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THESIS

BASIC STUDY ON THE FINANCING OF AN INTEGRATED RURAL DEVELOPMENT IN
GERMANY (SHOWN ON THE STATE OF BAVARIA)

SUMMARY

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II. INTRODUCTION

The doctorate thesis entitled **BASIC STUDY ON THE FINANCING OF AN INTEGRATED RURAL DEVELOPMENT IN GERMANY (SHOWN ON THE STATE OF BAVARIA)** directed by the academic supervisor Prof. Univ. Dr. Elena Drăgoescu, analyzes in the research and dissertation phase, a topic which is generally of great interest to the financial theory and practice of a developing country. This subject plays an important role for Germany.

The process of integration of a country into the European Union has to follow impartial economic rules, which requires a continuous improvement of governance in various aspects. They also are meant to ensure the development of local communities and rural areas respectively. The development of rural areas is hence secured in terms of the overall development of the nation, through the delegation of public tasks to the agency, which is closest to the people. In general the economic and social development in the European Union is operated as a multidimensional and multidisciplinary process, which is meant to bring about great changes in social structures and decision making processes, as well as regarding society and national and local agencies. Ultimately these changes should result in easing inequalities in incomes. Moreover reduction or even extinction of unemployment on the European level as well as on national level is expected.

In Germany the integrated rural development process was intensified by administrative and territorial decentralization processes. The strategic goal, noticed by the author, is the promotion of a different perception of rural areas. Solidarity and membership of the same community are emphasized, whereas all mechanisms of dissociation are rejected as dangers to the overall development of society. According to the author, the requirements of the European Union are thereby achieved or rather the priorities of developing local communities and regions are part of national priorities concerning successful operation of free market economies. At the same time the requirements from an intensive integration program to common European structures are met. In this regard the **thesis' extraordinary focus** on the current topic of rural development or regionalization in combination with the analysis of a financially integrated approach to provide for this development shall be pointed out.

The author's thesis "Basic study on the financing of an integrated rural development in Germany – shown on the state of Bavaria" therefore deals with a current topic, with multiple practical relevancies in terms of economics as well as regarding economic-financial research.

It is moreover important to note the complexity of the case study, which is part of this thesis. Various theoretical and practical problems regarding financing and development in general as well as integrated rural development in particular were analyzed by the author. All issues are characterized by certain distinguishing features. This is reflected in the logical and clear structure of the thesis.

The author particularly intends to facilitate comprehensibility of the topic by drawing conclusions and sharing personal evaluations throughout the whole thesis.

The attention of specialists on financial theory and practice as well as persons involved in economic improvement in general or integrated rural development processes in particular, is appreciated by the author. Moreover in the author's opinion, the entire development of a country is inconceivable without the proper development of rural areas and its financing. Therefore with the realization of the study, the author focuses on the example of Bavaria, which maintains important traditional relationships with all other states. The conclusions of this study will provide a global overview on Germany.

Budgeting is one of the crucial tools of a state, with impacts on economic and social policies on central and local level. In Germany this task is fulfilled by the federal budget as well as state budgets and municipal budgets. The budgets reflect the structural local public finances or financial resources and the tasks of the public sector. The local budgets moreover constitute their annual and perennial correlation tools. This study on the financing of an integrated rural development in Germany – shown on the state of Bavaria – displays the relationship between regional or local financing needs for integrated rural development and the subsidies from the national and state government and the European Union.

Realization of the mentioned correlation on state level requires that the regional and local authorities in Germany are autonomous. This local self-government was ensured by territorial decentralization processes and guarantees of financial independence. All of these need theoretical and practical presentation regarding integrated rural development and its financing mechanisms.

III. REASONS FOR CHOOSING THE TOPIC

The goal of this PhD research is to explore the situation in rural areas of Germany, specifically to present the financing needs of integrated rural development, as well as the available current financing resources in Germany and their present use. The author's intention is to emphasize on this basis the best opportunities for improvement in this area. Gathering extensive knowledge on the subject, the author is able to emphasize the already achieved outputs and distinguish possible improvements in rural development, especially in Bavaria. This approach takes into consideration that such goals need strong affirmation on macroeconomic level, which influences the state level and requires certain decisions on microeconomic level.

With the chosen topic the author faced the challenge to elaborate on the coherence between problems of integration and shortcomings on local and regional level.

The decision to work on a “Basic study on the financing of an integrated rural development in Germany – shown on the state of Bavaria” seems a natural step as integrated rural development and its financing is a current topic. Attention and interest of various people possibly concerned, is appreciated by the author.

IV. RESEARCH METHODOLOGY

Originally, a research plan on integrated rural development in Germany was created with assistance of the scientific coordinator, which included: the purpose, the specific objectives and the strategy of research to achieve this project as well as the basis to identify possibilities for improvement. To this end, specific procedures were used for the analysis (observation, comparison), as well as specific methods for the synthesis (classification and clustering).

The results of the research carried through the specified procedures are included in numerous graphs and tables presented in this thesis. The data have made it possible to perform a variety of simple or complex analyzes related to the financial situation of the integrated rural development in Germany as well as the overall production or structure used on national or European level.

The practical implementation of the research plan commenced with compiling information about this field. In this sense, the *documentary* drew an absolutely necessary step and it addresses various forms, like: bibliographic documentation, site documentation as well as interviews with experts in the field.

The *bibliographic* documentation required to achieve a PhD was developed from the literature on public finance, rural and economic development. It takes into account both the national and the European context, and includes: books, courses, studies and news articles.

The bibliographic documentation was supplemented with *direct documentation* units (including research) in economic, social, administrative authorities, because a number of factors indicate that the bibliographical documentation does not provide a complete picture of the progress of research on the topic of the dissertation.

A special type of documentation, which proved to be a particularly useful source of information for the thesis, were the *direct talks* with the researchers and other specialists dealing with the problems of integrated rural development and its financing. The results of such direct talks with experts and researchers have often proved to be the primary source of information for conducting the research for this thesis. The specific information on the financing of the integrated development of rural areas in Germany was developed out of various reports from relevant national, regional or local level institu-

tions, as well as by authorities that ensure the effective financing of the development of rural areas.

V. STRUCTURE OF THE PAPER AND THE SYNTHESIS OF THE CHAPTERS

The thesis is divided into five chapters, which aim to provide a logical structure of the topic. All theoretical and practical aspects, which are necessary to understand the scientific approach, shall be covered. Of course this thesis cannot answer all possible questions on the subject. Further research on financing of integrated rural development may be conducted.

The thesis is divided into five Chapters:

- The 1st Chapter deals with the *conceptual basis*, the theoretical basis and practical concepts of *integrated rural development*, as well as their *financing*.
- The 2nd Chapter analyzes the possibility of financing integrated rural development in the Federal Republic of Germany from national resources, viz. from the budget of the Federal Republic of Germany, the Free State of Bavaria and the municipalities.
- The 3rd Chapter analyzes the financing of an integrated rural development of the Federal Republic of Germany from the EU Structural Funds: (1) the European Regional Development Fund (ERDF) and (2) the European Social Fund (ESF).
- The 4th Chapter presents the financing of integrated rural development in Germany from European funds in the Common Agricultural Policy (CAP): (1) the European Agricultural Guarantee Fund (EAGF), (2) the European Agricultural Fund for Rural Development (EAFRD) and (3) the European Fisheries Fund (EFF).
- The final 5th Chapter presents a Case Study, which refers to the financing of a project for integrated rural development in a northern region of Bavaria. After initially describing a specific project of integrated rural development in Bavaria a separate structure and process model is presented for implementing an integrated rural development.

In the following we analyze each chapter separately.

CHAPTER I

The title of the 1st Chapter is **THEORETICAL AND PRACTICAL CONCEPTS BASED ON THE INTEGRATED RURAL DEVELOPMENT (IRD) AND IT'S FUNDING.**

According to the research plan for the thesis and the title of this chapter, it is divided into two diverse fields. The first field refers to the theoretical and practical principles in relation to integrated

rural development (IRD). The second field presents the key financing instruments of integrated rural development (IRD).

(1) Among **the foundations of integrated rural development** (IRD), particularly informative items were analyzed in detail (dimensions and conceptual boundaries in terms of the IRD, typology, classification, functions, the need for the IRD, the principles on which it is based, etc.) These items are explained in the next paragraphs.

With regard to the definition of the term "*rural area*" - although this term is used frequently in political circles and in scientific discussions - there is no uniform and binding definition. Therefore, the thesis initially tries to clarify the concept of "*rural area*". According to the current scientific discourse *the rural areas are a heterogeneous special category, which in compliance with the integrative analysis of the structural features appear to be a strongly divergent space type.*¹

The regional categories analyzed by the OECD, differentiate the rural regions based on geographical distances and economic gaps with urban centers and rural areas – these are divided in three categories: (1) *predominantly rural* regions, more than 50% of the population lives in rural communities, (2) *strong rural* regions, 15% to 50% of the population lives in rural communities and (3) *predominantly urban* regions, less than 15% of the population lives in rural communities.²

The syntagma of the "living countryside"³ formulated 15 years ago, distinguishes itself from the rural development through the following five essential characteristics: (1) the integrated policy for sustainable rural development must cover all rural areas, (2) the integrated, cross-sectoral approach must be individually implemented (3) policy instruments must be coordinated for these rural areas and the funds must be used efficient, (4) the administrative procedure must be simple and transparent, and (5) the cooperation of EU institutions with national and regional centers should be improved. Currently, the implementation of these ideas is known by the term "**integrated rural development**" (IRD). This can be defined as a *non-related, cooperative, dynamic and long-term (sustainable) model* for rural development.⁴

¹ cf. Weber, Gerlind: Der ländliche Raum – Mythen und Fakten. in: Ländlicher Raum. Online-Fachzeitung des Bundesministeriums für Land- und Forstwirtschaft, Umwelt und Wasserwirtschaft. 2010. P. 1 – 11, available online under: www.laendlicher-raum.at/article/articleview/81710/1/14404.

