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Patterns behind rural success stories in the European Union: Major lessons of former enlargements

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Major Lessons of Former Enlargements

Edited by
Axel Wolz, Carmen Hubbard, Judith Möllers,
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IAMO
LEIBNIZ-INSTITUT FÜR AGRARENTWICKLUNG
IN MITTEL- UND OSTEUROPA

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CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF MAPS

LIST OF ABBREVIATIONS

AWU	Annual Work Unit
BMW	Border, Midland and Western Region
BSE	Bovine Spongiform Encephalopathy
CAP	Common Agricultural Policy
CEC	Commission of the European Communities
CEEC	Central and Eastern European countries
COMECON	Council for Mutual Economic Assistance
EAFRD	European Agricultural Fund for Rural Development
EAGGF	European Agricultural Guidance and Guarantee Fund
EC	European Council
EEA	European Economic Area
EEC	European Economic Community
ERDF	European Regional Development Fund
ERDP	Environment and Rural Development Programme
ESF	European Social Fund
ESU	Economic Size Unit
EU	European Union
FADN	Farm Accountancy Data Network
FDI	Foreign Direct Investment
FIFG	Financial Instrument for Fisheries Guidance
GAO	Gross Agricultural Output
GDA	Great Dublin Area
GDP	Gross Domestic Product
GDR	German Democratic Republic
GVA	Gross Value Added
Ha	Hectare
ICT	Information and Communications Technology

INTERREG	Interregional Cooperation Programme
IT	Information Technology
LAG	Local Action Group
LAU	Local Administrative Unit
LEADER	Liaison entre actions de développement de l'économie rurale
LFA	Less Favoured Area
MTR	Mid-term Review
NDP	National Development Programme
NGO	Non-governmental Organisation
NMS	New Member States
NUTS	Nomenclature of Territorial Units for Statistics
OECD	Organisation for Economic Co-operation and Development
ÖPUL	Österreichisches Programm für umweltgerechte Landwirtschaft (Austrian Agri-environmental Programme)
OGA	Other Gainful Activities
OP	Operational Programme
PNR	Programme for National Recovery
PSE	Producer Support Estimate
RDP	Rural Development Plan; Rural Development Programme
REPS	Rural Environment Protection Scheme
RPA	Regional Planning Association
S&E	Southern and Eastern (Region)
SEK	Swedish crowns
SFP	Single Farm Payment
SGM	Standard Gross Margin
SME	Small and Medium Enterprises
SCARLED	Structural Change in Agriculture and Rural Livelihoods
SPS	Single Payment Scheme
SWOT	Strengths, Weaknesses, Opportunities, Threats
UAA	Utilised Agricultural Area
UK	United Kingdom
WIF	Western Investment Fund

FOREWORD

The findings presented in this edited book are derived from the activities of the SCARLED (Structural Change in Agriculture and Rural Livelihoods) project. It had been co-financed by the European Commission and lasted from January 2007 until September 2010[1].

SCARLED pursued two major research objectives: (1) to analyse the agricultural sector restructuring process and the rural socio-economic transformation in the New Member States (NMS)[2], with a particular focus on five case study countries: Bulgaria, Hungary, Poland, Romania and Slovenia; and (2) to analyse the patterns behind rural "success stories" in selected case regions of the established member states of the European Union (EU15)[3]. The chosen EU15 regions were Borders, Midlands and Western Region (BMW) (Ireland), Navarra (Spain), Skåne (Sweden), Tyrol (Austria) and Altmark (Germany). The findings of the research are available on the SCARLED website (www.scarled.eu) and have been published extensively elsewhere. A compilation of the main findings and a focus on objective 1 has been published in another edited volume[4].

In this book we will focus on the main findings with respect to objective 2 of the project, viz. what lessons can be drawn from previous EU enlargements with respect to rural development policies. This book is structured as follows: in the first chapter, we will provide an introduction and a summary of main lessons, which can be derived from previous EU enlargements. This is followed by a condensed version of the five individual case study reports on Ireland, Spain, Sweden, Austria and

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[1] The authors gratefully acknowledge financial support from the European Community under the Sixth Framework Programme for Research, Technological Development and Demonstration Activities, for the Specific Targeted Research Project "SCARLED" SSPE-CT-2006-044201. The views expressed in this publication are the sole responsibility of the authors and do not necessarily reflect the views of the European Commission.

[2] The NMS comprise Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, and Slovenia which joined the European Union (EU) at 1 May 2004 as well as Bulgaria and Romania which joined at 1 January 2007. In the following, we will refer to the 10 Central and Eastern European Countries, excluding Malta and Cyprus, as NMS.

[3] Throughout this book, EU15 refers to the established EU member states: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, The Netherlands, Portugal, Spain, Sweden and the United Kingdom.

[4] MÖLLERS, J., G. BUCHENRIEDER and C. CSAKI (eds.) (2011): Structural Change in Agriculture and Rural Livelihoods: Policy Implications for the New Member States of the European Union. Halle (Saale), Leibniz Institute of Agricultrual Development in Central and Eastern Europe (IAMO), www.iamo.de/dok/sr_vol61.pdf.

new German Bundesländer ("Eastern Länder"), respectively. Each case study followed the identical methodology to allow for cross-comparison. However, the authors were free to focus specifically on those issues which according to their understanding needed to be most intensively discussed. The comprehensive versions of all case study reports are available on the SCARLED website.

Chapter One

INTRODUCTION AND SUMMARY OF MAIN LESSONS

Axel Wolz, Carmen Hubbard, Matthew Gorton, Judith Möllers, Gertrud Buchenrieder[5]

The Common Agricultural Policy (CAP) continues to account for approximately half of the European Union (EU) budget, making agricultural and rural affairs an important and politically sensitive domain, particularly after recent enlargements of the EU (RIZOV, 2006). Agricultural policy is an example of "deep integration". One may say so because European competencies dominate national ones, with the CAP being exemplary for the EU as a regulatory (MAJONE, 1996) and redistributive (PAHRE, 1995) community of states.

Nevertheless, since its inception, the CAP has undergone a series of reforms. With the introduction of the Rural Development Regulation (RDR) following the Agenda 2000, as a so-called Second Pillar, the CAP has evolved from a purely sectoral policy to a wider, rural and territorial agenda (PAPADOUPOULOS and LIARIKOS, 2007). Yet, support for agricultural production and producers (First Pillar) continues to account for approximately 80 % of total CAP expenditure.

Enlargements of the EU have always affected the choice and design of EU policies, particularly agricultural and rural development measures. Furthermore, the prospect of accession and EU membership affected the socio-economic, agricultural and rural development conditions in the acceding countries. Yet, the performance of rural areas in the NMS has, post accession, been uneven and it is important to understand the determinants of these variations. Therefore, lessons from previous enlargements can be learnt and experience from various established member states

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[5] Wolz, Möllers: Leibniz Institute of Agricultural Development in Central and Eastern Europe (IAMO), Halle (Saale), Germany; Hubbard, Gorton: Centre for Rural Economy, University of Newcastle upon Tyne, United Kingdom; Buchenrieder: Martin-Luther-University, Halle-Wittenberg, Halle (Saale), Germany and associated scholar of IAMO.

may help the more recent and new entrants to succeed more rapidly in a competitive environment such as the EU.

The following discussion examines the dynamics of rural development in selected established EU member states, which were not among the founders, i.e. Ireland, Spain, Sweden, Austria and East Germany. In each country, one region had been purposely selected for in-depth analysis which had undergone, at least in some respects, successful rural development post-accession (see Map 1.1 for details on the regions). However, it has to be emphasised that the EU membership should also be linked to the political and economic context of each country at the time of accession, as these countries joined the EU at different points in time and at different stages in the development of EU policies (e.g. CAP and Structural Funds): Ireland in 1973, Spain in 1986, the new German Bundesländer ("Eastern Länder") in 1990, Austria and Sweden in 1995. For countries such as Ireland and Spain, which at the time of accession were amongst the poorest in Europe and for which agriculture was a very important sector within the economy as a whole, the Community was seen as "the promised land". It was mainly EU subsidies, particularly CAP support that made EU membership attractive for these countries. In contrast, for Austria and Sweden, two prosperous economies with a relatively small agricultural sector, EU membership was viewed as an opportunity for a general economic revival following the global economic recession of the late 1980s and early 1990s. Accession also reflected the end of the Cold War and the removal of geopolitical barriers to EU membership. Germany's Eastern Länder is a special case, as accession occurred via re-unification. In this instance, there were no accession negotiations and transition periods, enlargement and EU policy adoption happened "over night".

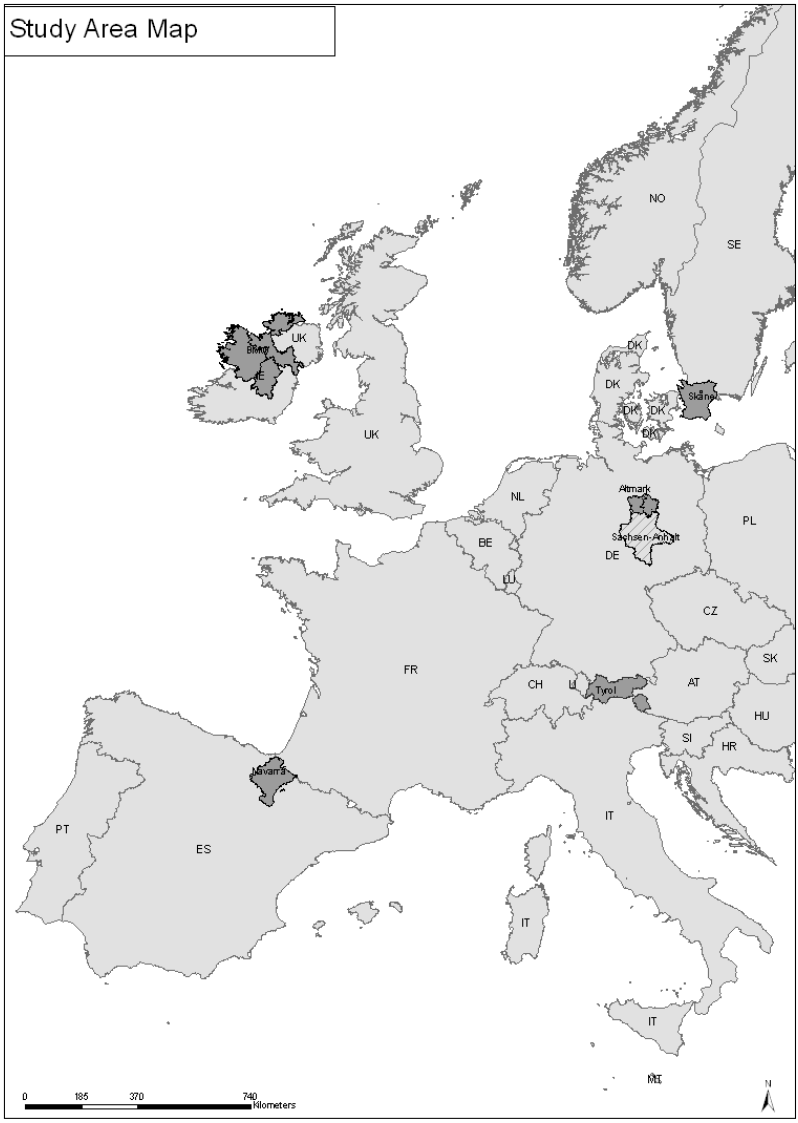
Surprisingly, the scholarly literature does not provide a uniform theoretical model to encapsulate the driving forces of rural change. Instead, a combination of local, regional, national and global forces affects the structural development of rural areas. This book addresses this lack of a single theory of structural change that integrates driving forces and the interaction between them in a consistent framework by analyzing the major driving forces (actors) that stimulated rural development in five selected rural regions (this work benefited particularly from HUBBARD and GORTON, 2010).

The case studies for the in-depth analysis of five rural regions of established EU member states were conducted in 2007/2008 and involved desk-research and (face-to-face and telephone) interviews with key informants. Besides the 39 experts contacted in the five established EU case countries, another 45 experts from the five analyzed NMS were interviewed, i.e. from Bulgaria, Hungary, Poland, Romania and Slovenia. Lessons of best practice in implementing rural development were drawn from these interviews and supporting documentation.

This chapter presents a synthesis of the common lessons and themes as identified in the case studies. The chapter is structured as follows. The next section presents an overview of the five case study regions. This is followed by a discussion of

the best practices and lessons learnt. Special emphasis is given to the role of regional and local actors. Finally, the major conclusions and recommendations for the design of future rural development policies will be drawn.

Map 1.1: Location of the survey areas



Source: Eurostat 2011 http://epp.eurostat.ec.europa.eu/portal/page/portal/gisco_Geographical_information_maps/geodata/reference

1.1 Comparative description of the selected regions

The case study regions were selected in terms of their ability to offer "successful" experiences of rural transition following the accession of the respective country to the EU. It is, however, important to note that "success" is a relative term. The success or otherwise of a particular rural area may be measured against the norms for close-by urban areas, other regions, or against the regional average. The success of a region might also be judged relative to the national average or the average for the EU as a whole. A series of socio-economic and demographic indicators, such as the contribution of the region to the economy as a whole, regional gross domestic product (GDP) per person, employment and unemployment rates in the various sectors, particularly agriculture, and life expectancy were considered to assess the success of regions. These indicators are analysed in more detail in the following Chapters 2 to 6 for the individual case study regions. This chapter concentrates on a comparative overview of the selected established EU countries and case study regions.

The Border, Midland and Western Region (BMW, Ireland) and Tyrol (Austria) were chosen as examples of successful non-agriculturally based rural economic development. BMW is one of the two NUTS2[6] level regions in the Republic of Ireland. It covers 13 counties and comprises three Regional Authority NUTS3 areas: Border, Midlands and West. The region was formed in the late 1990s as part of the Irish Government's strategy for securing future Structural Funds. Until 2006, the BMW region was eligible for EU Objective 1 funds[7]. In BMW, GDP per capita (€/inhabitant) increased from 60 % of the EU15 average in 1995 to 106 % in 2005 (Table 1.1). Although, the economic growth in the BMW has been lower than that for the Southern and Eastern Region (Ireland's other NUTS2 region) and lower therefore than the Irish national average, economic growth in BMW has been significantly higher than the norm for the EU as a whole. This is despite the region suffering from substantial out-migration and high unemployment rates during the 1980s. BMW's growth in the late 1990s and early 2000s was driven by light manufacturing and the service sector, rather than "traditionally rural" economic activities. Employment rates were comparable with national averages. Regarding agriculture, although most of the BMW area is classified as severely and less severely handicapped, almost half of the total Irish farmed area and

[6] "The Nomenclature of Territorial Units for Statistics" (NUTS) was established by EUROSTAT more than 30 years ago in order to provide a single uniform breakdown of territorial units for the production of regional statistics for the EU. It has six levels, NUTS0 to NUTS5; NUTS3 is the smallest regional level.

[7] Objective 1 regions comprise those regions at NUTS2 level where the per capita gross domestic product (GDP) is below of 75% of EU average. These regions receive special financial support of the Structural Funds to harmonize development and to narrow the gap between development levels.

more than half of the total farms are located in this region. The region accounts for 40 % of total Irish agricultural output (HUBBARD and WARD, 2007).

Table 1.1: GDP and GDP per inhabitant in selected regions, 1995 and 2005

	BMW		Navarra		Skåne		Tyrol		Saxony-Anh.	
	1995	**2005**	**1995**	**2005**	**1995**	**2005**	**1995**	**2005**	**1995**	**2005**
GDP(€m)	10,242	31,346	7,772	15,354	22,509	33,630	15,491	21,383	38,103	40,300
- % country	20.3	19.4	1.7	1.7	11.6	11.4	8.5	8.7	2.1	2.2
- % EU15	0.15	0.23	0.12	0.15	0.33	0.32	0.23	0.21	0.60	0.47
- % EU27	0.15	0.28	0.11	0.14	0.32	0.31	0.22	0.19	0.58	0.44
€/inhabitant	10,857	28,253	14,597	26,271	20,271	28,861	23,772	30,794	14,662	19,458
- country	76.2	72.6	125.9	125.5	92.3	88.4	103.1	103.3	62.1	71.5
- EU15	60.1	106.0	80.8	98.6	112.3	108.3	131.7	115.5	81.2	73.0
- EU27	74.2	126.1	99.8	117.3	138.5	128.8	162.5	137.5	100.2	86.9

Source: EUROSTAT, 2006.

Note: Data presented for Saxony-Anhalt region as no data are available for the Altmark Region.

The Autonomous Community of Navarra (Spain) is located in the north of the country. It combines experience of both successful non-agricultural based rural development and a strong agri-food sector. Although its economy is relatively small (less than 2 % of the national economy), Navarra's economic performance is remarkable. The standard of living (expressed in GDP per capita) exceeds significantly the national average (126 %) and EU27 average (118 %). With a regional GDP per capita above 75 % of the EU15 average consistently since EU accession, Navarra was never classified as an EU Objective 1 region. A higher rate of labour activity than the national average and lower rates of unemployment than the Spanish average also characterise Navarra. Particularly remarkable has been the process of convergence in economic indicators for Navarra and the EU15 average, which accelerated after the mid-1990s. The largest proportion of the region's GDP is accounted for by services. Compared to the national average, Navarra's agriculture is more mechanised and plot-wise less fragmented. Consequently, agricultural labour productivity in the region is significantly higher than the national average. Additionally, the region benefits from a high degree of integration between agriculture and the food industry. The agri-food industry contributes significantly to the regional economy. Moreover, some 8 % of the country's agricultural and food exports are provided by Navarra. Rural tourism is also an important economic activity. A particularity of this region is its "*regimen foral*"[8], which grants it a large degree of legislative and fiscal autonomy (IRAIZOZ, 2007).

Tyrol, Austria's most mountainous federal province, is a relatively wealthy region which accounts for 9 % of the country's GDP. It is located in western Austria, bordering Italy to the south, Germany to the north, and other Austrian provinces

[8] Navarra Region has a particular administrative and tax system, so-called "*regimen foral*", which allows a large degree of legislative and fiscal autonomy within the Kingdom of Spain.

in the west (Vorarlberg) and east (Salzburg and Carinthia). The region is split into nine political districts and has five NUTS3 subregions. Its economy performed well prior to the country's accession to the EU. Regional GDP per capita is above the national and EU15 averages (Table 1.1). Its gross income is mainly generated from services, with tourism and the associated retail market being extremely important. Tyrol's agriculture adds very little to the regional economy directly, but contributes indirectly by preserving the natural and cultural landscape and is integral to rural tourism. While at the outset of accession, many feared that Tyrol, and Austria more generally, would suffer from greater (lower cost) competition as part of the European Single Market, its economy and income levels have held up remarkably well (HUBBARD and KAUFMANN, 2008; BREUSS, 2000).

The county of Skåne (Sweden) and the Altmark Region of the new German Bundesländer were chosen as regions possessing successful agricultural sectors. Skåne is the most southerly of the Swedish counties, facing the Copenhagen region of Denmark to the west, across the (recently bridged) Öresund channel. Skåne is also the most internationally competitive agricultural region in Sweden. It has both physical advantages (in terms of climate, topography, soils) and locational advantages (close to a major urban market, export gateways, and a very dynamic labour market, offering many opportunities for off-farm employment). Additionally, infrastructure improvements provide improved opportunities to compete on a wider market since EU accession. Farm holdings are also more commercially orientated in comparison with other Swedish regions. It should therefore be viewed as a region that benefited from the wider market access provided by EU membership rather than from just (national and EU) policy funding that address structural or regional handicaps (COPUS and KNOBBLOCK, 2007).

The Altmark Region consists of the Districts of Salzwedel and Stendal, located in the Federal State of Saxony-Anhalt in East Germany. It has its own particularities as it is the only region amongst the five selected case studies that belongs to a former socialist country. Altmark possesses a strong agricultural and forestry sector. It was selected as a post-socialist region that successfully transformed its agricultural base after EU accession to be competitive on the European market. However, its robust primary base has not shielded the region from high unemployment, which affected East Germany after unification. Indeed, rural areas within the region suffered a sharp decline of (particularly young) people, who left in search of better employment opportunities. Until 2006, the Altmark region, like the rest of the new German Bundesländer, was eligible for EU Objective 1 funds (WOLZ and REINSBERG, 2007).

With one exception (Skåne), all regions are classified as predominantly or intermediate rural using the OECD (1996) or national definitions. Amongst the regional case studies, the Irish BMW region is the least populated area, with 68 % of its inhabitants living in settlements with less than 1,500 people. In contrast, in Skåne less than 1 % of population live in areas classified as "sparsely populated".

Skåne is the second most densely populated county in Sweden. Table 1.2 summarises the importance of the respective region within each country in terms of area and population.

Table 1.2: Area and population in selected EU15 regions

	Year	Area		Population		Population density (persons/km^2)
		km^2	as % of country	persons	as % of country	
BMW (IE)	2006	33,032	47.0	1,132,090	26.8	34.3
Navarra (ES)	2005	10,391	2.2	593,472	1.3	57.1
Skåne (SE)	2006	11,027	2.7	1,169,464	15.0	106.0
Tyrol (AU)	2006	12,648	15.0	700,427	8.5	55.4
Altmark (GE)	2005	4,715	1.3	227,307	0.3	48.2

Source: Compiled from HUBBARD and WARD, 2007; IRAIZOZ, 2007; COPUS and KNOBBLOCK, 2007; HUBBARD and KAUFMANN, 2008; and WOLZ and REINSBERG, 2007.

Within the regions, however, population density is widely dispersed and uneven. Moreover, for all regions, the population of rural areas that are close to urban areas (which attract a significant number of in-migrants) has increased, while remote and peripheral rural areas, overall, continue to be threatened by net out-migration. For example, in Skåne there is a clear discrepancy between rural areas nearby urban centres (i.e. Malmö) and the coast where population levels have increased, and northern Skåne facing a declining population.

Over the years there have been some important changes in the population trends within each region. Most remarkable are, however, the increase of population in the BMW Region and decline in the German Altmark Region (Table 1.3). Although, population in Altmark decreased steadily even before the country's reunification, the trend accelerated after 1990. This is mainly explained by a low birth rate and net out-migration. The harsh economic conditions that affected the region after reunification led to the migration of a large share of (particularly young) people to West Germany. Overall, all regions are, like most of the EU, characterised by an ageing population, causing substantial demographic problems in the near future. Changes in population, across the regions, are due to a combination of demographic (e.g. declining birth rates, net migration), economic (e.g. employment opportunities and the provision of infrastructure) and social (provision of public services) factors.

Table 1.3: Population change before and following EU accession

Region	Population	% change
BMW		
- 1971	852,118	21.8
- 2006	1,132,090	
Navarra		
- 1981	507,300	16.9
- 2005	593,500	
Skåne		
- 1990	1,068,587	12.2
- 2006	1,199,357	
Tyrol		
- 1992	640,375	9.4
- 2006	700,427	
Altmark		
- 1990	261,175	-12.9
- 2005	227,307	

Source: Compiled from HUBBARD and WARD, 2007; IRAIZOZ, 2007; COPUS and KNOBBLOCK, 2007; HUBBARD and KAUFMANN, 2008; and WOLZ and REINSBERG, 2007; and http://www.scb.se/for Skåne region.

Table 1.4: Share of agriculture and services within regional economies

	BMW		Navarra		Skåne		Tyrol		Altmark
	1995	2004	1984	2004	1999	2005	1995	2005	2005***
Agriculture									
% of GVA	13.4	4.7	7.5	4.9	1.6	1.3	1.8	1.2	…
% of labour	17.0	12.4	14.0	5.3	2.4	2.0	…	1.2	5.2
Services									
% of GVA	50.4	63	55.0	56.0	60.9	80.8	69.2	70.1	
% of labour	35.0*	59.2**	47.9	55.7		82.0	…	70.0	69.0

Source: Compiled from HUBBARD and WARD, 2007; IRAIZOZ, 2007; COPUS and KNOBBLOCK, 2007; HUBBARD and KAUFMANN, 2008; and WOLZ and REINSBERG, 2007.

Note: GVA = Gross Value Added; * Authors' estimation, ** 2003 data, *** For the Altmark region no detailed figures were available from the time before accession (reunification). With respect to East Germany the shares of agriculture in Gross National Product and total employment were 10 % and 10.8 % respectively in 1989 (VON OERTZEN-HAUPT et al., 1991). It is assumed that the respective shares had been higher in the Altmark.

Despite the diminishing role of agriculture, both in terms of contribution to the regional Gross Value Added (GVA) and labour force, the sector still plays a part in selected regions. Table 1.4 highlights the general trend that the share of agriculture in regional employment and income has declined since accession. For the BMW, Navarra and Altmark regions, however, agriculture remains important in terms of employment.

Table 1.5: Agricultural land, number of farms & average farm size by countries and regions

Country/Region	UAA (1,000 ha)	No. of farms	Average size (ha/farm)
Ireland (2005)	4,307.0	133,000	31.8
BMW			
- 2005	1,936.0	70,000	27.6
- 1991	…	88,816	20.6
Spain (2005)	24,855.1	1,069,700	23.2
Navarra			
- 2005	588.6	17,790	33.0
- 1990	657.4	30,810	20.0
Sweden (2005)	3,216.8	75,808	42.4
Skåne			
- 2005	517.7	9,783	53.0
Austria (2005)	7,569.3*	189,591	39.9
Tyrol			
- 2005	1,222.6*	16,846	72.6
- 1995	1,189.9*	20,721	57.4
Germany (2005)	17,035.0	390,000	46.0
Altmark			
2006	275.0	1,600	211.0
EU15 (2005)	130,331.0	6,284,000	20.7

Source: Compiled from HUBBARD and WARD, 2007; IRAIZOZ, 2007; COPUS and KNOBBLOCK, 2007; HUBBARD and KAUFMANN, 2008; and WOLZ and REINSBERG, 2007.

Note: UAA = Utilised Agricultural Area. The UAA comprises total arable land, permanent pastures and meadows, land used for permanent crops and kitchen gardens. The UAA excludes unutilised agricultural land, woodland and land occupied by buildings, farmyards, tracks, ponds, etc.; * includes agricultural and forestry area and holdings.

Navarra, BMW and Altmark, post accession to the EU, have followed broadly a so-called *productivist* model of agricultural development (WILSON, 2001). ROBINSON (2004) argues that, according to this model, agriculture is subject to intensification, concentration and specialisation. Table 1.5 presents data regarding concentration. With the exception of Altmark, a severe drop in the number of farms and an increase in the average farm size occurred in all regions following EU accession. Overall, most affected were small-scale farms (e.g. less than 5 ha), which either exited the sector or were amalgamated into larger and more viable units. However, although gradual, the process of farm expansion differs from region to region and follows the development of various CAP changes.

For example, the reduction of the number of farms was initially very slow in Ireland (and BMW) as farm structure hardly changed for almost two decades following accession. This was mainly due to the specific characteristics of the Irish farming and landownership system, with land transferred from one generation to

another and a rigid and limited land market (LAFFERTY et al., 1999). This contrasts with Navarra where farm expansion was more pronounced, aided by a flexible land tenancy system which led to a significant increase in the area of rented land after EU accession. Nevertheless, the Spanish agricultural sector is still characterised by a dualistic farm structure[9] with a large number of small-scale (half of farms have less than 5 ha but account for 4 % of total agricultural land) and a small number of large units (10 % of farms have more than 50 ha and account for almost 70 % of total agricultural land).

Similarly regarding economic diversification in BMW, Navarra and Altmark, there is little evidence that agriculture acts as a lever for other economic activities; the overwhelming majority of farmers depends on agriculture for their livelihood. For instance, the share of farms with so-called Other Gainful Activities (OGAs), that are non-farm activities remains modest in BMW (3.7 % of total number of farms) and Ireland as a whole (4.5 % of total farms). The number of farms, which were engaged in OGAs is also low in Spain, where only 3.3 % of total farms were recorded as having OGAs in 2005 (BENOIST and MARQUER, 2007). While OGAs are very important for German agriculture in general, they are only of marginal relevance in Altmark. In these three case study regions, neither farms nor farmers have played a major role in the development of the non-agricultural rural economy.

As farm structure changed post-accession, so have land use and the structure of agricultural output. Fewer, larger farms led to specialisation and intensification of agricultural production. There was a clear shift from dairy to specialist beef farms in the Irish BMW region. The share of crop production, particularly cereals and horticultural products, has increased in Navarra's overall agricultural output whereas the contribution of livestock (particularly milk and eggs) has decreased drastically. Similarly, the share of livestock has decreased sharply during the 1990s in the Altmark. Arable production became increasingly dominant in Skåne after 1995.

Tyrol and, to a lesser extent Skåne, have followed a more *multifunctional* path. Farming is better interwoven into service activities and non-agricultural production and consumption. In Austria, particularly in Tyrol, agricultural diversification and other related activities such as food processing, direct sales or farm cooperation (contractual work) are very important. In Tyrol, almost two thirds of farmers have at least one OGA or secondary agricultural activities. Processing of agricultural and forestry products (e.g. cheese and wood) are the most important secondary activities. Similarly, rural tourism is an important source of OGA income. At least one in three holdings (34 %) with secondary activities was engaged in tourism. Contractual work is undertaken by around 30 % of farms with OGA, and most of the farms which engage in this activity cultivate more than 50 hectares.

[9] Dualistic farm structures can also be found in the NMS. This structure together with inflexible land sales and lease markets is considered a problem in the structural change of the agricultural sector.

Farm diversification is also significant in Sweden, where almost 30 % of total farm holdings have other gainful activities. In Skåne, in 2005, 21 % and 16 % of holdings were recorded as having OGAs directly linked and unrelated to agriculture, respectively. It is, however, important to note that both Sweden and Austria embraced, and were characterised by, multifunctional agriculture prior to EU accession. Both countries have a long tradition of farming combined with other activities and policy support for OGAs, such as farm tourism, emerged long before EU accession.

The presence of OGAs, however, did not prevent an accelerating downward trend in the number of farms in Sweden and Austria, post EU accession. The average farm size has increased. However, in Sweden a recent countertrend can be observed. In Skåne, as well in the whole country, the number of small farms (less than 5 ha) increased as the number of large farms (more than 50 ha) declined. The reason seems to be due to the incentives to claim single farm payments introduced by the Mid-term Review (MTR) in 2003 rather than an increase in those engaged in farming (COPUS and KNOBBLOCK, 2007).

1.2 Lessons and best practices

In this section, we will discuss, first, the major findings of the five case studies presented in Chapter 2-6. This will be followed by an analysis of the opinions of selected experts using the policy Delphi method.

1.2.1 Synthesis of the case study analyses

The case study evidence reveals that the economic performance in the regions has been closely tied to that of their respective nation state. The success in local rural development should be understood in the particular context of the national performance of each Member State. However, while external factors are important determinants, no region's trajectory has been due solely to exogenous factors. Similarly no region has been insulated from national or global trends or grown entirely due to internal, endogenous factors. There is therefore little evidence of purely exogenous or endogenous development. Rather it is the combination of both internal (endogenous) and external (exogenous) factors and their interplay which drives the development of these regions. This combination of endogenous and exogenous forces is consistent with neo-endogenous development theories (HUBBARD and GORTON, 2011a).

In all cases, EU membership, particularly the CAP and the Structural and Cohesion Funds[10] led to agricultural restructuring and significant socio-economic change

[10] To harmonize development and to strengthen economic and social cohesion the Structural and Cohesion Funds aim at the convergence of the poorest Member States and regions of the EU. The Structural Funds are made up by the European Regional Development Fund (ERDF) and the European Social Fund (ESF). The overall budget between 2007 and 2013 comes up to € 308 billion (in 2004 prices) of which about two thirds are devoted to ERDF. http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/newregl0713_en.htm.

in rural areas. However, the level and nature of change has varied from country to country according to specific economic, social, political and cultural conditions. Undoubtedly, the CAP remains critical. CAP Pillar 1 measures, such as price support and direct payments, remain important, and in general they account for the largest share of the EU funds allocated for agriculture. It is clear that price support and market interventions measures were more important before the adoption of the MacSharry reform in 1992[11] and countries such as Ireland and Spain, benefited fully from these measures. The introduction of compensatory (later on direct) payments shifted the balance within Pillar 1, and they have become the most important component of farm income across countries and regions. The significance of direct payments is unquestionable, particularly for small-scale producers who depend largely on these subsidies to make a living. However, there are differences in the distribution of direct payments by farm types and size across countries and regions and thus not all farmers benefit to the same extent.

CAP Pillar 2 measures, particularly agri-environmental schemes and Less Favoured Areas (LFAs) compensatory payments, are important for most of the countries and selected regions, as they also support farm income. In Austria and Sweden, the implementation of the agri-environmental programmes is extremely significant and they were considered as the most appropriate instruments following EU accession. Interestingly, the analysis highlights the importance of the Community Initiative Programmes, particularly LEADER[12]. Although, very limited funds were initially allocated for this Programme, in all countries and regional case studies, LEADER became popular and well received by most local communities. Its popularity led some countries, for instance Spain and Germany, to create similar national programmes (e.g. PRODER[13] in Spain and Active Regions in Germany). Table 1.6 summarises the main lessons of the case study regions, drawing on both the interviews and secondary research.

[11] The MacSharry reform replaced the guaranteed prices with a new system of direct payments of compensation to farmers if prices fell below a certain level. The reforms also offered compensation for farmers who pursued environmentally friendly practices.

[12] LEADER = *Liaison entre actions de développement de l'économie rurale* (Links between actions for the development of the rural economy).

[13] PRODER = *Programa de Desarrollo y Diversificación Económica de Zonas Rurales* (Programme promoting the development and economic diversification of rural areas).

Table 1.6: Major lessons with respect to rural development

Ireland & BMW	▪ creation of appropriate structures and institutions, to attract EU funds ▪ design and deliver appropriate National Development Plans & "*deliver what you say you will do*" ▪ a strong, sustainable and responsible capacity building ▪ a clear regional strategy to which the government is committed to ensure a *balanced* development at the regional level ▪ decentralisation of responsibilities and a broader involvement of local communities need to be fostered & encouraged
Spain & Navarra	▪ design and implementation of rural development measures should be based on a *territorial and integrated* approach with funds' allocation based on *needs* of rural areas ▪ larger implication of regional & local authorities & other local actors in the design & implementation of rural development plans (RDP) ▪ development of innovative initiatives & the intensification of participation of local entrepreneurs in the rural development process ▪ the need to invest in social capital – networking ▪ improvement of infrastructure, particularly transport and information technologies (IT) ▪ investing in human capital through education and training
Sweden & Skåne	▪ devolved rural development programming & implementation – a more flexible, regionalised framework allows more creative inputs from local actors ▪ integration of rural development in the broader national policy context - "policy culture and traditions" ▪ a balance between rural development measures in order to ensure a more integrated rural development ▪ the need to build into social capacity through a "bottom-up" involvement of local actors so to respond to regional variations

Table 1.6: Major lessons with respect to rural development (continued)

Austria & Tyrol	▪ the implementation of an integrated territorial approach, pluriactivity & the preservation of traditions, environment & cultural landscape are central for rural-agricultural development ▪ the need for a successfully facilitating administration which should start with a professional collaboration between the national ministries & regional authorities ▪ the role of an "institutional memory" based on trust, openness and professional attitude to facilitate a successful integrated regional and rural development ▪ involvement of both local stakeholders (bottom-up) and regional authorities (top-down) to develop & implement projects within programmes like LEADER and national/regional development plans ▪ a dual education system (agriculture & one additional profession) & continuing training of farmers
New German Bundesländer & Altmark	▪ need to design a regional development plan in a highly participatory manner to give the region a vision and guidelines for more detailed projects ▪ investing in social capital (networking) and a high local commitment & a partnership between authorities (government, social partners, entrepreneurs, non-governmental organisations at different administrative levels for joint policy development ▪ identify local and regional strengths and weaknesses ▪ how to attract (public) funds and understand/fulfil the (administrative) requirements of funders

Source: Compiled from HUBBARD and WARD, 2007; IRAIZOZ, 2007; COPUS and KNOBBLOCK, 2007; HUBBARD and KAUFMANN, 2008; and WOLZ and REINSBERG, 2007.

By way of summarising the statements in Table 1.6, it can be concluded that there is no unique model for managing structural change in the rural economy. There is no single determining factor of a region's economic trajectory. Rather the latter depends on the interplay between internal and external driving forces. While this is consistent with the neo-endogenous development theory (HUBBARD and GORTON, 2011a and 2011b), much of the economic development of these rural regions is not necessarily in line with the spirit of the theory. No doubt, local actors are decisive in promoting regional development; nevertheless, they will only be successful if they can rely on outside (i.e. national and EU) support. This requires policies to enhance local (institutional) capacity and actors' participation, to mobilise internal resources and cope with the external forces to best meet local needs. The dynamic and meaningful participation of actors in local and external networking is of utmost importance. The findings of the case studies show that making the most of EU membership requires an understanding of funding systems and retention of such knowledge – "institutional memory". Linked to this is the setting up of

appropriate EU structures and institutions which act in accordance with the interests of the region and are able to attract the EU funds. In the following part we focus on the major actors planning and implementing rural development policies, and how they act at the local level and perceive success.

Players/stakeholders

Rural areas are rather heterogeneous entities resulting in differing objectives and problems. Hence, it is difficult to implement a clear-cut policy for a whole country, let alone for the whole EU. In general, the development of rural areas is influenced directly and indirectly by a number of policy domains. Policy domains with direct influence are, particularly, agricultural policy, regional policy, environmental policy, nature conservation, and transport policy. More indirect effects on the development of the countryside can be noticed in the field of taxation and finance, regional planning, service and education, as well as social and employment affairs (SCHUBERT and TODT, 2000).

In addition, as a characteristic feature for all pluralistic societies, there are a number of important actors when it comes to the design, financing and implementation of rural development initiatives. The most relevant actors in this field are public administrations at national, regional, district and local levels. These comprise the various national ministries and regional and district authorities, i.e. civil servants and elected representatives. Besides the public administration and political parties there are a number of specialised associations and self-help groups which are representing, at least, parts of the rural population.

In all the studied cases, farmers are relatively well organised. However, their focus used to be only on agricultural issues. This attitude is slowly changing. Their sister organisations, i.e. the Rural Women Unions and the Rural Youth Unions have always focused on rural issues in general. In addition, there are a large number of voluntary organisations focusing on cultural, social and professional issues, particularly those organising rural (non-farm) entrepreneurs. During recent years non-governmental organisations (NGO) working in the fields of environmental protection and nature conservation have become more relevant. Their objectives sometime coincide but often contradict those of the farmers. In addition, in some countries, the Churches and their affiliated organisations are providing much needed services to rural inhabitants. Often they are very important actors but do not understand themselves as voices for rural issues. In general, agricultural actors are better organised and enjoy more formal representation than non-agricultural interests. An interesting exception is Sweden. Already by the late 1980s, when rural development problems became more evident, the government actively encouraged the creation of village action groups (as voluntary organisations) to promote rural and community development. Up to now, there are about 4,400 groups spread across the country. This movement is part of the social economy in rural areas. In addition, a Rural Parliament (*Landsbygdsriksdagen*) was established and is held every

second year with representatives from the rural areas. This parliament acts as the spokesperson for rural development issues (COPUS and KNOBBLOCK, 2007).

At the local level the main players are people organised in the branches of these associations and political parties. In addition, interested private individuals might contribute to the decision-making process on a voluntary basis. Local people and administrations are supposed to implement rural development activities and to benefit from them. It is no secret that the objectives of the local players among themselves but also with respect to the players at higher levels do not necessarily coincide. The case studies show that professional collaboration is required between the national ministries and regional authorities to elaborate integrated, focused, and pragmatic national development plans, which can then be adapted to regional circumstances. Besides that, at the regional level, involvement of both local stakeholders (bottom-up) and regional authorities (top-down) to develop and implement projects within programmes like LEADER and deliver programmes laid down in national and regional development plans is of utmost importance. At the local level, people have to develop a vision for their respective regional entity which fits with regional and national targets.

Principles of operation

In order to promote sustainable rural development programmes the different actors have to observe certain criteria to be successful. A major finding of the case study reports is that partnerships and social networking at horizontal and vertical levels are essential for successful rural development. On the one side, a partnership with the authorities at different levels is considered an important asset by local actors. This networking is a time-consuming process. On the other side, it is vital that the local actors agree to collaborate in drafting a joint regional development concept, i.e. that the local actors speak in one voice and do not promote competing projects. Therefore, representatives of the local communities, various associations and political parties have to be brought together. All regional planning activities have to be based on joint discussion and partnership and, finally, all projects have to be in line with a joint development concept.

For example, in the Altmark region, a regional planning unit was established during the early 1990s which coordinated all planning activities of the two districts. It was funded by external funds but also by the respective district budgets. Due to positive, past experiences and in order to strengthen this process, the Regional Planning Association (RPA) was legally registered in September 2007. Besides the two districts all relevant political, economic, environmental, cultural and social associations of the region are members. In this way, the informal process was formalised over time. The RPA provides an excellent platform for bringing all important actors together. In addition, the general public is regularly informed through the press. But there are also regular public meetings where interested individuals are invited to present ideas and to collaborate. Similarly, the RPA acts as a platform to finalise the Regional Development Concept which states the vision

and objectives of the region. All programmes and projects have to fit to the overall objective of the Regional Development Concept (WOLZ and REINSBERG, 2007).

Successful development often depends on strengthening the linkages between agriculture and the rest of the regional economy to increase value added. This may be in the form of rural tourism, food processing or innovative products and services such as bio-energy. While some of these developments occur due to dynamics within specific industries without much public intervention, others require external assistance to mobilise local actors and to develop "the region" along certain guiding visions, which then also feed back into a regional identity that helps mobilise the local population.

Regional actors agree that their most important asset is the close cooperation among themselves. There has to be a permanent exchange of information and ideas. Everybody in a decision-making position has to know each other in the respective region which might be not so easy depending on its size. Informal meetings strengthen among all actors the commitment that they have to think and act not only along their specific tasks or sectors, but also must have the spatial dimension in mind. The regular exchange of ideas among people who professionally do not interact at all, is seen as a value in itself. Very often these meetings result in linking various programmes so that the overall benefit can be increased, e.g. linking publicly financed employment programmes with a village renewal programme ("synergy effects"). Evidently, there is some competition, e.g. among the various actors, about development priorities, but once decided they all collaborate to present the joint development concept to the population and higher political and administrative levels.

In general, rural actors were rather positive about the EU programmes. These programmes gave focus and accountability to policy measures which were not there before. In the delivery of programmes and measures, it often paid off to combine administration with responsibility for content and to avoid parallel structures in the localities wherever possible and ensure a pragmatic implementation. In addition, it had been emphasised that the implementation will be smoothened if the key personnel stays for a longer period in their positions to build up trust, openness and professional attitude among all relevant stakeholders. Such an "institutional memory" is seen to be a key for new EU Member States to facilitate a successful integrated development of their regions and agriculture.

Similarly, the LEADER approach is evaluated positively. It was well received as it encouraged local initiative and local participation in rural development programmes. However, the Austrian experience shows that lessons had to be learnt as, initially, the development was too much bottom-up. This resulted in some unused potential and unnecessary duplication between localities.

Some problems, however, persist and the case study reports highlight that planning and implementing rural development activities is still a learning process which has to be steadily improved over time. One negative aspect is the high

level of bureaucratization that means that many actors who benefit from the support policies, like local action groups, local and regional authorities, need to spend a lot of time in meeting minor requirements and solving administrative questions, instead of dedicating their time to more productive project tasks. Similarly, the communication process among the various actors is not always running smoothly, which might delay the start and execution of activities. Finally, some local actors still regret the relatively low participation rate and interest of the rural population in local development measures. They are constantly looking for approaches as to how the rural population can be better motivated to become involved in planning and implementation.

