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Measures to successfully manage rural socio-economic change and agricultural restructuring in selected EU15 regions

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Abstract

This deliverable assesses the most significant measures that promoted agricultural restructuring and rural socio-economic change in five selected EU 15 countries (Ireland, Spain, Sweden, Austria and the new German Bundesländer). For each country, the study focuses on a specific case study region (Border, Midlands and Western region [Ireland], the Autonomous Community of Navarra [Spain], the county of Skåne [Sweden], the Tyrol Region [Austria] and the Altmark Region [the new German Bundesländer]), trying to identify the main policy drivers that triggered transformation in these areas. Policy measures are grouped around the two major EU funding instruments, i.e. the Common Agricultural Policy, through its Pillar 1 and Pillar 2, and the Regional Policy Structural and Cohesion Funds. Undoubtedly, the CAP remains critical. The significance of direct payments is remarkable as in all case studies, farmers' livelihoods, particularly those operating on a small-scale, depend largely on these subsidies. With the exception of Austria and to a lesser extent Sweden, however, the distribution of direct payments is very uneven, with large commercial farms being the main beneficiaries. This is particularly the case in Spain where 78% of farmers received only 17% of total direct aid in 2005. CAP Pillar 2 measures, particularly agri-environmental measures and LFAs compensatory payments, are extremely important for Austria and Sweden. The survival of most of Austria's mountainous farms depends on agri-environmental and LFA compensatory payments. However, the agri-environmental and LFAs payments are subject to criticism. Although, they may contribute to the economic, social and ecological development of rural areas, there is a financial imbalance between agri-environmental and broader rural development measures, which limits the progression of integrated rural development. The analysis highlights the importance of the Community Initiative Programmes, particularly LEADER. Although, very limited funds were allocated for this Programme, in most cases LEADER became popular and well received by local communities. Its popularity led to countries such as Spain and Germany creating similar national programmes (e.g. PRODER in Spain and Active Regions in Germany). Although difficult to single out the effects of the Structural and Cohesion Funds on rural development, their impact should not be neglected. Since the first reform of the Structural Funds and the creation of the Single European Act, significant amounts of public money were allocated to regional policy. Amongst the five case studies, Ireland and, undoubtedly, Spain were the major beneficiaries of these funds.

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LIST OF ABBREVIATIONS

ACF	Agreed Common Framework
AKI	Research Institute for Agricultural Economics
BMW	Border, Midlands and West
CAP	Common Agricultural Policy
CEE	Central and Eastern Europe
CEC	Commission of the European Communities
CF	Cohesion Funds
CSO	Central Statistics Office Ireland
EAFRD	European Agricultural Fund for Rural Development
EEC	European Economic Community
ERDF	European Regional Development Fund
ERS	Early Retirement Scheme for Farmers
ESF	European Social Fund
EU	European Union
ESU	Economic Size Unit
EAFRD	European Agricultural Fund for Rural Development
EAGGF	European Agricultural Guidance and Guarantee Fund
ICT	Information and Communications Technology
LAG	Local Action Group
LEADER	Links between actions for the development of the rural economy
LFAs	Less Favoured Areas
MTR	Mid-Term Review
NDP/CSF	National Development Plan/Community Support Framework
NDPs	National Development Programmes
NEQO	National Environmental Quality Objectives
OECD	Organisation for Economic Co-operation and Development
ÖPUL	The Austrian Agri-Environmental Programme
PPIRD	Pilot Programme for Integrated Rural Development
PNR	Programme for National Recovery
PRODER	Programa Operativa de Desarrollo y Diversificación Económica de Zonas Rurales
PSE	Producer Support Estimates
RDO	Regional Development Organisations
RD	Rural Development
RDR	Rural Development Regulation

REPS	Rural Environment Protection Scheme
SCARLED	Structural change in agriculture and rural livelihoods
SFAP	Single Farm Area Payment
S&E	South and East
UAA	Utilised Agricultural Area
WIF	Western Investment Fund
WP	Workpackage

"If we hadn't got into the European Union and got access to its markets, very little of what's happened would have happened. But the reason we were successful was that having got in we had the right policies to enable us to do well, so it's conjunction of the two that gives you the success. Outside the EU we were a small country of four million people with no chance of going anywhere. So the Union has given us an opportunity, but we've cashed in on it by taking the right decisions at certain key moments. We made lots of mistakes too, but we made enough good decisions to compensate for mistakes."

Garret Fitzgerald, Former Irish Prime Minister, 2004

1 Introduction

This working paper focuses on the assessment of the relative importance and effectiveness of the most significant policy measures that successfully underpinned rural socio-economic change and agricultural restructuring in five selected EU15 case studies. The analysis draws on country and regional case studies presented in Deliverables D8.1 to D8.5 of Workpackage 8 (WP8). It also follows closely the work presented in Deliverable 8.6, which examined the dynamics of rural changes in five selected EU15 regions considered 'successful', focusing particularly on the role of agriculture, following EU accession.

Nevertheless, it is important to note that "success" is a relative term. The success or otherwise of a local rural area may be measured against the norms for urban areas in its region, or against the regional average. The success of a region may also be considered against the national average or against the average for the EU as a whole. Usually a series of socio-economic and demographic indicators, such as the contribution of the region to the economy as a whole, regional GDP/person, employment and unemployment rates, rate of birth and life expectancy, are used to quantify the 'success' or otherwise. The list is, however, non-exhaustive. Thus, the case study regions were selected in terms of their ability to offer 'successful' experiences of rural transition following accession to the EU.

The case studies identify the key features and determinants of rural transition in four selected EU15 member states following their accession to the EU, i.e. Ireland (1973), Spain (1986), Sweden and Austria (1995), as well as the new German Bundesländer, which joined the EU in 1990 in the light of the reunification of Germany. The regions covered are the: Border, Midlands and Western (BMW) (Ireland); the Autonomous Community of Navarra (Spain); the county of Skåne (Sweden), the Tyrol Region (Austria) and the Altmark Region (the new German Bundesländer). These case study reports were prepared by various authors (Hubbard and Kaufmann, 2008; Hubbard and Ward, 2007; Iraizoz, 2007; Copus and Knobblock, 2007; Wolz and Reinsberg, 2007)[1]. Overall, the general objective of WP8 is to analyse patterns behind "success stories" in rural transition experiences following EU accession in these countries, looking in detail at one case study region within each member state. This report draws heavily on the country study reports.

The country reports were based on a Common Methodological Framework (CMF) (with a common set of specified research questions) developed by UNEW in collaboration with other SCARLED colleagues. Following the Description of Project Work, the research was predominately based on secondary data analysis, including historical documentary reports and review of the relevant literature. Additionally, in order to strengthen the analysis, face-to-face and telephone interviews were carried out for each selected case study

[1]The specific deliverables are: D8.1 "Development of socio-economic and agricultural structures in selected rural regions in Austria after EU accession" Carmen Hubbard and Peter Kaufmann @CRE; D8.2 "Development of socio-economic and agricultural structures in selected rural regions in Ireland after EU accession" Carmen Hubbard and Neil Ward @CRE; D8.3 "Development of socio-economic and agricultural structures in selected rural regions in Spain after EU accession" Belen Iraizoz @Public University of Navarra; D8.4 "Development of socio-economic and agricultural structures in selected rural regions in Sweden after EU accession" Andrew Copus and Erika Knobblock @NORDREGIO and D8.5 "Development of socio-economic and agricultural structures in selected rural regions in the new German Bundesländer after the German unification" Axel Wolz and Klaus Reinsberg @IAMO.

region. This analysis will provide a basis for subsequent work in WP9 (Deliverable 9.1 and 9.2), considering the extent to which the lessons and experiences from the EU15 can be emulated in the New Member States (NMS) from Central and Eastern Europe (CEE). This reflects how identifying key national and regional features of rural change and the major driving forces behind such change can assist in drawing conclusions about the success or otherwise of measures to manage agricultural and rural transformations. It can also support the design of future rural development policies for the new EU member states. The working paper is organised as follows. Section 2 starts with a short overview of national agricultural policies prior to each country's accession to the EU. It continues with an assessment, by country, of the most significant measures applied under the Pillar 1 of the CAP. Section 3 focuses on specific rural development measures (CAP Pillar 2) emphasising country by country which of these measures triggered significant changes. Section 4 examines the importance of EU Structural Funds and other measures on rural areas in these selected countries. Conclusions are presented in Section 5.

2 Pillar 1 of the CAP

2.1 National agricultural policies prior to EU accession and major CAP reforms: Short overview

Prior to EU accession, the agricultural sector in all selected countries was heavily supported through national interventionist and protectionist measures (e.g. price support for key products, import levies and export subsidies). However, Sweden presents some particularities. Although a strong interventionist policy dominated its agricultural sector, changes in the political context and public attitudes for support to the farming sector led to the adoption of a liberalising agricultural reform in 1990. Nevertheless, the application for EU membership in the following year and the preparation for accession confused Swedish farmers, who were "obliged" to return the land just taken out of production for Conversion Grants into cultivation in order to maximise eligibility for arable area payments (Copus and Knobblock, 2007). Livestock numbers also increased in response to headage payments. Hence, at the time of accession agriculture protection in Sweden fell close or even under the average of the EU12 level (Bojnec, 1996). This was not, however, the case for Austria, which at the time of accession recorded a much higher level of agricultural support than that of the EU.

The adoption of the CAP following EU accession brought significant changes for the agricultural sector in all countries studied (e.g. rise or fall of prices for some agricultural products and/or farm income, farm restructuring and changes in production patterns). While changes differed from country to country or region to region, what applies to all is that with accession financial support and the direction of agricultural policy shifted from the national (and regional) to the supra-national level. Moreover, it is important to note that while the CAP has been subject to various changes since its inception in 1962, it was not until recently that the CAP underwent more radical reform (e.g. Agenda 2000 and Mid-Term Review 2003). Its emphasis shifted from guaranteeing high price support and export subsidies, which encouraged agricultural productivity and commodity surpluses, to direct payments decoupled from production which is hoped to promote competitiveness and support a more environmentally and animal welfare friendly farming sector.

It is important to note that the country case studies joined the EU at different times in the development of the CAP, with most of the CAP reforms coinciding with, or following closely, various waves of expansion of the Union. For example, after Ireland's accession (alongside the UK and Denmark, in 1973), the first major enlargement, compensatory payments were introduced (in 1975) to support the improvement of agricultural structures in areas where natural conditions were unfavourable (LFAs). The introduction of milk quotas preceded Spain's accession (in 1986), and the first major reform of Structural Funds (which reinforced the principle of economic and social cohesion) took place two years later, in 1988. The 'MacSharry reform', which led to the reduction of price support for major agricultural commodities (cereals, oilseed and beef) and the introduction of compensatory (later on direct) payments for farmers, followed just two years after Germany's reunification. It can be argued that Germany's reunification was a special case and somewhat less predictable from an EU expansion point of view. A novelty of the MacSharry reform was the so-called 'Accompanying Measures', namely the agri-environmental measures, compensatory allowances, early retirement scheme for farmers and forestry measures in agriculture (i.e. afforestation)[2]. The accession of Sweden, Austria and Finland in 1995, coincided with the expansion of agri-environmental policy measures and the second reform of the Structural Funds (1994-1999). Agenda 2000 was signed in 1999 in Berlin, heralding a new element to the CAP, i.e. a specific rural development policy. In consequence, the CAP was divided, into two major components: Pillar 1, which addresses support for agricultural products and producers, and Pillar 2 which focuses on the "multifunctionality" of the farming sector or rural development. In addition, Agenda 2000 allowed for measures (e.g. modulation) which could transfer funds between the two pillars. Nonetheless, this major reform was motivated by the desire to prepare the EU for its largest enlargement (of the Central and Eastern Europe Countries) in 2004 (Gorton *et al.*, 2009). Furthermore, only a year before this EU expansion, the Mid-Term Review (MTR) was adopted, which sought to provide a framework for CAP post-enlargement (ibid.). Undoubtedly, Pillar 1 of the CAP remains the dominant component, as almost 80% of the total EU CAP budget is allocated to market and income support, with the latter receiving the largest share.

2.2 Ireland and BMW Region

Ireland joined the EU (then the European Economic Community) at a time when more than 80% of total EU budget was allocated, particularly in the form of price and market support, to agriculture. As farming contributed significantly to the economy as a whole (accounting for 16% of Irish GDP and more than a quarter of its labour force) the adoption of the CAP with its high price support for agricultural commodities and the opportunity of expanding exports was crucial for Ireland. Although the country's economy has diversified and the role of agriculture diminished, there is little doubt that CAP has markedly influenced, financially and ideologically, Irish agriculture (Crowley, 2003).

Since joining the EU, Ireland was a net recipient of EU funds. Between 1973 and 2006 some €61 billion were allocated to Ireland, of which 70% represented payments through both sections of the European Agricultural Guidance and Guarantee Fund (Department of Agriculture, Fisheries and Food, 2007). Figure 2.1 depicts clearly the net budget effect from the CAP between 1973 and 2006.

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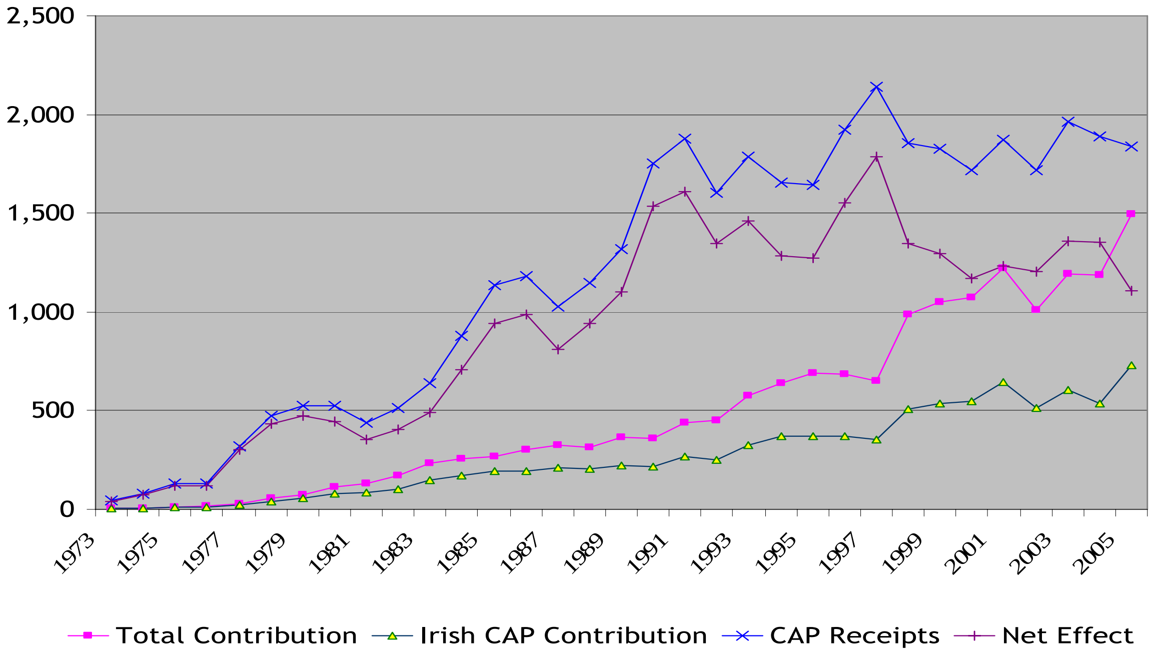
[2] Council Regulations (EEC) No 2078/92, No 2079/02 and No 2080/92.

