' trust in leaders and institutions on the other.

Social Capital

As with the other papers in this issue, social capital is recognized as one of the key elements of economic growth. As the level of social capital depends on "a person's connections (whom they know, but also connections through common group membership), the strength of these connections and resources to their connections" (Murray and Beckmann, 2004), social capital and its strength have to be discussed and evaluated in the given socio-economic context. Murray (2007) underlined that the extent of networks of relationship is determined by the prevailing social norms of the group, the necessity for interaction, and individuals' motivations for interacting. Chloupkova *et al.* (2003) have made a comparison of social capital development in cooperatives in Denmark and Poland and concluded that, although levels were similar before World War II, the level of social capital was now higher in Denmark than in Poland, suggesting that under the Communist regime social capital was destroyed in Poland. However, one has to be careful in making general statements on the social capital situation in former socialist countries. First, socialist countries had strong national characteristics. Second, in contrast to other former Communist countries, in Poland small farms dominated agriculture under the socialist system. Third, small farmers in Poland have accumulated sufficient experience concerning their trust towards each other and market players as well as towards government. In Hungary private farming had a marginal role in gross agricultural output after collectivization (1961), but small-scale (household) farming was an important source of income for cooperative members. Cooperative members' trust in their leaders also increased. Vertical cooperation between producers, buyers, manufacturers and traders was deepened and transaction costs decreased.

The decline of social capital after radical reforms

Agrarian reform in CEE countries has been seen from such different points of view as political economy, property rights theory and transaction cost economics.

Valentinov (2004) points out that in all these approaches, social capital has played a decisive role concerning the outcomes of reform. Each approach was shown to reveal some specific aspects of the social capital concept which led to additional findings. It is a fact that social capital substantially declined in CEECs following radical reforms. What were the reasons for this?

First, land ownership has been changed substantially with different attitudes among new landowners to farming and a low level of social capital in the case of new landowners. Second, for a time people have not been sure to what extent the new agricultural policy will be changed. Third, the level of social capital and the cohesion among cooperative members prior to political change, due to successful performance over years, were in many cases high. Trust in leadership has become a decisive factor in the case of many cooperatives in Hungary. Fourth, social capital, social norms, and levels of trust were affected very much by radical reforms. Fifth, the economic environment has not been transparent for years, more people and businesses have broken rules and the value of norms has declined.

The leadership issue

After the introduction of the new agricultural policy in 1990, it was a real challenge for production co-ops to adjust. The question of how high was the level of people's trust in the cooperative as such and in its leaders became a decisive factor. In Hungary only 127 out of 1,441 cooperatives were not able to meet new legal requirements by the deadline and disappeared. Some 10% of members decided to leave their cooperatives. The rest decided to continue their membership. The vast majority of members did not think of leaving the cooperative and farming on their own. This was also evidence that people's trust in cooperative leaders and in the cooperative as an organization was, in general, high.

What were the main reasons that certain cooperatives have been able to survive and how have they done it? It has turned out that leadership and the members' trust in leaders played key role in adjustment. Murray (2004) emphasizes that leaders and leadership may have a decisive role in improving and maintaining a high level of social capital. Relationships between leaders and members cannot be explained by economic arguments only. Working together and helping each other for years and to cease all these forms of mutual support would have demanded changes in human behavior which could not be accepted by the leaders of many cooperatives. Findings from both the experimental study and the cross-sectional survey by Cremer and van Knippenberg (2005) showed that self-sacrifice on the part of the leader has a positive effect on cooperation and, that perceptions of trust in the leader and feelings of collective identification mediated the effects of

this self-sacrifice. Focusing on different group aspects of leadership in social dilemmas, Vught (2002) concluded that the effectiveness of leaders' solutions to social dilemmas depends upon the correspondence between leader's characteristics and members' expectations.

Research findings

In this section, the historical development of two cooperatives will be discussed. It will be shown how social capital, after the destruction of the old distribution system, has been able to contribute to improving or maintaining cooperation.

The Béke Co-op was founded on June 27, 1955, by the poorest peasants in the town. The founders had a total of 73 ha of agricultural land. Both the number of co-op members and the area under cultivation increased significantly in 1960. Specialists came and worked for the co-op and huge investments were made over the years. Since 1967, farms have been interested in producing profits. Because of the enlarged size of production, the corporate governance of Béke Co-op was changed in 1978. In the following years, the co-op won an award of the "Cooperative of Excellence", several times.

During the transition to a market system, many agricultural cooperatives broke up and disappeared. In Béke Cooperative, the president was replaced by a new one in 1990 after 27 years of service. The new leadership decided to become offensive and distributed part of the land and assets among members and employees as permitted by law. At the same time, the president held face-to-face negotiations with all members. Finally, 64 out of 960 members (some 7 %) left the cooperative. This is below the national average

Over the years, Béke has carried out a complete leverage buy-out of the Zelemér agricultural co-op. In addition, a turkey plant has been bought, two more beef and one pig production unit have also come into Béke ownership. Finally, the co-op merged with the Agro-Balmaz Agricultural Coop in 2000. Nearly 600 people work for the co-op in 26 different units running business cooperation with more than 100 entrepreneurs and cultivating a land area of 7,000 ha owned by 4,000 landowners.

Although the co-op has faced real challenges over the years, it has still managed to achieve significant economic growth and results. The cooperative has followed an expansive development policy by making new investments to become more stable but these have not always been tested by market needs and have required more and more loans.

Some 50 % of business shares in the cooperative were bought by the government in the late 1990s, which, under a new law on cooperatives passed in

December 2005, will be given back to cooperatives, but can be used only under conditions of joint ownership.

The Hajdú Gazdák Agricultural Association was established at the beginning of the twentieth century but was suspended under the Communist regime. After 1990, individual farmers wanted to bring this association back into operation. First, the Farmers' Club was established in 1993 with the objective of representing the interests of the members, improving the skills of producers, increasing both the output and the quality of production. The Farmers' Club was succeeded by the Hajdú Purchasing and Marketing Cooperative (PMCH) in July 1996, focusing on gathering and spreading information, joint purchasing of inputs, and marketing of products. In 1999, PMCH decided to establish a new producers' organization called the Purchasing and Marketing Cooperative "HAJDÚ GAZDÁK" (PMCHG) to access additional government support. Justification for such an action was underlined by Murray (2004), saying "cooperation between people requires networks of association, and can be distinguished as situations where there is visible action on a collective level for a predetermined goal or social dilemma". Shortly after the establishment of PMCHG, the new and old co-op, with the same members, merged under the name PMCHG.

The cooperative is managed by the Board of Directors consisting of five members, supervised by a board of three members. The Members' Council meeting is the top-level decision-making body, with one member one vote. Payment for departing members is based on an equity ratio, and new members have to pay the same amount that departing members take out.

Visual Presentation of the actors, and their interactions

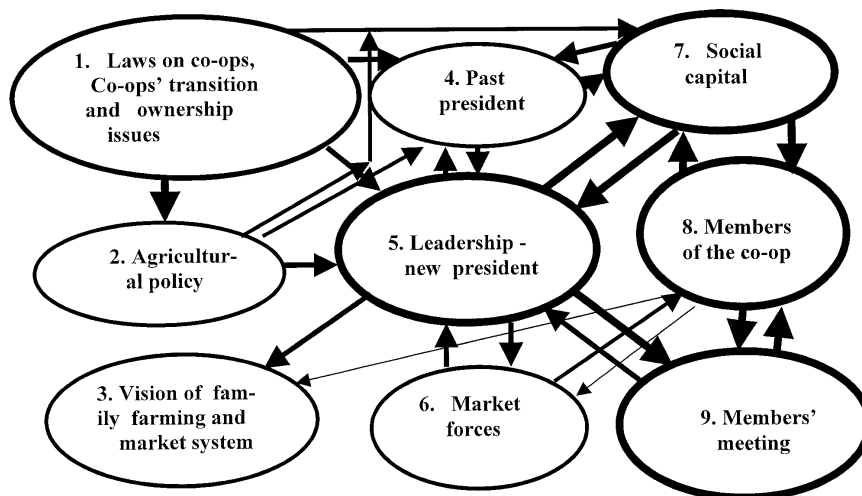
This section deals with actors from both case studies at the beginning of transition. The width of arrows in Figures 1 and 2 reflect the weight of a given link.

The Béke Cooperative – a traditional production cooperative

In 1990, a new president (director) was elected to the Béke cooperative. There was a high level of trust between the former and the new president and between them and most of the members. So the internal factors of social capital were at a high level and cooperative members did not want to break up the cooperative community that they had built up together over the years. Others mainly focused on the possible advantages of individual farming and somehow neglected the disadvantages. Relations and interactions between actors in the Béke Cooperative before the decision on transformation of the cooperative can be seen in Figure 1. Finally, only 7-8 % of members left. Government policy in the early nineties

encouraged family farming. Those who left cooperatives were sure they would be more successful as individual farmers. For them, some individual farmers in the region were regarded as successful pioneers. Their level of social capital was not high in relation to co-ops and co-op leaders.

Figure 1. Actors and their interactions in the Béke Cooperative before the decisions on future development.



