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European Studies
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Financing European Rural Development

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List of Abbreviations

AWU	Annual Work Unit
CAP	Common Agricultural Policy
CI	Community Initiative
COG	Chief of Government
EAFRD	European Agricultural Fund for Rural Development
EAGGF	European Agricultural Guidance and Guarantee Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
GAK	Geimeinschaftsaufgabe Agrarstruktur und Küstenschütz
GVP	Gross Value of Production
IR	Intermediate Region
MS	Member State
NUTS	Nomenclature des unités territoriales statistiques
PLANAK	Planungsausschuss Agrarstruktur und Küstenschutz
PR	Predominantly Rural Region
PU	Predominantly Urban Region
RCDF	Rural Community Development Fund (Denmark)
RDP	Rural Development Policy
WTO	World Trade Organisation

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1. Problem Formulation

Looking at data provided by the Statistical and Economic Information Report 2006 (Commission 2006) on Rural Development of the European Commission many questions may arise. The most obvious probably always is, in how far the policy put in place actually fulfils the expectations stipulated in the objectives set out. This is a matter of how effectively the instruments designed contribute to the political goals formulated at an earlier stage and eventually manifested in the respective regulation. The answer to this question is vital for the policies “reason d’être” and it is therefore that the European Commission requests evaluations to be conducted before (ex-ante) implementation, at mid-term and after termination of the programming period. These evaluations are supposed to prove that the policy is successful in reaching the objectives set out. In case it is not successful the evaluations shall be the basis for reconsiderations and improvements concerning the deployed instruments set in place.

Beside the more obvious and very interesting point described above, another question pops up looking at data provided by the statistical report from 2006. As can be seen in Table 1 there is not one Member State (MS) of the European Union (EU) even coming close to absorbing all funding provided by the Rural Development Policy (RDP) in the programming period of 2000 to 2006. This leaves one wondering if the beneficiaries are not interested in the financial resources offered to them. Which tax payer would reject a reduction in taxes leaving him or her with a higher net income? In the case of the EU’s RDP the question must be, which potential beneficiary would reject co-financing from the European level as an additional source of income? Of course the additional benefit is coupled to certain conditions. But let’s assume for now that adhering to them is generally feasible. Consequently, a first suspicion suggests to look whether or not beneficiaries are capable of providing own resources required to profit from additional EU co-financing. In fact, as will be shown later, this is one explanation for funding left untouched. But it does not serve as a sufficient justification accounting for the fact that no MS comes close to gaining access to all available funding. If a severe lack of own resources was the main reason, policy makers would probably react quickly, because of other policy areas claiming loudly that they could very much use the resources left in the pot.

Table 1: MS Rural Development Expenditure in percent of Financial Plan – Programming period 2000-2006

Belgium	70	Italy	68
Denmark	76	Luxembourg	83
Germany	77	Netherlands	77
Greece	49	Austria	83
Spain	71	Portugal	64
France	74	Finland	85
Ireland	82	Sweden	82
United Kingdom	71	EU-15	72

(Source: European Commission, Rural Development in the European Union, Statistical and Economic Information, Report 2006, p 357f)

Table 2: MS accessed funding from EAGGF – Section Guidance 2000-2005 in percentage of the Financial Plan 2000 - 2006

Belgium	34	Luxembourg	29
Denmark	39	Netherlands	43
Germany	68	Austria	52
Greece	38	Portugal	55
Spain	64	Finland	49
France	50	Sweden	55
Ireland	46	United	56
Italy	42	EU-15	55

(Source: European Commission, Rural Development in the European Union, Statistical and Economic Information, Report 2006, p 362)

First research undertaken to find a lose end from which the unravelling of this question could begin was to take a closer look into the above mentioned evaluation reports. And indeed as will be outlined later in this thesis in depth, many hints pointed in more or less one direction. This is not to say that other approaches and starting points may have led into a different direction which may have resulted in a different approach than the one chosen for this research. Looking at the evaluations conducted by implementing authorities, there is one thing to stumble upon again and again. Stakeholders, be it the national and regional administration, be it the potential beneficiaries always claim that the institutional set-up of the funding system, the programming, if not to say the whole rural development policy is rather complex. This makes it hard for all involved actors to work efficiently on their respective tasks assigned to them in the field of rural development.

This leads to a second, more specific question. One reason why Member States are not able to absorb all funding provided to them may be due to problems arising out of an institutional context which is possibly not designed well enough to fit an efficient handling of the rural development funding system as created by policy makers. Why is the design of the funding system on the one side and the institutional set-up responsible for policy making and administration in the field of rural development on the other side not benefiting efficient handling of the funding, leaving the pot empty with all resources distributed to rural development projects? To answer this question the author will in a first step take a closer look at the development of the institutional background of the policy field. Rural development is a policy dominated by the Common Agricultural Policy's (CAP) institutional structures which developed well before rural development was an issue in EU public policy. The 'evolutionary history' of the CAP's institutional and organisational structures will be outlined and assessed in detail. This approach is adopted with the hope to receive possible explanations for the reason why the institutional structures are not fitted to serve an efficient execution of rural development funding as intended.

As the question formulated above implicates, the institutional development of the CAP is only one side of the same medal. The question could also be formulated differently, asking why the rural development funding instruments are designed the way they are – seemingly not fitting the institutional and organisational structures of the policy. Comparing the funding instruments adopted under for RDP to the funding practices of the EU's Regional and Structural Policy it becomes evident that the design of both is based on similar underlying paradigms.

This thesis seeks to test whether a certain institutional development of the CAP and RDP on the one side and the design of its funding instruments with the underlying principles known from Regional and Structural Policy on the contrary can provide one explanation for the fact that the absorption of funding is inefficient. Hence, the research question is based on the hypothesis that the institutional set-up and the design of funding principles do not fit each other and thus lead to difficulties in absorbing funding.

2. Methodology

Many studies have dealt with assessing the impact of the EU's Regional and Structural Policy. The same can clearly be said for the EU's Rural Development Policy. This is not very surprising since ex-ante-, midterm- and ex post evaluations are mandatory for each programming period and have to be conducted by the respective implementing authorities. These studies again find entrance in the Commission's evaluation reports.

This study seeks to find a way to explain why MS are not capable of absorbing all funding provided by the EU. With the hypothesis formulated at the end of the problem formulation chapter, it seems sensible to take a look at the institutional development of the CAP and the origin of the funding principles introduced for rural development. But it is also mandatory to explain how this will be done. A choice concerning the methodological path to take must be made. For this the very basic ontological and epistemological stands have to be described. The research design shall be outlined, the choice of theory will be explained and the empirical basis will be defined. Last but not least a short elaboration on the validity of the conclusions and the reliability of the design and the data is necessary.

2.1. Ontology and epistemology

As a very basic premise for distinguishing different research designs de Vaus (2002: 1ff), points to a difference between descriptive and explanatory research. This distinction deals specifically with the research question and whether this asks a question of "what is going on", or "why is it going on." In the current paper the problem formulation is obviously explanatory in seeking why Member States are not capable of absorbing all funding. The shape of research is always influenced by certain starting assumptions about the structure and functioning of our world. This ontological starting point must be explained for all research conducted, since this fixes the definition of objects studied, their interaction and the choice of method to study them (Hart 2007: 300).

In this respect the notion of foundationalism considers the world as existing independently of our interpretation, whereas anti-foundationalists see the world as socially or discursively constructed. Marsh and Stoker (2002: chapter 1) distinguish between three approaches to ontology and epistemology, namely positivism, realism and the interpretist position. Whereas the two first are both based on a foundationalist understanding the interpretist position builds on the idea of the world being socially constructed. In relation to epistemology positivists and realists argue that social phenomena have causal powers, and that it therefore makes sense to construct causal statements. Conversely in the interpretist approach social phenomena do not exist independently of our interpretation of them. Therefore the underlying traditions and discourses of these interpretations should be the main focus of social studies.

The problem formulation of this paper does not in itself exclude any of the above approaches. However, since the focus of the study is to provide explanatory power in a causal relationship, namely whether or not institutional structures have an effect on the efficient functioning of rural development funding, emphasis on causal statements in foundationalist approaches has the advantage of providing a more accessible way of understanding the key elements of the problem. This does not exclude the possibility that the nature of knowledge is socially constructed.

2.2. Choice of Theory

With the assumption described above, that the institutional context is hampering efficient absorption of rural development funding, the question of why this institutional context did not or has not been changed to fit the requirements of the funding mechanisms gains importance. One way of finding an answer to this may be to shed light on the institutional development until the introduction of the rural development concept to the CAP. Choosing such an approach implicates that history matters and that the analysis of past development enables us to draw conclusions about possible future trends or in the case of this thesis to find an explanation of why resources made available for funding rural development remained untouched. A theory which may be able to explain institutional development is historical institutionalism. It is with the help of this theory that the author hopes to deliver at least a fraction to the answer of why the institutional set up of rural development administration and the design of funding instruments do not seem to fit to each other, thus decreasing absorption capacities of the Member States and its regions.

2.2.1. Historical Institutionalism

Historical institutionalism can be described as the idea that actors operate in an institutionally framed environment but that their action can only be understood if set into an historical perspective (Kay, 2005: 555). Following intergovernmental arguments, every step of European integration, every change of policy and the outcome of revised treaties is fully controlled by the Member States, respective by the Chiefs of Government (COG). Nevertheless, according to historical institutionalists, gaps in COG control over the process of European integration can be found. And these gaps in control are effectively used by supranational actors to reach control over the process of integration themselves by pooling competencies into their scope of duties and hence having the possibility to exert influence on further integration (Pierson, 1998: 35). A reason why gaps in COG control occur is for example the limited 'time horizon' of government action. Governments might create institutions out of a short term interest intention. But this can have long lasting consequences, since these institutions – once created – not only have an interest in securing their existence, but also as, just mentioned above, try to use gaps to pool further competencies. The effect of institutions should therefore not only be seen as goals of policymakers but as Pierson calls it a 'by product' of their purposive behaviour (Pierson, 1998: 38f). A second reason for the loss of COG control is the high issue density dominant in the policy making in the EU. The scope of policy making in the EU is very wide and a high number of different actors besides the COGs are involved. For the CAP this would be the case for example in the Rural Development Policy studied in this thesis. But even before the introduction of rural development concepts, the day to day CAP administration of common market orders, controlling product schemes and setting of prices for the agricultural produce occupied a variety of different actors and interests. This high issue density makes full control over the policy outcome for COGs indeed improbable. It creates problems of overload. As the decision making process becomes more complex, time constrains, scarcity of information and the demand to delegate parts of the decision making to agents, supranational institutions for example, can lead to unanticipated consequences in the outcome of the decision making processes and lead to gaps in COG control. Another problem of the issue density creating unanticipated consequences is the well known effect of spill-over. Here Pierson takes in account some neofunctionalist arguments by arguing that in a policy field with high issue density decisions might affect other policy areas as well. Action in another policy area can become necessary due to their embeddedness in a tightly connected network. In the case of Rural Development Policy this becomes evident in the inclusion of typical elements of the EU's regional and structural policy objectives and institutional mechanisms. Concerning reform of the CAP before the introduction of RDP this was particularly the case in the interconnectedness of the CAP and budgetary issues, which led to the necessity to reform (Pierson, 1998: 39f). The last reason for occurring gaps is the shift of change in COG policy preferences. Usually newly elected governments try to shape existing institutions in a way that matches their policy preferences, not being aware of the consequence that these adjustments to their own preferences can lead to institutional developments that do not match the original purpose of the institution. This can complicate COG control over institutions (Pierson, 1998: 41ff).

After the explanation why gaps in COG control occur, Pierson focuses on an elaboration, why once arisen gaps are hard to close and COGs have problems in regaining control. Three reasons explaining these problems are advanced by Pierson. First, created supranational institutions will most likely use their power to avert COGs from exercising a strong influence on them. Second, institutional barriers, usually the same ones that hamper reforms will be a hindrance to reform the reforms in a way that COGs regain control. This aspect seems to be of importance listening to the discourse about CAP reforms. With some voices even talking about renationalisation of the agricultural policy (Grant, 1997: 215ff), it can be assumed that supranational organisations will not abandon their competencies easily. Even more difficult would be the annulment of a treaty because this requires unanimity in the Council of Ministers. The last reason that puts serious constraints on the efforts to resume power is the effect that governments are not likely to abolish treaties once agreed on because of the 'sunk costs'[1] that are involved. Furthermore exit costs are usually making it unattractive for governments to abandon a treaty (Pierson, 1998: 43-50). In sum it can be stated that gaps in COG control are beneficial to supranational institutions and that these institutions will use their gained power to seek additional competencies in future reform negotiations. This theoretical approach of historical institutionalism has the potential to explain certain dynamics of shifting powers that take place in the integration process or in other principal-agent relations. It has to be taken in consideration however, that the

[1] The term ‚sunk costs' in this context describes any past efforts made to establish institutions. These efforts can be of material as well as immaterial nature and cannot be recovered.

control mechanisms and the threat of sanctions as described above are able to constrain the power fluctuation described by Pierson. But once power has moved to certain institutions or actors, they are not likely to let others snatch away their competencies again. This point might be of special interest with regard to the analysis of the Rural Development Policy's institutional development. The CAP actors have high interest to maintain their typical CAP administrational set-up, but high issue density and the assumed advantage of using an already established funding mechanism led to the inclusion of Regional and Structural Policy paradigms.