Figure 2.1 Ireland's Net Budget Effect from CAP, 1973-2006



Source: http://www.agriculture.gov.ie/publicat/compendium2007/individual/N6.xls

During the 1970s and 1980s, most of the CAP support was in the form of price and market aid (including export subsidies). This had an exceptionally positive impact on the Irish farming community as a whole, which benefited particularly for the first five years after accession. High prices for agricultural products led to high levels of production and farmers enjoyed rises in real income. However, not all farms benefited to the same extent and the distributional impacts of the CAP varied widely across individual farms and regions. The dairy and beef sectors were the main beneficiaries, receiving almost 90% of total Guarantee Section funds, whilst arable crop (tillage) farms received only 3%. Pig and poultry and fruits and vegetables farms received very little support or none (Table 2.1). Regionally, farmers located in areas where the quality of soil and climate conditions were more favourable, such as the South and South-East, also benefited more, in contrast with farmers from the Western part of the country (Lafferty *et al*., 1999).

Table 2.1 EU FEOGA Receipts by main Sector, Ireland, 1973-2006

Sector	1973-1979		1980-1989		1990-1999		2000-2006	
	€m	% of total	€m	% of total	€m	% of total	€m	% of total
Dairy	848.8	50.9	3,197.5	39.5	3,378.3	20.8	1,280.1	10.1
Beef and Veal	620.7	37.3	4,369.4	54.0	9,309.5	57.3	5,274.9	41.7
Arable crops (cereals)	49.3	3.0	75.4	0.9	791.5	4.9	658.2	5.2
Sheep	-	-	401.9	5.0	140.5	0.9	517.3	4.1
Sugar	25.6	1.5	109.5	1.4	93.1	0.6	43.8	0.3
Pig meat	31.2	1.9	11.4	0.1	25.2	0.2	7.9	0.1
Poultry and eggs	0.6	0.0	25.5	0.3	13.0	0.1	0.14	0.0
Fruits and Vegetables	3.2	0.2	1.8	0.0	1.0	0.0	24.1	0.2
Total FEOGA Guarantee*	1,666.3	100	8,098.9	100	16,234.4	100	12,639.2	100

Source: Hubbard and Ward, 2007 & Department of Agriculture, 2007; * includes other measures plus Accompanying Measures

In addition to the CAP price and market support mechanisms, the sector benefited from on-farm structural and social policy measures (*e.g.* modernisation of farms, less-favoured areas payments) and specific EU off-farm measures such as two drainage programmes in the less-favoured areas of the West and the Border regions. Furthermore, the creation of the common market for sheep (and goat) meat and the introduction of ewe and suckler cow premia boosted production. For instance, the number of sheep almost doubled. Parts of BMW region (e.g. Midlands) recorded the largest increase. Nonetheless, major structural changes in Irish agriculture (including in the BMW region) were postponed for two decades following accession. The structure of farms remained almost unchanged with the number of farms decreasing very slightly (e.g. only by 3% between 1975 and 1985) and the average farm size remained constant at 22-23 ha.

The MacSharry reform of 1992 brought significant changes to agricultural and rural development policy in Ireland, and implicitly in the BMW region. Farmers faced serious cuts in intervention prices for major commodities (e.g. cereals, oilseeds and beef) but were compensated through direct payments. Since its introduction, direct payments have proved to be crucial for Irish farm income. Their contribution to average family farm income increased significantly from 5% in 1973 to 30% in 1992 and 60% in 1996. Agenda 2000 and the 2003 Mid-Term Review brought further policy changes, as direct payments were "decoupled" from production and a Single Farm Area Payment (SFAP) Scheme was introduced from 2005. Currently, direct payments are vital for the livelihood of the majority of Irish farms, accounting on average for 98% of total farm income in 2006. Moreover, there are farms, such as, for example, cattle rearing and sheep, where direct payments account for more than 100% of their total farm income. Most of these farms are located in the BMW region. There is little doubt that without direct payments the majority of farms in this region would be unviable. As Crowley (2003) notes, the allocation of direct payments supported particularly those unable to compete on the market and help to "preserve the fabric of rural society". As agriculture is very important within the region, this sector has been a major beneficiary of EU transfers. Around half (45%) of the total EU fund allocated for Irish agriculture were transferred to this region between 1996 and 2002 (Table 2.2).

Table 2.2 CAP Pillar 1 Funds to the BMW region (€ million)

Programme	Total payments 1996-2002	Average annual payment	Expenditure in 2002	% of State 1996-2002	% of State in 2002
Suckler Cow Premium*	996.7	87.9	125.1	54.1	54.8
Ewe Premium	387.2	55.3	53.8	54.1	54.9
Special Beef Premium	622.6	89.0	104.1	37.9	38.8
Slaughter Premium	131.4	18.8	46.5	35.8	36.9
Arable Aid	169.9	24.3	26.5	20.3	20.7
Extensification premium	346.5	49.5	0.0	48.8	0.0
Total	2654.3	-	356.0	28.2	27.0
Total EU agriculture payments for agriculture in BMW	4,241.6	-	623.2	45.1	47.4

Source: Bannon (2005); * data for 1992-2002

2.3 Spain and the Community of Navarra

Spain acceded to the EU, two years after the introduction of milk quotas, and at a time when agricultural commodity surpluses had become a serious concern for policy-makers. Additionally, agricultural prices plunged worldwide. At the time of accession, the sector was still important, accounting for 15% of the labour force and 6% of the total GDP. Accession, however, did not immediately fulfil farmers' expectations regarding an increase in their farm income. In contrast, in the first year following accession total farm real income dropped by 5% compared with the previous year. Overall, between 1986 and 1990, the growth rate of total agricultural income did not exceed 1% (Iraizoz, 2007). Although, for the same period, agricultural output increased on average by 5.4% per year, this was only half of the annual average growth rate recorded prior to accession, i.e. between 1980 and 1985. Changes in farm structure were also slow. However, Spanish farmers were supported, particularly through price intervention mechanisms. For example, in 1989, more than 80% of total EU transfers to Spanish agriculture were in the form of price support (Table 2.3). With the adoption of the MacSharry reform the balance shifted in favour of direct payments, which by 1996 accounted for almost two thirds of total EU agricultural subsidies allocated to Spain. Due to differences in production structures, Producer Support Estimates (PSE) vary significantly between EU members. For example, using 1995 data the PSE for Spain amounted to only 9.4% of the average PSE for the EU15 (ibid.).

Table 2.3 Total EU Transfers to Agriculture, Spain, 1989, 1994 and 1996

	Millions ECU			%		
	1989	1994	1996	1989	1994	1996
Direct and other payments	1,038.7	3,811.1	4,220.4	16.9	42.6	62.4
Price support	5,107.0	5,137.8	2,547.8	83.1	57.4	37.6
Total	6,145.7	8,948.9	6,768.2	100	100	100

Source: Iraizoz (2007)

Direct payments are an important component of farm income; however, their distribution is very uneven across farms and proves to be "socially regressive" (Tio, 1993). Large, prosperous commercial farms received a disproportionate share of these subsidies. For example, in 2000, 81% of the total number of Spanish farms received less than a quarter (22%) of total direct aid[3], and the situation changed little by 2005. In contrast, very large farms receiving more than €200,000 per year accounted for less than 1% of total Spanish farms but 7% of total direct support (Iraizoz, 2007). Additionally, as direct payments were coupled to certain commodities, being paid per hectare cultivated or number of animals, their distribution by sector (and region) has also proved to be uneven, with two thirds of total direct support aimed towards cereals and olive oil producers (Table 2.4).

Table 2.4 Distribution of Direct Aid by Sector, Spain, 2000 and 2005

Products	2000		2005	
	Amount (€'000)	%	Amount (€'000)	%
Cereals	1,518,526	40.5	1,832,277	39.7
Olive oil	957,249	25.5	1,016,038	22.0
Sheep and goats	466,934	12.4	510,733	11.1
Cattle	407,105	10.8	816,330	17.7
Tobacco	115,571	3.1	111,694	2.4
Banana	109,739	2.9	69,709	1.5
Vegetables	61,587	1.6	60,833	1.3
Rice	32,511	0.9	116,362	2.5
Others	84,021	2.2	84,146	1.8
Total	3,753,243	100,0	4,618,122	100.0

Source: Iraizoz (2007)

Although prior to accession cereals and fruits and vegetables were important components of the agricultural output, the adoption of the CAP made Spanish agriculture even more specialised in these products. Furthermore, a high support for olive producers led to a considerable increase in olive oil output and the number of farms specialised on this product.

The production of cereals and vegetables are very important for the Community of Navarra, as the region's output is based particularly on these products. In contrast to the national level, Navarra has specialised (alongside pig production) in other livestock products, such as cattle, sheep and goats, and milk. However, within the region, the pattern of specialisation differs between the north and south according to the climate and soil conditions. The region had also experienced a more accelerated decline in the number of farms (by 42% between 1990 and 2005 as compared to 33% at the national level) and its average farm size increased by 65% (as opposed to 50% for the national level). Overall, as in Ireland, most of the labour force is provided by family members. However the share of

[3] These are considered small-size farms as they receive less than €5,000 in form of direct aid (Iraizoz, 2007).

labour accounted for family members has declined from 75% (of total labour) in 1990 to 65% in 2003. Part-time farming has also become common and as agriculture is becoming less important, Spanish farmers are looking to diversify their business. It can be concluded that the CAP Pillar 1 measures influenced, particularly from 1992 onwards, the development of the Spanish agricultural sector.

2.4 Sweden and Skåne Region

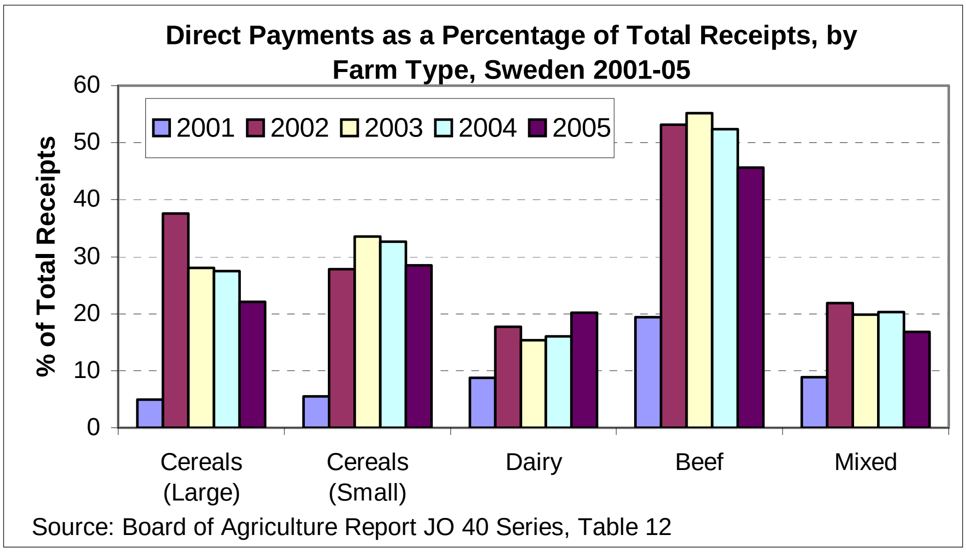
Accession to the EU changed the trajectory of agricultural policy in Sweden, as a radical reform, intended to reduce price support, was adopted a year before applying for membership. However, it is accepted that the implementation of the CAP has led to some socio-economic transformation in rural areas, although, overall, the rate of structural change has not changed very much since accession (Copus and Knobblock, 2007). As Sweden joined the EU after the adoption of MacSharry's reforms, the benefits from CAP Pillar 1 have been largely in the form of direct payments (per hectare or per animal). By 2006, some €610 millions (or 56% of total EU Pillar 1 expenditure in Sweden) were allocated for farmers through the Single Farm Area Payment (SFAP) Scheme. In contrast, livestock payments accounted only for 11%. As in the cases of Ireland and Spain, direct payments are crucial for supporting farm income, mainly for small holdings. Area payments are very important for Swedish agriculture as over 40% of the agricultural output is from crops, which half from cereals. The distribution of direct payments differs across farm types, from 17% for mixed farms to 46% for beef producers (Table 2.5).

Table 2.5 Distribution of Direct Payments by farm type, Sweden, 2005 (€/holding)

Payment/Farm type	Cereals		Dairy	Beef	Mixed
	Small	Large			
SFAP	16,619	34,457	35,568	45,701	23,665
Livestock payments	270	550	10,640	4,522	2,709
Dairy payments	0	0	16,467	183	1,370
Other payments	2,763	7,554	48,205	43,791	9,637
Total DPs	19,651	42,561	110,880	94,,197	37,381
as % of total farm receipts	*22.1*	*28.5*	*20.2*	*45.7*	*16.9*

Source: Copus and Knobblock, 2007

Figure 2.2 Direct Payments as % of Total receipts, by Farm Type, Sweden, 2001-2005



Source: Copus and Knobblock, 2007

At the regional level, a County Administrative Board administrates the distribution of direct payments. With more than half of its area under arable or pasture, Skåne is by far the most "agricultural" Swedish county, thus it benefits from a large share of farm transfers. For example, in 2006, Skåne's farmers received one fifth of the total national SFAPs. Following accession, the region experienced some direct structural changes. Farms with less than 50 hectares suffered a more rapid decline in this region than the country as a whole, whereas farms of more than 100 hectares increased steadily in number. On average, around 3% of all Skåne's farms exit the business each year. Moreover, the location of the region (e.g. close to a major urban market and export gateways) and the recent development of the Öresund bridge (which links the region to Copenhagen) led to a significant increase in the price of agricultural land. This makes it more difficult for small farms to expand, who prefer to rent their land and look for off-farm employment opportunities. Production patterns have also changed, with a clear shift towards the production of winter wheat which has increased by 60% (the largest share) between 1991-1995 and 2001-2005. In contrast, as regards livestock, the number of pigs (and laying chickens) halved during the same period. However, while the adoption of the CAP has influenced some structural changes in the region's agriculture, global technological factors and the market environment have had a greater impact, both on structures, and rural livelihoods. The wider development of the Öresund region has profoundly influenced Skåne's economy, employment structure and population.