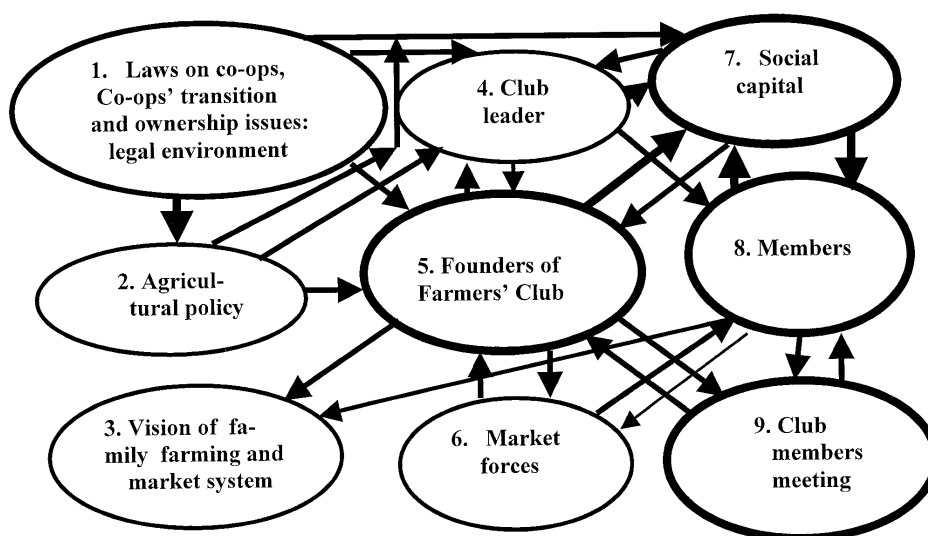
Béke cooperative had stable economic growth after radical reforms. Members had been satisfied, level of income from co-ops activities enabled people to provide acceptable standard of living for the family. Connections between members and, members and leaders are based on trust. Need for adjustment of co-op performance was realized and regarded as a job for leadership. Members followed co-op leaders, as they had known them for a long time. Investments or change in product structure proposed by leaders were accepted by ordinary members. Internal linkages between people in coop Béke can be seen in figure 1.

The Purchasing and Marketing Cooperative "Hajdú Gazdák" (PMCHG)

Concerning co-op PMCHG, the first step towards cooperation was when individuals established the Farmers' Club in 1993. Key players had strong influence in setting conditions for the further development of cooperation. The leader of PMCHG took only necessary administrative jobs but did not have such a strong influence on governance as the Béke president did. Social capital among

members was above average. Internally, part of this was connected with the founders having sufficient experience in family farming and former cooperative members being well informed about agricultural policy issues. Concerning external factors, members trusted very much in the new government and also in the institutional environment. Linkages and interactions between different actors in

Figure 2. Actors and the interactions between individual farmers before joining the Farmers' Club.



At the beginning of the nineties, social capital in general was somewhat stronger among Béke members than in the Farmers' Club, due to their history of successful collective achievements. However, in some areas the picture was the opposite. The previous president of the Béke cooperative had enjoyed a high level of trust among members. The atmosphere between leaders and members had been sufficiently good, and the legal environment had been transparent and stable. The level of trust in leaders remained high after the election of the new president in 1990. However, after radical reforms, trust in state institutions, in the legal environment, and in agricultural policy declined as the government favored family farms over cooperatives.

The Farmers' Club focused only on sharing information in the early stages of cooperation. Later on members raised the need to make joint purchasing inputs to reduce transaction costs and, later again, the need for joint marketing. At the end of the nineties the need for joint investment was raised and agreed on.

The role of trust/mistrust and opportunism

Social capital, trust, and cooperation involve people always looking at the possibility of working together in a smaller or larger community in order to benefit from such cooperation. Eight out of ten interviewees said they were not formal members of any local or regional group or association. One person from Béke was a member of the regional federation of cooperatives and one worked for local government.

Members of PMCHG emphasized explicitly the economic advantages of joining, as decreasing transaction costs. Thus sharing information gave an explicit benefit to them. The duration of personal relationships was an important factor but it was less significant than in the case of the Béke Coop. Relating to the benefits of trust, members emphasized the following: that people were helpful, that trust is the basis of common interests, that mutual trust is the greatest treasure, and that the benefits depend on the people themselves. Members of PMCHG said: *solving problems* raised by the group should be mainly managed by the cooperative rather than by national or local government agencies.

Members of the Béke coop found it important to mention that their parents were also members and that three of them had already been employees of the cooperative. For two of the respondents the town and the neighborhood meant their community, one defined the family and working colleagues as such, and one emphasized the importance of the whole county. Most of them had joined the cooperative many years previously. According to them, cooperation and integration had brought advantages to members. Others who joined later had been attracted by the cooperative's reputation. Although they were more cautious or more critical about trust, Béke members displayed a higher level of trust in EU institutions and in both national and local government officials. They also found mutual trust advantageous but stronger emphasis was given to more efficient work and a good working atmosphere. Béke members were more cautious, admitting that conflicts could come up everywhere, although it is not typical in the co-op. Economic problems should be solved by the national government, but the co-op must also do its best to solve problems. Members were more informed on historical aspects of farming and had information based on deeper analysis of economic issues in comparison with PMCHG members.

The reasons given for joining the cooperative were rather different in the two cases. In both co-ops, interviewees underlined the importance of the duration of personal relationships among members. Discussing trust in more general terms, members of PCMCHG had higher levels of trust with business partners even without any documentation. Their levels of trust had changed based on their own experience gained over the years. Béke members were more pessimistic as a result of negative experience after 1990.

Members in both co-ops regarded trust and reciprocity as important element of social capital. However, their approach to the issue reflects different standpoints.

Trust towards formal institutions differed in the two co-ops. Members of PMCHG had low levels of trust in current government officials and EU institutions. In contrast, BÉKE members had more trust in national government their trust in EU institutions was also above average. However, where trust levels in state institutions were low, to reduce transaction costs people looked for informal institutions to solve their problems.

The role of communication and information

People in communities always change their views on different issues based on information gained through different communication channels. How intensively these channels are used affects the level of social capital.

To access information on government and EU issues members of PMCHG tried to find more channels to gain information and used them more frequently, while Béke members mostly relied on national media but less on local community leaders. Information from cooperative leaders was backed up by obtaining and analyzing information from various governmental and other sources of information. Collecting information on community issues was done rather differently in both groups. The frequency with which information was gathered was significantly lower in Béke. All PCMCHG members got information mainly from community leaders as well as from community and local newspapers.

The extent to which people were satisfied with the information they had was a key point. Based on the Ostrom approach (cited in Murray, 2007) that during the communication process social capital is enhanced or eroded through the establishment of trust, reputation and reciprocity, we can see a positive outcome in both co-ops as the general picture was excellent. PMCHG members found decisions on investments to be a weak point in communication. Blockage or withholding of information within the cooperative was not indicated as a serious problem. The high level of satisfaction with the supply of necessary information was supported by the fact that in both co-ops there was a continuous discussion

among members on important business issues. The dialogue is quite intensive and new information is shared as soon as possible. PMCHG members were more optimistic concerning members' capacity for problem-solving.

As regards external contacts with relevant people from similar organizations, members in both co-ops thought that such tasks were mostly the job of leaders. It is true that external relationships are not very strong in either case.

People emphasized that, whether working for the cooperative for a shorter or a longer period, one always gains something from it. The members of the younger cooperative put a high value on joint efforts and collective action while members of Béke indicated the value of being well informed. All ten interviewees said they were satisfied with the information they had been provided. When not, then additional efforts made had proved sufficient to acquire the missing information. In both cases, people have used different channels at different intensities to obtain sufficient information. Communication has not been used as a source of power by central actors, but as a bridge through which more help could be given to members.

Transaction costs and governance structure

PMCHG members regarded as most important the incentives (economy, environmental protection) which most affected transaction costs and, to reduce transaction costs, they were willing to cooperate and open to extending cooperation with non-members. To reduce transaction costs, Béke members appreciated very much the historical background of relationships and education. Most of the interviewees had not calculated any costs of attending internal meeting but more of them calculated costs related to attending external meetings.

Membership was seen as a benefit, especially in the PMCHG co-op. The benefits they indicated included market access, the reduction of input costs, joint use of machinery, and getting farm gate prices based on quality. In the case of Béke, people listed those benefits which they had had for years but were at risk of losing. To improve efficiency and enhance cooperation, Béke changed its governance structure in the late seventies.

PMCHG changed its governance structure in 1996 as well as in 1999 in order to reduce transaction costs or to become eligible for additional resources and to improve cooperation. It was evident that cooperatives, in order to reduce transaction costs, have decided to change governance structure and have adjusted to new economic conditions and market situations.

The role of the State and formal institutional environment in cooperation

Members of both cooperatives agreed that cooperatives were efficient and in good economic shape in socialist times. Besides the coming into force of a new economic mechanism in 1967, there were two more factors which improved cooperation. First, cooperatives were allowed to engage in so-called non-agricultural activities (for example construction work, producing spare parts) which produced more profits than animal husbandry or crop production. Taking advantage of subsidization policy, they developed the infrastructure on the farms, bought the latest technology and new machines, produced more profits, and paid more to members and employees. Secondly, cooperatives could do the latter because farm gate prices gradually increased to approaching market prices. Agriculture achieved a high growth rate in the first half of the seventies and a still reasonable level in the second half of the decade, but growth slowed down thereafter. An experiment showed that if co-ops got more freedom they would be able to increase efficiency and to generate more profits.

