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EU-Governance Structures for the Multifunctionality of Agriculture

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Christian Schader
Matthias Stolze

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Authors:

Christian Schader and Matthias Stolze

Forschungsinstitut für biologischen Landbau (FiBL)
Ackerstrasse, CH-5070 Frick, Schweiz



Tel. +41 (0)62 865 72 72, Fax +41 (0)62 865 72 73, info.suisse@fibl.org, www.fibl.org

Contracted by the European Commission: SSPE – CT-2004-501516-MEASCOPE

Scientific officer: Hans-Joerg Lutzeyer, DG Research

Co-ordinators: Klaus Mueller, Annette Piorr, ZALF

Contact: meascope@zalf.de; phone +49 33432-82 222

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Executive Summary

In order to adapt to external and internal necessities, Europe's Common Agricultural Policy (CAP) the emphasis is gradually shifted from market price support measures to direct payments and rural development policy. This results in a stronger focus on the multifunctional character of agriculture, which comprises the fact that the agricultural sector not only produces food and fibre, but also shapes the landscape, provides environmental benefits and contributes to socio-economic aspects of life in rural areas. The way how this new policy area of rural development is governed on the various levels, is an important factor for its success.

The objective of this report is to reveal these governance structures for rural development policy and to reflect the current research in this area. It gives a brief introduction to the general governance debate and how governance is discussed in Europe. The second chapter focuses on the policy process, which is divided into the preparation-, decision-, implementation-, and the control phase. The third chapter analyses rural development policy within two steps. Both of them take account of the measures of the Council Regulation (EC) No 1257/1999 and of the LEADER initiative. The first step describes the governance structure of rural development policy reviewing official EU documents. The second step provides an overview on the scientific debate on governance in the rural development policy.

The allocation of competences in rural development policy was often criticised. Decision-making-, financial-, and implementation responsibilities are shared differently among the levels. According to the Concept of Fiscal Federalism this hinders the efficiency. Furthermore, regional and local actors lack competencies in designing rural development policy referring to the local conditions.

While alternative approaches like local decision-making committees are not foreseen in the mainstream rural development scheme, the LEADER initiative explicitly supports such groups. The majority of papers evaluated the bottom-up approach and the integrated concept of rural development of the LEADER programmes as an innovative and effective policy tool. Others question the excellent evaluation results and see problems in the lack of democratic legitimacy of the LEADER local action groups (LAG).

On the other hand, the implementation of agri-environmental and rural development policy is practiced very flexible across Europe. This leads to a north-south gradient of how these common policies are implemented. The report questions how Europe can overcome this gradient and predicts an even stronger gap between the EU-15 and the new Member States. To implement the rural development policy in a common way and to adjust it at the same time to the specific needs in the different regions in Europe is still an unsolved governance problem.

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List of Abbreviations

CAP	Common Agricultural Policy of the European Union
COREPER	Conseil des representatives permanentes
DG	Directorate general
EAGGF	European Agriculture Guidance and Guarantee Fund
EC	European Community
EEC	European Economic Community
EU	European Union
GDRC	Global Development Research Center
IMF	International Monetary Fund
LAG	Local action group
LEADER	Liaison Entre Actions de Développement de l'Economie Rurale
NUTS	Niveaux d'Unités Territoriales Statistiques
RDP	Rural Development Plan
WTO	World Trade Organization

1 Introduction

Since its initiation, the Common Agricultural Policy (CAP) had to meet the challenges in a changing global trade system. In international trade negotiations, the European Union faced pressure due to its protectionist policy which leads to a distortion of the world market prices for foods. With the Mc Sharry reform in 1992, the replacement of price support measures by direct aid schemes and accompanying measures began. The reform process is still ongoing with the AGENDA 2000, the mid-term review reforms, and the already debated reforms for the new programming period 2007-2013. All reform steps move the CAP into the same direction: The strengthening of its second pillar - the rural development policy.

Rural development policy is fostered by the concept of multifunctionality of agriculture. Commonly, multifunctionality refers to the fact that the agricultural sector produces not only food and fibre, but also shapes the landscape, provides environmental benefits, and contributes to socio-economical aspects of life in rural areas.

Parallel to this CAP reform process, the political structure of the total European Union being reformed. The White Paper of European Governance from 2001 set a cornerstone in this process. The system of governance in the European Union is a complex one, because of its size, its multi-level structure, and its uniqueness as a political entity. With the enlargement and the convention debate, the question of governance received even more attention lately.

But how do these two abovementioned trends interact? How does the second pillar of Europe's financially major common policy work structurally and how is the structural reform applied in this policy area? The key issues are the allocation of competencies on the different levels and the implementation of rural development policy as a consequence of this allocation.

The objective of this report is to analyse EU governance structures for the multifunctionality of agriculture on the basis of a review of academic and grey literature as well as EU administration documents. The review will be complemented by identifying upcoming trends and information demands.

First of all, we will provide an overview on various concepts of governance and how governance is defined and used by the European Commission. Subsequently, the legislative and executive processes in the EU are described briefly to come to an understanding about the levels of competences in the EU. In chapter 4, with Council Regulation (EC) No 1257/1999 and the LEADER initiative, two approaches of EU agricultural policies relevant for supporting the multifunctional character of European agriculture are introduced. Furthermore, introducing the Commission's proposal for a Council Regulation on support of Rural Development, forthcoming trends in European Agricultural Fund for Rural Development are analysed. The following review of scientific literature aims at reflecting current scientific debate about governance in rural development policy, again, focussing on Council Regulation (EC) No 1257/1999 and LEADER. The report concludes with discussing the major findings of the literature and document review.

2 Understanding governance

The concepts of governance

The term “governance” has become increasingly important in politics during the last decades globally. The debate about ‘governance’ arose when political, social and economic framework conditions suggested a questioning of traditional forms of government intervention and policy-making. Increasing complexities in policy-making due to globalisation, financial crisis of the state, technological developments and changes in society weaken traditional top-down government structures and call for re-organising the government framework in an era of new and changing external and internal constraints and thus for including more societal actors in policy-making (Berger, 2002).

Overall, governance refers to the discussion about how to steer the society and how to reach collective goals. For governance in the state context, one of the most widespread definitions of governance on the global level was formulated by the United Nations Development Program (UNDP), saying:

Managing a country through actively involving all of its people, at all levels, through systems which allow them to express their needs and right openly and freely.

Good governance occurs when societal norms and practices empower and encourage people to take increasingly greater control over their own development in a manner that does not impinge upon the accepted rights of order (UNDP, 2004).

Good governance is also referred to by the World Bank and the International Monetary Fund (IMF). The IMF sets criteria (e.g. degree of corruption, government credibility, strength of institutions and administration) for attesting a state to have good governance; and thus for cooperation with the IMF good governance of states is often required (IMF, 1997).

The Global Development Research Center (GDRC) acknowledges the following working definition elaborated by the Governance working group of the International Institute of Administrative Sciences:

Governance refers to the process whereby elements in society wield power and authority, and influence and enact policies and decisions concerning public life, and economic and social development.

Governance is a broader notion than government, whose principal elements include the constitution, legislature, executive and judiciary. Governance involves interaction between these formal institutions and those of civil society.

Governance has no automatic normative connotation. However, typical criteria for assessing governance in a particular context might include the degree of legitimacy, representativeness, popular accountability and efficiency with which public affairs are conducted (International Institute of Administrative Sciences, 1996)

There are at least six different concepts of governance used in contemporary social sciences (Rhodes, 1996):

1. **Corporate governance** specifies the relationships between, and the distribution of rights and responsibilities among the four main groups of participants in a corporate body: the board of directors, the managers, the workers, and the shareholders or

owners (Becht et al., 2002). Corporate governance encompasses internal and external factors to control the activities of companies in order to make decisions and actions transparent and traceable. In Europe, most of the countries have a corporate governance code, which defines the companies' responsibilities (European Commission, 2003d). Since an increasing number of companies is interlaced on an European level, the European Union discusses options for harmonisation. Currently, the OECD is developing specific guidelines for corporate governance¹.

2. **Governance as hierarchies:** Most of the current governance literature is dismissive of hierarchy as a model of governance. However, dismissing hierarchies as a system of governance would limit our understanding of policy structures and processes. Hierarchies must be thought of as one of several different modes of governance as hierarchies still play an important role in political institutional contexts. Furthermore, the 'horizontalisation' of institutions and actors has yet to be confirmed, not only by legal and constitutional changes but also in the practical experiences of policymaking processes. Currently, we still witness a 'verticalisation' in the relations between different institutions and actors (Berger, 2002).
3. **Governance as networks:** 'Networks' describe the different societal actor structures and interactions involved in negotiating and delivering policies in any given field. Governance is about managing these networks. However, government's control capacity over these networks is limited, due to a lack of legitimacy and the complexity of policy processes (Berger, 2002). According to Rhodes (1996), governance refers to self-organising inter-organisational networks with characteristics like interdependence between societal actors, continuing interactions between network actors, and a significant autonomy from the state.
4. **Governance as the inclusion of wider parts of the society:** This concept refers to the argument that policy outcomes are not the product of actions by the government alone. Considering increasing complexities and specialisation in society, for a single actor it will not be possible to have all knowledge, information and resources required to solve dynamic problems (Berger, 2002). Furthermore, the more knowledgeable and interested public demands a greater inclusion in policy-making processes. Thus, the task of government is to enable wider socio-political interactions. This approach of governance refers to notions of capacity-building, inclusion and participation.
5. **Governance as new public management:** This approach to governance is linked to the paradigms of efficiency and effectiveness associated with market economy. Within public policy this suggests the introduction of private sector management methods to the public sector and incentive structures into public service provision (Rhodes, 1996).
6. **Governance as multi-level government involvement:** This concept integrates all tiers of government, supranational, national, regional and local levels, in the design, formulation and implementation of policy-making. Each step of the policy-making process should be carried out at the appropriate level. Strengthening the inclusion of regional and local levels considers their proximity to the public. This approach of governance refers to the principle of subsidiarity which is gaining continuous importance in EU policy documents.