2.5 Austria and Tyrol

At the point of accession, the Austrian agricultural sector was highly protected and supported, with prices and farm incomes higher than the EU average (Breuss, 2000). Thus, the adoption of the CAP led to a severe drop in the majority of agricultural prices (by almost a quarter in the first year of membership). For farmers the impact of failing agricultural prices was somewhat eased by compensatory payments. However, agricultural output and farm income declined in (nominal and real terms) and it was not until very recently (2007) that these recovered to the 1995 level. Although, Austria is a net contributor to the EU budget, its agricultural sector benefited between 1995 and 2006 to approximately €14 billion, of which more than half (58%) was accounted for by CAP Pillar 1 measures. Amongst these, direct payments represent the largest component and their contribution to farm income is, as in the other countries, important. Their share in total farm income increased from 8% prior to accession to 20% in the years 1999-2002 (Darnhofer and Schneeberger, 2007). Some 37% of the average farm household income comes from farm subsidies, mostly in the form of direct payments[4]. The distribution of direct payments varies across farm types, e.g. from 10% for pig and poultry farms to 27% for arable crop farms. Nevertheless, compared with other EU15 member states, the distribution is more even in Austria, with 86% of farmers receiving more than half (53%) of total allocated direct payments.

Direct payments are particularly important for Tyrol, Austria's most mountainous federal province. In 2005, 3% of total CAP Pillar 1 funds were transferred to Tyrolean farmers, as opposed to 6% in 1995 (Table 2.5). However, the region has implemented a somewhat flatter, and perhaps also fairer, allocation of farm subsidies across its farm types, as 97% of farms receive 89% of total farm subsidies. Although the implementation of the CAP MTR reform lead to a budget shift from product premiums to the SFAP in the region, the following remained coupled to production: suckler cow premium (100%), slaughter premium calves (100%), slaughter premium bovine adults (40%) and hops payments (25%). In 2005, the SFAP accounted for almost 47% of CAP Pillar 1 transfers to farmers in the region (Table 2.6).

Table 2.6 CAP Pillar 1 transfers for Tyrolean farmers, 1995-2005,

	1995	2000	2001	2005
Pillar 1 – Market support and direct payments (€million)	28.41	17.24	20.48	28.51
of which Single Payment Scheme				13.28
Milk premium				6.82
Arable aid	1.41	1.18	1.21	
Animal premiums	11.84	16.06	19.27	8.41
Compensatory payments	15.16			
EU contribution to Pillar 1 for Austria (€million)	489.81	626.87	583.18	920.98
Tyrol as % of total Austria	5.8	2.8	3.5	3.0

Source: Hubbard and Kaufmann (2008)

Summarizing, CAP Pillar 1 measures remain crucial for all countries and regional case studies, and in general they account for the largest share of the EU funds allocated for agriculture. It is clear that price support and market interventions measures were more important prior to the MacSharry reform in 1992 and undoubtedly countries such as Ireland and Spain, benefited fully of these measures. The introduction of compensatory (later on direct) payments radically shifted the balance between Pillar 1 measures. The significance of direct payments is remarkable as in all case studies, farmers' livelihoods, particularly those of small scale farmers, depend largely on these subsidies. Indeed, there are differences in the distribution of direct payments by farm types across countries and

[4] It includes direct payments, LFA payments and agri-environmental payments (Schmid *et al.*, 2006).

regions. Irish farms, particularly those engaged in cattle rearing and sheep production in the BMW region, would not survive without this support, as direct payments account for more than 100% of their total farm income. Yet, beef farmers in Sweden, and cereals and olive oil producers in Spain rely on these payments too. With the exception of Austria and to a lesser extent Sweden, however, the distribution of direct payments has proved to be very uneven, with large commercial farms as main beneficiaries. This is particularly the case in Spain where 78% of farmers received only 17% of total direct aid in 2005. There is little doubt that the implementation of “coupled” direct payments has influenced structural changes in the agricultural sector of these case studies.

Although it is too early to assess the outcome of the introduction of the SFAP, it is possible that it may slow down further structural changes, particularly for small scale farms. Additionally, the diverse way in which the SFAP is implemented across countries may lead to different effects. For example, in Sweden, the number of holdings rose by 12% between 2003 and 2005. Interestingly, the increase was particularly significant in the category of small-scale farms (e.g. less than 4 ESU), and Copus and Knobblock (2007) stress this is mainly due to the tendency for farm property residents who previously rented their land but were not eligible for CAP payments to “take the land in their hands” in order to benefit of the SFAP.

3 Pillar 2 of the CAP: Rural Development

The development of rural development as a distinctive pillar has its roots in the intricate reforms of the CAP. For more than three decades following the inception of the CAP, non-farm rural development was not seen as a priority and there were no specific rural policy measures as such. Rural problems and regional disparities were expected to be solved mainly through agricultural price support (McDonagh, 2001). By the mid-1980s, as regional discrepancies within the Community accentuated it was clear that existing CAP mechanisms failed to support the development of rural areas. This led to the publication of the "Future of Rural Society", a key document issued by the European Commission in 1988, which for the first time recognised rural development as a distinctive area for policy and proposed an integrated bottom-up approach to support the development of rural areas (European Commission, 1997). Rural development measures were supported through the European Agricultural Guidance and Guarantee Fund (EAGGF). The *Guarantee* Section financed, in particular, expenditure on agricultural market organisations, the measures that accompany market support, rural measures outside of Objective 1 regions, certain veterinary expenditure and information measures relating to the CAP, whereas the *Guidance* Section focused on other rural development expenditure (not financed by the EAGGF Guarantee Section)[5]. Additionally, agriculture and rural development measures (including the Community Initiative LEADER) were also integrated and supported through the three funds for EU Cohesion and Regional Policy (e.g. the European Regional Development Fund [ERDF], the European Social Fund [ESF] and the Cohesion Fund [CF]). Thus up to Agenda 2000, which established rural development as the second pillar of the CAP, it is rather difficult to separate clearly the financing for rural development.

The need for a "sustainable and integrated" EU rural development policy was stressed again by Commissioner Fischler at the 1996 Cork Conference, but it was not until 1999 that a specific policy framework was instigated. Agenda 2000 established rural development policy as the second pillar of the CAP alongside the EU's agricultural market policy (the first pillar) (CEC, 2006a; Dwyer *et al*., 2002). A new Rural Development Regulation (RDR) was adopted, and incorporated all previous (nine) instruments (e.g. agri-environmental measures, forestry, Less Favoured Areas payments, and investment in farm modernisation) into a package of measures for the whole EU (CEC, 2006b; Ward and Lowe, 2004; CEC, 2003). Although, the financial resources allocated for 2000-2006 were limited (10.2% of CAP expenditure) the RDR was novel in terms of its mechanism for implementation. Member states were entitled to initiate their own Rural Development Programmes in accordance with their specific requirements for rural areas, albeit following a 'Europeanized approach' (Ward and Lowe, 2004)[6]. For the financial programming 2007-2013, a new RDR was adopted split between four axes: Axis 1 – Improving the competitiveness of the agricultural and forestry sector; Axis 2 – Improving the environment and the countryside; Axis 3 – Quality of life in rural areas and diversification of the rural economy and Axis 4 – the Community Initiative LEADER (links between actions for the development of the rural economy). For this period, rural development measures are

[5] http://ec.europa.eu/agriculture/fin/archive_en.htm

[6] This section draws on Hubbard *et al.* (2007)

financed from the newly created European Agricultural Fund for Rural Development (EAFRD).

Many argue, however. (e.g. Grochowska and Kosior, 2008) that the role of the CAP Pillar 2 in supporting the development of rural areas is marginal, and that it rather acts principally as an indirect source of subsidies for farmers. Indeed, although an increase in the importance of Pillar 2 is evident in recent years, the share of the total CAP budget allocated for rural development remains less than 20 per cent. Gorton *et al*. (2009) also point out that although Pillar 2 of the CAP is regarded as an instrument for delivering ‘multifunctionality’, most of its measures have farmers as their main beneficiaries.

3.1 Ireland and BMW Region and Rural Development

Awareness of rural and regional development issues in Ireland preceded the CAP. A Local Government (Planning and Development) Act was adopted (in 1963) and Regional Development Organisations (RDOs) were created to enhance local authorities’ planning responsibilities (McDonagh, 2001). However, although some policy measures were designed to support the development of the rural economy, the emphasis remained very much on the support of agriculture and the farming population. With accession to the EU and the adoption of the CAP, rural development policy in Ireland was put on hold (O’Reilly and Gough, 2002) for almost two decades. Moreover, by 1987, the government dismissed any involvement at the regional level, dismantling all RDOs (Brunt, 1993; O’Reilly and Gough, 2002).

The adoption of the MacSharry reform in 1992 introduced the so-called ‘Accompanying Measures’, namely agri-environmental measures, compensatory Allowances, an early retirement scheme for farmers and afforestation measures. Amongst these, the introduction of agri-environmental measures and compensatory allowances for LFAs had a significant impact on the Irish farming sector, particularly in the BMW region (Table 3.1).

Table 3.1 CAP Pillar 2 Funds to the BMW region (€ million)

Programme	Total payments 1996-2002	Average annual payment	Expenditure in 2002	% of State 1996-2002	% of State in 2002
Compensatory payments	766.0	69.7	143.4	62.4	60.1
Agri-environmental measures (REPS)	655.1	72.8	101.8	58.6	58.9
Early Retirement Scheme*	166.2	18.5	22.0	28.1	27.8
Total	1587.3	-	267.2	16.9	20.3
Total EU agriculture payments for agriculture in BMW	4,241.6	-	623.2	45.1	47.4

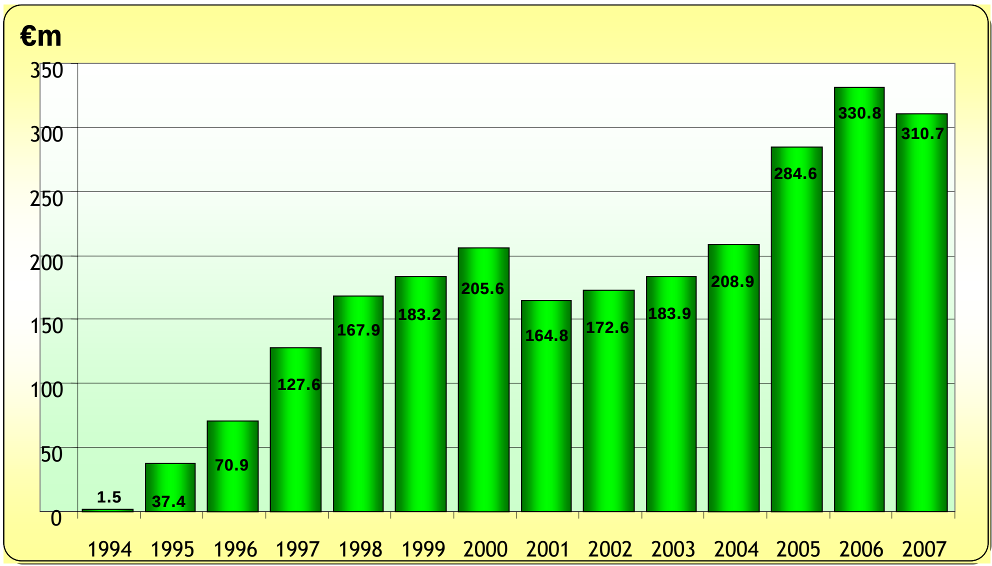
Source: Bannon (2005); * data for 1994-2002; **

The shift in EU policies towards a focus on rural development issues led also the Irish Government to change its strategy with regards to agriculture and rural development. The adoption of a White Paper, ‘Ensuring the Future – A Strategy for Rural Development in Ireland’, in 1999, established for the first time an overall strategy for the long-term future of Irish rural society (Department of Agriculture and Food, 1999). The strategy for rural development was constructed around a set of objectives, e.g. the establishment of appropriate institutional mechanisms for rural development, the adoption of a balanced spatial development strategy, sustainable economic development based on indigenous potential and inward investment, the provision of services and infrastructure, the development of human resources and social inclusion (McDonagh, 2001). These were to be implemented through the National Development Programmes (NDPs) and the CAP Rural Development Plan.

3.1.1 Agri-environmental Measures and LFAs Payments

Ireland introduced its first Rural Environment Protection Scheme (REPS) in 1994. REPS is a voluntary, whole-farm scheme which covers five year periods. Farmers have to comply with eleven basic measures related mainly to good farming practice and production methods, protection of wildlife habitats and endangered species of flora and fauna, and production of quality food in an extensive and environmentally friendly manner[7]. The scheme has attracted high levels of participation, with the number of farmers covered by the scheme increasing from 45,500 farmers (1994-1999) to over 59,000 participants (end of 2006), representing approximately one-third of the utilisable agricultural area (UAA). In 2007, however, the number decreased by almost 20%, to 47,506 participants. Overall, it is estimated that €2.45 billion were spent on REPS between 1994 and 2007. The scheme is co-financed by the EU (75%) and the Irish taxpayer (25%). For 2000-2006, REPS accounted for €1.38 billion (or 37% of Ireland's CAP Guarantee Section funding) of which €1.05 billion came from the EU. Another €3 billion are to be transferred to farmers in the scheme between 2007 and 2013.

Figure 3.1 Total Paid under REPS, Ireland, 1994-2007



Source: http://www.agriculture.ie/areasofi/reps_planner/Factsheet2007.doc

[7] http://www.agriculture.gov.ie/index.jsp?file=areasofi/reps.xml

The scheme has been well received by Irish farmers (particularly beef and sheep producers) as the financial incentives received throughout the scheme contribute significantly to farm income (Heritage Council, 1998; O'Reilly and Gough). The scheme has also increased farmers' awareness of environmental matters (Heritage Council, 1998). REPS is particularly popular in the BMW region, with more than a third of its farms, covering almost half of the (West and Border) area, participating in the scheme.

As most of the BMW region is classified as "severely handicapped" or "less severely handicapped", the majority of its farms are also entitled to compensatory allowances. LFA subsidies were first introduced in Ireland in 1975, mainly in the form of headage payments for livestock. The scheme aimed to support farming in areas with natural handicaps and also to preserve the countryside and rural environment. Thus, payments were particularly oriented towards the support of the western parts of the country. Although some research (Heritage Council Report, 1999) found that the majority of farmers received relatively little financial support, cattle farmers relied considerably on this aid, amounting to 40% of their total farm income. The payments also went to larger farmers who increased their livestock numbers (Crowley, 2003). The scheme encouraged the maintenance of the rural population in marginal farming areas and it has been considered somewhat more equitable than other premium schemes (Heritage Council, 1999). For 2000-2006, Accompanying measures within the BMW region accounted for 57% (or €1,949 millions) of total expenditure for CAP Rural Development (Ireland National Development Programme, 2000-2006, Summary of Provisions for the BMW Region).