People's attitude towards cooperation has changed significantly since the introduction of radical reforms. Mainstream views have become more negative, making people more reserved and less likely to engage in cooperative activity. Compensation on land was not well prepared and managed. The level of trust among people has declined and members were cautious when asked about additional steps in cooperation.

The majority of responses made clear that trust towards central and local government has deteriorated. This decline was more pronounced among PMCHG members and only one person out of ten responded that trust in government had increased since the beginning of the transition period. It was also mentioned that the declining level of trust was due to the ruling government.

Members of the Béke Co-op have been mostly unsatisfied with the performance of the state while PMCHG members were more positive. In general, people were disappointed with the agricultural policy preparations for EU membership. After the introduction of a new economic mechanism in agriculture in 1967, social capital started to increase and developed as the economic environment became a mixture of a centrally-planned and a market economy. Social capital was not low in Hungary during the seventies and eighties.

Communities, Social networks and Informal institutions

The motivation of helping the community has been strong in both co-ops, even if only other members of the local community could benefit from it. The general attitude of cooperative members has been highly community-oriented. People feel motivated to help if this involvement is only giving their time. If, in addition, money was required for community development, fewer people were ready to contribute. All PMCHG members interviewed were willing to sacrifice more and would be willing even to pay money as well. Members of the Béke co-op were also in favor of improving cooperation but they expected to get direct benefits if a financial contribution were required. The majority of PMCHG members mentioned that conflicts should be openly discussed within their group. For major issues the cooperative's by-laws must be used. Béke members said that both formalized and informal mechanisms could be used to find solutions to disputes. On recognizing a problem, people in both co-ops would take action to clarify it with the initiator (Béke) or to address it to the cooperative leader or have a meeting for the entire group (PMCHG). Thus, elements of Bowles and Gintis' (2002) community governance were evident. People in PMCHG did not perceive a clique to exist in the group. In the case of Béke, two members mentioned that such cliques existed.

Cooperation is affected by several factors. All nine members who responded underlined the factor of keeping well informed, and having sufficient information to make decisions as being most important. Besides that, a high level of trust and market-driven incentives for cooperation were also mentioned. It can be concluded that informal institutions were not seen as a necessary determinant for achieving cooperation. People could efficiently make use of formal institutions and only very seldom tried to find solutions by informal means.

The role of the market in fostering/hindering cooperation

Members of PMCHG took a practical approach, saying that agriculture is sustainable until it is profitable. Most interviewees from the Béke co-op also thought agriculture could not be sustainable because of lack of profitability. Sustainability much depends on subsidies available for the sector. Concerning environment-friendly agriculture, people found different areas worth underlining, but organic farming was the leading one.

The competitiveness of the cooperative was evaluated at different levels. In the case of PMCHG, one member found the cooperative competitive, two thought the co-op was moderately competitive, and two people gave no answer. People from the Béke co-op used the argument that, as the cooperative had been operating for

50 years, it should be competitive. It was also added that, nowadays, neither the co-op's foreign nor its domestic market could be regarded as stable. Tourism was not seen as an activity which might be a solution to regional or local problems. People found market forces important and underlined the need for cooperation to become competitive, and to meet market requirements.

Conclusions

People in both cooperatives have had different experiences since the end of the socialist era and have followed different paths of development since the introduction of radical reforms.

Members of the PMCHG cooperative started to increase cooperation, with the benefit of experience gained from individual farming and justified their actions according to a reduction in transaction costs. Members of the Béke co-op achieved successful development from the mid-sixties to the late eighties; they strongly believed in cooperation and had a high level of trust in their leader going back many years. In the case of both co-ops, it turned out that a high level of trust is an effective way of reducing transaction costs, even where this level of trust is based only on one's own or on their parents' experience. The latter was a stronger factor for members of the Béke co-op and indicates that co-op members had high levels of social capital under the socialist system.

The role of leadership was partly different in the two cooperatives. In the Béke co-op, the major goal of leaders was to avoid breaking up the cooperative community, while at PMCHG the main job for key persons was to persuade individual farmers to start and deepen cooperation in order to build up a new cooperative community. Trusts in leaders of both co-ops indicated that leadership plays an important role in cooperatives.

Based on different experiences from history, trust towards formal institutions differs in the two co-ops. It was justified that the level of communication affects the level of cooperation. The latter has not been handicapped by a shortage of information in either co-op and communication has not been used as a source of power by central actors in either co-op. In order to reduce transaction costs, changes in governance structures took place in both co-ops.

People could find their own way of solving problems relying on formal institutions. However, if the latter did not work, they used informal institutions. For members of the PMCHG co-op, informal methods played a more important role at the very beginning of cooperation.

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Agricultural Producer Groups in Poland: Empirical Survey Results

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Abstract

The article presents basic results from an empirical survey carried out in Poland with leaders of farmer organizations called producer groups. The main objective of the research was to understand the process of formation and the mechanism of functioning of the groups as well as to identify problems and critical points during the groups' running. The data suggest that the core element to understand the phenomena of producer groups in Poland is not only to analyze the economic and market situation of the groups, but also to investigate the nature of collective actions in their governance dimension.

Key words: Producer groups, Poland

Introduction

The aim of this paper is to present the main empirical results from a survey carried out in Poland with leaders of organizations called producer groups. Producer

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groups are akin to marketing cooperatives and in the Polish law are defined as organizations whose main aim is to introduce agricultural output produced by individual farmers to the market. These groups can be established only by producers [Legislation, 2000]. There are several possible legal forms of producer groups. First of all, they can function as a purely oral agreement among farmers and have an informal character. Second, groups can have formal, legal character. Such groups have to be officially registered in court, as a co-operative, association, union or commercial company. Groups registered in court can apply for subsidies paid within EU programs as if they were individual farmers. Additionally, groups which fulfill certain conditions can be registered in the province office and apply for financial support offered to them from state and EU resources.

A few years ago both the Polish government and the EU authorities foresaw that due to the above potential benefits, Polish farmers would be very eager to associate themselves in groups. Producer groups were perceived as a chance for small Polish farms to concentrate their production, to increase income of the farm holders and in more general terms to regulate the Polish agricultural market, which is highly unpredictable and still suffers from both over- and underproduction. In the years 2000, 2003 and 2004 a few bills were passed by the Polish Parliament in order to provide a legal framework for the establishment and functioning of producer groups in the country, and also to offer financial subsidies to encourage farmers to associate [Legislation, 2000 with later amendments]. Producer groups in Poland nonetheless, contrary to those predictions, still had a very marginal share in terms of both the volume of the goods marketed and the number of associated farmers.

In July 2003 an interview with a civil servant from the Extension Service for Wielkopolska Province was carried out in order to find out basic facts and problems related to the topic. According to the interview, in 2003 producer groups included only about 2% of farmers in the province. What is more, over time there were fewer and fewer groups, and their interest in the subsidies offered to them by the government was quite low. Neither the bills and subsidies offered for the groups, nor the efforts of the extension service and other State agencies to promote this type of rural cooperation had much success. A few groups nonetheless were identified which were functioning quite well.

The central research question posed in this paper was: what are the determinants of success or failure of producer groups in Poland. Why do some groups split up and some grow and bring profits over time? The research question was motivated by the conflict between farmers. individual profit maximization incentives versus overall profit maximization of the producer group. In related work [Banaszak, Beckmann, 2006] this collective action problem was studied using transaction cost theory and noncooperative game theory. This article is of an

empirical character and therefore the theoretical framework will not be further discussed here. This research, as with the other papers in this special issue was a part of and was supported by the Integrated Development of Agriculture and Rural Institutions in Central and Eastern European Countries Project, which focused on the role of social capital, trust and innovations in rural development. The project was funded by the 5th Framework Program of the European Commission.

Methodology

Research Cluster. Producer groups in one province were selected as the object of the research. The chosen province of Wielkopolska is one of the 16 provinces in Poland and is located in the western part of the country. The province covers 9.53% area of the country, and is inhabited by 8.66% of the total number of people in Poland [GUS, 2004]. A few factors contributed to the selection of this Province as the research cluster. The most important ones were availability of basic data about all producer groups in this region, good knowledge of the province and local circumstances by the author, and the fact that the agriculture sector in Wielkopolska is on average better developed and more advanced than in other parts of the country. The choice of one of the best developed provinces, particularly regarding agriculture, as the research cluster was motivated by the suggestion that producer groups could fail due to a maldeveloped structure of agriculture or due to a maldeveloped structure of the market. By selecting a province which is characterized by better economic and agricultural indicators than the average for the country, we can to a certain degree avoid these suggestions.

Methods and Techniques of the Research. The cross-sectional research design, sometimes also called social survey, was selected as a research method for this investigation. In early 2005, the time when the research was completed 55 functioning groups and 19 groups which stopped their activity were identified within the Wielkopolska Province. The intention was to interview the entirety of the recognized groups, however, due to a few refusals, to health or family problems of the leader, and time constraints, eventually 50 functioning groups and 12 which stopped their activity were subjected to the research. The 50 functioning groups associated 4,056 farmers, the 12 split up groups associated 394 farmers.

The structured interview with producer group leaders was organized into a questionnaire composed of five parts. The first part comprised 12 general questions such as the group's address, legal status, number of members, and activities performed. The further five parts regarded the process of formation of the group, functioning of the group (divided into three sections: management and decision making, production and marketing, and membership), costs and benefits of

cooperation, the role of the institutional environment, and leadership. These five parts comprised 120 questions in total.