Dilemma

The regional actors admit that they have to follow a certain balancing act. On the one hand, they want to develop regional programmes and set their own priorities. On the other, they have to meet certain guidelines and conditions which are decided at higher levels (national governments or the EU). Due to their own limited tax base, regional actors almost completely rely on national and EU funds when implementing rural development activities. The focus of rural development activities would often be different if no national and EU criteria had to be observed and/or if they were entirely funded from their own sources. All regional actors agree that meaningful rural development requires some external funding. Therefore, it is vital to show that one has a good concept that meets the guidelines of external funding organisations. "Success" depends in the first step on attracting external funding. In the second step rural regions need to show that these funds (including own funds) lead to economic development in line with their stated or general objectives. Access to external sources is an important "glue", keeping the regional groups together, particularly at the beginning. Although, their local tax base is too small at this stage, regional actors hope to become less dependent from external funds over time.

1.2.2 Experts' assessment using the policy Delphi approach

The lessons drawn from the first phase of analysis were verified and refined using a policy Delphi approach[14]. This approach involves the systematic collation and analysis of expert judgments on a particular topic (TUROFF, 1970). There are four key features: respondents are experts in a particular field, responses are anonymous, data collection proceeds as a series of rounds (iterative process), and feedback on the views of others is provided to participants. Based on the lessons drawn from the case studies, a Delphi questionnaire was devised and pre-tested. In a first round, the 39 involved experts from the case study regions were asked to complete the questionnaire. To assess this finding another 45 experts from five NMS, i.e. Bulgaria, Hungary, Poland, Romania and Slovenia, were asked to complete the same questionnaire. The involvement of these experts allows for an

[14] This part refers heavily on HUBBARD and GORTON (2011b), pp. 69-75.

assessment of whether lessons drawn from established Member States can be transferred easily to the NMS. In a second round of the Delphi, all respondents received a summary of the first round and had the opportunity to alter their opinion in light of the joint feedback. Data collection (first and second rounds) occurred in 2009-2010.

Experts were asked to rate on a Likert-scale from 1 to 5 (where 1 = not important at all and 5 = very important) the importance of a set of potential factors that has influenced economic development of rural areas in their country and region since EU accession. The factors were derived from the five case studies discussed above. Table 1.7 reports the mean scores for the total sample as well as the respective figures for experts from EU15 and the NMS respectively. Cases of statistically significant differences between EU15 and NMS experts are noted (using an F-test).

Table 1.7: Importance of factors influencing rural development in rural areas according to experts

	EU15 Mean	NMS Mean	Mean for total sample	F-test
Infrastructure development	3.97	4.07	4.03	
CAP Pillar 1: Direct payments	3.66	4.11	3.91	
National economic growth	3.77	4.00	3.90	
CAP Pillar 2	3.83	3.96	3.90	
Local initiative and small businesses	4.06	3.76	3.89	
Quality of labour force	3.86	3.84	3.85	
Demographic change (e.g. migration, ageing)	3.69	3.70	3.70	
Regional strategy	3.74	3.51	3.61	**
Social capital (networking/cooperation)	3.80	3.47	3.61	
Access to the EU Single Market	3.51	3.40	3.45	*
Economic growth in country's main urban areas	3.17	3.61	3.42	***
Natural (resources) endowment	3.37	3.44	3.41	
CAP Pillar 1: Market support	3.34	3.44	3.40	
Attractiveness of environment and countryside	3.60	3.22	3.39	**
Globalisation and knowledge economy	3.14	3.11	3.13	**
Foreign direct investment	2.74	3.40	3.11	

Source: HUBBARD and GORTON, 2010, p. 9.

Notes: * Significant at 10 % level, ** Significant at 5 % level, *** Significant at 1 % level.

Overall, infrastructure development is perceived to be the most significant factor influencing the development of rural areas. The other most important factors are CAP Pillar 1 direct payments, CAP Pillar 2 and national economic growth. NMS experts consider that, with a score of 4.11, CAP Pillar 1 direct payments are

most influential in rural development. In contrast, EU15 experts rated "local initiative and small businesses" highest (with a score of 4.06). Only five factors present statistically significant differences: "economic growth in country's main urban areas", "regional strategy", "globalisation and knowledge economy", "attractiveness of environment and countryside" and "access to the EU Single Market". Amongst these statements the "economic growth in country's main urban areas", and "attractiveness of environment and countryside" are noteworthy. For the former, NMS experts scored 3.61 as opposed to 3.17 for EU15, whereas for the latter EU15 experts scored 3.60 as opposed to 3.22 for NMS. Regional strategy was also rated higher (3.74) by EU15 than NMS (3.51).

Overall, for the entire sample, no factor scored less than 3. This means that all the factors identified in the first phase of the research, that is during the study of the case regions, were considered by the NMS experts as at least moderately important for the development of rural areas. Notably across all factors is, however, the importance of "infrastructure development". But, experts from NMS and EU15 seem to differ to some extent in the priority of the most important factors. While experts from the NMS seem to value economic factors, e.g. economic growth, direct payments or foreign direct investments as very decisive, their colleagues from EU15 highlight the more intangible factors, like local initiative, social capital or attractiveness of the countryside.

In addition, experts were asked to record the extent to which they agree or disagree with a set of propositions on managing rural development. Answers were given on a five point Likert-scale (1= strongly disagree, 5 = strongly agree). Table 1.8 reports the mean scores for the total sample and the respective figures for EU15 and NMS experts. It is surprising that experts from both regions agree with respect to priorities although to a different degree. If scores of 4 or over indicate agreement, all experts encourage the "participation of local entrepreneurs in the rural development process", agree that "rural development policy should be embedded within a clear regional strategy" and "local stakeholders and regional authorities should be involved in the development and implementation of projects (e.g. LEADER)". The "design and implementation of rural policy should be based on a territorial approach" and the "responsibilities for planning and implementation should be decentralised to the regional level". "A considerable share of rural funds should be invested in human capital through education and training in rural areas" and there should be a "more balanced distribution of funds between agricultural and non-agricultural measures".

Table 1.8: Agreement with statements regarding rural development policy

	EU15	NMS	Sample mean	F-test
Participation of local entrepreneurs in the rural development process should be encouraged	4.74	4.18	4.43	***
Rural development policy should be embedded within a clear regional strategy	4.66	4.22	4.41	**
Local stakeholders and regional authorities should be involved to develop and implement projects, such as with LEADER	4.51	4.02	4.24	**
Design and implementation of rural policy should be based on a territorial approach	4.46	4.07	4.24	**
Responsibilities for planning and implementation should be decentralised to the regional level	4.14	3.91	4.01	
A considerable share of rural funds should be invested in human capital through education and training in rural areas	4.03	3.91	3.96	
Rural development policy should ensure a more balanced distribution of funds between agricultural and non-agricultural measures	4.26	3.56	3.87	***
A lack of social interaction/networking constrains rural development in my region; social capital should thus be improved at all levels	3.26	3.89	3.61	***
Capacity building is weak in my region and should be enhanced at all levels	3.34	3.64	3.51	
New regional structures and institutions capable of attracting, administering and monitoring EU funds should be created.	2.97	3.14	3.06	
New national structures and institutions capable of attracting, administering and monitoring EU funds should be created.	2.26	2.73	2.53	*

Source: HUBBARD and GORTON, 2010, p. 11.

Note: * significant at 10 % level, ** significant at 5 % level, *** significant at 1 % level.

With the exception of four statements, there are statistically significant differences in the ratings of experts from the NMS and EU15. The exceptions are: the "responsibilities for planning and implementation should be decentralised at the regional level"; "investment in human capital through education and training in rural areas", "enhancement of capacity building at all levels" and the "creation of regional structures and institutions capable to attract, administer and monitor EU funds". These results may be unsurprising given that during the interviews with experts from the EU15 these statements came out clearly as being important.

Amongst the statements for which there are statistically significant differences between the two groups of experts, the scores for "rural development policy should ensure a more balanced distribution of funds between agricultural and non-agricultural measures" and "a lack of social interaction/networking constrains rural development in my region; social capital should thus be improved at all

levels" are noteworthy. For the first statement, NMS experts scored much lower (3.56) than those from EU15 (4.26). For the second statement, it is the other way around, 3.89 for NMS and 3.26 for EU15. In addition, the statement "participation of local entrepreneurs in the rural development process should be encouraged" showed a statistically significant difference although it scored highest for both groups, particularly for the EU15 (4.74 – the highest mean). It seems that experts of NMS are more focused on the agricultural sector itself while experts of EU15 are also looking at the non-agricultural side of rural development.

Interestingly, the lowest scores allocated by both NMS and EU15 experts were for the creation of "new *national* structures and institutions capable of attracting, administering and monitoring EU funds" and the creation of "new *regional* structures and institutions capable of attracting, administering and monitoring EU funds". This is rather surprising given that during the interviews, particularly with experts from Ireland, Austria and Germany, this emerged as an important lesson. We suggest that experts were more thinking of strengthening existing structures than of setting up completely new ones from scratch. Overall, it can be concluded that with the exception of these two lessons, mean scores were well above 3. This implies that although there may be differences in emphasis between the NMS and EU15 experts, overall they "agree" or "strongly agree" with the lessons identified in the first stage of the research.

1.3 Conclusions and recommendations

In this chapter we comparatively analysed rural development in five presumably "successful" EU regions: Borders, Midlands and Western Region (Ireland), Navarra (Spain), Tyrol (Austria), Skåne (Sweden) and Altmark (East Germany), covering developments from the time of the respective accession up to 2006. One of the major lessons seems to be the fact that there is no single model for rural development within the EU. Its design and focus depend on the economic, social and demographic factors of the respective area. While access to financial resources is very important factor of influence, it is of limited impact without the integration and participation of the local population.

The findings show that all selected regions experienced a substantial decline of agriculture's contribution to employment and economic activity. Similarly, it is shown that with the exception of the special development in East Germany after reunification rural areas have become important spaces of non-agricultural economic activity in their own right. Rural development planning and financial support play an important role in the development of rural areas. But the public support to the agricultural sector is disproportionate to its importance to the rural economy as a source of employment and income (MATTAS et al., 2011). We suggest that policies focusing on agriculture alone can no longer provide a long-term sustainable strategy for rural areas (BLACKSELL, 2010).

The importance of the CAP to *agricultural livelihoods*, however, should not be downplayed. Direct payments make a significant contribution to farm income in all regions, especially in Ireland, Spain and East Germany. Nevertheless, farm incomes have not kept pace with rises in real incomes for non-agricultural occupations despite substantial political support by way of income transfers. Strategies for maintaining the viability of farming cannot solely rest on public support, but must also embrace, as recommended by MARSDEN and SONNINO (2008), mechanisms for reconnecting with consumers in ways that add value.

While the set up of the Second Pillar can be seen as an opportunity to focus more on broader rural development issues, still many argue (e.g. GROCHOWSKA and KOSIOR, 2008) that its role is marginal in terms of funding, and that it rather acts principally as an indirect source of subsidies for farmers. Indeed, although an increase in the importance of Pillar 2 is evident in recent years, the share of the total CAP budget allocated for rural development remains less than 20 %.

Based on our analysis the recommendations for the NMS can be summarised as follows. The design and implementation of rural development policy measures should be based on a devolved, territorial but integrated approach, with funds allocated according to regional needs. This requires policies to enhance social interaction and networking (social capital) at all levels, both horizontally and vertically. In addition, policies should encourage investment in human capital through education and training, particularly in rural areas. A dynamic and meaningful participation of actors in intra-regional and external networking is critical. Thus institutional capacity and local actors' participation (from both private and public sectors) should be nurtured to mobilise internal resources and cope with external forces in a way in which best meets local needs. This will involve programmes such as LEADER. Making the most of EU membership requires an understanding of funding systems and the creation of appropriate national and regional structures and institutions capable of attracting, administering and monitoring EU funds.

There is a need to improve the ability of both central and local authorities to prepare, select and implement projects, particularly encouraging the development of public-private partnerships as most EU projects require co-financing. In many NMS, local institutional capacity and actors' participation remains weak, particularly in rural areas. One problem in the NMS has tended to be excessive turnover of administrative staff linked to the politicisation of the civil service. This has impeded the development of a supportive "institutional memory".

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Chapter Two

DEVELOPMENT OF SOCIO-ECONOMIC AND AGRICULTURAL STRUCTURES IN IRELAND AND THE BORDER, MIDLAND AND WESTERN REGION AFTER EU ACCESSION

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The Irish rural economy has changed dramatically since accession to the European Economic Community (EEC) in January 1973 and there is little doubt that the Common Agriculture Policy (CAP) has played a pivotal role in the process of adjustment (WALSH, 1995). Prior to joining the EEC Ireland was a poor, agricultural economy at the periphery of Europe, heavily dependent upon trade with the United Kingdom (UK). On the eve of accession, agriculture's contribution to the economy as a whole accounted for almost 20 % of the Gross Domestic Product (GDP) and 24 % of the total labour force. It was not, however, until 1994, that Ireland's economy experienced a spectacular transformation and became what is labelled the "Celtic Tiger". Although the Irish economy has plunged into a recession since 2007 following the contraction of its construction sector and the world financial markets, the economic miracle experienced during the 1990s cannot be neglected. This chapter focuses on the socio-economic and agricultural changes in rural Ireland, particularly in the Border, Midland and Western (BMW) region covering the period from 1973 to 2006.

2.1 The macroeconomic context 1973-2006

Ireland's economy has experienced a spectacular transformation since the 1990s as it has moved from one of Europe's poorest Member States to one of the most affluent. Its economic progress is attributed to a combination of internal and external factors which acted in a favourable environment (OECD, 1999; DORGAN, 2006), and not to a lesser extent to a range of national polices changes that laid

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the foundations for the economic progress. Moreover, it is the EU membership and the Single Market and the substantial financial resources transferred from Brussels which were vital for the economic progress of Ireland, and implicit for the transformation and development of rural areas.

Ireland joined the EEC in January 1973, together with the UK and Denmark, as part of the first enlargement. This followed two unsuccessful attempts in the 1960s when France refused to endorse proposals for British and Irish accession. Radical changes in policies (e.g. from protectionism to free trade), and an encouraging economic transformation that took place during the 1960s (known as the Irish "golden age") had a positive impact on the Irish population with regards to accession. Thus, joining the Community was seen by many as a means of increasingly opening Ireland's economy and overcoming its economic dependence on the UK. Moreover, because agriculture was playing a very important role within the economy as a whole (e.g. 24 % of the total labour force was employed in this sector, almost twice the EEC average), the prospect of subsidy inflows for Irish farmers, as a result of the adoption of the CAP, amplified interest in and support for accession (DORGAN, 2006). In May 1972, more than 80 % of the Irish electorate voted in favour of membership (GALWAY EURO INFO CENTRE, 2006).

In 1973 Ireland's population was just over three million people. By 2006, the number of inhabitants had increased by 42 %, reaching over 4.2 million people. Over the same period rural population has continued to decline steadily from 48 % to 39 %. The demographic changes follow somehow the pattern of changes within the economy as whole. In the first decade following accession, population increased by 432,000 (or 14 %), followed by a stagnation during the 1980s. Between 1997 and 2006, the population rose by almost 16 %, the second highest rate of increase in the EU27, after Cyprus (CSO, 2007a). Economic and political changes have also influenced the structure of population over the years. Ireland's population is young, with the age group 65 years and over accounting only for 11 % of total population. The average life expectancy is 77 years, increasing from 69 years in 1973 to 75 years in 2004 for men and from 74 years to 80 years for women (Table 2.1). The fertility rate, the second highest in the EU after France, was almost 2 in 2005 compared to that of the EU25 of 1.5 (CSO, 2007a).

Despite immediate benefits for agriculture following EEC membership, the Irish economy still struggled for almost two decades after accession. Although growth averaged 4 % a year between 1974 and 1985 (CEC, 1999), this was accompanied by relatively high rates of inflation and unemployment and Ireland was particularly hit by the oil crises of 1973 and 1979. Additionally, free trade with continental Europe highlighted how sections of Irish industry were uncompetitive (SWEENEY, 1999), and high unemployment and industrial restructuring fuelled a large wave of emigration which reached 50,000 people per year in the early 1980s and particularly featured young people leaving. Inflation and unemployment returned to double figures. The general government debt reached its peak of 118 % of GDP in 1987, and the budget deficit averaged over 12 % (OECD, 1999). Economic

difficulties led also to political instability. Three general elections took place in less than two years (1981-1982) but successive governments failed to rectify the economy.

Table 2.1: Demographic indicators, Ireland, 1973-2003

	1973	1978	1983	1988	1993	1998	2003	2004	2006
Population ('000)	3,073	3,314	3,505	3,535	3,563	3,703	3,979	4,044	4,235
Life expectancy									
- male	68.8	69.5	70.1	71.0	72.3	73.0	75.1	74.7	76.8
- female	73.5	75.0	75.6	76.7	77.9	78.5	80.3	80.2	81.6
Birth rate/1,000	22.5	21.2	19.1	15.4	13.8	14.6	15.5	15.3	15.4
Death rate/1,000	11.2	10.3	9.4	8.9	9.0	8.5	7.2	7.1	6.7

Source: CENTRAL STATISTICS OFFICE, 2007a.

Fianna Fáil, the party largely responsible for the excessive and misguided public expenditure during the 1970s, was re-elected in 1987. Learning from previous mistakes, back into power it embarked on a more austere economic strategy. A sound financial discipline, based on sharp cuts on public expenditure and a gradual reduction of public deficit, was the first step towards progress (DORGAN, 2006; WALSH, 2001). In addition, the adoption (in 1987) of the national social partnership agreement (The Programme for National Recovery), involving decision-makers, trade unions, farmers and employers proved crucial and "of lasting value" (DORGAN, 2006). The Programme stressed the importance of a sound fiscal policy as the "key to putting the economy back on the path to long-term sustained economic growth" (PNR, 1987, p. 9). It stipulated that a "low inflation rate was essential for increased competitiveness and economic viability" (p. 9). This was to be accompanied by moderate reductions in direct income tax and a monetary policy that will bring interest rates to a competitive international level. The Programme also referred to sensible rises in wages (at a level not exceeding 2.5 % p.a.) but with a particular focus on the lower paid workers. Enhancing education and improving access to social welfare, health, and housing were also prime objectives. All these measures had a positive effect not only on the economy as a whole but on the political stability of the country. From 1987, economic trends began to improve and the economy boomed from the mid-1990s onwards (Table 2.2).

Table 2.2: Real GDP growth (% change on previous year), Ireland, 1996-2006

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Ireland	8.3	11.7	8.5	10.7	9.4	5.8	6.0	4.3	4.3	5.5	6.0
EU15	1.7	2.6	2.9	3.0	3.8	1.9	1.1	1.2	2.3	1.6	2.8
EU27	1.8	2.7	2.9	3.0	3.9	2.0	1.2	1.3	2.5	1.8	3.0

Source: HUBBARD and WARD, 2007.

Between 1995 and 2000, real GDP increased by three-quarters, with average annual growth rates of almost 10 %, compared with only 2.8 % for the EU15. Rates of employment increased significantly and unemployment dropped. The boom was primarily a result of high levels of inward investment in high-tech industries and in services, and favourable (corporate) tax rates which attracted leading companies in Information and Communications Technology (ICT), Software, Pharmaceuticals and Medical products. Nine of the 10 biggest pharmaceutical companies and 12 of the world's top 15 medical products firms are present in Ireland (DORGAN, 2006). Additionally, Ireland relied tremendously on a young educated and highly-skilled workforce, flexible and quickly adaptable to new challenges (IBID). In 2005, labour productivity, measured as GDP per person employed, was the second highest in the EU27. If, in 1991, Gross Value Added (GVA) per capita in Ireland was 76 % of the European average, it rose to 99 % by 1995, 132 % by 2000 and 142 % by 2004. By 2006, Ireland recorded the second highest GDP per capita within the EU27, after Luxembourg.

2.2 Agriculture and agricultural policy, 1973-2006

Ireland took its first steps towards economic progress a decade before accession when it advocated free trade and encouraged foreign investment and education. These had significant effects on the development of agriculture and rural development, e.g. an increase of land productivity, a decline of the agricultural labour force, a rise in tourism, forestry and fisheries activities. However, at the time of accession, agriculture was still at the core of the economy. Ireland joined the EEC at a time when more than 80 % of total Community budget was allocated to agriculture. As farming contributed significantly to the economy as a whole, the adoption of the CAP with its high prices and market support for commodities and the opportunity of trading on a larger market were seen as essential for the transformation of the sector. Farming remained very important for the Irish economy until 1989, when its contribution to the GDP was still around 10 %. As the economy thrived, the role of agriculture diminished. In these days, the sector contributes 2.3 % of the GDP and 5.4 % of the labour force (CSO, 2010).

2.2.1 Land use

Ireland's land area accounts for 6.9 million hectares, of which 4.2 million (61 %) is Utilised Agricultural Area (UAA) and 737,000 hectares (11 %) is forestry. Some 91 % of total UAA is used for crops that sustain the livestock sector, mostly pasture and silage (Table 2.3). Despite a declined by 25 % of total UAA between 1980 and 2006, the structure of land use has remained almost constant. The exception is silage, which increased by 58 %.

Table 2.3: Land use, Ireland, 1980-2006 ('000 hectares)

	1980	1991	1995	2000	2004	2006	% change 2006/1980
Pasture	2,929	2,249.4	2,237.9	2,218.1	2,218.1	1932.7	-34.0
Silage	0.0	764.7	933.6	1,074.7	1,020.4	1211.2	58.4*
Hay	1,212.8	394.1	357.2	242.6	189.0	264.6	-78.2
Rough Grazing	1,008.0	641.9	459.5	506.5	453.5	471.5	-53.2
Cereals	444.8	301.6	273.8	279.0	310.2	279.8	-37.1
Others	109.8	90.1	126.5	122.2	113.8	100.7	-8.3
Total UAA	**5,704.4**	**4,441.8**	**4,388.5**	**4,443.1**	**4,305**	**4,260.5**	**-25.3**

Source: CENTRAL STATISTICS OFFICE, 2007c; * change 2004/1991.

2.2.2 Livestock and livestock products

Ireland's geography and climate offer perfect conditions for livestock, particularly beef and dairy. This sector has a long tradition and a large contribution to agricultural output. Until 1996, beef was the largest contributor to the sector, but the Bovine Spongiform Encephalopathy (BSE) crisis and the loss of foreign (e.g. the collapse of Russian) markets led to a significant fall in the following years (LAFFERTY et al., 1999). From 1996, the milk sector was the biggest contributor to the Irish GAO. In 2006, milk and dairy products accounted for 38 % of total output, and beef for 33 %, as opposed to only 7 % for cereals (DEPARTMENT OF AGRICULTURE, FISHERIES AND FOOD, 2007). Ireland's cattle and milk products contribute by 8.6 % to the total value of EU25 gross agricultural output (GAO) and by 10.4 % of the EU15 GAO (based on CEC, 2005).

Clearly, there has been significant structural change in the Irish livestock industry since accession. The number of cattle holdings has almost halved from 230,100 in 1973 to 122,600 in 2005. At the same time, average herd size has increased from 28 to 61. The average dairy herd size has increased more than four-fold from 10 to 45 cows and milk yields per cow increased from 2,600 litres per cow in 1973 to 4,600 litres in 2002 (CSO, 2007c, DEPARTMENT OF AGRICULTURE AND FOOD, 2006).

The contribution of sheep to GAO has remained relatively steady at just under 4 %, while the contribution of pigs has gradually declined from 10 % to 6 %. Nonetheless, both sectors have experienced significant changes over the years. For example, although less popular during the 1970s, the creation of the Common Market for sheep (and goat) meat and the introduction of sheep annual ewe premia in 1980, made this enterprise more attractive for Irish farmers. The BSE scare had also had a positive influence, as consumers' demand shifted towards other meats, particularly sheep, poultry and pigs (BINFIELD et al., 1998). Between 1980 and 1992, the number of sheep farms rose by 20 % (from 45,000 in 1980) and

the average size of flock increased from 73 to 162 (LAFFERTY et al., 1999). Hence, by 1992 the number of sheep rose to 6.1 million. From 1998 the national flock has declined steadily at an average of 2.5 % per year, and by the end of 2005 it reached 4.3 million. Most of the sheep farms are located in the South-East, followed by the West and Border regions.

The pig sector has also a small contribution to the GAO, e.g. 6 per cent in 2005. As a relatively unsupported sector, it experienced considerable structural changes over the years. Various reasons could explain these changes, such as economic factors (e.g. price changes, loss/gain of markets and consumers' income) and health crises (e.g. BSE or swine fever). With the exception of a short period (1985-1987) when the pig herd suffered a small decline, the number of pigs increased gradually following accession and by the end of 2005 it accounted for 1.7 million. Typically, pigs were reared on a very small scale but on a large number of farms, with most farms keeping just one or two animals (LAFFERTY et al., 1999). Over the years, as technology improved, the production system has transformed, from very extensive to a very intensive one. As a consequence, the pig sector has become highly commercially specialised, animals being reared by a reduced number of very large scale holdings. In 1973 the number of pig farms accounted for 35,700 with an average size of 29 animals, but by 1987 the number of holdings represented only 4,800 with an average size of 200 animals. The dramatic decline continued during the 1990s, and the official statistics records some 800 pig farms with an average size of 1,979 animals by 2005 (CSO, 2007c).

2.2.3 Crop sector

Traditionally, due to soil and climate conditions less favourable to crops, arable farming has played a minor role within the Irish agricultural sector. Only 10 % of the total agricultural land is used for cereals, potatoes and sugar beet, fruits and vegetables. Amongst cereals, barley and wheat are preferable. Barley is mainly used for malting within breweries and distilleries and feeding. However, the production of barley and wheat shows a very oscillatory evolution with a high increase between 1977 and 1984, followed by a fall until 1990-1991.

Since the mid-1980s, the acreage under barley and wheat seem to converge. In 1980, 82 % and 12 % of total cereals area was allocated to barley, and wheat respectively; by 1997 the percentages changed to 61 % and 30 %. LAFFERTY et al. (1999) estimate that, between 1980 and 1991, total area under wheat increased at an average annual rate of 6 %, whereas area under barley declined by an average of 4 % per year. A number of factors have concurred to this situation, e.g. lower prices for some cereals (between 1986 and 1990 the price of cereals declined by 16 %), adverse weather conditions, and a competitive price for other cereals (WALSH and GILLMOR, 1993). Currently, 59 % of total area under crops represents barley and 34 % wheat. Vegetable output has steadily increased, between 1985 and 2005, while potatoes production has fallen for the same period. As well as livestock, crops production tends to be concentrated on specialised larger arable farms

located in areas where the soil and climate conditions are more favourable, e.g. East and South (LAFFERTY et al., 1999).

2.2.4 Farm structure

Structural change has been a constant feature of Irish agriculture since accession, but has accelerated notably since the mid-1980s. For example, the total number of farms fell by just 3.4 % between 1975 and 1985, but then by 32.6 % between 1985 and 1995 (Table 2.4). The slow process of farm restructuring which characterises the first decade of Ireland's EU membership was mainly due to the specificity of the Irish landownership system. As land was transferred from one generation to another it led to a rigid land tenure system with "a virtual absence of long-term leasing and a limited scale of land market" (LAFFERTY et al., p. 16). As the reduction of the number of farms accelerated, the average Irish farm size has constantly increased, reaching 31.8 ha in 2005 (e.g. a 22 % rise as compared to 1991). The average farm size, however, varies considerably across the regions, from 24 ha in the West to 41 ha in the South-East (CSO, 2007c). The decline has been most marked in the smallest size categories of farms (WALSH and GILLMOR, 1993). Farms of less than 30 ha made up 63 % of all farms in 1975, but less than 44 % in 2005. Within this category, the farms of less than 5 ha drop from 15 % of all farms in 1975 to less than 7 % in 2005. In contrast, the share of farms with 50 ha or more doubled (from 9 % in 1975 to 18 % in 2005). Changes in farm structure led overall to concentration, specialisation and intensification of agricultural production. Beef production has remained, however, the most important sector within the Irish agriculture, and this has changed little since 1991.

Table 2.4: Number of farms by size category, Ireland, 1975-2005 ('000s)

	Total	Av. size (ha)	< 5 ha	5-10 ha	10-20 ha	20-30 ha	30-50 ha	50-100 ha	≥ 100 ha	% Change
1975	227.9	22.3	34.4	37.7	70.6	35.8	29.8	15.9	3.7	–
1980	223.4	22.6	34.0	35.4	67.7	36.3	30.3	16.0	3.7	-1.9
1985	220.1	22.7	35.2	34.7	63.8	36.9	29.9	15.9	3.7	-1.5
1991	170.6	26.0	19.2	24.1	48.3	31.0	28.4	15.7	3.9	-22.5
1995	153.4	28.2	14.8	20.5	40.6	29.1	28.1	16.1	4.1	-10.1
2000	141.5	31.4	11.7	16.7	34.3	25.0	29.6	19.5	4.6	-7.8
2001	139.6	31.6	10.9	16.3	33.7	24.8	29.6	19.6	4.7	-1.3
2002	136.5	32.0	10.4	15.8	32.8	24.4	29.1	19.3	4.6	-2.2
2003	135.5	31.7	8.6	19.9	32.1	23.9	28.1	18.5	4.5	-0.7
2005	132.7	31.8	9.2	18.5	30.1	22.5	28.7	19.6	4.0	-2.1

Source: HUBBARD and WARD (2007).

Farm holders' age declined only slightly during the last decades. In 1975, more than half of family farms were managed by holders over 55 years of age, and a quarter of them were held by persons above 65 years of age. During the 1990s the number of young holders (less than 35 years of age) has increased, followed by a gradual decline from 2000 onwards. By 2005 more than half (52 %) of total family farms have holders with an age less than 55 years, whereas those over 65 years accounted for 24 % (DEPARTMENT OF AGRICULTURE, FISHERIES AND FOOD, 2006; CSO, 2007b).

2.2.5 Labour input

Farm labour is mainly provided by family members (who account for more than 94 % of total labour work on Irish farms). This share has hardly changed over the years. As the importance of agriculture within the economy as a whole has declined, farming has become less attractive as an activity. As a result, the volume of total agricultural labour has continuously decreased. For example, total family labour input, expressed in Annual Work Units (AWUs) declined by almost 40 %, from 234,200 persons in 1991 to 141,700 persons in 2005. The number of family members involved in farm labour has also dropped by 24 %. Interestingly, for the same period, the contribution of spouses and other family workers to total AWUs has significantly fallen. This might explain the increase of off-farm employment which has become more widespread in recent years (see Chapter 2.2.7). Although the amount of work of farm holders has decreased in absolute terms (by 44,700 AWUs between 1991 and 2005), their contribution to total labour input has increased by 10 percentage points, emphasising the important role of the farm holder as a labour input. Overall, the average labour input per farm remained almost constant at 1.2-1.5 AWUs (CSO, 2007c). The number of farmers for whom agriculure is the sole occupation has also decreased since the early 1990s. In turn, part-time farming is on the rise. The number of full-time farmers has decreased more rapidly at an average rate of almost 4 % per year, whereas the number of part-time farmers has increased on average by 2 % per year. In 2003, farming was the sole occupation of the farm holder in 57 % of total farms, as opposed to 75 % in 1991. Part-time farming is also likely to be taken up by younger people, rather than older farmers (DEPARTMENT OF AGRICULTURE, FISHERIES AND FOOD, 2006).

2.2.6 Farm income

Undoubtedly, all the transformations that took place within the agricultural sector over the years since accession had significant impacts on farm income and the livelihood of farmers and their families. Farmers benefited immediately from joining the Common Agricultural Policy (CAP) and the sector thrived between 1973 and 1978. Prices were high and so agricultural output rose. Farm incomes doubled in nominal terms and increased by 15 % in real terms between 1973 and 1978. Since then, however, the aggregate farm income has been very volatile and despite its nominal increase, the situation is very different when expressed in real terms. With the exception of 1977 and 1978 real aggregate farm income was

never above the level of 1973. The largest fall was recorded in 1986, when it dropped by more than a third (37 %) as compared with 1973. There was a modest recovery between 1992 and 1996 when its index oscillated between 88 % and 90 % (of the 1973 level). Small increases followed until 2002/2003 when it experienced another significant fall. The increase of 2005 follows the changes in the CAP related to the implementation of direct payments, respectively the payment of an average once-off sum of "€5,266 per farm due to carry-over arrears from 2004 coupled payments" (TEAGASC, 2005). This represented more than a third of the increase. Data for 2006 have also shown a decline of farm income of almost 26 % as compared with 2005 (TEAGASC, 2006), but this was expected given the specific circumstances of 2005.

Irish farm income varies considerably across different farming systems, sizes and regions. More than a third of Irish farms find themselves in the lowest income group (i.e. less than €6,500 per year), and most of these farms have cattle and sheep as their main enterprise. Specialist dairy and arable crops farm income is three to four times higher than that of cattle and sheep farms. The former farms belong to the highest income group but they account for only 12 % of total farms. They also seem to be the most profitable enterprise in the Irish agriculture (TEAGASC, 2006). By 2006, within the highest income group (above €40,000) over 60 % were dairy farms and 24 % arable crops (tillage), with an average size of 76 hectares (TEAGASC, 2006). Regionally, dairy as a farming activity has also supported the survival of many small farms particularly in the south-west and north-east (WALSH and GILLMOR, 1993). CONNOLLY (2002) notes that the large variation in the level of income according to the type of farm has been evident in the Irish farm sector since mid-1970s. The concentration on fewer but larger farms led to a "polarisation of farm income" in Ireland, with the gap between high and low income farms becoming wider over the years (LAFFERTY et al., 1999). Hence, as farm size is important and, due partially to economy of scale, it is expected that the bigger the farm the larger the income.

2.2.7 Off-farm income

The various changes that took place over the years in the Irish agricultural sector had a continuous impact on household income, pressuring family farm members to engage in off-farm employment. Whilst agricultural labour continues to decrease, there is a tendency towards convergence of the proportion of full-time and part-time Irish farmers, and an increase in the number of farms on which the holder and/or spouse takes up off-farm work. Recent years have seen a growth in the proportion of farm households with off-farm income, which rose from 31 % in 1993 to 58 % in 2006. Off-farm employment is more important among smaller farms, and in the beef and sheep sectors rather than dairying. For Irish agriculture as a whole, farming activities made up 70 % of total farm household income in 1973, but this had declined to just a third by 2004 (Table 2.5).

Table 2.5: Gross income of farm households by main sources, Ireland, 1973-2004 (%)

	1973	1980	1987	1994	1999/2000	2004
Farming	70	58	54	53	41	33
Other direct income	19	26	18	35	49	51
State Transfers	11	16	28	12	10	16
Gross income	100	100	100	100	100	100

Source: HUBBARD and WARD, 2007.

2.2.8 Agricultural and rural development policies

National rural development schemes in Ireland in the 1960s aimed at economic diversification and improving rural economic well-being, including the Local Government (Planning and Development) Act of 1963. However, the approach was highly focussed on agriculture and supporting the farming population. Following accession, Ireland has made extensive use of Community measures to support structural change in agriculture and foster wider rural development. In this respect, CAP as the major component of the EU budget has been crucial for rural Ireland. It shaped not only the agricultural sector (e.g. production levels and exports, farm structure and employment) but its effects spread well beyond (JENKINS, 2001; O'REILLY, 2004). WALSH and GILLMOR (1993) argued that the impact of CAP transfers has enabled the reorientation of national spending towards others sectors in need such as education, health and welfare services. Additionally, Ireland adopted several of the early "agricultural structures" measures in the CAP, including farm modernisation schemes, early retirement and vocational training supports. Ireland received €56 billion, between 1973 and 2005, of which 71 % represents payments through both the Guarantee and Guidance sections of EAGGF (European Agricultural Guidance and Guarantee Fund) (Table 2.6). In contrast, for the same period, its contribution to the EU accounted only for €16 billion of which €9 billion for agriculture (CSO, 2006).

Table 2.6: EU funds, Ireland, 1973-2005 (€ million)

	1973-1979	1980-1989	1990-1999	2000-2005	Total
EAGGF Guarantee	1,666	8,100	16,234	10,826	36,826
EAGGF Guidance	49	708	1,740	178	2,675
European Social Fund	50	1,358	3,387	994	5,789
ERDF	38	982	4,243	2,296	7,559
Cohesion Fund	0	0	1,091	869	1,960
Total (incl. other funds)	1,962	11,550	26,996	15,414	55,922

Source: CENTRAL STATISTICS OFFICE, 2006.

Ireland has also been a significant recipient of support through the EU's regional development and cohesion policies. Indeed, the development of EU regional policy was stimulated by the accession of first Ireland and subsequently Greece, Spain and Portugal. Between 1973 and 1986, Ireland received almost €1 billion

of funding through the European Regional Development Fund. With the significant expansion and integration of the Structural Funds in 1988, the entire territory of Ireland became an Objective 1 area and some €4.2 billion were allocated to stimulate economic development between 1989 and 1993. The four priorities of the 1989-93 Programme were: agriculture, fisheries, rural development and tourism sectors; industry and services; measures to offset peripherality; and human resources. An Operational Programme for Rural Development established a number of pilot programmes to operationalise the concept of area-based integrated rural development. Initially, 12 rural areas participated, although the programme was extended nationwide in 1991. The second round of Structural Funds (1994-1999) brought another €5.8 billion for Ireland. The country remained under Objective 1, until 2000, when (given the country's economic performance) has been designated as two NUTS II regions: the Border, Midland and Western (BMW) region (which retained the Objective 1 status until the end of 2006); and the Southern and Eastern (S&E) region (qualified for transitional Objective 1 funding to 2005). The total EU Structural Funds allocated to Ireland under the National Development Plan/Community Support Framework 2000-2006 amounted for €3.2 billion.

The MacSharry reforms to the CAP in 1992 brought significant changes to rural and agricultural policy in Ireland. Farmers faced severe cuts in intervention prices for cereals, oilseeds and beef, but were compensated for their loss in income through direct payments. The direct payments introduced under the reform became an increasingly important component of farming incomes, rising from 30 % in 1992 to 41 % in 1994 and 60 % in 1996. By 2006, direct payments accounted on average for 98 % of total farm income. Moreover, there are farms, such as, for example, cattle rearing and sheep, where these account for more than 100 % of their total farm income.

There is, however, a wide variation in the distribution of direct payments across farm size and enterprise mix. The larger the farm the higher the share of direct payment received. For specialist dairy, the share of direct payments represented 31 % of family farm income, whilst for cattle rearing and sheep farms it was above 130 %. The distribution of direct payments by income deciles shows that, in 2005, 42 % of direct payments were allocated to the 20 % of farmers with the highest family farm income, whereas only 7 % went to the 20 % of the lowest farm income group. On average, an Irish farm received €21,000 in the form of direct payments, but the amount varied from less than €8,000 for farmers in deciles 1 and 2 to €54,000 to farmers in decile 10 (DEPARTMENT OF AGRICULTURE, FISHERIES AND FOOD, 2007). The dairy and beef sectors were the main beneficiaries of CAP subsidies, particularly the large farms.

A key step in the EU process of agricultural and rural development was the adoption, in 1999, of the Agenda 2000 reforms. Agenda 2000 promoted a further cut in intervention prices (for cereals and beef) and direct (income) aid attributed per hectare or per animal. As a novelty, it introduced the "cross-compliance" concept, meaning that direct payments should be paid conditional on farmers'

fulfilment of environmental targets. However, Ireland started focusing on agri-environmental measures from 1994, when it established the first Rural Environment Protection Scheme (REPS). More than €2.1 billion have been paid through the scheme, between 1994 and 2006. As the scheme is popular with farmers, a further €3 billion were allocated for the 2007-13 programming period.

Agenda 2000 also established rural development policy as the second pillar of the CAP alongside the EU's agricultural market policy (the first pillar). The shift in the EU policies towards a wider rural development led to the adoption of the *White Paper* "Ensuring the Future – A Strategy for Rural Development in Ireland", in 1999. This established for the first time an overall policy strategy, a coherent vision of the long-term future of Irish rural society (DEPARTMENT OF AGRICULTURE AND FOOD, 1999). The strategy was concentrated around a set of principles, e.g. the establishment of appropriate institutional mechanisms for rural development, the adoption of a balanced spatial development strategy, a sustainable economic development based on indigenous potential and inward investment, the provision of services and infrastructure, the development of human resources and social inclusion (MCDONAGH, 2001). The instrument through which these were implemented was the *National Development Programme* (NDP) 2000-2006, which comprised seven Operational Programmes. The NDP was complemented by Ireland's Rural Development Plan (RDP), launched in 2000. Some €6.7 billion (or 17 % of the total national expenditure for 2000-2006) were allocated for rural development, with agri-environmental measures and compensatory allowances for Less Favoured Areas (LFA) getting the largest share (MATTHEWS, 2005). However, both the agri-environmental and LFAs payments are subject to academic criticism (e.g. DWYER et al., 2002 and DARNHOFER and SCHNEEBERGER, 2007). Although they may contribute to the economic, social and ecological development of rural areas, there is a financial imbalance between these measures and broader rural development measures, which limits the progression of integrated rural development. Additionally, they are still regarded as "farm-centric", yet another form of subsidising farmers. Overall, the NDP 2000-2006 has proved to be a successful strategy. Involving over €57 billion (of national and EU funds), it has contributed to economic growth, improved the national infrastructure, assisted in the development of a highly-skilled and flexible workforce, increased Ireland's competitiveness and promoted social inclusion.

Ireland has also implemented the early retirement and establishing young farmers measures in the CAP. An Early Retirement Scheme was introduced in 1994 which assisted 10,300 older farmers with exiting the industry and helped transfer some 283,000 ha of land (6.4 % of the total agricultural area). The impact was less than originally forecast, but was geographically distinctive with higher participation in the South West region of Ireland where commercially larger farms predominate.

The period since the early 1990s has seen the steady expansion of the LEADER programme in Ireland. The LEADER I programme (1991 to 1994) involved 16

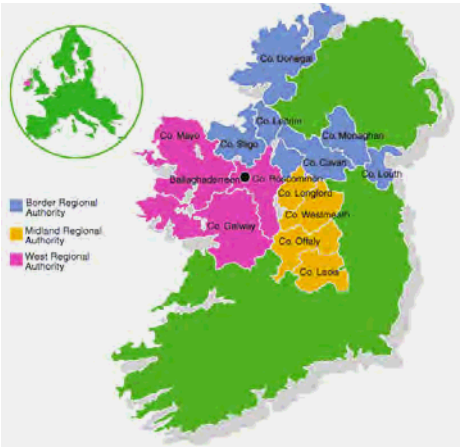
pilot areas in Ireland and focussed on rural employment and community involvement in local development. The participating areas covered almost 30 % of the rural population and some £34 million of national and European money was allocated. A second programme, LEADER II, ran from 1995 to 1999 and involved 34 local area groups from across rural Ireland, with almost €100 million spent supporting 9,600 projects. LEADER +, which ran from 2000 to 2006 supported 35 Local Action Groups. The total amount spent for the Leader+ Programme is estimated at €75 million of which more than half (€49m) from the EU. For 2007-2013, Leader/Rural Economy Sub-Programme will benefit of €564.4 million (public and private funds) for promoting quality of life and the diversification of the rural economy.

2.3 The Border, Midlands and West Region

2.3.1 Brief description of the region

Regional policy in Ireland and the promotion of a balanced regional development has been a long-term objective for Irish policy-makers (FORRESTAL, 2002), but it was not until the reform of the Structural Funds (in 1988) that the Irish Government has commenced to pay a specific attention to this issue. BOYLAN (2005, p. 99) highlights that the rediscovery of interest for regional policy issues in Ireland "was not born of a new-found enthusiasm" but "the emergence of the Single Market agenda and more specifically the creation of the Structural Funds … [that] forced the Irish Government to make a number of important regional policy decisions … for drawing down the monies from these Funds". The Irish response to the EU requirements was the establishment of eight Regional Authorities. By 1995, however, five of these regions (i.e. Dublin, Mid-East, Mid-West, South-East and South-West) were not anymore eligible for Objective 1 funds (BOYLAN, 2005).