3.1.2 Early Retirement Scheme for Farmers (ERS)

Somewhat similar state initiatives regarding early retirement from farming have been promoted in Ireland since 1965, but none of them proved to be attractive until MacSharry reform in 1992 (Department of Agriculture, 2004c). The scheme, introduced in 1994, aimed to encourage elderly farmers to retire from farming by providing them an income and offering the opportunity for young people to enter the sector. Initially, in the first round (1994-1999), the scheme (ERS 1) proved to be somewhat successful, with 10,300 elderly farmers transferring 283,000 ha (6.4% of total UAA) to 11,000 young farmers (Department of Agriculture, 2004c). Gillmor (1999) considered that "while the impact has been less than initially forecast, it has made a significant contribution to the restructuring of Irish agriculture given the past rigidity" (p.85). Although ERS 1 did not have, overall, a high impact, its adoption was regionally very distinctive (Lafferty *et al.*, 1999). The share of participation in the scheme was much higher in the South-East region (where commercially larger farms predominate) than in the West and North West (particularly Border) regions. ERS 3 was launched in June 2007 as one of the measure of Ireland's Rural Development Programme, and some €360 millions (8.4% of total public expenditure for rural development) were allocated for this measure for 2007-2013.

3.1.3 LEADER Programme

In response to the introduction of the EU's conceptualisation of integrated rural development (following the publication of the European Commission's document 'the Future of Rural Society'), the Irish government developed (1988-1990) in twelve rural areas a Pilot Programme for Integrated Rural Development. The programme which sought to enhance employment opportunities, increase quality of life, and encourage a sense of community identity in rural areas was regarded as a success as it stimulated and encouraged local initiatives to a scale not experienced before. This initiative was considered a precursor of the Leader Programme.

Launched in 1991 as a pilot programme, LEADER is considered to be very popular in Ireland (McDonagh, 2001; Moseley et al., 2001; O'Reilly and Gough, 2002; Shucksmith et al. 2005). It focuses on territorial rural development based on a bottom-up approach; multi-sectoral integration designed and implemented through an innovative local partnership (Local Action Groups). LEADER I (1991-1994) involved 16 pilot areas across the country and focused mainly on rural employment and community involvement (O'Reilly and Gough, 2002). It involved almost 30% of population within targeted rural areas, which were those classified as peripheral and disadvantaged, characterised by depopulation and heavy dependence on agriculture (McDonagh, 2001). Some £34 millions were allocated from both EU and national funds and the resources were mainly oriented towards rural tourism, small enterprises and natural resources (ibid.) LEADER II (1995-1999) comprised 34 local groups all over rural Ireland, covering around 9,600 projects accounting for almost €100 million of national and EU money (Moseley *et al.*, 2001). Almost half of these projects were concentrated on three main sectors: (i) rural tourism (55%); (ii) small business/services (30%) and (iii) agriculture, forestry and fishing (15%) (Shucksmith *et al.*, 2005). For 2000-2006, the LEADER+ initiative and a complementary LEADER national programme funded 35 Local Action Groups (Matthews, 2005). It is estimated that this programme generated during this period 3,100 new jobs and sustained 3,900 existing jobs[8]. LEADER has also assisted some 8,000 enterprises and trained over 30,000 people. The total amount spent for the LEADER + Programme (2000-2006) is estimated at €75 millions of which more than half (€48.7m) from the EU. Out of the 22 areas which applied for LEADER funds, 10 were from the BMW region. For 2007-2013, the LEADER/Rural Economy Sub-Programme was allocated €564.4 million (public and private funds) for promoting quality of life and the diversification of the rural economy.

Irish rural areas have witnessed rapid change in the past decade: population growth, a diversification of employment opportunities and an expanding sense of community life in which culture, traditions and heritage are valued and retained (Meredith, 2006), to which Agenda 2000 and the MTR have contributed. Overall, compensatory payments for LFAs and agri-environmental measures are critical for rural Ireland, as they aim to support farm income but also to preserve fabric of the rural landscape. REPS is considered by Irish decision-makers as a sound success. Indeed, beef and sheep producers, most of them located in the BMW region, have benefited from this scheme. However, Emerson and Gillmor (1999) argue that, from an environmental perspective, REPS failed to challenge those who put real pressure on the environment (e.g. the large intensive producers). The scheme also seems to amplify the structural dualism (between poor and wealthy farms) that characterizes Irish agriculture (see Crowley, 2003). Additionally, the early retirement scheme (and afforestation) also impacted on the restructuring of Irish agriculture, although to a lesser extent. Regional variations are marked, with farmers in the S&E more enthusiastically participating in these schemes than those from BMW. Although, often criticised for its limited impact (mainly due to financial constrains) the Community Initiative LEADER is popular in Ireland. It provides a starting point for local people to become involved and promotes economic and social development in rural areas. For 2007-2013, the largest share (80%) of the Rural Development Programme is allocated to Axis 2 - improving the environment and countryside.

[8] Rural Development Programme Ireland 2007-2013, http://www.agriculture.gov.ie/cap/RDP2007/ /RDPbody_aug07.doc

Figure 3.2 Financial Plan by Axis, Ireland, 2007-2013 (€, total period)

Axis	Public contribution		
	Total public	as % of total	EAFRD amount
Axis 1	482,000,000	11.2	241,000,000
Axis 2	3,385,298,800	78.8	1,861,914,340
Axis 3/Axis 4 (1)	425,455,000	9.9	234,000,250
Technical Assistance	6,000,000	0.1	3,000,000
Total	4,298,753,800	100	2,339,914,590

Source: Rural Development Programme Ireland 2007-2013; (1) Axis 3 measures are to beimplemented under Leader (Axis 4)

3.2 Spain and Community of Navarra

Before the integration of Spain into the EU there was no rural policy as such, but rather a succession of public investments mainly concentrated on the improvement of agricultural production, land consolidation and reforestation (Beaufoy *et al.*, 2002). Small programmes such as support for young farmers, the protection of family farms and conservation of natural resources also existed. Nevertheless, an important share of the agricultural budget (e.g. 45% in 1981) was oriented towards increasing the amount of irrigated agricultural land. In contrast, specific rural development measures, e.g. the protection and improvements in rural areas, received much less (e.g. 16% in 1981). As the country prepared for accession, by 1985, support shifted to transition measures to aid the implementation of Community standards.

3.2.1. Accompanying Measures

Spain joined the EU at a time when the CAP was under serious budgetary constraints. The reform of the Structural Funds, in 1988, represented a turning point for the development of EU regional policy, particularly for Spain. As at this time the Community did not have its own rural policy, most of the rural development measures were financed from Structural Funds under the Community Support Framework (CSF). For the first programming period 1989-1993, the Spanish government proposed seven priority axes for regional development, one of which was devoted to agriculture and rural development measures. Only 15% of total public expenditure was allocated to this priority, which included five major sub-programmes. Within the agriculture and rural development sub-programme, most of the financial resources were allocated towards the improvement of agricultural production (51%) and farm efficiency and commercialisation of agricultural products (31%). Environmental protection and conservation of natural resources received only 6.4%. Additionally, €300 million was allocated as compensatory payments for LFAs, which covered around 6,000 municipalities that collectively accounted for 76% of total national territory.

Following the MacSharry CAP reform, horizontal programmes for the implementation of the accompanying measures were also supported. Between 1994 and 1999, Spanish accompanying measures amounted to €1,735 million of which 71% was funded by the EU (Table 3.2). Almost half (44%) of this amount was allocated to afforestation and 28% represented LFAs compensatory allowances. During this period, more than 430,000 hectares of farm land were transformed into forest s. Only 6% of these public funds were oriented for early retirement, and about 8,000 farmers accessed such funds.

The adoption of Agenda 2000 led to a significant increase in the financial support for accompanying measures in Spain, e.g. from €1,735 millions for 1994-1999 to €3,420 millions for 2000-2006. Despite that afforestation still received a large share (32%), most of this support, (38%), was devoted toward agri-environmental schemes. The proportion allocated for compensatory payments represented 16%, whereas early retirement measures accounted for 13%, a considerable increase as compared to the previous programming period (Table 3.2).

Table 3.2 Accompanying Measures, Spain 1994-99 & 2000-06 (€million)

Measure	1994-1999			2000-06		
	Total public expenditure	EAGGF	% of total	Total public expenditure	EAGGF	% of total
Agri-environment	382.3	276.6	22.0	1,318.7	903.0	38.6
Early retirement	96.3	68.4	5.6	458.8	289.0	13.4
Afforestation	769.5	568.3	44.3	1,078.9	719.0	31.5
Compensatory payments for LFAs	487.0	314.6	28.1	563.4	386.0	16.5
Total	1,735.1	1227.8	22.0	3,419.7	2,296.9	100.0

Source: Iraizoz (2007)

3.2.1 LEADER and PRODER Programmes

Despite the small amount (€387 million of which 27% was from EU funds and 32% private participation) allocated to LEADER I (1991-1994), this community initiative was considered beneficial for promoting rural development in Spain. There were 52 Local Action Groups (LAGs) which covered 16% of the national territory and 5% of the population. Most of LEADER I measures focused on the promotion of rural tourism and rural crafts, which jointly generated more than 10,000 jobs.

Given the success of LEADER I, a larger amount of public (national and EU) funds (€605 million) were allocated to LEADER II. Moreover, the programme attracted the participation of all (17) Autonomous Communities, which perceived LEADER as an important political tool. It covered 45% of the national territory and 12% of the total population. During this phase, the number of LAGs increased to 132. In addition to rural tourism, which remained the main activity, special attention was paid to the creation of small, local enterprises and the commercialisation of local products. More than 2,500 new small enterprises and almost 20,000 jobs were created. As LEADER II was incapable of financing all local communities and as the demand for such funds increased, the Spanish authorities proposed to the European Commission the creation of a new national programme for regional development in Objective 1 regions. The first *Programa Operativa de Desarrollo y Diversificación Económica de Zonas Rurales* (PRODER 1) was approved in 1996, for a period of four years (1995-1999), and received €493 million. This programme had similar objectives to LEADER II, but addressed those areas not eligible for LEADER II funding. Interestingly, both initiatives received significant financial support from the

Spanish private sector, which contributed at least 50% of the total funds allocated to these programmes (Table 3.3).

Table 3.3 Funding LEADER II and PRODER initiatives, Spain, 1994-1999

	LEADER II		**PRODER 1**	
	Total (€million)	%	Total (€million)	%
1. EU Funds	*381.1*	*27.9*	*255.0*	*32.3*
EAGGF Guarantee	171.2	12.6	158.8	20.1
ERDF	181.8	13.3	96.2	12.2
ESF	28.1	2.1	-	-
2. National Funds	*223.9*	*16.4*	*138.2*	*17.5*
- Central administration	45.6	3.3	15.8	2.0
- Autonomous administration	114.7	8.4	57.6	7.3
- Local Administration	63.6	4.7	64.8	8.2
3. Private funding	*758.9*	*55.6*	*397.5*	*50.3*
Total	1,364.0	100	790.7	100

Source: Iraizoz (2007)

Both LEADER and PRODER continued to act successfully between 2000 and 2006. LEADER+ and PRODER 2 covered 50% and 48% of the national territory, and 19% and 20% of the population respectively. The number of LAGs supported increased to 145 and 162, respectively. As compared with the previous period, all rural areas could apply for funds from both programmes. However, LEADER+ accounted for a smaller amount of public funds (of €794 million) of which almost two thirds (63%) came from the EU. Public funding for PRODER 2 increased by almost a third (to €814 millions) compared against the 1994-1996 period. Overall, although these programmes were financially limited, they had the capacity to mobilize private capital and local physical and human resources, and stimulate, to some extent, the development of less favoured rural areas.

Under LEADER I, the Community of Navarra received €16.3 million of which 73% was from public (national and EU) funds, with the remainder coming from the private sector. The EU contribution was less than €2 million. A local rural development programme was adopted in 1991, and it focused on an integrated approach based on three major objectives: the revival of the socio-economy, support to local initiatives and the protection of rural habitats. There was one Local Action Group in the region. Although the total amount of funding was small, this initiative it was very important for promoting the diversification of rural activities, particularly tourism and the marketing of agricultural products (Table 3.4). The region received €33 million under the LEADER II initiative, of which 51% came from private funds and 18% from the EU. These resources were distributed between four LAGs which covered 582 projects. The promotion of rural tourism, small business and artisanal activities received the largest share. More than 80% for of the funding for these measures came from the private sector. The funding for the LEADER+ initiative remained the same (at €33 millions divided between the four LAGs, but the contribution from the EU increased by 29% (or around €2.5 millions). The private sector contribution amounted to approximately €16 million. Three quarters of the total funds were allocated to: rural tourism, the promotion of natural and cultural heritage, support for small business and marketing for agricultural products.