² cf. OECD (ed.): Territorial indicators of socio-economic patterns and dynamics, 2002, available online under: www.oecd.org/dataoecd/42/16/15181756.doc.

³ cf. European Commission, Directorate-General for Agriculture and Rural Development (ed.): A living countryside – Europe's rural areas in 2000: or an integrated policy in the sustainable development of the countryside, 1997a, available online under: <http://ec.europa.eu/agriculture/rur/leader2/rural-de/biblio/cork/art02.htm>.

European Commission, Directorate-General for Agriculture and Rural Development (ed.): A living countryside – 6 Workshops with one purpose, 1997b, available online under: <http://ec.europa.eu/agriculture/rur/leader2/rural-de/biblio/cork/art04.htm>.

⁴ cf. BMVEL (ed.): Rural development designed actively – guidelines for Integrated Rural Development, 2005, Bonn, P. 8, available online under: www.bfn.de/fileadmin/IDN/documents/Downloads/Leitfaden_Integrierte_Laendliche_Entwicklung.pdf.

The objectives of integrated rural development established at European level, are the following three: improving the competitiveness of the agricultural sector, (2) improving the environment and (3) improving the quality of life in rural areas and encouraging diversification of economic activity in rural areas. The state of Bavaria also assumes these objectives in its future programs for the development of rural areas and will also seek to link the actions of the LEADER–approach (frz. Liaison entre actions de développement de l'économie rurale, en. connections between actions for the development of the rural economy).

At national level the goals of rural development are covering the same principles with the European targets. In addition, a further objective was defined, namely the improvement of education.

In the author's opinion the term integrated rural development can be applied, if the following *three principles* are met: *(1) regionalism, (2) participation of stakeholders, and (3) compliance with the principles of sustainability.*

In the context of this paper, it is assumed that **regionalization** and **spatial development** are the result of social processes. The author doubts that, in terms of system theory, regionalization can be technical "produced". Compared to the prevailing top-down planning approach that emphasizes the bottom-up approach, the IRD is oriented on the "bottom-up" approach and it emphasizes the importance and decision-making skills of rural actors.

After a thorough interpretation of the *concept of sustainability*, the author opts for an approach that is characterized primarily by equity and long-term strategic actions in politics and administration.

The need for an integrated rural development - another provided problem - is grounded in the present study with two arguments: (1) the already ongoing and even intensifying demographic change, and (2) the performance deficits of the public administrations.

In all methodological problems that are facing such long-term forecasts, there are three basic tendencies in Germany, with regard to the demographic development which are to be taken seriously, namely: (1) the population will decrease, (2) the average age of the population will increase sharply and (3) the proportion of people with migration background will rise strongly.

Unlike most other federal states of Germany, Bavaria has a strong immigration movement - also registered in other states of the federation. Therefore in **Bavaria**⁵, there will be long-term population decline, which can already be observed in other eastern states. Within Bavaria there is regionally

⁵ cf. Wilke, Ch.: the economic implications of demographic change for urban development in, contribution to the special session of the BayFAR assembly for the Bavarian Ministry of State for Labour and Social Affairs, 22.03.2006, Mannheim Research Institute for the Economics of Aging (MEA) (ed.), 2006, available online under: www.mea.uni-mannheim.de/uploads/user_mea_discussionpapers/h9ygu3i8pfz3mvat_106-2006.pdf.

expected a strong population growth until 2020, in the prosperous economic zone of Munich – Ingolstadt, Nuremberg / Erlangen, as well as in areas with high residential and recreational value in the south of Bavaria, while northern Bavaria will suffer a significant population decline. Demographic changes in population structure leads to a number of socio-economic consequences. As a result of demographic change, changes occur in terms of land use, housing markets, the mobility behavior of people and technical and social infrastructure in local communities. Given the scale of these challenges the *integrated rural development* is, in view of the current and expected socio-demographic processes, *necessary*.

The attitude, both in politics, national and local governments, has changed dramatically over the past 30 years in Germany. Instead, current policy makes a comprehensive transition from a welfare state to a performance-oriented society, based on self-responsibility and subsidiarity. Politics and administration are under pressure because of organizational structures. Work processes are considered inefficient and largely ineffective. In addition, many communities are deeply in debt, interest burdens are increasing, and the increasing welfare causes an economic crisis for many municipalities. An action which is intended to counteract with a concept, characterized by decentralization, (partial) privatization and modernization of basic processes within the administration. In comparison to the anglo-american term New Public Management (NPM), for this concept the term of "Neues Steuerungsmodell" (NSM) is already well spread in Germany.⁶

Since the late 1990s a different approach to political and administrative reform is emerging, without abandoning the new management methods: (Good Governance). To the term Good Governance, which was translated into German by the European Commission as "good governance", was attributed the normative level and complementary it was characterized by five principles: openness, participation, accountability, effectiveness and coherence.

At first, Good Governance can be described by: (1) commitment to the principles of government policy and regulations, such as the rule of law, justice, reliability and credibility, (2) political and administrative actions in accordance with the principles of economic efficiency and effectiveness, based on a strategic vision (New Public Management) and (3) realization of citizen participation, the transparent functioning and seeking a consensus with all of the participants.⁷

From a second institutional point of view, Good Governance is characterized by three features: (1) on the regional political level of decision-making, Good Governance is organizing its own

⁶ cf. Thom, N., Ritz, A.: Public Management – Innovative Konzepte zur Führung im öffentlichen Sektor, 2006, Gabler, Wiesbaden. Schedler, K.; Proeller, I.: New Public Management, 4th. edition, 2009, UTB, Stuttgart.

⁷ cf. Magel, H., Franke, S.: Good Governance in der ländlichen Entwicklung – Ein neues Paradigma oder alter Wein in neuen Schläuchen?, in: Land & Raum, No. 4/2007, P. 4-7.

orientation, (2) the prevailing forms of organization are regional networks and partnerships, the operation is mainly intersectoral, which means that private-economic, public and non-governmental organizations work together and (3) financial incentives are stimulating the finance and competition and evaluation provide some control over the effectiveness of a couple of actions.⁸

An important *interim conclusion* of Chapter I, recorded by the author, is finding a match between the principles of integrated rural development and the concept of Good Governance. The author is convinced that the link provided between the two approaches will gain in importance in the political discourse and thus rural practice.

(2) In the second part of the 1st Chapter, there are highlighted the *essential elements to lay the foundations of an IRD*. The author started, of course with the **funding** presentations, which assures **financial support for operations, institutions, works etc.** The scientific discourse continues with the identification of the origin of financial resources of IRD, defining in this regard, two main categories of resources that are briefly characterized in the thesis, namely the **national funding resources, presented in Chapter II** and the European **financial resources**, more closely described in **Chapters III and IV of the thesis**.

In addition to the financial support received from the European Union and the Federal funds, the IRD-Fund is secured by the State of Bavaria (within the Improvement of Agricultural Structures and Coastal protection). On the basis of the administrative arrangements the financial support is regularly provided as project funding in form of a grant providing part-funding.

Due to its federal structure, the Federal Republic of Germany has a decentralized financial system. Therefore, the revenue streams and **expenditure flows** are at three levels - federal government, state governments, and local authorities - with separate administrations and financial transfers, both are between the three levels and between local authorities.

The resources of the IRD Fund are being planned and evaluated within the public funding of the federal government, state governments and local authorities.

The Directorate-General for Agriculture and Rural Development of the European Commission launched in April 2011 the future rural development policy of the EU with the current EU strategy "Europe 2020". This strategy was chosen in June 17, 2010 by the European Council as successor to the Lisbon strategy. This interesting idea of the author - to discuss rural development in the context of "Europe 2020" - will not be pursued in this thesis; however, it can serve at this point as a link to the scientific discourse.

⁸ cf. Böcher, M. et al.: Regional Governance und integrierte ländliche Entwicklung, in: Böcher, M. et al. (ed.): Regional Governance und integrierte ländliche Entwicklung – Ergebnisse der Begleitforschung zum Modell- und Demonstrationsvorhaben „Regionen Aktiv“, 2008, VS Verlag für Sozialwissenschaften, Wiesbaden.

Summarizing the facts presented in this first chapter we consider it necessary to emphasize at the end, its main conclusions and opinions expressed by the author:

Conclusions

- a) There is no single, universally accepted definition for rural areas.
- b) The categories were developed by the OECD; these rural regions are differentiated on the basis of geographical distances and economic gaps in three categories: predominantly rural regions, strong rural regions and predominantly urban regions.
- c) The concept of integrated rural development (IRD) is the technical concept of "living countryside" that was formulated about 15 years ago.
- d) The objectives of integrated rural development were set at European level and then taken over and completed on German national level and also at regional level (see Bavaria).