2.2.2. The concept of Path Dependency

A theoretical approach used to analyse policy making – closely linked to historical institutionalism – is the concept of 'path dependency'. Both approaches start from the assumption that "history matters". This notion, often carelessly used under the label path dependency, has to be employed cautiously and sensitively in order not just to describe the assumption that history shapes individuals' and societies' actions in the presence – which is an assumption agreed on by probably most people but of no use without further refinement. The concept of path dependency is not only the expression that history matters but can be used as an empirical tool to analyse policy developments. Path dependency can – in a very simplistic way – be described as a dynamic of policy making that follows a path created or constrained by past policy decisions. The past policies influence following decisions and this followed path is hard to reverse because it reinforces itself through positive feedback. As long as positive feedback is received, the chance for further steps following that path is very likely. And with every step reinforcing the path, the costs for reversal – meaning the changing from one path to an alternative one – become higher (Pierson, 2004: 20f). In the words of Adrian Kay (2005), path dependency is a useful tool for understanding the development of policies. But the concept is better in explaining why policies are reluctant to change and reforms than in elucidating why changes occur. As already said above, if policy decisions accrue over time and receive positive feedback they have a tendency to reinforce themselves leading to the effect that developments in this policy area follow a certain trajectory. Sunk costs, make it difficult to bring one path to an end and switch to a new policy scheme with new institutions to be established or old institutions to be adapted to the new scheme. This can lead to a so called 'lock in' mechanism, leaving less room for changes the more policy decisions have followed the trajectory of one path. However, reforms in policy areas thought to be 'locked in' and highly constrained through a path dependent development have been possible. This does not mean that the policy is reformed throughout, but that to a certain extent new schemes or elements can be introduced to an existing set of rules or institutions in a policy system (Kay, 2005: 558).

2.3. Research design

A first thought was to compare differently successful MS in order to derive solutions for absorption problems through detecting successful handling of rural development programmes and identifying unsuccessful practices. The idea was that this would result in something like best practice cases on the one side and lessons learned on how not to do it on the other.

This methodological approach turned out not to be feasible. Reasons are that it is very difficult to obtain statistical data or evaluation reports having the quality to construct a solid basis for such a comparison. Furthermore, if such material is available for interesting MS such as Southern European countries or the new Member States, it is often not available in any other language than the official national one. 'Interesting' in this context means, countries' being at the lower end of absorbing EU funding, thus being able to serve as the comparable counterpart to MS having a higher absorption rate.

The now presented approach is twofold. In a first step, a case study approach is adopted in this thesis to approach the question of why MS are not able to access all funding provided by the EU for rural development. From the beginning it is assumed that the reasons for non-optimal absorption are manifold. The focus will however be on the institutional set-up of the policy and its programming, implementing and controlling of administrational procedures. This is to prove the case that the institutional set-up is not benign to efficient absorption. For this, the institutional set-up will be exemplified with presentation of the cases Denmark and Germany. Also the underlying Regulation 1257/1999 for the programming period 2000-2006 will be explained as the basis for understanding the objectives of the EU's rural development concept.

In a second step, the analysis will focus on the development of the institutional context of the RDP, using historical institutionalism as an explanatory tool. CAP reforms will be looked upon to present the background of the historical development and to deliver the basis for an analysis of patterns of reforms.

But as already outlined in the problem formulation, the above described approach – searching for deficiencies in the institutional context - is only one part of the explanation. The second question is why policy makers chose a concept of rural development with its multi-annual programming logic and the territorial approach and did not design it better in the sense that the institutions coping with it where better able to handle it. Explanations for this may again be found, utilizing the theoretical framework of historical institutionalism as described in chapter 2.2.1 and 2.2.2, which is generally open for "spill-over" effects in policies with high issue density.

2.4. Empirical data

Empirical data will all be collected rather than generated. This choice is primarily down to the limited time frame within which the paper is to be completed. Ideally stakeholders should have been interviewed in order to detect and explain causal relationships in the ‚what works in which context and what does not work' question. To attain useful material a number of preparatory actions must be undertaken. In order to conduct a useful interview with key personal involved in the designing and implementation of Rural Development programming it is necessary to at least 1) establish the contact to the relevant person, 2) engage in a careful preparation of the interview questions considering elements such as a) language, b) build up, c) primary objectives, d) precoding, 3) conducting the actual interview, 4) decoding of the interview, and 5) producing a transcript of the interview (Pole and Lampard 2002).

Due to the fact that evaluation of the programming is mandatory for each country, many reports are available. Besides these official reports, research institutes and associations have published research papers, position papers and recommendations for a better handling of rural development. Additionally the EU has funded a research project "Europe's Rural Futures" (Shubert 2002), involving a consortium of competent partners, having conducted research in a variety of European countries. They came up with recommendations and identified need for action. This first hand data will be used to draw a picture of the difficulties administration bodies and beneficiaries face when handling the programmes. This will be supplemented by secondary literature coping with rural development implementation.

For the part of the analysis dealing with the development of the institutional context, this thesis will mainly rely on Allan S. Milwards work "The European Rescue to the Nation-State" (2000) and on theoretical ground it will draw heavily on the works of Paul Pierson (1996, 2004) dealing with the theory of historical institutionalism and the concept of path-dependency.

2.5. Validity and reliability

The chosen approach is clearly based in the social political science, utilizing a theoretical perspective grounded on the understanding that institutional structures evolve over time and actors are constrained by experiences made in the past. The analysis of the institutional context dealing with rural development could also be conducted using a different theoretical approach, such as intergouvernmentalist considerations, neo-functionalist or neo-institutionalist approaches – to name the mainstream political theories in European Studies. With the question posed in this thesis, a stress is on the development over time. This is why historical institutionalism has been chosen, assumed to provide the most explanatory power. The research conducted will show that the theory and the concept of path dependency are very well able to prove the hypothesis set out. Of course it has to be admitted, that other approaches might offer explanations as well. Especially a focus on public administration analysis could give an insight as how to adapt or streamline administrational processes in public authorities. Also, an economic view, based on a rational choice approach could deliver answers as to why actors perhaps do not allocate more time, workforce and financial resources into making RDP more effective. Perhaps the policy field is not as prominent in terms of potential voters paying attention to it. Maybe the share of GDP contribution of rural economy is not important enough to equip actors with the power to climb up the agenda in overall European and national policy ranking. These approaches might add significantly to an explanation. However, what comes first is the context in which private and public actors have to operate. Of course historical institutionalism takes into account power relations in actors behaviour, but it acknowledges that actors may also be constrained by lets say ‘traditions’ such as positive feedback loops and sunk costs. It is in between these constrains that they will try to maximize material and economic resources and/or power vis-à-vis other actors.

3. Rural Development

3.1. Demarcation of the concept of Rural Development

In the discussion over rural development the service of farmers to society is not narrowed down to solely being a producer of food, as it has been after the war. Rural communities are also seen as a preserver of the countryside, equipped with the task to conserve nature and protect the environment and contribute to the vitality of rural life. Furthermore, farmers are supposed to be able to react to consumers concerns about foot quality and safety and they are to respect certain standards of animal welfare (Council of the European Union 1997).

Since the so called concept of a “multifunctional agriculture” has become a main argument to legitimize the support granted to farmers via rural development programmes, this concept shall be elaborated upon shortly in this chapter.

The term “multifunctionality” in regards to agriculture has not played a role in the EU before 1997. The Council used the term for the first time officially in the context of the new model of European agriculture, as it was developed in the run up to the Agenda 2000 reform (Council of the European Union, 1997). At first the term was connected to the role of agriculture in peripheral rural areas of Europe. The purpose was to secure the existence of the typical agriculture there and to conserve the resources of theses areas.

[…] European agriculture has its own specific nature and characteristics related to its territorial coverage and the existence of different regions which may have, inter alia, particular specific characteristics, such as less-favoured, mountainous and remote regions, arid and semi-arid regions, arctic regions, urban or high population density regions, to the size of its rural population and the large number of family farms, to the diversity of its products and differences in its yields and to the multiple roles increasingly taken on by it. (Council of the European Union, 1997)

Since 1997, the expression “multifunctionality” has undergone a development and is now used to describe the assumed intrinsic characteristic traits of the whole European agricultural sector. This new perception of agriculture is utilized in order to pursue political agendas and justify rural development policies in this field. In regards to WTO negotiations, the concept of “multifunctionality” is manifested in Article 20 of the WTO Treaty on agriculture as a so called non trade concern. It suggests itself that this agreement on “multifunctional” aspects of agriculture as a non trade concern benefits the developed countries. It allows policy makers to justify policies in the agricultural sector that are related to environmental aspects, animal welfare, rural development and consumer safety (Sinabell 2001: 246ff). It is, however, not at all clear how a “multifunctional agriculture” could be or should be defined in universally valid terms. There is no consensus about a definition of what “multifunctional” in regards to agriculture means. According to Sinabell, the only country coming close to having a definition is Switzerland, defining “multifunctionality” in its Federal Law on Agriculture (Sinabell 2001, 246).

The Council of the European Union (1997) recognizes that agriculture *“…must be capable of maintaining the countryside, conserving nature and making a key contribution to the vitality of rural life, and must be able to respond to consumer concerns and demands regarding food quality and safety, environmental protection and the safeguarding of animal welfare.*

Cahill and Shobayashi (2000 The Concept of Multifunctionality of Agriculture: Results of OECD Research) try to narrow “multifunctionality” down to the function of agriculture to produce commodity as well as non-commodity output. Commodities are the variety of marketed goods and services such as production of food, raw materials and resources for energetic use. Examples for non-commodity output would be the preservation of natural resource, landscape and its amenity resource and rural viability for the good of the whole society. It is obvious that the Council’s expectations towards agriculture, as quoted above, are in line with what Cahill and Shobayashi (2000) define as “multifunctionality”. But it is nevertheless left quite uncertain what the task of agriculture specifically is, how “vital rural areas” should look like and what a natural landscape, shaped by mankind, culture and agriculture over centuries is.

To recapitulate, it can be stated that there are sketchy ideas of what the task of a “multifunctional” agriculture could be, but a precise definition of objectives of this is missing as well as a description of the tasks that agriculture has to exercise in order to reach the sketchy objectives lined out in the discussion.

3.2. History of Rural Development in Europe

Rural areas in Europe are very diverse. Not only are they different in each of the EU's Member States. Even within one state, rural areas can vary in their geographical, social and cultural peculiarity. Rural areas in Europe have undergone considerable changes in the past. These changes have been influenced by a wider set of factors ranging from socio-economic- over environmental- to political factors. Since it is commonly assumed that the rural area and the people living in it are largely dependent on agriculture and since it seems as if the purpose of rural life and work is to supply food, EU policy and policies of national states in the past have mainly focused on agriculture as the main potential of rural areas. Therefore it could be assumed that traditionally the EU's policy for rural areas is included into the Common Agricultural Policy (CAP). But as will be seen and was already mentioned before, the instruments have been developed under the Regional and Structural Policy. The following chapter on the history of rural development is divided into two subsections. Chapter 3.2.1 will elaborate on the state of rural development prior to the reforms of the Structural Funds in 1988. It makes sense to draw a dividing line here, because it was then that the different Structural Policy instruments were combined and formed into regionally targeted ones. They were developed with the central aim to help regional and social cohesion. It is likely that the Rural Development Policy of the EU received its characteristic design, focusing on European regions as the main target from the Structural Policy arena. Still today, this regional or territorial approach forms the core basis of the policy design of European Rural Development. A second division will be made of course to cover the evolution of rural development from 1988 until the investigation time span of 2000-2006. It will end with the changes made under the Agenda 2000 Reform. A detailed examination of Regulation 1257/1999 will then follow in chapter 3.3.

3.2.1. Rural Development Prior to the Structural Funds Reform of 1988

The foundation of the CAP was created with the Treaty of Rome in 1957. Article 38 (1) of the Treaty expresses that: The common market shall extend to agriculture and trade in agricultural products. This declaration resulted in a proposition from the European Commission in 1960, which was accepted by the Council of Ministers in 1961 and came into force on April 4th 1962 (Milward 1994: 314). One motivation for a common agricultural policy focusing on agricultural modernisation can be seen in Wold War II. Severe food shortage was one consequence of the war throughout whole Europe. This experience led to a change of view on agriculture from a traditional trade policy towards agriculture being a provider of public goods (Milward 1994: 228). This argumentation of agriculture being a provider of public goods, currently has its revival in the rural development discussion, as has been considered in chapter 3.1. In its historical evolution, the structural and institutional development of the CAP was mainly determined by two factors. The first factor was the observation that productivity in the industrial sector grew faster than in the agricultural sector. Secondly, it became clear that the income elasticity of demand was significantly smaller for food than for manufactured goods. The logical consequence drawn from these findings was that farmers would fall behind in the economic development, if agriculture was just treated as a normal trade policy under the premise of a market economy. Strong farming organisations, paired with the fact that agriculture employed a considerable part of the population, were able to influence governments towards installing special support for agriculture in many European countries – often through subsidisation. With this development already taking place before the introduction of a common European policy, the course was set for the structure of the CAP as it was introduced in 1962 (Milward 1994: 314).[2]

The need to reform the European Structural Funds came with the enlargement of the EU, taking in Spain, Portugal and Greece. The new Member State's need for investment into its rural areas was a central concern of policy makers after the accessions in 1981 and 1986. A large part of the population in these countries worked in the primary sector. To prevent massive unemployment and depletion, policy makers decided that the modernisation of farming should be "*…accompanied by large-scale investments into infrastructure, services and non-agricultural sources of rural employment*" (European Commission 2005b: 5). With this need for action, first steps were already undertaken before the Reform of the Structural Funds in 1988. The three different policy fields – EAGGF-Guidance, European Regional Development Fund (ERDF) and European Social Fund (ESF) – where integrated into one development programme (European Commission 2005b: 5). It was the Structural Fund Reform of 1988, however, that enhanced this integrated approach. As already hinted at in the introduction to this chapter the integrated approach was further developed into a regionally targeted and coordinated instrument, with the main intention to advance regional and social cohesion. For this, the share of the EAGGF Guidance Section in the CAP budget has been

[2] For further information regarding the motivation behind the creation of the CAP and the actors involved see Milward 1994)

increased, now mainly financing operational programmes. These were conducted under the premise of the integrated territorial approach, with new rules concerning the coordination of the supranational, national and regional levels. This new approach relied on management with input from all levels, with the Commission co-financing programmes with at least 50% and maximum 75% of pubic financing in Objective 1 Regions. Other regions could apply for funding of rural development measures with the Commission contributing up to 50% and at least 25% if support was granted. These new rules came into force for the first time with the programming period of 1989-1993. Besides this dominating approach of Rural Development, another approach was introduced, encouraging 'bottom-up' action, coordinated at a local level. The LEADER Initiative intended to fund smaller initiatives aiming at particular regional problems. This 'bottom-up' approach was expected to create innovative solutions to rural development (European Commission 2005b: 5f).