Table 3.4 Funding for LEADER Programmes, Navarra, 1991-2006 (€million)

	LEADER I			LEADER II			LEADER+
Measures	Public Funds		Private Funds	Public Funds		Private	Total
	National	EU		National	EU		
Technical support for RD	0.52	0.25	0.21	0.83	0.82	-	2.54
Training & employment	1.67	0.09	0.42	0.39	0.46	0.20	2.74
Rural tourism	2.53	0.63	1.45	2.90	1.52	6.49	6.58
Small craft enterprises & Local services	0.47	0.02	1.36	1.94	0.80	7.23	7.32
Marketing agricultural products	3.87	0.58	0.96	0.48	0.53	2.48	5.24
Natural & Cultural heritage	0.62	0.17	0.02	3.08	1.35	0.2	9.24
Others	0.22	0.18	0.01	0.56	0.56	0.09	0.78
Total	9.91	1.91	4.42	10.18	6.04	16.69	32.58

Source: based on Iraizoz (2007)

3.3 Sweden and Skåne Region

3.3.1 The Environment and Rural Development Programmes

Although no rural policy as such existed in Sweden prior to EU membership, measures similar to those under CAP Pillar 2, e.g. early forms of agri-environmental schemes, regional assistance to farmers in LFAs, and a retirement scheme for dairy farmers were applied. As public attitudes concerning support for farming changed with the 1990 reform, it was important at the time of accession to tailor the implementation of the CAP according to the views of urban consumers, for whom the countryside is primarily for the consumption of environmental public goods. In this context, the concentration on agri-environmental measures was considered an appropriate solution for Sweden, and the adoption of the CAP was taken as an opportunity to reinforce its agri-environmental policy (Bruckmeier and Larsen, 2002, p. 3):

> *"The major consequence of EU-membership was then that agri-environmental policy, dating back to landscape conservation measures (existing since 1986) was reinforced and Sweden made the "ecological transformation" of agriculture a main component of agricultural policy. For the second half of the 1990s agri-environmental policy with the three components of landscape conservation, management of environmentally sensitive areas and organic farming was characterised by ambitious objectives and high levels of support and compensation payments for Swedish farmers."*

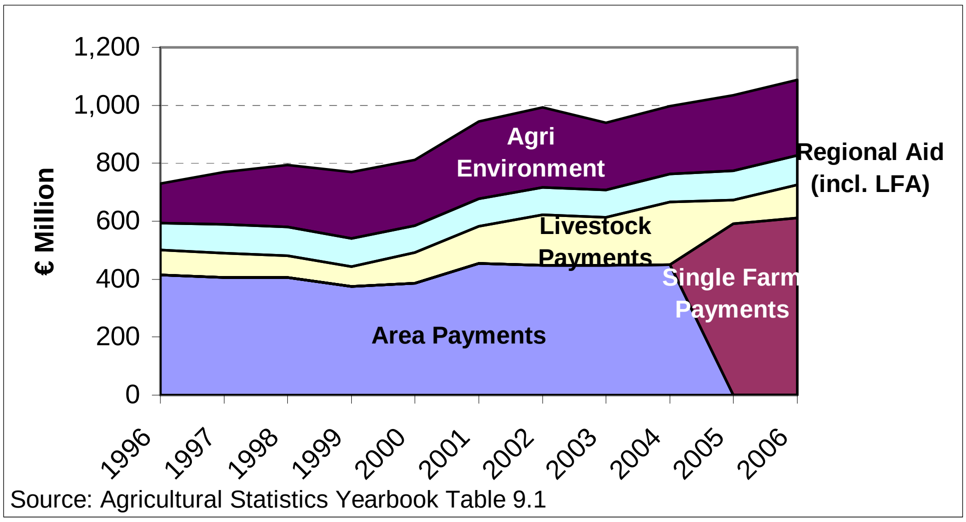
Thus, agri-environmental measures have dominated rural development policy in Sweden since the country's accession to the EU. In order to strengthen its agri-environmental policy, the Swedish government adopted a set of 16 National Environmental Quality Objectives (NEQO) which sought to provide operational guidelines for national, regional and local administrations. The Environment and Rural Development Programme (ERDP) for 2000-2006, designed in line with the first EU RDR but following closely both national environmental and regional policies, had two main priorities: (1) to promote an environmentally sustainable agriculture and (2) to support a broader economically and socially sustainable development of rural areas.

The ERDP 2000-2006 budget amounted to €2.5 billion, of which 45% came from the EU (Ministry of Agriculture, Food and Consumer Affairs, 2003). Some 85% of this budget was allocated to agri-environmental measures, followed by LFAs payments (8%) (Priority 1 measures) and farm investment, assistance to young farmers and training (5%) (Priority 2 measures). Within the ERDP, agri-environmental measures were divided in three sub-programmes, which sought to: compensate farmers for their production of collective services such as biodiversity, genetic diversity and cultural heritage (sub-programme 1); support the maintenance of an open, farmed landscape through environmentally-friendly farming (sub-programme 2) and stimulate an increased use of organic production methods and measures to reduce nutrient leaching and erosion from agriculture (sub-programme 3). The Skåne region benefited from these sub-programmes. For example, in 2006, some €12.4 million were allocated to sub-programme 1 (The Swedish Board of Agriculture, 2007). As expected, agri-environmental measures play a significant role within this region. The case study highlights that without agri-environmental measures, which ensure an open landscape and the maintenance of mature pastures, large areas in Skåne would have been re-forested or left overgrown.

As regards broader rural development (Priority 2), the measures comprised investment aid, assistance to young farmers, improved processing and marketing of agricultural products, training, and measures to promote the adaptation and development of rural areas. Overall, these measures accounted for only 7% of total ERDP expenditure for 2000-2006. Training was also one of the measures included in Priority 2, and the national aim was to provide training for 15,000 participants during this period. In Skåne, the major aim of this measure was to promote a shift in the region’s agricultural production towards a less specialised and more diversified production system. Several projects that sought to enhance farmers’ skills and knowledge were implemented between 2000 and 2006, and it is believed that the training activities have not only influenced positively participants but the environment as a whole, as most of those trained had turned their knowledge into practice.

A mid-term evaluation of the ERDP carried out in 2003 concluded that the programme had contributed to an ecological, economic and socially sustainable development of rural areas (Ministry of Agriculture, Food and Consumer Affairs, 2003). However, the programme was criticised for its particular focus on agriculture and the imbalance between agri-environmental and broader rural development measures which limited the progression of truly integrated rural development (Bruckmeier and Larsen, 2004). Overall, agri-environmental payments are extremely important. They account for a significant share of total direct support for Swedish Agriculture (e.g. 24% of total direct payments for 2006). The financial resources allocated for agri-environmental measures have increased substantially from less than €140m in 1996 to €230m in 2006 (Figure 3.3).

Figure 3.3 Total (EU and National) Direct Payments, Sweden, 1996-2006



Source: Copus and Knobblock (2007)

3.3.2 LEADER Programme

The Swedish LEADER+ programme (2000-2006) sought to foster rural development and thereby reduce regional disparities by: improving the conditions for a strong economy in the area; contributing to new job creation; increasing the value of natural and cultural heritage; and improving organisational opportunities in society. For 2000-2006, 12 LAGs were funded through this programme. LAG partnerships involved representatives from the public, private and not-for-profit sectors, (in principle one third from each). Activities were required to be innovative in the local area, but capable of being useable and transferable to other rural areas. Each LAG based its work on one of four of the following themes (Swedish National Rural Development Agency 2001):

1. Using new skills and technology to make rural products, including services, more competitive.
2. Raising the value of local products, including services, particularly by collaboration between smaller businesses in order to gain improved market access.
3. Improving the quality of life in rural areas.
4. Improving the exploitation of natural and cultural resources (including Natura 2000 areas).

The LAGs chose the measure they considered best suited to the area's identity and local conditions. They followed a local development plan intended to take account of their area's particular opportunities and constraints. Although, a mid-term evaluation (in 2003) criticised the programme for a lack of focus, an excessive number of goals, and unclear administration, LEADER+ was regarded as a valuable community initiative. It stimulated institution building for local rural development and enhanced local involvement.

The new ERDP for 2007-2013 has a planned budget of approximately €4 billion and focuses on similar aims as the previous programme. Furthermore, it aims to improve economic growth, competitiveness, entrepreneurship and rural employment. Although the programme should be consistent with the broader structure set out by the new RDR of 2005, three quarters of the total ERDP expenditure will be allocated to Axis 2 (Improving the environment and countryside). This reinforces the dominance of agri-environmental measures within the Sweden's rural development policy. Axis 1 (Improving the competitiveness of agriculture and forestry) and Axis 3 (Quality of Life) receive the second and third largest share of funding, 15% and 10% respectively. LEADER measures will be implemented across the three axes. The regional focus will be stronger as each county is responsible for developing their own implementation strategy and for the distribution of funding between measures.

Summarising, it is clear that Pillar 2 measures, particularly the implementation of the agri-environmental programmes, are extremely significant in Sweden and their implementation was seen as politically attractive at the time of EU accession. This reinforced public perceptions regarding the role of the countryside, i.e. as a provider of environmental public goods. Such thinking was also reflected in the choices made by those who designed and implemented the Environment and Rural Development Programmes.

3.4 Austria and Tyrol

3.4.1 ÖPUL: the Austrian Agri-Environmental Programme

The geography of the country has influenced strongly agricultural and rural development policies in Austria. With less than 20% of land suitable for agriculture and most farms located in LFAs, particularly mountainous areas, the government has concentrated its efforts to support the viability of these farms. Additionally, an increased public awareness of environmental matters and the importance of conserving cultural landscapes, led Austrian politicians to regard agricultural policy within a wider context, placing an emphasis on rural development. Although, prior to entry to the EU, the country did not have a specific rural policy, this was incorporated within a regional policy applied on federalist principles and governed by strong regional parliaments. Moreover, the consideration of the environment as an important issue within Austria's agricultural and rural development policies dates back to the early 1970s (Darnhofer and Schneeberger, 2007). Approximately 1.2 billion ECU were allocated to support e mountainous farmers between 1972 and 1990, of which 46% was in the form of direct income supplements and other allowances (Hovorka, 1998). Additionally, 30% of funds were devoted to the improvement of infrastructure (e.g. roads, electrification and telephone networks) and 15% for the modernisation and improvement of agricultural holdings.

An increase in public concern regarding land conservation and preservation of the environment, and pressure from environmentalist lobbies, forced, by the mid-1980s, the adoption of more specific measures. The introduction of a so-called "ecological and social agricultural policy" which focused on both environmental and socio-economic issues (Groier and Loibl, 2000) is a good example. Specific agri-environmental payments were introduced during the late 1980s and early 1990s and support for organic farming introduced. Thus, accession to the EU was seen as a good opportunity to continue and consolidate a strategy which was well established prior to EU entry. In preparation for EU accession, a new Agriculture Act was adopted in 1992. It highlighted the importance of farming within a healthy natural environment, with a focus on the "ecological compatibility of agricultural practices" and financial support for those who practice "environmentally friendly production methods" (Groier and Loibl, 2000, p.172). The implementation of agri-environmental measures and compensatory allowances for LFAs following CAP adoption dovetailed pre-accession measures. Such EU measures were considered the perfect tool to ease Austria's farmers' transition and safeguard the environment (Darnhofer and Schneeberger, 2007).

Austria's main agri-environmental programme is ÖPUL, and within the general context of Austria's agricultural and rural policies its significance is indisputable. The first ÖPUL, implemented in 1995, involved the participation of 180,000 farmers (or 80% of all eligible farmers) covering over three quarters of the total Austrian UAA (excluding alpine pastures) (Groier and Loibl, 2000). The programme covered a wide range of measures and was flexible, with farmers able to choose from a menu of 25 measures. Most of the measures satisfied the needs of a variety of farm types, no matter the form of production or farming practices. Farmers' experience with previous agri-environmental measures, particularly organic farming, and their importance to farm incomes explains largely the popularity of ÖPUL 1995 (ibid). Between 1994 and 1999, Austria spent on average €433 million per year on agri-environmental schemes, being one of the highest spending countries (alongside Finland) within the EU15 (Dwyer *et al.*, 2002).

The second programme, ÖPUL 2000, was expanded to 32 measures and accounted for 62% of total expenditure under the Austrian Rural Development Programme. Hence, €567 million per year were spent, on average, for agri-environmental measures between 2000 and 2006 (Dwyer *et al.* 2002). For the same period, Austria accounted for 16% of total EU agri-environmental payments (Darnhofer and Schneeberger, 2007). The programme offered flat-rate payments by combining agricultural support with agri-environmental schemes. The maximum annual level of payment per farm varied between €690.4/ha and €872/ha, with premiums for arable land between €41/ha for 'greening of arable land in autumn and winter' and €327/ha for organic farming (ibid). Table 3.5 presents the most important agri-environmental measures for 2003 and 2004.

Table 3.5 Agri-environmental Measures (ÖPUL), Austria, 2003 and 2004

Measure	Number of participants		Area covered (000 ha)		Payments € million	
	2003	2004	2003	2004	2003	2004
Basic measure	119,981	119,231	1,973.8	1,998.3	100.2	101
Extensive production methods/greening of arable land in autumn and winter	60,826	57,846	487.3	1,088.4	77.6	97.9
Organic farming	17,591	18,292	294.9	309.3	86.0	90.6
Abandonment of yield-increasing inputs on grassland and arable land	85,828	85,903	814.0	944.0	96.4	130.5
Support for alpine pastures and cultivated landscape on sloping sites	61,410	…	690.1	…	64.8	…
Total	135,175	134,114	2,743.7	2,714.2	628.5	642.0

Source: Knöbl (2006) and Darnhofer and Schneeberger (2007)

3.4.2 LFA payments

As 70% of total agricultural land falls within LFAs, with most within mountainous areas, the LFA compensatory allowance is the second most important instrument for rural Austria (after ÖPUL). Following accession, these payments replaced the previous direct aid, distributed at the federal and province level, to mountainous farms under the Mountain Farmers Special Programmes. Farmers in areas with natural handicaps receive compensation in accordance with the severity of the natural conditions and farm types. Moreover, the payments are also oriented towards the preservation of small-scale farms (Knöbl, 2006). Thus, the LFA payments are a significant source of income for farm holdings in these areas; e.g. 14% to 37% of farm income is provided through this instrument. For 2000-2006, the Austrian LFA payments accounted for €1.8 billion (or 26%) of total public expenditure (Table 3.6), of which 36% came from the EU.

Agri-environmental measures and the LFA compensatory allowances, taken together, accounted for 86% of total public support for rural development between 2000 and 2006. The rest was distributed amongst other measures with a focus on investments in agriculture (Priority 1) and rural areas (Article 33). As regards Article 33 measures, the resources were distributed to support: the diversification of agricultural activities (particularly tourism projects), the improvement of rural infrastructure, cultural heritage and nature conservation. Most of these funds were concentrated on diversification and the development of infrastructure, *e.g.* forest roads (Dwyner *et al*., 2002).

Table 3.6 Rural Development Programme and Total Support for Rural Development, Austria, 2000-2006

Priority	Measure	Public expenditure (€ million)	EU contribution (€ million)	As % of total public expenditure in RDP
1. Modernising agriculture	Farm investment	265.7	132.7	3.8
	Young farmers	95.2	47.6	1.4
2. Vocational training	Training	44.6	22.3	0.6
3. LFAs	Less-favoured areas	1,830.8	659.5	26.1
4. Agri-environmental measures	ÖPUL measures	4,358.6	2,140	62.2
5. Processing and marketing	Processing & marketing of agricultural products	89.6	44.5	1.3
6. Forestry	Forestry and farmland afforestation	119.4	59.8	1.7
7. Rural development	Article 33 measures	201.4	100.7	2.9
Total RDP (EAGGF- Guarantee)		**7,005.3**	**3,207.1**	**100**
Objective 1 Programme (EAGGF)		57.2	43.2	75.5
Additional national funds for Objective 1		73.0	0.0	0
Total Objective 1		130.5	43.2	33.1
LEADER+ Programme (EAGGF)		105.3	76.8	72.9
Total support for rural development		**7,214.2**	**3,327.1**	**46.1**

Source: based on Knöbl (2006) and Dwyer et al. (2002)

For the Tyrol region, the largest mountainous federal province in Austria, both agri-environmental and compensatory LFAs payments are extremely important (Table 3.7). Despite its small contribution to the GDP of the region, agriculture plays a central role in maintaining landscapes. Farmers in this area do fulfil a 'multifunctional' role: they are not only providers of food, but tourism providers, protectors of settlements and biodiversity in the Alps, and the preservers of cultural heritage. The geography of the region has forced farmers in the area to diversify their activities and/or explore other income possibilities. Their livelihood is connected to a diversity of off-farm activities such as farm holidays, hospitality outlets, maintaining nature trails, adding value to forestry products and / or processing and marketing their own agricultural products.