¹ [HTTP://WWW.OECD.ORG/DOCUMENT/33/0,2340,EN_2649_201185_34046561_1_1_1_1,00.HTML](http://www.oecd.org/document/33/0,2340,EN_2649_201185_34046561_1_1_1_1,00.HTML), 07.01.2005

Thus, we can distinguish between two main categories of governance concepts: The corporate and state context on the one side and the governance process and structure category on the other.

Governance in the European Union

Due to its multi-level structure and its complex decision-making structure, the European Union adopted the concept of governance in order to meet the growing concerns of the European population (European Commission, 2002). As an outcome, the European Commission established its own definition of governance along with its White Paper on European Governance (European Commission, 2001):

"European governance" refers to the rules, processes and behaviour that affect the way in which powers are exercised at European level, particularly as regards openness, participation, accountability, effectiveness and coherence. These five "principles of good governance" reinforce those of subsidiarity and proportionality.

The White Paper of July 2001 is based on twelve reports two studies and an intensive public consultation process. The twelve reports were structured in six working areas as follows:

- | | |
|---------------------------------------|--------------------------------------|
| 1a. European public space | 4a. Convergence of national policies |
| 1b. European scientific references | 4b. Trans-European networks |
| 2a. Participation of civil society | 4c. Multi-level governance |
| 2b. Evaluation | 5. EU and world governance |
| 2c. Better regulation | 6. Future of EU policies |
| 3a. Decentralisation through agencies | |
| 3b. Vertical Decentralisation | |

The appending studies cover two key issues of European governance:

- Is European legislation properly implemented?
- How do European citizens perceive the EU and what are their expectations?

The final White Paper concerns all the rules, procedures, and practices affecting how powers are exercised within the European Union. The aim is to adopt new forms of governance, which bring the Union closer to European citizens, make it more effective, reinforce democracy in Europe and consolidate the legitimacy of the institutions. It focuses on four main action themes (European Commission, 2001):

- Better involvement and more openness: instituting openness through all stages of decision-making; ensuring consultation with regional and local governments and with civil society networks
- Better policies, regulation and delivery: simplifying EU law and related national rules; promoting a use of different policy tools; establishing guidelines on the use of expert advice; defining criteria for the creation of new regulatory agencies
- Contributing to global governance: reviewing how the EU can speak more often with a single voice in the international real; improving dialogue with actors in third countries
- Refocusing policies and institutions (Commission, Council of Ministers and Parliament): ensuring policy coherence and long-term objectives; clarifying and reinforcing the powers of the institutions; formulating proposals for the Intergovernmental Conference (IGC) based on the governance policy consultation.

The European Union agrees that it has to reform itself in order to solve the democratic deficit of its institutions. This governance should lie in the framing and implementation of better and more consistent policies associating civil society organisations and the European institutions. It also entails improving the quality of European legislation, making it clearer and more effective. Moreover, the European Union sees itself as an important player in the debate on world governance and in improving the operation of international institutions (European Commission, 2001; European Commission, 2004).

The following principles according to which powers have to be exercised are: openness, participation, accountability, effectiveness and coherence (European Commission, 2001). The promotion of new forms of European governance as being one of four priorities of the Prodi Commission from 2000-2004 shows the importance of this procedure. After the White Paper had been published, an intensive public consultation process was initiated. The response was “modest in numbers but rich in content” (European Commission, 2003a). It largely supported the proposed principles (see above). However, the focus on effectiveness and efficiency of the decision-making system was largely regretted, while the principles of democratic legitimacy and subsidiarity were proposed as additions. In particular in the field of environmental policy the importance of governance was discussed at a conference on European level in 2001¹.

In December 2001, the European Council adopted a Declaration on the Future of the European Union (Laeken Declaration), committing the European Union to become more democratic, transparent and effective. The Laeken Declaration poses 60 targeted questions on the future of the Union, around four main themes:

- i) the division and definition of powers,
- ii) the simplification of the treaties,
- iii) the institutional set-up, and
- iv) moving towards a Constitution for European citizens.

Initiating the work on an European Constitution in February 2002, the debate on the future of the European Union was completed. After the European Council in December 2003 had not reached an overall agreement on the Constitution, the constitutional treaty was convened in October 2004. The innovations of the Constitutions were structured in the sections founding principles of the Union, institutions, decision-making, and Union policies (IGC, 2004). The constitution takes up the issues addressed in the White Paper on European Governance (European Commission, 2003e).

¹ THE COMMISSION'S WHITE PAPER ON GOVERNANCE: WHAT'S IN IT FOR THE ENVIRONMENT? 3-4 DECEMBER 2001 BRUSSELS;
[HTTP://EUROPA.EU.INT/COMM/ENVIRONMENT/GOVERNANCE/CONF_PROG.PDF](http://europa.eu.int/comm/environment/governance/conf_prog.pdf)

The legislative and executive processes in the EU

The policy process of the EU can be structured in four phases: preparation-, decision-, implementation-, and control phase (Maurer, 2000a).

Preparation phase

The EU Commission has the exclusive right to develop proposals for a concrete act. Besides the commission and the respective Directorate General (DG), national experts and administrative staff as well as European and national interest groups take part in this process. The Commission chairs the policy preparation process, which results in a first consensus among the stakeholders. The involvement of stakeholders puts the Commission's power into perspective, but makes the later decision more predictable.

Decision phase

The decision phase can be subdivided in the following steps: formal initiative, consultation, negotiation, and decision (Maurer, 2000a). Besides the EU-Council and the EU-Parliament, the advisory bodies (European Economic and Social Committee and the Committee of the Regions) comment on the commission's proposal. The responses of the advisory bodies, however, do not have a binding character.

Depending on the policy area, the co-decision procedure, the cooperation procedure, or the consultation procedure is applied. These different procedures influence the involvement of the EU Parliament during the decision phase. In the Common Agricultural Policy (CAP) the consultation procedure is used. In the EU-Council the integration of European and national actors shows up. The commission's proposal can only be changed by the EU-Council unanimously. After the proposal has passed through COREPER¹, the Council draws a final decision on the proposal. COREPER marks the agenda points as so called "a-points" and "b-points". While a-points can be accepted without any further debate, b-points indicate that COREPER could not reach consensus and further debates on minister-level are necessary. The Council can decide with simple majority, qualified majority, or unanimously.

Implementation phase

After the decision phase, the policy process is not completed. When it comes to the realisation of the decisions made, the officials of the EU-Commission and the national ministries work together closely. Partly, these are the same persons like in the preparation phase. On the Parliamentary level, the national Parliaments participate in the implementation phase according to national law. The European Parliament controls the Commission and intervenes via the Court of Justice of the European Communities. In the case of rural development, the implementation phase plays a major role, since the European regulation only sets the framework for national implementation plans (the so-called rural development plans). The national ministries are controlled by the Commission with regard to keeping its deadlines (see section 3.1 for details). The EU-Council empowers the Commission to implement the decisions. Within the framework of this empowerment (Art. 202 and Art. 211 of the EC-treaty), the Commission is able to pass regulations on its own. However, the Commission is always accompanied by national subject specific regulatory committees (Comitology). This cooperation between national and European officials is again an effective integration of national interests into the EU-policy.

Control phase

¹COREPER (CONSEIL DES REPRESENTATIVES PERMANENTS/ COMMITTEE OF PERMANENT REPRESENTATIVES) CONSISTS OF NUMEROUS FUNCTIONAL WORKING GROUPS WITH OFFICIALS OF THE DG'S WHO PREPARE THE SUBJECTS IN THE VARIOUS POLICY FIELDS

The EU-law is controlled by the Court of Justice of the European Communities. A central role plays the infringement procedure (Art. 226). This procedure accounts for the correct and complete implementation of decisions made on the EU-level.

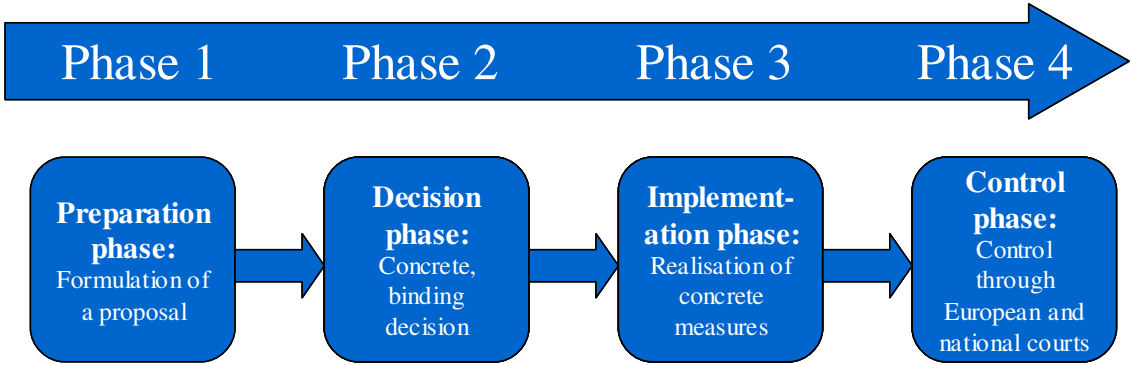


Fig. 1 Four phases of the EU policy process (Maurer, 2000a)

Levels of competency in the EU

The EC-treaty does not have a commonly valid set of rules on competencies of the community and its Member States. Depending on the policy area, the community and its Member States share competences exclusively, competing or parallel. This fact has led to several cases of dispute.

The preamble, Article 2 and Article 3 of the EC-treaty, however, describes the allocation of competencies as concretely as it could be agreed upon in 1992.

The Common Agricultural Policy (CAP) is one of three explicitly mentioned common policy areas. “Common” means that the Member States are not allowed to work in this area independently. Article 2 and Article 3 of the EC-treaty, however, are not sufficient (Maurer, 2000b) to describe different levels of competencies in depth for all policy areas. Title II, Article 33 describes the objectives of the agricultural policy.