Personal opinion

a) In the absence of a universally accepted definition of integrated rural area, the author feels strongly that it can be defined as a heterogeneous space that presents itself in an integrative contemplation of the structural features as widely divergent types of space. The Integrated Rural Development (IRD) can be defined as a territorial, cooperative, dynamic and long-term (sustainable) model.

b) An agreement exists between the principles of integrated rural development (IRD) and the concept of Good Governance, which makes it, according to the author's opinion, given the connection between the two approaches, to gain importance in political discourses on rural areas.

c) Based on the idea that regionalism and regional development are the result of social processes, the author doubts from the perspective of system theory that regionalism can be technical "produced". Compared to the prevailing top-down planning approach, the integrated rural development is oriented on the "bottom up" approach and emphasizes the importance and the decision-making skills of rural actors.

The **personal contributions** from the first chapter are based on the fact that through the presentation and clarification of the theoretical and practical principles of IRD funding, a basis is created for proper understanding of the entire content of the work. Both the financing of the development process in rural areas and the integrated nature of this process, are summarized and clarified uniformly in this chapter, as in the following chapters the different funding sources for this process are analyzed. Thereby in the one hand the used financing terms are defined and on the other hand frequent interruptions in the flow of argument are avoided, that would be necessary for to define such terms.

CHAPTER II

The title of the 2nd Chapter **FUNDING OF INTEGRATED RURAL DEVELOPMENT (IRD) FROM NATIONAL RESOURCES** is based on the analysis of the existing problems of national resources used to finance integrated rural development in Germany. According to the outline of the thesis, this chapter presents the origins of national financial resources of the IRD in Germany (Resources of DG Budget, resources of the Bavarian State and the resources of local budgets). The resources mentioned above are then presented in detail, in particular the specific goal, the amount of resources provided and the results achieved by funding the integrated rural development in Germany are highlighted.

(1) First, we analyze **the origin of financial resources taking into account the three components of the Federal Republic of Germany.**

The following categories are included in the financial resources of the Federal Republic of Germany: (1) tax revenues (2) net borrowing and (3) other incomes (e.g. share of profit of the German Central Bank (Deutsche Bundesbank)).

The resource volume of the Bavarian State, which stands as an example for the federal state level can be substantially condensed to five types of income: (1) their own taxes and fees, (2) administrative income, income from debt service, (3) revenue for the current purposes (especially from the federal government), (4) grants and subsidies for investment, and special financing receipts (excluding borrowings on the capital market) and (5) (net) borrowing on the capital market. The resources revenues for rural development are included in the budget under the Bavarian Joint task "Improvement of Agricultural Structures and Coastal Protection", under the section for division of the Bavarian State Ministry for Food, Agriculture and Forestry. These funds are grants and benefits awarded under the Law on the Joint Task for the "Improvement of Agricultural Structures and Coastal Protection".

Article 62 of the Bavarian Municipal Code (Bayerische Gemeindeordnung - GO) requires a certain order of precedence while raising revenues from the municipalities: first there are other incomes, for example from property sales or rental and leasing, but in everyday practice this are of secondary importance. Second, only the fees may be levied for special services in form of contributions and received fees. The most important source of revenue for the communities are ultimately the revenues from the business tax, property tax, the share of income tax revenue (15%), the share of sales tax revenue (2.2%) and the emergence of the local consumption and expenditure taxes, although they appear third in order of priority.

The second most important resource is the relatively complex system of municipal finance committee. According to article 11 of the Bavarian Constitution (BC) and the rights of municipalities to manage their own affairs, the State of Bavaria is required to ensure, under its own power, the financial viability of their own communities.

(2) **The funding of IRD from the budget of the Federal Republic of Germany** plays the central role in this chapter, because of these three key components: a) the funding of an IRD under "*Joint Scheme for the Improvement of Agricultural Structure and Coastal Protection*" b) the funding of IRD under the "*National Strategy Plan*" and c) the funding of IRD under the "*National Framework*". To these three components we make reference below.

a) The "*Joint Scheme Improvement of Agricultural Structures and Coastal Protection*" is the legal basis for the IRD funding. As it is clear from the outline, its focus is on three aspects: (1) the legal basis, (2) the objective of financing and (3) a general overview of the funding volume and the funding process. All these aspects are analyzed separately.

The rural development funding from the Federal Republic is performed, as mentioned above, under the legal basis of the Joint Scheme for the Improvement of Agricultural Structures and Coastal Protection (GAKG). According to this law, the agricultural policy is actually under the jurisdiction of the country and it must carry out its own financing. This system would lead Germany to great disparities in the promotion of agricultural structures, because individually, the countries have different funds and different ideas and also different objectives in agricultural policy. The diverging interests of other municipalities could contradict with the constitutional entitlement to equal or at least equivalent living conditions in Germany (Article 72 and Article 106 GG). Therefore, it was decided within the fundamental law, that the common agricultural policy should be a joint responsibility between the federal government and the states. The aim of the GAKG is to ensure future requirements aimed in agriculture and forestry. Therefore there should be formed spatial and material focuses. The volume of the GAK is defined in a joint planning process involving the federal state and other regions. For GAK the area measures of agricultural and rural development in 2011, achieved a financing volume amounted to approx. € 83 million.

b) The description of the "*National Strategic Plan of the Federal Republic of Germany for rural development 2007 - 2013*"⁹ address the following issues: (1) the concept of the *National Strategic Plan*, (2) its focus, (3) the strength-based analyses within the *National Strategic Plan*, (4) the weak-

⁹ cf. BMELV (ed.): (the national strategic plan of the Federal Republic of Germany for the development of rural areas 2007-2013 as amended on 04.10.2011, available online under: www.bmelv.de/sharedDocs/Downloads/Landwirtschaft/LaendlicheRaeume/Strategiepapier.pdf?__blob=publicationFile.

nesses analysis in the framework of the *National Strategic Plan* and (5) the volume of funding. These problems are analyzed separately below.

The Common Task of Improvement of the Agricultural Structure and Coastal Protection is included in the European context. Under the provisions of the Regulation on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), each Member State needs to develop - in close consultation with the European Commission - the **National Strategy Plan** for rural development. The function of the National Strategic Plan is to act as a link between the strategic guidelines of the EU and individual development programs of each federal state, which sets the national strategic, plan financing arrangements and the necessary equipment.

The strength analysis under the National Strategic Plan points out that Germany accounts to be one of the most important food manufacturing industries of its branch. Among the weaknesses of rural areas, which are listed in the National Strategic Plan, are to be mentioned in particular the environmental pollution (especially climate change and biodiversity loss) and the consequences of demographic changes.

The National Strategic Plan of the Federal Republic of Germany for Rural Development 2007-2013, points out in the revised version of 4 October 2011, that the Health Check for the Rural Development Regulation and the European recovery package are extremely important financial elements.

c) The section on "**National Framework of the Federal Republic of Germany for the development of rural areas**"¹⁰ (1) focuses on the regulation of the National Framework and (2) deals critically with the three-step planning process.

The National Strategic Plan serves as a link between the conditions laid down by the EAFRD Regulation and the subnational development programs. The National Strategic Plan is also established in the joint and national reference framework, Germany has the obligation to obtain approval from the European Commission to implement its National Strategy, by providing the common elements for regional program development. The main focus - according to the national framework - is on harmonization of national regulations, equality between those who receive funding and also concentrating and coordinating the financing funds.

For the funding period of 2007 - 2013 the EU provided a three step planning process: The first stage at the European level is the Rural Development Regulation. At the second stage - as shown above - is the National Strategic Plan. At the lowest, third stage of the three-stage programming ap-

¹⁰ cf. BMELV (ed.): National Framework for the Development of Rural Areas, 7th amendment adopted 28.11.2011, available online under: www.bmelv.de/SharedDocs/Downloads/Landwirtschaft/Foerderung/NationaleRahmenregelungen-ELER.pdf?__blob=publicationFile.

proach of the Rural Development Regulation - at federal state level - is the implementation of national strategy for rural development of the development programs, each comprising a set of measures.