Table 3.7 CAP payments to Tyrolean farmers, 1995-2005, million EUR

	1995	2000	2001	2005
Pillar 2 - Rural Development Programme (EAFRD), total	78.01	81.19	110.71	112.09
Axis 1 - Investment, succession/start-up premium, training, etc.	1.44	3.43	5.11	6.77
Axis 2:				
Agri-environment (ÖPUL)	42.68	44.23	49.14	50.62
LFA compensatory allowances	33.89	31.07	48.04	46.60
Axis 3 - LEADER (Art. 32, Art. 33, 5b)		2.46	8.42	8.10
EU contribution to Pillar 2 for total Austria	223.47	463.65	455.50	485.31
Tyrol as % of total Austria	69.8	35.0	48.6	46.2

Source: Hubbard and Kaufmann (2008)

3.4.3 LEADER Programme

As with the other case studies, the LEADER Programme was well received in Austria. Believed to continue the long Austrian tradition of income support and the development of rural areas, both LEADER II (1995-1999) and LEADER+ (2000-2006) have generated a considerable positive response and attracted a high level of participation. LEADER II led in many areas to a "dynamisation of actors" at both the local and provincial levels (Asamer-Handler and Lukesch, 2000, p.31). LAGs were established in eight *Bundesländer* (all but Vienna) and covered 54% of the total area and 27% of the Austrian population (the third largest share within the EU15 and almost double the EU15 average) (Lebensministerium, 2007). The LAGs rose from 31 for LEADER II to 56 under the LEADER+. The latter programme focused on local management, training activities and improving the quality of rural life (Knöbl, 2006). Particularly popular amongst the LAGs were the introduction of ICT and training for the use of modern communication technologies (Lebensministerium, 2007).

Summarising, the Rural Development Programme has been the most important financial instrument for Austrian agricultural policy following membership. This is reflected by the distribution of funds between the measures of Pillar I and Pillar II of the CAP, with Austria devoting one of the largest shares of public support of all EU member states to Pillar II. A particular focus is paid to agri-environmental measures and LFA compensatory allowances, which taken together account for the majority (e.g. 86% between 2000 and 2006) of total public support allocated for rural development. It can be argued that accession to the EU has led Austrian politicians to concentrate their efforts on the promotion of agri-environmental measures. Indeed, EU agricultural policy made it easier to consolidate and expand Austria's agri-environmental programmes, but they date back to the 1970s and

1980s. Hence, Austria took full advantage of the opportunity of EU membership to use agri-environmental measures to support its farming community. However, Dwyer *et al*. (2002) argue that the considerable weight given to environmental measures masks a ‘farm centric policy, with measures exclusively directed to farmers” (p.34) and hardly supporting “rural development in the proper sense” (p. 76). Additionally, the “lack of objective and quantifiable environmental indicators” makes it difficult to assess the direct effects of these policy measures on the environmental effectiveness (ibid. p.67 and Darnhofer and Schneeberger, 2007). It is due, however, to the agri-environmental and LFA compensatory payments that most of Austrian mountainous farms survive. Knöbl (2006) argues that there is an essential difference behind the rationale for direct payments under the first and the second pillar. In his view, the direct payments from the first pillar represent an “income policy for European farmers”, whereas the transfers of the second pillar in Austria “are granted for concrete services delivered by agricultural holdings” and “represent the compensation of the multifunctional services of agriculture and forestry” (p. 276).

ÖPUL continues to be at the core of the Austrian agricultural and rural development policies and it remains the main source of public support for agriculture, as it shown in the allocation of resources between the four Axes for rural development for 2007-2013 (Table 3.8).

Table 3.8 Total Public Expenditure for Rural Development, Austria, 2007-2013

Axis	Total Public Expenditures		EU contribution from EAFRD	
	€ million	% of total	€ million	% EU contribution
Axis 1	1,078.5	13.8	540.8	50.1
Axis 2	5,661.5	72.4	2,828.5	49.9
Axis 3	506.1	6.5	254.0	50.2
Axis 4 LEADER	423.1	5.4	213.7	50.5
Technical Assistance	153.1	2.0	74.4	48.6
Total	7,822.3	100	3911.4	50.0

Source: Hubbard and Kaufmann (2008)

4 Structural Funds and other measures

Although financial instruments and initiatives to address economic and social imbalances at the Community level can be traced back to the Treaty of Rome, it was not until the adoption of the Single European Act (SEA) that a clear EU regional and cohesion policy was developed[9]. The unification of the ERDF, ESF and EAAGF Guidance Section, was designed to pave the way for an integrated territorial approach for regional development. Hence, under a Community Support Framework, member states were requested to submit their own multi-annual programming development plans. These were to be based on the identification of regional priorities, through local partnership involvement. Since 1988, Structural Funds were allocated for three multi-annual programming periods: 1989-1993; 1994-1999 and 2000-2006. While, regional policy does not address rural development issues *per se,* there is little doubt that it has influenced, at least indirectly, the development of rural areas in the selected case studies. Moreover, during the three programming periods there is a varying degree of overlap between EU regional and rural development policies which make it difficult to separate the effects of the two sets of policies. Amongst the present case studies, Structural Funds were extremely important for Ireland and Spain.

4.1 Ireland and the BMW Region

EU Structural Funds contributed to the growth of Ireland as a whole, and, to a lesser extent, rural areas. The creation of the European Regional Development Fund in 1975 gave the Irish government the opportunity to classify the entire country as an Objective 1 Region[10]. This meant that no specifically disadvantaged areas would benefit to a greater extent from the fund, but the country as a whole benefited in various regards (e.g. infrastructure and education) (McDonagh, 2001; O'Reilly and Gough, 2002). Between 1975 and 1986 Ireland's economy received through the ERDF almost ECU1 billion, but Brunt (1993) stressed that this did little to stop the rise of unemployment and emigration that characterised the 1980s.

The foundation of the Single Market and the reform of the Structural Funds, in the early 1990s, marked the start of important changes in Irish regional policy. In order to attract large amounts of EU funds, the Irish government chose to maintain the entire country under Objective 1 status. At the EC's request, the government submitted its first National Development Plan/CSF which set up for the first time clear development priorities. A third of the country's total public spending for the 1989-1993 programming period was to be provided via the Structural Funds. As a result, Ireland received the highest transfers per capita in the European Community (Brunt, 1993). Some 20% of the Structural Fund expenditure (for 1989-1993) was allocated to promote agriculture, fisheries and rural development and a further 5% for tourism, whereas the largest share went to substantial investment in industry, services and physical infrastructure (Table 4.1). Hence, the allocation to rural development measures was modest (Walsh, 1995).

[9] http://ec.europa.eu/regional_policy/policy/history/index_en.htm

[10] It concentrates to help areas lagging behind in their development and where the GDP is below 75% of the Community average.

Table 4.1 Distribution of Structural Funds by Priorities, Ireland, 1989-1993 (%)

Priority 1 Agriculture, Fisheries and Rural Development Tourism	20.2 5.3
Priority 2 Industry and Services	28.4
Priority 3 Measures to Offset Peripherality	24.1
Priority 4 Human resources	22.0
Total	100

Source: Brunt (1993)

At the regional level, however, the distribution of expenditure varied significantly, with areas in the BMW region (*e.g*. West and Border) focusing their expenditure (over 40% of the total) on measures related to the rural economy (Priority 1) (Walsh, 1995). EU Structural and Cohesion Funds have been amongst the major contributing factors to the development of the BMW region (Galway Euro Info Centre, 2006; Bannon, 2005). It was due to the areas in this region, which lagged economically behind others, that the Irish Government decided in the late 1990s to divide the country into two NUTS II regions in order to remain eligible for EU Structural (Objective 1 status) and Cohesion Funds. BMW retained the status of Objective 1 for the entire period 2000-2006, and received EU Structural Funds support through the European Regional Development Fund (ERDF), the EAGGF (Guidance section), the European Social Fund (EFS) and the Financial Instrument for Fisheries Guidance (FIFG). Some €4 billion (of which 10% from the EU) were allocated to the region for 2000-2006, of which 16% were for agriculture and rural development measures (Table 4.2).

Table 4.2 BMW Operational Programme & Structural Funds Support, 2000-2006 (€m)

Priority	EAGGF	FIFG	ESF	ERDF	EU Contribution	Total CSF	Total OP	% of total OP
Local Infrastructure Improvement				175.3	175.3	526.9	2,523.8	62
Local Enterprise Development	18.9	16.1		69.9	104.9	273	552.3	13
Agriculture and Rural Development	70.3				70.3	213.2	640	16
Social Inclusion and Childcare			33.1		49.7	66.4	378.2	9
Total	89.2	16.1	33.1	261.9	400.2	1,079.5	4,094.4	100

Source: Hubbard and Ward (2007)

The BMW region has also benefited from other Community Initiative Programmes such as INTERREG, EQUAL and Urban. INTERREG, a cross-border, transnational and interregional programme (funded by the ERDF) seeks to encourage a harmonious, balanced and sustainable development at the EU level. Under INTERREG II about €160 million of EU finance was allocated to environmental protection measures and this rose for 2000-2006 INTERREG III period, to €180 million (Bannon, 2005).

There are also other national and (more recently) regional policies that helped the region to develop. State direct aid was oriented particularly to support the industrial sector and tourism, as well as infrastructure. The region received a quarter (€750 million) of the total state support for the development of enterprises through the main development agencies (i.e. Industrial Development Authority, Enterprise Ireland and *Udaras Na Gaeltachta*) between 1992 and 2002 the BMW (Bannon, 2005). Accordingly, direct aid to companies represents the region's next single major source of support apart from the agricultural payments. Regarding rural development, the region has also benefited, since 1998, from the financial support provided by the Western Investment Fund (WIF). This assists and encourages economic and social development in the Western Region (the counties of Clare, Donegal, Galway, Leitrim, Mayo, Roscommon and Sligo) by providing loans and grants for a small number of strategically important investments and small and medium enterprises (including those run by women and in community-based developments)[11].

Despite that the Structural Funds are not targeted in particular to the development of rural areas, the massive investment in infrastructure, industry and services, and human resources (education and training), had effects which spilled over into rural areas. For example, manufacturing contributed significantly to the rural economy as most of the jobs created were located in rural areas. Some small amounts of the Structural Funds were also allocated for local development (*e.g.* Leader Programme). As presented above, LEADER I, II and Leader+ programmes have been very well received in Ireland. Despite that the Programmes received relatively limited financial resources Ireland is often regarded as a model for local participation in the implementation of rural development (McDonagh, 2001). Overall, between 1973 and 2006, Ireland received around €60 billion from EU membership, with more than half coming from the EAGGF Guarantee and Guidance Sections (Table 4.3).

Table 4.3 EU Receipts, Ireland, 1973-2006 (€m)

	1973-1979	1980-1989	1990-1999	2000-2006	Total
EAGGF Guarantee	1,666.3	8,098.9	16,234.4	12,639.2	38,638.7
EAGGF Guidance	49.3	708.1	1,739.7	219.7	2,716.7
European Social Fund	50.4	1,358	3,387	1,191.8	5,987.2
European Regional Development Fund	38.0	982.2	4,243.1	2,520.3	7,783.6
Cohesion Fund	0	0	1,091	908.9	1,999.9
Other	158.1	402.8	300.9	139.5	1,001.3
Total	1,962.1	11,550	26,996.1	17,619.2	58,127.4

Source: Hubbard and Ward (2007)

4.2 Spain and the Community of Navarra

Structural Funds were extremely important for the economic development of Spain as a whole, and implicitly for its *Autonomus Communties*. Between 1989 and 2006, around 23% of the EU Structural Funds and over 55% of the Cohesion Funds were allocated to Spain. Most of these resources were oriented towards Objective 1 (regions lagging behind in economic development), Objective 2 (regions affected by industrial decline) and Objective

[11] http://www.bmwassembly.ie

5a (adjustment to agriculture and fisheries sectors) and 5b (adjustment in rural areas) measures. Overall, more than 80% of the Spanish Structural Funds were allocated to Objective 1 regions. These covered more than three quarters of the Spanish territory and around 60% of the total population.

For the first programming period (1989-1993), the Structural Funds received by Spain amounted to 13.1 ECU billion. More than three quarters of this amount was allocated to Objective 1 regions. Objective 2 measures received some 12%, the rest being divided between Objectives 3-4 and 5a and 5b. Seven actions were planned for Objective 1 regions under the CSF, of which one focused on agriculture and rural development (receiving almost 15% of total public expenditure). The latter was divided in five sub-programmes as presented in Table 4.4.

Table 4.4 Distribution of Structural Funds allocated to Objective 1 for Agriculture and Rural Development Programme, Spain, 1989-1993 (€ m)

Sub-programmes	EAGGF Guidance	ESF	EFRD	TOTAL	%
1. Improvement of the agricultural production	457.1		162.5	619.6	50.9
2. Environment &conservation of natural resources	78.1			78.1	6.4
3. Improvement of the effectiveness of the agricultural structures & agricultural products marketing	372.7			372.7	30.6
4. Reorientation of production & improvement of quality	54.7			54.7	4.5
5. Professional training and aids to contracting		92.0		92.0	7.6
TOTAL	962.6	92.0	162.5	1,217.0	100

Source: Iraizoz (2007)

For Objective 5b regions, a Development Program for Rural Areas was approved. The contribution of Structural Funds amounted to €1.481 billion of which more than two thirds came from the EAGGF Guidance.

For the second programming period (1994-1999), Spain received around ECU 32 billion. The support for Objective 1 regions continued under the second CSF; Objective 1 regions covered 78% of the Spanish territory and 59% of the total population. Around 83% of the Spanish Structural Funds were allocated to Objective 1 and distributed amongst ten integrated operational programs (one for each Objective 1 region). Additionally, two multi-regional operational programmes also received funding, for areas belonging to Objective 5a and for the economic development and diversification of rural areas. For Objective 1 regions, 8% of the total budget under the CSF was allocated for agriculture and rural development. More than half (56%) of this support was actually oriented towards the improvement of farm structures and the competitiveness and profitability of agricultural holdings. Only 11% was allocated for the economic diversification of rural areas, of which more than half was for rural tourism and craftsmen's activities, and the conservation of rural and cultural heritage. Objective 5b regions (accounting for 17% of area and 4% of population) received ECU 664 million.