Empirical results

General Information about Producer Groups in Wielkopolska. In total 62 producer groups from Wielkopolska Province were subjected to the research. By the time when the interview was carried out 50 groups were still operating, 12 groups stopped activity. The groups were not equally geographically distributed. Most of them were located in the area of Kalisz (19 groups), Poznań (17 groups) and Leszno (13 groups). The average number of members per group was 71, the smallest group, in fresh tomatoes, had only 5 members, the biggest, in potatoes, associated 700 farmers.

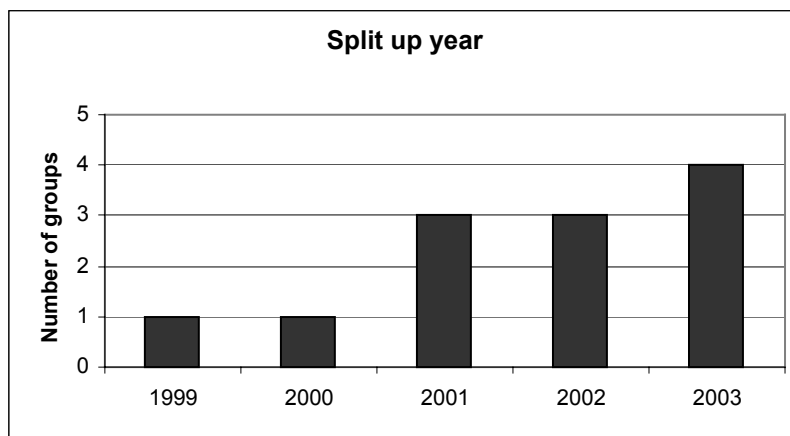
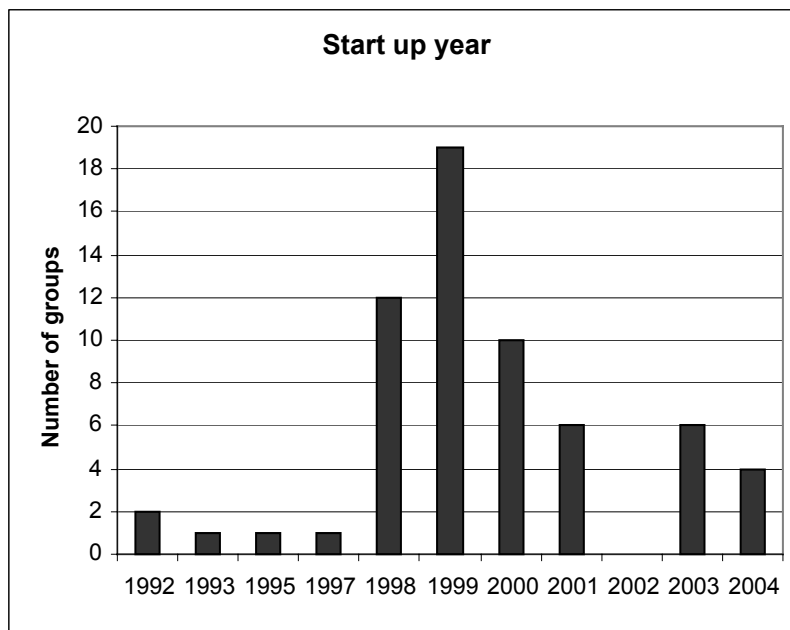
Regarding the start up year, most of the groups were established in and around 1999, though interestingly the earliest group initiated cooperation in 1992. Of the 12 groups which split up, most of them stopped activity about the year of 2002. The start up and split up time distributions are presented in the figures below.

The most common legal forms of the groups were ‘associations’ and ‘unions’. Twenty-three groups were functioning as associations, 18 as unions, 14 as limited liability companies, 5 as informal groups, and only 2 as cooperatives. Considering the main output produced by the members, the prevailing number of them were dealing with pork (35), 13 groups were in different kinds of vegetables, 4 in fruits, and 3 in grains. There was only one group involved in each of potatoes, pork and cattle, hops, mushrooms, poultry, and rape, and one group of described as of ‘general’ character.

Regarding the functioning groups, joint sales of the output produced by the members were conducted by 80% of the groups. Seventy eight percent of the groups organized different kinds of training and educational trips for their members, 68% of the groups organized joint purchases of the means of production, 56% integration events, and 28% joint transportation of the output.

A few groups were also performing some other, less common kinds of activities. For instance four groups organized insurance for the members, three other groups were sorting, packing and storing the products together, two groups were preliminarily processing the output (one group was slaughtering pigs, and one was drying and purifying rape). Another interesting finding was that members of one group in tomatoes were producing the product together, jointly owning the land and the means of production (like in an old style cooperative). A few other groups also reported organizing self-credits for members (self-credits are member

Figure 1 Start up and split up years of producer groups (N=62)



contributions to a common fund from which members can obtain emergency interest-free loans).

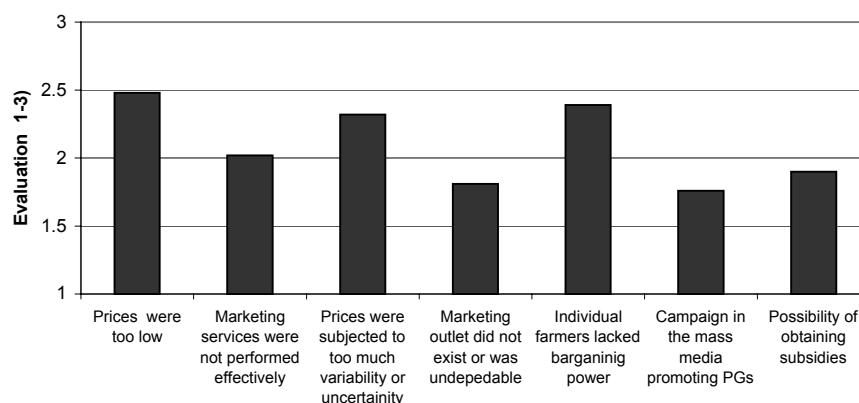
The Process of Formation of Producer Group. The interviewers reported seven different direct types of actions which resulted in establishing the group. For 40% of groups it was one of farmers who started to organize the group. These initial organizers were usually local community leaders, and often were members of other agricultural non-governmental organizations such as trade unions and associations of pork or fruit producers.

A further 24% of groups were formed as a result of a meeting for farmers organized by the agricultural extension service or the municipality office. Seventeen percent of groups, particularly these in pork, were formed as a result of farmers' strikes which took place at the end of 1999 and beginning of 2000. Farmers were protesting against a dramatic decrease in the price of pork and in most cases they were blocking the roads. As the interviewees reported, the strikes created for the farmers an opportunity to meet and discuss their situation together, and also it was for them often the first time when they undertook joint actions. The meetings and discussions brought the farmers to the conclusion that only if they were united and associated in some kind of organization, would they be strong enough to impact on the government and to influence the agricultural market. Among other direct actions which resulted in the formation of groups were initiation resulting from a local processing plant (10% of groups), by an outside businessman (3.2%), by a former socialistic municipality cooperative (3.2%), and in one case (1.6%) the cooperation was initiated by a wholesale market. The stage of planning and organizing the group took usually about 5 months, and on average 6.5 people were involved in the planning stage.

The majority of interviewees reported that most of the farmers who formed the groups knew each other before. The acquaintance resulted mainly from ordinary neighborhood relationships (89.8%), social relationships (50%, such as from membership in the same cooperative, organizing the strikes together, membership in other organizations), business relationships (24.2%), supplying the same plant (13%), and family relationships (6.5%). Only in the case of three groups (4.8%) did most of members not know each other before.

Regarding external factors which led to formation of the groups, the respondents pointed too low prices as the most significant (2.48 on a 1 to 3 scale, where: 1-not a factor, 2-minor factor, and 3-major factor), lack of bargaining power by individual farmers (2.39), too high variability or uncertainty of prices (2.32), and ineffectively performed marketing services (2.02).

**Figure 2 External factors leading to the formation of producer groups (N=62)
(1 to 3 scale, where: 1-not a factor, 2-minor factor, and 3-major factor)**



The average starting up capital varied quite much amongst the groups. The mean equaled 6,137 EUR, allocating 347 EUR per member. The standard deviation from the mean, however, was quite high. Five groups did not have any starting up capital, and one group in fresh tomatoes had a starting up capital amount as high as 113,925 EUR. Only three groups used debt as a source of the initial capital. In one case the money was borrowed from a commercial bank, in the two other cases from earlier unions of producers on which bases the producer groups were formed.

Considering the choice of the marketed output by the groups, in most of cases it was in accordance with the previous production of farmers who joined the group (about 89%), in only 8% of cases the product was chosen due to anticipation of high profitability, in one case due to availability of drying equipment, and in one other the choice was made by an extension civil servant.

Taking into account the critical problems which resulted in the break up of cooperation in 12 groups, two groups reported that they split due to fear of bureaucracy and taxation which would come if they had started to perform joint sales. Two other groups reported having problems with finding purchasers for the output, after the businessmen who initiated the group stepped back from the cooperation. One group was destroyed by middlemen who offered better prices to those members who sold their products outside the group. The most frequent critical problem was, however, what the respondents called “mentality of the people”. It was a problem of commitment to and trust in the leader and other

members. Members of two groups were scared of changing their old purchasers, and rejected selling their products to the purchasers with whom the group signed a contract. Members of three other groups did not agree to hire a manager or to pay a salary to their leaders which would compensate their time spent on group activity. Leaders of two of those groups even had a problem with reimbursement of their expenses related to leading the group, such as phone calls and costs of the fuel. This resulted in cooling down the leaders' motivation to lead the group. One other group was embroiled in a conflict between two neighbouring villages, where one village spread false information about the group leader (who was living in the other village) which resulted in confusion of the members and decreased their commitment. In the last case, the leader defrauded the group of money. The members "burned" with this negative experience did not want to continue the cooperation.