3.2.2. Rural Development Prior to the Agenda 2000 Reform

Nevertheless, the CAP has been subject to proposals for reform since it was implemented and this did not change with the new approach to Rural Development introduced 1988. The core intention of the CAP still was to secure a fair standard of living for farmers through price support and to increase agricultural production through technical progress. This was already identified shortly after the CAP was introduced (O'Connor, Renting, Gorman, Kinsella 2006: 3). After decades of subsidizing European agriculture under the paradigm of making food production more efficient and less work-force intensive – the model of *agricultural modernisation* (O'Connor, Renting, Gorman, Kinsella 2006:1) – a shift towards a different perception of agriculture took place. As already mentioned above (chapter 3.1.2.), this shift in perception led to a view on agriculture and rural communities, recognising that they have a multitude of functions besides supplying society with food. The reason for this shift may be initiated by different factors. First of all, as already hinted at, shortly after the creation of the CAP, it became obvious that the structure of the CAP led to massive overproduction. Secondly, export refunds granted by the EU and high tariffs for non-EU agricultural produce led to increasing disapproval of the CAP by other countries. Especially developing countries which depend on their agricultural sector where harmed by the EU's policy. Defending the CAP in negotiations on The General Agreements on Tariffs and Trade (GATT) and its successor the WTO became an impossible task – even more with a growing awareness of the European public and media on the subject and the fact that the CAP's structure was a serious obstacle for economic development in ‘less developed’ countries. Pressure for a reform abandoning price support and export subsidies can perhaps be explained by a trade off made for the negotiations in the WTO. The interest in trade liberation for industrial goods was bigger than the interest in defending the structure of the CAP. Secondly, the European public became increasingly critical towards the fact that the CAP expenditure accounted for about 50 % of the EU's budget.

The reform of the Common Agricultural Policy in 1992 – the so called ‘MacSharry Reform’ – marked an important shift in the policy instruments attached to the CAP. As already said, before 1992 the general tool backing up the agricultural economy was the concept of price support for agricultural products. In the reform this policy was largely abandoned, and instead direct area payments to farmers were introduced (Fouilleux 2005: 59). In other words money was given in accordance to how much land the farmer owned, instead of how much he produced. To qualify for the direct payments, farmers needed to set aside land and at the same time the direct payments were to be directed primarily towards small farming units. The latter idea of ‘penalising’ big farming units was however largely abandoned in the final reform (Swinbank 1996: 91).

Another important change in the 1992 reform was a change in the way cereal prices were set at the EU-level. Until 1992 the Council had set the cereal support prices every year, thus having a continuous control mechanism in allocating funds to the agricultural sector. In other words, the Council was able to manipulate these prices according to the world prices. Following the 1992 reform, these prices were fixed, meaning that the Council can change these prices only if a proposal is put forward by the Commission (Swinbank 1996: 93). The change turning away from price support towards direct area payments is most likely a consequence of the critique that was brought forward in the WTO negotiations and the discussion in the European public and a reaction to the overproduction. The same can be said for the mandatory set-aside that was introduced. It was already before this reform that support for agri-environmental measures, farmland forestry and early retirement for farmers existed. But under the MacSharry Reform they were further developed and labelled ‘accompanying measures’ and also meant as such – being supposed to accompany market measures. In the case of agri-environmental measures it was now made obligatory for Member States to offer these to

their farmers. Furthermore these measures were to be financed by the EAGGF Guarantee Section from 1993 on. (European Commission 2005b: 10).
As it is stated in Council Reg. 2085/93

"…within the context of its contribution to achieving Objective 1 and Objective 5 (b) the Fund [EAGGF Guidance Section] *should be able to finance measures for sustainable development of the rural environment, including developing and strengthening agricultural and forestry structures which use methods and techniques that respect the environment; whereas the Fund should also be able to finance the encouragement of tourist and craft investments, including the improvement of living accomandation* [sic!] *on agricultural holdings and in the countryside;"*

Clearly the most important aspect for European rural development and the discussion about the purpose of agriculture is the policy's target shifting towards *"the wider rural population, consumers and society as a whole"* (The European Commission "CAP Reform. A Policy for the Future" http://ec.europa.eu/agriculture/publi/fact/policy/index_en.htm).

O'Connor et al. (2006: 7f) argue, however, that it was not only a policy driven development that rural development became 'en vogue'. The modernisation model of European agriculture seemed to be responsible for the depopulation in many rural areas, triggered through declining farm numbers and decreasing demand for workforce in this sector. This was accompanied by a slow down in the rate of growth of the Gross Value of Production (GVP), since the demand of European consumers for agricultural produce was satisfied and Europe was self-sufficient in nearly all food produce. At the same time production costs were still increasing, creating a 'squeeze' with stagnating or declining gains for farmers. This led to the need to look for alternative income possibilities for many farmers in Europe. According to O'Connor et al. (2006), many farmers themselves took the initiative and changed towards high quality food production, organic farming, regional marketing and the development of regional tourism as income sources.

To sum up, the crisis of European agriculture has been a subject of discussion with a shift of perception of the purpose of agriculture as a result. With the reform process, starting in the 1980s, the 1988 Structural Fund Reform, the Mac Sharry Reform of 1992 and the reforms of 1999 (Agenda 2000) and 2003 (Mid Term Review), the CAP has been subject to important change. The notion of a "multifunctional" agriculture with *rural development* as a central concept – called the second pillar of the CAP - has been introduced (O'Conner et al. 2006: 3ff). Rural development has become an important part of the CAP, because the modernisation model of agriculture has become object to critique from various sides. First, from the level of international negotiations, meaning the GATT, respectively the WTO. Secondly, critique came from the European public, which was not satisfied with the money spent on the CAP in comparison to the whole budget of the EU. Thirdly, many rural areas had to face serious depopulation because of a lack of jobs and poor perspectives for young people. And last, many farmers felt stagnating or even declining gains because of a slow down in GVP.

3.3. Rural Development under the Regulation 1257/1999

After the elaboration on the more general discussion on rural development and its evolution, this chapter will focus on how the Rural Development Policy of the EU in the years of 2000 until 2006 actually was designed and on what basis it was built upon, with regard to the definition of rural areas. First, a description of the OECD method of how rural areas are defined is going to be presented – since it is this method the EU relies on in defining its rural areas. Secondly, the Council's Regulation (EC) No 1257/1999 shall be looked upon in regard to what measures the Council decided to introduce to reach the goals set out in the discussion a forehand.

3.3.1. The OECD Method to Define Rural Areas

Even though the Commission acknowledged, that there is no common definition of a 'rural area', she nevertheless had to cope with the difficulty of setting up criteria to define which areas shall be supported under the relevant regulation on rural development. As will be presented in chapter 5.3.4, the EU enforced a rather rigid monitoring and evaluation process for rural development programmes. For this, data has to be collected and it is easiest available on the level of the NUTS divisions. As for the definition, the Commission uses the OECD methodology, which is the only methodology internationally recognised. It has to be noted, however, that this methodology is being criticised since it is particularly weak in identifying areas with a rural character, if they are densely populated. This weakness results from the fact that the OECD methodology is based on population density. As can be seen in Box 1 below, the methodology of qualifying rural areas is based on a two-step approach with a general qualification undertaken with step one and a gradation of regions into three categories as a second step. At first, local units such as municipalities for example are classified as ‘rural’ if their population density is below 150 inhabitants per square kilometre. The second step classifies regions as Predominantly Rural Regions (PR), Intermediate Regions (IR) and Predominantly Urban Regions (PU) (European Commission 2006: 2f).

Table 3: OECD methodology to define rural areas

The methodology is based on a two-step approach:

First, local units (e.g. municipalities) are identified as rural if their population density is below 150 inhabitants per square kilometre.

Second, regions (e.g. NUTS 3 or NUTS 2) are classified in one of the 3 categories:

- Predominantly Rural Region (PR): If more than 50% of the population of the region is living in rural local units (with less than 150 inhabitants/km^2)
- Intermediate Region (IR): If 15% to 50% of the population of the region is living in rural local units
- Predominantly Urban Region (PU): If less than 15% of the population of the region is living in rural local units

Adoption from European Commission, Rural Development in the European Union. Statistical and Economic Information. Report 2006, 2006, p 3

3.3.2. Support for rural development from the European Agriculture Guidance and Guarantee Fund (EAGGF) in the programming period 2000-2006

The predecessor to the currently binding Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) is Council Regulation (EC) No 1257/1999 of May 1999. Herein the Council laid down criteria which defined support schemes for rural development measures financed through the EAGGF. Title I of the Regulation defined scopes and objectives of the support for sustainable rural development, adding that these measures "*shall accompany and complement other instruments of the common agricultural policy and thus contribute to the achievement of the objectives laid down in Article 33 of the Treaty*."[3] Article 33 of the Treaty of the European Community, in this case the Treaty in the version of Amsterdam 1999, lays down the objectives of the Common Agricultural Policy (CAP) of the EU as follows:

(a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
(b) thus to ensure fair standard of living for the agricultural community, in particular by increasing the individuals earnings of persons engaged in agriculture;
(c) to stabilise markets;
(d) to assure the availability of supplies;
(e) to ensure that supplies reach consumers at reasonable prices.

Title II of the Regulation specified the rural development measures. Title III laid down general principles and administrative and financial provisions. Title IV defined rules for state aids other than the support given through the EC Regulation. Title V provided transitional and final rules, whereas transitional rules can be adopted by the Commission in case that specific measures are necessary to facilitate the transition from the system in force before the one established by Regulation No 1257/1999.

Titles II and III are of particular interest for this thesis, since they define which measures will be supported by the EU and therefore tell about the perception of the

[3] COUNCIL REGULATION (EC) No 1257/1999 of 17 May 1999, L 160/84

Council, what rural development consists of (Title II). Title III gives insight into how beneficiaries can obtain support from the EU. The following will therefore take a closer look to Title II and III of the Regulation.

Rural development measures were not limited to instruments supporting sheer traditional agricultural production but included measures to support different sorts of income to persons engaged in agriculture. With its aids, the EU encouraged farmers to improve their management skills including the marketing of agricultural products. Furthermore farmers were encouraged to change from traditional agricultural food production to non-food production such as energy crops and renewable raw materials. Farmers shall also have the opportunity to diversify their activities in order to access new sources of income. Another function that was assigned to farmers is the preservation and promotion of a high nature value and a sustainable agriculture which respects environmental requirements. Furthermore rural development included the improvement of working and living conditions, the removal of inequalities via i.e. the promotion of equal opportunities for women and men. On the one side the goals of rural development concentrated on sustainability, whereas on the other hand the EU focused on education in order to improve the efficiency and the better exploitation of existing potential in the rural area. Known from the Structural Policy of the EU, support was also granted for the improvement of social standards and the promotion of equal rights.

In the following a list of the nine measures as they were laid down in the Council's Regulation (EC) 1257/1999 is presented:

(1) Investment in agricultural holdings
(2) Setting up of young farmers
(3) Training
(4) Early retirement
(5) Less favoured areas and areas with environmental restrictions
(6) Agri-environment
(7) Improving processing and marketing of agricultural products
(8) Forestry
(9) Promoting the adaptation and development of rural areas

Table 4 shows the structure of Rural Development financing in the programming period 2000-2006. Looking at the table, the complexity of the procedure becomes obvious. The EAGGF is divided into a "Guarantee Section" and the "Guidance Section". Rural Development measures are financed by the Guarantee Section in case they are not

Objective 1 regions. In Objective 1 regions, the Guarantee Section finances accompanying measures such as early retirement, less favoured areas, agri-environmental measures, afforestation and food quality measures. In Objective 2 regions, Member States may chose to integrate non-accompanying measures into Objective 2 programming. These will be co-financed by Section Guarantee even though it is not a Structural Fund. All Guarantee Section funded measures strictly follow the financial Rules of the Guarantee section. Programming is on an annual basis and accounts have to be cleared at the end of the year. This was originally designed for the market policies which are non-cofinancing instruments fully financed by the EU (Commisson 2004: 146).

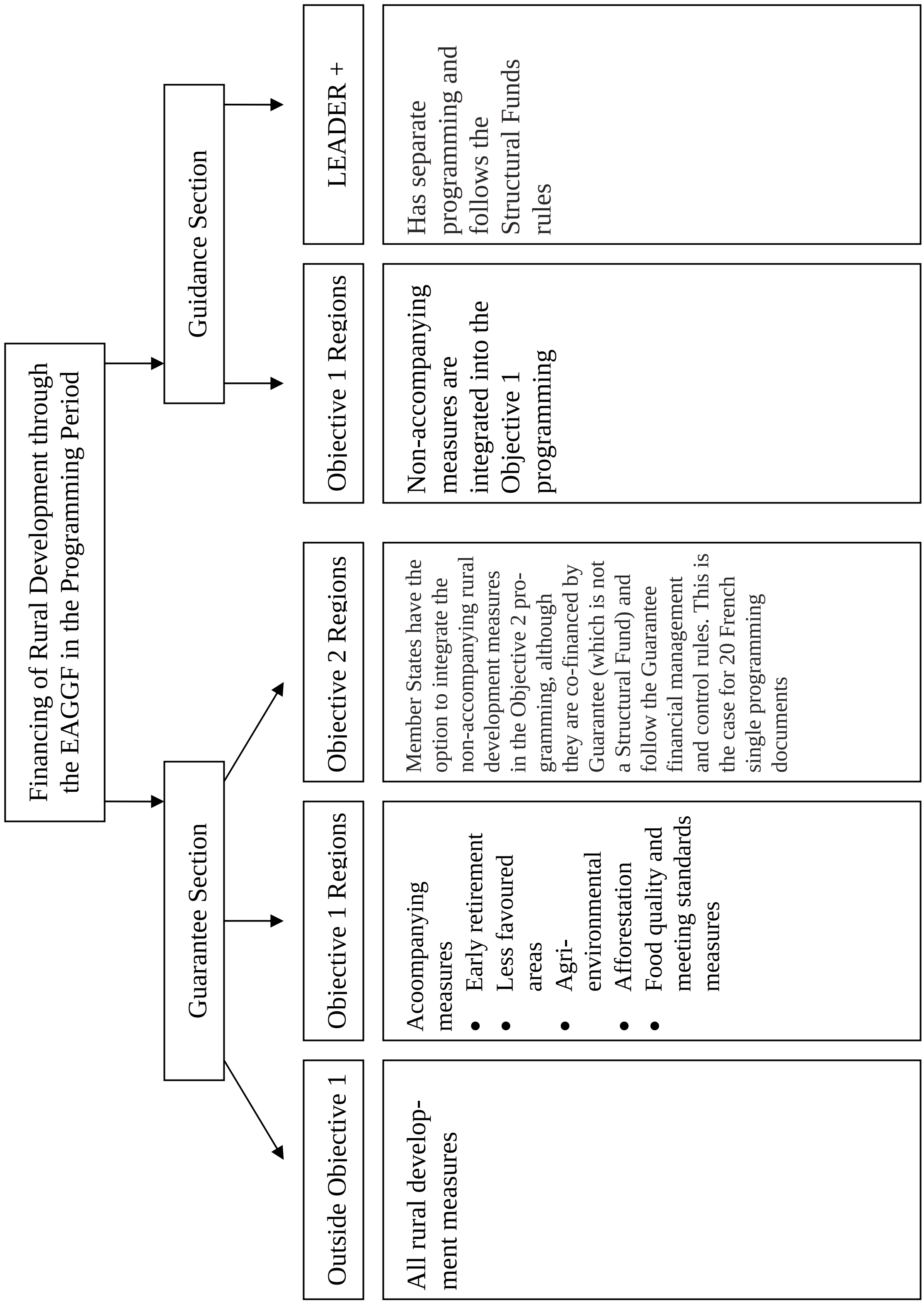


Table 4: Financing of Rural Development in the Programming Period 2000-2006

Source: Inspired by European Commission 2004: 149

Guidance funding followed the Structural Funds financing rules, meaning that multi annual budgeting was already possible and the control system was more flexible. Objective 2 funding was in most cases realized under the Section Guidance financing measures.