3) The presentation of the **IRD Funds from the resources of the Bavarian State** is divided into following criteria: a) *the Bavarian program for the future agriculture and rural area 2007 - 2013 (BayFAR)*, b) the objectives of BayFAR, c) the IRD funding objectives in Bavaria and finally d) the financing volume from the Bavarian resources.

a) The development program for rural areas in the State of Bavaria is the Bayerisches Zukunftsprogramm Agrarwirtschaft und Ländlicher Raum 2007-2013 (BayFAR –Bavarian rural development program for 2007-2013)¹¹. The EAFRD Regulation provides in addition to the comprehensive LEADER approach, a total of 37 funding measures, each connected to a three-digit code. The National Framework (NLF) explicitly identifies 11 measures that are intended to promote integrated rural development as part of the joint task.

b) BayFAR does not take into consideration all 11 measures sets by the national regulatory framework, which may promote an integrated rural development, but is rather limited to four areas that are related to integrated rural development: (1) land consolidation and infrastructure measures, (2) measures to diversify the rural economy, (3) village renewal and (4) integrated rural development strategy and implementation support. The BayFAR funding targets are divided into four different levels of hierarchy: at the highest level are the EU's objectives followed by top policy issues. The demand-related goals are on third level and individual objectives are at the lowest level of this hierarchical goal system.

c) The objects of funding as part of the IRD under BayFAR are being discussed in great detail within this section. This objects of funding present the mentioned areas of activity related to an IRD, this means (1) the land consolidation, (2) the infrastructure, (3) the creation of alternative income through measures of diversify and (4) the integrated rural development strategies and the monitoring of their implementation.

d) The amount of EAFRD funding allocated to Germany during 2007-2013 will be approx. 8.1 billion euro. Of this approx. 3.2 billion euro are apportioned to the convergence funds and 4.9 billion euro to non-convergence funds, funds which are part of the compulsory modulation and tobacco products. Regarding the distribution of the IRD funds for each federal state, there is a clear reduction established between the new eastern regions and the old western federal states. Bavaria planned for the agriculture and rural areas developing program 2007 - 2013, a financing volume of around 3.5 billion

¹¹ cf. StMELF; StMWIVT (ed.): Bayerisches Zukunftsprogramm Agrarwirtschaft und Ländlicher Raum (BayFAR) 2007 – 2013 financed by the European Agricultural Fund for Rural Development (EAFRD) on the basis of Council Regulation (EC) No. 1698/2005, August 2010, Munich, available online under: www.stmelf.bayern.de/agrarpolitik/programme/eler/24245/linkurl_1.pdf

euro from the EU resources, the federal government and the federal states. Of these, approx. 1.3 billion euros will be apportioned from EU funds, about 1.1 billion euro from the federal government and about 1.2 billion euro from the federal state.

(4) The management concerning the **IRD financing from local communities resources**, provides: a) an overview of the origin (forms) of the local resources to fund an IRD and focus then b) on the two most important fields of IRD: land consolidation and village renewal .

(a) The ideal course of financing a development process in rural areas can be divided into three phases: (1) the initial phase which is characterized by predominant funding from grants, (2) the second stage - transition stage - which is a mixed funding between one's own resources and (3) the third phase of stabilization a self-supporting funding which should be supported from local and possibly regional resources. The membership and promotion fees are in practice relatively frequently encountered as financing models for integrated regional development and management processes. Financing instruments from foundations, donations and sponsoring play a margin role next to the financing of rural development for local resources. Companies in forms of private law and public corporation have little practical relevance. The most common resources to co-finance a rural development with local sources are the registered charitable organization.

(b) In 2005 the financing volume in Bavaria (1) in the area of land consolidation reached around 69.1 million euro and (2) the measures to develop villages reached approx. 106.7 million euro.

The entire content presented in the previous pages of Chapter II, relating the financing of integrated rural development in Germany, provided the author with the opportunity to present a series of conclusions, personal opinions and contributions.

Conclusions

a) Following this overview of the national resources to finance rural development, we must take into account that in the federal system of the Federal Republic of Germany, the budget rules of all three levels (federal, state and local) - following the principle of universality - do not allow explicit allocation of resources to finance certain costs, including the development of rural areas.

b) The conducted research makes one thing very clear: (partly dramatic and chronic) the financial need of the communities is the central problem in financing rural development projects using local resources. The author emphasizes in particular that the share of personal contributions - made by the villagers in village renewal measures - represents a sufficiently large share of whole-project funding. This is indeed about monetary values, as these are expressed in monetary terms, but often it is all about a non-monetary financing.

c) The research group of agricultural and regional development Triesdorf¹² comes to the conclusion in its extant evaluation of the Bavarian program for the future agriculture and rural areas 2007-2013, that the EAFRD Regulation is rigidly limited on three priorities and on the cross sectional functional LEADER and overall it focuses relatively strong on the need of agriculture and forestry. Since the rural areas in Bavaria, are dominated by the development in industry, trade and services, the research group is concerned that a significant proportion of the rural population will not or only insufficiently be reached, by the proposed measures by BayFAR.

Personal opinions

The content of this chapter shows the following views (opinions) that the author stated during its drafting:

(1) The promotion of rural development by the EU is focused unilateral on agriculture and forestry.

(2) The measures proposed in the Bavarian program for future agricultural sector and rural areas are insufficient for a large part of the population.

In the 2nd Chapter, the **personal focus** is on the structure of the three national resources used to finance the IRD, and analyzed according to their origin: resources from the budget of the Federal Republic, state resources in general and especially Bavarian resources and resources from the budgets of local communities. The author draws on each of these resources an extensive analysis with regard to the objectives of integrated development. He also takes a critical look at the way resources are being used and the obvious defects are being rectified. Based on these facts, the possibilities for improving the IRD-funding are being underlined in order to increase the efficiency of the development. In this sense, two aspects that need to be improved are mentioned: (1) the three-step programming process for promotion of rural areas must be regarded from its technologically point of view, as a complex procedure, (2) the author agrees with the opinion expressed in the discourse on the three-step program, namely that the establishment of decision-making levels is contrary to the principle of subsidiarity.¹³

¹² cf. Reserarch Group to support agricultural and regional development in Triesdorf: Ex ante impact assessment of policies affecting land use in Bayern 2007 – 2013, 2006, Triesdorf, S. 12.

¹³ cf. Agricultural policy advisory council of BMELV: developing and extending further policies on rural areas, 2006, available online under: www.bmelv.de/SharedDocs/Standardartikel/Ministerium/Organisation/Beiraete/AgrBeirStellungnahmeLR.html.

CHAPTER III

The 3rd Chapter is entitled FUNDING OF INTERGRATED RURAL DEVELOPMENT (IRD) OF THE EUROPEAN UNION STRUCTURAL FUNDS.

According to the structure of the dissertation, the content and the structure of this chapter is divided in the following sections: (1) elements of integrated rural development in the Federal Republic of Germany from the structural funds of the EU (2) Objectives of IRD funding in the Federal Republic of Germany from the structural funds of the EU and (3) Composition of the EU structural funds to finance the IRD in Germany, this means the European Regional Development Fund (ERDF) and the European Social Fund (ESF). In the following two sections the scientific approach will be enhanced, through the detailing of these two components of European funding: (4) The financing of an IRD in Germany with ERDF funding (objectives, recipients, conditions to maintain funding, barriers, financial volume) and (5) the financing of the IRD in Germany with ESF funding (objectives, receiver, technical mechanism, financial volume).

The contents of this chapter refers to the following two key elements of IRD-funding: (1) support measures to improve the quality of life in rural areas (village renewal) and (2) support measures aimed at skills development and raising awareness of developing and implementing a local development strategy.

In section 3.1., entitled "Elements of integrated rural development (IRD) which allows the financing of IRD in Germany" the author identifies and explains why, for both points mentioned above, a link exists or is possible, in terms of main objectives of national development strategies in rural areas.

At the summit in Gothenburg in 2001, the European Council extended its future strategy around the concept of sustainability and set out economic policy guidelines to ensure economic growth and promotion of structural reforms is achieved, through the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund.

The two funds - ERDF and ESF – aim explicitly to fulfill, the following three main objectives:

(1) The first objective refers to the "convergence" between the EU Member States, namely the Structural Funds ERDF and ESF aim to improve the conditions for economic growth and employment in those Member States and regions that appear to be lagging behind in terms of the development. This objective applies to the areas, where the gross domestic product (GDP) per capita is less than 75% of the average GDP based on the EU-25. In Germany all new member states of the federation are assigned in this first category called: Objective 1.

(2) The second objective is to improve the regional economy, employment and population level. In contextual terms, this second objective aims at strengthening the competitiveness and attractiveness of the areas and promotes employment in those regions. Outside the regions, lagging behind (Objective 1 - "regions") is an economic and social change needed and also a need to predict the changes that will happen with the increasing globalization of markets. In order to achieve an employment the following measures of effect are being used: a) quantitative increase and qualitative improvement of the investment in human capital, b) promotion of innovation and entrepreneurship, c) promotion of the trend towards a knowledge society, d) promotion of the adaptability of workers and employees and e) promotion of inclusive labor markets.

(3) In addition to these two major objectives, a third one (also called INTERREG IV) gained form. This one funds territorial cooperation between partners from different EU regions. Unlike INTERREG III, INTERREG IV goals are more strongly result-oriented with the Lisbon objectives in 2000 (competitiveness and innovation) and those of Gothenburg in 2001 (ecological, economic and social sustainability). The already existing INTERREG III divided into trans-boundary, transnational and inter-regional cooperation will remain valid as the new Objective 3 - also known as "promotion".

As stated above, there are two components for financing an IRD in Germany from the European Structural Funds: (1) the European Fund for Rural Development Fund (ERDF) and (2) the European Social Fund (ESF).

The State of Bavaria received a total approx. 662 million euro funding from the ERDF for the period of 2007 to 2013, to promote "Regional competitiveness and employment" and cross-border cooperation in the framework of the "European Territorial Cooperation". With regard to the "European Territorial Cooperation" there is neither transnational nor inter-regional cooperation for fixed allocation of funding for Bavaria, so that the proportion of funding allocated to Bavaria depends on the international success of the Bavarian projects.

The European Social Fund (ESF), founded in 1957, is one of the most traditional financial initiatives of the EU. In 1997 the Member States reformed the ESF, by focusing on a common employment strategy and defined four realizable priorities: (1) employability, (2) entrepreneurship, (3) adaptability and (4) equality of the sexes.