As the second reform of the Structural Funds reduced the number of priority objectives from 5 to 3, under the third CSF (2000-2006) the Spanish financial framework was divided into 10 regional integrated operational programmes for Objective 1 regions and seven rural development programmes for regions outside Objective 1. However, out of €43 billion in total Spanish Structural Funds, 88% were allocated to Objective 1. Additionally, two more programmes for improving agricultural structures and production systems received public funding from the EAGGF Guarantee Section. Nevertheless, more than half (57%) of total public expenditure for rural development was still allocated for agricultural measures, and only 9% for the economic diversification of rural areas. Table 4.5 summarises the total Structural and Cohesion Funds allocated to Spain for the three programming periods by objectives.

Table 4.5 Distribution of Structural Funds by Objectives & programming periods

Objectives	1989-1993		1994-1994		2000-2006	
	€million	%	€million	%	€million	%
Total Structural Funds	13,100	100	31,668	100	43,087	100
Objective 1	10,701	77.6	26,300	83.0	38,096	88.4
Objective 2	1,506	11.5	2,415	7.6	2,651	6.2
Objective 3-4	837	6.4	1,843	5.8	2,140	5.0
Objective 5a	321	2.5	446	1.4	-	-
Objective 5b	265	2.0	664	2.1	-	-
IFOP	-	-	-	-	200	0.5
Cohesion Funds	859	-	7,950	-	11,160	-

Source: Iraizoz (2007)

Regarding the Community of Navarra, as its income per capita was greater than 75% of the EU average it was never classified as an Objective 1 region. Yet, some of its areas were included in Objective 2 and Objective 5b. The 1989-1993 operational programme for Objective 5b areas, included four sub-programmes and focused particularly on agricultural and forestry measures (80% of total national and EU funds). Amongst these measures, afforestation, improvement of grazing land, and support for the Pyrenean natural park received the largest share. Only 12.4%, however, was allocated for rural tourism and support for small business. The distribution of funds by sectors indicates that the largest share was allocated for forestry (32%), followed by agriculture (30%) and tourism (19%); whereas environmental activities received less than 2%. Overall, the (direct and indirect) economic impacts of this programming period, measured through the effect on the GDP of Objective 5b area using input-output analysis, were estimated to be around 5% of the GDP (Iraizoz, 2007). For the second programming period (1994-1999), the number of areas eligible for Objective 5b funding increased from 101 to 181 municipalities. This meant an increase in the area covered from 42% to 67% (of the region's territory) and covered almost 23% of the region's total population. The total (public and private) amount spent by the region amounted to €167 million, of which 90% was concentrated on the development of primary sector (agriculture and forestry). Within this, an important share, however, was allocated to rural infrastructure and the conservation of natural resources and environment.

For the third programming period (2000-2006), due to Agenda 2000 and the creation of the second pillar of the CAP, with the exception of its capital city (and its surroundings), the rest of the Navarre was included in Objective 2. This covered 95% of the region's territory and 51% of the population. The measures were grouped around five priority axes and the total public financing amounted to almost €286 million, of which half came from EAGGF

Guarantee. Most of these funds (54%) were oriented towards agriculture (e.g. improvement in the efficiency of agricultural holdings and agricultural infrastructure) and the agro-food industry. Only 30% of the public funds were allocated for accompanying measures, of which most were for afforestation and compensatory payments in LFAs. Agri-environmental measures received just 21% of this amount or 6% of total public funds. Although, it is difficult to identify exactly the direct impacts of these programmes, the results of the qualitative analysis highlight consensus regarding some positive effects on agricultural structural changes and profitability of farms, an increase in the number of tourists, and improvements in quality of life, roads and habitats.

4.3 Sweden

European Structural Funds Policy in Sweden, like Rural Development Policy, has passed through two programming periods since accession in 1995. In each of these periods Structural Funds policy has had some impact upon rural areas of Sweden. Between 1995 and 1999 most of northern Sweden (excluding a narrow strip along the coast of the Gulf of Bothnia) was designated under Objective 6. Along the coast of the Northern counties, and in the forest districts further south, Objective 2 and 5b programmes were implemented during this period. For Objective 6 areas six priorities were listed in the programme document of which two related to “Agriculture, fisheries and natural resources” and “Rural and community development”. A third priority provided assistance to the Sami (Lap) community and reindeer herding. The remaining priorities focussed on enterprise, human capital and infrastructure.

As Objective 6 and 5b measures disappeared in the reform of the Structural Funds of 1999, for the programming period 2000-2006 the North of Sweden was designated under Objective 1 (except for a coastal strip which received “Special Programme” status). Further south a patchwork of Objective 2 and “transitional” programme areas were defined. During this period most of the CAP Pillar 2 measures were integrated within the Objective 1 programmes, the exceptions being agri-environmental measures and LFAs payments, which were administered as nationwide horizontal programmes. The remaining priorities in the 2000-06 Objective 1 programmes (including the Sami programme) were superficially similar to those of Objective 6 during the preceding period, and related to rural development in a broad, indirect way. The Objective 2 measures had a more urban focus, relating mostly to entrepreneurship, infrastructure, business development, knowledge based industries, human capital, research and development and regional marketing.

For 2007-2013 there is no integration of the ERDP into Structural Fund Programmes. The ERDP has, in this sense, become more self contained, and separate from regional policy. Currently, the Swedish Structural Funds cover the entire territory, through eight regional operational programmes, all designated under the Regional Competitiveness and Employment Objective. The National Reference Framework sets out the following priorities: (i) innovative environments and entrepreneurship; (ii) skills supply and increased labour supply; (iii) accessibility; and (iv) strategic cross-border cooperation. Each of these may indirectly benefit the territorial development of rural areas, though they are not designed as rural development instruments *per se*.

4.4 Austria and Tyrol

Although difficult to single out the effects of the Structural Funds on the development of rural areas (mainly due to the interaction of different public and private funding sources), it is generally accepted that, following EU accession, Austrian regional policy and regional development gained greater salience. Prior to accession, regional policy had become a political priority only in the 1980s, when the traditional policy focusing on the reduction of regional disparities was replaced with a structural policy concentrating on endogenous development, innovation and modernisation (Gruber, 1997). Following EU accession, regional funding increased significantly. Hence, for example, between 1995 and 1999 the total amount of EU Structural Funds amounted to ECU 1.62 billion (at 1995 prices).

The only Austrian region eligible for Objective 1 was Burgenland, which covers the most eastern part of Austria. Its Objective 1 status ended, however, in 2006. One of the priorities of this region was "agriculture, forestry, fisheries and protection of nature".

For the period 2000-2006, some €2.7 billion (at 2004 prices) were committed to Austria's structural aid. Most of this was allocated for Objective 2 areas (€771 millions), Objective 3 (€608.9 millions) and Objective 1 (€300 millions)[12]. Nevertheless, when assessed in real terms (using 1999 prices) there is a drop of EU funding by almost 3%, from €1,516 million (does not include Community Initiative funds) in 1995-1999 to €1,473 million in 2000-2006 (Breuss, 2000). Table 4.6 presents the allocation of Structural Funds by measures for the programming period 2000-2006.

Table 4.6 Structural Funds Expenditure, Austria, 2000-2006 (€million)

Programmes	EU Contribution
Objective 1 (Burgenland only)	271.0
Objective 2 (all other federal provinces)	680.0
Objective 3 (all of Austria)	528.0
Community Initiatives	
EQUAL	96.0
INTERREG IIIA	141.7
INTERREG IIIB and INTERREG IIIC	41.5
LEADERplus	71.0
URBAN II	8.0
Total	1,837.2

Source: http://www.tirol.gv.at/themen/tirol-und-europa/eu-regionalfoerderungtirol/oesterreich/programm-und-mittelausstattung

Little evaluation regarding the effects of participation in EU regional policy on Austria is available, although Breuss (2000), based on his analysis, concludes that the 1995-1999 EU regional aid "stimulated the Austrian economy only moderately" (p.188). There is also no clear evidence that the disparity between regions narrowed, but the time-period for analysis is rather short for such changes. As regards rural development the structural support (provided through LEADER and Objective 5b) for 2000-2006 was lower when compared against the previous period (1995-1999) (Asamer-Handler and Lukesch, 2002). The main, commonly accepted, benefit is the enforcement of systematic control mechanisms, necessary for EU regional policy, which led to a more transparent public support system (Centre for Industrial Study, 2005; Breuss, 2000).

[12] http://europa.eu.int/comm/regional_policy/index_en.htm

As regards Structural Funds for the Tyrol region, during the programming period 1995-1999, the region was partly covered by the Objective 5b programme. This changed in the programming period 2000-2006, where some of the areas started to be phased out and the remaining regions (Osttirol, large parts of Tiroler Oberland and also one part of Außerfern, but also some of Innsbruck Land) became eligible for the newly defined Objective 2 status, now covering rural regions with structural problems. The population living in the Objective 2 eligible area and the phasing-out area was around 203,900, or around 30% of the total population in 2000 (123,500 in the remaining Objective 2 area alone – equivalent to 18% of the region's population). The programme focussed on 3 priority areas and technical assistance measures[13].

Priority 1: Aid to enterprises, increasing the attractiveness of the region for businesses. (Start-ups in the industrial sector and related services, service sector; developing existing businesses; developing appropriate premises; encouraging research and innovation; measures in water treatment, environment, and energy).

Priority 2: Tourism, leisure and quality of life. (Young entrepreneurs in tourism and leisure sector; information and communication technology; infrastructure investments for cultural and environmental projects and for measures aimed at preventing natural disasters).

Priority 3: Innovative solutions for regional and environmental problems. Endogenous regional development via regional management organisations; energy-related environmental projects.

Technical Assistance: (Assistance with management, information, implementation, control and evaluation of all aspects of the programme).

The total cost of the Tyrol Operational Programme for 2000-2006 was €216 million, of which €46.6 million (or 22%) were provided by the ERDF (Table 4.7). In the previous programming period Tyrol received €36 million. Interestingly, there is a considerable amount of private money to support the implementation of projects, especially under Priority 1, promoting business, attractiveness of workplaces, and new technologies. INTERREG and LEADER have been the two most important Community Initiatives in Tyrol and they continue to be so.

[13] http://ec.europa.eu/regional_policy/country/prordn/details.cfm?gv_PAY=AT&gv_reg=ALL&gv_PGM=2000AT162DO007&LAN=5

Table 4.7 Operational Programme Tyrol and EU Structural Funds Support, 2000-2006 (€)

Priority	Total	EU contribution	Public aid (EU + others)	% EU contrib.	% total public aid
Promoting businesses & the attractiveness of workplaces; new technologies	102,990,955	17,267,285	27,138,735	16.8	26.4
Tourism, leisure & quality of life	86,137,223	23,547,989	44,738,453	27.3	52.0
Proposals of innovative solutions for regional problems & environmental issues	25,581,666	5,264,726	11,894,566	20.6	46.5
Technical Assistance	1,148,000	574,000	1,148,000	50.0	100.0
Total	215,857,844	46,654,000	84,919,754	21.6	39.3

Source: http://ec.europa.eu/regional_policy/country/prordn/details.cfm?gv_PAY=AT&gv_reg=ALL&gv_PGM=2000AT162DO007&LAN=5

Whereas a high 'additionality' of projects was found during an evaluation of the implementation of the Structural Funds at the national scale, it was less certain whether these investments could also contribute to lessen the disparities within regions (OIR 2003). Qualitative evidence suggests that there were certainly positive developments, especially in Außerfern (which was mainly industry led), and to a lesser extent also in Tiroler Oberland.

In the new programming period (2007-2013), the primary focus is on improving regional competitiveness, whereby the topics eligible are defined rather narrowly. In contrast to the former programming periods, the whole province is now a target area (Tirol 2007b), with some €72 million of Structural Funds to be allocated to this region.

4.5 Germany and Altmark Region

The New German Bundesländer is a special case when compared against the other countries, as no EU accession negotiations took place. Germany's reunification led automatically to integration into the EU and the adoption of EU polices. EU integration and CAP adoption led to dramatic change for the new German Bundesländer, following the reunification process. The fall of the communist regime and the transition to a more market based economy led to an almost complete collapse of the industrial sector and the dismantling of the existing farming system. In order to avoid the breakdown of the agricultural sector significant financial resources were transferred during the early 1990s from the federal state. Additionally, the sector received also EU aid, through, for example, the price support system, set-aside premium and other financial incentives that encourage the competitiveness of agricultural production. East German farmers benefited, on average, about two to three times more from compensatory payments than their colleagues in the West.

Support programmes to ensure the competitiveness of agricultural production were provided in the early 1990s to the Altmark Region. Amongst these agricultural investment programmes the following were most important:

- financial support for newly established individual farmers;
- investment incentives for the procurement of new machineries and equipment;
- credit subsidy programmes;
- public collateral schemes to ease credit access as most farmers or farm managers did not own the land they cultivated which could be used as collateral, and
- extension programmes to help farmers to understand the EU system and how to apply for support.

In addition, generous welfare programmes for early retirement and training were also offered to the farm population in the region. There were also smaller programmes which focused on direct marketing, the promotion of agro-tourism and the encouragement of agriculturally oriented services. Overall, the country report concludes that these agricultural investment programmes helped farms in the region to become highly competitive. In contrast, the smaller programmes were considered as less successful due to the long distance to potential markets and clients, as well as the limited natural attractiveness of area compared to other close-by regions (Wolz and Reinsberg, 2007).

Various policies influence directly or indirectly the development of rural areas. Hence, policy areas which have a direct impact are those related to the CAP Pillar 1 and Pillar 2 measures, whereas regional policy, environmental policy, nature conservation and transport policy as well as financial policy, regional planning, science and education and employment affairs do not focus specifically on rural development (Schubert and Todt, 2000, p. 9). As regards rural development policy, the responsibility lies at the level of the 16 Länders, although according to Article 91a of the constitution, the federal state has to support the “Common Tasks” (ibid.). Amongst these tasks two major national programmes that influence and promote rural development are: (1) Task for the Improvement of the Regional Economic Structure (*Gemeinschaftsaufgabe “Verbesserung der regionalen Wirtschaftsstruktur”, GRW*) and (2) Task for the Improvement of Agricultural Structures and Coastal Protection (*“Gemeinschaftsaufgabe “Verbesserung der Agrarstruktur und des Küstenschutzes”, GAK*). Both tasks represent the main national instruments for co-financing the regional and horizontal schemes of the EU. EU policies influence the design of these tasks. For example, EU regional policy affects the GRW whereas GAK is strongly influenced by the CAP (ibid).

GRW (Task for the Improvement of the Regional Economic Structure) was initiated in the 1960s and it seeks to reduce regional economic discrepancies. It aims at integrating structurally weak regions within the economy as a whole, and to create and secure permanent employment opportunities in these areas. Its primary target groups are small and medium scale crafts and industrial enterprises. Between 2003 and 2005 about €7 billion was provided by the government for this task. Most of the funds were oriented towards rural trade and industry sector accounting for €4.7 billion, while €2 billion were allocated for infrastructural development in the rural economy. Overall, some 9,940 projects were supported, of which 8,321 were in the trade and industry sectors. The rest of 1,619 projects focus on rural infrastructure (Deutscher Bundestag 2006).