In other policy areas the EC has exclusive competencies or competitive competencies. In areas of competitive competencies (such as the CAP), the subsidiary principle is the guiding principle in the allocation of competences.

The principle of subsidiarity

The principle of subsidiarity is generally defined as: the principle that decisions should always be taken at the lowest possible level or closest to where they will have their effect.

It was introduced into the debate on the European constitution in 1984 by the European Parliament, since the allocation of competencies was very vague. The subsidiary principle was first applied in the Single European Act (1986) in environmental policy (Art. 130), saying that wherever possible, action should be taken by the authority as close as possible to the people it affects.

The reason for introducing the subsidiarity principle first in the area of environmental policy was the nationally different environmental standards. The concerns were, that the completion of the EC domestic market would lead to a harmonisation on a low level. On the other hand,

strict environmental standards should not be the reason for restrictions to the free movement of goods (Maurer, 2000b).

Along with the Maastricht-Treaty (1992), the subsidiarity principle became a part of the general EC-treaty for the first time (Art 5). It was not limited to environmental policy anymore. This change was initiated by the experiences the national governments made with their regions (particularly in Germany). Article 5 includes three paragraphs:

The Community shall act within the limits of the powers conferred upon it by this Treaty and of the objectives assigned to it therein.

In areas which do not fall within its exclusive competence, the Community shall take action, in accordance with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community.

Any action by the Community shall not go beyond what is necessary to achieve the objectives of this Treaty.

In the Amsterdam-Treaty the subsidiarity principle was further concretised. While the wording of article 5 was not changed, the contract was supplemented by the protocol on the EC treaty on the application of the principles of subsidiarity and proportionality (Protocol 21). This protocol covers the following key points:

- subsidiarity is a dynamic concept and the appropriate level for action may vary according to circumstances;
- all legislative proposals will be accompanied by a statement on the impact of the proposed measure on the application of the principle of subsidiarity;
- consistent with the proper achievement of the objective, the form of Community action should not be too restrictive (as far as possible, directives should be preferred to regulations);
- subsidiarity should not undermine the powers conferred on the European Community by the Treaty, as interpreted by the Court of Justice.

The main condition for embarking on Community action is set out in the second paragraph of Article 5 of the EC Treaty, which states that the Community shall take action "only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community". The Protocol cites three criteria for judging whether this condition has been fulfilled:

- does the action have transnational aspects that cannot be satisfactorily regulated by the Member States?
- would action by Member States or lack of action conflict with the requirements of the treaty?
- would action at community level produce clear benefits?

If the above conditions are complied with, action should be taken as simple as possible, but the aims of the measure should be reached in a satisfying way. The Commission is obliged to leave as much space as possible for the Member States. Therefore, a regulation is preferable to a directive.

In the EU constitution the text from the supplementary protocol from the Amsterdam treaty was adapted. The main innovation is the creation of a system for monitoring the application of the principle of subsidiarity which for the first time directly involves the national Parliaments. This would allow the national Parliaments to publicly notify the European institutions and their own government of any proposal which they felt did not comply with the principle of subsidiarity. Each national Parliament can then review the Commission's proposals and submit a reasoned opinion if it considers that the principle of subsidiarity has not been complied with. If one third of Parliaments share the same view, the Commission must review its proposal. With regard to Commission proposals and initiatives in matters of freedom, security and justice, the threshold is set at a minimum of one quarter. It may decide to maintain, amend or withdraw its proposal, and must give reasons for its decision.

The Protocol also gives national Parliaments the right to bring actions before the Court of Justice, via their Member State, on grounds of infringement of the principle of subsidiarity by a legislative act. The Protocol confirms that any Commission proposal must be justified with regard to the principle of subsidiarity. The draft Constitution even recommends the use of a "subsidiarity statement" containing a detailed assessment.

In addition, the Constitution proposes that the Commission sends all of its legislative proposals and its amended proposals to the national Parliaments of the Member States and to the Union legislator. Upon adoption, legislative resolutions of the European Parliament and positions of the Council of Ministers are to be sent to the national Parliaments of the Member States. It also provides that when, in cases of exceptional urgency, the Commission cannot conduct public consultations, it has to give reasons for the decision in its proposal.

3 Policy for multifunctional agriculture in the EU

The objective of the European Union's structural and cohesion policies is to reduce economic and social disparities within the Community. These policies support national and regional policy in regions facing difficulties and on the labour market. While the Member States are responsible for setting their own development priorities, the Community lays down guidelines that they must take into account since the European Union, as part-financier of their programmes, has a right to examine assistance and wishes to promote the Community dimension of economic and social cohesion.

These general indicative guidelines are provided for by the Regulation laying down general rules on the Structural Funds and their purpose is to help the national and regional authorities define and prepare programming strategies under Objectives 1, 2 and 3 of the Structural Funds and their links with the Cohesion Fund.

There are four types of Structural Fund which have been introduced:

- The European Regional Development Fund (ERDF) contributes mainly to assisting the regions whose development is lagging behind and those undergoing economic conversion or experiencing structural difficulties;
- the European Social Fund (ESF) mainly provides assistance under the European employment strategy ;
- the European Agricultural Guidance and Guarantee Fund (EAGGF) Guidance Section helps in both the development and the structural adjustment of rural areas whose development is lagging behind by improving the efficiency of their structures for producing, processing and marketing agricultural and forest products;

- the Financial Instrument for Fisheries Guidance (FIFG) supports restructuring in the fisheries sector.

As a part of the Commission's rural development policy, four Commission initiatives have been introduced:

- **Interreg III**, which aims to stimulate cross-border, transnational and inter-regional co-operation;
- **Leader+**, which promotes rural development;
- **Equal**, which provides for the development of new ways of combating all forms of discrimination and inequality in access to the labour market;
- **Urban II**, which encourages the economic and social regeneration of declining towns, cities and suburbs.

The Structural Funds follow each general principles underpinning the operation:

Partnership: The Structural Funds continue this approach by expanding partnership to include the regional and local authorities, the economic and social partners and other competent bodies and by involving the partners at all stages, starting with approval of the development plan.

Additionality: This principle requires Community assistance to be additional to national funding and not to replace it. For each Objective the Member States must maintain their own public expenditure at least at the level it was at in the preceding period.

Management, monitoring and evaluation: Under the Structural Fund rules, the Member States must appoint a managing authority for each programme. Its tasks cover the implementation, correct management and effectiveness of the programme (collection of statistical and financial data, preparation and transmission to the Commission of annual reports, organisation of the mid-term evaluation, etc.). Monitoring Committees are also set up, which are always the responsibility of the Member States. These Committees, chaired by a representative of the managing authority, ensure the efficiency and quality of the implementation of the structural measures.

Payments and financial controls: The Member States and the Commission make a financial contract whereby the Commission undertakes to pay annual commitment appropriations on the basis of the adopted programming documents. Each Member State then appoints a payment authority for each programme to act as intermediary between the final beneficiaries and the Commission. The payment authority, in collaboration with the managing authority, monitors the expenditure of the final beneficiaries and ensures that the Community rules are observed. The physical movement of funds (payment appropriations) from the Union to the Member States actually happens when the Commission reimburses the actual expenditure of the final beneficiaries, approved and certified by the payment authorities.

Rural development policy in the Common Agricultural Policy (CAP) is subject of the so called Second Pillar while the First Pillar is targeted to market support. Despite the priority the Commission is giving to the development of EU's rural areas, only around 10% of the CAP expenditures are dedicated to rural development policy. The vast majority of approximately 90% of the CAP budget are market support measures (see Table 1).

Table 1 CAP expenditure 2000-2006 (billion euro, 1999 prices)¹; Source: European Commission (1999a)

	2000	2001	2002	2003	2004	2005	2006	TOTAL
Total CAP	40.92	42.80	43.90	43.77	42.76	41.93	41.66	297.74
of which a) markets ²	36.62	38.48	39.57	39.43	38.41	37.57	37.29	267.37
b) rural development ³	4.30	4.32	4.33	4.34	4.35	4.36	4.37	30.37

1 For calculating amounts at current prices, a 2% deflator will be used

2 Including veterinary and phytosanitary measures and excluding accompanying measures

3 Including accompanying measures and rural development initiatives outside Objective 1 programmes previously funded by the EAGGF/Guidance section. Excluding LEADER+. These amounts correspond as an annual average to the Commission's proposal in Agenda 2000.

The rural development policy of the “second pillar” of the Common Agricultural Policy as an essential part of the European agricultural model, aims to put in place a consistent and lasting framework for guaranteeing the future of rural areas and promoting the maintenance and creation of employment and follow four principles (European Commission, 1999a):

- The **multifunctionality of agriculture**, i.e. its varied role over and above the production of foodstuffs. This implies the recognition and encouragement of the range of services provided by farmers.
- A **multisectoral and integrated** approach to the rural economy in order to diversify activities, create new sources of income and employment and protect the rural heritage.
- **Flexible** aids for rural development, based on subsidiarity and promoting decentralisation, consultation at regional, local and partnership level.
- **Transparency** in drawing up and managing programmes, based on simplified and more accessible legislation.

Thus, multifunctionality in the CAP is closely linked to rural development policy (Harvey, 2003; Knickel & Renting, 2000; Peterson et al., 2002).

The legal basis of agricultural rural development policy are provided through:

Council Regulation (EC) No 1257/1999 of 17 May 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and amending and repealing certain Regulations

Commission Regulation (EC) No 568/2003 of 28 March 2003 correcting the Dutch and English versions of Regulation (EC) No 2603/1999 laying down rules for the transition to the rural development support provided for by Council Regulation (EC) No 1257/1999.

Commission Regulation (EC) No 445/2002 of 26 February 2002 laying down detailed rules for the application of Council Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF).

Commission Regulation (EC) No 567/2003 of 28 March 2003 correcting the Danish, English, Finnish, German, Greek, Italian, Portuguese and Spanish versions of Regulation (EC) No 445/2002 laying down detailed rules for the application of Council Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF).