Functioning. As already mentioned, among 62 groups investigated in this piece of research 50 were still functioning while 12 groups have split up. In this section only the groups which were functioning when the interview was carried out will be taken into account. Questions within this section were organized around 2 topics; management, decision making and membership issues and production and marketing. Additionally, in the section on production and marketing only the 40 groups which performed the task of organizing joint sales of the output produced by individual member-farmers will be considered.

Management, decision making and membership issues. Considering the 50 functioning groups, the average number of managers in the group management team was 4.22. The maximum number of managers was 12 persons, 3 groups did not have a management team at all, and 2 groups had 1 person management (the function was exercised by the leader). Nine groups reported having an 'outsider' in their management team – usually it was an extension service official. For half of the groups the most important executive (taking most of decisions) was the management, for 27.4% the leader, for 13% all groups members, and in case of 9 groups (14.5%) there were no decisions taken that time at all (due to experiencing crisis).

The respondents were also asked how they would describe members' participation in the decision making process, specifically whether the members are passive and do not suggest/propose anything to the management, or from time to time they propose to do something, or they are very active and often propose the management or leader to do something. The results are in accordance with normal distribution, 26% of leaders described their members as very passive, 46% as proposing something from time to time, and 28% as very active.

In most of groups, members were rather acquiescent, only 36% of groups have reported experiencing any member conflicts. Similarly with respect to expressing

complaints by members, only 24% of groups have reported the articulation of complaints by the members against the management or leader's performance.

The conflicts were mainly related to commitment issues, such as selling products outside the group without permission, and lack of a common vision for the group (8 groups). Other areas of conflicts cited were due to financial problems and lack of transparency (4 groups), bad management, some failed decisions taken by the management (3 groups), and due to the leader's performance (1 group).

The most common area of members' complaints was that the management negotiates too low prices or there were delays of payments (7 groups). Other complaints regarded the plant's policy, performance of the management, performance of the leader, and organization of the transportation (in each case 1 group).

Only half of the existing groups used some kind of marketing agreement between the group and its members, and only 36% of these groups have imposed any sanctions for not fulfilling the agreements. This low rate of formalization and rigorousness of the performance must nonetheless be considered in terms of embeddedness of the groups in their local institutional environment. Many of the leaders pointed out that it is difficult for them to apply formal rules and sanctions towards the group members, who are often their close neighbors and friends. It could be observed therefore that the degree of formalization of the members is dependent on the size and geographical dispersion of the group.

Production and marketing. The majority of interviewees (64%) declared that the volume of goods marketed by the group grows over time. Most of the groups sell the products directly to processors. Processors are the main source of sales for 79.5% of groups. Twenty five percent of groups indicated wholesalers as the main source of sales. Only one group (2%) indicated 'other' as the source of sales, mainly retail stores and restaurants.

Generally speaking, the position of the groups within the retail chain was quite good, half of the groups pointed to processors producing final goods as the most important purchasers of groups' output, 37% of them pointed processors producing half-processed products, and only 12% of groups pointed middlemen as the main source of sales. Also the contracting position seemed to be quite good for the producer groups in this study. 61% of groups reported having long-term contracts with the purchasers, with different levels of formalization but with the price not stated in the contract. Twelve percent of groups used short-term contracts. Twenty two percent did not have any agreement, although the purchasers were the same each time they sold. Only two groups (4%) were selling their products each time to different purchasers. The data shows a relatively high interdependence of the groups to the purchasers. On average each group performing joint sales of the products produced by their members was selling the output to 1.7 processors and

1.5 middlemen. Nonetheless, due to the high fluctuation of the prices, the groups did not perceive themselves as independent nor as having a good position on the market.

Seventy-six percent of interviewees (46 leaders of groups which negotiate prices for their members) declared that on average their group members obtained higher prices than non-member farmers. For 24% the price for members and non-members was the same, and there were some cases where members obtained lower prices than non-members. The price for members was on average 8.7% higher than for non-members.

The Profile of the Group Leaders. The majority of the leaders were leading their groups since the beginning of their establishment. Only 24% were second or third group chiefs. The average period of leadership was about 4.5 years. The most frequent reason of the leader's change was that the previous one was too busy with other things, and did not have enough time to devote to the group (5 such cases), in two cases the previous leader appeared to be dishonest, and in other single cases the change resulted from: the previous leader not selling his products with the group; passivity and lack of managerial skills; due to death of the leader; due to a change of the vision of the group and new elections; and in the last case the group had a rule that the whole management team and the leader must change every four years in order to give a chance new people and that the managers will not get accustomed to their positions.

The leaders saw their own role in the group as quite principal. About 60% of them agreed with such sentences as: "It was I who had the biggest impact on this how the group looks like today", "I convinced most of the members to join the group", "I found most of purchasers of our output", and "I take most of decisions regarding the group". Nonetheless, almost all the leaders (97%) appeared to be fairly democratic and admitted that they always ask other members for advice before taking the most important decisions. A significant amount of leaders (about 75%) also reported having good knowledge of the local people, the local environment, and the local decisions makers, which means overall they have good positions within the local networks.

Regarding personal characteristics of the leaders, the mean age was 46 years, the youngest leader was 25, the oldest 62. Only one leader was female. The majority of them were married, only 3 respondents were single. Most of the interviewees declared to have secondary education (58%), 22.6% declared a vocational education and slightly less (21.3%) higher education. The average education of the producer group leaders appeared to be much higher than the average education of Polish farmers. By comparison, only 15.5% of Polish farmers completed either secondary or high education [GUS, 2004].

Table 1 Leaders' education (N=62)

Leaders' education	Frequency	Percent
Vocational non agricultural	4	6.5
Vocational agricultural	10	16.1
Secondary non agricultural	5	8.1
Secondary agricultural	31	50.0
Higher non agricultural	1	1.6
Higher agricultural	11	17.7

Considering membership of the respondents in different non-governmental organisations, on average each of them belonged to two organisations. The most frequent was membership in some agricultural associations and on the second position local division of the fire brigade, and further local government. There were 15 leaders who did not belong to any organisation and one leader who belong to as many as 7 different bodies.

Almost half of the interviewees (48.4%) did not have any other professional experience other than working on the farm, 35.5% worked outside the farm, and 16% worked in the agricultural sector but not as farmers (most of them were employed by agricultural cooperatives). 6.5% besides declared having experience working abroad.

When the interview was carried out farming was the only one source of the income for over half of the leaders (51.6%), for 27.4% farming was the main source of income, for 14.5% farming was just additional source of income, and 6.5% reported to have only other than farming source of income (these were usually professional managers, or worked in some kind of other agricultural business). 43.5% of the respondents had some previous experience in managing other groups, cooperative or other management experience, and 34% of them finished management training.

Considering the time the leaders devoted for managing the group, the majority of them (61%), spent less than 10 hours per week working for the group, 13% spent 10-20 hours per week, 8% spent 20-35 hours, and 18% of the leaders spent more than 35 hours per week for the group. Most of the leaders worked voluntarily for the group. Only 12 of the interviewees (19.4%) received salary from the group for their work.

Critical Points During The Groups' Functioning. Leaders were asked to rank problems they had to overcome on a likert scale of major problem (3), minor problem (2) or not a problem (1), and also give other not listed problems. What was remarkable, among the first five major problems, only two are related to the economic issues, and the three other are related to governance and collective action issues.

As the most frequent problem to overcome the leaders saw members' commitment and loyalty of the members (mean rank 2.13). Finding purchasers for the output was ranked as the second most frequent problem (mean 1.87), to obtain financial support available for producer groups was seen as the third one (1.84), to build trust among members as the fourth one (1.82) and leadership was seen as the fifth most frequent problem to overcome (1.76). Also among other, not listed problems such institutional components as individuality of farmers, to encourage other farmers to join the group, lack of knowledge about market mechanisms among members, mentality of the people and willingness to have immediate profits, and pessimism of the members were quoted as the major problems for the group to overcome. In the total quoted by the respondents other problems were related to governance factors and to economic issues (such as difficulties to obtain a credit for the group, to find capital, or to deal with price fluctuations).

Conclusions

This article presented the main empirical results from a survey carried out in Poland with leaders of farmer marketing organizations called producer groups. The primary aim of producer groups is to organize joint sales of goods produced by individual farmers. The survey was conducted within one province from which 50 representatives of functioning groups and 12 representatives of groups which split up were interviewed.