Map 2.1: Location of the study region, Ireland



Source: http://www.bmwassembly.ie/region/map.htm.

Thus, new regional agreements were negotiated by the Irish authorities in the context of the Agenda 2000. These led to the creation (in 1999) of two major NUTS II regions: (i) The Border, Midland and Western (BMW) Region which has retained Objective 1 status until 2006, and (ii) the Southern and Eastern (S&E) Region qualified for a six year phasing out regime for Objective 1 Structural Funds up to the end of 2005 (BMW REGIONAL ASSEMBLY, 2000). Hence, the BMW region was formed as part of the Irish Government's strategy for securing future Structural Funds support. The BMW Region covers thirteen counties and comprises three Regional Authority NUTS III areas: Border, Midlands and West. It covers 47 % of total land area, almost 27 % of Ireland's population (1.1 million) and accounts for 21 % of the country's GDP (BMW REGIONAL ASSEMBLY, 2000).

The Border Region comprises six counties, Cavan, Donegal, Leitrim, Louth, Monaghan and Sligo. The region covers an area of some 12,156 km² (17.6 % of total area) and a population of 467,327 (11 % of total population) of which 74 % lives in rural areas (in 2002) (BMW, Regional Assembly). Tourism and small and medium enterprises are most important, particularly in the western part of the region. *The Midlands Region* is located in the heart of Ireland and comprises only 6 % of total population (251,380) and covers four counties, i.e. Laois, Longford, Offaly and Westmeath. *The West Region* comprises three counties, Galway, Mayo and Roscommon, which taken together accounts for 413,383 inhabitants or 10 % of total population. The area is noted for its beautiful scenery and its picturesque landscape and coastline. Over 70 foreign companies are operating in the region employing about 13,000 people. The sectors includes medical technologies, ICT, engineering and international services.

Table 2.7: Population and demographic change, BMW, 1971-2006

	1971	1986	1991	1996	2002	2006	% Change 2006/1996
Border	360,943	410,899	402,987	407,295	432,534	467,327	14.7
Midlands	178,908	207,994	202,984	205,542	225,363	251,380	22.3
West	312,267	348,328	342,974	352,353	380,297	413,383	17.3
BMW	**852,118**	**967,221**	**948,945**	**965,190**	**1,038,194**	**1,132,090**	17.3
S&E	2,126,130	2,573,422	2,576,774	2,660,897	2,879,009	3,102,835	16.6
Total	2,978,248	3,540,643	3,525,719	3,626,087	3,917,203	4,234,925	16.8
BMW % of total	28.6	27.3	26.9	26.6	26.5	26.7	

Source: CENTRAL STATISTICS OFFICE, 2006.

The BMW Region is sparsely populated with just 31 inhabitants/km^2 and predominantly rural. Population is widely dispersed and the only major urban centre is Galway. During the economic problems of the 1980s, the region suffered high levels of out-migration, especially young people. However, the population has grown in more recent years. For example, between 1996 and 2006, the population increased by 17 % (Table 2.7), with growth highest in the Midlands region (22 %).

Growth was concentrated in and around the larger urban areas, while the remoter rural areas continued to experience depopulation (BANNON, 2005). Until 2002, there was a large discrepancy between BMW and the S&E region, with the demographic balance of the country shifting towards the latter, mainly the Great Dublin Area (GDA) (BANNON, 2005). Nevertheless, the region has started to recover, recording high annual growth rates between 2002 and 2006, i.e. Midlands (2.8 %); West (2.1 %) and Border (2 %) (NDP; 2007-2013).

2.3.2 Major socio-economic trends

As with the rest of Ireland, the BMW region has also experienced major economic and social changes following EU accession, despite its predominantly rural character. Indeed, the agricultural sector still provides an important share of the regional gross value added. Nevertheless, following the general trend, there is a continuing move away from agriculture and traditional manufacturing towards services (BMW REGIONAL ASSEMBLY, 2000). Agriculture's contribution to the region's economy has declined from 13.4 % in 1995 to 4.7 % in 2004. Over the same period, services have expanded from 50.4 % to 62.6 %. These are marked changes in the structure of the economy over a relatively short time period. The region contributes only by 19 % of Gross Value Added (GVA) as a whole. Regional Gross Value Added (GVA) grew by 111 % between 1995 and 2003. This is below Ireland's national average (136 %) and the rate achieved by the South and East region (141 %), but is considerably higher than the average for the EU15 (19.7 %) or the EU25 (20.3 %).

The region participates by just above a quarter to the national labour force. Levels of employment in the region are comparable with the national average for Ireland. Between 1986 and 1996, employment levels in the region increased by 15 % compared with a rise of 20 % at the national level (GALWAY EURO INFO CENTRE, 2006).

Between 1996 and 2002 total employment in the BMW region rose by 46 %, with sectors such as services (72 %) and industrial and construction (60 %) experiencing a real boom (BANNON, 2005). New jobs were created in education, health, professional services, local administration, recreation and construction (BANNON, 2005; BMW REGIONAL ASSEMBLY, 2000). Moreover, some regional convergence in terms of lower unemployment and higher participation of labour force seems also to take place. The unemployment gap between BMW and S&E dropped significantly as employment rate grew faster in BMW between 2003 and 2005. In 2006, the rate of unemployment in the region was at 5.3 %, almost one percentage point above the national average. There is, however, some discrepancy when labour force data is analysed by gender, with female participation rate (49 %) in BMW region much smaller than in the S&E region (53 %), EU15 (62 %) or EU25 (61 %). The region also benefits of the advantage of a "flexible, adaptable and generally well-trained labor force" (GALWAY EURO INFO CENTRE, 2006). Education has been very important and the region's shares for primary (42 % of region's

population) and third level education (11 %) are higher than the national levels (34 % and 10 % respectively) (GALWAY EURO INFO CENTRE, 2006).

Per capita GVA in the region, although much smaller than the national average (73 %), represents 103 % of the EU average. There are, however, significant regional discrepancies (Table 2.8). This might be explained *inter alia* by a large presence of multinational companies within the S&E region, particularly in the Greater Dublin Area. The GVA includes the profits of these companies, much of which accrues to non-residents, therefore regional variation depends on the changes in the profits of these companies. The regional discrepancy diminishes, however, when per capita disposable income is considered, the gap between the two regions narrowing from 13 percentage points in 2000 to 9 percentage points in 2004.

Table 2.8: GVA per person by region, Ireland, 1991-2004

	1991	1995	2000	2004
BMW (€ per person at basic prices)	7,690	10,111	17,611	26,637
- as % of total (State =100)	79.2	76.1	72.0	72.7
- as % of EU (EU=100)	60.2	75.4	95.3	102.9
Border (€ per person at basic prices)	8,097	10,494	17,044	24,142
- as % of total (State =100)	83.3	79.0	69.7	74.3
- as % of EU (EU=100)	63.3	78.2	92.2	105.1
Midlands (€ per person at basic prices)	7,276	9,288	15,480	21,553
- as % of total (State =100)	74.9	69.9	63.3	66.3
- as % of EU (EU=100)	56.9	69.2	83.7	93.8
West (€ per person at basic prices)	7,456	10,145	19,541	24,315
- as % of total (State =100)	76.7	76.4	79.9	74.8
- as % of EU (EU=100)	58.3	75.6	105.7	105.9
S&E (€ per person at basic prices)	10,460	14,433	26,917	35,727
- as % of total (State =100)	107.7	108.7	110	109.9
- as % of EU (EU=100)	81.8	107.6	145.6	155.5
Ireland (€ per person at basic prices)	9,715	13,281	24,463	32,501
- as % of EU (EU=100)	76.0	99.0	132.3	141.5

Source: CENTRAL STATISTICS OFFICE, 2007a.

2.3.3 Agriculture within the BMW Region

As the region is predominantly rural, agriculture still plays an important role. Nonetheless, agricultural contribution to the region's economy has declined from 13.4 % in 1995 to 4.7 % in 2004. Over the same period, services have expanded from 50.4 % to 62.6 %. These are marked changes in the structure of the economy over a relatively short time period. Despite a general declining trend, the share of people employed in agriculture (12.4 % of total employment) is more than doubled when comparing to S&E (5.8 %) and much higher than the national figure (7.4 %) (CENTRE FOR INDUSTRIAL STUDY, 2005).

The region accounts for almost half of the country total land, but most of it is classified as severely or less severely handicapped implying an agricultural land of mixed quality and a weak farm structure (GALWAY EURO INFO CENTRE, 2006). In 2006, out of 4.4 million ha of total area farmed 44 % was in the BMW region. Although, the total Irish farmed area has slightly decreased between 1991 and 2006, the BMW region experienced the reverse phenomenon, the farmed area increasing by 6.5 %. Most of the region arable land is under pasture (47.3 %), silage (28.7 %) and rough grazing (17.2 %); cereals (mainly wheat) accounts only for 3 % (CSO, 2007c). The pasture area suffered a decline during the 1980s (LAFFERTY et al., 1999), followed by a recovery during the 1990s and early 2000, but the largest increase was in silage area which doubled from 1991 to 2006.

More than half (53 % in 2005) of the Irish farms are located in the BMW region, however, average size is smaller (27 ha) than the national average (Table 2.9), and agriculture in the region has experienced proportionately greater levels of structural change. For example, the largest falls in the numbers of farm holdings between 1960 and 1980 were recorded in the West and Border areas where smallest farms under 20 ha have predominated and have become increasingly unviable. The decline of the number of farms has slowed down, but the increase in farm size, was more pronounced in BMW (by almost 30 %) as compared to the S&E region (by 17 %), between 1991 and 2005 (LAFFERTY et al., 1999). HANNAN and COMMINS (cited in LAFFERTY et al., 1999) explained that the variation of the rate of structural change between regions was due to three main factors: a) the average size and the quality of resources; b) the degree of farm commercialisation and c) the off-farm employment opportunity. Interestingly, is the small rise (by 4 %) in the number of very small farms (less than 5 ha) and a decline (by 8 %) in the number of very large ones (>=100 ha) which took place between 2003 and 2005. The latter represents only 2 % of total farms in the region as opposed to 4.5 % for the S&E, which implies a lower degree of commercialisation in the BMW region (CSO, 2007c).

Crops and pasture account for 66,500 farms and covering 1.6 million ha of which permanent pasture farms represent 69 % in 2005 (CSO, 2007c). Livestock and livestock products, mainly beef and sheep, are by far the most important farm enterprises within the region. However, although the number of cattle farms in BMW is higher (59,600) then in the S&E region (53,300) the BMW cattle herd is almost half (2.8 million) of that of S&E (CSO, 2007c. The imposition of milk quotas in 1984 particularly affected the BMW region, with the number of dairy cows declining by 30.7 % and 35.3 % in the West and Border areas respectively between 1980 and 1997 (LAFFERTY et al., 1999). The squeeze on dairying corresponded with an expansion of specialist beef enterprises.

Table 2.9: Number of farms and average size by region, Ireland, 1991-2005

	Number of farms			Average Size (ha)		Average ESU per farm	
	1991	2003	2005	1991	2005	1991	2005
Dublin	1,511	10,300	9,600	32.6	40.3	19.2	28.1
Mid-East	11,629			36.0		16.5	
South-East	20,377	16,300	16,000	36.5	41.4	19.7	31.4
South-West	28,178	22,300	22,300	29.8	35.9	16.2	26.5
Mid-West	20,066	14,900	14,700	28.1	33.9	12.4	20.5
West	38,964	32,200	31,300	18.4	24.1	6.0	9.9
Border (west)	20,268			19.8		5.5	
Border (east)	14,314	26,900	26,300	19.7	25.9	9.8	13.0
Midland	15,271	12,500	12,400	28.1	35.2	11.1	20.6
BMW	88,817*	71,600	70,000	20.6*	26.7	…	13.0
S&E	81,761*	63,900	62,700	31.9*	37.5	…	26.6
Total	170,578	135,500	132,700	26.0	31.8	11.6	19.4

Source: COMMISSION OF THE EUROPEAN COMMUNITIES, 2005; CENTRAL STATISTICS OFFICE, 2007c.

Note: * Authors' estimates.

A classification of family farms by characteristics of holder shows that in over half (53 %) of the region farms, the holder has agriculture as sole occupation (CSO, 2007c). This contrasts however with 1991 when in more than 70 % of the farms in the region agriculture was the sole occupation of the farm holder. SHUCKSMITH et al. (2005) also highlights that between 1991 and 2000 there has been a major shift from "sole" to "major" occupation, particularly in the larger farm areas of the south and east, but also in the Border and Midlands. Currently, in one out of three farms in BMW the holder has agriculture as a subsidiary occupation or is not engaged at all in farm work. As a labour input, family workers (holder, spouse and other family workers) still remain the most important for both regions, although overall the number of family and non-regular family workers has declined, particularly since 1991 (CSO, 2007c). Regular non-family workers in BMW account only for 4.4 % of total persons in the region as compared to 7 % in the S&E. Following the general trend, the number of farms within the region reporting gainful non-farm activities has also increased accounting for 2,600 holdings, with farm tourism (around 20 % of reported farms) being the most popular activity.

Family farm incomes in BMW region although much lower than in the S&E region have relatively improved since 1994 (GALWAY EURO INFO CENTRE, 2006). The National Farm Survey (TEAGASC, 2006) for 2005 estimates that family farm income for farms in Objective 1 (the entire BMW region) accounted on average for €17,184 per farm (or 60 %) compared to €28,395 per farm in S&E region. For comparison, the average farm income in BMW region represented only 49 % of that in the S&E in 1999. The distribution of income varies considerably between farms according to the enterprise mix, e.g. from €35,898 for a dairying farm to just €10,780 for a cattle rearing farm. There is also a large variation within the

BMW region itself, with farms in the West area having a family income of just €13,994 as opposed to €27,395 for a farm in Midlands or €16,527 for a Border farm. The influence of direct payments is no doubt essential for all Irish farmers but particularly for BMW farmers, where it accounts for the largest share of family farm income. The impact of direct payments has increased considerably since 1992 (up to more than 100 % of farm income), but for beef and sheep farmers (the majority of BMW farmers) these are crucial, as market-based output often does not covered total costs (SHUCKSMITH et al., 2005).

2.3.4 Agriculture and rural development policies in BMW

CAP and BMW

The region has benefited over the years from considerable national and EU support. Amongst these, the EU agricultural and regional aids are the most significant and they have markedly influenced the structural changes and the transformation of the agriculture and rural development across the region. After accession, for almost two decades, farmers in the region benefited mostly of market support (e.g. price support and export subsidies) and LFAs payments. Additionally, parts of the current BMW region benefited of some specific EU off-farm structural and social policy measures In 1978 and 1979 two Council Directives led to two programmes to accelerate and promote drainage operations in the less-favoured areas of the West of Ireland (78/628/EEC) and on both sides of the border between Ireland and Northern Ireland (79/197/EEC). These measures intended to help to increase farmers' income in areas where agricultural income was low, a large share of population was engaged in agriculture and with limited opportunities for off-farm employment (FENNELL, 1997).

From 1992, farmers received compensatory payments and could apply for accompanying measures, such as Rural Environment Protection Scheme and Early Retirement Scheme. Later on, Agenda 2000 introduced direct payments, and as shown above, the role of direct payments in supporting BMW farmers' livelihood was, and still is, vital. Without direct payments most of the region farmers would have to give up their farming business. This is particularly due to the characteristics of the region (e.g. a low quality soil and harsh climate) which allow mainly for the existence of beef and sheep and pasture farms. The REPS was also very popular in the region, with almost a third of farms participating in the scheme. LAFFERTY et al. (1999) estimated also that between 1994 and 1999, almost half of the area farmed in the West and Border (west) areas was included in this scheme. However, as LEAVY (cited in LAFFERTY et al., 1999) noticed, the scheme was less attractive to low-income and small farmers inhibited by the high costs of compliance with the scheme. It is estimated that between 1992 and 2002, the region received about €4.2 billion through the various EU schemes operating in the region (Table 2.10). This equals 45 % of total EU agricultural payments for Ireland over this period.

Table 2.10: EU agricultural funds to the BMW region (€ million), 1992-2002

Programme	Total payments 1996-2002	Average annual payment	% of State 1992-2002
Suckler Cow Premium*	996.7	87.9	54.1
Ewe Premium	387.2	55.3	54.1
Special Beef Premium	622.6	89.0	37.9
Slaughter Premium	131.4	18.8	35.8
Compensatory Payments	766.0	69.7	62.4
Arable Aid	169.9	24.3	20.3
Extensification	346.5	49.5	48.8
Early Retirement Scheme**	166.2	18.5	28.1
REPS**	655.1	72.8	58.6
Total EU Payments*	4,241.6	–	45.1

Source: BANNON, 2005, p. 115.

Note. * for 1992-2002, ** for 1994-2002.

For 2000-2006, the agriculture and rural development sector in the region benefited through a number of various measures included in both the National Development Plan/Community Framework Support 2000-2006 and the CAP Rural Development Programme (i.e REPS, Compensatory Allowances, Early Retirement and Afforestation). Some 57 % (€1,949 million) of the total expenditure of the CAP Rural Development Programme was allocated for Accompanying Measures in the BMW region (NDP 2000-2006, Summary of Provions for the BMW Region). Its impact on farm income, particularly the importance of direct payments as a source for farmers' livelihood, within the region is indisputable as shown above.

Under the Operational Programme for BMW region (National Development Plan 2000-2006), the Sub-programme on Agriculture and Rural Development accounted for €321 million of which almost a quarter co-funded from the EU EAGGF (Table 2.11). Within this sub-programme the region planned to allocate an important share for measures that make an improvement in farm structure, the environment, animal welfare and hygiene standards and better quality products.

Table 2.11: Agriculture & rural development sub-programme, BMW, 2000-2006

Measures	Total national & EU funds (€ million)	EAAGF (€ million)
General Structural Improvement	183.5	51.3
Alternative Enterprises	23.4	–
General Rural Development	74.3	19.0
Services for Agriculture & Rural Development	39.9	–
Total	321.04	70.3

Source: BMW REGIONAL ASSEMBLY, 2000.

Structural and cohesion funds and the national development plans

EU Structural and Cohesion Funds have undoubtedly been one of the main contributing factors to Ireland's economic success, and to the BMW region as well (GALWAY EURO INFO CENTRE, 2006; BANNON, 2005). It was actually due to the areas in this region, which lagged economically behind others, that the Irish Government decided in late 1990s to divide the country into two NUTS II regions in order to remain eligible for EU Structural (Objective 1 status) and Cohesion Funds. However, overall, little was allocated to rural development activity (WALSH, 1995). For example, under the 1989-93 Programme, Priority 1 (Agriculture, Fisheries, Tourism and Rural Development) measures received between 2.1 % (rural development) and 3.9 % (tourism) of total support, compared to 27 % for industry and services (WALSH, 1995). However, there were marked geographical differences even within the BMW region, with some areas (e.g. West and Border) focussing over 40 % of their expenditure on Priority 1 measures (IBID).

BMW retained the status of Objective 1 for the entire period 2000-2006, and received EU support through the European Regional Development Fund (ERDF), the EAGGF (Guidance section), the European Social Fund (ESF) and the Financial Instrument for Fisheries Guidance (FIFG). Under the NDP 2000-2006, the BMW Regional Operational Programme (OP) received €4 billion (of which 10 % from the EU) and it focused mainly on the development of local infrastructure, local enterprises, agriculture and rural development and social inclusion and childcare (Table 2.12).

Table 2.12: BMW operational programme and EU structural funds support, 2000-2006 (€ million)

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

Source: BMW REGIONAL ASSEMBLY, 2000.

Other EU transfers to BMW

The Leader programme is one of the Community Initiative Programmes that has influenced rural development across the entire country and regions. Leader I and Leader II were very successful within the BMW region (BANNON, 2005). From 2000, Leader + was applied in 22 localities throughout the country of which 10 from BMW region and out of the 13 Area Based National Rural Development Groups seven were in the region. The region has also benefited of other Community Initiative Programmes such as INTERREG, EQUAL and Urban. For example, under INTERREG II and INTERREG III, €340 million were allocated for Environmental Protection measures in BMW (IBID).

There are also other national and regional policies that supported the development of the region to develop. State direct aid was oriented particularly towards the industrial sector and tourism, as well as infrastructure. BANNON (2005) estimates that between 1992 and 2002 the BMW region received through the main development agencies (i.e. Industrial Development Authority, Enterprise Ireland and Udaras Na Gaeltachta) a quarter (€750 million) of the total state support for the development of enterprises. This represents the region's next major source of support apart from agricultural payments. Within the region, the West and the Border area were the major beneficiaries. Since 1998, the region has also benefited from the Western Investment Fund (WIF) which supports social and economic development in the Western region through the provision of loans and equity. Between 2000 and 2006, 32 SMEs, 22 community projects and two strategic projects were supported by the WIF (NDP/CSF, 2006).

2.4 Driving forces for agricultural change in Ireland and BMW

A series of key factors can be identified that help explain the management of the rural transition in Ireland following accession to the EU. Undoubtedly, Ireland's economic progress is exceptional and attributed to a combination of internal and external factors which acted in a favourable environment, and not to a lesser extent to a range of national polices changes that laid the foundations for the economic progress. Moreover, it is the EU membership and the Single Market and the substantial financial resources transferred from Brussels which were vital for the economic progress of Ireland, and implicit for the transformation and development of rural areas. As DORGAN (2006, p.1) notes, Ireland has achieved it success through a mixture of "sensible policies and pragmatism, at the heart of [which] was a belief in economic openness to global markets, low tax rates, and investment in education". Moreover, it is the "interplay of modernity and tradition in determining life satisfaction", the combination of "the most desirable elements of the new – … wellbeing, low unemployment rates, political liberties – with the preservation of certain … elements of the old, such as stable family life and the avoidance of the breakdown of community" that promoted Ireland at the top (THE ECONOMIST INTELLIGENCE UNIT, 2005).

It is crucial that success in local rural development be understood in the particular context of the national scene for the Member State. The experience of the BMW region is of course intricately bound up with the changes experience by the Irish economy more generally. Ireland's success in economic development is generally attributed to a combination of both internal and external factors. Internally, fiscal policy, the role of the Industrial Development Authority in attracting Foreign Direct Investment (FDI) and a culture of adaptability and pragmatism within Irish society have all been pointed to as important ingredients in Ireland's success. Externally, analysts frequently point to the importance of EU membership in bringing new opportunities for economic development, including the rapid development of new infrastructure.

National and EU policies were paramount for the development of the country. Although following accession it is rather difficult to strictly separate national and EU policies, as they interconnect and as national policies are framed within the EU context, some national decisions were very specific to Ireland's economic management. Certainly, the combination of EU membership and a favourable tax regime made Ireland an attractive destination for FDI. It is the concentration of the multinationals companies (particular in high-tech industries and internationally traded services) that had driven the Celtic Tiger performance. Additionally, other factors such as a young, well-educated labour force, an established regulatory business framework implemented by an efficient public administration and a supportive banking system were also important. As BRADLEY (2000, p. 8) remarks "directly as well as indirectly the FDI affected every corner of the Irish economy". Moreover, the adoption (since 1987) of the national social partnerships, a joint-effort of all social and political forces proved to be paramount for Ireland's economic progress. This brought political stability, but more important it achieved "a high degree of wage-coordination" and a "sufficient degree of consensus on public finance", fundamentals for a successful macroeconomic environment (O'DONNELL, 1998, p. 22). This has triggered the adoption of a succession of successful partnership's agreements. The importance of these social partnership agreements was expressed by Ireland's Prime Minister BERTIE HERN in June 2006:

" Social Partnership has helped to maintain a strategic focus on key national priorities, and has created and sustained the conditions for remarkable employment growth, fiscal stability, restructuring of the economy to respond to new challenges and opportunities, a dramatic improvement in living standards, through both lower taxation and lower inflation, and a culture of dialogue, which has served the social partners, but more importantly, the people of this country, very well." (Towards 2016, DEPARTMENT OF THE TAOISEACH).

As regards agriculture, LAFFERTY et al. (1999, p. 12) stress that there is not a single determining factor, but a combination of internal and external driving forces and dynamics of modernisation and marginalisation in agriculture that explain the "modern revolution" in Irish agriculture. These include not only the geographical differences in natural resources which influence a spatial distribution of farming

activity and performance, but also global economic factors (e.g. demand and supply for farm products, expansion of technology and technological knowledge) and national and EU policies. Additionally, cultural, institutional and historical factors with variation across farm categories and geographical areas and "adaptive strategies" determined by individual behaviour subject to motivation and lifestyle, individual resources and capabilities also need to be considered.

The first five years following accession to the EEC were the most prosperous in the history of Irish agriculture. Ireland benefited not only from supported prices but also from the various European co-financed measures to improve agricultural structures. Agricultural productivity improved markedly. In the 1980s, there were further benefits from the introduction of the sheep meat regime and the introduction of the ewe and suckler cow premia. Subsequently, the compensatory payments, following the MacSharry reform in 1992, were decisive for Irish farming, and currently CAP direct payments remain the main source of farming income. Moreover, the adoption of specific measures such as the Rural Environment Protection Scheme was also very important for rural areas. This was particularly popular in the BMW region, where around a third of farms (mainly beef and sheep) joined in, covering almost half of the West and Border farmed areas. Additionally, other accompanying measures (e.g. early retirement and afforestation) had also significant impacts on the agricultural restructuring; however, their impact varied regionally, with farmers in the S&E more enthusiastic to participate.

Perhaps the most important stimulus to structural change in agriculture, however, has been the success of the wider Irish economy, which provided new employment opportunities for the workforce and helped smooth a transition from the land for many people previously tied to farming. Since the 1980s, agriculture's share of national GDP in Ireland has fallen dramatically, from around 10 % to 2 % in 2005. Although agriculture remains essentially based on family-run businesses, non-agricultural income has become increasingly important and now accounts for more than half the gross household income on farms. For those who have remained in farming, incomes have been squeezed, and the majority of Irish farmers (61 %) belong to the lowest income group (*i.e.* earning less than €13,000 per year). Direct payments under the CAP now contribute the vast majority of farming income (98 % in 2006). In addition, the establishment of rural development as CAP Pillar 2 following the adoption of Agenda 2000 has driven further national rural development initiatives.

EU support in the form of Structural Funds for Ireland remains certainly one of the driving forces that influenced the economic success of the country as a whole. The creation of the Single Market and the reform of the Structural Funds, in the early 1990s, marked the start for important changes in regional policies for Ireland. Thus, to attract large amounts of EU Structural and Cohesion funds, the Irish government declared the entire country under Objective 1 status. This implied that no specific area was to be favoured but all will benefit from these funds. Moreover at the EU request, the government submitted its first National

Development Plan which set up for the first time clear development priorities. Some 20 % of the Structural Fund expenditure (for 1989-1993) was allocated to promote agriculture, fisheries and rural development with a further 5 % for tourism, whereas the largest share went to substantial investment in industry, services and physical infrastructure. Despite that Structural Funds have not targeted in particular the development of rural economy, the investment in infrastructure, industry and services and human resources (education and training) had effects that spill-over effects into rural areas.

2.5 Conclusions

At the time of accession, despite some substantial economic progress achieved during the "golden age", Ireland was still a poor, agricultural economy at the periphery of Europe. As agriculture was still contributing significantly to the economy as a whole, accession brought immediate benefits to this sector. Substantial CAP subsidies were transferred to Irish farmers mainly in the form of price and market support. Furthermore, for the first time the country could trade unrestricted on broader markets and diversify its exports. Agricultural output increased and Irish farmers benefited from the rise in real income. However, it was not until mid-1990s that the implementation of various national and EU policies have started to show tremendous positive results, and it was especially the creation of the Single Market and the EU transfers from Structural and Cohesion Funds that made a difference to Ireland's economic development. The country as a whole has positively benefited from Objective 1 status, and over the years it has received some of highest EU transfers per capita. Additionally EU membership and some specific macroeconomic policies made Ireland one of the most attractive destinations for FDI, particularly from the US. Although Structural Funds and FDI were not specifically oriented towards the development of rural areas, as mentioned above, they had spill-over effects. Nonetheless, the CAP and its intricate reforms have played a pivotal role in the transformation that took place in rural Ireland.

Agriculture remained very important for the Irish economy throughout the 1980s, when still accounted for around 10 % of the GDP. Since then its share fell significantly representing less than 2 % in 2005. As the economy prospered, the sector experienced some significant structural changes. These were especially noticeable from the 1990s onwards. The number of farms, particularly those of a small-scale size, declined significantly for all types of farms in contrast to a constantly increase in the average farm size. This led to concentration, specialisation and intensification of production. Specialist beef production has remained the predominant farming activity in Ireland, whereas the number of specialist dairy and mixed grazing livestock farms almost fell dramatically. Farming in Ireland still remains very much a family business, with land and farming business regularly passed on from generation to generation. Since accession the proportion of family farms in total farms remained almost unchanged. However, there has been a change in the farm holders' age, with younger farmers replacing the elderly category.

Furthermore, as agriculture has become less attractive as an activity, there has been a clear diminishing trend in the number of farmers of which agriculture is sole occupation in contrast to an increase in the number of part-time farmers.

As the country developed, the economic and social development of rural areas is no longer associated with agriculture. Farming does not play any longer a primordial role as a source of household income, and its contribution has diminished year by year. Currently, more than half of the gross income of a farm household is provided by off-farm employment, with the number of farmers engaged in gainful non-farm activity rising. Since accession, the aggregate current farm income has increased, but in real terms it hardly changed. The distribution of income is very much dependent on the farm size and enterprise mix, and thus there is a large variation in the level of farm income. The contribution of direct payments to family farm income has substantially increased over the years. There is also an unconditional reliance of Irish farm households on the EU financial support and an almost total income dependence on direct payments.

Overall, Irish rural areas have experienced a process of changes, particularly in the past decade; population growth, a diversification of employment opportunities and an expanding sense of community life in which culture, traditions and heritage are valued and retained. It was not, however, until late 1980s that rural development as a policy on its own gained attention from Irish policy makers. The publication of the "Future of Rural Society" proposed an integrated bottom-up approach to support the development of rural areas. In response, the Irish government adopted, its first Operational Programme for Rural Development and run some local initiatives pilot programmes (e.g. the Pilot Programme for Integrated Rural Development and the Area-Based Partnership). Although criticised for their limited impacts (mainly due to the lack of sufficient financial resources) these programmes provided a starting point for local people to become involved and promote economic and social development in rural areas.

Hence, the launch of the EU Leader programme a few years later was very well received in Ireland. Additionally the adoption of so-called "accompanying measures" as a result of MacSharry CAP reform opened new opportunities for the diversification of rural economy and raised awareness for the preservation of rural landscape and environment. Amongst these the Rural Environment Protection Scheme has become the most popular amongst Irish farming community. The shift in the EU policy following the adoption of Agenda 2000 from its focus on agriculture to rural development led the Irish government to adopt the White Paper, the first coherent, long-term strategy of the future of Irish rural society. This is supposed to be achieved through National Development Plans and CAP Rural Development Programmes. MCDONAGH (2001) notes that only "a few places in Europe are so closely associated with the "rural" as Ireland" (p. 50) and "'rural' impinges on almost every aspect of Irish life, socially, economically and in influencing the decision-making process" (p. 48). Rural Ireland has been transformed by a variety of economic, social, historical and cultural forces, but "older territorial patterns

are still deeply embedded in rural structures" (IBID, p. 50). Although the Irish economic success will not be totally possible without the benefits of the EU membership, it is the "right decisions [taken] at certain key moments" that made the difference and brought the country's to unprecedented level of development (FITZGERALD, Former Irish Prime Minister, 2004).

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CHAPTER THREE

DEVELOPMENT OF SOCIO-ECONOMIC AND AGRICULTURAL STRUCTURES IN THE NAVARRA REGION IN SPAIN AFTER EU ACCESSION

Belen Iraizoz[17]

INTRODUCTION

The objective of this paper is to describe the evolution of the rural development policy and analyse its effects on a specific territory, the Autonomous Community of Navarra in Spain, in order to identify the reasons why some policies have proved more effective than others. The period of analysis runs from the years prior to Spain's entry into the European Union (EU) until the middle of the last decade, that is, the period 1980 to 2005.

We begin our analysis with a description of the geographical and sectoral framework, identifying the main characteristics of Navarra's economic development and its rural sector still, remains strongly linked to agriculture, despite the reduction of the role of that sector in rural areas (MAPA, 2003).

The Autonomous Community of Navarra is located in the north of Spain. The population of Navarra in 2005 exceeded 580,000. The region occupies an area of 10,391 km², that is, around 2.1 % of the total surface area of Spain. It is a region of great geographical diversity extending from mountainous areas close to the Pyrenees to semiarid areas in the south where the climate is Mediterranean.

As one of the seventeen Autonomous Communities that make up the Spanish state, it has its own "*foral*" administrative and tax system, which was adapted in 1982

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by the new constitutional regime. Since then, the community's *foral* status allows it a high degree of autonomy in a large number of legislative and administrative areas, quite a few of them related to rural development (agriculture and animal farming, mountainous areas, publicly-owned woodlands, protected natural lands, land use, scientific and technical research, promotion and organization of tourism, regulation of protected labels of origin, etc.).

3.1 General trends of the regional economy

The first point to consider is the relatively small size of the regional economy, which represents less than 2 % of the Spanish economy as a whole. The region's economic trend is similar to that of Spain as a whole and Europe. Thus, at the beginning of the 1980s, regional growth rates were low in general and sometimes negative, as a result of the late impact of the economic crisis deriving from the rise of oil prices. The crisis hit the country all the harder because of the institutional difficulties that beset an incipient democratic state. Subsequently, the regional economy achieved high growth rates, following the national trend and boosted by the first positive impulses coming from Spain's entry into the EU. However, the necessary adjustment of the Spanish economy to European standards led to a period of recession, reaching its peak in 1993, when real GDP recorded negative growth. This was followed by a period of economic stability (except for the very early years of the 21st century, which recorded a decline in growth rates). An interesting point to consider here is that the regional economy has often registered growth rates higher than the national and European averages.

Due to the stability of the population size, the observed trend for the per capita GDP is very similar to that of total GDP described above. The period shows average cumulative growth rates of 2.08 % for Navarra, 2.28 % for Spain and 1.7 % for EU15 (EZCURRA and IRAIZOZ, 2007). As a result, the regional economy has shifted closer to the European average. The welfare level in Navarra has always been above the national average. This has been a steady feature of the regional economy (URIEL and MAUDOS, 1998), despite a downward trend in the last years of the study period. Thus, regional GDP per capita was 30 % above the national average at the beginning of the study period and remained 25 % higher at its close.

Compared with EU15, Navarra's GDP has been higher than 75 % of the European average for most of the study period (explaining why it is not one of the Objective 1 regions for the Structural Funds). Over time, the level of average income came close to the one of EU15 indicating a better-than-average regional economy. In comparison with EU25, the situation is even better, the trend again favouring Navarra. However, the process of convergence with Europe was slowed down during the crisis of the early 1990s, but continued with a smoother and increasing trend since the mid-1990s.

Map 3.1 Map of the Autonomous Community of Navarra with counties

Source: GOBIERNO DE NAVARRA, 2007.

Other characteristics relating to the distribution of economic activity among sectors also distinguish the regional economy from that of other Spanish regions and from the national average. Both in terms of added value and workforce size, the services are the main sector, employing around 45 % of the work force in 1980 and around 55 % in 2004. The industrial sector accounts for approximately 40 % of the work force and real GVA. The trend is different for the agricultural sector, whose share in the work force fell from around 14 % in 1980 to 5 % in 2004, while the GVA share decreased less sharply, from 7 % to 5 %. A comparison with national averages reveals some specialization in industrial activities and very little in agriculture, where the high level of specialization that marked the beginning of the period has fallen steadily over time.

3.2 The regional agricultural sector

One structural change that has accompanied the region's economic growth is a loss of jobs in the agricultural sector. However, as in most developed countries, the agricultural sector plays a key role in the conservation and maintenance of rural areas, by preventing depopulation and desertification.

Over the last forty years, the agricultural sector has undergone a major transformation process including the modernization of farms and production systems. In

recent years, however, owing to various circumstances (international agreements, degradation of the environmental balance, exhaustion of natural resources, demand shifts, loss of legitimacy of the agricultural policy, etc.) there has been a move at European level to consider the need for what might be termed a reversal of the industrialization of agricultural activities.

In the early 1960s, massive rural depopulation triggered a series of structural transformations (GONZÁLEZ et al., 1998), the most important of which was an intense mechanization and capitalization of the agricultural sector which greatly increased the sector's debt level, an aging of the active agricultural population, a multiplication of the share of females in the agricultural labour force and a rising percentage of part-time agriculture. This change provoked an increase in intermediate consumption from off-farm sources, and greatly improved labour and land productivity by integrating the sector in the agro-food system.

Thus, by the early 1980s the structural transformation of Spanish traditional agriculture was complete, despite continuing transformations in other areas affecting the sector, such as the liberalization of international trade and the new demand for environmental services by a part of society (COLINO, 2005). By the mid 1980s, moreover, Spain's entry into the EU was having its repercussions on the productive orientation and income structure of the agricultural sector through the different regulatory mechanisms of the Common Agricultural Policy (CAP).

In the following sections, we will try to depict the evolution of the main variables affecting the sector from the early 1980s until the present day. While pursuing this objective, it must be noted that many of the observed trends are extensions of a process of structural change that started before EU entry and that it is often impossible to isolate the effect of EU entry from other internal factors reverberating through those same variables (ABAD, 1997).

3.2.1 General overview

The evolution of the main indicators (Table 3.1) indicates that, despite playing a less prominent role in the economy as a whole, the agricultural sector has never ceased to increase its output, both in nominal and real terms. Total output grew from €291 million in 1980 to €771 million in 2003, almost a threefold increase. As the use of intermediate consumption and fixed capital has grown at a lower rate, the gross and net value added have multiplied by three. In real terms (1980 prices) the increase is not that impressive, but still shows a growth by more than two-thirds.

Table 3.1: Main agricultural indicators, Navarra, 1980-2003 (annual average, € million)

Indicators	1980-85	1986-90	1991-95	1996-00	2001-03
	CURRENT PRICES				
Total output	291.1	437.9	575.9	696.3	771.2
Intermediate consumption	130.1	206.4	206.3	280.4	312.6
Gross value added	160.9	231.5	369.6	415.9	458.6
Fixed capital consumption	21.5	36.9	49.7	62.4	53.3
Net value added	139.5	194.6	319.8	353.5	405.4
Indicators	**CONSTANT PRICES**				
Total output	258.4	243.2	288.5	308.9	329.2
Intermediate consumption	104.9	103.2	93.8	113.1	118.1
Gross value added	127.9	140.1	194.7	195.8	211.1
Fixed capital consumption	15.8	18.3	20.4	21.1	15.8
Net value added	112.1	121.8	174.3	174.7	195.3
Indicators	**Average annual real growth rates**				
Total output	1.6	0.7	1	6.3	-0.6
Intermediate consumption	4.3	2.5	1.1	2.9	1.5
Gross value added	0.1	0.1	1.4	9.8	-1.1
Fixed capital consumption	1.5	1.5	0.8	-5.2	-4.8
Net value added	0.03	0.01	1.7	12.2	-0.4

Source: Author's calculations based on MAPA, 2003.

Note: Different methods are used to obtain the indicators before and after 1990.

The analysis of the real figures shows that for the first ten years of the study period the region's agriculture can be characterised as stagnant. The best period was between 1996 and 2000, where all the indicators showed high growth rates. The only exception is fixed capital consumption, which presented a negative average annual rate of change. As in the national case, the worst period is clearly the last, when negative growth rates were recorded.

As far as the productive specialization of the region's agriculture is concerned, crop products account for a higher percentage share than in the national sector at the beginning of the study period, decreasing thereafter, in contrast with the national sector, where it grew. The region nevertheless continues to be considered a specialist in cereals (MAPA, 2003). Horticultural products were very important prior to EU entry; exceeding 16 % of total production at one point, but their role has since diminished. Animal output represents an increasing share of agricultural goods. Some specialization in livestock production (cattle and milk) can be seen, as in other northern regions of the country, where this kind of production is better adapted to the bio-climatic conditions. In any case, beef cattle appear to be replacing dairy herds, as has occurred in other areas of Spain.

The evolution of the above indicators has an overall effect on the evolution of agricultural income (Table 3.2), which quantifies the return on primary productive factors, which, broadly, includes land, labour, capital and entrepreneurial management

(MAPA, 2003). In real terms, agricultural income went from an annual average of €112 million in the first five-year period to €207 million in the last three-year period. The highest annual average growth rate was recorded between 1996 and 2000. The lowest, which was negative in real terms, as at national level, was recorded at the end of the period.

Table 3.2: Agricultural income and rate of growth, Navarra, 1980-2003 (annual averages)

Year	Total agric. income (€ millions)		Income per worker (€)		Income per hectare (€)	
	Nominal	Real	Nominal	Real	Nominal	Real
1980-1985	142.7	112.1	6,229	4,994	220.1	176.7
1986-1990	214.1	121.8	11,592	7,039	325.5	199.3
1991-1995	329.5	177.8	28,351	15,282	529.5	285.5
1996-2000	371.8	180.5	21,766	10,555	601.2	291.7
2001-2003	448.8	207.2	29,520	13,611	723.4	334.1
Year	**Average annual growth rates**					
1980-1985	7.1	0.04	6.8	-0.6	6.8	-0.3
1986-1990	7.6	1.7	16.9	10.7	7.7	1.8
1991-1995	5.9	2.0	12.5	8.9	7.4	3.5
1996-2000	13.0	12.1	8.7	7.7	12.9	12.0
2001-2003	3.0	-0.6	7.5	3.4	3.0	-0.6

Source: Author's calculations based on MAPA, 2003.

Income per worker has grown faster, due to the declining size of the agricultural work force. The highest rate of growth appears in the period following Spain's entry into the EU. In terms of the income obtained from every hectare of land (UAA), an important increase can be observed. Again, the best five-year period is between 1996 and 2000.

The contribution of income from agriculture to overall output has fallen, despite increasing subsidisation of the sector, especially following Spain's entry into the EU (in 1980 net current subsidies accounted for less than 1 % of agricultural income and in the year 2000 they surpassed 30 %). This increase in subsidies might help to explain the above-mentioned increase in agricultural income. To understand the slowing down of real income growth per worker, it is necessary to consider the evolution of the ratio of prices received and prices paid by farmers versus the consumer price index. The agricultural terms of trade for Spain show a decreasing trend, indicating that the prices received by farmers have increased less than other prices. The only increase in this index took place in the early 1990s. The differential between the prices received by farmers and general prices suggests an income transfer from the agricultural sector to other branches of the economy and towards consumers.

3.2.2 Farm structure

As discussed above, the period of analysis was marked by a process of structural change in agricultural holdings, significantly modifying the basic farm profile. Two main sources of data are available to illustrate evolution of sector's various characteristics: the AGRICULTURAL CENSUS (available for 1982, 1989 and 1999) and the AGRICULTURAL HOLDINGS STRUCTURE SURVEY (available for 1990, 1993, 1997, 2003 and 2005). The data from both sources lead to similar conclusions, although the farms included and the methodology used to obtain the main magnitudes vary from one source to the other.

The information provided by the censuses shows that the number of farms decreased from over 42,500 in 1982 to 25,400 in 1999, that is, a 40 % drop over the period as a whole, most of the structural adjustment taking place during the period between the last two censuses (Table 3.3). Taken together with the change in the quantity of land used for agricultural purposes, this development led to an increase in average farm area from 12.2 to 23.7 hectares of Utilized Agricultural Area (UAA). This shows that the land relinquished by the outgoing farms was not abandoned but used to enlarge those that remained. This trend is reflected by the considerable increase of land tenancy, as the percentage of rented land grew from 10.6 % in 1989 to 25.7 % in 1999.