In addition to 17 regional operational programs run by the federal states, there is one overarching federal program in Germany which manages 37% of Inter-European Social Fund resources. The ESF-Fund grants 75 billion euro to Member States and regions in the period of 2007 to 2013. Germany has about 9.4 billion euro of these funds available, which are divided between the German Federal Government and the regional state (Länder) governments. The national funding for an IRD is amounted up to 6.3 billion euro. ESF-Funds are not to be used instead of regular labor market policies

and projects can be financed under the operational program of the federal states or the federal program.

In the context of integrated rural development, the ERDF promotes two objectives: (1) the competitiveness of small and medium-sized enterprises and (2) the creation of new workplaces in rural areas. In the period 2000 to 2006 more than 1,500 small and medium-sized businesses received support from the Structural Funds in the form of direct investment, and about 800 new small and medium-sized enterprises were funded with seed capital. There is a causal connection between the creation of new jobs in rural areas and the financing under the Structural Funds.

For the ERDF-funding, required by Objective 1, namely the promotion of convergence between EU countries, financial contribution up to 32.59% are being provided, to the eligible public and private project expenditure. The national contribution may be achieved in part, as a contribution rate of 50%.

Under the ERDF program the only objectives financed in Bavaria, are objectives 2 and 3, namely improving regional competitiveness and employment and european territorial cooperation. The convergence objective (Objective 1) is not getting any funding.

Objective 2 of funding is said to have two strategic goals: (1) creation of equal living and working condition in all regions and (2) increasing the competitiveness, ensuring sustainable economic growth, creation and preservation of jobs, especially in border areas and structurally weak regions. For this purpose, in the time period of 2007-2013 Bavaria will receive European funding worth about 576 billion euro.

In the conducted work a fundamental theoretical objection¹⁴ is carried out against the intended promotion of economic growth by the ERDF. In this sense, the author expresses his opinion that, if the financing by the ERDF acts as a growth policy tool then a pareto-optimal allocation of resources in all regions of an economy should be achieved. This in turn would imply a level of information among economic actors, which does not exist in reality. With the ERDF funding resources are being specifically directed in regions where one expects the greatest impact on growth.

The author makes it clear that the rural development is not financed directly by the ERDF. In case of an integrated rural development an indirect support from the ERDF exists.

In this context the author also points out that, the following socio-economic effects are being induced by the ERDF in rural areas: a) measures to fund support services for small and medium enterprises, b) the financing of local and regional capacities in the areas of research and development

¹⁴ cf. Pries, R.: Government subsidization economically disadvantaged regions, economic advantages and disadvantages on the example of Mecklenburg-Vorpommerns, 2006, Rostock-Warnemünde, available online under: www.connect24group.de/Studie_C2G_2006.PDF.

and innovation, c) promotion measures for regional and interregional cooperation between companies (especially small and medium enterprises) and d) investment in human resources (in co-financing by the ESF). Such focus on local components, regional and interregional cooperation for promotion, has an indirect effect on rural areas.

The main objectives of the ESF funding are: (1) increasing the competitiveness of small and medium-sized enterprises and (2) improving access to employment for people in rural areas.

The *principle of additionality* applies for the ESF funding - it means that the ESF funds may not be used in place of regular resources for labor market policies. Projects, financed from the Federal Government's Operational Program *cannot* simultaneously receive ESF funding from one of the ESF operational program. The Operational Program for Bavaria¹⁵ distinguishes between two variants of funding terms: Benefits can be granted for the part-financing, in the form of share-based financing, financial shortfalls offers or the funding may take place through public procurement procedures.

Bavaria received for its operational program "Regional competitiveness and employment within the framework of the ESF for the period 2007 – 2013" approximately 310 million euro.

Following the *real costs principle*, ESF funding will only consider the actual consumption expenditure, which is shown in detail. Since this funding method provides a relatively high bureaucratic process, the author criticized that this is one of the main obstacles of the ESF support.

For the conclusion of the 3rd Chapter the author of this thesis expects a fundamental change in the system of EU structural policy. This is mainly due to the fact that: (1) the ERDF considerable resources of rural areas also reached the urban space and (2) in the rural area the ERDF resources, based on traditional financing instruments, are specifically used to promote individual businesses and infrastructure (transport infrastructure), as well as tourism and culture.

The current debate¹⁶ within the EU shows, according to **the author**, that the population density and per capita gross domestic product-oriented definition of rural areas and thus the assistance provided by the Structural Funds in general - and of the EAFRD in particular – are placed in question.

After a detailed discussion about the structural program, the author concludes that EAFRD funding, which was designed vertically and focuses on individual measures, does not fit optimally with

¹⁵ cf. StMAS (ed.): Research Group to support agricultural and regional development in Triesdorf: Ex ante impact assessment of policies affecting land use in Bayern 2007 – 201, 2006, Triesdorf, P. 12., 28.07.2009, available online under: <http://www.stmas.bayern.de/arbeit/esf2007-2013/programm07-13.pdf>.

¹⁶ cf. European Commission Directorate-General for Regional Policy (ed.): Cohesion Policy supporting rural areas, available online under: http://ec.europa.eu/regional_policy/archive/conferences/urban_development/index_en.cfm and the listed contributions to the seminar, held on 01.10.2009 in Brussels.

IRD approach, oriented horizontally. The author therefore recommends that the definition of rural areas and future Structural Funds needs to be modified at regional level.

Therefore, currently there is a need for further research for the continuation of scientific research and discussion and the formulation of solutions in this sense.

From the previously presented facts, it is clear that the entire contents of the 3rd Chapter opened for the author the possibility to formulate his own opinions and some interesting conclusions, which are essentially at this point.

Conclusions

a) The financing by the EAFRD, which was designed vertically and is primarily focused on the results of individual actions, does not agree with the approach of the IRD, which is horizontal oriented.

b) As part of the ESF funding, the principle of addionality is applied, which means that the financing by the ESF cannot be used in place of regular resources for labor market policy. Projects financed from the Federal Government's Operational Program for the ESF, cannot simultaneously receive ESF funds from one of the ESF operational program.

c) The ESF funding will take in consideration only "real consumer spending". The author of this thesis has criticized the funding process because it provides a very high bureaucratic process. This represents the major obstacle to the development of ESF financing.

Personal opinions

a) The ERDF **does not provide** direct funding through this fund, only an indirect development of IRD.

b) In order to promote the economic growth through ERDF funding, the author agrees with the following **basic theoretical objections**, namely: as long as ERDF funding is supposed to be a growth instrument then a pareto-optimal allocation of resources in all regions of an economy should be achieved.

c) The financing is designed vertically through the ERDF and the IRD approach is oriented horizontally. The author recommends and expresses his opinion that the definition should be changed for rural areas and the structural funds in the future regional level should be organized.

The **personal contributions** of the author in this third chapter are named in the following. First the author proves that the two key elements of the financing of an integrated rural development are consistent or at least a possible link can be established with the specific objectives of the national strategy for the development of the rural areas. Furthermore, the author provides in this chapter, a

very detailed analysis of rural development funding through the European Structural Funds. Both ERDF and ESF objectives are highlighted in the context of rural development as well as their delivery volume, which was presented in detail. The author finally (1) found that the ERDF promotes the rural development only indirectly and the ESF is associated with a relatively high administrative costs and (2) the definition of the rural areas provided in line with the population density and the per capita gross domestic product and thus the assistance provided by the structural funds in general - and by the EAFRD in particular - are called into question.

CHAPTER IV

This chapter focuses on the **FUNDING OF INTEGRATED RURAL DEVELOPMENT (IRD) OF EUROPEAN FUNDS BY THE COMMON AGRICULTURAL POLICY**. The author is continuing its scientific research on the financing of the integrated development of rural areas in Germany from European Funds, focusing more on the example of Bavaria.

The contents of this chapter are systematized into four components, namely: (1) the need for development and financial instruments of the Common Agricultural Policy (CAP), (2) the financing of the IRD in Bavaria by the European Fund for the Common Agricultural Policy (3) the financing of the IRD in Bavaria by the European Guarantee Fund for Agriculture (EAGF) and (4) the financing of the IRD by the European Fisheries Fund (EFF).

The European agriculture was at the end of World War II in a difficult situation and the people could not feed themselves from their own production. The desire to no longer be dependent on food imports and to ensure the supply of food from own production, where the main motives for the introduction of a common agricultural policy. As part of building a common market, tariffs on agricultural products would have to be removed, in order to increase agricultural production and ensure self-sufficiency in Europe. The MacSharry reform that included the agriculture into the world trade regime WTO in 1992 has made a fundamental change for the Common Agricultural Policy. The last major land reform took place in 2003 and was implemented by the Member States in 2005. The CAP reform has two essential characteristics: (1) the direct payments are decoupled from the production of agricultural products and (2) direct payments are tied, matching certain environment and animal welfare criteria also have to ensure availability of food and feed.