The majority of the groups subjected to the researched associated farmers producing hogs, vegetables and fruits. The average number of members per group was 71. The main 'official' task of producer groups, which is marketing of the output produced by individual farmers, was performed only by 80% of the functioning groups. Most of the groups started up around 1999, just before introduction of the legal bills about producer groups. Usually the cooperation was initiated by one of the farmers, seen as the community leader. Some groups were formed in cooperation with a former socialistic municipal cooperative. The groups were regularly formed among people who knew each other; the acquaintance resulted mainly from ordinary neighborhood relationships. Although the groups appeared to fulfill many social and educational functions too, the most important

motives and aims of establishing the groups were usually of an economic character, such as earning higher profits and gaining higher prices. Considering groups which split up, most of them stopped their activity around 2002. The most frequent reasons for breaking up were trust and members' commitment problems. The functioning groups usually were characterized by strong leadership (the leader together with a few management members). Overall the market position of the groups which performed joint sales looked quite good in the data; nonetheless, due to the high fluctuation of prices, the groups perceived themselves as dependent on their buyers and the whims of the market. The interviewees saw commitment and loyalty of the members as the most frequent problem during the groups' functioning. The above findings suggest that the core element to understand the phenomena of producer groups in Poland is not only to analyze the economic and market situation of the groups, but also to investigate the nature of collective actions in their governance dimensions. For the associated farmers the critical problem appears not to be production or finding purchasers but to come together, understand each other, trust each other and avoid of free riding and self profit maximization behavior.

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Legislation

Act from 15th September 2000, Ustawa o grupach producentów rolnych i ich związkach oraz o zmianie innych ustaw wraz z kolejnymi zmianami (Dz.U. 2000, Nr. 88, poz. 983)

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The Governance of Cooperation – Policy implications for rural Central and Eastern Europe

Catherine Murray, Volker Beckmann, and Annette Hurrelmann¹

Abstract

The newly acceded Central and Eastern European states find their rural development strategy should fit into the European Union's (EU) framework and policy for rural development. The EU's approach is based on using rural networks for policy implementation, or building networks where they are missing in a participatory manner. This principle has been expounded in the new Rural Development Regulation for the period 2007-2013. Such an approach requires cooperation between individuals, or the coordinated action and collaboration of individuals within a group. Thus governance structures are instituted within these groups. This paper explores the governance of cooperation using case studies conducted in rural CEE. The case studies were undertaken within the IDARI project (Integrated Development of Agriculture and Rural Institutions in Central and Eastern European Countries). An evaluation tool was developed to classify the effect of policy on cooperation between agents. Policy can have a direct or indirect effect on existing networks, both of which should be understood at the policy design stage.

Key words: cooperation, social capital, rural policy, policy evaluation

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Introduction

To solve many social dilemmas, cooperation is required. Actors must collaborate with one another and find solutions within and amongst their own resources. Cooperation requires a localised response to a particular problem. It requires the collaboration of individuals, thereby creating a common understanding amongst the group or network, and it requires the establishment of group norms to govern the interactions (Murray, 2004). The former communist countries in Central and Eastern Europe (CEE) experienced a paradoxical system, which destroyed trust between people and government, while attempting to establish a community based on mutual trust (Lovell, 2001). Official hypocrisy, corruption, secret police surveillance and the suppression of meaningful citizen participation jeopardised trust, and thus it would seem, would leave a legacy, which hinders cooperation between citizens. Cooperation can solve problems where the government will fail. This then begs the question as to what the role of the government is in promoting or facilitating cooperation, especially in countries where the institutions have been overhauled in the last twenty years. Government policies and programmes inevitably affect how people interact with each other, and also affect the patterns of social capital development. This paper explores systematically how State intervention affects patterns of cooperation in rural CEE. Such an analysis is important to inform the policy debate on appropriate intervention in rural CEE given that such areas have experienced massive changes in the transition period from socialist control to market organisation, and furthermore with the accession of CEE countries into the European Union. Despite the presumption of low levels of social capital in CEE (Paldam and Svendsen, 2000), examples of rural cooperation were identified and analysed through a series of case studies. The research was undertaken in the IDARI² project, and used to highlight the effects of different levels of State intervention (from laissez faire to high levels of intervention) into rural cooperation. Examples are drawn from cooperation in Poland, Slovakia, Latvia, Lithuania, Bulgaria and Hungary. These case studies are used to make policy recommendations for rural development in CEE. It is intended that this paper contribute to the debate on how rural policy objectives are met in CEE.

2 IDARI (Integrated Development of Agricultural and Rural Institutions) is a European Commission funded project under the 5th Framework Programming Quality of Life (QLRT-2001- 02718 FP5)

Rural Policy in Central and Eastern Europe

Kovach (2000) outlines the nature of the ‘rural crisis’ that emerged in the aftermath of the collapse of socialist systems in central and eastern Europe. There was a decline in the relative importance of agricultural production, which was the first sector to be privatized. Thus the relative importance of agriculture declined to levels similar of other EU States. However, the rates of rural unemployment were much higher than those of the member states in this initial period of transition. This structural problem was exacerbated in many CEE countries by an increasing rural population – people moved from the cities back to rural areas. This was despite the assertion that the negative aspects of post-socialism affected rural areas to a greater extent than they did in urban areas (*ibid.*). On accession to the EU in 2004, the CEE countries subscribed to the notion of an integrated Europe, with acceptance of its formal institutions and *modus operandi*. This included the Common Agricultural Policy, and individual agreements were negotiated between each acceding country and the EU with respect to the level of agricultural support.

One central component, or an emerging “pillar”, within the CAP, is rural development. In 1996, the Cork Conference on Rural Development launched a wide debate on rural development policy. This debate culminated in the Agenda 2000 reforms which saw rural development policy established as the “second pillar” of the CAP. The mid-term review of the CAP was adopted by the Council in September 2003. It strengthened the second pillar role of rural development further. The Commission organized the Salzburg conference on rural development policy in November 2003, where Commissioner Fischler emphasized the role rural development within the CAP. In 2006, a new Rural Development Regulation was formulated by the Commission for the years 2007-2013. The regulation has four main objectives, and groups potential support measures into four “axes” that reflect those objectives. The first objective is to improve the competitiveness of the agricultural and forestry sector; the second is improving the environment and the countryside; the third improving the quality of life in rural areas and diversification of the rural economy; and the fourth objective is to have a LEADER element, based on bottom-up development as per the LEADER I, LEADER II and LEADER + programmes. This fourth objective is most relevant to this paper, and the issue of cooperation within rural policy.

The relevance of these policy developments is that the options for rural development are now available to actors in the former socialist countryside. Pilot programmes such as PHARE and SAPARD were implemented in the accession countries during the transition period (1990s to 2005), introducing the EU model of rural policy incentives. The policy objectives echo those of their partners in the older EU member states: the idea of shifting the focus of interventions away from

primary agricultural production towards rural development; the cultivation of niche markets such as rural tourism and ‘green’ local products; the search for new, innovative ideas (and sources of funding) based on the revival of local traditions; and the use of partnerships and networks to achieve development objectives. The Treaty of Accession (2003) allowed for a special rural development regime in the new Member States for the period 2004-2006. This was based on a new Temporary Rural Development Instrument, funded by the EAGGF (European Agricultural Guidance and Guarantee Fund) to support the four so-called “accompanying measures” (agri-environment, early retirement, afforestation, and compensatory payments for less-favoured areas and areas subject to environmental constraints). In terms of cooperation, what is important is that this instrument could be used to support producer groups. In addition to these measures, new Member States could benefit from a Leader-type measure funded by the EAGGF Guidance. Thus policy in CEE is fusing with that of the EU, and this has been formalised in the New Rural Development Regulation of 2007-2013. Cooperation between actors in EU rural areas is an indirect policy objective in the challenge of promoting growth and sustainable development in rural areas (Ray, 2003). In particular, rural development policy explicitly advocates the use and creation of social capital in its implementation. Social capital requires cooperation, which is the focus of this paper. The following section details how cooperation was conceptualised and investigated for this study.

Analytical Framework

This section deals with the strategy adapted to examine cooperation. It looks specifically at one element of a broad framework for understanding cooperation – that of State intervention in influencing or promoting cooperative behaviour. In the EU, rural policy is increasingly targeting local communities and citizen participation through partnerships and the use of local resources. Thus, understanding the relational dynamics within existing and successful networks is important for understanding how policy can best achieve its aims. Furthermore the level of State involvement affects how individuals cooperate – whether there are incentives (financial or otherwise) to cooperate, or whether cooperation is forced, due to the actions of the State.