In relation to the endowment of production factors, total regional UAA stands at somewhere around 600 thousand hectares, roughly 40 % of which is used for pasture, and the rest for arable use, mainly the production of annual crops. By 2005, the available UAA had dropped by around 5 %, mainly due to a reduction in land devoted to pasture. The area of irrigated land increased from 67,000 to over 92,000 hectares that is around 15 % of total UAA by 2005.

Table 3.3: Structural indicators obtained from the Agricultural Censuses, Navarra, 1982-1999

Indicator	1982	1989	1999
Number of holdings	42,563	40,047	25,406
Total land (ha)	965,856	930,756	952,502
UAA (ha)	516,954	620,150	601,442
Total land per farm	22.69	23.24	37.49
UAA per farm	12.15	15.49	23.67
AWU/farm	0.48	0.47	0.65
AWU/hectare of UAA	0.04	0.03	0.03
SGM/farm (ESU)	5.35	5.94	12.76
SGM/hectare of UAA (ESU)	0.44	0.38	0.54
SGM/AWU (ESU)	11.05	12.57	19.72

Source: Author's calculations based on INE, 1991, 2002 and MAPA, 2003.

The labour factor also shows a decreasing trend, with the number of workers decreasing from 20,614 in 1982 to 16,445 in 1999. This reduction is not proportional to the reduction in the number of holdings, however, since the average AWU shifted from 0.48 per farm to 0.65, which is a higher increase than that registered at national level.

Farm economic performance, measured in Economic Size Units (ESU) of Standard Gross Margin (SGM), increased in both periods, predominantly in the second. This is a major improvement, considering the reduction in the number of farms, since the SGM ratio per farm more than doubled. In comparison with the national average, this regional indicator grew much quicker. In these days, the region surpasses the national average.

One of the concerns regarding the structure of Spanish agriculture is the duality of the sector, where small farms greatly outnumber large ones. This reflects the national picture, but the situation is improving, as the proportion of farms with less than 8 ESU of SGM declines, and that of large holdings, particularly in SGM terms, increases.

PORCAL (2002) computed the farm distribution according to future prospects (REGIDOR, 2000). This revealed that 57 % are marginal family holdings, 21 % family holdings amenable to improvement, and only 14 % can be classified as viable family farms. The remaining 8 %, which occupy 58 % of the regional UAA, are large non-family farms with good prospects for continuity.

The results of the Census largely coincide with those based on the Survey of Agricultural Holdings data. The latter have the advantage of being more recent, but the conclusions will not differ greatly, because, the main changes in the sector took place in the period 1989-1999. Structural adjustment continued in the same direction, albeit more slowly, to the end of the study period. As a result, the average farm in the region has more available land, uses more labour and obtains a higher SGM than during the early 1980s.

The Survey data also reflect the relative importance of less favoured areas[18]. In the regional case, around 66 % of the agricultural land is located in less favoured areas, where the number of holdings is growing, from 55 % of the regional total in 1990 to 62 % in 2005. The corresponding percentages for the mountainous areas are 36 % and 40 %, respectively.

Farm labour is sourced mainly through the family. At the beginning of the period, family labour accounted for more than 80 % of the total Annual Work Units (AWU); the latest data show a reduction to 67 %. Meanwhile, the percentage of farmers working full time in the farm decreased to 55 % in 2005.

[18] At regional level, 52.5% of the municipalities, 54 % of the total area and 14 % of the population in 2001 were classed as mountainous areas, while another 24 % of the municipalities, 25% of the total area and 13 % of the population fell into the category of other less favoured areas.

Another issue in regional agriculture is the ageing of farmers. The survey data show that the youngest farmers form the smallest age-group (younger than 35 years), which lost 3 points of its share (from 10 % to 7 % in 2005). The largest is that of the farmers aged 55 to 64, although the percentage share is decreasing. However, the large and increasing share of the highest age group (age 65 and over) is clear evidence of the region's farmers' ageing process.

In relation to the qualification of the labour force[19], the percentage of the agricultural workforce with at least a secondary education has risen from nearly 10 % to over 53 %, and the percentage with a university degree has grown from virtually 0 % to 2.6 %. Both indicators reflect a very positive trend in the formation of human capital within the sector. With respect to the national average, this educational level looks very good. However, compared to the other sectors within the region, the level of education is relatively poor.

3.2.3 The region's rural areas

All the farming activity analysed in the preceding paragraphs requires a physical environment, the rural area, one of the most interesting features of which is its human component. As some authors have already noted, a strong social network (a reasonably sized population, capacity for initiative, etc.) is the key to improving rural areas (SANCHO and REINOSO, 2003).

Table 3.4: Distribution of population centres by number of inhabitants, Navarra, 1960-2005

Region	1960	1970	1981	1991	2001	2005
			Number of inhabitants (thousands)			
Rural	135.6	106.9	97.1	94.0	100.9	94.6
Intermediate	152.1	166.2	150.0	153.0	166.6	184.7
Urban	114.3	191.8	260.2	272.0	288.7	314.2
Total	402.0	464.9	507.3	519.0	556.3	593.5
			Percentage of population in each group			
Rural	33.7	23.0	19.1	18.1	18.1	15.9
Intermediate	37.8	35.7	29.6	29.5	30.0	31.1
Urban	28.4	41.3	51.3	52.4	51.9	52.9
			Number of municipalities			
Rural	218	213	215	214	221	216
Intermediate	45	48	43	44	44	48
Urban	2	4	6	7	7	8
Total	265	265	264	265	272	272
			Percentage of municipalities in every group			
Rural	82.3	80.4	81.4	80.8	81.3	79.4
Intermediate	17.0	18.1	16.3	16.6	16.2	17.6
Urban	0.8	1.5	2.3	2.6	2.6	2.9

Source: Author's calculations based on data supplied by the INSTITUTO DE ESTADÍSTICA DE NAVARRA, 2010.

[19] Data supplied by the Instituto Valenciano de Investigaciones Económicas (FUNDACIÓN BANCAJA-IVIE, 2008).

This raises questions that might be answered through a brief analysis of the rural population based on data from population censuses. By the Spanish definition of what constitutes a rural area[20], this region has changed considerably in the last forty-five years (Table 3.4). In 1960, over 70 % of the population resided in municipalities of fewer than 10,000 inhabitants, which represented the 99 % of their total number. In fact, only two municipalities, the capital, Pamplona, and Tudela in the south, were classified as urban.

As can be observed, however, the 1960s and 1970s witnessed a flow of immigration towards the main industrial centres. The share of population in rural and intermediate municipalities fell to 50 % in 1981 and, since then, these numbers have remained fairly constant, due to some population shifts from rural to intermediate municipalities. The latest available data show the number of urban municipalities to have risen to eight, but these make up the urban area surrounding the capital, Pamplona. The region's demographic trend shows the population to be concentrated in the areas surrounding the cities and along the main communication routes, and also reveals the depopulation of the most remote and mountainous areas (UGALDE, 2002).

Based on the number of its rural municipalities, and in comparison with the national average, Navarra is a region of rural character, spread over a large number of municipalities, despite the high density of population in the capital, which in 2005 housed 33 % of the total population of the region (50 % if we include the adjoining municipalities, which are extensions of the capital).

In addition, both definitions of rural areas (i.e. OECD definition and the one by the regional government) classify Navarra as a considerably rural region, because around 44 % of the population reside in municipalities with a population density below 150 inhabitants per km². (GOBIERNO DE NAVARRA, 2007; OECD, 2005). The two criteria produce similar results.

For a deeper understanding of the differences between rural, intermediate and urban areas, we have analysed the distribution of employment by sector of activity. As noted repeatedly, the rural areas are characterized by the agricultural sector's high share in economic activity. Using numbers of workers as a proxy, it is clear that in 2001 the agricultural sector employed over 17 % of the active rural population

[20] Note that the INE identifies rural municipalities as those with under 10,000 inhabitants. Nevertheless, an intermediate category including municipalities with between 2,001 and 10,000 inhabitants is in common use. This implies a three-group classification: rural, intermediate and urban. The EU population density criterion defines rural communities as those with up to 100 inhabitants per km². Thus, regions with over 50 % of the population residing in rural communities are classed as essentially rural, those with 15% to 50 % as relatively rural, and the rest as essentially urban. The OECD uses a similar classification also based on population density (with the limit of 150 inhabitants per km²). This is the method used for the definition of rural areas in the last programming period 2007-2013.

but only 2 % of the active urban population. The subsequent trend followed by this ratio is evidence of the sector's decline, which is particularly noticeable in rural and intermediate areas and is accompanied by a corresponding increase in the service sector.

In this respect, and taking into account the key role of tourism in the rural development process, it is worth looking at some figures describing the trend followed by this sector within the region. Navarra has a small but significant share (just under 3 %) in the national tourist industry, but its striking growth over the last twenty years is largely linked to the rural areas.

Another issue affecting rural areas is the proportionally large share of elderly population, which may hinder social and economic development. While taking into account Navarra's current population aging process, the percentage of elderly amongst the general population has always been greater in rural than in urban areas. In 2001, for example, people over the age of 65 accounted for almost 28 % of the rural population, 18.6 % of the intermediate population and 13.9 % of the urban population, versus 9.7 %, 14.0 % and 15.7 %, respectively, of those under the age of 15 years.

Gender imbalance is one more problem affecting rural areas, mainly due to heavy migration of rural women to urban areas, where it is easier for them to find work (CAMARERO, 2002). There are significant differences in the male population indices for the region's municipalities, which are increasing to the extent that in 2001 the rural index stood at 116 versus a regional average of 99. In some rural areas, this has hindered couple formation and regeneration of the social network.

Related to the above is the small percentage of women in the labour market. Across all municipality classes, the proportion of women in the active population is growing, according to social and demographic records for the last twenty-five years. The increase has been greater in urban areas, indicating some delay in the incorporation of women to the labour market in rural areas. The figures vary widely from one sector of activity to another, however. Women outnumber men overall in the services sector, where they held over half the jobs in 2001.

A last point worth noting is the broad difference in education among the population. The skills level of the regional population has vastly improved in recent years, but, again, rural areas compare poorly with others in this respect. In the last available census, the percentage of the population with university qualifications was 18.6 % in the urban areas, 10.4 % in the intermediate areas and 11.2 % in the rural areas. There are at least three contributing factors: the rural population has less access to centres of learning (the universities, for instance, are located in the capital); the migration process from the rural areas mainly involves the higher-skilled (PORCAL, 2002); and most of the skilled jobs are in the urban centres (UGALDE, 2002).

3.3 Rural policy

Traditionally, the public sector has intervened in the rural areas in two ways: sectoral policies (including the agricultural policy) and territorial policies (which include regional or rural policy). The approach has changed over time, with the sectoral approach dominating throughout the 1980s, when policies were more oriented towards the agricultural sector, which provided most of the employment and income in rural areas. However, the agricultural policy has failed to prevent the decline of many rural areas. This has led to a change of approach, which increasing reliance on territorial policies (MURUA et al., 2005). Evidence of this change can be seen in the evolution of the CAP and the appearance of the second pillar in the late 1990s.

Prior to EU entry, Spain's regional development policy had an urban and industrial bias with limited impact in rural areas because it reinforced the trend towards industrial concentration in specific areas (REGIDOR, 2000). Lack of funding to back the regional development policy was another factor (MANCHA and CUADRADO, 1996). Thus, it was the agricultural policy that had most impact in the rural areas. Since Spain joined the EU, however, the Spanish rural sector has been affected by both the agricultural and the regional policy, which have gained increasing importance at European level.

Spain's entry took place at a very challenging moment for the EU in general, and agricultural policy in particular. In the 1980s, successive agricultural surpluses and the increasing cost of the CAP drove the European authorities towards a switch of direction that would reduce protection and support for the sector. However, aware that the less favoured areas would suffer most, and in order to mitigate the problems this change could pose to many rural areas, the European Commission adopted the new integrated development approach (VILADOMIU, 1994). This led to the 1988 reform that increased the portion of the budget assigned to structural funds. One of the main changes was the switch from a sectoral to a territorial approach, as mentioned above. The European Commission replaced the term agricultural development with rural development, in recognition of the fact that this could not depend on agriculture alone. At the same time, environmental issues have become more prominent at EU level.

Since then, the development policy has followed a multi-annual implementation plan, with the periods varying in length: 1989-1993, 1994-1999, 2000-06 and 2007-2013. The member states are responsible for identifying the regions to be included in each objective and deciding the priority in each case. The policies managed at regional level through the corresponding programme (operational programme, single document and rural development programme, and the LEADER initiative) are discussed in this section.

3.3.1 Prior to the first programming period

The Spanish agricultural policy prior to EU entry was based on prices and market policy. There was no rural policy as such, but rather a series of public investments (BEAUFOY et al., 2002). These were mainly used for structural improvements of the agricultural sector and can be summarised as the irrigation policy, land consolidation, and reforestation of marginal land. Although there were minor programmes for the incorporation of young farmers, the protection of family farms, a quality policy through the protected designation of origin and conservation of natural resources, the rural policy was not a government priority before 1985. However, during the early 1980s, national policies had to adapt to EU standards, and Navarra's *foral* status gave it a high level of financial autonomy.

Following Spain's EU entry, the European Regional Development Fund (ERDF) intervened in Spanish regional policy, but, in the first year, aid from these funds went only to the six (later, nine) least developed autonomous communities, which did not include Navarra. However, in 1987, the European Commission approved a new map of interventions that covered 6,394 km² (61.4 %) of Navarra's surface area and 157,800 (31 %) of its inhabitants. The area in question lies in the north of region. This ERDF intervention in Navarra was the result of the "Regional Development Programme" presented in 1986 to cover the period 1987-1990. Through this European fund, Navarra received €4.6 million. The European Social Fund (ESF) and European Agricultural Guidance and Guarantee Fund (EAGGF) also provided aid (€1.6 and €8.4 million, respectively) to various activities. The available resources from the EAGGF Guidance funds were spent mainly on measures to strengthen infrastructure and promote the transformation and marketing of agricultural products.

3.3.2 First programming period (1989-1993)

The aforementioned reform of the structural funds introduced a series of changes, the main ones being an increase in the amount of funds and the targeting of specific objectives. The latter proved highly beneficial for Spain, due to the severity of its regional inequalities in relation to the rest of the EU (MANCHA and CUADRADO, 1996).

In this period, 85 % of the funding from the structural fund is concentrated on three regional policy objectives. Objective 1 target regions with lagging development, Objective 2 those worst affected by industrial decline, and Objective 5b rural areas in need of structural adjustment. Navarra did not qualify as an Objective 1 region, because, as noted earlier, its income per capita was over 75 % of the European average. Some parts of the region were included in Objectives 2 and 5b, however.

Specifically, this meant 59.7 % of the regional population and 74.3 % of its surface area were included in objective 2. Objective 5b covered 13.7 % of the population and 41.7 % of the surface area, with a population density of 17.5 inhabitants

per sq. km. (against a regional average of 50 per km²), with 23 % of the work force employed in agriculture (against a regional average of 13 %).

According to the operational programme for Objective 5b areas in Navarra, the main drawbacks of the area were that it was a mountainous area, with a low density, rapidly aging population, with agriculture dominating the main economic magnitudes and an under-developed service sector. The agricultural sector had a dual structure with a high proportion of small farms and difficulties in the marketing of agricultural products. The area also had environmental problems, such as high forest fire risk, soil erosion, dumping of cattle-raising waste, and water contamination. In addition, there was a lack of infrastructure to attract tourists, a state of economic crisis in some of the area's industrial sectors, and deficits in the provision of some services.

In 1990, the Development Plan for the Pyrenean Area was approved. The programme tried to improve the productive system, develop the marketing process, create adequate infrastructure, promote the conservation and protection of rural areas, and boost human capital through vocational training.

The funds used to finance every sub-programme are shown in Table 3.5. The most important measures, in terms of the amount of funds invested, were those included in sub-programmes I and II, which represented almost 80 % of the total expense. In concrete terms, the largest portions of the investment went to reforestation (23 %) and improvement of grazing land (11.2 %). The main share in ERDF and ESF funding was spent on rural tourism and small business development (11.5 %).

The distribution of funds by sectors shows that the bulk went to the primary agricultural and forest sectors, which jointly absorbed over 60 % of the total funds. The next in order of importance are tourism and infrastructure. Finally, the lowest share, i.e. less than 2 % of the funds, was spent on training and the environment.

Table 3.5: Measures financed in the programme for the area 5b in Navarra, 1990-93 (€ million)

Sub-programme/Measures	Public funding		Total spending
	Total	EU	
Sub-programme I. Improvement of agricultural structures and diversification of the agricultural sector (co-financed by the EAGGF Guidance)	18.13	8.16	34.19
Sub-programme II. Conservation and exploitation of natural resources (co-financed by the EAGGF Guidance)	20.08	9.04	42.49
Total EAGGF (I+II)	38.21	17.19	76.68
Sub-programme III. Diversification of economic activity and infrastructure improvement (co-financed by ERDF)	8.34	3.75	18.29
Sub-programme IV. Revaluation of human resources (co-financed by the ESF)	2.44	1.10	5.03
TOTAL	48.98	22.04	100.00

Source: SANTAFÉ, 1995

The late 1980s saw the advent of a new approach to rural development in the less favoured areas of the EU in the shape of the LEADER initiative. This initiative uses an ascendant, territorial and integrated approach taking rural development in a new direction. It was specifically intended as a pilot scheme to motivate the development of rural areas. Its main objective was to promote the endogenous resources of the rural areas and find alternative means to agriculture to create new resources and introduce innovative activities into rural society (SANCHO, 2002).

All the adopted measures had the common objective of promoting the economic diversification of the target areas and improving the living conditions, wellbeing and skills of their inhabitants (BELTRÁN, 1994). It was applied in Objective 1 and 5b regions. In the case of Navarra, a local rural development programme was drawn up in 1991 and a local Action Group created to manage it.

Table 3.6: Funds of the LEADER I, Navarra (€ million)

Measures	Total expense	Public funding						Private funding
		Total	EU	National funding				
				Total	Central	Local	Regional	
1. Technical support to rural development	0.98	0.77	0.25	0.52	–	0.05	0.48	0.21
2. Vocational training and aids to employment	2.18	1.76	0.09	1.67	1.13	0.09	0.46	0.42
3. Promotion of rural tourism	4.60	3.16	0.63	2.53	–	1.86	0.67	1.45
4. Small craft enterprises and local services	1.86	0.50	0.02	0.47	–	0.15	0.32	1.36
5. Valuation and marketing of agricultural products	5.41	4.45	0.58	3.87	–	–	3.87	0.96
6: Valuation of natural and cultural heritage	0.80	0.78	0.17	0.62	–	0.17	0.45	0.02
7. Group functioning	0.41	0.40	0.18	0.22	–	0.11	0.12	0.01
TOTAL	16.25	11.82	1.91	9.91	1.13	2.42	6.36	4.42

Source: LEGARREA, 1996.

The main objective of the regional programme was to stimulate integrated rural development in Navarra through a triple strategy based on the revitalization of the economic and social networks of the area, support for local initiatives and protection of the rural habitat. This was translated into seven specific objectives. Figures for the distribution of the funds among these objectives are given in Table .6. The data show that public funding covered around 73 % of the total expense. The two most important measures, in terms of assigned funds, were the promotion of rural tourism and the valuation and marketing of agricultural products, which jointly absorbed over 60 % of the total budget.

One of the most important contributions of the LEADER programme was to initiate a new way of promoting rural development, by introducing a new cooperative dimension with the creation of local action groups (PÉREZ and JIMÉNEZ, 1994). It is widely considered that this kind of initiative has been well-received in rural areas. However, the final evaluation has shown that some of the objectives, such as mobilisation of the local population or calls for innovative project proposals, have not been accomplished. According to CEMAC (1999) a possible partial explanation for this outcome is the lack of experience of the public authorities in sharing responsibilities with others.

3.3.3 Second programming period (1994-1999)

The first important point to note in relation to this period is the Mac Sharry CAP reform that took place in 1992. Direct aid became the basic instrument for the protection of agricultural income (ARNALTE, 2002).

During this period, some areas of Navarra were again included in Objectives 2 and 5b. The latter significantly increased its coverage to 22.9 % of the regional population and 66.7 % of the regional area. Meanwhile, planning for the Objective 5b areas was through a Single Programming Document.

According to GOBIERNO DE NAVARRA (1995), the characteristics of the area included in the Objective 5b were economic development below the regional average, a higher percentage of agricultural workers in the work force, low-density population, and, due to the migration of young people to urban areas and the decline in the birth rate, a higher proportion of elderly and a smaller proportion of women in the population.

The main difficulties of the area can be summarised as inadequate productive structures (mainly in the agricultural sector due to the small size of farms and excessive subdivision of the land, insufficiently quality-oriented production, and underdeveloped transformation and marketing structures), industrial sector deficiencies, environmental problems (soil erosion, shortage of wooded lands in the south, contamination of water due to urban and industrial waste), and lack of infrastructure.

In this context, the general objective of the programme was to halt demographic decline by increasing job opportunities, improving the working and living conditions of the rural population, and contributing to reinforce the economic and social cohesion of the region.

The distribution of the funds among sub-programmes is presented in the Table 3.7. The first two sub-programmes accounted for over 90 % of the total expenditure and around 88 % of the public funding. The measures receiving the highest shares of public funding were rural infrastructure, green cover protection and improvement, renovation and development of rural villages and rural tourism, and training of the employed. In terms of total spending, it is also worth mentioning a measure

aimed at the localization of productive investment (which attracted the highest share of private funding).

The measures were grouped by priority axes. Priority axis 1, which took more than 40 % of the total funds, but only 18.8 % of the public money, was the diversification of economic activity and the creation of employment. Next, came measures for natural resources and the environment, with 26 % of the total spending but almost 34 % of the public share; and, in third place, basic infrastructure, with 16 % of the total budget and 22.7 % of the public financing.

Table 3.7: Distribution of funds over programmes, Navarra, 1994-1999 (€ million)

Sub-programme/Measures	Public financing		Total expense
	Total	EU	
Sub-programme I. Sustainable development of the rural habitat (co-financed by the EAGGF Guidance)	77.6	38.8	82.5
Sub-programme II. Structural improvement and economic diversification (co-financed by ERDF)	24.9	12.5	69.7
Sub-programme III. Valuation of human resources (co-financed by ESF)	13.2	6.7	13.7
Sub-programme IV. Technical support (co-financed by the EAGGF Guidance)	1.1	0.8	1.1
Total	116.8	58.8	166.9

Source: FBG, 2001.

The funds also targeted some activities more than others. Again, the primary sector took the largest share of the public funding, with agriculture receiving most public grants (25 %). Infrastructure also took up a high percentage (19 %) of the budget over this programming period, which introduced some important changes with respect to the previous one. First, a cut in public funding for tourism-related activities, followed by an increase in the percentage allocated to training and environmental intervention.

LEADER I was so well received, recommendations were made for its prolongation. The following programme was a continuation of the previous one. The new three new local action groups covered areas newly incorporated into the region's Objective 5b zone during this programming period.

The distribution of the budget over the different measures (Table 3.8) shows that over 95 % went to rural innovation programmes. More specifically, rural tourism and small businesses accounted for 44 % of the public funding and over 82 % of the private funding, showing that these two measures, together with valuation and marketing, attracted a large share of the private initiative.

The share of the public funding allocated to conservation of the environment (30 % of the national contribution and 22 % of the European subsidies) contrasts strikingly with its negligible share in the private funding.

Table 3.8: Distribution of compulsory funds by measures, Navarra, 1994-99 (€ million)

Measure	Total cost	Public financing		Private financing
		National	EU	
A. Skills acquisition	0.29	0.12	0.13	0.03
B. Rural innovations programmes	31.71	9.62	5.48	16.61
B1. Technical support to rural development	1.65	0.83	0.82	–
B2. Vocational training	1.05	0.39	0.46	0.20
B3. Rural tourism	10.92	2.90	1.52	6.49
B4. Small business and craft activities	9.96	1.94	0.80	7.23
B5. Valuation and marketing	3.49	0.48	0.53	2.48
B6. Conservation of the environment	4.63	3.08	1.35	0.20
C. Trans-national cooperation programmes	0.86	0.41	0.40	0.05
D. Monitoring and evaluation.	0.06	0.03	0.03	–
Total	32.91	10.18	6.04	16.69

Source: UPNA, 2001.

A regional/national comparison shows that the main interventions at both levels aimed at infrastructure improvement, with a slightly higher share at the regional level. Within this group of measures, there were noticeable differences in the area of farm structure improvement (modernization of agricultural holdings and grants for young farmers). Whereas at regional level this measure absorbed almost 24 % of the total spending, it received less than 15 % at national level. On the other side, other measures receiving a smaller share at regional level included the improvement of productive infrastructure, particularly irrigation.

Although the regional percentage of funding allocated to environmental improvement was lower than the national average, forestry and environmental protection received a higher share at regional level (17 % of the total funds). However, measures aimed at economic diversification absorbed a higher proportion of the budget at regional than at national level.

3.3.4 Third programming period (2000-2006)

1996 saw the signing of the Cork Declaration, which established rural development as a priority EU policy, and acknowledged the need to use a similar approach to that employed for LEADER. The approval of Agenda 2000 in 1999 brought about changes in the CAP and structural and cohesion funds. One of the objectives of this CAP reform was to adopt a multi-functional perspective on European agriculture. It was also during this programming period that the CAP Mid-Term Review of 2003 took place. This reform strengthened the rural development policy both in scope and financial resources.

As far as rural development was concerned, the main changes were the inclusion of the rural development policy as the second pillar of the CAP and Regulation 1257/1999 concerning rural development support. In this period, agri-environmental measures acquired greater prominence. The new regulation took a more integral

view of the relationship between agricultural activity and rural development, underlining the changes introduced in the concession of compensatory payments and in the measures for the restructuring of agricultural and rural activities (BARDAJÍ, 1999).

Following changes introduced by Agenda 2000 in the definition of the regional objective areas, the whole of Navarra was included in Objective 2, with the exception of the regional capital of Pamplona and its conurbation and the City of Tudela. The exclusion of the more urban municipalities with stronger industrial and services sectors still left 95 % of the region's surface area, but no more than 51 % of the total population of the region under Objective 2.

Planning in all the Objective 2 areas, including Navarra, during this period was through a Rural Development Programme financed by the EAGGF guarantee fund. The area also received ERDF funds through the operational programme, and, finally, on a horizontal basis, the area benefited from funds from the ESF.

A breakdown of the objectives of the rural development programme by priority axis is given below. The main social objectives were the improvement of living and working conditions of the agricultural population of rural areas and the slow down of the demographic decline of the rural areas. From the economic viewpoint, the programme was aimed at boosting the competitiveness of the agricultural and food sector and promoting professionalized agriculture, while also contributing to the maintenance and creation of jobs in rural areas through economic diversification. The programme also had environmental goals, such as promoting sustainable rural development, making economic activities environmentally friendly and promoting nature conservation, natural resource recovery and animal welfare.

Table 3.9: Distribution of funds by axis, Navarra, 2000-2006 (€ million)

Axes/Measures	Public financing		Total expense
	Total	EU	
Axis 1: Improvement of the efficiency of agricultural holdings	52.4	22.8	109.8
Axis 2: Agri-food industry	49.6	31.0	206.6
Axis 3: Agricultural infrastructure	52.2	26.1	52.2
Axis 4: Accompanying measures	83.9	41.9	90.2
Axis 5: Forestry, natural habitat and countryside	36.9	18.4	40.2
Other actions	10.6	3.6	10.6
Total	285.5	143.9	509.6

Source: GOBIERNO DE NAVARRA, 2003.

Total public financing exceeded €285 million, of which €143 million were provided by the EAGGF Guarantee. The measures were implemented across five priority axes (Table 3.9). The most important axis related to the agro-food industry, which received 39 % of the total programme budget but only about 20 % of the public funding. The second axis, in terms of its share in the total budget, was the

improvement of farm efficiency, where the private contribution was much smaller than in the previous case. Finally, the accompanying measures accounted for a large share (around 30 %) of the public contribution to rural development in the region.

For the purposes of the LEADER initiative (called LEADER+) and despite the region as a whole qualifying as a rural area in decline, it was decided to concentrate the aid provided by the initiative in the Objective 2 area. The EU funding came from EAGGF Guidance.

Table 3.10: Distribution of funds among axes in Leader+, Navarra (€ million)

Axes	Public financing		Private	Total
	Total	EU		
1. Strategies of development	16.08	8.04	15.5	31.58
2. Cooperation	0.8	0.4	0.08	0.88
4. Management and evaluation	0.12	0.06	0	0.12
Total	17.00	8.50	15.58	32.58

Source: GOBIERNO DE NAVARRA, 2001.

The general objective was to boost the social and economic development of the rural areas, using sustainable development strategies. The measures were implemented across three priority axes[21]. As shown in Table 3.10, the bulk the programme budget was spent on the first axis, development strategies.

The main measure in priority axis 1 again affects tourism, which absorbed over 20 % of the funds. It was followed by the valuation of the cultural heritage, small businesses and the valuation of agricultural products, these four measures accounting for three quarters of the available funds.

A regional/national comparison of these later rural development programmes yielded similar conclusions to those reached for the previous one. That is, at both these levels, the largest share in the budget went to structural improvement, mainly productive infrastructure. In Navarra, the balance lent towards the improvement of agricultural infrastructure, whereas at national level, irrigation infrastructure took the largest share. Additionally, since Navarra's rural development policy was more oriented towards farm improvement, environmental improvement and economic diversification received a smaller share of the funds.

In this period, there was an important increase in the percentage of funding allocated to the improvement of productive infrastructure (especially irrigation, whose share of the total funds went up from 1.3 % to 12.1 %). At regional level,

[21] Plus network creation, which does not qualify for regional funding because it is the responsibility of the Ministry of Agriculture, Livestock and Food (GOBIERNO DE NAVARRA, 2001).

it is also worth mentioning the increase of the share allocated to early retirement and the decrease of that destined to farm modernization.

Measures for environmental improvement received more attention in the last programming period, especially in Navarra. However, there was a cut in the share of rural development funds allocated to economic diversification measures, particularly those meant to provide technical support and protect the rural and cultural heritage.

3.3.5 Fourth programming period (2007-2013)

Over this period, the main tool in the EU rural development policy is Council Regulation (EC) 1698/2005. The creation of the European Agricultural Fund for Rural Development (EAFRD), removes the administrative boundaries from rural development funding that had existed with the two previous funds. The new regulation establishes three priority objectives for implementation across specific axes, and stipulates a minimum percentage of the total funds: improving the competitiveness of agricultural and forestry sector (10 % of the EAFRD), improving the environment and the countryside (25 % of the EAFRD) and improving the quality of life in rural areas and diversification of the rural economy (10 % of the EAFRD). A fourth methodological and transversal axis, LEADER, is also introduced in order to transfer the experience of the LEADER initiative to the rural development policy (with 5 % of the EAFRD).

The regulation also features the requirement that each member state draws up a National Strategy Plan to assess the status of its rural areas and agricultural and agro-food sectors. The picture revealed in Spain's case is one of marked depopulation and notable masculinisation and aging of the remaining rural population, highly irrigation-dependent agricultural production, extreme atomization of agro-food industries, poor technological development, and environmental problems (MARTÍNEZ, 2008).

Member states with a regional programming approach, which is the case of Spain, are allowed to set up a National Framework to establish uniform horizontal measures across all Autonomous Communities. Every regional programme includes the horizontal measures of the National Framework complemented with specific measures for individual regional circumstances.

It is into this framework that we must fit Navarra's Regional Development Programme, which prioritizes the promotion of knowledge and improvement of human potential, the restructuring and development of the region's physical potential and promotion of innovation (Axis 1), sustainable use of agricultural and forestry land (Axis 2), diversification of the rural economy and improvement in the quality of life in rural areas (Axis 3) and the development of local capacity and diversification (Axis 4). The resource allocation for the four axes is given in Table 3.11.

Public co-financing for the implementation of the programme amounts to €325.4 million, €112.3 million of which from the EAFRD. Additional non-co-financed resources supplied by the Foral Community of Navarra amounted to €176 million.

In terms of fund distribution, Navarra is strongly oriented towards Axis 1, which accounts for around 68 % of total public financing. The main measures under this axis are adding value to agricultural and forestry products which take almost 29 % of the public funding, and the measures aimed at the modernisation of agricultural holdings (16 %) and infrastructure for the development and adaptation of agriculture and forestry (15 %). The measure aimed at increasing the added value of agricultural and forestry production receives the largest amount of public resources in order to increase the competitiveness of Navarra's agro-food industry, considered the main driving force of rural economies and the sector best able to meet their needs. In any event, the strategic option of Navarra's rural development programme is to prioritize competitiveness in the production sector. The rural development programme is used a last-resort tool to boost the agricultural sector (OECD, 2009).

Table 3.11: Distribution of funds among axes, Navarra 2007-2013, (€ million)

Axes/Measures	Co-financed			Non co-financed	
	Public financing		Total expense	Public financing	Total expense
	Total	EU			
Axis 1. Improving competitiveness of the agricultural and forestry sectors	219.7	54.9	606.5	121.0	593.8
Axis 2. Improving the environment and the countryside	66.6	36.6	79.0	55.9	56.4
Axis 3. The quality of life in rural areas and diversification of rural economy	15.4	7.7	22.2	–	–
Axis 4. Leader	23.8	13.1	46.3	–	–
Total	325.4	112.3	754.1	176.9	650.2

Source: GOBIERNO DE NAVARRA, 2009.

The next priority, the axis 2 measures, aimed primarily at agri-environment payments and a natural handicap payment to mountainous areas (in view of the large share of these areas within the region).

Compared with, and in contrast to the national average, the Navarra rural development programme leans heavily towards priority axis 1 (VILADOMIU and ROSELL, 2008) and the three above-mentioned measures. Thus, the region's orientation throughout all the rural development programming periods is maintained, that is, priority attention to the modernisation of agricultural holdings and the improvement of agricultural infrastructure.

3.4 Success factors in managing rural changes

The objective in this section is to identify the main success factors leading to the aforementioned results. The necessary data will be drawn from the results reported in previous sections, evaluation reports of different rural development programmes applied and interviews with people in some way connected with rural areas and rural development programmes and policies (academics, members of regional local action groups, representatives from the institutions, technicians).

Table 3.12: Distribution of funds in the programming periods, Navarra, 1990-2013

€ Millions	1990-1993		1994-99		2000-06		2007-2013	
	OP	LEADER I	SP	LEADER II	RP	LEADER +	RP*	LEADER
Total	100.0	16.3	166.9	32.9	509.6	32.6	1,358.0	46.3
Public	49.0	11.8	116.8	16.2	285.5	17.0	478.5	23.8
EU	22.0	1.9	58.8	6.0	143.9	8.5	99.2	13.1
Other	27.0	9.9	58.0	10.2	141.6	8.5	379.3	10.7
Private	51.0	4.4	50.1	16.7	224.1	15.6	879.4	22.6
%	**1990-1993**		**1994-99**		**2000-06**		**2007-2013**	
	OP	**LEADER I**	**SP**	**LEADER II**	**RP**	**LEADER +**	**RP***	**LEADER**
Total	100	100	100	100	100	100	100	100
Public	49.0	72.7	70.0	49.3	56.0	52.2	35.2	51.4
EU	22.0	11.7	35.2	18.4	28.2	26.1	7.3	28.3
Other	27.0	61.0	34.8	30.9	27.8	26.1	27.9	23.1
Private	51.0	27.3	30.0	50.7	44.0	47.8	64.8	48.8

* without LEADER expenses.

Source: Author's elaboration based on previous tables.

Note: OP: Operational programme; SP: Single programme; RP: Rural programme.

There appears to be some general agreement that recent times have been the best times in the history of the rural areas. The suggested explanations boil down to two factors. First, it is believed that the performance of the economy as a whole and, particularly, of the non-agricultural sectors, are decisive for the situation of rural areas. In other words, rural areas follow a similar pattern to those observed in other sectors of the economy. This means that the economic health of the rural areas depends on that of the regional economy as a whole, which, as discussed above, presented good economic performance indicators over the period of analysis.

A second important explanatory factor for the between-region variation in rural development is the amount of resources used. Some specific figures are given in

Table 3.12, which breaks down total spending patterns during the four programming periods. The volumes spent in the various programmes have increased, such that the amount of available resources in the last period was more than ten times higher than in the first period, with major variations in the public sector share. Thus, although total funding was at its highest in the last programming period, the public contribution was greatest in the second one.

Thus, the evolution and current situation of the rural areas is a result of the rural policies applied over this period of time. There is some margin for public intervention to boost development in these areas.

Broadening the scope to include other sectors is considered a major necessity in rural development policies, where the use of an approach focused exclusively on the agricultural sector is sometimes seen as a constraint on certain measures. Thus, there is an obvious need to promote the diversification of rural activities as a means to boost rural development. This impression is reinforced by the latest declarations of some international institutions. For the OECD (2006), for instance, the agricultural sector is still important in shaping the rural landscape, but plays a minor role in economic terms. According to the OECD, public policies in rural areas have until now been focused mainly on agricultural activities, but, with agriculture accounting for such a small percentage of GDP, public intervention has a limited capacity to influence well-being across the entire rural population. In addition, grants to agriculture have been concentrated primarily on wealthier regions with large, productive farms. Rural funds should be allocated on the basis of needs, prioritizing the areas with greatest problems, not the most dynamic ones, as in the past. It would therefore make sense to readjust regional targeting to address the specific problems of lagging rural areas more efficiently (NUNEZ, 2005).

The approach to rural development changed over the study period, with rural policy moving from an agriculture-based, top-down approach to a territory-based, environment-conscious, integral view of rurality (OECD, 2009). The decision to implement rural policy through a single fund could prove a limitation, because rural problems affect a variety of areas, thus calling for an integral approach. In the case of Navarra, a more integral approach was used in the first two programming periods, when all the structural funds were involved. In the later programming periods, the regional programmes, being limited to only one fund (EAGGF or EAFRD), were more focused on the primary (agriculture and forestry) sector (VILADOMIU and ROSELL, 2008).

In the same vein, it is argued that one of the positive outcomes of the recent changes in the approach in rural development policies is the importance attached to the involvement of the regional and local authorities and other local agents in the design and implementation of rural development programmes. This problem leads to major deficiencies in many EU policies, by slowing down the process and reducing flexibility (NOGUERA et al., 2004). In certain circumstances, however, it may increase the bureaucracy for many actors (aid beneficiaries, local action groups,

local and regional authorities) forcing them to spend time on administrative issues, instead of on more productive tasks. Nevertheless, there was some effort to overcome this problem during the last programming period. Finally, the bottom-up approach adopted by the LEADER initiative had a positive impact, as noted by other authors (NUNEZ, 2005; SHUCKSMITH et al., 2005). However, lack of funds meant that this programme has had only marginal repercussion, although it contributed to improving the rural population's capacity for initiative, as the evaluation reports testify.

TERLUIN (2003) recommends adjustments in the administrative structure and better coordination between the different tiers of governance to stimulate bottom-up initiatives and thereby employment and economic growth in rural areas. SANZ (2007) points to the communication difficulties that have arisen between regional and local authorities and the inhabitants of some remote areas of Navarra. Misunderstanding appears to hinder the start and execution of some measures. This leads us to an issue that emerged in the evaluation reports: the limited, and sometimes inexistent, participation and involvement of the rural population in putting into effect the rural programmes applied during this period.

One of the concerns about the rural development policy is that it has focused on the rural areas as a block, as if they were all homogeneous and had similar problems and opportunities, in complete disregard for their diversity (PEZZINI, 2001). EU policies apply equally to all regions, despite some differences in the amount of funding (NOGUERA et al., 2004). As a result, the most dynamic rural regions have drawn more benefit from the rural policy measures, as highlighted in the report by SHUCKSMITH et al. (2006) which reveals that the CAP support (Pillar I and II) is not focused on the most disadvantaged regions of the EU.

This again raises the issue of the need for co-financing. The review of the literature showed that the rural development measures are under-applied in the poorest regions because of insufficient regional or national funding (MANTINO, 2003, SHUCKSMITH et al., 2006). This was not a problem in the case analysed in this study, possibly because Navarra is one of the richest regions in Spain and does not compare badly with the rest of Europe.

In any event, the rural areas do not appear to perform equally in many of the aspects analysed. It would therefore be interesting to identify the main explanatory factors for the performance gaps across different rural areas and, more specifically, those that might help us to understand the success of the most dynamic areas or regions, taking into account that the problem is complex and its causes are very often rooted in historical events (ROBERTS, 2002).

In Navarra, the main factor shaping the development of successful rural areas is general infrastructure endowment. This is consistent with the statement made by the OECD (2003), attributing the main difference between lagging and leading rural areas to the level of available infrastructure. However, this question is closely

related with peripherality, which, interpreted as poor access to urban and economic centres, is considered a handicap for the development of many areas (NOGUERA et al., 2004). The distance from an urban centre is also often related to the difficulty of establishing the necessary producer services and investment to support economic development, and to the additional difficulties encountered by entrepreneurs trying to start up new enterprises in those areas (PEZZINI, 2001). The amount of funds allocated to rural development is also positively correlated with accessibility, suggesting that more accessible regions tend to obtain higher levels of support (SHUCKSMITH et al., 2006). Specifically, as far as the rural areas of Navarra are concerned, there is some consensus that the greatest difficulties are faced by the most remote rural areas, which tend to be the mountain areas (OLIVA and CAMARERO, 2002; ALDANONDO et al., 2007).

This issue is also related with importance of providing rural areas with the same level of basic services as in urbanized areas, which, along with the creation of job opportunities, is a basic condition for retaining young people. Rural areas where this has been achieved have started to recover from the depopulation process, confirming OECD's view that the most successful strategy is development based on the creation of an urbanised countryside (OECD, 2003)

Improvements in transport and communications infrastructure have expanded the area of influence of urban centres, enabling people to work in urban centres while living in rural areas. Since it has also attracted investment and labour to rural areas, growth tends to be concentrated in the most accessible rural areas. Until recently, this was the only way to bring rural areas closer to urban ones. ICT development has of course now provided a new way.

The endowment of natural resources and rural amenities has also sometimes been considered as a key factor in shaping rural development. This does not appear to be the case in Navarra, however, where the remote mountain areas are the best endowed in this respect. Unfortunately, they also show the biggest demographic decline over the period of analysis. Perhaps relatedly, there have been complaints in such areas regarding the legislation introduced to safeguard natural and environmental resources. A qualitative study of the Pyrenees area (SANZ, 2007) concludes that a high percentage of the population in this area fear that their territory will be turned into a "*natural museum*" where increasing environmental requirements help to provide free leisure for the urban population, but make it more expensive for the residents to run their businesses (mainly livestock and sheep farming). As it becomes harder to sustain agricultural activity and find new business opportunities[22], the cycle of depopulation and abandonment of the area returns.

[22] It is important to remember that the business initiative capacity of the population of these areas is seriously hampered by high proportions of males, singles and elderly people.

Another important factor used to explain the variation in the development across rural areas is the endowment of human capital, which is also related to the development of innovative initiatives and the participation of local businesses in the rural development process.

Some authors (MANTINO, 2005; BRYDEN and BOLLMAN, 2001) have suggested that local development requires more than the typical rural development policy objectives of farm structure improvements, diversification of income, the attraction of internal and external investment, the promotion of inter-sectoral linkages and the improvement of living conditions for the rural population. These authors specifically mention historical factors, because the development process is influenced by pre-existing structural and cultural characteristics, social capital in terms of skills-mix, social networks and attitudes, innovation and local institutions. The role of policies to promote rural development will depend on the institutional and social capacity of all kinds of participants to use these policies in the best possible way (MANTINO, 2005). In this respect, the participation of the population in certain social and economic structures is very important, because it requires some degree of commitment with other people and with the area. In the case of Navarra, the strong participation of farmers in cooperatives is a very positive factor, not only in improving market competitiveness and economic performance, but also as a source of social cohesion. Cooperatives are thought to play a major role in promoting social participation, training, cultural traditions and the provision of services to the rural population (MAPA, 2003). The same source reports that at the beginning of this century over 65 % of the region's farmers belonged to one of the first-tier cooperatives, and 97 % of the regional cooperatives belonged to a second-tier cooperative. There are more of these cooperatives in the most developed areas, however and less in the northern mountainous areas.