Objective 1 is defined as the promotion of the development and structural adjustment of regions whose development is lagging behind. The definition as such is quite broad but with the definition of eligibility criteria it receives a measurable frame. Regions on the level of NUTS II (Nomenclature des unités territoriales statistiques) having an average GDP of less than 75% of the Community average qualify as Objective 1 regions. Objective 2 on the other hand focuses especially on declining rural areas and supports the economic and social conversion of areas experiencing structural difficulties. Rural areas are here defined on the level of NUTS III with a population density of less then 100 people per square kilometre or the share of agricultural employment must be double the Community average. To qualify for funding, the regions must have an average unemployment rate that is above community average or a decline in population since 1985. For further details see also table 5.

First of all, the division of responsibilities between Section Guarantee and Guidance is not very clear cut with Rural Development measures under certain circumstances being financed by the Guarantee Section. This is despite the fact that Objective 2 funding, originally intended as the Rural Development funding section should be conducted under the Guidance Section provisions, meaning the financial rules of the Structural Funds. Apart from the complexity in responsibility distribution, the fact that the Section Guidance follows the rules of the Structural Funds should be kept in mind since this is the basis for the hypothesis of this research. The institutions of the CAP are confronted with new administrational and financing paradigms developed in a different policy arena.

Table 5: Definition and Eligibility Criteria for Objective 1 and 2 Regions

• Objective 1 Regions	Objective 2 Regions (Declining rural areas)
Objective 1: To promote the development and structural adjustment of regions whose development is lagging behind Eligible Regions: • NUTS II • GDP < 75% of Community average or: • seven "most remote regions" (Canary Islands, Guadaloupe, Martinique, Reunion, French Guiana, the Azores, Madeira) • areas in Sweden and Finland formerly eligible under Obj.6 (assistance for regions with very low population density) • Northern Ireland	Objective 2: To support the economic and social conversion of areas experiencing structural difficulties Eligible Regions: • NUTS III • population density < 100 people per km², or: • percentage share of agricultural employment in total employment must at least be double the Community average in any reference year from 1985 onwards. • They must have either an average unemployment rate recorded over the three years before 1999 that is above the Community average, or a decline in population since 1985 Rural areas with serious socio-economic problems arising from the ageing of or decline in the agricultural working population may also be eligible. Rural areas are undergoing radical change. Farming is no longer a major source of employment but continues to occupy most rural land. Revitalising these areas and maintaining the population there requires new competitive activities and closer links with urban centres.

Source:
http://europa.eu/scadplus/leg/en/lvb/g24203.htm
http://europa.eu/scadplus/leg/en/lvb/g24206.htm
at 14.08.2007

4. Regional and Structural Policy

As has been explained in the last chapter, the Section Guidance, under which Rural Development was mainly funded, follows the administrational and financial rules and provisions of the Structural Fund. It is therefore inevitable to take a closer look at the historical development of this policy field, also in the context of the hypothesis developed at the beginning.

4.1. The Development of the Regional and Structural Policy

4.1.1. The creation of the European Regional Development Fund in 1975

With the establishment of the European Regional Development Fund (ERDF) in 1975, the European Community (EC) was assigned a new instrument to foster convergence between the Member States. Unlike the already existing structural policy instruments, namely the European Social Fund (ESF) and the European Agriculture Guidance and Guarantee Fund (EAGGF) Section Guidance, the new policy was going to become the first possibility for the EC to actively influence economic development in the Member States. Neither the ESF nor the EAGGF Regulations empowered the Community to exert influence going beyond the limited sectoral scope and narrowly defined problem areas of the two instruments (Tömmel 1994: 15). The creation of the ERDF in 1975 was only the starting point from which the policy became an important instrument for the EC to influence Member States policies and politics. In the beginning the ERDF was not yet more than a supplement to national regional policies, with only little potential for influence from the EC level or the sub-national level (Bachtler/ Mendez 2007: 537). The Regional Fund was the outcome of long negotiations between the concerned official bodies and informal dialogues between EU officials and experts from the national level. Of course this fund was the result of compromises made. In fact, the Regional Fund was the only option of different ones at hand, which was actually chosen to be implemented. A European regional policy that would also coordinate the national regional policies raised the resistance of the Member States governments and was rejected. Instead, the new policy should sustain the national regional policies as they were practiced in the respective country at that time. Thus, the instruments provided were those already being used on the national level. The Regional Fund was created to allocate funds to problem areas falling under the definition of having a predominantly agrarian structure, regions undergoing industrial change and regions with high unemployment resulting from weak economic structures. Eligible were industrial areas as well as business based on tourism or in the service sector. This was however under the limitation that the business had importance beyond a regional scope. Three features of this new policy are distinguishing it from a ‘classical’ national regional policy. First, ERDF would only fund measures which were also supported by national public authorities; this rule was the origin of what is later called the ‘principle of additionality’. Infrastructural measures could be supported with a ceiling introduced – 30 % of the entire investment needed. For investment in private business a maximum of 20 % of the entire costs and a maximum of 50 % of public support was agreed upon. Second, it was decided that funding would only be granted to regions that were also object to national funding. Thereby the Community had to orient EC compiled eligibility criteria on the criteria already existent in the different Member States. And third, additional to the establishment of the principle of additionality and the fact that the EC had to follow national eligibility criteria, a quota system was established. This system determined the amount of funding which the different Member States would receive. The calculation the quota system was based on the economic disparities between the Member States – not the regions (Heinelt/Kopp-Malek 2005: 46f).

It has to be stated again, that ERDF funding supplemented the policies and funding of the Member States. The weakened world economy at that time led to a decrease in investment of private business which in the following time would hardly invest in peripheral areas. Furthermore, most start-up companies were so small scale that they did not reach the EC’s minimum threshold that was imposed for eligibility. The result was that funding in the industrial sector became obsolete. Faced with this development, the pressure to have to commit the funds somehow, the Commission had to assign the money to projects which in most cases did not meet the criteria established by the EC. Most of the financial resources went into infrastructural projects. And here a large share of the funding went to projects improving the basic infrastructure of the Member States – not to infrastructural projects directly linked to economic development. This meant that the EC was neither able to act redistributive, allocating money to underdeveloped regions, nor was the EC able to set incentives to stimulate Member States to augment their investment into regional development. Nevertheless, with this policy, the instrumental precondition for the Commission to influence national policies was set through the principle of additionality that was introduced. Furthermore, through nominating the first development programmes, the coordination in that matter with the Member States became institutionalised (Tömmel 1994:72ff).

A non-quota system was established in 1979. The agreement contained that 5 % of the ERDF could be used for Community initiatives which were independent from national policies. The EC was allowed to allocate it under self-defined rules of eligibility but in the realm of helping to reduce disparities that result from European economic integration. An initiative could also be set up as structural help for regions hit by severe incidents. The main objectives were the support of small and medium sized businesses (SMB), product and process innovation, innovative technologies and new methods of management (Heinelt/Kopp-Malek 2005: 48). Furthermore, the funding from the non-quota section could be directed to regions which were not mapped in national regional development policies and was not linked to the distribution-key assigning a secure share to each member. An initiative drawn up under the non-quota section had to be based on a Community regulation - the Council decided upon a proposal of the Commission after the Parliament was heard. The Member States had to be consulted during the preparation of the regulation. Funding was, however, still not possible without the consideration of the principle of additionality (Wishlade 1996: 32/Tömmel 1994: 76ff). As a result, the Commission was able to define objectives and in a way coerce Member States to improve the quality of their applications for funding and to adapt their policies accordingly to the objectives set out by the Commission under the special initiatives regulation (Heinelt/Kopp-Malek 2005: 48).

A second innovation was made in 1979. Integrated measures were introduced, where the EC tried to coordinate funding from funds of different areas of the Community level, the national and sub-national level, in one region. The integrative measure was supposed to increase the effectiveness of development in regions through better coordination of measures, through the stimulation of synergetic affects and additional efforts from the Member States to finance development measures. Two regions were selected for this "experiment" – the metropolitan area of Naples and the city of Belfast (Tömmel 1994: 83).

4.1.2. The Reform of EU Cohesion Policy in 1988

After the introduction of the ERDF in 1975, the reform of the fund in 1988 is considered to be the second groundbreaking cornerstone in the evolution of the EU's cohesion policy. In the 80's other funding sections, the ESF, the EAGGF Section Guidance and the European Investment Bank (EIB), began to become engaged in the field of regional development as well. Since these different policies were not coordinated, funding began to overlap and the allocation from the different funds became subject to the critique of being inefficient. As the amount of available funding in each of the different funds grew, critiques agreed that European cohesion and regional policy needed to be reconsidered and designed in a more coherent way (Wishlade 1996: 33).

For the first time, all cohesion funds as well as other finance instruments of the Community were supposed to be committed to regional development. The reform resulted in a framework regulation outlining the new principles for funding (Tömmel 1994: 108). Later, six objectives were defined, based on the formulated principles with the first one being that (1) assistance should be concentrated on priority objectives. (2) The whole planning and implementation procedure should take place under the "principle of partnership", meaning that all relevant local, regional, national authorities and the Commission should engage in the process. This should lead to a better coordination, making it possible that (3) regional fund policies should be consistent with local, regional, national and Community policies. Moreover, it was agreed that administration of the programmes should be improved through (4) multi-annual budget planning (instead of the former project based approach), increased transparency, the principle of additionality and systematic evaluation. Finally, procedures should be simplified. A controlling of policies should be assured through monitoring and implementation should be more flexible (Wishlade 1996: 33; Bachtler/Mendez 2007: 537)

The six priority objectives formulated, based on the principles of the reconsidered European Regional Policy, read as follows:

- Objective 1: Underdeveloped regions (less than 75 % average of the Communities GDP)
- Objective 2: Regions in industrial decline
- Objective 3: long-term unemployment
- Objective 4: youth unemployment

- Objective 5a: adaptation of agricultural structures
- Objective 5b: development of rural areas

(Wishlade 1996: 33; Heinelt/Kopp-Malek 2005: 59)

As said above, the Communities cohesion policy was supposed to be restructured in a more coherent manner. The result can be seen in the formulation of the objectives for the European cohesion and regional policy. Objective 1 and 2 were matching the former ERDF objectives. Objectives 3 and 4 were the continuation of the ESF priorities. Objectives 5a and 5b mirrored the priorities of the EAGGF Sections Guarantee and Guidance. This was now incorporated into one framework regulation (Tömmel 1994: 109).

The implementation of the policy was conducted in a three stage process. First, national and regional authorities were responsible for the draft of development programmes to be submitted to the Commission. After reviewing the development programmes, the so called Community Support Framework (CSF) was negotiated on the European level, containing the relevant responses to the needs formulated in the development programmes by the Member States. In the third step, operational programmes had to be approved, implementing the rules agreed to in the CFS. Objectives 1, 2 and 5b, were assigned the biggest chunk of resources, with 70 % of the funding to be allocated under these objectives, in the financing period of 1989 to 1993 (Wishlade 1996: 33f). But Objective 5b accounted for only 7 % of the amount allocated to Objective 1 (Wishlade 1996: 38).

Also under the new Regulation, the Community Initiatives, as tested before under the non-quota system and the integrated measures were continued and now assigned an increased share of 10 % of the ERDF's budget (Pollack 1995: 374). However, one important change was made in the implementation procedure, ruling that the Commission was now allowed to draft initiatives without the prior establishment of a respective regulation through the Council (Tömmel 1994: 112).

Last but no least it has to said that the budget of the ERDF was doubled with the reform of 1988 (Pollack 1995: 361; Bachtler/Mendez 2007: 537; Heinelt/Kopp-Malek 2005:59).