Commission Regulation (EC) No 963/2003 of 4 June 2003 amending Regulation (EC) No 445/2002 laying down detailed rules for the application of Council Regulation (EC)

No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF).

Council Regulation (EC) No 1783/2003 of 29 September 2003 amending Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF).

Commission Regulation (EC) No 817/2004 of 29 April 2004 laying down detailed rules for the application of Council Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF).

Apart from Council Regulation (EC) No 1257/1999, the central policy for rural development in the European Union, the LEADER initiative, INTERREG and SAPARD programmes are of relevance. SAPARD has been introduced to help implement the Community *acquis* with respect to the common agricultural policy and related policies during the pre-accession period of the Central and Eastern European applicant Countries (CEEC's) (European Commission, 1999b). Since the new member states have started their rural development plans firstly in 2003 only few data is available so far. IAMO (2004) summarizes the actual situation of implementing rural development measures in the new member states of Central and Eastern Europe and the implementation during the SAPARD period.

The objective of INTERREG is to strengthen economic and social cohesion in the European Union by promoting cross-border, transnational and interregional co-operation and balanced development of the European Union territory. Actions in relation to the borders and border areas between Member States and between the European Union and non-member countries are, therefore, at the heart of the initiative. Rural development is often subject to INTERREG projects.

Below, in this report we focus on Council Regulation (EC) No 1257/1999 and the LEADER initiative.

Figure 2 illustrates the European Union funds for rural development activities from the European Agriculture Guidance and Guarantee Fund (EAGGF). Outside the Objective 1 regions¹ all support for rural development derives from the EAGGF Guarantee section, except the LEADER+ support. Whereas, in Objective 1 regions the “non-accompanying measures” of the Council Regulation (EC) No 1257/1999 (investment in agricultural holdings, young farmers, training, other forestry, processing and marketing and the measures for adoption and development of rural areas covered by Article 33) are financed through the EAGGF Guidance section.

¹ OBJECTIVE 1 PROMOTES THE DEVELOPMENT AND STRUCTURAL ADJUSTMENT OF REGIONS WHOSE DEVELOPMENT IS LAGGING BEHIND, I.E. WHOSE AVERAGE PER CAPITA GDP IS LESS THAN 75% OF THE EUROPEAN UNION AVERAGE.

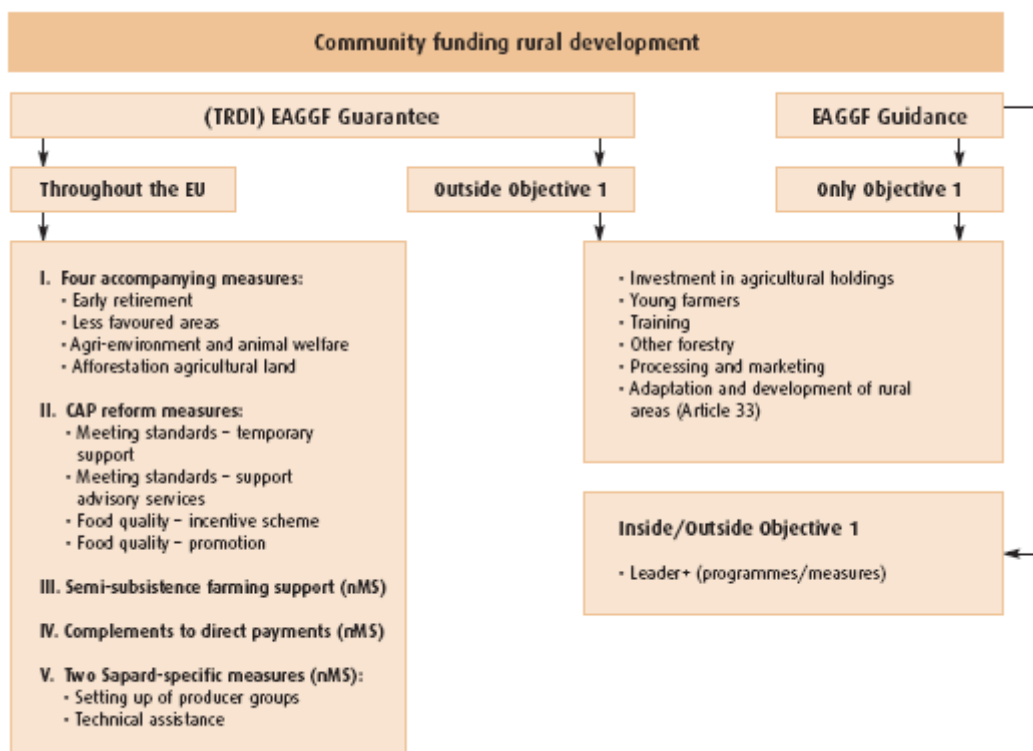


Fig. 2 Funding diagramme of the EU rural development policy, Source: European Commission (2003g)

Looking at the number of programmes and the respective budget allocated shows that LEADER plays only a minor role in rural development policy with 4 % of the total Community contribution (see Table 2).

Table 2 Overview of the rural development programming types 2000-2006, the respective EAGGF section and the maximum total contribution from the European Union

	Number of programmes	Co-financed by EAGGF section	Community contribution (billion EUR)
Rural development programmes	68	Guarantee	
Objective 2 ¹ programmes with rural development measures	20	Guarantee	32.9
Objective 1 programmes with rural development measures	69	Guidance	17.5
LEADER+ programmes	73	Guidance	2.1
Total	230		52.5

Source: European Commission (2003g)

¹ OBJECTIVE 2 CONTRIBUTES TO THE ECONOMIC AND SOCIAL CONVERSION OF REGIONS IN STRUCTURAL DIFFICULTIES OTHER THAN THOSE ELIGIBLE FOR THE NEW OBJECTIVE 1.

Council Regulation (EC) No 1257/1999

Council Regulation (EC) No 1257/1999 establishes the framework for Community support for sustainable rural development. It accompanies and complements other instruments of the CAP and the Community's structural policy. The rural development measures eligible under this Regulation fall into two groups:

- Accompanying measures of the 1992 reform: early retirement, agri-environment and afforestation, as well as the less-favoured areas scheme;
- Measures to modernise and diversify agricultural holdings: farm investment, setting-up of young farmers, training, investment aid for processing and marketing facilities, additional assistance for forestry, promotion and conversion of agriculture.

It offers the Member States and regions a menu of 22 rural development measures, which can be structured into three groups:

Group 1: restructuring/competitiveness

- Investments in farms
- Young farmers
- Vocational training
- Early retirement
- Investments in processing/marketing
- Land improvement
- Reparcelling
- Setting up of farm relief and farm management services
- Marketing of quality agricultural products
- Agricultural water resources management
- Development and improvement of infrastructure related to agriculture
- Restoring agricultural production potential

Group 2: environment/land management

- Less favoured areas and areas with environmental restrictions
- Agri-environment
- Afforestation of agricultural land
- Other forestry
- Environmental protection in connection with agriculture, forestry

Group 3: rural economy/rural communities

- Basic services for the rural economy and population
- Renovation and development of villages
- Diversification of agricultural activities
- Encouragement for tourism and craft activities
- Financial engineering

Source: European Commission (2003f)

Article 34 of Council Regulation (EC) No 1257/1999 sets the rules for implementing the Regulation in the Member States. These rules particularly define (Council of the European Union, 1999a):

- conditions for support for investment in agricultural holdings (Articles 4 to 7), including the necessary restrictions resulting from application of Article 6,
- the period and the conditions for the improvement of economic viability of an agricultural holding and conditions of use of land released in the case of early retirement (Article 11(2)),
- conditions for the granting and calculation of the compensatory allowance in less-favoured areas, including in the case of communal use of agricultural land (Articles 14 and 15) and the
- compensatory payments in areas with environmental restrictions (Article 16),
- conditions governing the giving of agri-environmental commitments (Articles 23 and 24),
- selection criteria for investment aimed at improving the processing and marketing of agricultural products (Article 27(2)),
- conditions governing forestry measures (Chapter VIII).

All rural development plans cover compulsorily agri-environmental measures while all other measures are optional.

Community co-financing of rural development measures is carried out in accordance with articles 29 and 30 of the same regulation (Council of the European Union, 1999b).

The rural development plans have a duration of seven years. They are attached to a geographic area (region), which the Member States regard as appropriate. In larger Member States, there are regional Rural Development Plans on NUTS I or NUTS II level (e.g. Spain, France, Germany). Smaller member states may have a Rural Development Plan on country level (e.g. Austria, Denmark). In total, 87 Rural Development Plans with funding of the Guarantee-Section of the European Agriculture Guidance and Guarantee Fund (EAGGF) had been implemented outside objective 1 regions in EU-15 Member States in the year 2001 (European Commission, 2003b).

The programmed rural development plans have to include (European Commission, 1999a):

- A qualified description of the situation
- A suggested strategy and chosen priorities
- Estimation of the expected results

The Commission approved the rural development plans developed and presented by the Member States' and assists in developing the final rural development plan in six months after the presentation (European Commission (1999a).

The flexibility of Member States in implementing their rural development plans is indicated by Figure 2, showing the expenses of EAGGF guarantee and EAGGF guidance funds per Member State. Italy is the member with the highest share of EAGGF expenses in the area of guarantee (37%) while Germany shows the highest share of EAGGF guidance (61%).

Member States differ in the focus of their expenditure, however most of the Member States have a high share of expenses in group two. The two measures on which Member States

pay the highest share of their budgets are agri-environmental measures and payments for less-favoured areas (European Commission, 2003f).