Three institutional settings were identified, with varying levels of State intervention (figure 1). The first is a situation of *laissez faire*, or little State intervention. Thus the market dominates, and the role of the State (or active policy) is considered minimal, only in the upholding of property rights. Cooperation for market development is voluntary, with actors realising the mutual economic gains

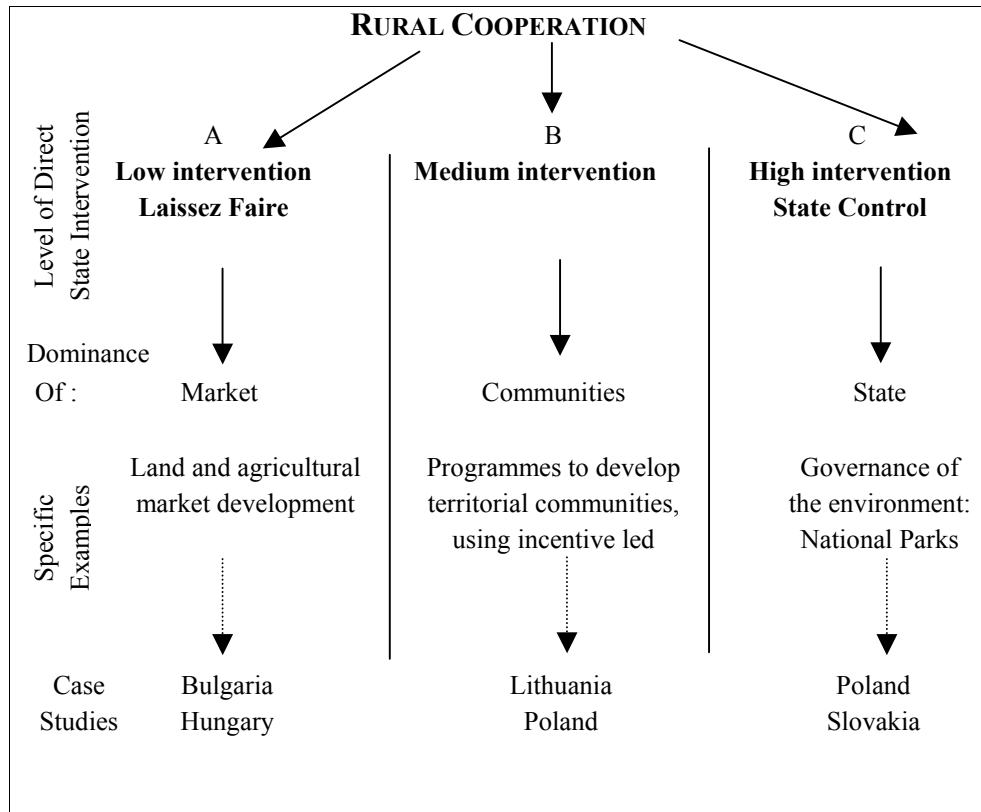
to be made through cooperation. As such cooperation is seen as a pragmatic intended institution. The second setting has a medium level of State intervention, and was chosen due to its real life reflection of the prevailing rural policy in the EU. The EU tries to enact rural development through incentive led programmes and projects (for example LEADER, SAPARD and PHARE), while at the same time attempting to get rural people to solve their collective problems. Inevitably local communities and networks will determine how successful rural development policy will be. The focus here is on a mix of endogenous and exogenous processes or how communities react and organise themselves in response to a policy incentive. The third setting has a high level of State intervention, through a direct command of policy. Environmental directives from the State or EU are a good example of such intervention, as compliance to specified environmental standards is obligatory, with little choice but to adhere to the policy³. The designation of an area requiring environmental protection often forces communities to engage in a debate where they possibly would have preferred to remain autonomous.

What is interesting about the design of this analytical framework is that it incorporates three dominant actors/sectors – Markets, Community and State – with differing relative importance. It is assumed that there is communication and discourse between the State, Community and Market, although each category is not mutually exclusive (White, 2000; Hurrelmann, 2004).

Amongst other objectives, rural development policy is an attempt to commodify existing and potential resources in an area. To have a sustainable rural economy, spatial inequalities need to be redressed through the growth of economic activities in those areas. Therefore there is the implicit goal of moving from non-market use to market use of resources in rural areas. By introducing a rural development policy, the State attempts to influence this process to some degree. One aim of the research was to analyse cooperation through the dynamics of existing networks in the three settings of figure 1. To this end, it was necessary to choose a case-study approach for the research. The case studies enabled a detailed discussion of the causes of variation in cooperative behaviour of individuals within a particular network, and by using this approach an attempt was made to understand systems of behaviour from a holistic perspective. The literature on case studies favours using replicated cases to illustrate the range of organisational and institutional forms in a particular setting, rather than calculating the incidence or frequency of these forms (Norgaard, 1989; Yin, 1994). Replicated case studies

3 It is recognised that the government may adopt less of a command and control approach and attempt to institute participative approaches with the designation of a protected area. Trends in environmental policy making in the EU are moving in this direction – see for example Juntti and Potter, (2002).

Figure 1. Analytical Framework for analysing cooperation



suited the analytical framework developed above. The following section details the empirics of the data collected in these case studies.

Empirical Data collection

The empirical data was collected by researchers in six CEE countries, looking at social capital, cooperation and rural institutional innovations. Seven case studies were completed in this project: two in Poland, and one in each of Hungary, Bulgaria, Slovakia, Latvia and Lithuania. As the method of replicated case studies was chosen, guidelines for the design of the case study were agreed upon by all researchers. Although the institutional environment differs in each country, and indeed within regions of the same country, six cross cutting themes were identified for minimum comparison of the cases. These were:

- a. The role of trust/mistrust and opportunism (both social and institutional)
- b. The role of communication and learning on cooperation
- c. The role of transaction costs and changes in governance on cooperation
- d. The role of the State (both national and EU) and the formal institutional environment on cooperation
- e. The role of communities, social networks and informal institutions on cooperation
- f. The role of the market and competition in fostering/hindering cooperation

The first two themes relate to the formation of social capital in the case study area, and how information is transmitted within the network. The third theme looks at how cooperation is a rational choice, resulting in a reduction in transaction costs for the actors involved. The last three themes explore the relative importance of the three pillars – Market, Community and State for overall cooperation. It is from the findings in these themes that the policy recommendations of this paper are derived.

Within the market pillar, data was collected from two locations in Hungary and Bulgaria. The town of Hajdúböszövény was selected for analysis in Hungary (Forgacs, 2005). In former times, agricultural production was organised collectively in the form of cooperatives. Despite the fall of the socialist system, not all institutions collapsed, and there are examples of continued cooperation within such agricultural cooperatives. One such cooperative was studied, and contrasted with a newly established (late 1990s) agricultural cooperative in the same town of Hajdúböszövény. In Bulgaria, the selection of the case followed a different logic. It was not due to evident cooperation, but where cooperation was required and desirable for effective market functioning that determined the selection (Aleksiev and Penov, 2005). The issue of land fragmentation is specific to Bulgaria, due to the inheritance laws relating to property. Fragmented plots are a hindrance to farming systems, and debilitate the markets for certain agricultural products and also the land market itself. The village of Dubene in the Plovdiv region was selected, and despite its small size, had 1350 landowners. Limited cooperation within the village was identified, in the form of agricultural cooperatives, farmer's partnerships and family farms.

Within the community pillar, three case studies were undertaken. The first in the Carpathian region of Poland focused on a project that was funded by a regional (non EU) agency. The case study looked at cooperation within the Bieszczady's Local Product (BLP) initiative (Korczynski, 2005). The initiative aimed to create a regional identity for food and non-food produce from the area. Although Bieszczady forms a microregion, a complexity in the study emerged due to the overlap of administrative districts (voivodships) and communes. The second case study in this pillar was an incentive led project in rural Lithuania (Zemekis, 2005).

The PHARE 2000 - Economic and Social Cohesion (ESC) project, funded by the EU, provided an incentive for communities to work together for a common purpose. The project to create a tourism infrastructure for the Jura river waterway was funded under PHARE, and required the statutory agencies and programme implementers to cooperate with one another. A peculiar aspect of this project was that the geographical scope of actors extended along the length of the waterway, in Taurage county in the north west of Lithuania. The third case study in this pillar differed from the other two, as the cooperation was community led, rather than organised cooperation in response to available funding. The Rauna Tourism Association in the Cesis district of Latvia is a grassroots organisation with the aim to share information and promote the town as a tourism destination (Zobena, Summane and Kalnina, 2005). It also differs from the other two case studies in that the cooperation is focused within a smaller geographical area, and there are fewer actors involved.

The third pillar is that with high State intervention. Two cases of a national park designation were selected. These are interesting, as such designations reflect the command and control style of governance of former times, in that landowners and resource users within the park bounds are limited in their actions. Rights over resource use are defined by the State, for the preservation of nature. In Poland, the Drawienski National Park is situated in the north-west, at the border of three administrative regions or voivodships (Matczak, 2005). The park was established in 1990, fulfilling the requirements of IUCN II category, and is predominantly woodland, with some waterway and abandoned fields and meadows. Although economic opportunities within the area are limited, there is contestation over the use of resources, especially commercial interests on the outskirts of the park. In Slovakia, the Slovenski-Raj national park in the north-east was selected (Klúvanková-Oravská, 2005). It was categorised as a protected natural area in 1964, and gained national park status in 1988, being an eroded karstic benchland and having many canyons, waterfalls and rivers. As with the Drawienski national park, the administration of the park is divided between municipalities – adding complexity to its governance. There are problems of finding a balance between nature conservation, economic interests (especially tourism and farming) and informal user rights in the park. Cooperation is required, by all stakeholders, for the sustainable management of the park.