4.1.3. Revision of the Structural Funds in 1993, 1999 and 2006

It did not take long after the reform of 1988, that new criticism arose. Main points of criticism where the three-stage planning system as being too bureaucratic, overburdening authorities on the national and sub-national levels. It was suggested to merge the establishment of Operational Programmes and the drafting of CSFs into one step. But this was by far not the only point of criticism. Due to the length of the list, only a very short summary will follow. A detailed description was made by Wishlade (1996: 40ff). The area designation was criticised for being inconsistent, especially regarding the nomination of 1, 2, and 5b areas, leading "*…to a doubling of procedures in relation to plans…*" (Wishlade 1996: 41) if one region would fall under the Objective 2 and Objective 5b criteria at the same time. Also the map of regions receiving funding consisted of a large number of small areas spread more or less evenly over the countries. This led to a high coverage and consequently, to the opposite of the original goal to concentrate funding on the "poorest" areas. Further, the different methodology of the Competition Policy Directorate (DG VI) and the Regional Policy Directorate (DG XVI) was questioned since they would both designate different areas as being eligible for funding. (DG VI doing this on the ground to prevent that national funding would harm free competition) Concerning administrative issues, some regional authorities, especially in Objective 1 regions, where overburdened with the implementation procedure, lacking necessary skills and experience. Last but not least it was also animadverted by virtually all Member States that the instrument of Community Initiatives (CI) was used improper by the Commission. She was blamed of informing Member States on too short notice about new initiatives and criticising that there where too many CIs, resulting in a financially weak equipment of initiatives leading to a basically non existing impact of CIs concerning the improvement of regional disparities. Concerning the monitoring procedure, the concerned authorities were criticising the high bureaucratic effort involved.

On the ground of this criticism the regulation was thus revised again in 1993. The resources of the fund were again increased, the programming period was extended to six years, and Objectives 3 and 4 were merged. The number of areas eligible for funding from Objective 1 was extended due to special nominations made by the Member States. The methodology for appointing Objective 2 and 5b regions was changed. As the critics had called for, the planning stages were reduced to two steps with a simultaneous transmission of development plans and the respective programmes of the national level. Furthermore, allocation of funding by Member State and Objective should be more transparent in the future. But the most important change, viewed from the perspective of someone interested in the question of who governs the EU's cohesion policy, was made in the handling of the CIs. Here the Member States reserved their right to become more involved in the decision about future initiatives. Financing in this area was only cut by one percent, leaving nine percent of the whole funds budget to Community Initiatives (Bachtler/Mendez 2007: 542). The principle of partnership was modified so that additionally to the sub-national authorities, other public and private actors were also invited to the drafting process of regional development programmes (Heinelt/Kopp-Malek 2005: 62).

With the negotiations about the Agenda 2000, yet another reform of the fund was made for the upcoming programming period of 2000-2006. In 1999, the objectives were merged into 3 remaining objectives. Objective 6 (funding for sparsely populated areas in Finland and Sweden) was merged with Objective 1 and Objective 5b was merged with Objective 2. A ceiling for Objective 2 was introduced, ruling that total area coverage could only reach 18 % of the EU’s total population, but every member was guaranteed not to experience a reduction of more than two-thirds of the area coverage of the foregoing period. Eligibility criteria basically remained unchanged. Overall a significant spatial concentration was achieved, with only 40,7 % percent of the Community population being eligible for funding under Objectives 1 and 2, opposed to 51,3 % in the period of 1994-1999 (Bachtler/Mendez 2007: 542f).

The programming period of 2007-2013 was not opened before cohesion policy was changed again. The three objectives were changed, with the creation of three new priority objectives being formulated. The first priority now consist of the convergence priority ‘regional competitiveness’ (formally Objective 1 – with unchanged area designation method), and the third priority focusing on employment. Unlike before the area designation system is no longer in the hands of the EU, but left to the members. They are now responsible for the nomination of NUTS I or NUTS II regions that will be eligible for funding under the regional competitiveness and employment priorities. On the other hand it has to be stated, that the bulk of funding is allocated under the Convergence criterion – namely 81,7 % which is still allocating funding under the condition that a region’s GDP must be below 75 % of the average GDP of the whole Community (Bachtler/Mendez 2007: 544).

4.2. Barriers to the access of funds in the Regional and Structural Policy

As outlined in the last chapter, some features of the Regional and Structural Policy are quite similar to the EU's Rural Development Policy. Therefore it may be helpful to take a look at what kind of difficulties have been detected in the implementation of the Structural Funds to draw conclusions as to what kind of difficulties could be surfacing in the programming and implementation of the Rural Development Fund. ÖIR in association with LRDP and IDOM have composed a report commissioned by the European Commission (European Commission 2003) that is dedicated to the study on the efficiency of Structural Funds implementation. Results of this report have found entry into the Commission's third report on economic and social cohesion. Unfortunately, also in this paper, the question of effective absorption is not explicitly assessed, meaning that as in the following chapters, the identification of barriers to easy access of funds is based on findings concerning the handling of the programmes.

The report on the efficiency of the implementation methods for structural funds (European Commission 2003) assesses the levels of (1) Costs of Implementation, (2) Programming, (3) Management Structures, (4) Project Selection, (5) Project Implementation, (6) Monitoring and Evaluation, (7) Financial Management and Control. Costs of the implementation are very high in some cases, up to 25% of the value of the Structural Funds part of the total costs in Bavaria, and very low in other regions 1,5 % in Macedonia and 1,6 % in Northrine-Westfalia, Germany for instance (European Commission 2003: 117f). It could be assumed that high costs for implementation may lead to hesitant engagement in proper implementation of the structural funds. This is however only an assumption which cannot be verified at that point. The report specifically states that "*It would be a mistake to conclude that the programmes with the lowest are more efficient than those with the highest costs. This would be to make assumptions about the appropriateness of staffing levels in all individual circumstances. The evaluators did make general comments with regard to staffing levels and indicated in the case studies instances where they felt that there was a shortage of staff (Burgenland, Northrine-Westfalia, Greece Transport, Greece* [sic!][4] *Macedonia, East Midlands). The evaluators also frequently pointed to the need for additional training of those involved.*" (European Commission 2003: 119). This citation gives a hint at what could actually be a problem for the involved regional authorities and consequently also

[4] Comparing the mentioning of "Greece Macedonia" in this citation to the tables referred to (European Commission 2003: 122) the author of this thesis assumes that this should be "Central Macedonia" not "Greece Macedonia".

for applicants to funding. Staffing might not be sufficient in all levels and additional training seems to be needed to qualify staff so that they can handle the programmes satisfactorily.

One finding during the assessment of the programming level was that delays in the approval of programme documents led to late starts and delays in the implementation process. This has led to serious frustrations of the involved staff (European Commission 2003: 126). Delays in approval were also detected in centralised management systems where project approval sometimes was as much as six month overdue (European Commission 2003: 132). Frustration among staff may lead to unmotivated handling of the implementation and delays in project approval are not very favourable since this could lead to applicants rethinking whether or not they want to cope with drawing up a project again under these circumstances.

Monitoring and evaluation procedures are seen as desirable by the authors of the report. But procedures, the level of staff to be employed, the coordinated interaction of different actors from different levels and sectors necessary to receive valuable data are seen as far too complicated and complex. Data from monitoring and evaluation results do not feed back into the management process of programmes sufficiently (European Commission 2003: 141f). High administrative requirements concerning monitoring and evaluation may become a problem for programming authorities due to the fact that it is very time and work intensive. If authorities get the impression that they are not able to handle the work load imposed on them, they may start to become reluctant towards implementing the programme with care.

4.3. Comparing the basic features: Regional and Structural Policy vs. Rural Development Policy

Actually, Rural Development Policy cannot be assessed without taking the EU's Regional and Structural Policy into consideration. Even though the framework and rules for Rural Development are spelled out in its own specific directive financed via the CAP's funding instrument the EAGGF Section Guidance, the measures are not new. As can be seen in the table below, most of them have been borrowed from the Structural Fund Regulation. According to Dwyer et al. (2002), the main difference between the Structural Funds Policy and the Rural Development in the EU is that measures are diversified, but administrative procedures, the whole programming and implementation is still carried out under a centralistic approach with central agencies being responsible for deciding upon the grants. Thus programming authorities are unable to design flexible programmes offering the possibility to pursue integrated measures combining Rural Development resources, the European Social Fund and measures of Structural and Regional Policy.

Table 6: Measures under the Rural Development Regulation and their Origins

Measure	Name	Origins
Chap. I, Art. 4-7	Investment in Agricultural Holdings	1993 Structural Funds Regulation, Objective 5a
Chap. II, Art. 8	Setting up of Young Farmers	"
Chap. III, Art. 9	Training	1993 Structural Funds Regulation, Objective 5b
Chap. IV, Art. 10-12	Early Retirement	1992 CAP reform, Accompanying Measures – Regulation 2079
Chap. V, Art. 13-21	Less Favoured Areas	1993 Structural Funds Regulation, Objective 5a
Chap. V, Art.16	Areas with Environmental Restrictions	NEW
Chap. VI, Art. 22-24	Agri-environment	1992 CAP reform, Accompanying Measures - Regulation 2078
Chap VII, Art. 25-28	Improving Processing and Marketing of Agricultural Products	1993 Structural Funds, Objective 5a
Chap. VIII, Art. 29, 30 & 32	Forestry	Article 32 is NEW, others were offered under 1993 Structural Funds, Objective 5b
Chap. VII, Art.31	Afforestation of Agricultural Land	1992 CAP reform , Accompanying Measures - Regulation 2080
Chap. IX, Art.33	Promoting the Adaptation and Development of Rural Areas	1993 Structural Funds Regulation, Objective 5b
- (i)	Land improvement	"
- (ii)	Reparcelling	"
- (iii)	Farm relief and management services	"
- (iv)	Marketing of quality agricultural products	"
- (v)	Basic services for the rural economy and population	"
- (vi)	Renovation and development of villages and protection of rural heritage	"
- (vii)	Diversification of agricultural activities	"
- (viii)	Agricultural water resources management	"
- (ix)	Development and improvement of infrastructure connected with the development of agriculture	"
- (x)	Encouragement for tourism and craft activities	"
- (xi)	Protection of the environment in connection with agriculture, forestry and landscape conservation as well as with the improvement of animal welfare	"
- (xii)	Restoring agricultural production potential damaged by natural disasters	"
- (xiii)	Financial engineering	"

Source: Dwyer et al. 2002

It has shown that regions already possessing experience with integrated programmes based on the ‘bottom-up’ principles such as the LEADER I and II and drawing on experience of the establishment of cross-sectoral cooperation and partnership, have been better able to use the possibilities offered by the Regulation 1257/1999. Dwyer et al. propose that the insufficient usage of offered variation is due to characteristic features of agricultural policy, being a “*strongly hierarchical policy, prescribed centrally and offering little discretion to the national and sub-national officials charged with its implementation*” (Dwyer et al. 2002:880). To sum up, it can be said that in its proposed measures and mechanisms the Rural development Regulation 1257/1999 originates from the EU’s Structural Policy. Experiences with implementation were however low compared with staff working in the Structural Policy sector having longer lasting experience with programming and implementation. Regarding the problem formulation of this thesis, and the assumption made in the methodology chapter, it might be possible to derive answers concerning absorption problems from this Regional and Structural Policy. It may be that the CAP administrational system now faced the problems actors in the Regional and Structural Policy field needed more than a decade to overcome at least partly. The interplay and interaction of policy makers and stakeholders from 1975 onwards to find modes for a reasonable and well functioning funding system has still not come to a rest. The policy and funding mechanisms are renegotiated for every new programming period. As described in the chapter on the Regional and Structural policy, the institutional context was more or less developed parallel to the policy itself. One could of course say that Rural Development funding profits from the already demonstrated feasibility of the funding mechanisms. On the other hand, however, the institutional context of the CAP developed under very different premises. The modes of interaction are very different from those of Regional Policy actors. The CAP arena is not able to handle the funding in the same way and must still develop its own modes of dealing with the new funding paradigms and possibly adapt to it or, the other way around, fit the policy to its institutional set up. The situation descried was most likely not considered a forehand and resulted in unintended consequences. This has to be considered when comparing the two policy fields. Furthermore, for the same reasons the analysis needs to be conducted with the awareness that comparison of RD and Regional and Structural Policy may deliver results regarding what the barriers to high absorption are, but since the situation is different it must not necessarily deliver results. The different institutional preconditions may lead to the outcome that different problems come to the fore.

5. Analysis

In the last chapters the development of the CAP and Regional and Structural Policy was outlined in some detail. This rather descriptive part is important for the following analysis, asking for the reasons why absorption of funds is not as good as it could be. First of all the obstacles will be identified for Denmark and Germany. The next step will be to analyse how obstacles or barriers to easy access to funding came into place. This will be done starting from the hypothesis that, as described above, the CAP policy and administrative system has evolved over time to what it is today. Moreover, on the other hand, in a much 'younger' policy field of Regional and Structural Policy, a territorial funding approach, based on the engagement of regional and sub-regional stakeholders developed. At a certain point the traditional CAP system came under pressure and was drastically reformed in the beginning of 1990. The outreach of the reforms is of course subject to discussion. Also further reforms followed until today. But it is undeniable that CAP breached with one fundamental principle. Subsidies for most parts decoupled from production and coupled to the land used. Also, with public discontent becoming apparent based on the large part the CAP used of the EU budget, policy makers may have been forced to start legitimizing the funding. This could no longer be done with the argument that subsidies were necessary to secure food availability. This was the time when media reported about lakes of milk and butter mountains, meaning great food surpluses which were either disposed or with heavy subsidisation allocated into export below world market prices. The notion of the multifunctional agriculture was created – perhaps to legitimize further subsidies. But these were now coupled to environmental issues, animal health and nature protection on the one side and the maintenance of traditional rural culture. All this found a home under the rural development policy. But for this a new system had to be found for the distribution of funding and perhaps it was obvious to fall back on the system that has developed under the Regional und Structural Policy. For this policy, both, the institutional surrounding and the administrational system more or less developed simultaneously giving a great chance for mutual adaption. In the case of the CAP and rural development the institutions dealing with the policy, the administration responsible for implementation and the stakeholders were just not used to this new systems. The result will be described on the following pages using the cases of Denmark and Germany to analyse where the system flaws. By using the theory of Historical Institutionalism and the concept of path dependency as tools in the analysis, the research seeks to explain the development of the rural development system.