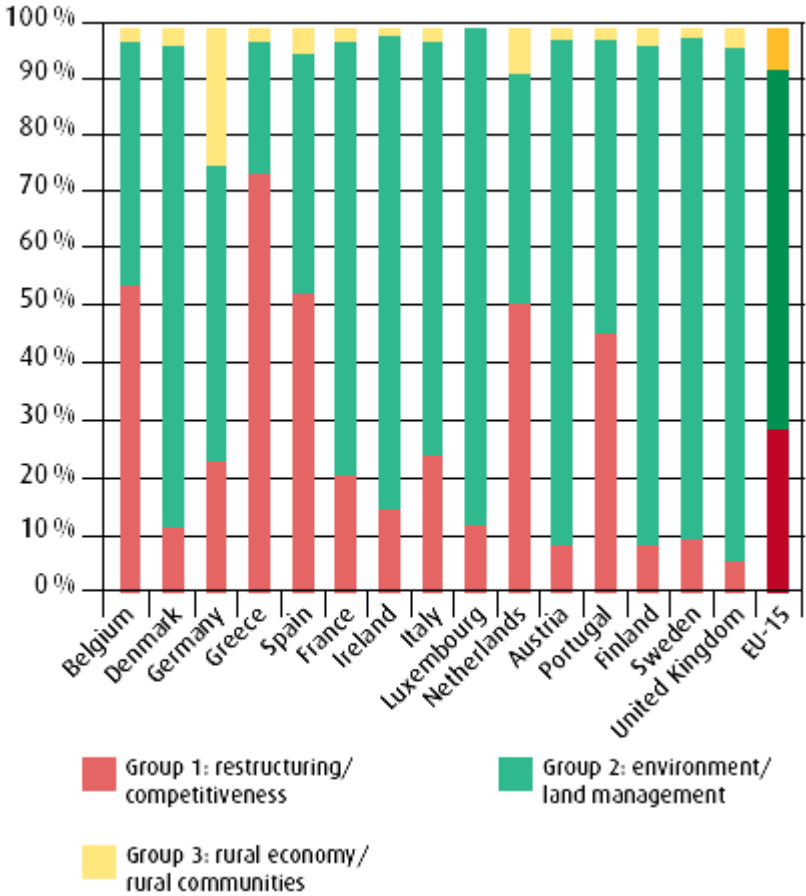


Figure 3: EAGGF realised expenditure 2000-2003 (European Commission 2003)

Patterns and styles of implementation of EU agri-environmental programmes are fundamentally conditioned by the culture and traditions of individual Member States. The pace of modernisation and the starting point of this development have been highly variable in the EU Member States. While the UK had an early export-oriented agricultural modernisation, which exceeds the EU average (Hart & Wilson, 1999), in Spain, Portugal and Greece agricultural modernisation have been recent phenomena. Overall, a north-south-gradient can be observed, but exceptions exist among Member States and regions (Buller et al., 2000).

As to Council Regulation (EC) No 1257/1999 from the 2000-2006 period a huge variability among Member States and regions could be found. Apart from the compulsory agri-environmental measures, the following measures were implemented most frequently in Rural Development Plans¹ (European Commission, 2003b):

- Support for less-favoured areas (14 Member States)
- Afforestation (12 Member States)
- Training (12 Member States)

¹ DATA FOR COUNTRIES WITH MORE THAN ONE RURAL DEVELOPMENT PLAN WAS MERGED BY THE EUROPEAN COMMISSION TO PROVIDE A NATIONAL PICTURE.

The least frequently implemented measure was “support for areas with environmental restrictions, which was implemented in 3 Member States only. Table 3 provides an overview on the implementation preferences in the member states.

Table 2: Overview of rural development measures implemented by Member States in 2001. For those Member States with regionalised programming, the information is consolidated form all programmes in that Member State; Source: European Commission (2003b)

X	implemented	NP	Not implemented																	No. of MS implementing	No. of MS not implementing
	Member States with more than one RDP		Member States with one RDP																		
			measure tables	AT	BE	DK	DE	ES	FI	FR	GR	IE	IT	LU	NL	PT	SE	UK			
a.	Investment in agricultural holdings (Ch. I, art. 4-7).		a.1&a.2	X	X	X	X	X	X	X	NP	NP	X	NP	X	NP	X	X	11	4	
b.	Setting-up of young farmers (Ch. II, art. 8).		b.1&b.2	X	X	X	X	X	X	X	NP	NP	X	NP	NP	NP	X	NP	9	6	
c.	Training (Ch. III, art. 9).		c	X	X	X	X	X	X	X	NP	NP	X	X	X	NP	X	X	12	3	
d.	Early retirement (Ch. IV, art. 10-12).		d.1&d.2	NP	NP	NP	X	X	NP	X	X	X	X	NP	NP	X	NP	NP	7	8	
e.1	Less-favoured areas (Ch. V, art. 13-21).		e.1	X	NP	X	X	X	X	X	X	X	X	X	X	X	X	X	14	1	
e.2	Areas with environmental restrictions (Ch.V, art. 16).		e.2	NP	NP	NP	X	X	NP	NP	NP	NP	X	NP	NP	NP	NP	NP	3	12	
f.	Agri-environment (Ch. VI, art. 22-24).		f	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	15	0	
g.	Improving processing and marketing of agricultural products (Ch. VII, art. 25-28).		g.1&g.2	X	X	X	X	X	NP	X	NP	NP	X	N	X	NP	X	X	10	5	
h.	Afforestation of agricultural land (Ch. VIII, art. 31, 30).		h&l.1	X	X	X	X	X	NP	X	NP	X	X	X	X	X	NP	X	12	3	
i.	Other forestry measures (Ch. VIII, art. 30, 32).		lrest	X	X	X	X	X	X	X	NP	NP	X	X	NP	NP	NP	X	10	5	
j.	Land improvement and k. Reparcelling (Ch. IX, art. 33).		j&k	NP	NP	NP	X	X	NP	X	NP	NP	X	NP	X	NP	NP	NP	5	10	
l.	Setting-up of farm relief and farm management services (Ch. IX, art. 33).		l&m	NP	NP	NP	X	X	X	X	NP	NP	X	NP	NP	NP	NP	X	6	9	
m.	Marketing of quality agricultural products		l&m	X	X	NP	X	X	NP	X	NP	NP	X	NP	X	NP	X	X	9	6	
n.	Basic services for the rural economy and population (Ch. IX, art. 33).		n&o	NP	X	X	X	X	X	X	NP	NP	X	NP	X	NP	NP	X	9	6	
o.	Renovation and development of villages and protection and conservation of the rural heritage (Ch. IX, art. 33).		n&o	X	X	X	X	X	X	X	NP	NP	X	NP	X	NP	X	X	11	4	
p.	Diversification of agricultural activities and activities close to agriculture to provide multiple activities or alternative income (Ch. IX, art. 33).		p&q	X	X	NP	X	X	X	X	NP	NP	X	NP	X	NP	X	X	10	5	
q.	Agricultural water resources management (Ch. IX, art. 33).		p&q	X	NP	NP	X	X	NP	X	NP	NP	X	NP	X	NP	NP	X	7	8	
r.	Development and improvement of infrastructure connected with the development of agriculture (Ch. IX, art. 33).		r&s	X	X	X	X	X	NP	X	NP	NP	X	NP	X	NP	X	X	10	5	
s.	Encouragement for tourist and craft activities (Ch. IX, art. 33).		r&s	NP	X	X	X	X	X	X	NP	NP	X	NP	X	NP	X	X	10	5	
t.	Protection of the environment in connection with agriculture, forestry and landscape conservation as well as the improvement of animal welfare (Ch. IX, art. 33).		t&u&v	X	X	X	X	X	NP	X	NP	NP	X	NP	X	NP	X	X	10	5	
u.	Restoring agricultural production potential damaged by natural disasters and introducing appropriate prevention instruments (Ch. IX, art. 33).		t&u&v	NP	NP	NP	X	X	NP	X	NP	NP	X	NP	NP	NP	NP	NP	4	11	
v.	Financial engineering (Ch. IX, art. 33).		t&u&v	NP	NP	NP	X	X	NP	X	NP	NP	X	NP	NP	NP	NP	NP	4	11	

LEADER+

The LEADER initiative follows a completely different approach of governance compared to the other rural development programmes. LEADER is seen as an initiative, mobilising local actors to tackle the most urgent problems in the specific region. The Objectives of LEADER are to draw on the specific resources of rural areas as part of a development strategy which is relevant and tailored to the local circumstances.

Leader I and II taught the following lessons:

Strengths: the mobilising of local actors to take control of the future of their area; decentralised, integrated and bottom-up approach to territorial development; the exchange and transfer of experience through the creation of networks; the ability to include small-scale projects and support small-scale promoters.

Weaknesses: delays in the selection of beneficiaries in some Member States, and consequently in the launching of programmes; fragile partnerships; the accumulation of disparate procedures and the dispersal of financial resources.

The Leader+ Initiative continues its role as a laboratory, which can encourage the emergence of new approaches to integrated and sustainable rural development. These approaches will complement national and European rural development policy in the context of the "mainstream" programmes, in particular under Objective 1, Objective 2 and Objective 3 of the Structural Funds.

The aim of Leader+ is thus to encourage rural actors to think about the longer-term potential of their area. The local actors implement the original strategy that they themselves have designed, experimenting with new ways of:

- enhancing natural and cultural heritage,
- reinforcing the economic environment in order to create jobs,
- improving the organisational capabilities of their community.

Cooperation is a key component of Leader+, be it between different areas in the same Member State, between rural areas in several Member States and even beyond if necessary. Relevant new rural development models will be exploited and disseminated through a major networking exercise.

Unlike Leader I and II, all rural areas are eligible under Leader+, in particular those which did not take part in the earlier Community Initiatives. In order to concentrate Community resources on the most promising proposals, Community funding under actions 1 and 2 is granted to a limited number of rural territories only. Accordingly, the national authorities must set up an open and rigorous procedure for selecting which rural areas may benefit under Leader+ through one (or more) national call(s) for proposals. Selection is based on general criteria laid down in the Commission's guidelines and specific criteria taking account of both the specific situation of the rural areas concerned and the objectives that the Member States are seeking to attain through Leader+.