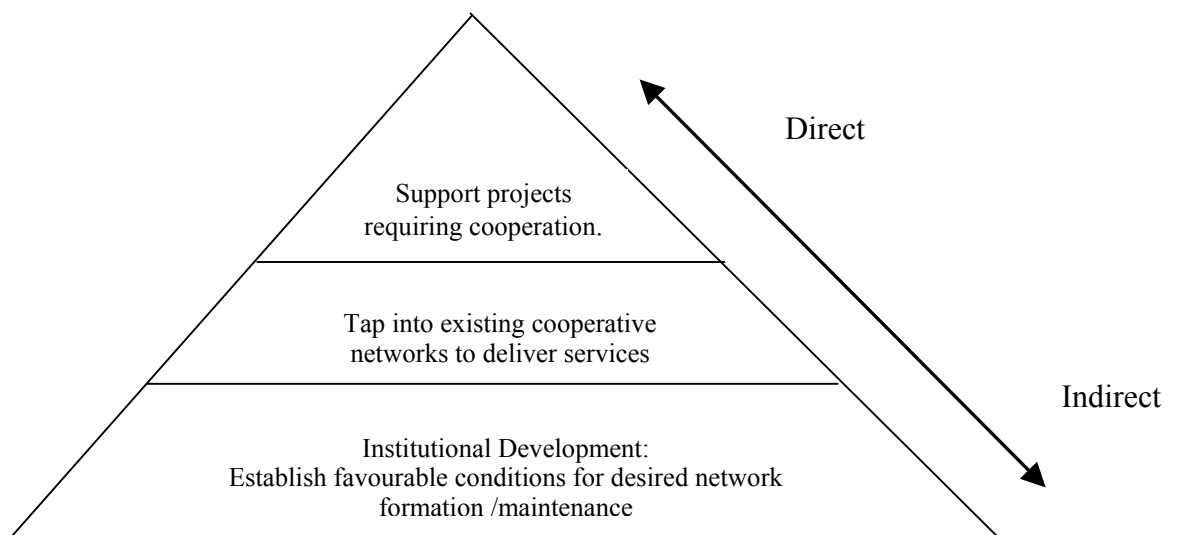
Within all the case studies, the process of cooperation was investigated. A set of interview guidelines was drawn up for each case study, exploring the six themes while adapting the questions to suit the institutional environment of the particular case. Data was collected using direct interviews (in the vernacular) with stakeholders, document analysis and direct observations in each case study. All

data was collected between March and June 2005. The following section discusses the relevance to policy of the main findings of the case.

Policy implications

The European rural development policy model has evolved over the past number of years, in response to problems faced by rural areas. The current trend in policy has been described by Osti (2000) as an attempt to substitute hierarchical intervention with a system characterized by network and market relationships. This is similar to the general transformations within CEE during the transition period. Furthermore with respect to rural development policy there is a trend toward harnessing the existing social capital in rural areas, encouraging cooperation and collective action among rural actors at a community level. During the transition period in CEE, Kovách (2000) was critical of the approach to rural development. Despite the transformation from centralised decision making and a party state system to parliamentary democracies, he argued that rural policies were not ‘modernised’ appropriately. Policy remained over bureaucratic, and despite signals from the EU and officials of the Commission, the CEE states were slow to relinquish decision making to local communities or civil society. Nevertheless, the endogenous model of rural development is extended to the newly acceded countries of CEE, and institutions will continue to evolve in response to this policy change.

**Figure 2. Effect of public policy on cooperative behaviour:
from direct to indirect influence**



Although the stated aim of policy is not to increase social capital, the implementation of policy centres on its use. At a general level, social capital supports informal institutions based on norms and behaviour, and facilitates cooperation between individuals. Figure 2 shows how policy can affect cooperation, using the continuum of direct and indirect influence. This is a useful tool for evaluating how a policy affects cooperation between actors. All the case studies examined can be placed on this continuum, with varying goals of policy that they were influenced by, or responded to an indirect influence of policy. The remainder of this section discusses how the case studies can inform the debate on this institutional change and stresses its effect on policy design and implementation in central and Eastern Europe.

In both Hungary and Bulgaria, the cooperation (or lack of it) can be viewed as a response to the broader institutional changes of transition, so any resulting cooperation within the first pillar of market development was an indirect consequence. In Hungary the aim of policy was to move agricultural production within market institutions. This forced the actors within the market to cooperate, to compete within the new structures. Existing cooperative structures were in place, prior to these changes. This case study revealed the importance of leaders in this process, to guide and coordinate the activities of these independent actors. The Bulgarian case study was interesting, as it also revealed a lack of direct policy relating to cooperation. The policy that influenced the case study related to land restitution, and the resulting land fragmentation. Within the village of Dubene new strategies for cooperation between land users were identified. These were not unified, and varied between bilateral cooperation amongst family, to multilateral cooperation within the structures of existing agricultural cooperatives. This case study showed that policy is often times focused on a single issue, which is so complex that the secondary effects (such as cooperation) are not considered.

Within the cases with medium State intervention (attempting to institute cooperation between communities), cooperation was the main aim of the policy in both the Lithuanian and Polish cases. In Lithuania, the Jura water initiative resulted from a direct policy (PHARE 2000) to animate rural development and cooperation amongst rural actors. The cooperation was successful, insofar as it resulted in the formation of a network of civil servants, who cooperated for this project. The project had limited scope in including broader communities, although certain business people were included in the project. This phenomenon has been previously documented by Kovach (2000), who viewed the pre-accession period as a time where the re-education of CEE officials and bureaucrats was dominant in policy administration. He termed this the 'technocratic model' of integration of CEE rurality, which repressed the involvement of other rural development actors.

This point is important for all policy directly attempting to encourage cooperation and collective action, and for policy that attempts to use the existing rural networks for policy objectives. There are two issues that affect policy. The first relates to exclusion, whereby policy could benefit those in powerful positions within the community – in terms of those who have access to information and strong abilities in project administration. The second issue is linked to the first, and relates to defining a group and who determines its membership. This relates to semantics, and how to define, for example, a community. This issue remains unresolved in the literature (Khumar, 2005; Ostrom, 2000; Agraval and Gibson, 1999), and is problematic for policy implementation, despite rhetoric in policy circles about increased participation. At the centre of this issue is whether cooperation emerges from grass-root collective action, or is somehow induced by access to funding.

Within the Polish case study looking at the Bieszczady Local Product, the community was defined as all producers living within the geographical region. What is interesting about this case study is that the project was considered successful, in terms of both participation of the community and achieving market goals of creating a marketable identity, despite little cooperation between the producers themselves. The project was inclusive of the community of producers without being dependent on the level of contact and communication between them. The levels of trust did increase with the producers as they joined the BLP, but cooperation was evident despite initial low levels of trust. This situation can be described as coordinated cooperation, with a central importance of the project organisers and leaders. Indeed the project leaders and coordinators were active in a grassroots partnership called “Green Bieszczady”. The BLP project was funded by a private non-governmental organisation, but has characteristics similar EU funded projects. According to the schema in figure 2, the BLP could be described as a project which used an existing network to achieve its aims.

These two case studies are important, as they highlight the difficulty for policy makers on a number of levels. Firstly, it is difficult to identify examples of collective action, an exercise requiring observation, time and research. Secondly, decisions have to be made over whether such projects should be the target of policy (using existing small scale networks to achieve policy ends), or whether this is not wise spending of public monies. An assessment has to be made over the level of displacement caused by funding, and how rural localities compete over available resources.

The two case studies within the rubric of heavy State intervention were similar from a policy perspective. Both were examples of policy having a direct effect on cooperation, but not necessarily in a benign manner. The policy of the Polish and Slovak governments had strong environmental objectives of nature preservation in the respective National Parks. These designations caused conflicts amongst the

users of the land within the national park boundaries. Out of the conflict emerged cooperation between factions of users, as they organised themselves to protect their interests – for example tourism operators and environmental groups. These two case studies reveal the importance of policy design, and how policy can cause displacement to existing networks. The designation of National Park status did not focus on the communities and the local inhabitants who would be affected. The Slovakian case also showed a lack of coordination in the implementation process (overlapping competencies) and complex management of the park's resources between the municipalities. These case studies highlight the importance of appropriate consideration for communities at the design of policy. In this case, a process of participatory policy conception and implementation could possibly have reduced the conflicts.

Conclusion

Much research on post-socialist society stresses the separation of society into two spheres of activity – a public and private one (see for example Herslund, 2001). From a rural policy perspective, this approach usually implies the underdevelopment of civic society, and the lack of networks to bridge the gap between rural inhabitants/communities and the State authorities. This paper has extended this dichotomous classification to include the market, and furthermore views CEE rural space as a triangulation of all three – Market State and Community. The organisation of the case studies into three pillars explored differing levels of influence of each sector, and the implications on cooperation. Rural development in CEE countries is dependent on creating new social fields and institution-building. With the transformed political and economic landscape, individuals have to find and accept new rules and social norms for their interactions. This depends a lot on individuals' or communities' capacity to mobilise, use and develop their resources – both material and social ones.

The newly acceded CEE states find their rural development strategy should fit into the European Union's framework and policy for rural development. The EU's approach is based on using rural networks for policy implementation, or building networks where they are missing in a participatory manner. This paper has explored cases where cooperation is evident in rural CEE, and highlighted cases where cooperation is desirable, yet unattainable in current circumstances. Rural policy in CEE should be sensitive to the local institutions and conditions. An evaluation tool was developed to classify the effect of policy on cooperation. Policy can have a direct or indirect effect on existing networks, both of which should be understood at the policy design stage. An example of a direct effect on

cooperation would be a rural development policy with the specific goals of creating cooperation between rural people. An example of indirect effect would be a policy that was not necessarily focused on rural development but impinged on the activities of rural people. Examples of benign and malign indirect effects were discussed.

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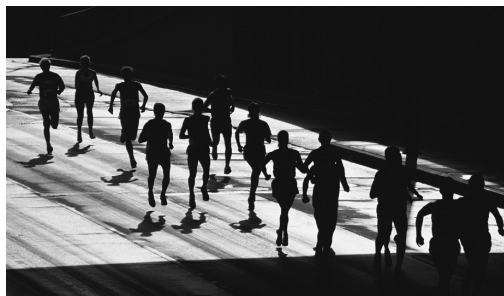
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