5.1. Case Studies - Rural Development in Denmark and Germany

After the classification and description of rural development and its history and the concept of multifunctionality legitimizing rural development measures on the international level and the European public, it is also important to attempt the same for the countries relevant for this examination. The reason is that, although the discussion has been described for the European level, the perception of rural development may still be different in the various Member States of the EU. Different priorities on what measures are important to the concerning Member States' or regions' rural characteristics may exist, which can have influence on how their rural development programmes are designed. This will of course effect in how far cofinancing by the EU is possible depending on the coherence between EU, national and regional programmes. Differences in the perception and weighting of priorities can originate from different geographical, economical and cultural peculiarities in the Member States.

5.1.1. Denmark

5.1.1.1. Economic and social trends

With two thirds or Denmark's area being under agricultural land use, this number gives the impression of the country being very rural in character. It has to be stated, however, that the typical problems of many large rural areas in Europe, namely differences in income between urban areas and their periphery, lacking development potential and considerable depopulation of the latter cannot be discovered in Denmark. At least not to the extent as it is known from other areas in Europe. The reason for this may be that no area in Denmark is very far away from an urban centre. This means that job possibilities are still at hand as is the provision with service facilities. Another reason for the absence of the characteristic problems might be that the Danish welfare system is able to level out the differences in income and the provision of public services. But here again, funds directed to rural areas are relatively small compared to other countries in the EU, which shows that the welfare system cannot be the main reason. Instead, the solution may in fact be the relative proximity of the rural to urban centres (Kristensen (Danish Rural Areas) 2004?: 1). But again the problem of the definition of rural areas arises. Also in Denmark is there no official definition. According to Kristensen (2004: 2), rural areas are separated from urban ones on the territorial level of municipalities. Municipalities where the main town has less than 3,000 inhabitants qualify as rural areas. To meet the criteria for a town or urban centre, an area has to have more than 200 inhabitants with buildings being not further away from one another than 200 metres. Another classification exists for "remote rural areas". A municipality being further away than 30 kilometres from a regional centre and small islands are falling into this category. The number of these with only 40 municipalities out of 269 being "remote rural areas" is rather limited. Vulnerable areas are those that have in fact experienced a decrease of employment and population between 1994 and 2000 which means that it is mainly these areas that have the "typical" structural problems of rural areas as described above (Kristensen 2004: 2ff; Direktoratet for FødevareErhverv 2003: 27).

Looking at the structure of Danish agriculture, Danish farms have an average of 53,8ha agricultural area with 48 100 farms being registered at EUROSTAT[5]. More than half of the agricultural holdings employ less than one annual work unit (AWU). One AWU is equal to one employee working full time. Only one fifth of the holdings engage two or more AWUs. Nine percent of Danish agricultural holdings use less than five ha of agricultural area, whereas 15% of the holdings use 100ha or more. Almost 40% of the farms specialise on the production of cereals, oilseed and protein crops, 18% are engaged in general field cropping, 11% solely focus on dairy production, eight percent combine field cropping and grazing livestock and finally seven percent produce various crops and different livestock combined. Organic farming accounts for five percent of Danish agricultural holdings. These numbers show that Danish agriculture is characterised by rather large agricultural holdings, with roughly 60% especially focusing on the production of cereals, oilseed and protein crops and other field crops (Benoist/Marquer 2006: 1).

[5] Farms registered have to be at least one ESU of size. "*For each activity (`enterprise`) on a farm (for instance wheat, dairy cow or vineyard), a standard gross margin (SGM) is estimated, based on the area (or the number of heads) and a regional coefficient. The sum of such margins in a farm is its economic size, expressed in European Size Units (ESU). 1 ESU is equal to 1200 euros*" (Benoist/Marquer 2006: 7).

Figure 1: Location of urban, rural, remote and vulnerable areas in Denmark 2002

Source: Kristensen 2004

This does not mean, however, that the value of production is highest in this field. Considering the value of production the picture rather turns around, showing that only one third of the production value comes from field crops and two thirds originate from livestock products (Kristensen 2004: 7). Another trend consists of a growing number of merging agricultural holdings in order to retain the level of income or to have the chance of increasing it (Direktoratet for FødevareErhverv 2003: 31). Considering the definition of rural areas, their income and employment situation and the structure of Danish agriculture as described above, one is tempted to assume that Denmark does not really have to care about searching for successful rural development methods. However, the success of a rather even level of prosperity may lie in the fact that Danish authorities have adopted an approach to rural development which integrates horizontal and sectoral interests early on. This experience may also be one key to understanding why the LEADER approach is so successfully implemented in Denmark. This will be looked at later on.

5.1.1.2. Institutional structure and policy framework

According to the report 2002 over the Danish Rural Development Programme, issued by the Danish Ministry for the Interior and Health (Indenrigs- og Sundhedsministeriet), the development of rural areas is a responsibility shared horizontally on the sectoral level as well as vertically through all hierarchical levels of the administration. In the report the Ministry elaborates, that local and regional administrations are encouraged to communicate across sectoral borders and search for innovative solutions to the individual problems of their rural areas. Not at last, it is recommended to incorporate the local citizens into the formulation process. Furthermore, the report prompts the local authority to work out strategies specifically for the rural areas, whilst criticising cases where the authorities argued that rural development is already integrated into their general political strategy for the respective district. Having developed an initiative to increase the efficiency of rural development and the administration, local authorities can send proposals to the Ministry for the Interior and Health. In short, the local and regional administration is responsible for the generation of a specific programme for rural development in their district. Even though more responsibility has been given to the local and regional levels, the national level is still involved in state-run initiatives. In order to have a better overview on what the different involved Ministries are planning and to coordinate these efforts, the Ministry for the Interior and Health has assembled a coordination committee of members of all relevant ministries. The Rural Development Department of the Ministry hopes for better results concerning the formulation of the subordinate national policies that can or are supposed to have an influence rural development. Additionally, the Ministry has the opportunity to support certain pilot projects with money from fund especially setup for this purpose.

Responsibility for the EU Rural Development Programmes lies at the Ministry for Food, Fishery and Agri Business (Idenrigs- og Sundhedsministeriet 2002). The three most important rural development programmes are the Rural Community Development Fund (RCDF), the so called Article 33[6] Programme and the LEADER+ Programme. The

[6] Artikel 33 in the Council Reg. 1257/99 is focusing on the diversification of rural economies beyond agriculture

latter two were partly supported with money from the EU's Rural Development Fund of the programming period 2000-2006. The RCDF is solely carried by the state of Denmark.

5.1.1.3. Problems in programming and administration hampering efficient absorption of funding

For the mid-term evaluation of the Rural Development Programme in Denmark, a Consultancy (Kvistgaard Consult) was hired. Of course, much focus of the evaluators was on the impact of the Programme, estimating in how far the objectives set out have been reached. But additionally to this, the report published in 2003 gives some hints regarding difficulties in administration of the Programme. Equally important the report draws a picture of how recipients of funding estimated the quality of the programme.

Another very important aspect is mentioned in the report which might very well have an impact on the absorption of EU funding. The very fundamental precondition for high participation of stakeholders to the Rural Development Programme is the knowledge about the existence of measures eligible for funding (Direktoratet for FødevareErhverv 2003: 82f, 89). This requires public relations work and information campaigns conducted by the respective programme managers. This in turn requires staff that has good knowledge and is experienced in the field of EU funding and the barriers which may become an obstacle for inexperienced applicants. The overall picture drawn by the mid-term evaluation is rather positive. In most cases the administration is capable of handling the programmes according to both, EU administrative requirements and the Danish law on administration - "*danske forvaltningsregler*" (Direktoratet for FødevareErhverv 2003: 79). At this time in the programming period it was however stressed that IT-support to the administration was not optimal due to the high number of different systems used by managers. Also, concerning the Chapter I measure "*Investment in Agricultural Holdings*", it was criticised that administrative procedures are too long lasting (Direktoratet for FødevareErhverv 2003: 80) and that the time frame given for the proposal preparation of projects is much to short for many applicants. This may not only lead to a higher rate of failed investments as outlined by Direktoratet for FødevareErhverv (2003: 86), but may scare away potential applicants.

The overall good administrative capacities and technical competence of staff dealing with the Rural Development in Denmark, is according to Direktoratet for FødevareErhverv due to a low rate of staff shifts in the public administrative sector.

Concerning the Article 33 Measure, stakeholders uttered their discontent, stating that responsibilities should be divided more clearly between the national level (Ministry for Agriculture) and the local level (District Administration) with better information provision to stakeholders regarding the correct place to address when seeking advice (Direktoratet for FødevareErhverv 2003: 80). Furthermore, and this is true for the implementation of almost all measures, the report stresses that data collection and monitoring is often neglected by the responsible authorities. The reasons for that are not mentioned by Direktoratet for FødevareErhverv. It can be assumed that they are similar to the reasons at hand in Germany, which has the same problems concerning inconsistent data due to insufficient monitoring. On the one side, as more thoroughly outlined later, the responsible authorities might just not have the human resources needed to conduct the monitoring. They have very heterogeneous approaches to the collection of data which causes problems to fit them into the same scheme later on. Often – at least for the case of Germany – data is not available in digital format.

All in all it can be stated that in the overall picture Denmark has excellent absorption capacities. Even though there are minor shortcomings in the administration of the Rural Development Programme, stakeholders are satisfied with the handling of it and the way they are advised. This does of course not mean that they may be discontent with the objectives as such or the technical details of the measures at hand. The evaluation of these matters makes up a large part of all evaluations of the Rural Development Programme, but is not subject of this thesis. The question of where the programme could be improved in order to simplify access to funding is not directly posed in the evaluations. Answers to this have to be looked for in between the lines and by interpreting statements about the administrative capacities or the critique concerning the construction of the policy or the engagement of the national authorities. In the case of Denmark, better monitoring could lead to better evaluation, which again could lead to better advice on how to streamline the programme. In some cases, calls for proposals should be communicated better and earlier in order to give applicants the opportunity to design good quality projects without scaring those away that fear to fail due to the fact that they are not experienced enough to successfully cope with the administrative burdens. Last but not least, better public relations and information campaigns, experienced staff or consultants in the public and private sector could contribute to a better knowledge about the Rural Development Programme and its measures. With better knowledge about the very broad funding opportunities provided by the measures outlined in Reg. 1257/99 and the knowledge about combinations of measures or even different programmes, more funding applications may be submitted and project designs may reach higher quality. All this could lead to even better absorption capacities.

5.1.2. Germany

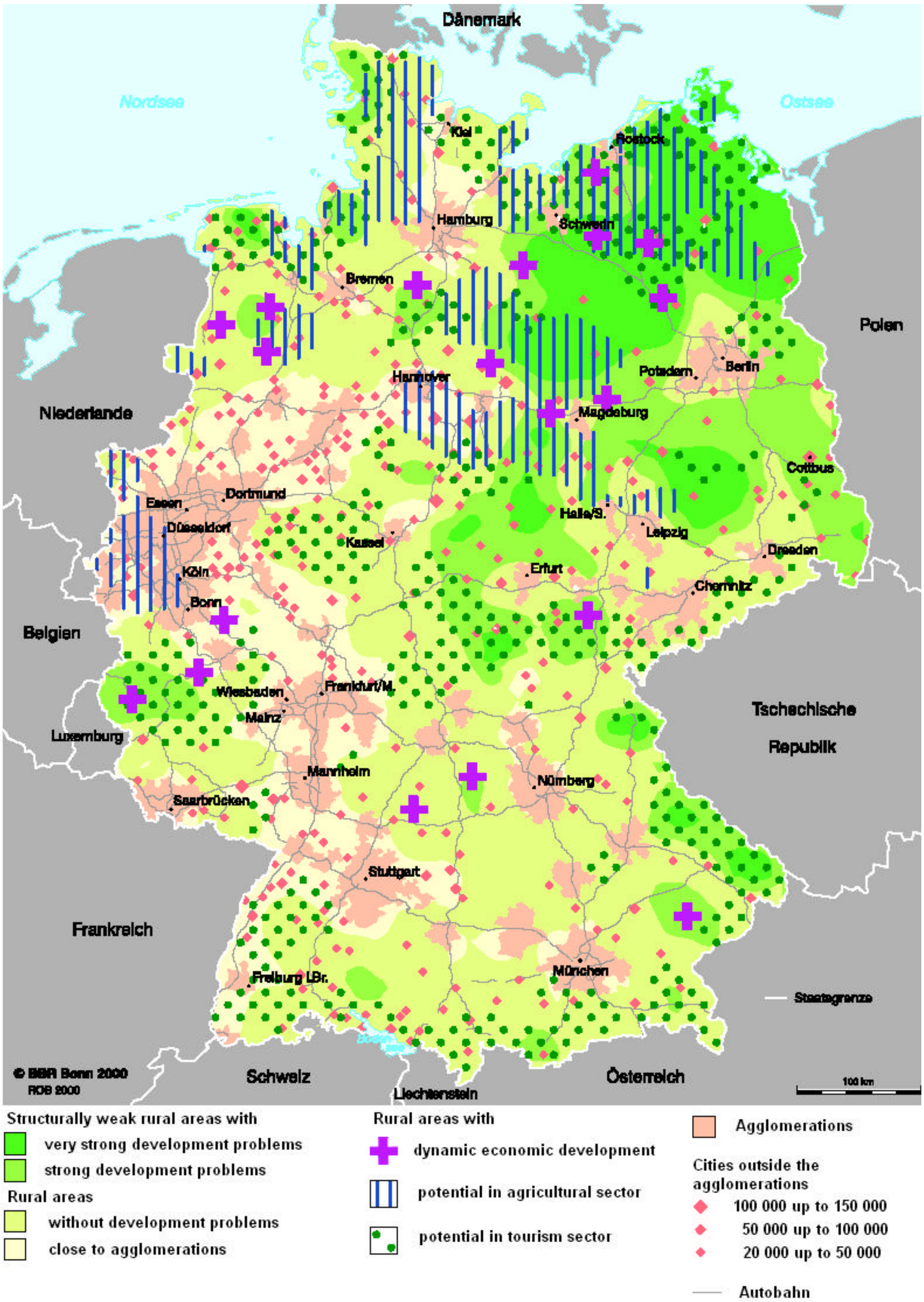
5.1.2.1. Economic, social and environmental trends

In Germany, as in Denmark and in fact in all of Europe, there is no such thing as a fixed definition of "the rural area", since differences between rural areas throughout the country are quite substantial and often bigger than the differences between rural and urban areas. Traditional criteria for describing rural areas are no longer satisfactory when trying to compare situations of different regions throughout Germany.