The criteria to be satisfied, also referred to as "**other obligations**" or **cross-compliance**, present the financial conditions of the EAGF and are organized at federal level in the so called Direct Support Scheme Obligations Law. The Bavarian State Ministry for Food, Agriculture and Forestry, together with the Bavarian State Ministry for Environment and Health, have developed very timely, a compre-

hensive document, the **"Cross Compliance"** for beneficiaries of direct aid from the EU, which includes 19 European Regulations. These Regulations are for maintenance of land under permanent pasture, for maintenance of high nature value farmland and forestry in good agricultural and environmental condition.¹⁷

As part of the Health Check, the CAP reform was promoted in November 2007 through a communication from the Commission to the Council and the European Parliament. In line with the decisions of the 2008 "Health Check", it is primarily intended for the budgetary period 2007-2013, to simplify the Single Payment Scheme and secondly to build a stronger market orientation. The third major objective of this reform is to achieve a proper response to new challenges. Among them four were explicitly identified: climate change, renewable energy, sustainable water management and prevention of the decline of biodiversity.

Since 2007, CAP established cooperation with **the Treaty on the Functioning of the European Union (TFEU)**, which aims at modernizing and improving working methods within the EU-27. Article 39, paragraph 1, TFEU names the five objectives of the common agricultural policy: (1) increase agricultural productivity by promoting technical progress through rationalization of agricultural production and the optimum use of production factors, in particular labor, (2) ensuring an adequate standard of living of the agricultural population, in particular by increasing the per capita income of persons engaged in agriculture, (3) stabilizing markets, (4) ensuring the provision of food and (5) supplying reach consumers at reasonable prices.

In November 2010 the Commission opened to debate the future of CAP with the following statement - "The CAP 2020: food, natural resources and rural areas - the challenges ahead"¹⁸. In October 2011 the Commission submitted a draft and spelled out the ideas for the CAP reform for the period after 2013 in ten areas: (1) specific allocation of income support for growth and employment, (2) more responsive and better adapted instruments for crisis management to deal with price fluctuations, (3) granting of greening for long-term productivity and conservation of ecosystems, (4) additional investments in research and development, (5) a more competitive and balanced food supply chain, (6) promoting environmental protection in agriculture, (7) promoting the establishment of young farmers, (8) the promotion of employment and entrepreneurship in rural areas, (9) better consideration of sensitive areas and (10) a simpler and more efficient management of the CAP.

¹⁷ cf. StMELF; StMUG (ed.): Cross Compliance 2009 – the Cross-Compliance requirements, 2009, Munich.

¹⁸ cf. European Commission (ed.): The Common Agricultural Policy (CAP) towards 2020 - Meeting the food, natural resources and territorial areas – the challenges ahead. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions , KOM(2010) 672 of 18.11.2010, available online under: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0672:FIN:de:PDF>.

The author shows very clearly within this paper the attitude of the Federal Government on the future development of the CAP: The federal government has already expressed, in March 2010, its position towards CAP's development after 2013 and reaffirmed it in January 2011.¹⁹ The Federal Government shares in principle the Commission's objectives in terms of a profitable food production, the market-liberal approach and the sustainable management of natural resources and sustainable development of rural areas. They would, however, adhere to the previous CAP system of direct payments.

Among the financial instruments of the EU, the EAGF has the main importance, in terms of volume. In addition, EFF - explicitly given for the (integrated) rural development of EAFRD, represents the second pillar of CAP.

The EU agricultural policy was adopted in the common organization of the German EU Presidency in 2007, by an organization of agricultural markets – also called the **single common market organization (CMO)** - and governed by the **regulation on the financing of the common agricultural policy**.

The measures and financing activities that focus on the agricultural sector can also be called the first pillar of the CAP. In addition to the first pillar of CAP, which affects the IRD with its direct payments, a second pillar of CAP was introduced in 2000, focusing on the financing necessary for rural development. Since 2007, the EU and the EAFRD extended its policy for the development of the rural area to a single instrument. Besides agriculture and forestry, this instrument can be financed, in all sectors and activities of all other actors in rural areas. The EAFRD focuses – like the Structural Fund - on a limited number of funding priorities (so-called priority axes) aligned with the objectives of the so-called Lisbon strategy (economic growth, competitiveness and employment) and Gothenburg strategy (average).

Germany received in the financial year of 2008 (16 October 2007 to 15 October 2008) payments from the EAGF amounting to 5.7 billion euro. For the same period Bavaria received direct payments from the first pillar of the Common Agricultural policy of approx. 1.1 billion euro. For the management of EU Funds from the EAGF is the European Commission responsible. Since the Commission does not make payments to beneficiaries, this responsibility was delegated to the Member States, which have in turn appointed 85 national or regional paying agencies to do so. In Bavaria, the agency responsible for EU Funds is the State Ministry of Agriculture and Forestry and the State Ministry of Environment, Health and Consumer Protection.

¹⁹ cf. BMELV (ed.): The position of the federal government – the joint programming initiative into the development of the common agricultural policy. (CAP) after 2013, 31.03 2010, available online under: www.bmelv.de/SharedDocs/Downloads/Europa-Internationales/EU-Agrarpolitik/PositionspapierGAP.pdf;jsessionid=E48C4784DD0E888B86592969CCA0D1E7.2_cid230?__blob=publicationFile.

See also BMELV (ed.): The Federal Government's formal opinion on a European Commission communication „Die GAP until 2020“ 28.01.2011, available online under: www.bmelv.de/Shared Docs/Downloads/Europa-Internationales/EU-Agrarpolitik/GAP-StellungnahmeBReg.pdf?__blob=publicationFile.

In the ongoing debate²⁰ on CAP for the time period between 2013 and 2020, three alternative scenarios were outlined for the reform of CAP's 1st pillar: (1) the first alternative is essentially the continuation of the status quo, this means the financing of direct payments, (2) the second alternative focuses on greening within the 2nd pillar and (3) the third option seeks to promote the place of direct payments, in particular the creation of public goods by agriculture. Feasible and consensus is the second proposal, which is also favored by the European Commission.

As an interim summary of the 4th Chapter it should be noted that, under current funding practices, a transformation of the agricultural industry in a multifunctional agriculture - rural (as was outlined above), which aims to support development rural, given the significant concentration of funds on a small percentage of large farms, is inconceivable.

After proper adjustment of the Rural Development Regulation by the Council, the Commission decided on 7 July 2009 the allocation of EAFRD funds in order to promote rural development. According to this, the German Federal Republic was allocated for the period of 2007-2013, an amount of about 9.0 billion euro for rural development funding. In the current programming period 2007-2013, approx. 1.25 billion euro in EU Funds are given for the state of Bavaria.

The two most important objectives of the **Bavarian program for the future agricultural and rural areas (BayFAR)**, with which the state of Bavaria implements the EAFRD funding, are (1) the strengthening of rural areas as diverse economic and habitats and (2) achievement and preservation of equal living conditions in all regions. The present paper has a critical overview based on the mid-term evaluation²¹ of BayFAR even though all operational objectives have been fully achieved and shows the following results. By 2009 only 15% of the scheduled financing volume was recovered and also a retrieval of the development funds is not expected by the end of the programming period. It is obvious that there is a certain lack of motivation among potential applicants. Firstly, the lack of motivation of the local authorities could be interpreted as a response to the (conservative) efforts of the agencies for rural development, which ultimately decide on the realization of an IRD project and the selection of the participating municipalities. Second, the low level of cooperation and initiative of local governments could be the cause of insufficient funding. The co-existence of planning and funding approaches (the IRD is under the responsibility of the StMELF while the regional management is an instrument of regional planning and is the responsibility of the StMWIVT) proves to be more an obstacle to effective rural development funding.

²⁰ cf. Ribbe, L. et al.: Für eine ökologisierte erste und eine effiziente zweite Säule – Stellungnahme der Kommission Landwirtschaft am Umweltbundesamt (KLU) zur Reform der gemeinsamen Agrarpolitik, in: Umweltbundesamt: Stellungnahme, Juli 2011, Dessau-Roßlau, available online under: www.umweltdaten.de/publikationen/fpdf-l/3981.pdf.

²¹ cf. Research Group to support agricultural and regional development in Triesdorf (ed.): Evaluation of the Bavarian Program - Agrarwirtschaft und Ländlicher Raum 2007-2013 – mid-term evaluation of BayFAR 2007-2009, 2010, Weidenbach-Triesdorf, available online under: http://ec.europa.eu/agriculture/rurdev/countries/de/mte-rep-de-bavaria_de.pdf.

In conclusion (in unison with the Agricultural Research Division and Regional Development²²) to overcome the obstacles of an integrated rural development, it is necessary to promote a common understanding of regional development for the region.

After a closer look at the **financing volume of the EFF**, it turns out that this is relatively low. Bavaria receives financing from EFF worth of 9 million euro and 18 million euro from the State Fund in the period 2007 to 2013. The funding by EFF is granted as fixed rate financing, representing part of the financing or lump sum financing. In addition, the project-based funding of the EFF is diametrically opposite to regional funding. Nevertheless, in order to achieve a positive effect of the EFF funding for rural development, it is possible to combine the EFF and EAFRD projects.

The two pillars of the CAP are now seen as complementary. While the first pillar is intended for direct payments of income, the 2nd pillar develops the rural development based on the specific regional and local conditions. Even though the Agricultural Policy received a Health Check only in 2008 and the European Commission submitted new reform proposal for the funding period of 2014 to 2020, according to critics' views²³, CAP failed to achieve its socio-political strategic objectives. In particular there have been objections against the agricultural policy. It failed, among other things to promote biodiversity and nature protection, as well as supporting innovative and efficient agriculture to create a single european market and protection of foreign farmers (especially small farmers in developing countries).