The rural areas designated do not necessarily coincide with national administrative boundaries or with zones established for the purpose of eligibility under Objectives 1 and 2 of the Structural Funds. These are small rural territories which form a homoge-

neous unit in geographical, economic and social terms and which have the resources needed to implement a development strategy. As a general rule, the population of the territories selected should not number less than 10 000 inhabitants, and not more than 100 000 in the most densely populated areas (around 120 inhabitants/km²). However, in some areas of northern Europe, properly justified exceptions to these criteria may be accepted.

The final beneficiaries of assistance under Leader+ are the local action groups (LAGs). These groups draw up the development strategy for their territory and are responsible for implementing it on the basis of a specific development plan. The LAGs create an open local partnership which clearly allocates the powers and responsibilities to the different partners. They are made up of a balanced and representative selection of partners drawn from the different socio-economic sectors in the local area. The economic and social partners and non-profit (voluntary) associations must make up at least 50% of the local partnership. The members of the LAGs must be locally based. They either select an administrative and financial head qualified to administer public funds, or come together in a legally-constituted common structure which fulfils the same function.

Figure 4 illustrates the eight specific features of the LEADER approach.

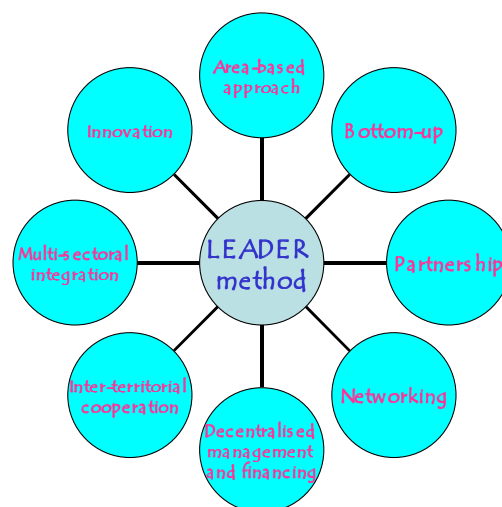


Fig. 4: Specific features of the LEADER approach (Lukesch (2000))

LEADER+ is structured into three actions:

- **Action 1:** Integrated territorial rural development strategies of a pilot nature
- **Action 2:** Support for inter-territorial and transnational cooperation;
- **Action 3:** the networking of all rural areas in the Community, whether or not they are beneficiaries under Leader+, and all rural development actors.

Approximately 87 % of the budget are dedicated to Action 1 while for Action 2 and 3 only 10% or 1%, respectively, are foreseen.

The European Commission analysed the programming data from the EU-15 Member States. From the total 73 programmes approved, nine programmes were on national-, 61 on regional-, and three were on network level. The Commission registered 808 local action groups (LAGs), about 86 % of the set out number of LAGs in the programmes. 1.4 m km² were covered, thus including an average of 11.9 % of the EU-15 population. The share of population differed sizably among the Member States with Ireland having the highest LAG population share (38.2 %) and the UK having the lowest (3.9 %) Shown by Figure 4, comparable to Council Regulation (EC) No 1257/1999, the LEADER+ funding sources vary considerably in different Member States (European Commission, 2003c).

The LEADER+ local action groups were analysed by there priority themes. Making the best use of natural and cultural resources was the main priority of local action groups, followed by improving the quality of life in rural areas, adding value to local products, use of new know-how and new technologies, and others (see Figure 5).

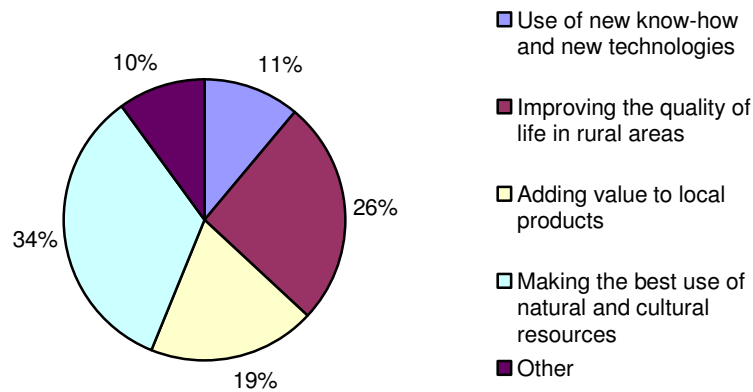


Fig. 5: Priority themes of LEADER+ local action groups in the programming period 2000-2006; Source: European Commission (2003c)

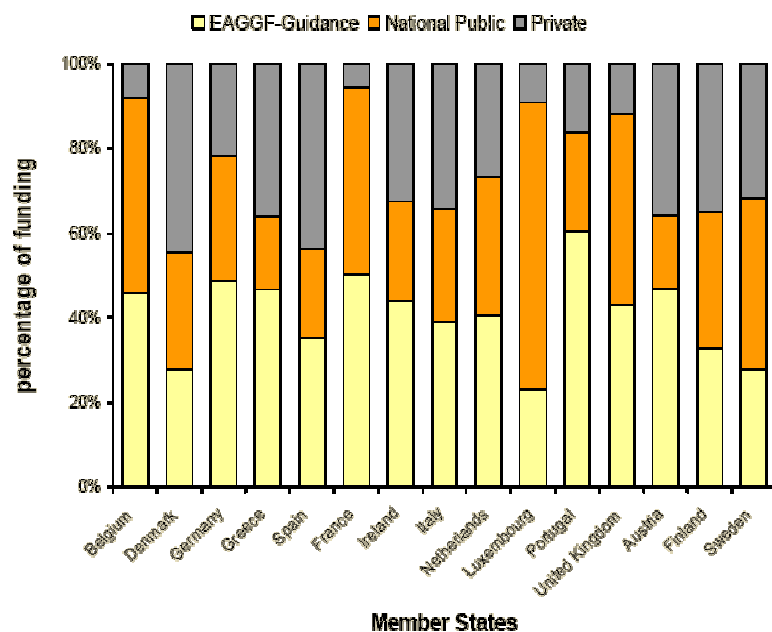


Fig. 6: Source of LEADER+ funding in the programming period 2000-2006 per member state; Source: European Commission (2003c)

4 New trends: The new Rural Development Programme

In July 2004, the Commission presented a new proposal for a Council Regulation on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) for the programming period 2007 - 2013. The explanatory memorandum of the proposal presented by the European Commission mentions that after a period of reforms of the First Pillar of the CAP, now focus will be led on the reform of rural development policy. However, this does not mean a paradigm shift but rather a consolidation and administrative simplification making rural development policy more efficient and coherent (Wehrheim, 2005). Compared to current Council Regulation (EC) 1257/1999, the Commissions proposal considers in Article 6 to strengthen the partnership approach through close consultation of competent regional, local and other public authorities as well as Non-governmental organisations and private bodies representing civil society (Commission 2004b).

The draft regulation seeks dovetailing policies of first and second pillar: e.g. by introducing cross-compliance measures in EAFRD and through modulation. On the other side, EU rural development policy should move towards a more strategic approach, reinforcing it and simplifying its implementation (European Commission, 2004a). To ensure the sustainable development of rural areas, the proposal focuses on a limited number of core priority objectives relating to agricultural and forestry (European Commission, 2004b):

1. Strengthening of the competitiveness of the agricultural sector through support for restructuring, modernisation and quality production
2. Environmental protection and preservation of the countryside through support for a sustainable land management
3. Improvement of the quality of life in rural areas and promotion of the diversification of economic activities:

Future Rural Development policy is suggested to be built around thematic axes for which each a range of measures are proposed:

Axis 1: Improving Competitiveness

- Human potential: vocational training; setting up of young farmers; early retirement; management, relief and advisory services.
- Physical potential: investments to improve production, processing and marketing structures (and infrastructures).
- Quality of agricultural production and products: adaptation to new EU standards; participation in food quality schemes; promotion for quality products.
- Transitional measures for the new Member States (until 2008).

Axis 2: Land Management

- Sustainable use of agricultural land: mountain areas; other areas with handicaps; Natura 2000 areas; agri-environment and animal welfare.
- Sustainable use of forestry land: first afforestation; first establishment of agro-forestry systems, Natura 2000 areas; forest-environment; restoring forestry production potential and introducing prevention actions.

Axis 3: Diversification of the rural economy and quality of life in rural areas

- Diversification of the rural economy: on farm diversification; off farm diversification (micro-enterprises); tourism; protection and management of natural heritage.
- Improvement of the quality of life: Basic services; village renewal; training and capacity building.

“LEADER” Axis

- Implementation of local development strategies through a LEADER approach to contribute to the achievement of the objectives of one or several of the three thematic axes.
- Inter-territorial and trans-national cooperation.
- Capacity building and working of local action groups.

In this proposal, the Commission intends to reduce the strategic deficits and make rural development policy more targeted compared to the current situation by assigning policy goals to priority areas. However, Grajewski (2004) stresses that this is only a higher stringency at first sight: multi-objective measures are to be found again in this draft regulation.

The spectrum of measures suggested in this draft regulation is similar to that of Council Regulation (EC) 1257/1999. Below, the most important changes are listed:

Axis 1:

- More focus is led to food quality
- Investment aid for young farmers is improved
- Investment aid to improve marketing and processing is limited to Small and Medium Sized Enterprises

Axis 2:

- Agri-environment measures are compulsory for each programme
- Introduction of cross-compliance measures based on Council Regulation (EC) 1782/2003 enhanced by additional fertiliser and plant protection measure which need to be identified.
- Non-farming land managers become eligible for grant under the agri-environmental measures.
- As a reference to WTO negotiations, 20% incentives may not be included in the calculation of agri-environmental payments and are replaced by inclusion of transaction costs.

- Commission reduces share of co-financing from 60% to 55%
- Re-designation of Less Favoured Areas
- Re-name Less Favoured Areas Payments in Natural Handicap Payments and payments for areas with other handicaps.
- Natural handicap payments are increased from 200 Euro/ha to 250 Euro /ha while payments for areas with other handicaps are reduced from 200 Euro/ha to 150 Euro/ha.
- Where appropriate, calls for tender are now possible to application selection

Axis 3:

- New measure: diversification of rural economies
- New measure: vocational training for economic actors
- Investments in diversification activities become eligible for support
- No equivalent grants are considered for article 33 measures (land improvement and re-parcelling)

LEADER Axis:

- Integration in mainstream support scheme
- Area covered should be coherent and offer sufficient critical mass in terms of human, financial and economic resources to support a viable development strategy.