Additionally to criteria such as population density, rural areas have to be described using economic criteria taking into account potentials arising from rural-urban interconnections, potentials in tourism or agricultural potentials (Schubert 2002). Figure 2 depicts the different characteristics of rural areas in Germany.

In Eastern Germany the population in rural areas has dramatically decreased. This is due to the fact that inbetween 1989 an 1998 jobs in the agricultural sector decreased by as much as 83 %. This of course also affects social structures in the areas. With this loss of jobs in the agricultural sector and subsequent outward migration, jobs in the transport sector, building and social institutions connected to the former social structures and the higher population density were lost as well. A different picture can be drawn for most rural areas in Western Germany. Here an average increase in employment of 4% occurred with jobs emerging in the service sector, business and trade. Apart from the East – West comparison, another comparison is interesting when looking at rural areas in Germany. The southern states of Germany tend to contribute more to the overall national economic potential. This is true for Bavaria and Baden-Württemberg in Western Germany and also for Saxony and Thuringia in Eastern Germany. Concerning the ecological situation, there is again no even picture. Different regions are coping with different problems.

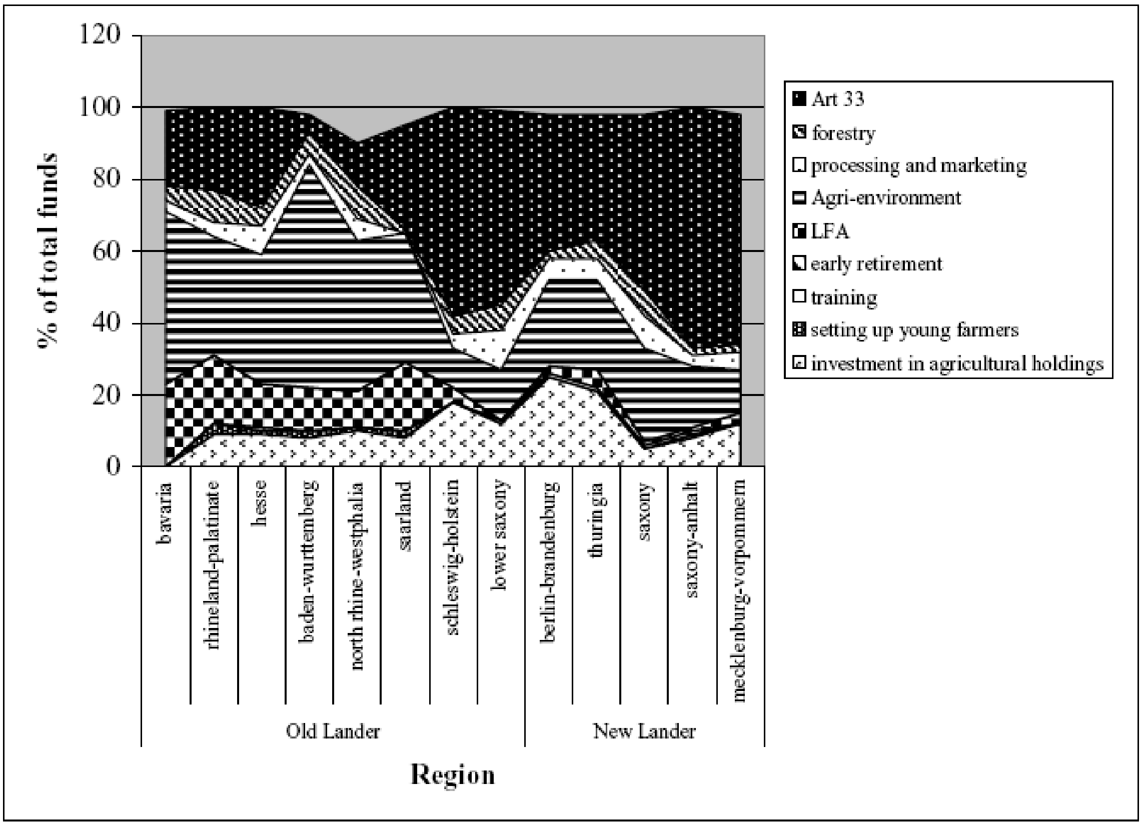
Figure 2: Characteristics of Rural Areas in Germany



Source: Schubert 2002

Generally, it can be said that regions with intensive agricultural activity and/or high tourism potentials experience more serious ecological problems as well as regions close to large cities with high need for land for construction of new residential and/or commercial areas (Schubert 2002: 7f). As a consequence to these widely varying conditions throughout Germany and different approaches chosen by each federal state, the measures offered by Regulation 1257/99 are differently frequented and prioritised as can be seen in Table 8.

Table 8: Regional prioritisation of rural development measures in Germany in selected Federal States



After Schubert (2002)

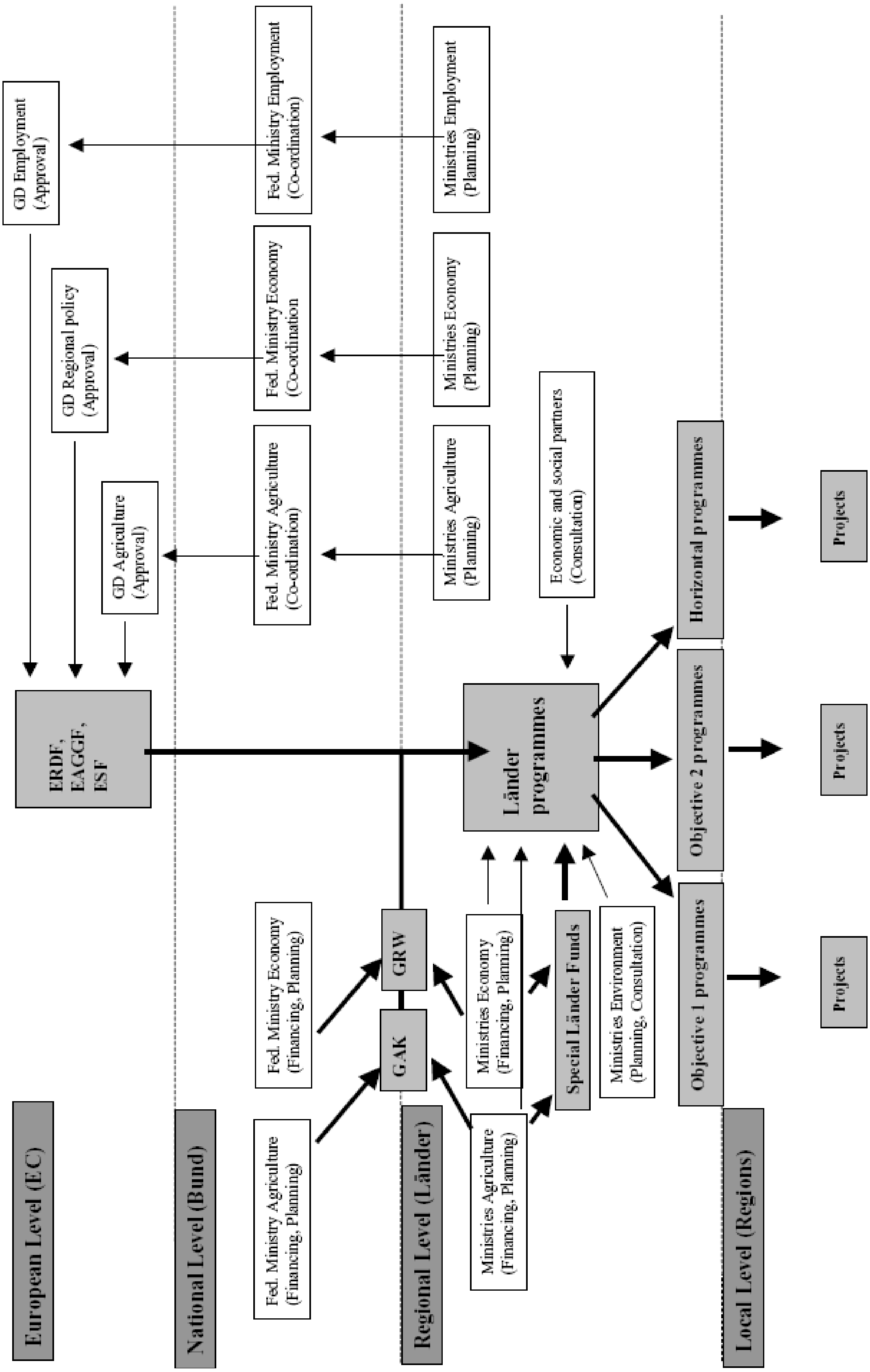
5.1.2.2. Institutional set-up and policy framework

Rural development in Germany is claimed to be a policy field characterised by the “joint- decision-mode”. This describes the policy making process as no longer being subject to one institutional level being responsible to formulate, implement and finance rural development policies. Rural development policy has historically developed towards a “joint-decision-mode” policy. Latest since 1969 with the introduction of the “Gemeinschaftsaufgabe zur Verbesserung der Agrarstruktur und des Küstenschutzes - *Joint Task for the Improvement of the Agricultural Structure and Costal Protection*” (GAK), rural development has become a policy field in which at least two levels are involved in the policy process. With the GAK, the national government of Germany has established a competence on the federal level which originally belonged to the federal states. (Mehl/ Plankel 2001: 174) The new institution set up to coordinate interests in this field is the PLANAK (Planungsausschuss für Agrarstruktur und Küstenschutz – *Planning committee for the agrarian structure and coastal protection*).

Representatives of the federal and the state level are equally represented in this programming body. They meet to establish a five year framework which is ultimately also approved by the PLANAK (Knickel 2006: 94). As the GAK is a state-aid instrument with 60% of its finances coming from the federal level (even 70% concerning coastal protection measures) and therefore it has to be notified by the Commission. However, the GAK is not the only Joint Task managed by the PLANAK. A second national framework has to be coordinated, the "Gemeinschaftsaufgabe zur Verbesserung der Regionalen Wirtschaftsstruktur – *Joint Task for the Improvement of Regional Economic Structures* (GRW). Support measures mainly aim at improving investment in industry, tourism, services, trade and infrastructure development of regions lagging behind others in Germany, facing structural problems. About 90 per cent of the money provided flows into the "new *Länder*". This Joint Task is, as the name implies, not specifically invented to help rural areas. Nevertheless, it is often rural areas that face structural problems. This leads to possible interference with the GAK and it is therefore that considerations are made to merge the two Joint Tasks into one (Knickel 2006: 95f).

Since the 1970s, the EU has been influencing agrarian structural policy in Germany as well. On the one hand the EU established rules that have to be considered by the national authority's policy efforts. On the other hand, the EU contributes financially to certain measures. This has become even more important in 1988, when the budget of the EU's Structural fund has been significantly raised. This development continued with the reform of the CAP in 1992, the Agenda 2000 reforms and the mid-term review reform of 2003. Support from the EU is not connected to support from the GAK, which has the effect that the *Länder* are now able to design support measures compliant with the Regulation 1257/99 independently from the criteria formulated in the GAK and still receive co-financing from the EU. Nevertheless, many programmes for structural help are still conducted with both, money from the GAK and money from the EU. In some states agri-environmental programmes are solely carried out with support from the EU, whilst others chose to establish a mix of agri-environmental measures, some only supported by the EU and some measures receiving support of both levels again – EU and GAK (Mehl/Plankel 2001: 175).

Table 9: Germany Institutional Map Source: Baldock 2001



It has to be stated that the GAK is not a rural development programme as defined under the Regulation 1257/99. As the federal co-financing source it makes considerable contributions to the rural development funding of the EU and it is therefore that it has great relevance concerning the design of the rural development programmes issued by the federal states (Schubert 2002: 11). This may be a reason for the above described circumstance that only very few states actually introduce agri-environmental measures which are not in line with the GAK. The consequence of such a design is that co-funding will only come from the EU, not from the GAK, meaning that the states have to bear a considerable share of the finances for those measures.

Regulation 1257/99 and the GAK differ in certain aspects. Most measures eligible for funding under the GAK are also included in the RDR, however, the Rural Development Regulation offers a broader set of measures which are not included in the GAK as it is the case with compensations for the restricted use in Special Areas for Conversation (SAC) which is not included into the GAK. Evaluation and monitoring of programmes is mandatory for the RDR but not in case of the GAK. There is no provision for participatory principles in the GAK whereas in Reg. 1257/99 horizontal and vertical participation of different societal actors is strongly encouraged. Furthermore, the RDR pursues a programme based integrated territorial approach with the GAK in contrast being more focused on the specific measures and projects (Schubert 2002: 11). Parts of the difficulties in absorbing EU funding may lie in these different approaches to rural development and the resulting differences in the policy framework.

5.1.2.3. Problems in programming and administration hampering efficient absorption of funding

On the institutional level, it seems to be necessary to employ qualified staff and regional managers that are able to act according to the integrated approach demanded by Reg. 1257/99. A weakness of administrating bodies and implementing agencies is that they do not have sufficient resources to set up institutional structures equipped with the necessary experience to efficiently connect all sectoral and horizontal actors in order to design sound rural development programmes, efficiently exploiting all possibilities and open up access to a broad variety of measures. Additionally, it is inevitable to have knowledge of the local/regional specific conditions, in order to achieve optimum efficiency in accessing rural development funding offered by the EU. Measures have to be chosen wisely and programmes should not only offer a broad range of measures, but deliver sensitive connections of local experience, local requirements and the superior frameworks established on regional and national level (Schubert 2000: 34). A stronger focus on a bottom-up approach with programmes of the states and the GAK being open for new forms of implementation and participation is needed – as it has been successfully practiced in the case of LEADER and the German integrated programmes "Regionen Aktiv" for instance or the regional initiative "LOCALE – Integrated rural development in Saxony Anhalt".