The Rural development policy should also be critically evaluated, because it is too sectorally focused on agriculture sectors and too little on territory or problem oriented sectors. In addition,

²² See footnote No. 20.

²³ cf. Zahrnt, V. (ed.): A Common Agricultural Policy for European common goods – Draft of declaration of Agricultural Economists, 2009, available online under: www.reformthecap.eu/Declaration-on-CAP-reform/Declaration-on-CAP-reform-German.

cf. Zahrnt, V. (ed.): Für eine ambitionierte Reform der gemeinsamen Agrarpolitik. Deklaration europäischer Agrarökonomien, 2010, available online under: <http://www.reformthecap.eu/declaration-german>.

cf. Agricultural policy advisory council of the German Federal Ministry for Food, Agriculture and Consumer Protection (ed.): EU's agricultural policy after 2013 – Plädoyer für eine neue Politik für Ernährung, Landwirtschaft und ländlicher Raum, 2010, Berlin, available online under: www.bmelv.de/cae/servlet/contentblob/1005908/publicationFile/64480/GutachtenGAP.pdf.

cf. German Council of Environmental Advisors (CEA) (published): For Common Agricultural Policy (CAP), in its opinion, No. 14, Nov. 2009, available online under: www.umweltrat.de/cae/servlet/contentblob/812334/publicationFile/50093/2009_11_Stellung_14_GAP.pdf.

cf. OECD (ed.): The new rural paradigm – Politik und Governance, 2006, Paris.

cf. OECD (published): OECD Territorial Reviews in Germany, 2007, Paris.

cf. Zusammenfassend Weingarten, P: Agrarpolitik in Deutschland, in: Bundeszentrale für politische Bildung (ed.): Aus Politik und Zeitgeschichte, No. 5-6, 2010, P. 6-17.

through this thesis²⁴, the author concludes that the interdependence between the federation, the states and the local level can create problems in order to set goals, make decisions, implement and fund projects, and therefore the principle of subsidiarity should be respected more.

Chapter four reveals that the EAFRD which is part of the 2nd pillar is at the center of the EU financial instruments for the (integrated) rural development, while the EAGF (which is under the first pillar) flanks even though the German Farmers Association has a contrary opinion to the situation regarding to the actual amount of funding. The current debate on the further development of CAP after 2013 shows, that the current system is disputed both in terms of justice and in terms of sustainability. The author joins the supporting five essential requirements that the CAP reform must fulfill in order to have a crucial and positive impact²⁵. Here are the five requirements (1) all transfer payments have to be closely related to the provision of public goods under the slogan "only public funds for social services" (2) the so-called "greening" – the sustainable use of land - should become the core element of the CAP, (3) the market orientation should enter instead of subsidies that distort production and prices, and export subsidies must be abolished (4) in an interconnected system between promote agriculture in developing countries, the EU should contribute to climate protection and the preservation of their own resources and also ensure global food security and (5) in accordance with the subsidiarity principle the way in which the CAP funding is divided between the EU and Member States, should be controlled.

The fourth chapter offers the author the opportunity to develop a set of conclusions and personal opinions. Here are some of them:

Conclusions

a) The most important objectives of the Bavarian program for agricultural and rural development under the EAFRD are: (1) strengthening the rural economic space and (2) development and conservation of equal living conditions in all regions.

b) The Federal Government has expressed its position on the development of the Common Agricultural Policy and clearly wants to continue to maintain the help-system.

c) Even if the financing of integrated rural development is implemented using a variety of instruments the European Guarantee Fund (EAGF) and the European Fisheries Fund (EFF) were not created initially to finance the integrated rural development.

²⁴ cf. Weingarten, P.: Agrarpolitik in Deutschland, in: Bundeszentrale für politische Bildung (ed.): Aus Politik und Zeitgeschichte, No. 5-6, 2010, P. 6-17.

²⁵ cf. Zahrnt, V. (ed.): Für eine ambitionierte Reform der gemeinsamen Agrarpolitik. Deklaration europäischer Agrarökonomien, 2010, available online under: <http://www.reformthecap.eu/declaration-german>.

Personal opinion

a) Given the significant concentration of resources on a small number of large enterprises, the transformation of agriculture in a rural multifunctional agriculture seems very unrealistic.

b) In order to overcome the obstacles of an integrated rural development, it is necessary to develop a common understanding of regional development for a single region.

c) The author considers, that in terms of rural development policy, the focus is too high on the agriculture sector and too little on territory or problem oriented sectors

d) The author agrees with those experts who believe that the interdependence between the federation, states and local level can create problems in order to set goals, make decisions, implement and fund projects, especially in setting financial goals and funding decisions in this regard.

The major **personal contribution** in this chapter is the fact that the author picks out this debate - quite controversial in Germany - on the Common Agricultural Policy of the EU up till 2020. Here are two key requirements worked out on a promising reform of the CAP: (1) the transformation of the current agro-industrial structure of rural-scale agriculture, to support the development of rural areas, is inconceivable given the current funding practices that is directed towards unilaterally large farms. (2) In order to overcome the obstacles of an integrated rural development, it is necessary to develop a common understanding of regional development for a single region.

CHAPTER V

The final chapter describes a **CASE STUDY - THE FINANCING OF THE INTEGRATED RURAL DEVELOPMENT PROJECT IN THE REGION OF UPPER PALATINATE (OBERPFALZ) IN NORTH OF BAVARIA.**

This chapter focuses on a case study of a region in northern Bavaria. The concept of *integrated rural development (IRD)* and its financing are presented for the *Steinwald-Allianz*. There is also an overview of the spatial planning tools, which describes the structural and procedural model for a holistic development of rural areas.

Under the EAFRD-Regulation, the EU has analyzed the funding instrument of the integrated rural development through the endogenous potential of the region and enabled different actors in a region to play an active role in the development processes based on a bottom-up approach. The targets nowadays of a rural development process are: technical issues, actors, methods, general public,

methods, time management, planning, funding and policy. The holistic approach is also one of the requirements to be met, since the 1990s, by the concept of integrated rural development

Currently, there are approximately 1,900 rural development processes in Bavaria, involving about 1,000 areas, which are supervised by the seven Bavarian Department for Rural Development. Among the 1,900 procedures for rural development, are 22 cases that were initiated during the period between 2006 and 2008 and are legally recognized as The Integrated Sustainable Rural Development Strategy (ISRD). By 2005 there were 12 IRDK sites completed in Bavaria, in accordance with the guidelines for the last funding period 2000 - 2005, and are now currently under implementation. This shows what kind of project IRD really is. Steinwald-Allianz is one of the projects established in 2004 by the ten municipalities in northern Bavaria.

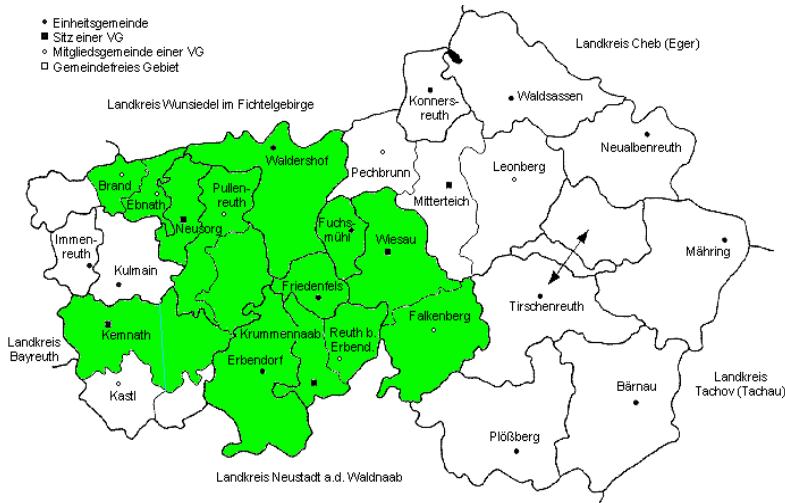
Located in the east of Bavaria, Upper Palatinate is a region of 9691 square kilometers and very close to the Czech-Bavarian border. South of Upper Palatinate lies the administrative districts of Lower Bavaria (*Niederbayern*) and Upper Bavaria (*Oberbayern*), in the west is Middle Franconia (*Mittelfranken*) and to the north lies Upper Franconia (*Oberfranken*).

At the northern edge of Upper Palatinate - a particularly economically underdeveloped area - lies Tirschenreuth, an area of approximately 1084 square miles and about 78.00 inhabitants. The area is limited by the southern reaches of the Fichtelgebirge, the Oberpfälzer forest and the Bohemian Forest - also known in Czech as Šumava - in north and east. The Steinwald (the Petrified Forest) is at the low mountain range. Between the mountain ranges Naab-Wondreb Senke and Kemnather Senke are several areas of ponds with nearly 4.000 lakes. Oriented from northwest to southeast flows the European watershed this divides the Danube and Elbe through the area.

The Steinwald-Allianz was founded on 20.01.2004, based on the bill on municipal working groups, as the merger between the following ten municipalities: City of Erbendorf, Municipality of Falkenberg, Municipality Friedenfels, Municipality of Fuchsmühl, City of Kemnath, Municipality Krummennaab, Municipality of Pullenreuth, Municipality of Reuth bei Erbendorf, City of Waldershof, Municipality of Wiesau.