This evolution suggests that the situation of the region's rural areas is normal to good. The main advantages or strengths of these areas could be identified as the endowment of natural resources and the degree of environmental conservation. The increase in the contribution of the services sector (mainly tourist activities) to the rural economy is another highly positive finding. None of these factors are linked to the agricultural sector, showing that it has lost much of its role in the development of the rural areas, which now depends more closely the diversification of the rural economy.

The perceived weaknesses that might compromise the future development of the region's rural areas relate to general infrastructure endowment and the demographic problem described above. The poor capacity to retain young people requires specific attention to address the derived problems of the aging of the rural population and the decapitalization of human resources caused by the exodus of the best qualified. It is interesting to note the strong consensus surrounding this issue, which shows that this is one of the problems the region's rural areas have failed to solve during the period, as the various programme reports have testified. Additional

weaknesses are the observed deficiencies in the agricultural product marketing structure and the difficulties these areas experience in adapting to institutional and other changes.

3.5 Conclusions

The Spanish economy has undergone a series of changes in the last twenty-five years that has led the country to a situation comparable in many ways with that of other European economies. Among the most important ones are the country's increased openness and level of integration with other economies. This can be related to both the process of democratization following the end of the dictatorship and the process of integration into the European Union.

All this has been accompanied by a major development process and a move towards European standards. The convergence process took Spanish GDP per capita from nearly 70 % of the European average (EU15) to more than 90 % in the last years of the sample period. The Autonomous Community of Navarra has evolved in a similar fashion, but has achieved better results. During the whole of the period analysed, the regional GDP per inhabitant remained above 75 % of the European average. This means that the region received less aid than the average for Spain. The relative welfare level improved rapidly in the first years after Spain's EU entry, but slowed down in the last years of the sample period.

The region obtains its largest share of GDP from the services sector, as might be expected in a developed region. However, in national and European terms, it is relatively specialized in industrial and agricultural activities. The latest available data show that the agricultural sector employs around 5 % of the region's labour force and generates 5 % of its GVA.

Navarra's agricultural sector is more mechanized than that of other Spanish regions. It also has a similar but increasing proportion of irrigated land, a higher level of human capital and a farm productive structure that is better adapted to market requirements. This means that, at least in national terms, the sector could be described as competitive and productive. The region's agricultural labour productivity surpassed national and European levels throughout practically the entire sample period. Another positive feature of the region's farming sector is its deep integration with the agro-food industry, which represents a major percentage of the industrial sector. This has contributed to the development of many quality labels.

By OECD standards, Navarra classifies as an intermediate rural region. Using Spanish criteria, the fact that over 45 % of the population resides in rural or intermediate municipalities makes the region more rural than the national average. As in the rest of Spain, Navarra's rural areas are characterized by an aging population, a higher proportion of men and less human capital than its urban areas.

The region's agricultural and rural policies have followed the national trend, with the necessary regional adaptations. This has resulted in some bias towards

measures for the improvement of infrastructure and agricultural holdings. The environment and economic diversification received less attention, although their respective shares in the allocation gradually increased over the sample period.

The evaluation reports of the various rural programmes (including the LEADER initiative) reveal that the agricultural sector measures, which were prioritized, were the ones with the greatest impact in improving the economic situation of the rural areas. The diversification measures were mainly oriented towards the promotion of rural tourism. However, other aspects of rural development, such as social or environmental actions, received less attention and thus achieved less impact. Despite receiving little attention until the last years, the environment and its high conservation status together constitute one of the region's main assets. The qualitative and quantitative contribution of tourism to the rural economy is also very highly valued. The main weaknesses are the demographic situation and general infrastructure endowment.

Previous assessments have identified the above as the key factors behind the performance achievements of the most dynamic rural areas, another being their proximity to urban and economic centres; hence the general consensus regarding the need to increase the proximity of rural areas. Until a few years ago, the only strategy for achieving this was to improve transport infrastructure, but current policy recognises the need for additional measures focused on investment in ICT infrastructure to develop new ways to promote economic diversification.

It would also be desirable to replace the agricultural sector as the key player in the adopted policy measures. Although there is no denying agriculture's role in rural development until now, newly emerging activities can benefit from rural resources and contribute to the rural economy. Since most of these activities depend on natural and environmental resources, it would make sense to prioritize them in rural development policies. In this sense, the cultural and environmental capital must be improved through the necessary preservation and conservation policies, because they are increasingly more important due to the growing importance of tourism and recreational activities in rural areas.

To meet these objectives, investment in human capital is also essential to help the rural population acquire the appropriate skills. Analysis of Navarra's situation shows the importance of creating the necessary networks between regional and local authorities and between these and the rural population. In the first case, it will be important to improve rural policy management; in the second, to avoid possible conflicts of interests, as have arisen in the past.

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CHAPTER FOUR

DEVELOPMENT OF SOCIO-ECONOMIC AND AGRICULTURAL STRUCTURES IN SWEDEN (AND THE SKÅNE REGION IN PARTICULAR) AFTER EU ACCESSION

Andrew Copus, Erika Knobblock, Moa Hedström[23]

INTRODUCTION

Sweden acceded to the European Union on 1 January 1995, at the same time as Finland and Austria, and three years after joining the European Economic Area (EEA) (Table 4.1). The timing of this increasingly international outlook can be explained by a number of background issues and events, both geo-political and macro-economic.

In the early days of the European Community, the Swedish people, and government, were sceptical about the benefits of membership. There were three main reasons for this:

(i) There was no perceived economic benefit, since the Swedish economy was thriving anyway.

(ii) Because many Swedes feared that membership would imply unwelcome changes to their highly developed social welfare system, democratic traditions, and high standards of environmental protection.

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(iii) There were concerns that closer ties with Western Europe (especially EU security agreements) might compromise Swedish neutrality and cause friction with their close neighbours, the former USSR.

Table 4.1: Key steps leading to Sweden's EU accession

1988	The Swedish Parliament reaches a decision concerning further participation in the West European integration
1990	Negotiations concerning the EEA Agreement begin.
1991	Sweden applies for membership to the EC.
1992	The EEA Agreement is ratified by the Swedish Parliament.
1993	Membership negotiations begin.
1994	The Swedish government sets out its consequence studies concerning a Swedish membership.
1994	The Swedish government EU-membership proposition.
1994	The Swedish EU-referendum.
1994	The Swedish Parliament ratifies the accession treaty and the EU-accession law.
1995	The accession treaty takes effect.

Source: Based on a table in KARLSON and ÖHRMAN, 1999.

During the late 1980s and early 1990's the political and economic environment changed radically in two key respects, creating conditions favourable to accession:

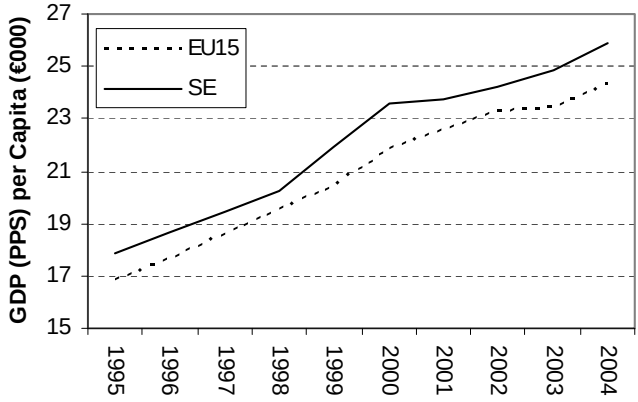
(a) The first of these changes was the rapid worsening of economic conditions. For the first three years of the 1990s Swedish GDP declined year on year, unemployment rates rose to record levels, and the government budget was in deficit equating to 12 % of GDP (FLAM, 2006). The government's response was to make progressively more severe cuts on public services, and to reform monetary policy. The down-sizing of the Swedish welfare system rendered fears about its "dilution" by EU membership a less powerful anti-accession argument, whilst at the same time the potential benefits of free access to a wider European market began to be viewed as a solution to the problems of the domestic economy.

(b) The second big change was the ending of the cold war, which removed the geopolitical barriers to accession.

4.1 Key features and trends of rural Sweden

Sweden's reputation as a relatively prosperous member state is confirmed by the statistics: GDP per capita averages 4-5 % above the EU average (Figure 4.1). Productivity (GDP per employee) is about 10 % above the EU average. Economic activity and employment rates are relatively high, whilst unemployment is mid-range in an EU context.

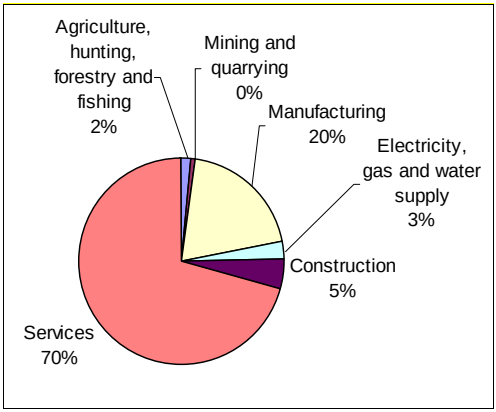
Figure 4.1: GDP per capita, Sweden and EU15, 1995-2004



Source: EUROSTAT REGIO.

The Swedish economy is now dominated by the service sector (70 % of GVA). Manufacturing has dwindled to 20 %, whilst the primary sector is almost insignificant, at 2-3 % (Figure 4.2). Within this small share, forestry is roughly twice as important as agriculture (Figure 4.4) Sweden spends a high proportion of its GDP on research and development, and has a rapidly expanding high technology sector.

Figure 4.2: Gross value added by industry sector, Sweden, 2004



Source: EUROSTAT REGIO.

Sweden is characterised by a polarised (urban-rural) population distribution, with a mixed pattern of urbanisation and counter-urbanisation, a relatively small farming industry, but (due to tax equalisation policies and the welfare state) relatively small urban-rural differences in income and living standards. A quarter of Sweden's nine million people live in rural areas.

There are a number of definitions of rural Sweden. Perhaps the most useful was produced by the National Rural Development Agency (Map 4.1). This uses two criteria, i.e. population density and distance to urban centres, and defines three categories:

- *Urban areas* are defined as communities of more than 3,000 people, plus the area within 5 minutes driving time.
- *Accessible rural areas* are between 5 and 45 minutes driving time of an urban area.
- *Sparsely populated rural areas* are more than 45 minutes travel time from an urban area.

According to this definition the sparsely populated rural areas account for 2 % of the population, and accessible rural areas for 22 %.

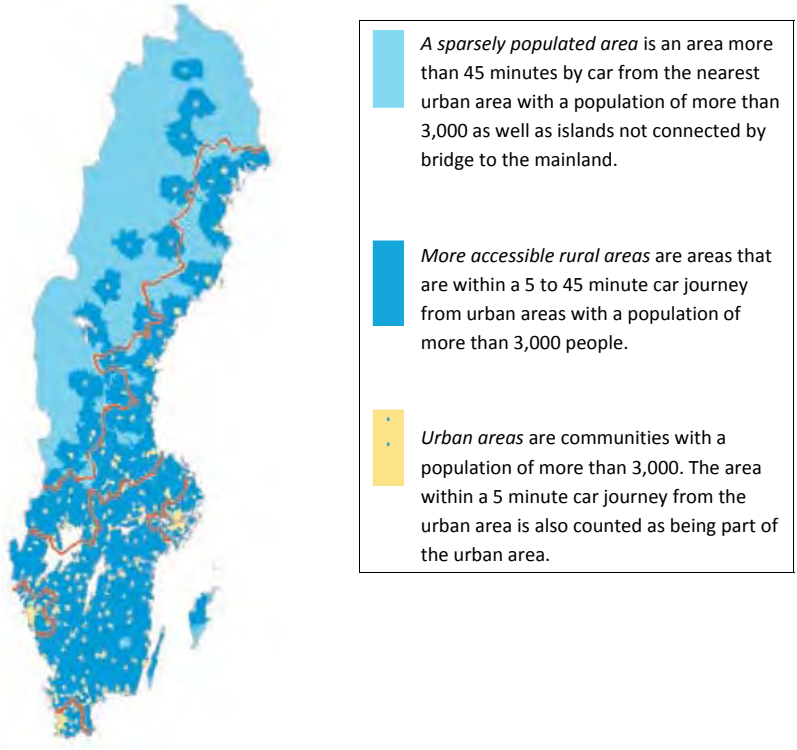
During the five years from 1998-2003 the sparsely populated areas lost 5.9 % of their population, whilst the accessible rural areas saw a decline of only 1.1 %. The urban areas grew by 2.3 %.

Although the Ministry of Agriculture asserts that there are only small differences in income between rural and urban areas[24] there are nevertheless strong North-South disparities.

Declining primary sector employment in rural areas has until recently been partly offset by an increase in public sector (mainly service sector) jobs. There has also been a rapid increase in Other Gainful Activities within farm households.

[24] "Unlike many other countries, the general standard of living of the population of Sweden, including standard of housing, does not vary very much between rural and urban areas. The range of services and cultural activities on offer is, however, smaller in the rural areas than in the large towns" (MINISTRY OF AGRICULTURE, 2000, pp. 11-12).

Map 4.1: Distribution of rural areas in Sweden



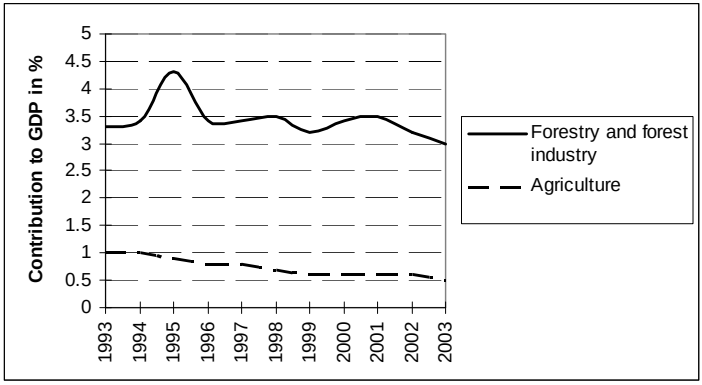
Source: NATIONAL RURAL DEVELOPMENT AGENCY, 2005.

4.2 Agricultural structures and trends

Forestry and agriculture are activities of declining importance in Sweden, both in terms of GDP and employment (Figure 4.3). The number of farm holdings has fallen from almost 97,000 in 1990 to under 76,000 in 2005. Agriculture accounts for less than 2 % of the workforce in Sweden as a whole, though the proportion rises to 20 % or more in some rural areas.

Over half the land area of Sweden is forested. Only 8 % is under agriculture. Of the agricultural area about 80 % is arable. 40 % of the arable area is under temporary grass or fodder crops. A slightly smaller proportion is under cereals. The most important change in cropping in recent years has been a shift from winter to spring cereals, partly due to technological changes which allow better yields from spring sown crops, but also due to incentives to reduce costs in the context of assured direct payments from the CAP (which are independent of output).

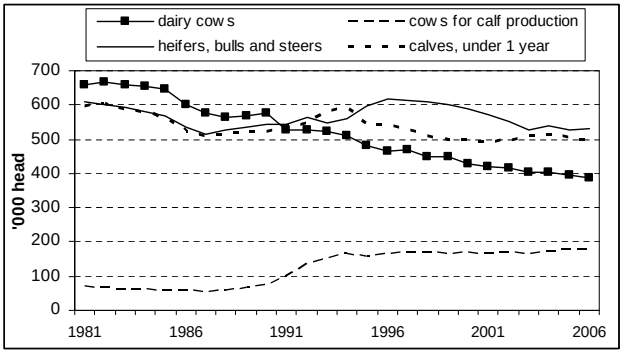
Figure 4.3: Contribution to GDP by agriculture, Sweden, 1993-2003 (current prices)



Source: SWEDISH FOREST AGENCY, 2006; SWEDISH BOARD OF AGRICULTURE, 2006.

Over the past two decades the number of cattle in Sweden has steadily declined, mainly due to a reduction of the dairy herd (Figure 4.4). The decline in dairy cattle numbers was particularly rapid after the abolition of Sweden's milk quota system in 1986. Sheep numbers are relatively small, but increasing.

Figure 4.4: Trends in cattle numbers, Sweden, 1981-2006



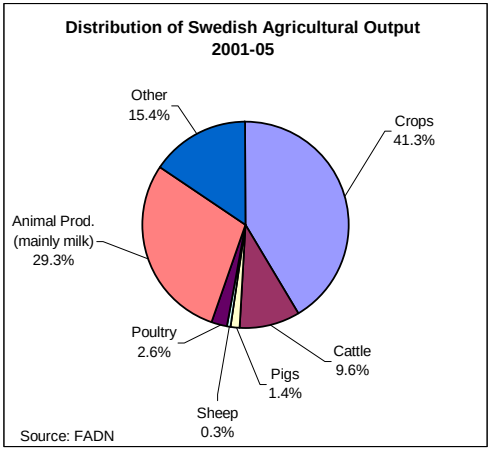
Source: STATISTICAL OFFICE, 2008.

There has been a steady decline in the farm workforce since accession, though the exact rate is obscured by changes in the statistical definitions. About 30 % of holdings have other gainful activities, the majority connected to agriculture (e.g. contracting).

Almost three-quarters of Sweden's farm holdings in 2005 had an economic size of less than 16 ESU, and would therefore be considered part-time businesses. Structural change in farm holdings since accession has been typical of that in

other West European countries. About a fifth of holdings of less than 50 hectares have disappeared since 1991. Over the same period the number of holdings of more than 100 hectares has increased by about one-third. There are clear North-South differences in farm size structures, i.e. the more marginal areas of the North having smaller farms. Many holdings are part rented, and in recent years much of the rented land seems to have been re-registered as separate holdings in order to qualify for Single Farm and Agri-environment Payments. Since 1990 the main shift in the farm-type distribution has been away from specialist livestock and towards specialist crop systems.

Figure 4.5: Distribution of Swedish agricultural output, 2001-2005



About 40 % of Swedish agricultural output is from crops, of which half are cereals (Figure 4.5). Animal products (mainly milk) are the second largest output sector, amounting to about 30 % of the total. Beef production accounts for less than 10 % of national output. The value of output has decreased by about 9 % in real terms since accession. The most rapid decline in output value (about 25 % since 1995) has been for milk and beef. Crop output has declined by about 15 %. On the other side, the production of sheep, goat and poultry meat increased during this period. The shrinking workforce means that net value added per AWU has followed a rather different trend, not one of consistent decline, but fluctuations around the 2000 level.

4.3 Policy measures to manage socio-economic change in rural areas

4.3.1 Path dependence

In order to understand the present configuration of Swedish rural policy it is necessary to take account of a considerable degree of path/context dependence. This relates:

- Firstly, to the welfare state, regional policy, and the role of the public sector. Rural development has traditionally not been seen as a policy field in its own right, development of rural areas was until recently considered sufficiently attended to in the strong regional policies, combined with policies supporting welfare and the primary sector. Both the Swedish Welfare State (CORONEL, 2004; PERSSON and WESTHOLM, 1994) and Regional Policy (NEUBAUER et al., 2007) have been scaled back since the economic crisis of the early 1990s. The latter has moved away from compensating disadvantaged regions towards the objective of maximising the competitiveness of all regions. This has not only raised new challenges for rural areas, but at the same time caused inertia in terms of the perceived location of responsibility for ameliorative policy.
- Secondly, it is important to recognise the impact upon public attitudes to support for the farming sector, and hence policy design, of the legacy of the liberalising agricultural policy reform of 1990 (ANDERSSON, 2005; RABINOWICZ, 1992, 2004; LINDBERG, 2007). The introduction of the CAP in 1995 was in some ways a step backwards, and it was important to frame the implementation with regard to the need for acceptance by the urban majority of the electorate, for whom the countryside is primarily a place to consume environmental public goods.

Both of these aspects of recent history have contributed to the dominance of agri-environment measures and the slow/weak development of territorial and "bottom up" approaches within the context of national and EU policy. Significantly the first two Pillar 2 programmes were entitled "Environment and Rural Development Programme", and the goal has been characterised as the "ecological transformation" of agriculture (BRUCKMEIER and LARSEN, 2002, pp. 18, 23).

Any account of Pillar 2 programmes in Sweden must also pay regard to the National Environmental Quality Objectives (detailed guidelines intended to ensure that all public policy in Sweden is consistent with the national vision for environmental protection), and the substantial role of the voluntary sector in rural and community development. The village action movement has had a prominent role in the development of rural areas for decades and a strong local engagement can still be seen in many places. However, the village action movement was not incorporated in Pillar 2 policies.

4.3.2 The 2000-06 programme

The stated aim of the 2000-06 Environment and Rural Development Programme (ERDP) was to promote "the ecologically, economically and socially sustainable development of agriculture, food production, forestry and rural areas". Twelve of the measures in the Rural Development Regulation (1257/98) were implemented in the ERDP. The exclusion of the measure on "basic services for the rural economy and population" is significant. The balance of the Swedish programme is well illustrated by the distribution of funding; 85 % to agri-environment measures, 8 % to LFA support, 5 % to "axis 1" measures (dealing with farm investments, setting up new farmers and training), and only about 1 % to the measure to support the adaptation/development of rural areas. The most important points made by evaluators of the programme (MINISTRY OF AGRICULTURE, FOOD AND CONSUMER AFFAIRS, 2006; BRUCKMEIER and LARSEN, 2002; SWEDISH RURAL COMMITTEE, 2005; GLESBYGDSVERKET, 2005) related to:

- the balance between the agri-environment, and broader rural development elements, and;
- the slightly bureaucratic, top-down style of implementation, and the limited opportunities for flexibility to meet different regional needs.

4.3.3 LEADER+ 2000-06

The Swedish LEADER+ programme aimed to develop rural areas and thereby reduce regional disparities by:

- improving the conditions for a strong economy in the area;
- contributing to new job creation;
- increasing the value of natural and cultural heritage, and;
- improving organisational opportunities in society.

The horizontal objectives of the Swedish national programme included increased employment, gender equality, integration and preservation and development of environment (SWEDISH NATIONAL RURAL DEVELOPMENT AGENCY, 2001).

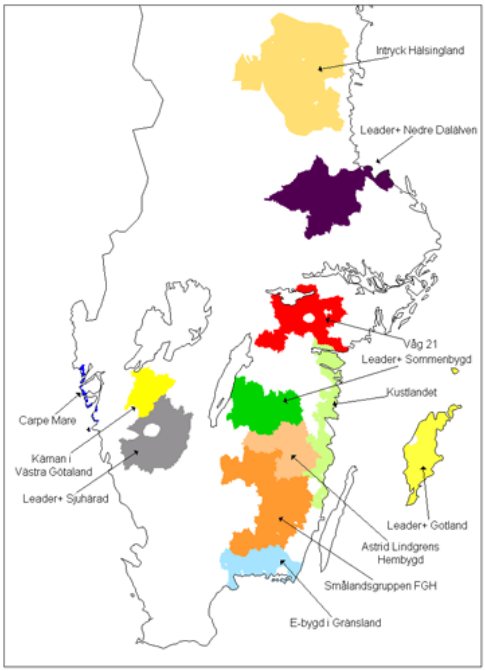
Programme activities were carried out by 12 LAGs (Local Action Groups, Map 4.2), which were partnerships consisting of representatives from public, private and non-profit-making sectors (in principle one third from each). The work had a bottom-up approach based on local conditions and needs. Activities were required to be innovative in the local area, but transferable and usable in other rural areas. A national network was established to collect experiences and share them with others.

The LAGs each base their work on one of four development themes. These are:

1. The use of new skills and new technology to make rural products, including services, more competitive.

2. Raising the value of local products, including services, particularly by collaboration between smaller businesses in order to gain improved market access.
3. Improving the quality of life in rural areas.
4. Improved exploitation of natural and cultural resources, including Natura 2000 areas.

Map 4.2: LEADER+ areas in Sweden



Source: GLESBYGDSVERKET, 2005.

The groups chose the measure they considered best suited to the area's identity and local conditions. They followed a local development plan intended to take account of their area's particular opportunities and constraints.

According to the mid-term evaluation the Leader+ in Sweden had been implemented in a generally satisfactory and positive manner. The case studies made by the evaluator revealed enthusiasm for the way of working in the LAGs. The method was seen as valuable and built important components of local rural development (EUROFUTURES, 2003, pp. 5). Leader contributed to local mobilisation and created conditions for economic development.

However, on the negative side, there has been a lack of overall strategies and focus in the process, with too many projects with similar or overlapping goals running

at the same time. Support could have been directed towards a more detailed selection of projects which might have resulted in even better outcomes. Many projects were not integrated in an overall strategy but were implemented separately from other development projects and regional development policies. Evaluators also concluded that the administration of Leader has been relatively expensive (MINISTRY OF AGRICULTURE, FOOD AND CONSUMER AFFAIRS, 2006, pp. 4). Furthermore, according to the mid-term evaluation only about half of the LEADER+ projects reached their objectives, especially in relation to employment and improvement of nature and cultural heritage. Therefore, the evaluators could not see any long-term effects of many projects. However, this can be partly explained by the fact that the projects were at the time of the evaluation quite newly established (EUROFUTURES, 2003, p. 5.)

4.3.4 The 2007-13 programme

The planned budget of the current programme is set at 35 billion SEK, which means roughly the same annual expenditure as in the 2000-06 period in absolute terms, probably a slight reduction in real terms.

The overall objective of the policy remains the same, i.e. to promote economically, ecologically and socially sustainable development in rural areas, through safeguarding cultural and natural assets in the agricultural landscape and minimising any negative environmental impact of farming. Furthermore the policy aims to improve economic growth, competitiveness, entrepreneurship and rural employment. The policy is also still closely connected with environment policy and the 16 national environmental quality objectives (MINISTRY OF AGRICULTURE, FOOD AND CONSUMER AFFAIRS, 2006).

However the new Swedish rural development plan must be consistent with the broad structure set out by Regulation 1688/2005, especially in terms of the balance between the four "axes", and the minimum expenditure percentage assigned to each.

The Swedish plan assigns 15 %[25] of expenditure to measures from Axis 1 (Improving Competitiveness). It is proposed that this part of the programme will promote enterprises, growth and employment by strengthening the competitiveness and economic strength of agriculture, forestry and other rural businesses. The programme will focus on production in agriculture and in forestry and on the natural resources that they manage by tradition. It is seen as supporting the restructuring and development of sustainable and resource efficient production of goods (food and other) and services which the public and private sector/consumers will continue to demand. New production technology consistent with this will be supported[26].

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[25] The legal minimum is 10 %.

[26] But, by implication new technology which will simply increase production will not be supported. It is not clear on what criteria the different sorts of technical improvements will be distinguished.

The programme will also focus on measures that correct negative external effects of production. The main emphasis seems to be on supporting farmers as land managers and as producers of public goods. However it is important to note that other rural actors such as entrepreneurs, forest owners and non-profit organisations will also have the same possibility to receive financial support (IBID.).

Axis 2 (Improving the Environment and the Countryside) is planned to receive 75 % of expenditure. This is substantially more than the minimum 25 %, reflecting a continuing dominance of the agri-environment measures. The justification for this, it is argued, is an integrated view of the natural and cultural assets of the rural environment and landscape as a basis for development and growth in rural areas. The programme document points out that the countryside is a unique resource for rural development and growth. Farming and forestry with sustainable methods contribute to a landscape which is increasingly in demand by both private and public sector. A clean and healthy rural environment is crucial to businesses in the tourism and recreation industries, especially those based upon hunting, fishing and other outdoor activities. It is also important in terms of the quality of life for new rural residents, many of whom commute to nearby urban areas. They argue that preventive healthcare and rehabilitation are important new fields for developing activities which link rural and urban society (IBID.).

Under Axis 3 (Quality of Life and Diversification of Rural Areas) the programme is intended to promote wider rural development. Here the intention is to allocate 10 % (the legal minimum) of the programme budget to support employment creation, sustainable use of resources, and the improvement of local services and infrastructure. The programme emphasises, and will support, active local involvement via local development groups and opportunities for partnerships, thus involving the whole rural community (including non-farmers). An integrated approach to rural development is to be sought in both planning and implementation. On the basis of the overarching national strategy, objectives and priorities coordination between actions is to be strengthened and a greater regional say in the application and implementation of actions is to be sought (IBID.).

The leader programme will be implemented in all three of the above axes. The overall objective of this part of the programme is to promote efficient implementation of the rural development programme by means of the added value inherent in local support, local influence and local cooperation (Ibid.). The geographical scope has widened and it will be implemented in all parts of rural Sweden.

4.3.5 Prospects

The Board of Agriculture[27] claims that during the next years rural development policy in Sweden will enter a new phase, with both broadened tools and possibilities, addressing some of the criticisms of the previous programme.

However, opinion has been rather divided about how resources of the 2007-13 programme should be spent. Ultimately this may hinder the prospects for development. The fight over money (as seen in public debate and in the media) has been between interests and agencies aligned to the different axes, and in some cases seems to have weakened the possibilities of projects and ideas that overlap between axes. Although many taxpayers see "nature" as a resource they are willing to pay for, some rural development actors clearly do not think the same way.

The allocation of such a large share of the financial resources of the new ERDP to the environmental axis is indicative of the Board of Agriculture's view that the environment is the key comparative advantage of rural Sweden, which must be exploited in new ways, and through new kinds of rural enterprise. Thus, the ERDP is said to be based on "an ecosystems approach".

Of course, the previous (2000-06) programme also had a strong environmental focus. However, at that time, in the eyes of the Board of Agriculture and the regional and local planning communities, the potential "environmental entrepreneurs" were farmers and public advisors. Within the new programme, rules and possibilities are broadened in terms of who the beneficiaries can be. The crucial question is whether the rural population at large, outside of the "green" interest groups, is prepared to follow the vision as developed by the Board of Agriculture.

This explains why those responsible for the new ERDP are so aware of the need for adjustments to rural development governance. The authors of the new programme argue that evaluation of the 2000-06 programme had demonstrated its contribution to mobilising local action groups (some suggest up to 4,000 across rural Sweden). These have given a voice to minority groups within the rural community, and have begun to provide a balance to sectoral interests which have traditionally dominated the debate over rural policy. This shift has been effected through Axis 4 (LEADER-like implementation), and it is indicative of the importance attached to this that the Ministry of Agriculture, Food and Fisheries committed resources for an information campaign together with the Swedish National Rural Development Agency, the Board of Agriculture and the County Administrative Boards.

There has been a degree of devolution in terms of detailed planning and implementation. Each county was responsible for developing its own implementation strategy,

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[27] The Board of Agriculture is the managing authority of the programme. It is the Swedish Government's expert authority in matters of agri-food policy, and is responsible for the agricultural and horticultural sectors.

and for the distribution of funding between the different measures. This regional allocation mostly affects Axes 1, 3 and 4, since Axis 2 is allocated to individual claimants on the basis of national eligibility criteria. The Agri-environment schemes are also administered nationally, whereas the other axes are either administered by County Boards (NUTS 3) or LAGs. For Axis 1 the budget is allocated according to the number of farm holdings (>2.1 hectares), with a maximum reduction compared with the previous programming period of 15 %. For Axis 3 and 4 the main criterion (with a weight of 85 %) is the rural population share, adjusted by a sparsity criterion (the other 15 %). There are also special allocation rules for islands.

4.3.6 Structural fund programmes

During the three programming periods since Swedish accession there has been a varying degree of overlap/integration between Structural Fund policy and rural development policy. Between 1995 and 1999 the Objective 6 programme in Northern Sweden included a number of rural development activities, though it has been criticised for being too agricultural in focus, and for not recognising the extreme marginality of farming in the programme area (KATAJAMÄKI, 2002, pp. 29). Between 2000 and 2006 the two Swedish Objective 1 programmes incorporated most of the ERDP measures, and therefore the comments on the ERDP apply equally there. The Objective 2 programmes in the South of Sweden incorporated very few (if any) rural development activities. In the current programme period the overlap between the ERDP and the Structural Fund programmes (under the Regional Competitiveness and Employment Objective) has been eliminated, and the rural development impact of these programmes seems likely to be indirect and limited. The many different development programmes carried out in the North in specific, and the repeated changes in these, has however decreased the interest in the wider rural development measures of axis 3 in some places. Even though the many different programmes have made actors experienced in working in development projects, it has also made it hard to spread clear information about the changing and numerous measures, and made some of the actors tired of carrying out projects (HEDSTRÖM, 2010).

4.3.7 Some observations

The brief review of policies affecting rural Sweden presented above leads to the following observations:

- There has been an important shift (between the second and third programming period) from a top-down bureaucratic style of implementation to a more flexible "bottom up" approach. With time rural development has emerged as a separate policy field and regional and local levels have increasingly come to be seen as suitable arenas for this policy. In the current programme the involvement of regional and local actors in design and delivery is regarded as resource efficient and is seen to better capture the needs of the

different areas. The rural policy's cross sectoral scope is further also highlighted and the good possibilities for cross sectoral policy coordination at regional and local level is put forward (HEDSTRÖM, 2010).

- The relatively weak implementation of "Axis 3" in Sweden reflects cultural inertia in relation to the former role of the welfare state and regional policy, and emphasises the need to take account of path dependence factors in designing rural development programmes.
- Similarly, the emphasis upon agri-environment measures reflects the dominant (urban) view of the countryside as a provider of public goods, which has been sharpened by the experience of the short-lived liberalising agricultural policy reform of 1990.
- Generous agri-environment payments have probably slowed structural change, by allowing small and relatively inactive holdings to survive longer than they otherwise would have done.
- Similarly Single Farm Payments, although they surely provide no more than a fraction of the average farm household income, have probably resulted in the continued survival of many small holdings where off-farm earning opportunities are accessible.

4.4 Particular experiences in Skåne

4.4.1 Introduction

Skåne was selected as the case study region for this report on the grounds that many would say that it has the most competitive agricultural industry in Sweden. It has both physical advantages (in terms of climate, topography, soils) and locational advantages (close to a major urban market, export gateways, and a very dynamic labour market, offering many opportunities for off-farm employment). Farm structures are also more commercially orientated in comparison with other Swedish regions. It should therefore be viewed as a region likely to benefit from the wider market access provided by EU membership, rather than from aspects of the CAP addressing structural or regional handicaps.

Map 4.3: The location of the study region, Sweden

Skåne is the most southerly of the Swedish *län* (counties), and faces the Copenhagen region of Denmark to the west, across the (recently bridged) Öresund channel (Map 4.3). The bridge provides both road and rail links and the region is gradually becoming more integrated with the economy of the Danish capital region. Skåne is one of the most accessible parts of the Swedish territory, both via the new fixed link to Denmark, and the ports of Helsingborg and Malmö (routes to the West and North via the Kattegatt), and Trelleborg (facing Germany and the Baltic). Over four fifths of the population of the county live within 5 minutes drivetime of a settlement of over 3,000 people and 99 % of the population live within 45 minutes drivetime of such a town.

The county is the second most densely populated in Sweden (107 persons per km²), having a total population of more than 1.1 million (13 % of the Swedish total) but an area only just over 11,000 km² (less than 3 % of the country's total). Most Skåne municipalities have seen population growth between 1998 and 2005.

The topography of Skåne is mainly low-lying, the highest point being a little over 200 metres. The underlying geology is predominantly boulder clay with

some sand and till. The climate is mild and more maritime than most other parts of Sweden, with little snow, and a growing season of more than 200 days. The north of the county has more forest cover, whilst farmland dominates in the south. 90 % of Skåne´s land area is either agricultural land or covered with forest. Large parts in northern Skåne are still characterised by forest and farms located there are more dependent on forestry and animal production, compared to the flat lands of southern Skåne.

Malmö (248,000), Sweden's third largest city, is situated in the southwest part of the region. During the economic crisis of the early 1990s 27,000 workplaces disappeared when industry and trade decreased in the city. When the decision to build the Öresund Bridge was taken at the national level, a vision of the Öresund region and of Malmö as a trans-national city was developed. Influenced by the European spatial planning concept of polycentricity, a network between cities in the region emerged (PLANERING I MALMÖ, 2006, pp. 22-29). New attractive urban areas have been built where residences, workplaces and recreation are situated close to each other, in what were earlier seen as remote rural areas. From being dependent on industries, Malmö has transformed into a modern "knowledge city" which attracts both companies and people.

Malmö has thus adapted successfully to the twenty-first century economic environment. The transformation has also affected residential choices. In 2005 3,500 Danish people moved to Skåne. 2,200 of them settled in Malmö (PLANERING I MALMÖ, 2006, p. 12). It is not only urban areas which have increase their population levels. Areas close to Malmö and the coast have increased their rural population levels, while areas in northern Skåne have a seen continued negative population trends.

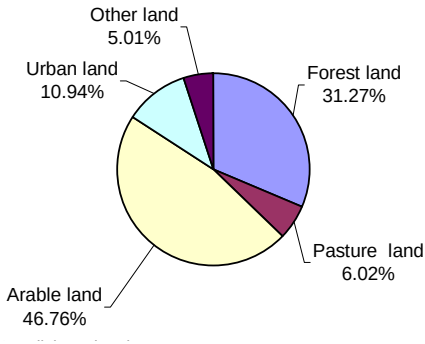
The recent development of the Öresund region is more noticeable in the Malmö area than anywhere else in Skåne. The rapid economic growth not only affects employment in urban areas of the region. Rural areas close to Malmö or to the railway stations are also being transformed. Commuting has become more common and real estate prices are increasing in what were previously seen as peripheral areas of Skåne. The price of agricultural land has also increased as a direct consequence of competition from residential uses.

4.4.2 Farm land use and livestock trends

About half of the arable land in Skåne is used for cereal cultivation, and about a fifth for other cash crops (Figure 4.6) Both these proportions are significantly above the Swedish average, while the proportion under temporary grass (about 20 %) is below that for the country as a whole. Cereal yields in Skåne are, on average, at least 10 % higher than the Swedish average, and the county accounts for between 25 % and 30 % of the total cereal production of Sweden. More than one third of Sweden's winter wheat is grown in Skåne. Small volumes of peas, potatoes and oilseed rape are also produced.

The arable area of Skåne has declined by about 4 % since accession. This is in line with national average change, and also represents the continuation of a steady trend already in place before accession. In terms of individual crops, the largest change since accession has been a 60 % increase in winter wheat area between 1991-95 and 2001-05. Although there was a small increase during the 1980s the rate of change has accelerated since 1995. This increase has been more rapid in Skåne than in Sweden as a whole. The cultivation of other cereals in Skåne has either remained fairly stable (spring wheat) or declined by between 15 % and 30 %. Only spring wheat has shown a significant deviation from national trends (by remaining stable, instead of increasing as elsewhere).

Figure 4.6: Land use in Skåne, 1998-2002



Source: SWEDISH NATIONAL FOREST INVENTORY.

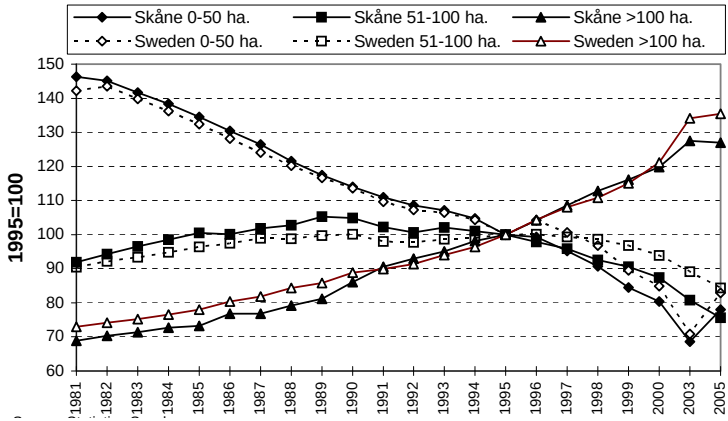
As regards livestock in Skåne, pigs and poultry are particularly important – roughly 30 % of Swedish pig production and 20 % of poultry numbers are located in this small county. Beef cows are also relatively important. Dairy cows and sheep are less important.

There have been substantial declines in the number of pigs and, to a lesser extent, in poultry (especially for egg production) in Skåne since accession. These trends seem more negative in the county than in the country as a whole, but concerning pig keeping this trend already started in the 1980s.

4.4.3 Farm structural change and incomes

In recent years, according to the County Administrative Board, on average, 2.7 % of all farms have gone out of production in Skåne each year (COUNTY ADMINISTRATIVE BOARD SKÅNE, 2007, p. 7). They forecast that, if current trends continue, by 2013 approximately 2,000 farms will cease production (IBID, p. 7). The reduction of farms is not evenly spread among different types of farms businesses. The farm holder's age, size of the farm and line of production affect the business risk.

Figure 4.7: Trends in the number of small, medium and large holdings, Skåne and Sweden, 1981-2005



Source: STATISTICAL OFFICE, 2008.

Analysis of data from Statistics Sweden suggests that in terms of trends in the number of holdings, there are three distinct groups, both in Sweden as a whole, and in Skåne in particular. Holdings of 50 hectares or less have seen a steady decline, throughout the past two and a half decades (Figure 4.7)[28]. In Skåne the decline seems to have been more rapid than in Sweden as a whole since 2000. The price of agricultural land is high in Skåne, which make it difficult for smaller farms to expand their production. As a consequence small farmers often rent out their land, or seek employment elsewhere, instead of buying more farmland in order to expand their production. The number of small farms will probably continue to fall as long as there is a possibility to find employment elsewhere.

The second group, i.e. "medium size holdings" (51-100 hectares), increased during the 1980s, but since then their number has declined almost as steeply as the small farms. The turning point seems to have been at the beginning of the 1990s (rather than 1995) and was therefore more likely associated with the Swedish agricultural policy reform, rather than accession and the introduction of the CAP. The Swedish and Skåne trends follow a very similar path, except after 2000, when the decline is again more rapid in Skåne than in the country as a whole.

Farms of more than 100 hectares increased steadily in number, both nationally and in Skåne county throughout the last two and a half decades, except for the final year, when the introduction of Single Farm Payments (SFP) checked the process of amalgamation (see above).

[28] The "hiccup" in 2004-05 is a consequence of a proportion of small farms, previously let out, being re-registered in order to receive Single Farm Payments.

The implication of the above findings is that structural change in Southern Sweden has been largely independent of policy, being driven mainly by global technological and market factors. The only exceptions to this are the change in trend of medium size holdings, possibly associated with the 1990 Swedish agricultural policy reform, and the interruption of the process of amalgamation in 2004-05 due to the introduction of the SFP.

4.4.4 Farm income trends

Farm income data for Sweden is available from two sources: the European Farm Accountancy Network (FADN) database, and the Swedish Board of Agriculture. Unfortunately, neither data series extends back to the pre-accession period. The FADN data for Farm Net Value Added shows that over the period 1995-2004 the NUTS 2 region of Sydsverige (comprising Skåne and Blekinge counties) accounted for an average of 37 % of the Swedish total value added.

Table 4.2: Farm household income after transfers in Skåne and Sweden, 1999-2004

	Average Farm Household Income after Transfers (SEK)					
	1999	**2000**	**2001**	**2002**	**2003**	**2004**
Skåne	194,726	211,469	226,700	228,600	232,900	240,100
Sweden	190,405	205,548	216,000	225,400	226,800	238,000
Skåne (%) of SE	102	103	105	101	103	101

Source: SWEDISH BOARD OF AGRICULTURE, 2007: Report JO42 SM 0101, 0201 and 0601.

The data published by the Swedish Board of Agriculture are for average farm household income (including social transfers). These show the average Skåne farm household had an income up to 5 % above the national average (Table 4.2). These data show a similar trend to that of the FADN, though year-to-year variation is less extreme, presumably due to the inclusion of non-farm income sources.

4.4.5 Labour market and the wider economy

The farm workforce of Skåne comprises about 25,000 people, but less than half of that in terms of full-time equivalent jobs. The farm workforce of Skåne has declined more rapidly than that of Sweden as a whole in recent years.