In general, the spectrum of measure of Council Regulation (EC) 1257/1999 is broken down and assigned to the three priority axes (Grajewski 2004). Due to this, e.g. investment support measures as well as support measures for vocational training and education can be found in all of the three axis. With the latter, this proposal improves the support schemes for capacity building in rural areas . However, measures ensuring sustainable rural development are only to be found under Axis 2. Thus in axis 1 and 2, measures are not coupled to any environmental or sustainability eligibility criteria.

While so far the 2nd Pillar of the CAP was funded by two different financial sources (EAGGF Guidance and Guarantee section), the draft regulation envisages the creation of only one new fund for Pillar 2: The European Agricultural Fund for Rural Development (EAFRD). Thus, current differences of Guidance and Guarantee section as concerns programming, administration and monitoring will be dispensed, which might lead to a significant ease of administrative tasks (Grajewski 2004). The financial endowment foresees for EAFRD 56 billion Euro corresponding to the current 'Guarantee' section, 33 billion Euro from the existing 'Guidance' section and 7 billion Euro transfers deriving from the modulation system. At constant 2004 prices, this would result in total EU funding for rural development for the period 2007 to 2013 of 96 billion Euro (European Commission, 2004b). EU co-financing rates would be at axis level, with a minimum of 20 % and a maximum of 50% (75% in 'convergence regions'). For axis 2 and the Leader axis the maximum rate would be 55% (80% in convergence regions), expressing the EU priority attached to these axes. For the outermost regions the maximum co-financing rates are increased by 5 points.

The role of monitoring and evaluation is strengthened in this draft regulation for rural development policies. According to the regulation proposal, monitoring committees

become mandatory and should include social and economic partners as well as environmental and non-governmental organisations. The evaluation procedure is suggested to move from evaluation phases to an ongoing evaluation approach. The idea of an ongoing evaluation procedure is criticised in Grajewski (2004) to be of low information gain and would prefer to keep the current approach considering an improved adoption of monitoring and evaluation processes.

The timetable for the programming steps foresees that discussion on EU and national strategies should be completed in 2005. National and regional programme preparation and approval is scheduled for 2006 so that the programme could be implemented in 2007.

5 Governance and EU Rural Development Policy

The following literature review aims to reflect the current scientific debate on governance in the EU rural development policy. Focussing on Council Regulation No (EC) 1257/1999 and the LEADER initiatives, we are particularly interested in i) how the competences and responsibilities are allocated on EU, national and regional levels and the corresponding problem areas, and ii) the way EU rural development policy is implemented.

According to Berger (2002), there exists a strong interrelationship between the concept of governance and environmental policy paradigms, such as sustainable development and ecological modernisation: "It is often argued in these theoretical paradigms that successful environmental improvements can only be achieved when all societal actors – also comprising citizens – are included in the implementation process and that this implementation should be carried out at the appropriate level (e.g. Sustainable Regional Development, Local Agenda 21)" (Berger 2002).

Over the last couple of years, regions – as a spatial and also administrative entity – became ever more important in the context of the environmental sustainable development debate. This is the case mainly for two reasons. First, in a multi-level system of government, regions are in a closer proximity to the citizens. Thus, regions play a prominent role especially for the practical implementation of sustainability policies (Gabriel 2000). Second, regions are an important natural entity. In environmental terms, it may make more sense to refer to regional spaces than localities regarding resource consumption, productions of waste, biological habitat types or river catchments (Selman 1996).

Referring to the concept of governance is important as it is one of the strategic priorities of the EC for how to carry out policy-making within the EU, and thus also structures ways towards sustainable regional development. Several recent EU policy documents like the White Paper on "European Governance highlight greater inclusion, participation and multi-level government involvement, largely excluding the acknowledgement of the power relations within policy-making. Berger (2002) stresses that ..."only emphasising participation and inclusion without outlining clear decision-making procedures and framework of rules can bring forward informality and lost transparency which then can create hidden places of power and influence". He concludes that regional policy-

making in the EU cannot be interpreted as multi-level government involvement. The EU level and the Member States primarily influence the decision-making process of policy formulation. The regional and local levels on the other side are participating, especially at the implementation stage, however, their influence remains weak and unstructured. Thus, at the utmost one can speak of multi-level participation (Berger 2002).

The question of centralisation and decentralisation of powers and competences in the EU has been debated since the EU exists. The AGENDA 2000 is seen as a major governance reform in the Common Agricultural Policy (CAP) in the direction of decentralisation. Member States make choices in the common market organisations on differentiated additional payments, regional differentiations of direct aids and environmental protection requirements and aid modulations. Within a broad Community rural development framework, Member States develop programmes and define eligibility conditions at national or regional level. Certain legislative competencies, in particular those, which are related to civil law (e.g. inheritance, purchase of farmland, property law), taxation, and social security remain on national and regional levels. Besides new centralisation elements in CAP reform this is another important aspect of the state of decentralisation in agriculture (White Paper Working Group 3b, 2001).

Böhm-Amtmann (2001) sees the guiding principle and aim of Europe's development of governance structures to be a complex system of reciprocal checks and balances that, internally, loses none of its clear formal legal relations and neither blurs nor eliminates competencies. But reality looks different. The main problems are identified as follows (Pluckel, 2001; Tiveus, 2001):

- Inefficient information streams to regional/local level
- Hierarchical and formalised ties
- Regional diversity is not reflected in the legislation
- The re-invention of the wheel

Possibilities for improving the situation are mainly seen in a better involvement of the regions in EU legislation making and in providing feedback to EU level on the implementation of the legislations. The exchange of information in general shall be improved and e-governance could play an important role. Especially the role of the pan-European network of regional and municipal environmental protection agencies (EUR-RESPAS)¹ could be an important one (Pluckel, 2001).

Giving unilaterally more competences to actors in the regions can also violate the subsidiarity principle if this does not correspond with higher financial responsibilities. Rudloff (2002) describes the implementation of the subsidiarity principle in German agri-environmental policy. For her, the Concept of Fiscal Federalism offers a normative framework to evaluate the existing allocation of competences. In European agricultural policy a changed competence allocation is required, particularly in the field of agri-environmental measures (Rudloff, 2002). The optimal degree of centralisation is reached when the sum of centralisation-costs and decentralisation-costs reaches its minimum. Decentralisation costs can be the special dispersion of external effects or the non-usage of economies of scale and scope. While examples for centralisation costs

¹ WWW.EURRESPAS.NET, 11.10.2004

are preference- and information costs or loss of efficiency through low competition for innovations (Urfei, 1999).

There are different types of responsibilities or competencies to distinguish: Decision competency, implementation competency, and financial competency. The latter one may be split up further to competence of revenues and competence of expenditure. The optimal allocation of these competencies among different levels of administration depends on the concrete issue. The principle of fiscal equivalence (Olson, 1969) says the group of decision-makers, users, and the financiers have to match for reaching the optimal degree of centralisation. Applying this principle to EU agri-environmental policy, it becomes obvious that the high financial competences (50-75 %) on EU level are not reflected in decision-making competences. The Member States reasonably influence agri-environmental policy but their financial responsibility are quite low (0-50 %). Referring to the German situation, the sub-national level (Länder) only contributes to 20 % of the cost of agri-environmental policy, but has major decision-making competencies (Rudloff, 2002). The consequence of strictly implementing the Concept of Fiscal Federalism, would mean to allocate more financial competences and responsibilities to the sub-national and regional level. However, according to circumstances, this would imply a greater allocation of revenue competences, too.

The change in governance requires a great effort. Main problems are according to Delgado and Ramos (2002) i) rejection by administration, ii) the tendency of local governments to control processes, iii) the difficulties in establishing equal partnerships, iv) the risk of overestimating capacities and competencies at local level, v) the need to redistribute power when new actors come into play and vi) the difficulties involved in establishing the legal status, legitimacy and representativeness of the horizontal partnership vis-à-vis the various official bodies.

Arzt et al. (2002) outline several problems perceived by the local actors: low flexibility of agri-environmental measures regarding regional and local characteristics, insufficient feedback-mechanisms. This results in an dissatisfactory involvement of the local actors (Müller et al., 2002). Three institutional options were discussed to address the above-mentioned problems: Agri-environmental forums, environmental co-operations, and rewarding of environmental performance. All options proved to be viable in general with agri-environmental forums being best for laying down environmental aims and measures appropriately for the region and environmental co-operations being appropriate for common implementation of measures. The approach of rewarding environmental performance is feasible generally, however, difficult to get across to farmers (Arzt et al., 2002). Eckerberg and Wide (2000) stress that the environmental and cultural diversity of regions need to be taken into account by programming of rural development programmes. Hodge (2001) adds that a wider framework of rural development that includes a variety of alternative linkage mechanisms between the demand for countryside goods and the control of land is required to further develop rural development policy in Europe. While agriculture had the clear priority of domestic production of food in the decades after the second world war, e.g. in the case of Sweden, the contribution of agriculture production to income generation is very small while forestry, fisheries, reindeer husbandry, tourism, mining, hydropower and various kinds of small enterprises are more crucial to the survival of rural economies (Eckerberg and Wide 2000). Therefore the role of agriculture is mainly to provide locally and ecologically produced food, preserve biodiversity and the rural landscape. Rural development needs to ad-

dress also other actors than farmers which is so far neglected in the 2000-2006 period. Programmes addressing specific sectors have to be replaced by more general approaches, in order to acknowledge the complexity of rural development. Agri-environmental policy signals a start, but there are a number of limitations to this approach. The single Model of European Agriculture cannot deliver the variety of environmental characteristics that is sought (Eckerberg and Wide 2000, Hodge 2001).