In October 2005 a planning office submitted an integrated rural development concept for these ten municipalities. At that time the alliance covered an area of approx. 390 square kilometers and the number of residents was approx. 30,000. Middle of 2007 the three communities of Neusorg, Brand and Ebnath joined the Steinwald-Allianz , so that it now counts thirteen partner communities. Today, the Alliance extends over approx. 425 square kilometers and in the Steinwald area live currently about 34,000 people (including second homes). Since 2005, the concept of integrated rural development has not been formally adapted to all the member municipalities. Figure 1 shows the area of the Steinwald-Allianz in the Upper Palatinate region:

Fig. 1 The area of the Steinwald-Allianz in the Upper Palatinate region:



Source: cf. Steinwald-Allianz (ed.): 13 strong partners – towards the future together, available online under: www.steinwald-allianz.de/wir_ueber_uns.html.

To answer the questions of the integrated rural development, the current situation of the region consists on one hand on the main description of the main regional conditions and on the other hand of an analysis of strengths/ weaknesses and opportunities/ threats (SWOT analysis) of the project. The results of the SWOT analysis of the IRD Steinwald-Allianz are presented in the following table:

Table 1: Strengths/ weaknesses and opportunities/ threats of the IRD Steinwald Allianz

Strengths	Weaknesses
<p>I. Basic scenic/landscape conditions</p> <ul style="list-style-type: none"> • Scenic beauty and diversity (fields, forests, ponds) • Closeness to nature, the densely wooded low mountain range • Opportunities for outdoor activities / active tourism (hiking, skiing, Nordic Walking) <p>II. Conditions for people</p> <ul style="list-style-type: none"> • Active clubs • Cultural background/ history • Down to earth people • Efficient, skilled craftsmanship 	<p>I. Labour supply</p> <ul style="list-style-type: none"> • Lack of labour market <p>II. Conditions for people</p> <ul style="list-style-type: none"> • Financial weakness of the municipalities • Public transport <p>III. Problems of leisure tourism</p> <ul style="list-style-type: none"> • Leisure activities • Tourism infrastructure <p>IV. Name recognition rating of the region</p>

Opportunities	Threats
<p>I. Price level</p> <ul style="list-style-type: none"> • Value of money • Land price <p>II. Regional products</p> <p>Marketing strategies can promote awareness of the region</p> <p>III. Conditions for people</p> <ul style="list-style-type: none"> • GeoParc-projects/ geology • Water/ mineral water/ health • Cultural background/ history • The Border-Crossing Landscape Exhibition• 2006 • Landscape experience: <ul style="list-style-type: none"> - Pond Landscape - Stone Landscape - Forest Landscape 	<p>I. Weak structure of the tourism infrastructure</p> <ul style="list-style-type: none"> • Deficits in catering and accommodation • Failure to use the requirements expressed by tourists <p>II. Society</p> <ul style="list-style-type: none"> • Resignation of citizens • Negative mood • Demographic Trends • Emigration • Fading local supply <p>III. Decline of agriculture</p> <ul style="list-style-type: none"> • Problem of structural change • Problem of succession issue

Source: Böhlinger, R., Köppel, Astrid.: Steinwald-Allianz – Integrated rural development from 28.10.2005, unpublished, P. 90.

In two workshops at the local level, which took place following a SWOT analysis, the following four topics for the IRD Steinwald Allianz were finally published:

- Topic 1: Economics - Agriculture - Business - Infrastructure,
- Topic 2: Tourism - Structure of offers - Qualifications,
- Topic 3: Advertising – Regional Marketing
- Topic 4: Administration - Municipal Cooperation.

The four topics were discussed in three sessions within small groups known as regional working groups.

A large number of projects and measures are proposed for implementation within the IRDK. The following table summarizes these proposals. These measures have been assigned to one out of the four themes:

Table 2: IRDK Steinwald-Allianz project proposals according to a specific field

Topic 1: Economics - Agriculture - Business - Infrastructure	Topic 2: Tourism - Structure of offers- Qualifications	Topic 3: Advertising – Regional Marketing	Topic 4: Administration - Municipal Cooperation
The creation of a small agricultural market	Building hiking trails	Common website	To unify the websites of the municipalities
Presentation of the Agriculture at a trade show	Publication of a hiking guide	Publication of a regional handout	
Construction of photovoltaic systems for citizens	Promoting cyclotourism	Joint logo	
Establishing training places and labour market exchanges	Providing guided hikes (Themed walks)		
Publishing a craft guide (Yellow pages)	Kneipp - Health Region Recreation Parks		
Redevelopment of the so-called "forest home (Catering)	Identifying the target group through increased marketing		

Source: Böhringer; Köppel, P. 185

The Commission also recommends IRDK to create a post of regional manager or general manager for the alliance, which is fully responsible for the implementation of the projects.

In the financing of regional management projects, it is assumed on regular basis that the funds required - in the initiation phase to raise public awareness and mobilization of actors or ideas - are relatively small while the implementation phase requires a higher financial budget over a longer period of time. For the financing of the Regional Management Plan, mixtures of various financial instruments that combine public funding with co-financing, are recommended.

By the end of 2009, the sheer size of the IRD Steinwald Alliance was approx. euro 9.3 million euro. Indirectly, but from the context of IRD project, the investments made by the participating municipalities or third parties are amounting to 1.3 million euro. At these indirect investments, the State of Bavaria participated with funding worth approx. 550,000 euro. Annual expenditure of around 75,000 euro, relate in particular to the tourist office which is operated by IRD Steinwald-Allianz, with direct contributions from the tourism associations as well as advertising, for the homepage maintenance and training costs. Ongoing operation of the IRD Stone Forest Alliance is funded through a contribution system, which consists of two components: 1) a basic contributions of 400 euro per member community and 2) a variable contribution per member municipality in the amount of € 2 per capita.

As a partial outcome of the 5th Chapter it can be noted that in Bavaria the IRD funding instruments are mainly used for small areas and is seen a further step towards the Financing of the regional development. The Ministry for Food, Agriculture and Forestry is guided **by the core idea of a positive inner development** of the participating IRD municipalities. In the case of IRD, the main focus is on regional or national funding of significant areas (e.g. networks of companies), where the LEADER funding is regularly based on individual projects from the regional development concepts (REK). Therefore the strong regulation of rural development is contrary to the principle of subsidiarity.

In the field of integrated rural development, the author has found that there are the following two competing promotional approaches: (1) through the integrated rural development under EAFRD, which actually aims the creation of a problem and space-related funding concept. In addition, however it (2) consists of promoting land consolidation - even if it is a part of an IRD - aimed exclusively at the agriculture funding measure. But the question is whether, within a delivery line, the more regional approach of IRDK is not competing with the territorial approach of the LEADER approach.

The concept of regional management in the context of regional planning and integrated rural development is also in a certain relationship of competition with the State of Bavaria. One complicating factor here is that the two instruments are in respective ministerial competence to each other: the Regional Management is the responsibility of the Bavarian Ministry of Economic Affairs, Infrastructure, Traffic and Technology, while the Bavarian State Ministry for Food, Agriculture and Forestry is responsible for Integrated Rural Development.

The Analysis conducted by the author on the financing and support of the two main areas of rural development - land consolidation and village renewal – showed for Bavaria in 2010 the following situation: rural developments are financed primarily with approx. 23% from the Bavarian state, with about 20% by passing on the price to the involved communities, with about 16% of federal funding and 13% funding from EU Funds. The contributions by owners for hallmark buildings are approx. 21% and the contributions by owners of land in land consolidation are worth an average of 7%.

The structural and procedural model for the implementation of integrated rural development, which is based on New Public Management models (new model management) and Good Governance (i.e. sustainable good governance) in administrative sciences, aims to achieve two objectives: first, it shows that structural and procedural model presented, are largely connected, in terms of methodology and context to the concept of integrated rural development and also represent an addition to the approaches used for spatial planning. Second, it offers an explanation for the part of the integrated rural development postulated claim of holism.

The Protagonists of integrated rural development postulate namely the concept of holism²⁶. The meaning of holism actually remained until now in the literature - apart from a few isolated exceptions - an unanswered question. In addition to the traditional academic disciplines involved in the IRD such as geography, agricultural economics and sociology are some suggestions from the fields of education, psychology and theology, helpful to clarify the challenging ideas of holism.²⁷ As long as there will be no systematic extension of the thought structures in the direction of the area mentioned, as part of an integrated rural development process, this process can't be described as an holistic one. According to the author at this point there exists a broad – a promising – research field regarding this matter.

Finally the author reaches the following conclusion:

Despite some criticism it should be noted that Bavaria has, through the concept of integrated rural development a tool for rural development, which goes beyond a unilateral sectoral focus, but it also promotes the inter-municipal cooperation in a region. The funding amount for rural development is relatively low.

²⁶ cf. Miller, J.: Integrierte ländliche Entwicklung – Ein ganzheitlicher Ansatz zur Entwicklung ländlicher Räume, in: Bayerischer Gemeindetag, No. 10/2005, P. 352 – 355.

²⁷ cf. Abt, T.: Fortschritt ohne Seelenverlust – Versuch einer ganzheitlichen Schau gesellschaftlicher Probleme am Beispiel des Wandels im ländlichen Raum, 2. edition, 1988, Daimon Verlag, Einsiedeln.

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