„Regionen Aktiv – Land gestaltet Zukunft" (*Active Regions*) was an initiative funded by the Federal Government with a total of 35.5 million national state-aid in 2001, running for four years. In its basic features it is similar to the LEADER approach. Central elements of this programme are: consumer orientation, environmentally friendly land use, strengthening of rural areas and creation of additional income sources (Schubert 2002: 18f). LOCALE distinguishes itself through a unique strategic approach which was novel in Germany at that time. The programme supported integrated territorial development approaches below the federal state level and it strongly encouraged participation of local stakeholders in the implementation of the operational programme (Schubert 2002: 42ff).

Apart from the participation in the implementation and programming, two more reasons can be detected, which may hinder the 'easy' access to EU money. First of all, a very obvious one is connected to the condition of co-financing. Some Federal States are simply not able to provide the money to realize the provision of own resources. The federal state budget does not provide for this due to high debts and often enormous budget deficits. The financial equipment of the EU Rural Development measures is to small as to become an incentive for Member States to redirect traditional national funding patterns in order to give applicants access to all measures possible under Reg. 1257/99 (Dwyer et al. 2002: 17ff). A second reason is connected to the required evaluation and monitoring procedures of the programme as it will be discussed in the following chapter.

5.2. Evaluation and monitoring as a reason for lower participation

A second reason for non optimal absorption capacities by the states may be due to reluctant participation. Pressure for monitoring the correct use of funding has increased considerably.

The field of rural development, the second pillar of the CAP has gained importance over the years. This is also indicated by a growing number of evaluations made in the field. Points of interest and also reason for the growing importance are the increase in political as well as fiscal significance of rural development as an EU policy. Since the reforms of the European Structural Policy in 1988, it has become a standard to accompany policy programmes in the field. In the financial period of 2000 – 2006 it was agreed to conduct evaluations ex-ante, mid-term and ex-post. The ex-ante evaluation is supposed to estimate the future impact of a policy and serve as reference for the following evaluations, whereas the mid-term review is expected to help and support with the management of the programme. The ex-post evaluation should first of all inform about the actual effects of the programme just terminated. To make evaluations comparable, the Commission and the Member States mutually designed minimum requirements that have to be accounted for by the stakeholders in order to receive the full amount of co-financing by the EU. The Commission’s purpose of evaluations is to improve the management of the programmes and she aims at showing responsible towards the participating actors and the public.

It is in between these aims evaluations are methodologically designed. At the one end in order to show accountability towards the public and the stakeholders. On the other end evaluations are conducted in order to search for possibilities of improvement in the organisation and design of the policy.

The difference between evaluations of a policy in national political systems compared to the multi level system of the EU is that in addition to cleavages between the vertical levels, competition on the horizontal levels of the EU may arise. The problem for the evaluation is not necessarily differing interests, but per se the involvement and interaction of different horizontal actors on multiple levels, the supranational, national, regional and local levels. All different actors participate in the formulation, financing and implementation of policy programmes (Forstner et al. 2003: 327ff).

Concerning the second pillar of the CAP it can be stated, that following interests exist in Germany. The German “Länder” are eager to pursue there interests through trying to include there preferences into the policy. At the same time they have strong concern in securing a maximum share of cofinancing through the EU and the Federal Government. The Federal Governments interest is to secure its central competence and to improve its own budgetary situation through reduction of payments or through maximizing the share paid by the EU. The EU's aim must in turn be to establish accountability for the money it is spending on rural development in order to secure the legitimacy of its policy efforts in this field. One medium to establish accountability is the conduction of evaluations (Forstner et al. 2003: 329). Since the evaluation is not conducted by the main financial backer, the Commission, but by the main beneficiary, it can be doubted whether or not these evaluations fulfil their function. In the case of Germany it is the "Länder" that evaluate themselves, which automatically calls for a positive result. Who would claim to be a bad programme manager and thereby risking getting even more monitoring burdens or other control mechanisms subscribed? Also, who would claim that there is no need for improvement, especially no more need for funding because the programme has fulfilled its objectives? Furthermore evaluations conducted by the main beneficiary might be exploited to influence the policy making for future rural development programmes in the beneficiary's interest. The obvious problem here is, that the main interest could be the improvement of the own budgetary situation, rather than to improve the effectiveness of the programme.

The collection of rural development data is the precondition for the presentation of the execution of rural development measures. And the collection of data provides the basis for an effective assessment and monitoring of the impact of the measures, how effectively they worked, in how far they contributed to the aims set in the policy and in regards to their efficiency.

For reasons of feasibility, the Commission has delegated the collection of data to the beneficiaries of funding respectively to the responsible body of a project. Since the financial period of 2000-2006, the Commission has enforced that the Member States have to compile an annual report which has to include specific tangible and financial indicators documenting the state of a rural development programme (Forstner et al. 2003: 330). The collection of data for the mid-term-reviews is however connected with difficulties. In many cases data is not digitised. And if they are available for the different projects they are hardly ever standardised, which results in a tedious exercise to bring them into a processible format. Furthermore, data is oftentimes incomplete. All this is partly the result of a complicated interaction and coexistence of political levels and rural development programmes. Besides the rural development programme of the

EU, which incorporates the national, regional and local levels, there are also rural development programmes which are provided by just the federal level and/or the regional "Länder" level. The problem is that the different monitoring systems of all these programmes are mostly insufficiently coordinated with the result described above. With the lack of money and workforce on the responsible lower administrational level, this leads to incomprehension by the personal that has to deal with the difficulties of collecting the data resulting in a lack of motivation and willingness to cooperate especially in the case of the collection of necessary data whose collection is not standardised.

Due to the above described enormous efforts to be made, administrations of the states are becoming more and more reluctant to increased participation in the implementation. From their point of view the local and regional level is not able to handle the complex demands of the regulation. An even bigger problem arises for societal actors such as environmental and nature conservation organizations that have no experience with the administrative hurdles ahead of them in the implementation at first and the auditing and evaluation procedures as well (Schubert 2000: 34f).

5.3. Institutional development determines insufficiencies in the funding system

As can be seen clearly in the two cases described above, the identified reasons for the imperfectly working rural development funding relate to the policymakers inability to create mechanisms and administrational procedures providing for better results. This is not to say that this cannot be reached in the future, but it certainly has not happened with the reforms leading to the 2000-2006 rural development financing system. A first step to explain this is that the institutional set up which has developed under the CAP for more than 40 years shows reluctance towards necessary institutional changes. The objectives set out under the policy and also the idea of incorporating regional and sub-regional actors under what is called the principles of partnership and the approach of creating a Europe of the Regions may sell very well to the citizens, but institutions are usually not very much interested in reforming themselves due to fear that they might loose power vis-à-vis other actors. This must especially be the case for the CAP sector which grew very powerful being the largest and most expensive policy section of EU politics. The theory of historical institutionalism admits however that there are points in time when fundamental change is possible. This is called a critical juncture, where pressure from the outside or severe crisis leaves no way out of legitimizing institutional existence via a paradigm change. This pressure occurred in the early 1990s with WTO negotiations pressing Europe to sacrifice agricultural subsidies to reach conclusion. Also public opinion mattered with the people becoming aware of the ‘unfairness’ of export subsidies paid from taxes and huge surplus production. This was critical enough to change the policy paradigm, but a change of the institutional set-up was not of the essence at that time. One just did not know how the newly created rural development policy would work. Stakeholders of course realised quickly that the funding was problematic, in some countries more than in others. But this may not have been displayed brought enough in media to the wider public to create enough impetus for radical change in the institutional system. Rather with the evaluation system set-up by the Commission this is a step by step procedure working very slowly reform by reform. Drawing on the chapter about historical institutionalism and path dependency it could be concluded that the CAP institutional background developed, manifesting its particularities. The reforms in the beginnings of the 1990s can be identified as critical junctures leading to the spill over of new funding paradigms known from the Regional and Structural Policy, namely rural development. One has to be very careful here because the traditional CAP funding paradigm has not at all completely vanished. The institutional set-up was however caught in the sunk costs trap and did not change accordingly leading to the problems described in the two case studies.

6. Conclusion

The introduction of the Rural Development Regulation 1257/99 for the programming period 2000 to 2006 was a significant step in so far as the chosen approach to a certain extent breaks with the traditional centralised CAP administrative procedures. The Regulation itself, programming and implementing processes may not have functioned as smoothly as it should have. The direction of the policy is nevertheless seen as the right choice for the future by many evaluators (Dwyer et al. 2002: 89). Weaknesses of the Regulation can be categorised into budgetary insufficiencies, institutional shortcomings and practical problems in the programme implementation. All these can be found looking into evaluation reports for rural development in Denmark and Germany. Some points might be more significant in one of the countries than in the other one. Some points my only by subject for minor critique. But the existence of even minor weaknesses identified in one of the two countries may become complex barriers to access funding for actors in other European countries.

During the analysis of Danish and German handling of EU Rural Development funding a number of problems surfaced. In the following a comprehensive overview shall be given with an outlook to follow.

First of all the Rural Development Policy is a very complex structure. It is therefore that administering bodies of Member States and potential applicants are seemingly becoming more and more reluctant to increased participation in the implementation of Rural Development measures. The consequences are a fewer number of measures at hand in the specific programmes and less applicants applying for funding under these schemes. It has shown that especially societal and non-governmental actors with lacking experience in the bureaucratic procedures are very hesitant (Chapter 6.2.4). Regarding the absorption capacities of Member States this could result in funding left untouched in the respective budgets and thus funding returning into the common pot of the EAGGF due to procedural errors by applicants resulting in the rejection of proposals for instance.

A second reason for low absorption capacities is the co-financing principle. In Germany, some federal states do not provide enough own resources in their budgeting to match the funding provided by the EU. Sometimes the money provided by the EU is not enough to become an incentive to redirect resources in the budgets of the federal states into rural development measures because budgeting often follows what can be called traditional patterns. Member States tend to invest into measures matching their strategy followed prior to the Regulation 1257/99. Other measures of the regulation are often neglected or not provided with co-financing resources at all (Chapter 6.2.3).

The case of Denmark has shown that public relations work could improve the number of quality projects proposed under the Rural Development Scheme, thus leading to a higher rate of approval which in turn leads to more funds actually directed into Rural Development. For effective improvement concerning this aspect experienced staff needs to be employed having substantial experience in handling the project development, implementation and management under the respective regional/national administrative rules and the EU requirements under which programmes have to be drawn up. Perhaps staff working in this sector could also profit from advanced vocational training. With this as a precondition they may be able to better advice and support applicants. With better knowledge about the very broad funding opportunities provided by the measures outlined in Reg. 1257/99 and available under the respective regional/national programmes the knowledge about combinations of measures or even different programmes, more funding applications may be submitted and project designs may reach higher quality. All this could lead to even better absorption capacities (Chapter 6.1.3). This has also been found out for the Structural Funds implementation which backs the assumption that this may be a serious barrier to increased absorption capacities (Chapter 4.3).

Evaluations of programming and implementation are supposed to lead to recommendations on how to improve on reaching the objectives of the Regulation or the policy as a whole on regional, national and European level. But it can also lead to improved, simplified, more coherent structures of the programmes thus being an important part of improving absorption capacities in the Member States. However, as described in Chapter 6.2.4, monitoring and evaluation procedures are resource intensive tasks which are in most cases not sufficiently carefully carried out. If carried out, the data basis is often differing substantially due to the fact that each administrative entity responsible for the monitoring and evaluation process has different methods for data generation and a different data pool it can draw on. The incoherence of data makes it very difficult to draw overall conclusions concerning the success or failure of the policy in the different regions, but also – which is more important for this thesis – it does not give a clear picture of what the reasons are for not being capable of absorbing all funds provided by the EU.

This summary of identified problems has been extracted from evaluation reports and secondary literature. A rich source to this has been the project "Europe's Rural Futures – The Nature of Rural Development II" which had the aim

"…to understand the impacts of the Common Agricultural Policy (CAP) and its rural development instruments on the rural environment and countryside of the enlarged European Union. Our work aims to highlight relevant policy impacts from both an economic, social and environmental perspective and identify possible options for reform of the CAP's instruments and subsidy systems. […] The final report to the project …*is based on the most in-depth study undertaken so far on the planning and implementation of rural development programmes under the RDR and SAPARD. It has drawn on the findings of detailed national reports from eight countries and a European roundtable with key policy makers in the European Commission, Member States and Candidate Countries."* (Dwyer et al. 2002: iii).

Although this project again aims mainly at improving the objectives, in between the lines there was valuable information available about the difficulties stakeholders and authorities have with the Rural Development Policy. During the research made for this thesis, no study, no report or similar has been found that specifically deal with the aspect of why Member States are not able to access all the funding provided. As already pointed out in the problem formulation and the methodology chapter, it was the original intention of this work to come to conclusions about this phenomenon. What has been delivered is certainly not the complete picture and final truth. However, the indications derived here are strong enough to assume that improving on these aspects by the respective actors could lead to better results. A more thorough analysis of these factors in all Member States would be needed to actually give specific recommendations to the EU level actors, the nationally and regionally involved authorities and stakeholders concerning there handling of the Rural Development Funds. Such an analysis could not be the aim of this master thesis since the required resources are not given in this framework. For this a – possibly EU funded – project with teams in the different countries working on the topic may be the correct approach. It is of course sensible to look at how the objectives set out under the policy are reached. To complete the picture, a look into what kind of surrounding conditions are needed to efficiently access the opportunity provided via EU funding is needed. The insufficiencies described above are the result of a path dependant development of the CAP policy field that took on the challenge to cope with a new field it has not governed before. Development leading to MacSharry Reform and its follow-ups has provided the ground on which reform pressure grew big enough to function as a critical juncture. With the spill-over from the Regional and Structural policy, a somewhat well working funding system with partnership, additionality and a territorial approach was introduced into the CAP. The introduced idea more or less copied from another policy field failed to integrate as easily into the new institutional background. As an outlook and as a final concluding remark to this thesis, there is a chance that following reforms will be able to adapt the institutional surroundings to the policy. Also learning may lead to greater efficiency. Stakeholders may learn how to use the new system and policy makers will perhaps come closer to find ways of adapting the policy to the needs of administration and stakeholders. However, this is very much dependant on interests of the different involved actors, of power relations and their ability to influence future reform negotiations.

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