This programme focused particularly on East Germany. Hence, around €5.7 billion were available for the new federal states culminating in a total volume of investments of about €22.5 billion. Some €4.1 billion were devoted to trade and industries supporting 7,071 projects. These projects led to the creation of 66,500 permanent jobs (of which 20,850 were for women) while another 187,400 permanent jobs (of which 53,600 were for women) could be secured. In addition, 1,250 projects promoting rural infrastructure were supported with a volume of about €1.6 billion, leading to a total investment of about €2.1 billion (Deutscher Bundestag, 2006).

The effects of the subsidies of this programme on employment and wages were analysed for 1993–2003 and compared with the general figures given by the Federal Office for Employment. Analysis revealed that the duration (or “stability”) of employment was much longer and close-down rate (“bankruptcy rate”) of subsidised enterprises lower than the average. The volume of investment per employed person was six times higher in West Germany and even fifteen times higher in East Germany compared to those which are not financially supported by this programme. This seems to be a very decisive indicator given the fact that all the supported enterprises are located in very remote areas (Deutscher Bundestag, 2006).

GAK, Task for the Improvement of Agricultural Structures and Coastal Protection, was created in the early 1970s. Its major focus has been on: (1) the improvement of rural structures, i.e. land consolidation, village renewal, irrigation activities, and regional management and elaboration of integrated rural development concepts, (2) the improvement of production and marketing structures, and (3) sustainable agriculture. It is funded mutually through the national Ministry and the respective federal state ministries. The financial contribution of national funds has gradually declined, from more than €2 billion during the early 1990s to over €1 billion in recent years. This accounts for 60% of the total funds available. The rest is provided by the federal states.

In addition to these two nationally funded programmes, the LEADER approach has had a large impact on rural development. In 2006, there were 148 LEADER+ regions spread all over Germany. In total, about 4,800 projects are being implemented. The projects concentrate on (1) promotion of (soft) tourism, (2) renewable resources and bio-energy, (3) cultural activities, (4) social work and communication, and (5) public relation work, including development of regional trade marks (labels). In addition, some projects deal with nature conservation, further education and new technologies. For 2000 – 2006 EU support amounted to approximately €250 million (Deutsche Vernetzungsstelle, 2007).

Overall, the planned Structural Funds expenditure for Germany for 2000-2006 was €33 billion of which around €9 billion came from the EAGGF (Table 4.8), with the financing of rural development measures depending on their regional context. The entire area of the New German Bundesländer is an Objective 1 region with planned expenditure of €4.6 billion of which €3.4 billion comes from the EAGGF Guidance Section and €1.2 billion from the Guarantee Section (Schubert and Todt, 2000). Additionally, expenditure under the ESF was approximately €4.6 billion. Community Initiatives expenditure for LEADER+, INTEREG and EQAUL was estimated to be €247 million, €737 million and €484 million respectively.

Table 4.8 Distribution of EAGGF for Rural Development, 2000 – 2006, Germany (€m)

	Guarantee	Guidance (Objective 1 Area)	Total
West Germany	4,126.2	-	4,126.2
East Germany	1,180.3	3,442.1	4,622.4
Germany, total	5,306.5	3,442.1	8,748.6

Source: Schubert, 2002

Table 23 shows that more than 50% of the EU funds for rural development in Germany went to East Germany. Most of the funds were allocated from the EAGGF-Guidance Section, being particularly designed to improve the development and competitiveness of the farming sector (Schubert, 2002).

When examining the distribution of EU funds by federal states, a clear East-West divide is evident. In the Western states the focus is more on agri-environmental measures which account for about 60% of total public expenditure. Measures such as compensatory allowances for LFAs, support for investment in agricultural holdings, the entry of young farmers, improving the processing and marketing of agricultural products, account for about 30%. Only 10% are reserved for measures focusing on the promotion of quality of life and rural diversification. In contrast, the priorities of the Eastern Länders are agricultural competitiveness, quality of life and rural diversification. About 40% of total public expenditure is absorbed by measures promoting agricultural competitiveness. More than 30% is devoted to quality of life and rural diversification. The latter focuses on the renovation and development of villages and the protection and conservation of rural heritage. Environmental issues account for less than 30% of the funds in East Germany. This seems to be in line with other countries in the EU. The poorer regions are more in favour of promoting activities concerning aspects of quality of life, while richer regions focus on agri-environment and less favoured areas (Shucksmith *et al*., 2005).

In the Altmark region, two major rural development programmes are considered successful: (i) village renewal and (2) feeder road construction. The village renewable programme had been regarded as highly successful. It provided subsidies for house renovations accounting for 40% of the total costs or up to a maximum of €20,000. Homeowners living all over the Federal State of Saxony-Anhalt could apply. This is different to other federal states in East Germany where the participating villages were identified first. This programme was particularly popular during the 1990s, when the regional population made ample use of it. The programme encouraged rural inhabitants to invest some of their own funds but also had a "multiplication effect" as most of the work was carried out by local, rural artisans. Hence, a regional economic cycle could be developed. In addition, this programme was linked with other local and public initiatives, e.g. the improvement of public infrastructure and rural labour market. In this way, synergy effects were achieved. Therefore, houses and public infrastructure in the villages of the Altmark Region improved compared against similarly-structured regions in East Germany.

Feeder or agricultural road construction was also important. While the original objective had been to improve the links between agricultural farms and their fields and to cut agricultural transport costs, a significant improvement of the rural feeder road network was achieved. This development was complementary to a large, national programme for improving the regional and national highway system. In this region, marked by low population density, the use of private cars is a necessity.

LEADER Programme

Although financially limited, LEADER was decisive in convincing regional actors to overcome a narrow, agriculturally oriented focus and to develop and implement activities on a regional scale. LEADER has been popular within the region since the early 1990s and regional actors were highly committed to support its promotion. Out of the 11 LAGs that acted within the whole Federal State of Saxony-Anhalt two were in the Altmark Region. The country report summarises the benefits as follows. It provided some jobs for unemployed persons although the overall employment effect was marginal. It illustrated that each project or activity must be viable in itself so when external support expires something has to remain. With the help of these projects, local or village identity could be strengthened. In addition, the programme assisted in developing various networks at both the national and international level. Through that exchange, regional actors acquired new ideas for their own, future activities. Moreover, it was the “learning effect” as rural actors were “forced” to consider the long-term potential of their local region. Ssustainable projects have to be viable in the long run. For 2007 – 2013 the number of LAGs increased to five.

The region has also qualified for financial support from another area-based programme called “Active Regions - Shaping Rural Futures” (*Regionen Aktiv – Land gestaltet Zukunft*). This was initiated in 2001, and after 2005 operated on a smaller scale up to the end of 2007. Similar to LEADER it encouraged the implementation of integrated, high-quality and innovative strategies for sustainable development with a strong focus on partnership and networks.

For 2007-2013 all agricultural and rural development activities will be covered by a national strategy plan, and all rural development plans of the 16 federal states have to be in line with this national plan. This will focus on three major objectives (BMELV, 2006):

- increasing competitiveness of agriculture and forestry;
- improving the environment and natural landscape;
- improving the quality of life in rural areas and promotion of a diversification of rural economy.

The National Strategy clearly states that the LEADER approach will be the guiding methodological approach for rural development.

Overall, it can be concluded that a gradual shift in emphasis of rural development approaches can be observe. During the last years, it has become more and more accepted that sector-oriented programmes, particularly agricultural ones as in the past, will not solve many rural development problems. In the past, economic incentives and rural development activities had been planned by the administration at higher levels. The objective of local political representatives had been to acquire as many external funds as possible for local projects regardless of their immediate needs and sustainability. This thinking was heightened after unification in Germany when massive volumes of funds transferred from the West to the East, giving too little thought to sustainability. Since the late 1990s this approach had been increasingly questioned. In line with this, the government started to actively promote an integrated rural development approach which involves the local population and economic, social and cultural actors either as private individuals, but most commonly through their groups, associations and political parties.

5 Concluding Remarks

This deliverable assesses the most significant measures that prompted agricultural restructuring and rural socio-economic change in five selected EU 15 countries. It also focused on a specific case study region within each country, trying to identify what were the main policy drivers that triggered transformation in these areas. The policy measures were grouped around the two major EU funding instruments, i.e. the Common Agricultural Policy through its Pillar 1 and Pillar 2 and the Regional Policy Structural and Cohesion Funds. While regional policy does not address specifically rural development issues, there is little doubt that it has influenced the development of rural areas in the selected case studies. As rural policy was not necessarily a priority for EU policy-makers for more than three decades after the adoption of the CAP it is rather difficult to identify precisely, the effects of the CAP Pillar 2 measures on rural areas. Until recently, there was a varying degree of overlap between EU regional and rural development measures which makes it difficult to separate out the effects of the two sets of policies. It is clear that EU membership, particularly the CAP and the Structural and Cohesion Funds led to agricultural restructuring and significant socio-economic change in rural areas in the selected case studies. However, the level and nature of change has varied from country to country according to their own specific economic, social, political and cultural conditions.

Undoubtedly, the CAP remains critical. CAP Pillar 1 measures, such as price support and direct payments, remain crucial for all countries and regional case studies, and in general they account for the largest share of the EU funds allocated for agriculture. It is clear that price support and market interventions measures were more important before the adoption of the MacSharry reform in 1992 and undoubtedly countries such as Ireland and Spain, benefited fully from these measures. The introduction of compensatory (later on direct) payments shifted the balance within Pillar 1, and they have become the most important component of farm income across countries and regions.

The significance of direct payments is remarkable as in all case studies, farmers' livelihoods, particularly those operating on a small-scale, depend largely on these subsidies. There are significant differences, however, in the distribution of direct payments by farm types across countries and regions. Irish farmers, but mostly those engaged in cattle rearing and sheep production in the BMW region would not survive without this support, as direct payments account for more than 100% of their total farm income. Yet, beef farmers in Sweden, and cereals and olive oil producers in Spain also rely on these payments too. With the exception of Austria and to a lesser extent Sweden, however, the distribution of direct payments has proved to be very uneven, with large commercial farms being the main beneficiaries. This is particularly the case in Spain, where 78% of farmers received only 17% of total direct aid in 2005.

CAP Pillar 2 measures, particularly agri-environmental measures and LFAs compensatory payments, are extremely important for most of the countries and selected regions, as they support farm income. In Austria and Sweden, the implementation of the agri-environmental programmes is extremely significant and they were considered as the most appropriate instruments following EU accession. In Sweden, public perceptions of the countryside is that of a provider of environmental public goods and it is due to the implementation of the EU agri-environmental policy that "Sweden made the 'ecological transformation' of agriculture a main component of its agricultural policy" (Bruckmeier and Larsen, 2002, p.3

The Rural Development Programme has been the most important financial instrument for Austrian agricultural policy following membership and the significance of its main agri-environmental programme, ÖPUL, is indisputable. Austria devotes one of the largest shares of public support of all EU member states to CAP Pillar 2, with agri-environmental measures and LFA compensatory allowances, taken together, accounting for over 80% of total public support allocated for rural development. In this respect, Austria took full advantage of the opportunities of EU membership by considering agri-environmental measures as the perfect tool for supporting its farming community but also for the consolidation and expansion of an environmental strategy established well before EU membership. The survival of most of Austria's mountainous farms depends on agri-environmental and LFA compensatory payments. Agri-environmental measures and compensatory allowances are also critical for rural Ireland. The Rural Environment Protection Scheme, introduced first in 1994, is considered by Irish decision-makers as a sound success, as the scheme was well received by Irish farmers (particularly beef and sheep producers who find it difficult to survive). Some €2.45 billion were spent on REPS between 1994 and 2007.

Accompanying Measures are also important in Spain. However, as opposed to Austria, Sweden and Ireland were agri-environmental and LFAs payments account for well over 80% of total public expenditure for rural development, Spain's distribution is more balanced with just over one half of the amount allocated for these two measures. However, until the adoption of Agenda 2000, afforestation received the largest share (44%). Between 2000 and 2006, agri-environmental measures received 38.6%, followed by afforestation 31.5%, compensatory LAFs payments 16.5%, and early retirement 13.4%.

Germany is a special case and a clear East-West divide is evident. The West focuses more on agri-environmental measures which account for about 60% of total public expenditure on Pillar 2. Measures such as compensatory allowances for LFAs, support for investment in agricultural holdings, setting up of young farmers, improving processing and marketing of agricultural products account for about 30%. Only 10% is reserved for measures focusing on the promotion of quality of life and rural diversification. In contrast, the priorities of the Eastern *Länder* are agricultural competitiveness, quality of life and rural diversification. About 40% of total public expenditure is absorbed by measures promoting agricultural competitiveness. More than 30% is devoted to quality of life and rural diversification. The latter focuses on the renovation and development of villages and the protection and conservation of rural heritage. Environmental issues account for less than 30% of funds in East Germany.

The agri-environmental and LFAs payments are subject to criticism. Although, they may contribute to the economic, social and ecological development of rural areas, opponents argue that there is a financial imbalance between agri-environmental and broader rural development measures, which limits the progression of integrated rural development (Bruckmeier and Larsen, 2004). Moreover, these measures are profoundly 'farm-centric' offering very little for non-agricultural actors (Dwyer *et al*. 2002). Additionally, it is difficult to assess the direct effect of these measures on the environment (Darnhofer and Schneeberger, 2007).

Interestingly, the analysis highlights the importance of the Community Initiative Programmes, particularly LEADER. Although, very limited funds were allocated for this Programme, in all countries and regional case studies, LEADER became popular and well received by most local communities. Its popularity led to countries such as Spain and Germany creating similar national programmes (e.g. PRODER in Spain and Active Regions in

Germany). By actively engaging local communities and local actors, LEADER supports the promotion of an integrated rural development approach.

Although difficult to single out the effects of the Structural and Cohesion Funds on rural development, their impact should not be neglected. Since the first reform of the Structural Funds and the creation of the Single European Act, significant amounts of public money were allocated to regional policy. However, as opposed to the CAP, regional development policy is based on co-financing with EU contributions based on the classification of objective areas. Amongst the five case studies, Ireland and, undoubtedly, Spain were the major beneficiaries of these funds.

Overall, it can be concluded that although policy measures are extremely important there is not one, single determining factor for rural change but a combination of internal and external driving forces (including effective policies) which, for success, also depend on a favourable macro-economic environment.

The conclusions from the analysis provided by WP8 will be drawn and best practice lessons codified in a user-friendly form as part of Deliverables 9.1 and 9.2 of WP9. WP9 seeks to draw policy conclusions regarding managing agricultural and rural transitions in the EU. It will draw on both the secondary data collected and interviewers conducted as part of the five case studies. The applicability of the lessons learnt from the EU15 case studies for the NMS will be assessed.

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