Almost thirty percent of farm holders in Skåne have "other gainful activities" (OGA). This is slightly below the average for Sweden (Table 4.3) In the case of just over a fifth of holders (both in Skåne and Sweden as a whole) the OGA was connected with agriculture. A little more than one-sixth of holders were working on enterprises which were not related directly to agriculture.

Table 4.3: Incidence of other gainful activities (OGA) on farms in Skåne and Sweden, 2005

	Holdings with OGA directly linked to farming		Holdings with OGA not directly linked to farming		All	
	Number	**%**	**Number**	**%**	**Number**	**%**
Skåne	2,030	21.18	1,544	16.11	2,780	29.00
Sweden	16,323	21.53	13,504	17.81	22,985	30.32

Source: SWEDISH BOARD OF AGRICULTURE, 2007: Report JO 47 SM 0701.

The employment structure (primary/secondary/tertiary) of Skåne is very similar to that of the country as a whole. The regional GDP from the primary sector declined by 17 % between 1999 and 2005. Manufacturing GDP rose by 14 %, whilst that from services rose by more than one-third.

4.5 Success factors in managing rural changes since EU accession

From the national perspective the following "success factors" were identified:

(a) *Devolved Programming and Implementation*: In Sweden lessons seem to have been learned from the first two programming periods in terms of the style of implementation and delivery. A more flexible, regionalised, framework allows more creative inputs from local actors and stakeholders.

(b) *Integration of Rural Development into the broader Policy Context:* The Swedish rural development programmes cannot be understood without reference to the national policy context and tradition (particularly the welfare state model and strong regional policy). This highlights the need for careful integration of Pillar 2 policy taking account of the broader policy context of the member state.

(c) *The Balance of Measures should reflect the (urban) Societal View of the Role of Agriculture:* The relative importance of different rural development measures (structural, competitiveness, agri-environment, or broader rural development and quality of life) should reflect the level of rural economic development, urbanisation, and (urban) attitudes to the economic and societal role of the farming community.

(d) *Agri-environment Measures can have a Structural Impact:* Agri-environment payments and support for organic farming can raise the survival chances of smaller, less competitive, holdings, as providers of public goods rather than of conventional outputs.

(e) *Single Farm Payments may have a Structural Impact:* Decoupled Single Farm Payments may have a similar impact in terms of slowing the rate of restructuring, although this depends upon the availability of other activities

to supplement farm household income, and a sufficient motivation to remain on the farm.

At the regional level the findings largely corroborated the generic points which emerged at the national level, but also highlighted the fact that the biggest accession impact upon Skåne's agriculture and rural development has not been in terms of CAP or Rural Development policy, but the opening up of the region to wider markets in the wider EU trade area. In the case of Skåne this effect has been amplified by the coincidental opening of the Öresund bridge.

4.6 Conclusions

Sweden's experience of EU accession and implementation of the CAP is probably unique. A careful and sensitive integration of EU policies into a well-established and finely balanced national system was required. In addition, it was necessary to first dismantle the very recent liberalising agricultural policy reform. This had a strong influence upon public perceptions of agricultural and rural development policy in Sweden and, indirectly, upon the choices made by those who have designed and implemented the Pillar 2 programmes. It is essential to take account of this context, which unfortunately makes it particularly difficult to judge what might have happened if accession had not taken place.

Despite these unique features the following lessons may be drawn which may have a wider relevance and application:

(a) The implementation of the CAP, especially Pillar 2 cannot take place in isolation from the existing policy context, or indeed the national "policy culture" and traditions. Successful implementation is more likely if potential overlaps, duplication or conflicts are minimised, and if it incorporates tried and tested approaches which are familiar to both the participant rural population and to urban "spectators". In former socialist countries the details of the existing policy milieu are likely to be rather different from those of Sweden, but the same basic principle applies.

(b) A particularly important aspect of this issue relates to the common perception of the role of agriculture. In Sweden it was important to try to avoid the impression that the CAP was a simple reversal of the 1990 Reform (although it was still perceived as such by some). Embracing a "post-productivist" view of the countryside/farm function, primarily for consumption of environmental public goods for the urban population leading to a strong emphasis upon agri-environment measures, was the link to an appropriate solution. In less urbanised member states where agriculture remains an important production sector and a source of livelihood for many rural residents, this would probably not be appropriate, and a greater emphasis upon restructuring for competitiveness might be implied.

(c) The third lesson is perhaps more independent of the national milieu. This relates to the need to build into the implementation arrangements the facility to respond to regional variations in the rural situation, preferably through some kind of "bottom-up" involvement of the local representative organisations. This may not be easy where social capacity is less well developed. Nevertheless an inflexible, horizontal, sectoral approach is unlikely to be effective in the medium-long term.

(d) On the whole, the rate of structural change in Swedish agriculture has not changed very much since accession. The regional case study gives the impression that technological trends and the market environment have had more impact, both upon structures and the profitability of rural livelihoods.

(e) Finally, it has been argued that both agri-environment payments and Single Farm Payments can have the effect of slowing down structural change, because they can make it possible for small, marginal holdings to survive, to some extent independent of market trends, particularly if they are accessible to opportunities for off-farm work.

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Chapter Five

DEVELOPMENT OF SOCIO-ECONOMIC AND AGRICULTURAL STRUCTURES IN SELECTED RURAL REGIONS IN AUSTRIA AFTER EU ACCESSION

Carmen Hubbard[29], *Peter Kaufmann*[30]

INTRODUCTION

Austria joined the European Union (EU) on 1 January 1995. Although the end of the Cold War redefined the neutrality status for Austria, making it less of an obstacle, this was not the sole factor in pushing it towards EU membership. According to BIELER (2000), more important was the loss of trust among the Austrian society in the superiority of its economic and political system, which started to erode from the mid-1980s. The "end of the Fordist accumulation regime" and the global economic recession hit the Austrian economy as well as the rest of Western Europe (LUIF, 2006; BIELER, 2000). Hence, the creation of the Internal Market was seen as an opportunity for economic revival, but also for the reparation of the damaged society-state relationship. This view is also supported by LIEBSCHER et al. (2005) who argue that economic factors (e.g. integration into the Single Market and unrestricted access to European markets) played a dominant role in Austria's accession to the EU. Austria submitted its application for EU membership in 1989. The negotiation for accession began in February 1993 and was concluded a year later when the Accession Treaty was signed. The Austrian people approved EU membership in a referendum with a majority of 67 % (BREUSS, 2003).

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Austria has an area of almost 84,000 km^2, being somewhat smaller than Portugal and Hungary, but larger than Czech Republic (STATISTIK AUSTRIA, 2007). With a population of around 8.3 million (or 1.7 % of total EU27) at the beginning of 2007, the country ranks amongst the small EU Member States. Austrian's population has continued to increase slowly since the 1970s, and this trend continued after accession. On 1 January 1995 it accounted for 7.9 million and reached 8.3 million at the beginning of 2007. Although population growth was rather modest (at an annual average rate of just 0.1 %) between 1995 and 2000, this has slightly accelerated from 2001 onwards (at an annual average growth rate of 0.6 %).

More than half (51.3 %) of total Austrian population is represented by women; this larger share being partially explained by a higher life expectancy of female as compared to men. Nevertheless, life expectancy rose for both men and women, and currently Austria ranks third amongst the EU member states with a high life expectancy. According to STATISTIK AUSTRIA (2007), the recent growth of Austrian population is, however, mainly due to positive net in-migration. For example, between 1996 and 2006, the number of immigrants increased by 44 % as compared to only 11 % rise in the number of emigrants. The country has experienced two significant waves of immigration, one in 1991 and another in 2001. By 1994, the number of foreigners accounted for 8.4 % of total population, reaching 10 % in 2007 (STATISTIK AUSTRIA, 2007). Moreover, as in other developed countries, the increase of life expectancy and the decline of fertility rate led to the ageing of population. The age structure of Austrian population shows that there have been some significant changes. There is a clear decline of the percentage of population group 0-14 years, from 17.8 % in 1995 to 15.6 % in 2007, and an increase in the share of population with an age above 65, from 15.1 % to 16.9 % (STATISTIK AUSTRIA, 2007). For the same period, the proportion of population above 75 years of age has also increase by 1.6 percentage points.

Accession of Austria, Finland and Sweden, in 1995, made the EU "richer", on average, as these three countries were among those prosperous in Europe (BREUSS, 2003). Although not yet a member of the EU, the Austrian economy had performed remarkably well. BREUSS'S analysis (2003) shows that, between 1988 and 1994, the economic growth, measured by annual average rate of change of real Gross Domestic Product (GDP), was 0.7 percentage points higher in Austria than in the EU15. Moreover, for the same period, Austrian GDP per capita was 9 % higher as compared with the EU average, and inflation and unemployment rates were around half the EU figures (Table 5.1). The country recorded, however, a smaller current account, but a higher public deficit and a negative trade balance than the EU15. BREUSS (2003) points out that the economic performance of 1988-1994 encompasses also the impacts of global economic trends (*e.g.* the period of economic recession in Europe and the fall of the Berlin Wall). The latter brought radical changes in relations with the Central and Eastern European Countries (CEECs). The OECD ECONOMIC SURVEY (2003) also supports this argument, as the opening

of the CEECs markets and the reunification of Germany (one of its main trading partners) boosted Austrian exports.

The seven-year period following accession (1995-2001) recorded a fall in the real GDP of 0.7 percentage points as compared with 1988-1994, which led to the Austrian economic growth being slightly less than that of the EU15 (Table 5.1). The falling trend continued and for the period 2002-2006 the average real economic growth represented just above half (1.6 %) of that of 1988-1994.

Table 5.1: Macroeconomic indicators, Austria and EU15, 1986-2006 (%)

	1988-1994		1995-2001		2003		2006	
	Austria	EU15	Austria	EU15	Austria	EU15	Austria	EU15
Real GDP growth	3.0	2.3	2.3	2.5	1.2	1.2	3.3	2.8
GDP per capita (PPS) (EU=100)	108.5	100	111.6	100	110.5	100	110.6	100
Inflation (Consumer Price)	2.9	4.5	1.5	2.1	1.3	2.1	1.6	2.2
Unemployment rate (Eurostat defin.)	4.6	9.1	5.3	9.4	4.3	9.0	4.7	7.7
Labour productivity growth	2.4	…	2.2*	1.6*	1.0	1.0	1.7	1.6
Total factor productivity growth	1.3	…	1.4*	1.2*	0.2	0.3	1.5	1.1
Long-term interest rate	7.6	9.5	5.6	6.0	4.2	4.2	3.8	3.9
Current account	-0.3	-0.4	-2.7	0.5	1.4	0.4	3.5	-0.4
General government debt (as % of GDP)	59.4	58.9	65.5	68.5	64.6	63.4	60.0	63.1

Source: BREUSS (2003); COMMISSION OF THE EUROPEAN COMMUNITIES, 2007a.

Note: * It refers to 1996-2000.

There is little doubt that EU membership required profound structural reforms. Although, the economy performed less well than expected following EU accession, LIEBSCHER et al. (2005) highlight that the first ten years of EU membership were, however, "an era of price stability". Inflation dropped to 1.5 % in 2006. In these authors' view the adoption of the Euro was very beneficial for the economy as a whole. For example, it hardly affected the general price level, and more important it had a stabilising effect and preserved Austria's competitiveness. Indeed, the Austrian average inflation rate between 1996 and 2005 was 1.5 % as opposed to 1.9 % for the Euro area or 2.2 % for EU25 (CEC, 2006). This is also almost half the average inflation rate for the period 1988-1994

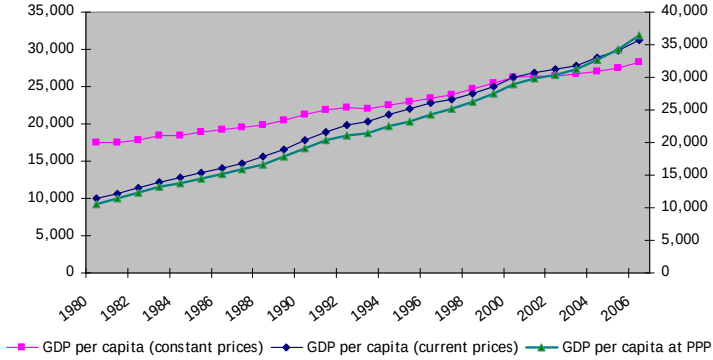
With unemployment rates much lower than the EU average (for more than thirty years), Austria's labour market has been considered "a model of excellent performance",

(SHERWOOD, 2006). Traditionally, its labour market is characterised by a "high flexibility and mobility" (MOOSLECHNER, 2005, p. 36). In 2006, the country has achieved the Lisbon target of employing 70 % of its working population. Moreover, since EU accession, Austria succeeded to reduce female unemployment (STIGLBAUER, 2005), the proportion of working age women rising from 59 % in 1995 to 63.5 % in 2006. This is well above the EU15 average of just 58.7 %.

However, although unemployment had remained at the lowest rates amongst the EU member states, the figures recorded over a decade since EU accession shows that the unemployment rate has actually increased by almost 1.5 %, from 3.9 % in 1995 to 5.2 % in 2005. For the same period, long-term unemployment (*e.g.* 12 months and more) has also risen slightly from 1 % to 1.3 % as opposed to clear decrease of the EU15 average (from 4.9 % in 1995 to 3.2 % in 2006) (EUROSTAT, 2007).

The relatively strong economic performance of Austria, before and after accession to the EU, is reflected by the level of economic welfare measured as GDP per capita. Figure 5.1 shows the evolution of the Austrian GDP per person, between 1980 and 2006, emphasising an acceding trend, no matter if the indicator is expressed in constant or current prices.

Figure 5.1: GDP per capita, Austria, 1980-2006 (€)



Source: Based on IMF database; Note: GDP per capita at constant and current prices refers to national currency whereas GDP at PPS at current international dollar.

With a GDP per inhabitant of €30,200 in 2006, Austria ranked at the fourth place within the EU27 (after Luxembourg, Ireland and the Netherlands) (STATISTIK AUSTRIA, 2007). The country also experienced one of the EU highest levels of life quality, being second after Luxembourg, with the Austrian consumer spending on average €22,300 per annum as opposed to €19,000 for the EU25 average (STATISTIK AUSTRIA, 2007).

The Austrian economy is dominated by the tertiary sector. This has started to increase in importance from the 1970s, and currently accounts for almost two thirds of the gross value added (GVA) and the total labour force. It is estimated that in the last two decades the value of services has risen on average by 5 % per year, with most people employed in sales, public service, health and education (STATISTIK AUSTRIA, 2007). In contrast, the primary and secondary sectors have declined (*e.g.* if in 1960 industrial production and agriculture and forestry represented 47 % and 11 % of the GVA, these shares were reduced to 31 % and just 2 % by 2006). As expected, the number of people employed within these sectors has also decreased, and presently only one in four people works in the secondary sector and just one in 20 is employed in agriculture and forestry (STATISTIK AUSTRIA, 2007). Within the secondary sector, manufacturing and construction are predominant, and both branches have thrived from participation in the Single Market. These are considered somewhat traditional pillars of the national economy, as they employ a large number of production labour force (*e.g.* around 870,000 people in 2005) and generate a significant annual turnover (*e.g.* €160 billion in 2005) (STATISTIK AUSTRIA, 2007). Manufacturing, particularly car industry, has recorded some of the highest growth rates since EU membership (e.g. an average of 7 % per year) (POINTER, 2005). Additionally, tourism industry plays a very significant role within the economy as a whole. It accounts for 6 % of the GDP and almost 8 % of the total full time jobs in 2006 (STATISTIK AUSTRIA, 2007). With some 20 million international tourists visiting Austria in 2006, the country ranked as the ninth most attractive destination among 124 nations.

A specific characteristic of the Austrian economy is the significant predominance of small and medium enterprises. In 2005, the number of small and medium-sized Austrian firms represented 92.3 % of total number of firms and of 40.4 % of total employees, as opposed to 67.8 % and 17.6 % in Germany (RAGASC and SCHNEIDER, 2005). Moreover, more than 75 % of the Austrian industrial and construction enterprises have less than 10 employees and only 1 % of enterprises employ more than 250 people (STATISTIK AUSTRIA, 2007). BREUSS (2003) highlights that none of the largest 500 multi-national companies in the world, as defined in accordance with their market value, is represented in Austria.

One of the less disputed consequences of Austria's integration into the EU is the benefits of trade liberalisation (e.g. MOOSLECHNER, 2005; FIDRMUC, 2005, BREUSS, 2003). FIDRMUC (2005) notices that export access to a wider market was essential for a small economy such as Austria as trade with the EU, between 1995 and 2002, grew on average by 2.6 % per year. However, BREUSS (2000) argues that entry into the EU did not necessarily led to an improvement of Austrian market position, but it triggered a reduction of its trade deficit. This is attributed to the opening of the CEECs markets, particularly after 1995, of which Austria took full advantages. Hence, the share of Austrian's exports with the CEECs has significantly

increased from 11 % in 1995 to 17 % in 2006. However, over the years, its main trading partners remained Germany and Italy.

5.1 Austrian agriculture and rural development

More than 85 % of Austria's territory is dedicated to agriculture (39.6 %) and forestry (46.8 %). Although, as in most advanced economies, the sector has declined in terms of its contribution to the GDP and labour force, it remained the backbone of the rural community playing an indispensable role in the conservation of natural landscape and environment and the maintenance of culture and traditions (STATISTIK AUSTRIA, 2007). Moreover, it is its social and political significance that gives this sector a special status, with most Austrians vehemently against bio-technology (*e.g.* genetically modified organisms) but leaders in organic farming (TYMOCHKO, 2004). Currently, agriculture and forestry supplies less than 2 % of total GVA and employs 5 % of the labour force. STATISTIK AUSTRIA (2007) estimates that the sector still contributes around €7 billion to the economy on an annual basis.

Prior to accession, Austrian agriculture was highly protected and supported, with prices and farm incomes higher than the EU average (BREUSS, 2003). Accession implied an alignment to the EU levels which triggered a decline of most Austrian agricultural prices. Thus, in the first year following accession, prices for agricultural products plunged by almost a quarter, although the impact on consumer food prices was much smaller at 3.2 % reduction on average (BREUSS, 2003). The Producer Support Estimate (PSE) dropped from 47 %, between 1991 and 1993, to 44 % between 1997 and 1999.

5.1.1 Land use

Austria's geography is dominated by the Alps and a large part of its territory (particularly in the west and south) is mountainous. Thus, only 17 % (or around 1.4 million hectares) of total land is arable, whereas permanent pastures and meadows account for almost a quarter. By 2005, total Utilised Agricultural Area (UAA) accounted for 39 % of the total Austrian area. However, over the last four decades, there is a steadily declining trend of agricultural land (particular land allocated for permanent crops) in favour of forest and other land (Table 5.2).

Most of the arable land (57 %) is used for cereals, particularly wheat, and grassland. Following the entry into the EU there is a clear increase of some land categories. For example between 1996 and 2006, the area under wheat went up by almost 20 %, and grassland and sunflower have almost doubled. For the same period, arable land allocated to rape and sugar beet has gradually declined, whereas vineyards remained almost constant. Most of the rape production is used as raw material for biofuel (and cooking oil) because the Austrian government assumed for long that it has environmental and social benefits (STATISTIK AUSTRIA, 2007).

Table 5.2: Evolution of agricultural and forestry land, Austria, 1970-2005 (000 ha)

	1970	1980	1990	1994	2000	2005	% Change 2005/1970	% Change 2005/1994
Agricultural land (UAA)	3,896	3,675	3,500	3,450	3,390	3,263	-16.2	-5.4
- arable	1,586	1,536	1,426	1,423	1,399	1,387	-12.5	-2.5
- permanent crops	95	99	79	76	71	66	-30.5	-13.2
- meadows & pastures	2,215	2,040	1,995	1,951	1,920	1,810	-18.3	-7.2
Forest	…	…	3,776	3,800	3,838	3,862	2.3*	1.6
Other land	…	…	969	994.2	1,017	1,120	15.6*	12.7
Total land area	8,245	8,245	8,245	8,245	8,245	8,245	–	–

Source: FAO, 2008.

Note: * % change 2005/1990.

5.1.2 Agricultural output

Accession to the EU did not necessarily bring immediate benefits to the Austrian agricultural sector. Agricultural output has actually declined in real terms, particularly in the first five years following accession. It then recovered slowly between 2001 and 2004, followed again by a significant fall in 2005. It was not until very recently (2007) that, for the first time since accession, the Austrian gross agricultural output was above (by almost 8 percentage points) the 1995 level. Nevertheless, given size and topography, Austria belongs to the group of small EU agricultural producers (in value terms); its agricultural industry accounted for only 1.8 % of total value output of EU25 in 2005.

In terms of output structure there has been little change, with a slight variation between crop and livestock output over the years. Cereals, forage plants, fruits, wine, cattle, pigs and milk account for more than 70 % of total output. However, milk remains, for most of the period, the biggest component of Austrian agricultural output, contributing between 14 % and 16 % of its total value. When analysing separately various crops and livestock output, some differences are noticeable. For example, between 1995 and 2005 there is a significant fall (in real terms) in cereals output as opposed to most other crops such as wine, fruits and vegetables. For livestock products, the development of output is very volatile with ups and downs for most products. Pig and cattle seem to be the most affected, although a recovery of cattle output is noticeable for 2006 and 2007. For the decade following accession, the importance of cereals (mainly wheat, barley and maize) has halved, whereas wine output value recovered. Whereas the sharp drop in cereal production in 2005 and 2006 was mainly due to weather conditions, the long-term

increase of wine production is mainly due to the successful recovery of the sector after the shock experienced in 1985 (the "glycol scandal").

5.1.3 Farm structure

The geography and topography of the country certainly influence its farming structure. Given that only 17 % of total land is arable the number of crop farms is much smaller than those specialised in livestock or wood/forestry production. Moreover, this also "motivates highly intensive forms of crop production" in contrast to an extensive livestock production system, internationally recognised for its high environmental-friendly standards (TYMOCHKO, 2004; GROIER and LOIBL, 2000).

Structural changes that affected the economy as a whole prior to accession have also affected the agricultural sector, leading to the specialisation and concentration of agricultural production on larger agricultural and forestry holdings. The number of Austrian agricultural and forestry holdings declined, between 1970 and 1990, by almost a quarter, from around 370,000 to 282,000. The descending trend continued steadily and five years later, in 1995, the number dropped by another 15 %, reaching 239,099 (STATISTIK AUSTRIA, 2007). Entry into the EU accelerated this downward trend, particularly from 1999 onwards, and by 2005 the total number of Austrian agricultural and forestry holdings declined to 189,591; hence around one in five Austrian holdings were forced to leave the sector or merge their holding between 1995 and 2005 (Table 5.3).

Table 5.3: Agricultural and forestry holdings and their total area, Austria, 1990-2005

Cate-	% change 2005/1995				Area (UAA and Forest) (ha)		
gory (ha)	1990	1995	2005		1990	1995	2005
without area	3,910	2,407	291	-87.9	–	–	–
< 5	97,480	66,233	39,664	-40.1	243,158	178,508	116,713
5 - <10	49,063	43,884	34,108	-22.3	352,386	316,310	245,710
10- < 20	54,951	49,369	39,376	-20.2	800,482	720,404	579,078
20 - < 30	33,414	30,992	25,699	-17.1	817,199	760,948	630,480
30 - < 50	26,047	27,219	26,363	-3.1	984,265	1,034,929	1,011,977
50-<100	10,566	12,078	16,073	33.1	691,711	791,682	1,066,590
100 - <200	3,431	3,706	4,752	28.2	478,491	514,685	646,763
200 and above	3,048	3,211	3,265	1.7	3,187,123	3,213,741	3,271,943
Total	**281,910**	**239,099**	**189,591**	**-20.7**	**7,554,815**	**7,531,207**	**7,569,254**
Average size (ha)	26.8	31.5	39.9	26.7	–	–	–

Source: STATISTIK AUSTRIA, 2007.

Note: Minimum farm size considered: 1990 – 1 ha total area; 1995-2005 – 1 ha UAA or 3 ha utilised forestry area. Hence, comparison with 1990 need to be cautious as the survey methodology is different.

During the last two decades there has been a significant decline in the number of small-size farm categories and an increase in the number of larger farms (50 hectares and above). In 1995, the proportion of farms with less than 20 hectares accounted for 46 % of total number of holdings. By 2005, this declined to 31 %. The biggest fall was recorded for farms with less than 5 ha. These less economically viable farms dropped by 11 percentage points during the same period. Moreover, the distribution of land is very uneven across farm sizes with farms of 200 hectares and more managing most of the land (e.g. in 2005, these farms represented only 2 % of the total number of holdings but administered almost half [43 %] of the total area) (STATISTIK AUSTRIA, 2007).

Farm distribution varies also across Austria's regions, and as expected, the topography of the region influences the development of the agricultural sector. The country is divided at NUTS 2 level into nine federal provinces: Burgenland, Niederösterrreich (Lower Austria), Kärnten (Carinthia) Steiermark (Styria), Oberösterrreich (Upper Austria), Salzburg, Tirol (Tyrol), Vorarlberg and Wien (Vienna). More than half (67 %) of total holdings are located in three regions (*e.g.* Lower Austria [24.3 %], Styria [23.1 %] and Upper Austria [19.3 %], where climate and soil conditions are more favourable for agriculture. These three regions also account for the largest share of agricultural and forest land (56 %). There is also a large variation of the average sizes of holdings across these regions (from 25 hectares in Burgenland (lowlands) to 73 hectares in the mountainous Tyrol (due to alpine pastures and forests) (STATISTIK AUSTRIA, 2007).

The majority of farms are located in Less Favoured Areas (LFAs). In 2005, out of the total of almost 190,000 holdings almost three quarters (138,106) were in LFAs. As expected, most of these holdings (74 %) are in the mountain areas. Most of the Austrian agricultural and forestry holdings (95.6 %) are of sole ownership, covering 62 % of total cultivated area. The rest are owned by legal entities (3.6 %) and group of holders (0.8 %), accounting for 34.1 % and 3.9 % of total cultivated area in 2005. An important characteristic of the sole ownership farms, which differ somehow to other EU member states, is the predominant number of part-time farms prior and after accession. Over a decade since EU accession, there is a clear declining trend in the number of both full-time and part-time holdings. But a more recent comparison (2005 to 2003) shows that the number of part-time farms has actually increased by almost 5 % (STATISTIK AUSTRIA, 2007). This is also the case for legal entities and associations, which have increased by 26 % and 4 % respectively between 2003 and 2005. The legal status influences undoubtedly the average size of farms. Whereas sole ownership farms have an average size varying between 15.7 ha for a part-time holding and 40.3 ha for a full-time farm, an average legal entity/association cultivates around 381/203 ha.

Austria's agricultural sector is also characterised by a relatively high number of organic farms. STATISTIK AUSTRIA reports that in 2005, some 20,343 (or 11.7 % of total) farms were registered as organic, cultivating 370,303 ha (or 12 % of total UAA).

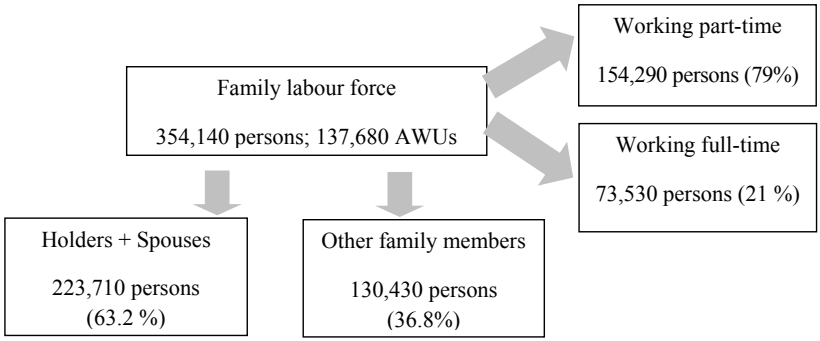
The average size of an organic farm was 18.2 hectares, and the majority of these farms (88 %) were specialised in livestock (mainly suckler cows and dairy cows). Thus, Austria ranked first amongst the EU member states with respect to the share of cultivated UAA (CEC, 2005). The country came only second, after Italy, in terms of number of organic farms. The shift towards organic farming has started at least half a decade prior accession to the EU, when considerable government subsidies and incentives programmes were made available to encourage these methods (VOGL and HESS, 1999).

5.1.4 Labour input

As in most EU member states, Austrian farm labour input has declined over the years (*e.g.* by 20 % between 1995 and 2007). Following the western agricultural model and given the small-scale of farms, currently more than 84 % of total Annual Work Units (AWUs) is provided by unpaid family members. Nevertheless, a gradual decline of total AWUs supplied by family members can be observed, between 1995 and 2007, as opposed to a slight increase in the number of paid workforce.

More important, out of the total family labour force, almost one in two persons is a woman, and four out of ten people represent other family members. The majority (79 %) of family labour force, however, is working part-time on the farm (Figure 5.2). Overall, 44.6 % of all farms employ between one and less than two AWUs, whereas 43.5 % of them have less than one AWU (CEC, 2007c).

Figure 5.2: Family agricultural labour force, Austria, 2005



Source: COMMISSION OF THE EUROPEAN COMMUNITIES, 2007c.

Another significant characteristic of the Austrian agricultural labour force is related to the age distribution. A large proportion (63.2 %) of sole/main holders (and spouses working on the holding) is aged between 35 and 55 years, whereas only around 9 % are 65 years and above.

5.1.5 Farm income

As previously mentioned, Austrian agriculture was heavily protected and supported prior to accession to the EU. Therefore, the adoption of the Common Agricultural Policy (CAP) brought a sharp price reduction for Austrian producers, particularly in the first four years following accession. This was also reflected in the total level of agricultural income, which dropped by almost a quarter between 1995 and 1999. This contrasts with the year prior to accession, when Austrian agricultural income went up by 4.4 % (BREUSS, 2003). A modest recovery in 2000 was followed by a significant rise in 2001. SCHNEIDER (2001) notices that the increase of agricultural income in 2000 was mainly due to higher direct payments received as a result of Agenda 2000 and a smaller value-added tax paid by farmers following the Turnover Tax Act amendment. Nevertheless, it is not until very recent (2007) that for the first time since accession Austrian agricultural income has exceeded the 1995 level.

The contribution of subsidies is very significant to the current Austrian agricultural income and it played an important role prior to accession. In 2005, agriculture and forestry subsidies accounted for €2,420 million (9 % higher than in 2004) of which 59 % originated from the EU. The importance of direct payments as a share of the farm income has also increased over the years, *e.g.* from 8.3 % prior accession (1992-1994) to 20.4 % in the years 1999-2002 (DARNHOFER and SCHNEEBERGER, 2007). Like in other member states, the variation of the direct payments share in farm income is wider across farm types, e.g. from 10 % for pig and poultry farms to 27 % for arable crop farms. A significant proportion (between 29 % and 43 %) of these direct payments is due to the agri-environmental support measures.

However, SCHMID et al. (2006) uncover that other income sources than from agriculture are important for Austrian farm households. Using Farm Accountancy Data Network (FADN) for three consecutive years (2001 to 2003) the study estimated that the average farm household income (> 2 ESU turnover) consists of 13 % agricultural and forest market income, 37 % farm subsidies (*e.g.* direct payments, LFA and agri-environmental payments) and 50 % from other sources (17 % social transfers, 25 % off-farm salaries and 8 % family support transfers). These findings are also supported by DARNHOFER and SCHNEEBERGER (2007) who estimate that on average 53 % of an Austrian farm family income is based on agriculture and forestry, with the rest of 47 % coming from other sources (e.g. off-farm employment, child benefits and pensions). As regards farm subsidies, the average farm receives 600 €/ha per year, but this varies between 260 €/ha and 3,500 €/ha. Not surprisingly, larger farms benefit more from both direct and agri-environmental payments.

However, the development of the average real income per worker, which is the most important agriculture income indicator for comparisons within the EU Member States, reveals that from 2001 onwards the Austrian figures have been above the

EU15 average at an increasingly level. Recent estimates on income per holding from agriculture and forestry shows an increase by 2.3 % for 2005 (€19,843 per holding in total) as compared to 2004 and an almost 5 % rise in 2007 as compared to 2006. However, the distribution of income varies considerably across farm types. For example, livestock farms could see a rise of their income by 17 % as compared to a loss of 37 % recorded by permanent crop farms. Mountain farms have increased their income by 11 % in 2005, whereas organic farm income grew by 5 %.

The development of pluriactivity and off-farm employment have become a constant for many Austrian farms. This is even more evident in the case of smaller holdings. Moreover, BERGMANN et al. (2006: 1) point out that the "prevalence of on-farm pluriactivity is linked with extensive on-farm production and low on-farm incomes", affecting both part-time and full-time farms. They estimate that some 35 % of total Austrian farm household income is off-farm. In summary, one can conclude that agricultural multifunctionality is extremely important for rural areas in Austria, and in recent years has become the core of the Austrian agriculture and rural development policies.

5.2 Most significant policies to manage socio-economic changes in rural areas

5.2.1 CAP and rural development: The importance of the agri-environmental measures

The geography of the country has no doubt influenced very much the agricultural and rural development policies in Austria. As only less than 20 % of land is suitable for agriculture and as most of the farms are located in LFAs, particularly mountain areas, the government concentrated its efforts to support the development and viability of these farms. Additionally, an increased public awareness for the environment and the preservation of cultural landscape led Austrian politicians to regard agricultural policy within a wider context, placing an emphasis on rural development. Prior accession, the agricultural sector was heavily supported through interventionist and protectionist measures. Price support for key goods (e.g. milk, cereals and meat), import tariffs and export subsidies helped the survival of Austrian farms, particularly those of a small-scale. Moreover, considerable support was oriented towards the conversion of conventional farms into organic farming.

With accession to the EU, the financial support burden for the Austrian farm sector shifted from national and regional levels to Brussels. Thus, between 1995 and 2006, the EU contribution, in the form of the CAP payments, to the Austrian agriculture accounted for approximately €13.6 billion (Table 5.4). It also highlights that although the EU financial resources for Pillar 1 accounted for the largest share since accession to the EU, there is a slight increase of the proportion of funds allocated for the development of Pillar 2 measures.

Table 5.4: Development of EU contribution to CAP payments in Austria, 1995-2006 (€ million)

Year	1st Pillar	of which Export subsidies	2nd Pillar	Other *	Total
1995	489.81	26.63	223.47	273.70	986.98
1996	594.25	70.45	330.15	156.13	1,080.52
1997	554.89	67.67	324.28	99.55	978.72
1998	596.60	55.70	379.52	42.47	1,018.59
1999	594.37	72.64	376.92	14.02	985.31
2000	626.87	63.41	463.65	14.08	1,104.60
2001	583.18	52.41	455.50	65.76	1,104.44
2002	655.43	57.52	457.80	6.76	1,119.99
2003	680.06	44.75	463.00	21.51	1,164.57
2004	731.79	41.63	473.35	23.13	1,228.27
2005	920.98	43.83	485.31	25.48	1,431.77
2006	804.48	33.66	565.29	24.41	1,394.18
Total	7,832.71	630.3	4,998.24	767.0	13,597.94

Source: LEBENSMINISTERIUM, 2007b.

Note: * Covers storage costs for surplus products, digressive payments, Community Initiatives, producer cooperation, Structural Funds.

The consideration of the environment as an important issue within Austria's agricultural and rural development policies dates back to the early 1970s (DARNHOFER and SCHNEEBERGER, 2007). In 1972, the government initiated its first support programme for maintaining viable farming communities in the mountains areas (the Mountain Farmers Special Programme 1972-1978). Two follow-up programmes were implemented from 1979-1983 and 1984-1990. However, as the intensification of agricultural production increased during the 1980s, so did public concerns regarding land conservation and preservation of the environment. Pressure from environmentalist lobbies forced the government to adopt more specific measures to support these issues. By the mid-1980s, introduction of the so-called "ecological and social agricultural policy" with a focus on both environmental and socio-economic issues strengthened the link between agriculture and environment. This led to the introduction of specific agri-environmental payments during the late 1980s and early 1990s (GROIER and LOIBL, 2000). In this context, the support of organic farming became a priority on the policy-makers agenda.

In preparation for accession a new Agriculture Act was adopted in 1992. This laid down the main objectives of the Austrian agricultural policy in line with the EU guidelines. The Act highlighted the importance of farming within a friendlier

environment with a focus on the "ecological compatibility of agricultural practices" and a financial support for those who practice "environmentally friendly production methods and product quality" (GROIER and LOIBL, 2000, p. 172). Additionally, Austria had its own Agri-environmental Programme (ÖPUL) designed to take full advantages of the "options listed in the Regulation (EC) 2078/92 – to support an ecologically and sound agriculture based on private-owned family farms and covering all rural areas" (DARNHOFER, 2005, p. 712). The large public support of organic farming prior accession was thought to be a solution for surviving within the competitive EU market; and it proved to be a well thought out strategy by Austrian decision-makers.

Against this background, the adoption of the CAP was considered by the Austrian government as the best opportunity for the expansion and consolidation of its agri-environmental programmes. Moreover, these were seen as the perfect policy instrument "to ease the transition into the EU for Austrian farmers [heavily affected by the drop in price support immediately after accession] and to ensure that environmental aims were safeguarded" (DARNHOFER and SCHNEEBERGER, 2007, p. 366). The first national agri-environmental measures (ÖPUL) were implemented in 1995 and proved to be very popular. Some 180,000 farmers (more than 80 % of eligible farmers) signed up for the participation in the programme, covering over three quarters (76 %) of the total Austrian UAA (excluding alpine pastures) (GROIER and LOIBL, 2000). More than a third (37 %) of the entire national budget was used for payments of agri-environmental measures to farmers. The changes brought by the Agenda 2000 reform and the adoption of the Rural Development Regulation (EC 1257/99) which set up EU rural development policy as the second pillar of the CAP led in 2000 to a new adapted focus.

In conclusion, it can be stated that the significance of ÖPUL within the general context of Austria's agricultural and rural policies is irrefutable. Its philosophy is "that policy should not only help reduce environmental damage, but should also prevent future damage according to the precautionary principle" (GROIER and LOIBL, 2000, p. 176). The increased share within the distribution of the Austrian agricultural budget over the years also reflects its importance. Hence, €567 million per year were spent on average for agri-environmental measures between 2000 and 2006 (DWYER et al. 2002). For the same period, Austria's received 16 % of the total EU agri-environmental payments (DARNHOFER and SCHNEEBERGER, 2007). Within the Austrian Rural Development Programme (RDP) for 2000-2006, which accounted for almost €7 billion of total public expenditure, ÖPUL accounted for 62 %. The programme continues to be at the core of the Austrian agriculture and rural development policies, and it remains the main source of public support for agriculture. Although it can be argued that the major aim of ÖPUL is to support the farming community, its "all-land-covering approach of ensuring and maintaining the cultural landscape, which is the asset of the rural areas in Austria" (KNÖBL, 2006, p. 274) makes ÖPUL a key instrument for the development of rural areas.

5.2.2 LFA compensatory allowance

As 70 % of total agricultural land falls within the LFAs category, with most within the mountain areas, the LFA compensatory allowance is the second most important instrument for rural Austria (after ÖPUL). Following accession, these payments replaced the previous direct aid distributed to mountain farms under the Mountain Farmers Special Programmes. Farmers in these areas receive compensation in accordance with the severity of the natural conditions and farm types, e.g. rearing cattle holdings, which are essential for the preservation of the Austrian alpine landscape. KNÖBL (2006) also notes that the compensatory allowances are also oriented towards the preservation of small-scale farms, as the level of support is at its highest for the first six hectares. There is also a second level of support which is progressively reduced from 60 up to 100 hectares. Thus, the LFA payments are a significant source of income for farm holdings in these areas, with some 14 % to 37 % of farm income provided through this instrument.

KNÖBL (2006) and DARNHOFER and SCHNEEBERGER (2007) remark that the combination of LFA and ÖPUL payments and investment support are playing a key role in offsetting farm abandonment and the maintenance of a relatively stable number of farms in these areas. It is estimated that between 1995 and 2003, less than 10 % of farms receiving these payments have abandoned farming (DARNHOFER and SCHNEEBERGER, 2007).

Agri-environmental measures and the LFAs compensatory allowances taken together account for 86 % of total public support for Austria's rural development between 2000 and 2006 (Table 5.5). The rest was distributed amongst the other individual measures with a focus on investments in agriculture (Priority 1) and rural areas (Article 33). As regards Article 33 measures, the resources were distributed for the diversification of agricultural activities (particularly tourism projects), measures regarding the improvement of the infrastructure and the development of villages in rural areas and investments in cultural heritage and nature conservation projects. Most of the funds, however, were concentrated on diversification and the development of infrastructure, e.g. forest roads (DWYNER et al., 2002). The nature conservation projects contribute to the implementation of the Natura 2000 network. Additionally, local production of energy supply from renewable resources (especially wood) by small-scale rural holdings was considered also a priority of the Austrian rural development policy and diversification of agriculture activities. Some €126 million, covering 450 projects, were committed as by the end of 2005 (KNÖBL, 2006).

Table 5.5: Rural development programme and total support for rural development, Austria, 2000-2006

Priority	Measure	Public expenditure (€ million)	EU contribution (€ million)	Percent of total public expenditure
1. Modernising agriculture	Farm investment	265.7	132.7	3.8
	Young farmers	95.2	47.6	1.4
2. Vocational training	Training	44.6	22.3	0.6
3. LFAs	Less-favoured areas	1,830.8	659.5	26.1
4. Agri-envir. measures	ÖPUL measures	4,358.6	2,140	62.2
5. Processing and marke-ting	Processing & marketing of agricultural products	89.6	44.5	1.3
6. Forestry	Forestry and farmland afforestation	119.4	59.8	1.7
7. Rural development	Article 33 measures	201.4	100.7	2.9
Total RDP (EAGGF-Guarantee)		**7,005.3**	**3,207.1**	**100**
Objective 1 Programme (EAGGF)		57.2	43.2	75.5
Additional national funds for Objective 1		73.0	0.0	0
Total Objective 1		130.5	43.2	33.1
LEADER+ Programme (EAGGF)		105.3	76.8	72.9
Total support for rural development		**7,241.2**	**3,327.1**	**46.1**

Source: KNÖBL, 2006; DWYER et al., 2002.

Hence, although farming has remained at the core of the Austrian agricultural and rural development policies, Austria devotes one of the largest shares of public support of all EU Member States to the second pillar of the CAP. In 2005, 70 % of Austria's budget for agriculture was allocated to rural development measures (mainly ÖPUL and LFA payments) and only 30 % went to the first pillar. Agricultural spending under the first pillar of the CAP concentrated mainly on direct payments and processing and marketing (ASAMER-HANDLER and LUKESCH, 2002). Still, direct payments through the first pillar of the CAP are important for Austrian farmers, and they complement the agri-environmental and LFAs compensatory payments. However, KNÖBL (2006) argues that there is an essential difference behind the rational for direct payments under the first and the second pillar. In his view, the direct payments from the first pillar represent an "income policy for European farmers", whereas the transfers of the second pillar in Austria "are granted for concrete services delivered by agricultural holdings" and "represent the compensation of the multifunctional services of agriculture and forestry" (IBID, p. 276).

5.2.3 Structural funds

Although it is difficult to single out the effects of Structural Funds on the development of rural areas (mainly due to the interaction of different public funding sources, plus also private sources), it is generally accepted that, following accession to the EU, the Austrian regional policy and regional development has gained new salience. Prior accession, regional policy had become a political priority only in the 1980s, when the traditional policy focusing on the reduction of regional disparities was replaced with a structural policy concentrating on endogenous development, innovation and modernisation (GRUBER, 1997). Following EU accession, regional funding accounted for approximately 32 % of total economic subsidies, being more than double as compared to previous years (CENTRE FOR INDUSTRIAL STUDIES, 2005). Regional development is based on co-financing EU contributions based on the classification of objective areas. The total amount of EU Structural Funds between 1995 and 1999 amounted to ECU 1,623 million (at 1995 prices).