Hampicke et al., (2004) analysed whether a stricter application of the subsidiarity principle leads to less transaction costs and to a more efficient achievement of environmental aims. An efficient agri-environmental policy requires the development and application of regional models, bringing together various environmental goals to a sound overall concept. Also Hodge (2001) suggests countryside specific models to be developed with a new approach of governance. As decentralised competences (e.g. on regional level) can cover regional sensibilities easier, it is suggested to establish environmental committees on a local level, which should be involved in target definition and in the decision phase. The implementing organisations have to be selected carefully, since the way implementation is of crucial importance for the success of the environmental measure (Hampicke et al., 2004).

Lately et al. (2004) analyse the implementation costs as part of the transaction costs of the CAP. Transaction costs are split up into Initial and final costs, implementation costs and participation costs. The low availability of data and poorly conceived data collection methods make it difficult to evaluate and compare transaction costs of several policy measures. However, even without full knowledge of transaction costs, policy makers can take several steps to lower the transaction costs in the design, implementation and control phase. An important point is to be specific about policy objectives and to monitor achievements. Implementation costs are mostly relevant on regional and local level most, since the competence of a regional and local level of a multi-level Europe is the implementation of national and EU legislation (Pluckel, 2001).

Osterburg et al. (2003) analyse the effects of the mid-term-review decisions on rural development in Germany. From the point of governance, they conclude that administrative efforts will increase along with an expansion of the agri-environmental measures. A reduction of this administrative effort can be achieved by harmonising the cross-compliance obligations with the good agricultural practice. Moreover, the control system and fines have to be harmonised in order to avoid two different schemes running parallel in order to lower transaction costs.

Osterburg and Stratmann (2002), however, remind of the role of agri-environmental policy to be a green box measure. It has an important role in rebuilding the CAP to provide a WTO conform option to support the European farmers. A more efficient allocation of competencies is therefore unlikely.

Both, the Council Regulation (EC) No 1257/1999 and the LEADER+ programs are evaluated at mid-term as well as ex-post. The mid-term-evaluation process of the rural development programmes come to following conclusions with regard to the implementation and the delivery mechanism:

- Networking and exchange of good practice, both nationally and cross-border, clearly increase the effectiveness of programmes. This should be supported both at EU and national level, starting already at programming stage. Promotion of measures and guidance for potential applicants also need to be improved

- Funding provisions and implementation rules should be simplified. Particularly, different rules for the different funds have to be avoided in future.
- The European Commission must give clear guidance for monitoring and evaluation requirements in Member States already at programming stage. The monitoring and evaluation systems should be better adapted to each other.

The LEADER initiative is seen as a positive and innovative example for an integrated strategy, a bottom-up concept and partnership (Committee of Regions 2001; White Paper Working Group 3b 2001). According to a survey in the scope of the ex-post evaluation of the governance approach of the LEADER II, the area-based strategy, the bottom-up approach, and partnership were the most “popular” features among local actors while the issues of multi-sectoral integration and of networking were seen as “advanced” but not but less “popular” (ÖIR 2003). Rural development policy should, thus, emphasise the LEADER approach and similar activities more strongly (Eckerberg and Wide 2000). According to Shortall (2004), the excellent evaluation results of the bottom-up approaches are first of all due to superficial analysis of economic development. Secondly, there is not much known about the local partnerships and how they work in practice. Often these partnerships lack know-how. This is supported by Lukesch (2000) who found apparently fragile partnerships and the accumulation of diverse procedures to be major weaknesses. Thirdly, the question for power and representation and democratic legitimacy has to be raised. The locally quite powerful actors have no democratic legitimation and often the same people are members of many partnerships (Shortall 2004). Apart from “bottom-up concept” the notion of “integrated rural development” was increasingly advocated in EU policy lately (Thomson & Psaltopoulos, 2004).

Hofreither (2002) concludes in his evaluation of the European Structural Policy, with LEADER being one of four initiatives that partly conversely acting expenses of the different funding sources, a number of inconsistencies in instructions for planning, implementation and evaluation of regional measures, sluggish and incompatible administrative channels and European and national level to be the most important weaknesses. Furthermore, coordination problems of the numerous actors on different levels and the complexity in regulations, resulting in low adsorption rates of allotted funds. As a favourable step for more efficiency he sees the reduction of objectives in regional policy in 2000 for more targeted subsidies (Hofreither 2002).

Due to tremendous contradictions within the CAP and despite the current agricultural reforms, current rural development policies still support integrated roles and multifunctional agriculture insufficiently (Sotte 2002). According to Arzeni (2002), policy-makers have not paid enough attention to the entrepreneurial model as a consequence of the new multifunctional role of agriculture. Furthermore, the issue of food quality is lacking so far in the current rural development programmes and should be connected to multifunctional agriculture (Arzeni 2002). The explicit recognition of rural development in the second pillar could comprise just a strategic position linked to the new concept of multifunctionality. Delgado and Ramos (2002) however, argue, that from a qualitative point of view, the second pillar represents an important step forward which has been taken despite the contrasting interests of lobby groups.

6 Conclusions

Rural development policy is subject to a rapid change. Three years after the fundamental reforms of AGENDA 2000, the mid-term review brought in new facets. Currently, the new programming phase, starting in 2007, is already debated. The Salzburg Conference on Rural Development in November 2003 and the mid-term reviews of Council Regulation (EC) No 1257/1999 significantly influenced the shape of the new policy. The improvement of governance structures received more attention than ever.

The issue of governance for multifunctionality of agriculture in Europe is subdivided into two issues. Firstly, to the issue competence allocation on the different policy levels and secondly, how implementation patterns in the different Member States and regions look like.

The allocation of financial competences is far from being effective. According to the Concept of Fiscal Federalism, financial competences have to comply with decision making and implementation competences. While the major decision making and implementation competence lies in the Member States and regions, financial competence is mainly allocated on EU level. Also, the different community funding shares for objective 1 and 2 regions enhance the structural complexity. The high funding share of the European level even increased after the mid-term review changes from 50 to 60 % in objective 2 regions and from 75 to even 85 % in objective 1 regions, indicating that the Concept of Fiscal Federalism is widely ignored in rural development policy.

The fact that the funding sources are split-up even for the measures of a single regulation (Council Regulation (EC) No 1257/1999) makes the Community funding intransparent. This stems from the pre-AGENDA 2000 period when the rural development policy, currently compiled under Council Regulation (EC) No 1257/1999, was subject of different regulations.

The allocation of competences on different levels entails problems in communication, especially from higher levels to the regional and local level. However, this issue was not addressed in the CAP reform process. A step towards more competences in the regions would be the proposed decision making by committees on local level. This would also enforce the integration of rural development policy to other sectors than the agricultural sector only. The current mainstream policy structure of Council Regulation (EC) No 1257/1999, however, does not allow such models to be implemented. Only the LEADER concept, with a financial share of only 4 % of the total rural development budget, addresses this approach, which is both integrated and of bottom-up-type.

The LEADER initiatives received a lot of public attention. Obviously, the positive feedback from participating organisations and stakeholders contributed to that. But also negative votes, doubting the depth of the evaluation, the democratic legitimacy and the potential social inequality have to be taken serious. Sometimes it seems that the Commission is putting all its effort for improving the governance concept into the LEADER approach, instead of generally reforming rural development policy. It is at least questionable if the LEADER approach does exclude certain classes of population since most of the LEADER actors belong to the highly educated, wealthy middle class.

One might also doubt if the new buzzword “integrated bottom-up approach” can solve the budgetary problem that European policies have in common: Recently the six net-

payer nations in the EU announced to limit their financial contribution to the EU budget to 1 % of their own budgets. In times of tight budgets and increasing number of Member States, the rural development policy has to improve its efficiency and effectiveness, anyway. Although the features efficiency and effectiveness are difficult to measure, the mid-term and ex-post evaluations of previous programmes attested LEADER to be both effective and efficient in a plausible way.

As shown in this report, the European rural development policy tries to manage the contradiction between modern governance concepts as regional self-determination and bottom-up approaches on the one hand and asserting a common agricultural policy on the other hand. This contradiction is even increasing with an enlarged and further enlarging European Union. It is clear that a common policy like the CAP has to be implemented in all Member States according to the same principles. But is it really possible to apply the same principles in countries with fundamental economic, social, and cultural differences? How can these principles be enforced in whole Europe and the regional scope be increased at the same time?

The north-south gradient regarding implementation of agri-environmental policy in Member States and regions was already perceived before the AGENDA 2000 and is still persistent. It is likely that the currently even stronger west-east gradient will last for the next decades as well. As a consequence, the expectations to what rural development policy can perform in terms of harmonising the conditions in the Member States should be moderate. Serious signs of governance problems like corruption and fraud indicate that the EU rural development policy is currently imposed by Brussels, but not taken up seriously.

The proposed reform of rural development policy for the next programming period 2007-2013 at least address some of the revealed governance problems. Contrarily to the current rural development programme, consultation of regional and local actors in a partnership approach is explicitly foreseen. An important step is to regroup the measures under a single funding instrument and thus to harmonise and standardize programming, administration, monitoring and evaluation. The suggested draft regulation makes another attempt to a more clearer objective setting in an EU strategy. However, again, the proposal lacks a clear target setting to multifunctional goals. The integration of LEADER as the fourth axis will thematically cover the three implementation axis, and thus be better integrated in the whole rural development policy. Its minimum funding share of 7 % means a significant increase and thus strengthens this approach in EU rural development policy. But the critical question is whether the local actors will be ready to absorb this money and use it efficiently for the development of the rural areas in Europe. Dideren et al. (1998) argue that after a period of increasing authority of the Commission, Europe has entered a period of mounting resistance against further loss of sovereignty to Brussels. As an example, the nitrate directive as a core element of environmental protection policy is years behind schedule in all Member States. In the North and West of Europe agriculture has become more soil and capital intensive, while particularly but not exclusively in the South and East remains a sector of central interest within the national economy.

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