Table 5.6: Structural funds expenditure, Austria, 2000-2006

Programmes	EU Contribution € million
Objective 1 (Burgenland only)	271.00
Objective 2 (all other federal provinces)	680.00
Objective 3 (all of Austria)	528.00
Community Initiatives	
EQUAL	96.00
INTERREG IIIA	141.70
INTERREG IIIB and INTERREG IIIC	41.50
LEADERplus	71.00
URBAN II	8.00

Source: TIROL, 2007a.

Concerning the period 2000-2006, the expenditures of the various structural funds looked as shown in Table 5.6. The only Austrian region eligible for funds under the Objective 1 criteria was the Federal Province of Burgenland, which covers the most eastern part of Austria (Objective 1 status was terminated in 2006). One of the priorities of this region was "agriculture, forestry, fisheries and protection of nature".

Estimates regarding the effects of the participation in the EU regional policy for Austria are rather scarce. BREUSS (2003), examining the effects of the 1995-1999 EU regional aid, concluded that this "stimulated the Austrian economy only moderately" (IBID, p. 188). The study conducted by the CENTRE FOR INDUSTRIAL STUDIES (2005) has also supported this finding. There is also no clear evidence that the disparity gap between regions has narrowed, but the time-period analysis is rather short for such changes. As regards rural development, ASAMER-HANDLER and LUKESCH (2002) note that the structural support (provided through LEADER

and Objective 5b) for 2000-2006 had decreased as compared with the previous period (1995-1999). The main, commonly accepted, benefit is the enforcement of systematic control mechanisms of the EU regional policy, which led to a more transparent public support system (CENTRE FOR INDUSTRIAL STUDIES, 2005; BREUSS, 2003).

5.2.4 LEADER II and LEADER+ programmes

Although very little was allocated to the LEADER-type Programmes, this EU community initiative was well received by many local communities across the country following the country's entry into the EU. Believed to continue the long Austrian tradition of income support and the development of rural areas, both LEADER II (1995-1999) and LEADER+ (2000-2006) have generated a considerable positive response and attracted an important share of participation from the population. ASAMER-HANDLER and LUKESCH (2000, p. 31) note that LEADER II led in many areas to a "dynamisation of actors" at the local but also provincial level. A good example in this respect is the LEADER "Cheese Route Bregenzerwald" project, carried out in Vorarlberg region (SHUCKSMITH et al., 2005). The objective of the project was "to emphasise the uniqueness of the region's products (especially cheese) and to increase the region's value added of cheese production by about one-third …, thereby contributing to assuring the livelihood of the rural population, reducing the quantity of commuters and helping to create new jobs in tourism and trade" (IBID, p. 177). The inclusion and commitment of a large number of beneficiaries (almost 200 members) from both public and private sectors, an "innovative multi-stakeholder partnership, as well as the integrated marketing concept which was able to establish a new high quality brand" and enhanced sales led to a remarkable performance with positive economic effects for the region as a whole (IBID, p. 178).

The positive impact of LEADER II influenced an increase in the number of Local Action Groups (LAGs) from 31 to 56 under the LEADER+ programme. LAGs were established in eight federal provinces (all but Vienna) and covered 54 % of total area and 27 % of the Austrian population (the third largest share within the EU15 and almost double of the EU15 average) (LEBENSMITTELMINISTERIUM, 2007a). LEADER+ focused on the local management, training activities and improvement of the quality of life for the local population (KNÖBL, 2006). Particularly popular amongst most of the LAGs was the introduction of ICT and the training of the rural population on these modern communication technologies (LEBENSMITTELMINISTERIUM, 2007a).

5.2.5 Rural development 2007-2013

In line with the changes brought by the Mid-Term Review reform (2003) and the adoption of the new Rural Development Regulation (EC) 1698/2005, Austria (as all other EU member states) was asked to prepare its own Rural Development Programme (RDP) for 2007-2013. Austria opted for a single national RDP. This

was approved by the Rural Development Committee of the European Commission on September 2007. In accordance with the Community Strategic Guidelines and the National Strategy Plan for Rural Development, the Austrian RDP establishes three major objectives: (i) improving the competitiveness of the agricultural and forestry sector; (ii) sustainable use of natural resources and landscape conservation and (iii) conservation and development of attractive and vigorous rural areas. These follow the aims set up for the previous RDP 1995-1999 regarding the promotion of a competitive and environmentally sustainable agricultural sector and the preservation of landscape and nature protection. Therefore, it has not come as a surprise that measures for Axis 2 received with 72 % the largest share of total public expenditures allocated to the Austrian second pillar (Table 5.7).

Table 5.7: Total public expenditure for rural development, Austria, 2007-2013

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

Source: COMMISSION OF THE EUROPEAN COMMUNITIES, 2007a.

Within Axis 2, agri-environmental payments and compensatory allowances for LFAs account for 90 %. Payments from this axis contribute to safeguarding the farmed environment, support/compensate farmers for specific environmental services and the delivery of Natura 2000. Amongst these measures, the promotion of organic agriculture continues to be a priority, the national strategy plan envisaging that some 18 % of total managed land to become organic by the end of the programme. As regards LEADER, the resources allocated for this axis should contribute to the objectives of Axes 1, 2 and particularly Axis 3, but also "play an important role in the horizontal priority of improving governance and mobilising the endogenous development potential of rural areas (LEBENSMINSTERIUM, 2007a, p. 25). It is intended that the number of LAGs for this period should reach 100. LEADER will be implemented mainly via Axis 3.

The main players involved in the implementation of Austrian agricultural and rural development policies are: the Federal Ministry of Agriculture, Forestry, Environment and Water Management, Offices of the Federal Governments, Chambers of Agriculture, Agrar Markt Austria (a public market organisation and intervention body) and the Austrian Agency for Health and Food Safety (AGES). Additionally a large number of voluntary organisations (e.g. the Federation of Austrian Cattle Breeders, the Austrian Federal Association of Famers and Forest Owners, the Working

Group Agricultural Poultry Management and the Federal Association of Vine-Growers) work closely with the Chambers of Agriculture. Important economic decisions, including those regarding agriculture and forestry sector, are however taken within a so-called Sozialpartnerschaft (social partnership). This was established in 1957 between the four major representations of interest: the Standing Committee of the Presidents of the Chambers of Agriculture, Austrian Economic Chamber, Federal Chamber of Labour and the Austrian Federation of Trade Unions. The agriculture cooperative system also provides a good networking for those "unofficial" actors who want to participate in the decision-making process of agricultural policy. It can be concluded that due to its federal structure, the involvement of the Federal Provinces in the decision-making process is crucial, making an important contribution to the development of agriculture and forestry sector as a whole.

5.3 The Tyrol Region

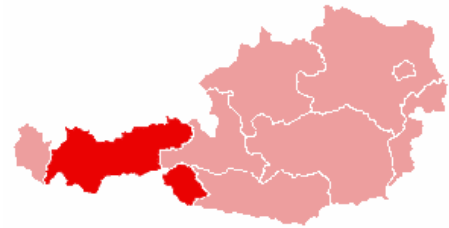
5.3.1 Socio-economic development

Tyrol, with its capital Innsbruck located in its centre, is situated in the western part of Austria in the Alps, bordering with Italy in the south, Germany in the north, and other Austrian provinces in the west (Vorarlberg) and east (Salzburg and Carinthia). It covers an area of 12,648 km² and is split into nine political districts (Map 5.1). The population of around 700,000 lives in 279 municipalities (among those 11 cities). Administratively, it constitutes a NUTS 2 region with five NUTS 3 subregions, and the municipalities are defined as the LAU 2 level ("local administrative unit", formerly NUTS 5). These NUTS 3 regions are sometimes equivalent to the historic political districts (Bezirke), and sometimes they consist of several of these districts: (1) Außerfern (Reutte), (2) Tiroler Oberland (Landeck, Imst), (3) Innsbruck (Innsbruck city, Innsbruck Land), (4) Tiroler Unterland (Schwaz, Kufstein, Kitzbuehel), (5) Osttirol (Lienz). Along the OECD typology, Innsbruck is an integrated region, with the remaining NUTS 3 regions counting as predominantly rural (LEBENSMINISTERIUM, 2007a). Tyrol covers 15.1 % of total land area, 8.5 % of Austria's population and accounts for 8.7 % of the country's GDP (STATISTIK AUSTRIA, 2008).

The prevailing Alpine climate is characterised by relatively humid, but warm summers, dry autumns and snowy winters. But the regional variations are large. Tyrol is Austria's most mountainous federal province, with the highest peaks along the south-west border, which gradually get somewhat lower running eastwards, with increasing possibilities for mountain pastures and also skiing. Thus, only 9.3 % of the land area is used for agriculture, but 27.3 % are mountain pastures and 36.9 % are wooded. Tyrol's Alpine character means that only 11.8 % of its total area is currently used for permanent settlements (Austria 37.4 %).

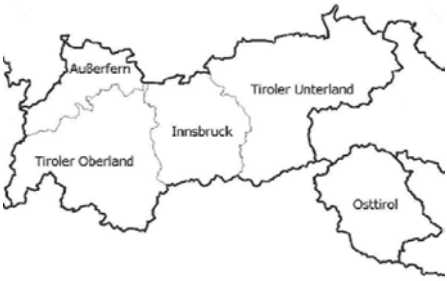
Map 5.1: Maps of Austria and Tyrol

Tyrol as one of nine federal provinces of Austria



The nine political districts of Tyrol

The five NUTS 3 regions of Tyrol



Tyrol with its rivers, marking the main valleys

Source: STATISTIK AUSTRIA, 2007.

All in all, Tyrol is perceived to be a relatively wealthy province although its gross income level is still below the Austrian average, but relative productivity is high with an above average GVA per head. The income is mainly generated from tourism and the associated retail market, and industry with its services. Tyrol takes advantage of its Alpine scenery by cultivating a major winter and summer tourism that is very much shaped by its topography and Alpine climate. Especially winter tourism is mainly promoted along the north-slopes of the Alpine peaks along the southern and western border. It is one of the top 20 EU-27 tourist regions (CEC, 2007b). Tyrol's industrial sector is largely located in the Inn valley, in the districts Imst, Innsbruck, Schwaz, and Kufstein. On district level, large parts of Reutte, Landeck, Imst, and especially Osttirol benefit from objective 2 contributions of the Structural Funds (some also of Innsbruck Land), and without the agricultural subsidies, the largest shares of the mountain farms would not exist anymore.

The population density of 55 inhabitants/km^2 distributes unevenly, with large barren land in the mountains and one main agglomeration in and around Innsbruck (1,124 inhabitants/km^2), stretching to the east and west along the Inn valley. This results in a population density of 469 inhabitants/km^2 in permanently settled areas. In 2006, Tyrol had the third-highest birth rate in Austria with 9.9 live births per 1000 population. The average fertility is 1.41 children per woman. Besides the

ageing effect of the population like in other places in Europe, the steadily rising population figures are also due to positive in-migration, which is mainly due to the pull factors employment in tourism and also industry, plus the attractive scenery. Tyrol shows the lowest divorce rate (37.5 %) and the highest life expectancy among the federal provinces with 79 years for males and 83.5 years for females (STATISTIK AUSTRIA, 2008).

With respect to GVA the main economic activities take place in the larger Innsbruck area and the Tiroler Unterland. During the last decade since EU accession, one can observe a substantial rise in GVA in Außerfern and the Tiroler Ober- and Unterland by 50 to 60 %. Osttirol, and interestingly also the capital region Innsbruck show only a medium rise in GVA of more than 30 %. This economic basis is mainly generated from the service sector (70.1 % in 2005) and the secondary sector (28.7 %), and both increased substantially since EU accession. The primary sector accounts for only 1.2 %; its development has been volatile with a considerable drop soon after EU accession when the subsidy schemes had been adjusted to EU rules, then a rise over some years, which was followed again by a drop in 2005. The implementation of the CAP reform resulted in a severe decrease in subsidies on products in 2005 and thus also in a strong decline of the agricultural Gross Value Added at basic prices (STATISTIK AUSTRIA, 2008, Regional Accounts).

The total Tyrolean GVA per capita compares favourably with the Austrian average. From 1995 to 2005, the average GVA per capita increased from €20,462 to €27,698 while for total Austria it increased a bit less, i.e. from €19,878 to €26,815. Although Tyrol experienced a slight dip in the first three years after EU accession, it finally caught up again after the turn of the millennium and is three percentage points above the Austrian average from 2003 onwards. While the Austrian GVA per capita was 51 % above the EU27 in 1995 (i.e. €19,878 vs. €13,182), this decreased to 34 % eleven years later (i.e. €26,815 vs. €20,036). This suggests a catching up process of the new EU Member States (STATISTIK AUSTRIA, 2008).

Due to the relatively good economic development, the employment rates are quite high. The unemployment rate in Tyrol (5.5 %) is well below the Austrian average of 6.8 %, but female unemployment takes a higher share than in the remaining Austria. Within Tyrol, Osttirol shows the relatively highest share of employment in the primary sector (2.3 %) and about double the unemployment rate of the economically more powerful regions. The Tiroler Oberland shows here also structural weaknesses with an unemployment rate of 8.5 %. Osttirol and Außerfern have the lowest employment shares in the tertiary sector, indicating its lower reliance on tourism. Overall, the relatively favourable unemployment figures for Austria are partly based on a low participation rate of people aged 55-64 amounting in Austria to just 37 % in 2006, as early retirement was made relatively easy. A further explanation is that Austria benefited from the accession of the new EU Member States, with some of which it has a comparative advantage of common history. This was used to enter these markets early in the 1990s. For Tyrol, linkages with the buoyant

northern and southern neighbours are traditionally somewhat more important than the east-west axis.

5.3.2 Agriculture and rural development in Tyrol

Although agriculture contributes a very small share of the economic output of the region, there are several good reasons why it fulfils important functions for its wellbeing. Tyrolean agriculture, as in most mountain areas in Europe, has a central role in maintaining the cultural landscape. This is provided by farmers performing multifunctional services such as cultivating their land, not last to keep the appeal for tourism and local population beyond the food production aspect, maintaining forests to protect settlement areas in the Alps, secure biodiversity on otherwise wooded land, preserving cultural heritages in the area, and increasingly also providing services offered during the diversification processes farmers explore these days. Especially in farming populations in the mountains where the question is often whether farmers seek off-farm employment to support their livelihood and/or explore other income possibilities, diversifying livelihoods is increasingly linked to their holding like with farm holidays, hospitality outlets, maintaining nature trails, adding value to forestry products, or processing and marketing of their own foodstuff, etc.

Table 5.8: Agricultural holdings in Tyrol, 1970-2005

	1970	1990	1995	2005	% change 2005/1995	% change 2005/1970
Full-time farms	13,578	6,572	5,302	4,658	-12	-66
Part-time farms	9,385	12,478	13,417	10,396	-23	-11
Group holders and legal persons	637	688	2,002	1,791	-11	181
Tyrol	23,600	19,738	20,721	16,846	-19	-29
Austria	367,738	281,910	239,099	189,591	-21	-48
% of Austria	6.4	7.0	8.7	8.9		

Source: STATISTIK AUSTRIA, 2007; TIROL, 2006.

After EU accession in 1995 and the phasing out of the digressive payments, Tyrol experienced a strong decrease in farm numbers (especially those managed part-time) as did Austria as a whole (Table 5.8). Around 4,000 farmers or 19 % stopped farming or merged holdings during the eleven years after accession. Recently, this sharp decline slowed considerably. It is suggested that the structural adjustment slowed down with those farmers remaining who still see a future for their farm within the EU framework. Plus, stable or somewhat increasing cattle prices and world food market prices for staples on the rise will also have a positive effect on farms to stay in business. As a long-term trend, farm exits are more pronounced on the Austrian level. As a result, the share of Tyrolean farmers has increased from 6.4 % in 1970 to 8.9 % in 2005.

Only 38 % of agricultural holdings were managed full-time in 2005. Thus, the majority of farmers have other gainful activities, either closely associated with farming in the sense of multifunctionality and/or contractual employment in this or other industries (e.g. forest or tourism related). Because of the extreme topography of the Tyrolean Alps and their influence on productivity, it is rather important to take the location of farms into account when reporting socio-economic and other farm data (also because different subsidy levels are associated with these). Hence, public subsidies account for 27 % of output of Tyrolean farms, which contrasts to 24 % in Austria (80 % and 84 % of net income respectively). This share rises considerably with increasing handicap. This result just underlines the suggestion that not many farmers would be left in the mountains if financial support was stopped (TIROL, 2007a).

In Tyrol, the average farm household income amounting to €19,400 in 2005 stems to 62 % from agriculture and forestry (output including subsidies minus variable and fixed costs), 22 % is non-farm earnings, and 16 % are transfer payments like, for instance, child benefits and pensions. Flatland farmers have the lowest share of agricultural, and the highest share of non-farm income. This is due to a lower share of subsidies, and a higher contribution by non-farm income. The share of earned income gets lower, and subsidies get higher, the higher the handicap of the farm.

The Tyrolean total farm household income is well below the Austrian average (by 14 % in 2005), and interestingly enough, also the absolute subsidy levels are lower although the average farm is larger in Tyrol (73 ha in contrast to 40 ha total area in 2005) (STATISTIK AUSTRIA, 2007). Tyrolean farms have Less Favoured Area status, which make them eligible for a separate subsidy pot, but so is a large part of the remaining Austria. The answer lies half in the fact that non-agricultural income is higher outside Tyrol, but also subsidies and transfer payments are higher on Austrian level. Further, this might also be because Tyrolean farmers manage less productive land than in the east and south of Austria.

Throughout the years, animal husbandry takes the highest share of total production values, ahead of forestry, crop production and non-agricultural activities. There had been no significant changes with respect to the respective contributions during the last years, indicating that the support system was successful in keeping the production (and thus landscape) patterns as they were. Abandoned land is simply taken over by remaining farmers, and in some cases it is turned into forests. The somewhat high share of non-agricultural activities certainly stands out. Within this category, farm holidays are most important (31 % in 2005). Tyrolean farmers are successful in establishing several income streams to support their livelihood, though it seems that the relevant revenue streams have already been established quite before EU accession.

5.3.3 Driving forces for rural changes in Tyrol

The Rural Development Programme has been the most important financial instrument for the Austrian agricultural policy since EU accession. For example in 2006, only 21 percent of the CAP was reserved for the RDP by the EC, when applied to Austrian circumstances, this share increased already to 42 percent, and reached even 63 % of total subsidies once the Austrian co-financing is taken into account (LEBENSMINISTERIUM, 2007b). 88 percent of this was allocated to the two measures agri-environmental programmes and less-favoured areas compensatory allowances in 2006. Tyrolean farmers are eligible for both of these schemes, which were distributed through a relatively complex, but generally as fair seen allocation scheme taking into account the relative disadvantage of farms and their contribution to produce environmental benefits.

The multitude of measures covered by the Austrian rural development programme and the early implementation of important parts of it in Austria even lead SINABELL (2004) to conclude that the 2nd pillar of the CAP had already been implemented in Austria ahead of its time. The reason lies in the need of farmers in less-favoured areas to develop alternative income possibilities to support their livelihoods. The strategy for farmers in such areas cannot be to compete on price, but instead on quality and by emphasizing agricultural services to be delivered in a wider context to service society, local communities, and in the Austrian mountains also partly tourism. Ideally, this is integrated into an overall strategy by rural communities where potentials for collaboration between different stakeholders/industries are initiated (formalized nowadays in the LEADER programme). The Austrian schemes were already successful before accession, e.g. the largest part of organic farmers had already joined the organic farming scheme before EU accession (15,000 compared to about 20,000 in 2005).

The following summarises the changes of EU support affecting Tyrolean farmers (Table 5.9). The CAP 2003 reform is reflected in the rising relevance of the Single Payment Scheme (SPS) under Pillar I. In 2005, it accounted already for 46.5 % of Pillar I payments. The payments from the Rural Development Programme increased constantly since EU accession, and especially between the two programming periods. Agri-environment is (already) traditionally the most important category, though LFA compensatory allowances were considerably increased during the second programming period. Also LEADER payments increased over time. The most important of the twelve measures of ÖPUL Tyrol were (ranked according to their volume): support of mountain pasturing, abandonment of yield-increasing inputs on grassland and arable land, organic farming and maintenance of cultural landscapes.

Table 5.9: CAP payments to Tyrolean farmers, 1995-2005 (€ million)

	1995	2000	2005
Pillar 1 – Market support and direct payments (EAGF), total	28.41	17.24	28.51
Of which Single Payment Scheme			13.28
Milk premium			6.82
Arable aid	1.41	1.18	
Animal premiums	11.84	16.06	8.41
Digressive payments	15.16		
Pillar 2 – Rural Development Programme (EAFRD), total	78.01	81.19	112.09
Axis 1 – Investment, succession/start-up premium, training, etc.	1.44	3.43	6.77
Axis 2 – Agri-environment (ÖPUL)	42.68	44.23	50.62
LFA compensatory allowances	33.89	31.07	46.60
Axis 3 – LEADER (Art. 32, Art. 33, 5b)		2.46	8.10

Source: LANDWIRTSCHAFTSKAMMER TIROL, 2007.

During the 2000-2006 period, about 18 % of the total population in Tyrol belonged to the area under Objective 2 and another 12 % to the phasing-out area. The national programme in line with the structural and cohesion funds focussed on three priority areas and technical assistance measures:

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

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

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

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

The total cost of the programme 2000-2006 was €216 million, of which €46.6 million or 21.6 % were provided by the ERDF. Another 18 % were covered by the Austrian and Tyrolean national budgets, while about 60 % were contributed by the private sector. Thus, considerable amounts of private money could be leveraged for the implementation of the projects, especially under priority 1. Whereas a high

additionality of projects was found during an evaluation of the Structural Funds implementation on the national scale, it was less certain whether these investments could also contribute to lessen the disparities within regions (OIR, 2003). Judging from the analysis of the NUTS 3 regions from above plus experts' opinion, there were certainly positive developments especially in Außerfern (which was mainly industry led), and to a lesser extent also in Tiroler Oberland. Only in Osttirol, there seem to be somewhat little dynamics.

In the current programming period (2007-2013), the primary focus is on improving regional competitiveness, whereby the topics eligible are defined rather narrowly. But in contrast to the former programming periods, the whole province is now target area (TIROL, 2007b). About €72 million of Structural Funds money could be secured to support Tyrol within the seven years of programming period. €35 million are reserved for improving the competitiveness of the region, but also €21 million for territorial cooperation through INTERREG und €17 million for LEADER, the latter actually being part of the rural development agenda of the EC from 2007 onwards. Besides the €72 million from the EU, another €58 million will be contributed by national public sources while the investments of the private sector could not be specified (TIROL, 2007b).

INTERREG and LEADER have been the two most important Community Initiatives in Tyrol and they continue to be so. INTERREG is generally seen to have had some success, whereby initiatives exist all along the southern and northern borders of Tyrol with Germany and Italy, where perhaps Außerfern can be mentioned to be exemplary. LEADER with the still rather recently established Local Action Groups was also seen to be especially successful in Außerfern and in Tiroler Unterland towards the border with Salzburg. For the new programming period, it seems that good initiatives in all eight political districts are secured, thus making the coverage with good initiatives more even. An important aspect in developing a successful programming period is the skilful interaction of a bottom-up and top-down approach, which was initially underestimated as too much weight was given to the bottom-up aspect. This resulted in some instances to establish projects without links to the main local economic centres; thus there was no progress in the envisaged manner. This is where some soft top-down facilitation needs to correct for mistakes in the design.

5.4 Success factors in managing rural changes since EU accession

Regional policy has a longstanding history in a state organised along federalist principles with relatively strong regional parliaments. This is even truer for a region with mainly mountainous agriculture where public support is seen as a necessity to preserve the cultural landscape with extended mountain pastures. Also, farmers have partly had a buffer function in the labour market for seasonal peaks in tourism and construction industries, which facilitated the preservation of a primarily small-scale agriculture in the mountains, which are part-time management.

An outstanding role in the success of these initiatives can be attributed to the "governance" structures. Already before EU accession, Austria had very good, though sometimes informal links between national and regional stakeholders, which were (e.g. regional policy) formalised during accession due to the necessities of EU programming structures. EU programmes gave focus and accountability to policy measures which were not there before, and which was seen to be an added value by most stakeholders. In the delivery of programmes and measures, it often paid off to combine administration with responsibility for content and to avoid parallel structures in the localities wherever possible and ensure a pragmatic implementation. This is facilitated by a high degree of retention of key persons in the administration who know each other and the relevant stakeholders in their regions. This also leads to relatively flat structures which meant that shortcuts could be made and learning in the regions was quickened. A general sense of trust, openness and professional attitude made it possible that sometimes even two administrative units on the provincial level delivered a programme successfully (e.g. LEADER – by the respective agricultural and regional development authorities). Such an "institutional memory" is seen to be key for new EU Member States to facilitate a successful integrated development of their regions and agriculture.

A necessity from an Austrian and especially Tyrolean viewpoint is that keeping farmers on their holdings in mountainous areas is an important policy objective. Every measure that would endanger these holdings to be maintained is seen by stakeholders as a thread for the cultural landscape of the region. It is seen that applying the Rural Development Programme was not only successful in keeping farming in the Austrian mountains, but also to develop some infrastructure including biomass projects, village renewal and in forestry, plus positive environmental effects.

In addition, agriculture-specific success factors have certainly been the introduction of digressive payments right after EU accession, structural measures to increase the optimal management of individual holdings, even increased veterinary standards, but also the recent budgetary shift in Pillar 1 is noticed to potentially facilitate an integrated development of agriculture with the remaining economy and society. In contrast to this, some more cautious voices see the introduction of the SPS somewhat critical in terms of keeping farmers to do agriculture in contrast to just providing a minimum service to secure subsidies (e.g. ponies instead of cows on the fields, and leasing land to the tourism industry). In this vein, some argue that the CAP is still not fully appropriate to take account of the realities in the mountains with part-time farming to be prevalent.

A clear and engaging delivery of measures facilitates also pro-active attitudes of different stakeholders, not last by farmers themselves. The vision for the region is seen to lie in reinforcing the already well working consultancy services in the localities (agricultural chambers), hereby focusing on local/regional clients (more

loyal and cheaper to reach), and thus also create regional circular flows in the sense of sustainable development.

As another relevant factor a successfully facilitating administration in the sense of "governance" is important for the development of regions. This starts with a professional collaboration between the ministries on the nation-state and the regional authorities to elaborate integrated, focused, and pragmatic national development plans, which can then be adapted to regional circumstances. On the regional level, it is important especially in delivering structural change where the activation of local stakeholders to deliver measures on the spot is of utmost importance. In Tyrol, lessons were learnt e.g. from the LEADER approach, where initially, the development was too much bottom-up which resulted to some unused potentials between the localities (e.g. that a larger town close to some LEADER communities was not integrated in these activities although it would have made sense to do so). This is now more tight-together into a bottom-up/top-down approach where the authorities have a somewhat stronger facilitating role.

Because rural development as perceived by the CAP 2nd Pillar and Structural Funds are somewhat getting closer in its content, it also important to define concretely the boundaries between the Rural Development Programme and the Structural Funds to secure a smooth implementation. Also some similar delivery infrastructures in the regions are now consolidated to avoid parallel structures (e.g. LEADER action groups and regional management associations). As it makes only sense to have such structures if the smaller region supports them, these are implemented on a voluntary basis. Still, this can be "facilitated" in certain ways as these organizations exist in every structurally weak region.

Although the development in industry and tourism are most important in Tyrol, complementary support structures can often make a difference on a somewhat smaller scale or create win-win situations with the strong industries (especially if they focus directly on them). For example, although INTERREG and LEADER are in terms of their volume of relative minor importance, they seem to complement e.g. in Außerfern a strong development in industry, which creates possibilities for cross-regional and other cooperation. On the other hand, the Tiroler Oberland has with its sole reliance on tourism still the problem to build up a second industry because issues of peripherality dominate. Here, INTERREG projects do not find a comparably fertile ground and business relocations sometimes lead to an exit of these businesses after a few years.

5.5 Conclusions

At the time of accession in 1995, Austria was one of the richest nations in Europe, with most of the macroeconomic indicators well above the EU averages. However, there is little doubt that EU accession and participation in the Eurozone have influenced the social, economic, political and institutional aspects of the country as a whole. The same applies for the agricultural and forestry sector and rural

development in general. Prior to accession, agriculture and forestry was highly protected and subsidised; hence adoption of the CAP brought a significant drop of most agricultural products prices, which led to a fall of the total level of agricultural income. Agricultural output has also declined and it was not until 2001 that it started to recover slowly.

As most of the farms are located in the mountain areas the development of pluriactivity and off-farm employment has become a necessity for many Austrian farms, particularly for small-scale holdings. Therefore, the link between agriculture and tourism is crucial in Austria. Although agriculture has continued to decline in importance within the national economy as a whole, it remains at the centre of Austria's rural community by maintaining the natural and cultural landscape and the conservation of the environment. Farmers are fulfilling their multifunctional role by performing services such as cultivating their land, maintaining forests to protect settlement areas in the Alps, securing biodiversity, preserving traditions and cultural heritages and providing services for tourism.

The implementation of an integrated territorial approach has been rather successful, whereby pluriactivity and the preservation of traditions and environment are considered the core for rural-agricultural development. However, this would not be possible without financial support (now mainly provided through the CAP and Structural Funds).

Additionally, a successfully facilitating administration in the sense of "governance" is also very important for the development of regions. This should start, in the experts' view, with a professional collaboration between the national ministries and the regional authorities to elaborate integrated, focused, and pragmatic national development plans, which can then be adapted to regional circumstances. In the Tyrol region and the nation state, this was possible through the retention of key persons in administration and the relevant stakeholders in the sub-regions and localities.

The creation of such an "institutional memory" based on trust, openness and professional attitude to facilitate a successful integrated regional and rural development is believed (in the experts' point of view) as vital for the new member states. Moreover, at the regional level, a clear-cut and engaging involvement of both local stakeholders (bottom-up) and regional authorities (top-down) to develop and implement projects within programmes like LEADER and deliver programmes laid down in national and regional development plans is of utmost importance.

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Chapter Six

DEVELOPMENT OF SOCIO-ECONOMIC AND AGRICULTURAL STRUCTURES IN THE ALTMARK REGION IN THE NEW GERMAN BUNDESLÄNDER AFTER GERMAN UNIFICATION

Axel Wolz, Klaus Reinsberg[31]

INTRODUCTION

The unification of Germany in 1990 represents a specific case concerning the enlargement of the EU. Legally, East Germany (or at that time the German Democratic Republic) had a special status within the EU since its foundation, as West Germany (or the Federal Republic of Germany) did not recognize the division of Germany and the Eastern part as an independent state. In reality, East Germany had been totally independent from the West and member of the Council for Mutual Economic Assistance (COMECON) under the dominance of the Soviet Union. Nevertheless, its special status concerning the EU had some limited impact when it came to agricultural trade. During the late 1980s, about one fifth of all agricultural exports of the GDR went to West Germany. The unification process and the integration of East Germany to the EU had been rather quick during the months preceding unification at 3 October 1990. Contrary to all other countries joining the EU, there had been no negotiations about joining the EU and no adjustment periods. It all happened almost over night.

The total area of Germany covers 357,000 km², of which about 57 % is made up by West and the rest by East Germany. In these days, about 54 % is used as

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agricultural land and 29 % is forested. However, every year the agricultural area is being reduced, mainly due to increases of construction sites and, to a small extent, of open and forest areas.

At the eve of unification, just a bit more than one fourth of the population amounting to 79.8 million persons lived in the Eastern part (about 16.0 million). During the following years a slight increase of the total population could be observed mainly due to international immigration whereas natural population change was negative in urban and rural regions, alike (COPUS et al., 2006). However, the number of population peaked in 2002 with about 82.5 million inhabitants. Since then, the number of inhabitants is gradually declining. In 2006, its number stood at 82.3 million. In the eastern part, the population steadily declined. The reasons were a drastic slump in birth rates together with an ongoing migration to the West. Moreover, the high share of educated young people among the migrants, who go to study or for employment, represents a significant loss of human capital for East Germany. In 2005, the number of inhabitants in the East stood at about 15 million people. There is a strong West-East divide in population density. While the national average stood at 231 inhabitants per square kilometre, it came up to 264 inhabitants/km² in the West and 154 inhabitants/km² in the East.

With unification, strong economic growth rates could be witnessed in West Germany, while the economy in the East collapsed almost overnight. Since the mid-1990s only modest economic growth could be achieved in the East as in the united Germany. The East depended on massive financial transfers from the West in order to re-build the economy. On average, these financial transfers amounted to about €80 billion, annually or more than €1.3 trillion in total up to now. The economic size of the East amounts to just about 13 % of the one of the West in these days (Table 6.1). This development is reflected in the low average income in East Germany compared to the situation in the West. On average, GDP per capital in 2005 is just a bit more than half of the one in the West, i.e. 15,700 € against 30,300 €. This rough average figure reflects the strong incentive for particularly young persons to migrate from the East to the West.

Table 6.1: GDP in Germany at current prices, 1985-2005 (€ billion)

Year	East Germany	West Germany	Total
1985	n.a.	955.30	n.a.
1991	146.50	1,387.10	1,534.60
1995	200.93	1,559.33	1,760.27
2000	234.59*	1,827.91	2,062.50
2005	257.94*	1,987.56	2,245.50

Source: STATISTICAL YEARBOOK, various issues.

Note: * East Germany includes West Berlin.

With respect to the contribution of the major sectors to the gross value added (GVA) a certain adjustment between the relative significance of the various sectors can be

observed (Table 6.2). At the end of the socialist regime, the agricultural sector had been much more important for the national economy than in West Germany. More than 10 % of the GVA had been contributed by this sector in the late 1980s. In comparison, the agricultural sector of West Germany had been of minor importance at that time, already. Since then, the share of the agricultural sector in the East declined rapidly although it is still a bit more important than in the West. While the agricultural sector had to be restructured, the industrial sector declined rapidly as well during the 1990s and the service sector gained in importance. However, this sector is still not that productive as in the West. In these days, it can be deduced that the agricultural sector does not contribute much to the national economy anymore.

Table 6.2: Share of major sectors to gross value added in Germany, 1985-2005

Year	East Germany			West Germany			Germany, total		
	prim.	second.	tertiary	prim.	second.	tertiary	Prim.	second.	tertiary
1985	12.0	n.a.	n.a.	1.7	42.6	55.7	n.a.	n.a.	n.a.
1990	10.4*	n.a.	n.a.	1.7	41.4	56.9	n.a.	n.a.	n.a.
1995	2.2	35.4	62.4	1.0	34.6	64.4	1.2	34.6	64.2
2000	1.8	25.8	72.4	1.1	30.8	68.1	1.2	30.1	68.7
2005	1.3	25.4	73.3	0.8	30.4	68.8	0.9	29.7	69.4

Source: STATISTICAL YEARBOOK, various issues.

Note: * For 1989: Share of agriculture to Gross National Product of the GDR.

The situation at the labour market reflects the pattern of economic development. During the socialist period there had been full employment in East Germany. The labour participation of females had been extremely high. There had been no open unemployment. In West Germany the size of gainfully employment opportunities increased steadily during the 1980s and the unemployment rates oscillated between 5 % and 7 %. With unification, the number of jobs declined rapidly in the East while it gradually increased in the West but stagnated since then. Since the mid 1990s unemployment rates in the East were almost double than those in the West. Since 2005 only, an increase of employment has been recorded in the West and, to a small extent, in the East. Still, average unemployment in Germany stood at 11.7 %, at 9.9 % in the West and at 18.7 % in the East. Since then, in line with a stronger economic growth a modest decline has been observed.

Table 6.3: Employment structure in Germany (%), 1991-2005

Year	Sector		
	Primary	Secondary	Tertiary
1991	3.9	36.6	59.5
1995	2.9	32.6	64.6
2000	2.4	28.9	68.7
2005	2.2	25.9	71.9

Source: STATISTICAL YEARBOOK, various issues.

The employment structure reflects the transformation of the economy in East Germany during the 1990s and the general economic development pattern (Table 6.3). While at the end of the socialist regime more than 10 % of all employed persons had a job in the agricultural sector, that share declined fast. Overall, in Germany just a bit more than 2 % of the work force is employed by this sector. That share seems to be a bit higher in East Germany. In both parts of Germany, employment opportunities by the service sector become more and more important.

6.1 Main characteristics of agricultural and rural conditions before and after accession and national key features of rural transformation

6.1.1 Importance of agriculture

As discussed above, the share of agriculture in GDP and employment declined during the last years. In East Germany its share is a bit higher which reflects its competitiveness on the one side, but more importantly, the poor status of the industrial and service sectors on the other. With respect to agricultural area it can be roughly estimated that about one third is located in East Germany and the other two thirds in the West. Particularly, during the early 1990s there had been a sharp decline in the size of the cultivated area going down from about 18 million ha in 1990 to 17.2 million ha in 1995. Particularly in East Germany farmers reduced the cultivated area due to the EU set-aside programme. In 2005 the cultivated area came up to about 17 million ha, of which 11.4 million ha are located in the West and about 5.6 million ha in the East.

Before unification, agricultural production used to be completely differently organised in both parts of Germany. While in East Germany the socialist type of agricultural production cooperatives and state farms predominated, was West German farming characterised by family farms. By the end of the 1980s there had been about 4,200 collectives, about 500 state farms and about 5,500 private holdings in the East (WILSON and WILSON, 2001). Since transition, there had been an increase in the number of farms which peaked at about 28,000. Since a few years, however, their number is gradually declining (Table 6.4). Similarly, in West Germany the number of farms is declining steadily over time by a rate of about 3 % annually, i.e. from about 631,000 farms in 1985 to about 338,000 farms in 2005.

Table 6.4: Number of farms larger than 2 ha UAA in East and West Germany, 1985-2005

Year	East Germany	West Germany
1985*	10,355	631,003
1991	14,959	526,417
1995	25,852	459,943
1999	27,978	406,152
2005	27,632	337,612

Source: BMELV: Annual Reports, various issues.

Note: * East Germany: 1989.

Due to the socialist farm model followed in East Germany up to 1990, there is still a clear East-West divide. As large-scale farming (see below) is predominant, permanent employed workers are more important in East Germany than in the West. Family farms and, hence, family labour is not that relevant for farm production. Since a few years, seasonal employed labourers are getting more and more employed. In West Germany, the labour force is only gradually changing. The significance of family labour is declining in favour of permanently, but especially seasonally employed labourers. This trend seems to reflect the rising farm size and a higher specialisation of farms leading to more pronounced labour piques.

6.1.2 Agricultural production and land use

Very roughly, farm production in Germany used to be dominated by animal husbandry as all activities under this heading ensured the main source of income for most farmers. There is a steady trend in favour of crop production (Table 6.5). There are two major reasons: The first one refers to the declining profitability of animal husbandry and milk production in general over the last decade or so. The second reason refers particularly to East Germany. With unification and EU accession, livestock production became completely unprofitable. The prices did not even cover the variable costs. Hence, livestock production was given up immediately by most farmers. Due to special subsidies, only, at least a minimum level of animal production had been continued as a complete collapse was not politically acceptable. Since then, animal production is only managed at a rather low level compared to the West.

Table 6.5: Contribution of crop production and animal husbandry to total farm production value in Germany, 1985-2005

	1984/85	1988/89	1994/95	1999/2000	2005
Crop production (%)	32.4	35.4	39.5	54.2	49.1
Animal husbandry (%)	67.6	64.6	60.5	45.8	50.9
Total (million*)	59,541	57,783	61,441	79,812	37,121

Source: STATISTICAL YEARBOOK, various issues.

Note: 1985-1989: West Germany only; since 1994: United Germany, * 1985-2000: DM; 2005: €.

6.1.3 Farm structure

The unification of Germany led to a re-organisation of farms in the East. Private ownership of land and other assets had been confirmed and the collective farm entities had to be dissolved and be transformed into legal entities which were compatible with the market economic system, i.e. limited liability companies, joint stock companies or agricultural producer cooperatives. The issues which guided these objectives can be summarised under the key words of de-collectivisation (restructuring), restitution, and privatisation (WILSON and WILSON, 2001). The transformation of East German agriculture resulted in the re-emergence of individual farming. Their number increased up to about 22,000 during the beginning of this

decade. However, since then, their number is gradually declining mostly due to the fact that farm operators do not have farm successors. In 2005, their number stood at about 21,000. In addition, private farmers are getting registered as partnerships. In general, these are close relatives. In 2005, there had been about 3,200 partnerships registered. Most collective farms, if not liquidated, were transformed into legal entities. In 2005 there had been about 1,100 agricultural cooperatives and about 1,900 limited liability companies and about 200 joint stock companies.

In West Germany individual farms are by far predominant. As shown above, their number steadily declined during the last years standing at about 320,000 in 2005. In addition, another 15,000 farms were registered as partnerships, a legal type which became more popular during the last years. During the 1990s, due to the good experience in East Germany, farmers were more open to register their farms under different legal entities. But nevertheless their number (about 2,000 in 2005) and, particularly, their economic size are still rather small in the West compared to the East.

The average farm size is gradually increasing in Germany, i.e. from 31.3 ha in 1991 to 46.4 ha in 2005. However, there are two different development paths which, only now, are converging. Following decollectivisation and the increase of the number of farms the average farm size declined in East Germany. While at the end of the socialist regime it stood at more than 500 ha, it declined to about 200 ha during the 1990s. Since a few years the average farm size increases gradually to about 202 ha in 2005, again. In West Germany, in line with the declining number of farms, a gradual increase of the average farm size can be observed. During the last 20 years, it almost doubled from 18.7 ha in 1985 to 33.8 ha in 2005. Nevertheless, the average farm size in West Germany is about six times smaller than the one of the East.

Due to the restitution process in East Germany, but also due to the larger average farm size and the higher relevance of legal entities in farm production, there is a distinctive difference between East and West Germany concerning leasing of agricultural land. East German farms are characterised by a very high share of rented land. In the early 1990s, the tenancy rate of individual farms had been close to 90 % and those of the legal entities almost 100 %. In these days the tenancy rate in East Germany is estimated to stand at about 90 %. In West Germany the tenancy rate is much lower and stands at about 50 %.

Nevertheless, farming in Germany is predominantly part-time farming. Farm income is just one source of the total household income and non-farm sources of employment and income contribute significantly to farm household incomes. In West Germany about 55 % of all individual farms are part-time farms in these days. Also in East Germany even about two thirds of all individual farms belong to that group. With respect to the cultivated area, part-time farming is not that relevant. Part-time farms just cultivate less than one fourth of the area under

cultivation. In East Germany their share just comes up to a bit more than one fifth. Hence, part-time farms on average are relatively small.

In conclusion, it can be stated, that the organisation of agricultural production and the average size of cultivated areas differs greatly among the various legal entities and among them between West and East Germany. Individual farms have been re-established in the East, but they are not the dominant in agricultural production. Legal entities cultivate more than half of the total agricultural area in East Germany. In other words, agricultural production is dominated by them. On the other side, individual farms cultivate more than 98 % of the agricultural area in the Western part. Hence, most of the agricultural production in West Germany is made up by individual farms.

6.1.4 Rural population, employment and income levels

Germany is one of the most densely populated countries in Europe with an average population density of 231 inhabitants/km². The definition of rural areas in Germany is not always consistent with international standards (OECD, 2007). Within Germany, there is no strictly defined and applied national definition of rural regions. Furthermore, the federal states may have their own categorisation systems. According to the classification of the Federal Office for Building and Regional Planning (BBR) three territorial categories can be distinguished, i.e. agglomerations, urbanised areas and rural areas. Rural districts have a lower population density than 150 inhabitants/km² and can be found in all three of these territorial categories. Within these different categories four different types of rural areas can be distinguished:

- rural areas of agglomerations, i.e. counties with population density of <150 inhabitants/km²
- rural districts of urbanised regions, i.e. counties with population density of <150 inhabitants/km²
- rural districts of major density of rural and peripheral regions, i.e. counties with population density >100 inhabitants/km²
- rural districts of minor density of rural and peripheral regions, i.e. counties with population density of <100 inhabitants/km²

Others, like OECD, in order to ensure an international comparability, adopt a standard definition. This definition is based on the assessment that rural regions have a significant number of communities with low population density and do not contain a major urban centre. Regions are thus not classified as being rural or urban *per se*. Depending on the share of population living in rural communities, they are classified as predominantly rural (PR), intermediate (IN) or predominantly urban (PU). Therefore, each of the three types of regions contains some rural and some urban communities but to a different degree.

According to the OECD definition of "predominantly rural" regions, Germany's rural regions account for 29 % of the surface area, 12 % of the population and 9 % of GDP. The German district classification results in a doubling of weight of rural areas. They account for 59 % of the surface area, 27 % of the population and 21 % of GDP (OECD, 2007). Among rural districts, approximately half of the land, population and output are attributable to rural areas near urbanised areas and agglomerations, and the other half to peripheral rural districts of varying population density.

Compared to many other EU countries, the population is relatively well dispersed across the territory. The 439 districts (both urban and rural) range from a population density of approximately 40 to 4,000 inhabitants per km², a difference of a factor of 100. Germany is one of the countries with the lowest score on the regional population concentration index among the industrialised countries. For example, no city accounts for more than 5 % of the country's population. This settlement pattern is reinforced by Germany's "decentralised concentration" approach to planning (OECD, 2007).

The service sector is the most important employer in Germany, also in the rural areas employing more than 60 % of the rural labour force. Based on the German categories the development the employment pattern only changed slightly between 1999 and 2004 (Table 6.6). But the sectoral trends did not change in the same direction as other region types. Between 1999 and 2004, rural regions experienced a decline in the percentage of employment attributable to agriculture, an increase of the secondary sector and approximately a stagnation of the share of the service sector. These figures reflect the still unbalanced employment structure of rural regions as both primary and industrial sectors are supposed – according to development theory – to continue to decline over time. The challenge is to find alternative employment opportunities for all rural people which will be basically in the service sector (COPUS et al., 2006). The figures also reflect that farming plays a minor with respect to employment, even in the rural areas.

Rural incomes are on average lower than in the urban areas. With respect to GDP per capita in German rural districts it stands at about 80 % of the national average (OECD, 2007). This disparity has remained stable over the last years. However, this figure should be interpreted with care as many rural people commute to urban areas for work and the GDP is counted at the workplace. In addition, rural areas have a higher share of inactive population which helps to drive down in part the GDP per capita. If applied the GDP per worker only, the rural-urban gap just stands at about 10 % (OECD, 2007).

Table 6.6: Employment by industrial category and district type in Germany, 1999 and 2004 (%)

	Year	Core cities	Urbanised districts	Rural districts	Germany, total
Agriculture, fishing and mining	1999	0.8	2.1	3.4	1.9
	2004	0.7	1.7	3.0	1.6
Manufacturing, total	1999	19.9	32.3	26.7	26.3
	2004	18.7	31.2	27.4	25.6
Services, total	1999	79.3	65.5	69.9	71.8
	2004	80.6	67.0	69.7	72.8

Source: OECD, 2007.

Note: Categories based on German system.

6.1.5 Approaches to rural development

In principle, all ministries at national level deal with rural issues and the rural population in one way or the other. But, in general, they do not have a special rural focus. When it comes to strategies and political guidelines, the Federal Ministries of Economics and Technology and of Food, Agriculture and Consumer Protection seem to be most relevant ones. Of minor relevance are the Ministries of Environmental Protection, of Health and of Family Affairs. With respect to labour markets, the Federal Ministry of Labour and Social Affairs is of specific importance as well as the Federal Office for Employment. While they support the labour market with a number of programmes and large financial volumes, they do not run any specific activities with respect to rural areas. With respect to (large-scale) infrastructural projects the Federal Ministry of Transport, Building and Urban Affairs is of major relevance. It is also responsible for spatial development, e.g. it acts as the national agency for the INTERREG programme, but in general rural areas are not among its major concerns.

Of similar relevance are the respective ministries at the federal state level. Most rural development planning and the implementation of projects is done at the commune, district and administrative district levels (comprising several districts), respectively. In the political lobbying process the German County Association is of special importance. It comprises 323 rural districts in Germany and understands itself as a major voice for the rural areas.

Concerning associations and self-help groups promoting rural development the situation is not that ideal. The most important organisation is the German Farmers Union which, evidently, is representing the needs and aspirations of the German farmers. As more than 90 % of the German farmers are member, this organisation cannot be overlooked. Only during the recent years, the Farmers Union understands itself as a voice for the rural population in general. Its sister organisations, the Rural Women Union and the Rural Youth Union have always focused on rural issues in general.

In addition, there are many culturally and socially oriented associations working in the rural areas. However, they are relatively small and not well organised at higher levels. Many of them focussing on social and employment issues are members of the Federal Association of Welfare Organisations, but this organisation sees itself as a spokesperson for the socially deprived population and not as a lobbyist for rural issues as such. There are other NGOs particularly working in the field of nature conservation and environmental protection. To a certain extent, these groups have become a strong lobbying power and have a big impact. In addition, the Churches and their affiliated organisations are providing much needed services to rural inhabitants. They are very important actors but do not understand themselves as voices for rural issues. Hence, it has to be concluded that in Germany the only major voice concerning rural development issues is still relatively agriculturally oriented, but a real voice focusing on rural issues in general is missing.

One of the major challenges for rural development is the demographic change which is intensively discussed in Germany. Decreasing and ageing population is already a widespread problem in many rural regions in East Germany and becomes more and more relevant in West Germany as well. This has severe repercussions on the infrastructural provision. While the demand for services for old people increases with the ageing of the population, the general reduction of population leads to problems for other infrastructure and facilities where there is a low utilization. The affected regions fear that they will fall behind even further as it becomes more difficult to attract innovative employment and income promoting activities. In the fact of economic restructuring and demographic change new innovative solutions, such as help for bottom-up, community-led initiatives and increased private activities, are essential to sustain rural infrastructure but also to identify still available and not yet applied resources and assets. Nevertheless, it is discussed whether it will be possible and economically feasible to ensure a certain level of quality of life in all remote rural regions in the future as stated in the German Basic Law (Constitution).

6.2 Most significant policy measures to manage socio-economic changes in rural areas

Regional including rural development policies come under economic policies in general. It is the primary objective of national politics to provide financial and economic support to socially, culturally and economically disadvantaged regions so that they can catch up with the general level of well-being all over Germany. This support is supposed to contribute to economic growth and long-term and competitive employment opportunities in structurally weak regions. According to the German constitution regional and rural development policies come under the responsibility of the 16 federal states and lower regional bodies. The politics are based on the principle of subsidiary, i.e. what can be accomplished by the lower political entities through their own efforts should be left to them. Higher levels should only help if the lower ones are not in a position to fulfil that respective

task. Hence, the regions and federal states themselves have to develop the necessary concepts and strategies, to prioritize the areas of activity and coordinate the various political fields and to strengthen this process with their own resources. In the end, these bodies are politically responsible (DEUTSCHER BUNDESTAG, 2006).

As discussed above, rural areas in Germany are very divers. Hence, top-down, "one for all" approaches have not proven to be very effective, but they have to be based on the respective strengths and weaknesses of a specific region. It has been realised that (almost) every region has its individual strengths, which can serve as the basis for its future development. Similarly, it has been realised that the people from the region themselves can best recognise the strengths and potentials for future development. Regional (rural) development builds primarily upon the existing potentials and the expertise of a region's population. There are no universal solutions. What is good for one region is not necessarily transferable to another.

While there is a tradition in Germany since World War II to emphasise the subsidiary approach, rural development in general had been (a) predominantly sector-oriented and (b) the participation of the rural population had been indirectly, through their elected representatives at commune or district parliaments. By law, all planning processes require public hearings and give the option of participation in form of petitions, but not many private individuals make use of that. With the start of the LEADER programme in the early 1990s, the local planning actors had no experience in drafting integrated rural development concepts which required much larger inputs from the local associations and population than before. Most rural regions, however, were not in a position to start this approach right away. It had been a long learning process and some areas are still in a position to participate.

The major national programmes promoting rural development are

- Joint Task for the Improvement of the Regional Economic Structure (*Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur", GRW*) under the Federal Ministry of Economics and Technology, which started from the 1960s and
- Joint Task for the Improvement of Agricultural Structures and Coastal Protection (*"Gemeinschaftsaufgabe "Verbesserung der Agrarstruktur und des Küstenschutzes", GAK*) under the Federal Ministry of Food, Agriculture and Consumer Protection, which started from the early 1970s.

In 2001, the same ministry initiated a pilot project "Active Regions – Shaping Rural Futures" (*Regionen Aktiv – Land gestaltet Zukunft*) which expired in late 2005 but had been extended on a smaller scale up to the end of 2007. Based on the experience made with this pilot project and with the LEADER approach, the major rural development programmes, i.e. (a) and (b), require that participating regions are preparing an integrated rural development concept with the broad inclusion of all major rural actors.

In early 2006, only, the German government decided to draw up the first national rural development plan (National Strategy Paper) covering the period 2007-2013. It has been finalised by 19 September 2006 and approved by the EU Commission since then. All rural development plans of the 16 federal states have to be in line with this national plan. The national policy is guided by four objectives (BMELV, 2006):

- increasing the competitiveness of the agricultural and forestry sectors in supporting restructuring, development and innovations;
- improving the environment and natural landscape; and
- improving the quality of life in rural areas and promotion of a diversification of rural economy.

The National Strategy Paper clearly states that the LEADER approach will be the guiding methodological approach for rural development. All rural development projects presented for external funding have to be based on a broad consensus of the rural population. Although the EU funding with respect to this approach had been cut for the period 2007-2013 compared to the former period, the approach will become more relevant. In 2006, there had been 148 LEADER+ regions spread all over Germany. In total, about 4,800 projects are being implemented. The projects concentrate on (1) promotion of (soft) tourism, (2) renewable resources and bio-energy, (3) cultural activities, (4) social work and communication, and (5) public relation work, including development of regional trade marks (labels). In addition, some projects deal with nature conservation, further education and new technologies. For the period, 2000-2006 EU support came up to about €250 million with respect to Germany (DEUTSCHE VERNETZUNGSSTELLE, 2007).

The German programmes are linked with the EU programmes (OECD, 2007), i.e. they supplement the EU Structural Funds ("co-financing"). The total amount of the Structural Funds during the 2000-2006 period, i.e. ERDF, ESF, EAGFF-Guidance and FIGF, comes up to almost €30 billion. With respect to their distribution between West and East Germany, they show a strong focus on the East (Table 6.7). Up to 2006, the whole area of East Germany (and a small region in West Germany) used to be Objective 1 area. While the Structural Funds, like EFRD and ESP, focus not only on rural areas, but also on urban development, the major share of rural development funds is funded by EAGGF. Its distribution for the period 2000-2006 is summarised in Table 6.8.

Table 6.7: EU structural promotion for the development of rural areas in Germany, 2000-2006 (€ million)

	East Germany	West Germany	Germany, total
Objective 1 Area	19,958	–	19,958
Community Initiatives (INTERREG, EQUAL, LEADER, URBAN)	765	697	1,461
Objective 2 and 3 Areas	–	8,198	8,198
Total	20,723	8,895	29,618

Source: DEUTSCHER BUNDESTAG, 2006.

Roughly, the EAGGF makes up about one third of the Structural Funds in Germany, i.e. EFRD, ESP and FIFG (GRAJEWSKI, 2007). In addition, the figures show that about two-thirds of the Structural Funds in general and more specifically of the EAGGF appropriations for rural development in Germany went to the Eastern part. Most of the EAGGF funds originate from the EAGGF-Guidance section and thus, at least partly, are assigned to the field of cohesion policy and its objectives. These funds were particularly designed to improve the development and competitiveness of the farming sector (SCHUBERT, 2002).

Table 6.8: Distribution of EAGGF for rural development in the period 2000-2006, Germany (€ million)

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

Source: SCHUBERT, 2002.

When looking at the financial focus of the EAGGF appropriations by the various federal states, a clear West-East divide can be noticed. In the Western states the focus is more on environmental issues which account for about 60 % of public expenditures. Measures for improving agricultural competitiveness like compensatory allowances for less favoured areas and the more traditional structural measures (e.g. support for investment in agricultural holdings, setting up of young farmers, improving processing and marketing of agricultural products) play a relatively minor role coming up to about 30 %. Just about 10 % are reserved for measures focusing on the promotion of quality of life and the rural diversification. On the contrary, the priorities of the Eastern states are agricultural competitiveness, quality of life and rural diversification. About 40 % of the public expenditure are absorbed by activities promoting agricultural competitiveness. More than 30 % are devoted to quality of life and rural diversification which focus on the renovation and development of villages (due to an extraordinary backlog demand) and the protection and conservation of rural heritage. Environmental issues just cover less than 30 % of the funds in East Germany. This seems to be in line with other countries

in Europe. The poorer regions are more in favour of promoting activities concerning aspects of quality of life, while richer regions emphasise agri-environment and less favoured areas (SHUCKSMITH et al., 2005). This different emphasis of the West and the East seems to be justified by different agricultural structures and socio-economic conditions. But in their analysis the OECD while acknowledging that in East Germany more resources are assigned to non-farm programmes complains that rural development is still not really targeting the diversification of the rural economy (OECD, 2007).

6.3 Particular experience in the case study region: Altmark Region in the Federal State of Saxony-Anhalt

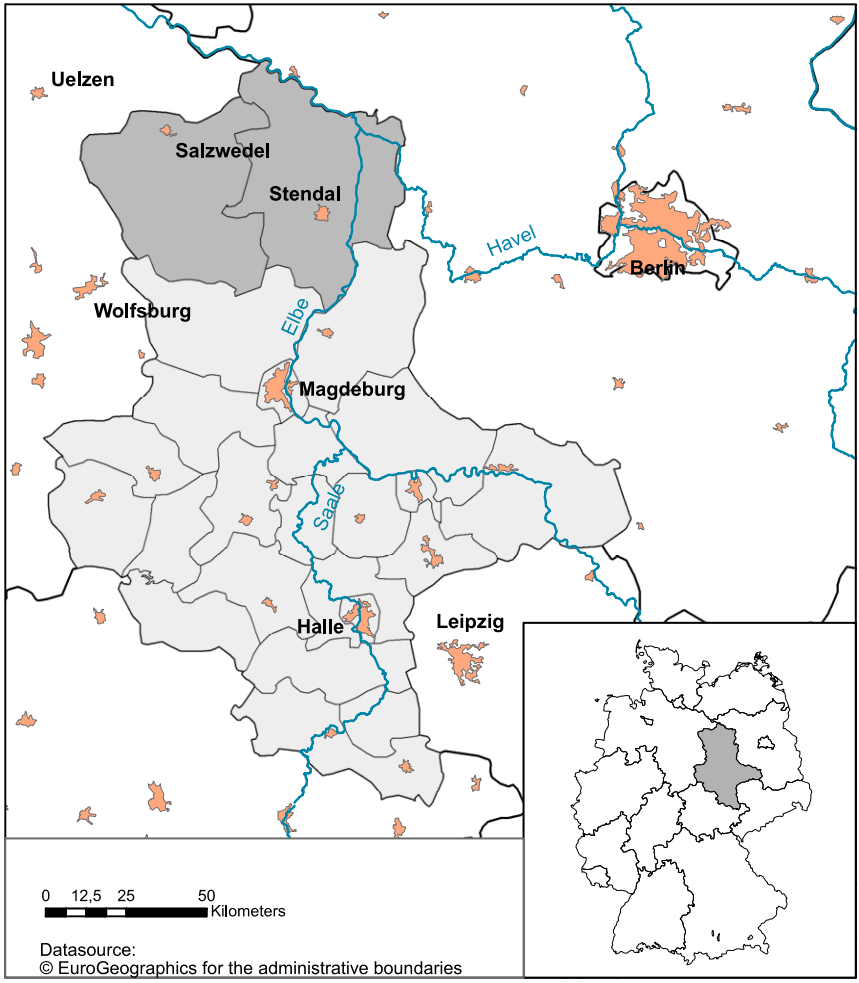
While the discussion, so far, focussed on the national situation, it will be now looked at the regional level. For an investigation of the structural change in the agriculture and in the rural area in Eastern Germany the Altmark Region represents peripheral areas characterised by small population densities, substantial infrastructural deficits and constant negative migration balance. Its economy used to be dominated by the agricultural sector and agro-processing industries. Up to the 1980s, about one fourth of the labour force had been employed by these activities. On the other side, this Region is a good case study how regional actors try to improve the socio-economic conditions under an unfavourable business environment. The Region represents a fairly homogeneous area from the historical, socio-cultural, environmental and economic points of view. In this respect, the Region can look back to a long common tradition and has developed a strong regional identity over time. Up to the 20th century it used to mark the Prussian border area to the Kingdom of Hanover and after WW II it had been the "cold war" border between the GDR and West Germany. In short, the Region used to be a remote border area and structurally disadvantaged compared to most other areas.

6.3.1 General description

The Altmark Region is made up by the Districts of Salzwedel and Stendal, i.e. two districts out of 11 being part of the Federal State of Saxony-Anhalt (Map 6.1). The Region covers an area of 4,715 km². The total population comes up to 227,307 inhabitants (2005) of which 37,500 and 22,000 are living in the district capitals of Stendal and Salzwedel, respectively. The District of Salzwedel comprises 5 rural cities and 115 communes. The communes are merged into 11 administrative units. The City of Salzwedel is the biggest population centre and is acting as the administrative, social, cultural and economic centre. The District of Stendal is made up by 10 rural cities and 126 communes. The City of Stendal is by far the major centre of the district and also of the Region. The Altmark Region belongs to the category of predominant rural areas (OECD classification) or the category "rural districts of minor density of rural and peripheral regions" (German classification). The Region takes up about one fourth of the area of Saxony-Anhalt, but

just about 10 % of the population. Hence, settlements are fairly widely spread over the area requiring wide-ranging public infrastructural facilities.

Map 6.1: Federal State of Saxony-Anhalt and the two districts of the Altmark Region



6.3.2 Population

The Altmark Region is not very densely populated. A broad overview about the population figures of the whole federal state and the Region is given in Table 6.9. Concerning Saxony-Anhalt a steady decline of the population has been observed since the early 1950s. But up to the change of the political regime, this figure made

up a few thousands per year. Only since then, a decline of several tens of thousands per year has been recorded. Since 1990, the number of inhabitants declined by about another 400,000 persons or about 15 %. The population density declined steadily from 157 inhabitants per km² in 1985 over 145 persons (1990) and 130 persons (2000) to 122 persons/km² in 2005. In addition, it has to be emphasised that due to low employment opportunities in this state, a large number of people is commuting for their jobs to other parts of Germany, but still registered as inhabitants.

Table 6.9: Population in the Federal State of Saxony-Anhalt and the Altmark Region, 1985-2005

Year	Saxony-Anhalt	Altmark Region
1985	3,021,008	267,714
1990	2,873,957	261,175
1995	2,738,928	252,807
2000	2,615,375	241,738
2005	2,469,716	227,307

Source: STATISTICAL OFFICE OF SAXONY-ANHALT, 2006.

A similar sharp decline of the population figures has been observed in the Altmark Region. Between 1990 and 2005 the number of population decreased by more than 30,000 inhabitants or about 13 %. In this respect, the decline has been a bit lower than for the whole federal state. Due to the large area, the average population density is very low for German standards. It just comes up to 48 inhabitants per km². There is certain difference between the two districts. While in the District of Stendal it amounts to 51 inhabitants/km², the District of Salzwedel with 41 inhabitants/km² belongs to the districts with the lowest population density in Germany.

The Region is characterised by a low birth rate, still on-going emigration of the young generation to other areas in Germany and rapidly rising share of the elderly. It is estimated that its number will decline up to 2020 by another 15 % mainly due to the very low birth rate.

6.3.3 General economy and employment

As stated above the Altmark Region used to be dominated by the agricultural sector. This dominant position with respect to employment and GDP was only weakened during the 1970s when the national government actively promoted the settlement of heavy and light industries and food processing factories. However, with the change of the political regime and its economic repercussions both types of industries had to be closed-down almost completely and the agricultural sector experienced a certain revival. Since then, small and medium-scale industries have been established and some large-scale investments have been witnessed. In these days, the Region is economically characterised by a strong primary sector (agriculture and forestry) and small and medium scale enterprises in the secondary one. Of

relevance are vehicle supplying industries, metal processing and cellulose production. The tertiary sector is dominated by the tourist sector but services in the field of information and communication technology are rapidly growing. Nevertheless, up to now, the economic structure is highly unbalanced and not well diversified. The infrastructural endowment is relatively weak, e.g. the connection to the German highway network is still in a planning stage.

The wages in all sectors have increased rapidly, particularly during the first years after unification. However, the wages of the agricultural sector could not keep pace with those of the other sectors after 1995 despite the fact that almost 80 % of the workforce had been led idle after 1990. While wages in both other sectors, i.e. the industrial and the service sectors are increasing steadily, they are, on average, still about 20 % lower than in the West (STATISTICAL OFFICE OF SAXONY-ANHALT, 2007). The relatively low level of wages also explains the fact that the average GDP per capita just comes up to a bit more than three quarters of the EU-25 average. While new industries could be attracted to the Region, e.g. large-scale and very modern industrial enterprises (cellulose and paper industry) due to foreign investments as well as small and local medium-scale enterprises, their employment effects are quite limited. So far, new jobs could not compensate for the lost ones. Hence, the unemployment rate amounting to 18.9 % (August 2007) is very high compared to the national average of 8.8 %. Publicly funded employment programme are still of very high importance in this Region (BFA, 2007).

6.3.4 Agricultural sector

With the change of the political regime, agricultural production had to be re-organised. A certain number of private persons took up individual farming. But since the late 1990s, like in the other East German regions, their number is steadily declining. Large-size farming is predominant in Saxony-Anhalt. More than 40 % of all farms cultivate more than 100 ha, about 6 % even more than 1,000 ha. Farms larger than 100 ha have about 94 % of UAA in this state at their disposal, while those farms cultivating 1,000 ha and more share about 42 % of the total UAA. Therefore, average farm size in Saxony-Anhalt comes up to about 240 ha in 2005 (MINISTRY OF AGRICULTURE AND ENVIRONMENT OF SAXONY-ANHALT, 2007).

Like all over East Germany, agricultural production changed since unification in this Region. With respect to crop production, the effects were not that significant. The area under cultivation declined somewhat particularly in order to participate at the set-aside premium, but in general the production pattern remained in tact. With respect to yields, there used to be a difference of about 20 percent in favour of the West before unification. But during the last years yields are, on average, at the same level by now. There had been very drastic repercussions with respect to animal husbandry. It had become highly unprofitable and therefore its size had been cut by more than half up to 1995. Hence, the more labour-absorbing farm activities had been reduced to a large extent. While livestock production is still continued

to be reduced up to now, although on a more gradual basis, pig production is gradually increasing since the mid-1990s. On the other side, animal husbandry production has become very efficient. For example, average milk yields per cow are now by far higher than the German average.

The Altmark Region is characterised by a considerable differentiation of the natural landscape. The share of forest area is relatively high. The UAA comes up to about 275,000 ha. More than 25 % of it consists of permanent grassland which is the highest share among all regions of Saxony-Anhalt. Besides some fertile soils most of the arable land is of minor quality due to water logging and low natural fertility. The general high level of ground water leads to lower yields. Due to this high level of permanent grassland the Region used to be a cattle breeding area. Over time it built up a good reputation in this field. This activity declined rapidly after unification. Some parts of the Region were famous for their fruits. There was a close link to fruit preserving factories. This more labour-intensive activity declined after unification as well. At the time of the change of the political regime about 12 AWU per 100 ha were recorded. Since then, this figure came down to less than 2 AWU per 100 ha reflecting the shedding of labour in this sector.

With respect to the types of farms, the Altmark Region reflects the situation of the whole federal state. There are about 1,600 farms in this Region, or about one third of Saxony-Anhalt, and the average farm size of farms stood at 211 ha in 2006. Of these farms, 1,114 come under the group of individual farms comprising full- and part-time farmers (or almost 70 %), 297 partnerships and 189 legal entities (mostly agricultural cooperatives) (AGRICULTURAL OFFICE ALTMARK, 2007). More than half of the UAA is cultivated by legal entities. This sector is still relatively important compared to State of Saxony-Anhalt in general, as about 5 % of all gainfully employed persons in 2006 belong to the agricultural sector (BFA, 2007).

During the last years, a certain differentiation of farm service activities could be observed, i.e. specific farm operations are done by third parties as service activities. The promotion of bio-energy will also provide some employment opportunities in the agricultural and the manufacturing sectors. In addition, agro-tourism or, better rural tourism, provides some prospects for employment and income. But overall these potentials are limited. For example, the Region has some attractive tourist sites, but the distance to the potential customers is relatively far. For most of these potential visitors there are some other attractive areas at a shorter distance. In addition, there are, unlike to the family farm dominated areas in West Germany, not that many farm houses available which could be used for agro-tourism. Nevertheless, some rural tourist enterprises have been set up which ensure their owners a decent living.

6.3.5 Assessment and future

Concerning the preservation and promotion of employment and income in the Region, the focus is particularly on the commercial, crafts and service sectors.

The agricultural sector including agro-tourism, with the exception of bio-energy production, is not identified to be an explicit growth sector and of major impact. Particularly, EU supporting funds which are co-financed by national sources and funds from the Federal State provide the main stimulus in planning and implementing rural development activities. The volumes for last and future development cycles with respect to Saxony-Anhalt look as follows (Table 6.10). There is a sharp decline in rural development funds, particularly concerning those under EAGGF and EAFRD, respectively. Since the German budget with respect to the Joint Task for the Improvement of Agricultural Structures and Coastal Protection also declined during the last years, there is the ambiguous situation. On the one side, there are the political statements to put higher emphasis on rural development, but on the other side the actual financial support steadily declines.

Table 6.10: Financial volumes of EU-funds for Saxony-Anhalt, 2000-2013

Funds	Budget (€ million)		Chance 2007-2013 against 2000-06	
	2000-2006	2007-2013*	€ million	percentage
ERDP and ESF	2,737.6	2,293.4	-444.2	-16.2
EAGGF/EAFRD	944.3	726.0	-218.3	-23.1
FIFG	2.3	3.0	0.7	30.4
Total	3,684.2	3,022.4	-661.8	-18.0

Source: PRIME MINSTER'S OFFICE OF SAXONY-ANHALT, 3 August 2006.

Note: * In prices of 2004.

The regional actors are aware of the shrinking support budgets and higher competition of other regions within the Federal State of Saxony-Anhalt. But they are quite confident that, due to the good networking within the Region, they are in a good competitive position. They have devoted a lot of energy in drafting and updating the Integrated Rural Development Concept as a commonly accepted basis for all future activities under the heading "Altmark Region right in the middle – competitive and of high living quality". This is not only a precondition for competing for EU structural funds, but also for funds from the national programmes. Concerning the overall period 2007-2013, the Concept defines the focus areas. The Region will concentrate on a sustainable strengthening of the human, research and development potential and on a broadening of the economic capacity. With respect to rural areas the focus will be on the diversification of the rural economy and the improvement of living conditions as well as on environmental protection and nature conservation. Besides the active search for support from public funds, including the EU, the region is fully aware that these just can provide some seed money, but they have to be attractive for private investors in order to promote employment and incomes.

When looking at the driving forces for rural change, it can be summarised that these are the dedicated regional actors themselves. They are convinced that their Region has good potentials to develop in the future. In form of intensive networking

they are eager to make use of those resources which might not be available if everybody is working on their own. The most important resources seem to be information sharing and a transparent and open process among the population in defining the development objectives of the region.

6.4 Success factors in managing rural changes since EU accession

Before starting the discussion what have been success factors in managing rural changes since EU accession, it has to be emphasised, again, that the EU accession in East Germany including the Case Study Region has not been realised as a special event. There had been no specific negotiations about joining the EU and no adjustment period. People wanted the unification with West Germany. EU-accession just had been a "by-product" of German unification. It happened from one day to the other. The West German government started already before unification with a massive transfer of financial, administrative and other types of support. There is the political commitment to go on with such a transfer up to, at least, the year 2019. The major driving force has been the political commitment to ensure similar living conditions in the East as in the Western part of the country. This political commitment has not been challenged, so far. These national transfers have to be in line with the EU regulations in order to avoid unnecessary or one-side subsidies for this part of Germany. Besides national funds there had been also a massive transfer of EU funds for the development of East Germany, although on a smaller scale. These transfers will decline starting from 2007 as East Germany does not qualify as Objective 1 Region anymore with the accession of new member states in 2004 and 2007, respectively.

Since the people in East Germany did not realise EU accession as a special event, but unification with West Germany, they did not differentiate whether any support measure had been a national or an EU-programme. In general, particularly during the first years they regarded all support as national initiatives. Indeed, during the first years there had been large-scale national support programmes in smoothing the economic and social repercussions of the build-up of the market economic system. Among others, the collapse of the farming sector had to be avoided, the sharp decline of the industrial sector had to be absorbed to a certain extent or the rapid increase in open unemployment had been cushioned by generous early retirement and secondary labour market schemes. All these programmes had to be approved by the EU.

When looking at success factors more specifically, it is evident that most actors think of it differently. Following EU accession (or better unification) East Germany had experienced a complete collapse of its economic base. A massive increase of unemployment had been witnessed. Work and life experiences from the socialist period had become worthless when the market economic system had been adopted. Those who were already too old, which meant older than 50 years at that time, could apply for early retirement which most did. Younger people could participate in re-training courses. But most who had a certain technical knowledge opted to

migrate or, at least, to commute to West Germany in search of employment. Under such a scenario, success was already seen when employment opportunities could be saved in that respective area, that not too many younger people left the region and that the decline of population could be reduced to low levels so that public infrastructure will not collapse immediately. Regional actors are rather modest in their objectives. They want to make their respective regions attractive for economic investments which are supposed to bring new jobs, but they know that these decisions are finally taken at higher levels.

The Altmark Region belongs to the group of structurally most disadvantaged regions in Germany. Even within East Germany this region has to be grouped at the lower end. Nevertheless, the local people are full of energy and ideas in the search for a better socio-economic future. In the following it will be discussed which factors the regional actors themselves identified as successful. Based on their answers, it will be distinguished between those factors which come from the region itself ("endogenous"), but can only be of full benefit due to external national and EU support, and the most relevant specific programmes which have been particularly important ("exogenous").

6.4.1 Specific characteristics of the Altmark Region contributing to successful regional development

Since unification, there is a tradition in developing regional development programmes in the Altmark Region; first at district levels and since the mid 1990s, jointly at regional level. It is a great advantage that it is relatively easy to differentiate the Altmark Region and its inhabitants from the neighbouring ones based on natural as well as on cultural and historical conditions. There is a strong "regional identity". Right after unification, the districts realised that they had to collaborate closely in order to get heard at higher levels. They developed strong informal networks. They discussed first ideas and agreed upon priorities how the region should develop. In this way, the region had already a regional development concept, whatever vague it might have been at that time, when other regions still had to find compromises. Therefore, the region was ready to participate when first regional development funds were available.

Already in the late 1990s, a regional planning unit has been set up which co-ordinated all planning activities in the two districts. It had been funded by external funds but also by the respective district budgets. Due to the good experiences in the past and in order to strengthen this process, the Regional Planning Association has been legally registered in September 2007. Besides the two districts all relevant political, economic, environmental, cultural and social associations of the region are member. In this way, the informal process had been formalised over time. The Association is seen as an excellent platform for bringing all important actors together. In addition, the general public is regularly informed through the

press. But there are also regular public meetings where interested private individuals are invited to bring in their ideas and to collaborate.

In line with the joint planning process an Integrated Regional Development Concept for the Altmark Region has been developed. In a very transparent process the basic objectives for the region based on an extensive SWOT-analysis had been identified and agreed upon. These objectives reflect the wishes and options how the regional inhabitants themselves want to develop in the future. Through this broad-based approach the regional actors want to show that, even in a region characterised by low population density and a declining population, there are good prospects for a viable socio-economic future. All specific projects and project activities have to be in line with the jointly accepted objectives. However, the regional actors admit that they have to follow a certain balancing act. On the one side, they want to focus on the regional resources and priorities. On the other side, they have to meet certain guidelines and programmes which are given by higher levels, like the state government or the EU. However, during the last 15 years, they are proud to have realised a change in their planning perspectives. While at the beginning, their major objective had been to meet the given (external) guidelines, they now discuss and agree upon their development objectives first, assess their own strengths and resources and, then, look for external sources for funding.

All regional actors agree that this approach of rural development planning and implementation is successful and of long-term nature, only, if external funds are available and can be accessed for the development of the region. Due to its limited own resources, regional development on its own would be almost impossible. In addition, it is very vital to show that one has a good concept that meets the guidelines of external funding organisations. "Success" is in a first step to attract external funding and in a second step to show that these funds (including own funds) lead to economic development in line with the overall objectives. This is a very important point in keeping the groups together, particularly at the beginning. Although it is wishful thinking at this stage as the tax base is too small, the regional actors hope to become less dependent from external funds over time.

Some regional actors even speculated whether it might be of more benefit to the Region if it had a higher core budget for rural development and did not need to apply for external funds regularly which implies that they have to meet given development guidelines. They are sure that they could accomplish more with the same money and could do the same activities much quicker. The major reasons are the delays in getting the funds on the bank account, the different budget years of the EU and German systems and the high administrative burden in meeting all the requirements when using public funds.

All regional actors agree that the most important asset of the region is the close cooperation among themselves. There is a permanent exchange of information and ideas. Everybody in a decision-making position knows each other in the region

which might be astonishing given the relatively large area. The informal meetings in developing and updating regional development concepts and within the specific working groups strengthen among all of them the commitment that they have to think and act not only along their specific tasks or sectors, but also must have the spatial dimension in mind. The regular exchange of ideas among people who professionally do not interact at all, is seen as a value in itself. But very often these meetings resulted in linking various programmes so that the overall benefit could be increased, e.g. linking publicly financed employment programmes with the village renewal programme ("synergy effects"). Evidently, there is some competition, e.g. among the political parties, about development priorities, but once decided they all collaborate to present the joint development concept of the Region to the private sector and higher political levels.

6.4.2 Specific programmes assessed as successful by the regional actors

When looking at specific development programmes which had been seen as successful by the regional actors it is amazing that regardless of their professional background three major ones had been mentioned. Particularly right after unification there had been some national programmes to avoid the complete collapse of agricultural production ("stabilisation programmes") or to smooth the social repercussions of the abrupt economic change. The benefits of these programmes had been acknowledged by the regional actors. All national programmes had been approved by EU commission and since the early 1990s, most programmes were, in general, implemented on a co-financing basis, i.e. EU funds together with national government as well as federal state funds according to an agreed-upon distribution key. The regional actors agreed that the emphasis of rural development has gradually shifted over the last 15 years. Right after unification, rural development planning had a clear focus on the agricultural sector and communal meeting halls. Now there is a shift to all types of issues which have to be improved in the rural areas. The three major programmes are the following ones:

(a) Agricultural investment programmes

Right after unification in 1990/91 it had been the objective of these support programmes to ensure the competitiveness of agricultural production. This was supposed to lead to higher incomes which again were supposed to stimulate economic cycles in the rural areas. Like in the industrial sector there had been very generous welfare programmes of early retirement and re-education for which the major part of the farm population qualified as most of them used to be workers under the socialist system. Therefore, the rapid decrease of the labour force could be achieved without any protest. Among the more agriculturally oriented programmes the following ones seemed to be most important ones:

- financial support for newly established individual farmers as they were very short of own capital

- incentive schemes for buying new machines covering a part of the investment costs,
- credit subsidy programmes to reduce interest rates,
- public collateral schemes to get access to credit as most farmers or farm managers did not own the land they cultivated which could be used as collateral, and
- extension programmes as most farmers and/or farm managers had no knowledge about the EU system and how to apply for support.

In addition, there had been smaller programmes in support of direct marketing, promotion of agro-tourism or the build-up of agriculturally oriented services. But these had not been very successful due to the long distance to potential markets and clients as well as the limited natural attractiveness compared to other regions close-by. Critically, it was seen that some support programmes actually contributed to an extensification of agricultural production reinforcing the shedding of agricultural labour. Subsidies were given to reduce or, even, give up the labour-intensive production activities, like animal husbandry and milk production or fruit tree cropping. During the early 1990s, these production activities had been completely unprofitable under the given prices. On the other side, there had been programmes to stabilise cattle and milk production at a certain level. Hence, sometimes various programmes had contradictory effects.

In the end, these agricultural investment programmes contributed to the fact that, on average, farms in the Region as in East Germany in general are highly competitive not only in Europe, but also in a globalised world. On the other side, agricultural wages and incomes are, in general, still below the regional average and hence not very attractive for young people to take up this profession.

(b) Rural development programmes

Under this heading two major programmes can be summarised (1) village renewal and (2) feeder road construction. The village renewable programme had been regarded as highly successful. It provided subsidies for house renovations amounting up to 40 % of the total costs or up to a maximum of 20,000 € each. The remaining share had to be covered by own funds or by bank credit. House owners living all over the Federal State of Saxony-Anhalt could apply. This is different to other federal states in East Germany where the participating villages were identified first. Particularly, during the 1990s the regional population made ample use of this programme. The major advantage had been that it encouraged rural inhabitants to invest own funds as well ("multiplication effect") and they mainly employed rural artisans in doing the job. Hence, a regional economic cycle could be developed. In addition, this programme had been linked with other initiatives, e.g. initiatives to improve the public infrastructure. In this way, synergy effects could be achieved.

Therefore, houses and public infrastructure in the villages of the region look pretty good compared to similarly-structured regions in East Germany.

Feeder or agricultural road construction is also seen as a vital success. The original objective had been to improve the links between agricultural farms and their fields and to cut agricultural transport costs. A significant improvement of the rural feeder road network could be achieved. This development had been complementary to the big national programme of improving the regional and national highway system. In this region marked by low population density, the use of private cars is a must in order to cover the basic needs of live.

(c) LEADER approach

Although financially not very voluminous, this approach had been decisive in convincing the regional actors to overcome the more narrow agriculturally oriented focus and to develop and implement activities on a regional scale. Due to its early planning approaches and high commitment of the regional actors this region already participated in this approach from the early 1990s. In 2006, there had been two LEADER groups in the region out of 11 in the whole Federal State of Saxony-Anhalt and 148 in Germany, respectively.

The main benefits can be summarised as follows: It provided jobs for unemployed persons although the overall employment effect is marginal. It taught the regional actors that each project or activity must be viable in itself so when external support expires something has to remain. With the help of these projects the local or village identity could be strengthened. In addition, it proved to be very helpful in developing networks at higher levels both nationally as well as internationally. Through that exchange, the regional actors got new ideas for their own activities in the future. That this approach is successful can be seen in the fact that most projects whose financial support had expired are continued by local associations although sometimes on a smaller scale due to limited funds. For the new period 2007-2013 the two LEADER groups will continue while another three have been newly established.

The main learning effect was seen in the awareness that all projects have to be viable in the long run. No project should be started for getting subsidies only. Together with the experience of the German pilot project "Active Regions" which had been implemented in the Altmark Region (as one out of 18 regions in Germany qualified) all regional actors agreed that only those activities will be implemented and supported which contribute to the build-up of regional value-added chains. Once external support expires each project must be economically viable. The regional actors are proud what they, or better their region, have achieved under such critical conditions, so far. They emphasised that, up to now, the results of all projects were positively accepted by the public and no "development ruins" had been experienced. They assume that only a few villages might be given up due to declining population, particularly those which have no village tradition

and have been settled relatively recently. But most of them will continue to exist albeit on a smaller scale.

6.5 Conclusions

Since unification and joining the EU, i.e. more than 15 years, there is still a big gap of development between the Western part, the EU-25 and East Germany The average unemployment rate is still double of the one of West Germany as well as the one of the EU-25. For the average East German, unification and EU accession meant a complete change of work and life. Many aspects of their experience had become worthless almost overnight. The first years brought a rapid decline of the agricultural sector, an almost collapse of the industrial sector, high rates of unemployment and a cut of many services particularly in the rural areas. On the other side, there had been many new opportunities. A massive migration wave to the West followed unification. This migration trend is still ongoing up to now. Particularly rural areas are affected. With large-scale support programmes the national government and the EU aimed to stop and reverse this development. Much has been accomplished up to now, but still more has to be done. What would have happened to East Germany and its rural areas if there had no or very limited support from the West and EU, is too theoretic. But it can be assumed that the major part of the population would have left their home areas in search for employment and income. Therefore, the support programmes by the German government and the EU can be regarded as successful.

Rural development policies in Germany have to support regional actors in developing and implementing their respective regional development strategies. Up to now, it has been criticised as being too agriculturally focused, suffer from a growing urban bias and lack a vision. The governance of rural policy seems to be hampered by difficulties in terms of horizontal coordination of public and private actors involved as well as in terms of coordination mechanisms through different tiers of government. The "cost of non-coordination" seems to be high. Innovative, place-based approaches like LEADER or "Active Region" are leading to the right direction, but still have a "niche" character (OECD, 2007). The National Strategy Paper (BMELV, 2006) is the first policy document which tries to remedy these drawbacks.

Rural development is no longer seen as a sectoral, but a spatial approach. Solutions are not sought for individual sectors, but cross-sector regional approaches in an integrated manner. When planning an activity, it has always to be looked for the effects on other sectors and the whole region. In addition, it has to be looked for the complementary and cooperation effects of two and more projects on the whole region. In this way, it is aimed to harmonize the social, cultural and economic demands a region faces with its ecologic functions. The different demands are considered jointly and across sectors. In conclusion, rural development in Germany is understood as a regionally focused, cross-sector, partnered, learning and long-term

approach. The goal is to integrate the different sectors in one joint development strategy (BMELV, 2006). The LEADER approach has provided very good experiences albeit on a small scale. Its philosophy has been recognised by the national politicians. LEADER will play a prominent role in this development period 2007-2013.

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ANNEX: LIST OF PERSONS INTERVIEWED

BOCK, WOLFGANG: Private consultant and regional advisor to the Altmark Region, Halle (Saale), 9 May 2007, 1 August 2007, 6 September 2007.

SCHMIDT, ULF: Regional manager of the Altmark Region, Salzwedel, 4 September 2007.

PREHM, ERHARD: Head of the District Department for Planning and Environment, Salzwedel, 4 September 2007.

SPOHN, HANS-JOACHIM: Former Head of the Office for Agriculture, Land Consolidation and Forestry of the Altmark Region and Deputy of the District Parliament of the District of Salzwedel, Altensalzwedel, 4 September 2007.

JACOBS, ANNEGRET: District manager of the German Farmers Union of the Salzwedel District, Salzwedel, 5 September 2007.

SCHLÜSSELBURG, VERENA: Head of the administration office of the Joint Administration Unit Bismark-Klöden and Head of a Leader Action Group, Bismark, 5 September 2007.

WALLBAUM, EKKEHARD, MESSRS DIETRICH, ENGELHARDT: Office head and department heads of the Office for Agriculture, Land Consolidation and Forestry of the Altmark Region, Stendal, 5 September 2007.

WERNER, TORSTEN: Member of the board of the German Farmers Union of the Stendal District and the Federal State of Saxony-Anhalt, Stendal, 6 September 2007.

PAETOW, SIBYLLE: Manager of the pilot project "Active regions" sponsored by the German Ministry of Food, Agriculture and Consumer Protection in the Altmark Region, Stendal, 6 September 2007.

RAUP, P.: Managing Director at the District Employment Office, District of Stendal, Stendal, 10 September 2007.

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