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Paper prepared for the 122nd EAAE Seminar
**"EVIDENCE-BASED AGRICULTURAL AND RURAL POLICY MAKING:
METHODOLOGICAL AND EMPIRICAL CHALLENGES OF POLICY
EVALUATION"**

Ancona, February 17-18, 2011



A regional analysis of CAP expenditure in Austria

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Abstract

This paper reflects the demand for taking account of the territorial dimension in the application of Common Agricultural Policy (CAP) more comprehensively. While this has been addressed in rural development discourse to a wide extent over the last two decades and consensus for regionalized strategies is emerging, programme evaluation is in general still limited to the analysis of policy interventions at the national level. This implies that conclusions on the territorial effects of CAP are largely missing. Therefore the intention of this paper is to provide a regional analysis of CAP expenditures for pillar 1 and pillar 2, and to demonstrate and assess their actual territorial impacts, represented on the basis of the NUTS 3 region 'Obersteiermark West': The territorial analysis presented is an example to reduce this gap (national vs territorial) in the evaluation of CAP.

Keywords: CAP expenditure, regional analysis, territorial effectiveness

JEL classification: Q18

1. INTRODUCTION

In the application of CAP the regional level is particularly important due to the fact that farmers within the regions and the population of rural regions are the actual recipients of CAP funds, not the Member States (MS). The EU is characterized by 27 different MS, with a high diversity of rural regions within these, based on their geographical, historical and political factors. Consequently, the regional diversity is supposed to lead to differences in priority settings of CAP funds and also in the programme application. Nevertheless, programme evaluation is based in general on the analysis of policy implementation at the national level. Thus, an information lack on territorial effects of CAP measures has to be encountered. This leads to the underlying hypothesis that there are huge differences between the national and regional level in terms of the demand expressed and actual impacts of CAP.

The ESPON project "The territorial impact of CAP and Rural Development Policy" (2002-2004) has started a general review of CAP application at the regional level for all the EU regions (Shucksmith et al. 2005, Dax 2006). It highlighted that lots of information was missing also at a rather general level at that time. Meanwhile the information base improved and relevant analysis on regional effects has been taken up by several researchers. However, with regard to Territorial Cohesion aspects for reducing regional disparities and facilitating convergence of European regions, there is a need for a more profound information base on the regional distribution and effectiveness of CAP support.

Hence the aim of this paper is to present a national case study that analyses the application of CAP funds for pillar 1 and pillar 2 at a very low geographic level. Therefore a territorialized database for Austria will be used, differentiated for all measures of pillar 2. It integrates also funds of pillar 1 so that conclusions on the relative significance of each of the two policy strands will be possible. In addition to the general database, the results of a case

study carried out within the national study "Employment effects of selected policy programmes for rural regions" will provide the second important methodological input. The NUTS 3 region 'Obersteiermark West' represents Austria's mountain regions, which cover more than three quarters of the country. The analysis aims on the one side at the distribution of CAP funds by priorities related to an assessment of the relationship to regional development performance and regional strategies, and on the other side at the analysis of distributional effects of significant measures within the region and interpretation of the regional concentration of support.

Consequently, the paper will present findings of effectiveness of measures and sets of policy interventions towards initiating regional activities, e.g. employment effects, economic performance addressing the local assets and effects on the attractiveness of the region. Moreover, a regional assessment of CAP application also addresses the issue of considering the policy implications associated with the emerging model of regional development (focused on potential) and how it might play a role in supporting the future development of diverse regions within the EU. Thus, it is the endeavour of the European Commission to emphasize the regional component in the planning and implementation of CAP programmes, especially in the case of the Rural Development Policy.

2. CAP INTERVENTIONS AND THEIR IMPLICATIONS

2.1. Historical background

The Agenda 2000 was a milestone in the development of rural regions in the EU, based on the fact that the Rural Development (RD) Policy was integrated as a separate policy area in the CAP. In the framework of EU Regulation (EC), No. 1257/1999 the RD Policy was to be implemented from this time on as "Second Pillar" of CAP beyond the previously existing measures of "direct payments and market support", termed as "Pillar 1". This two-pillar model was the European Commission's reaction to the concept of multifunctionality of agriculture and the need to address increasingly the territorial dimension (Copus and Dax 2010).

Within Pillar 2 all European MS had to develop their own Rural Development Programmes (RDP) as operating policy instruments with priority axes and measures for the current programming period 2007-2013.

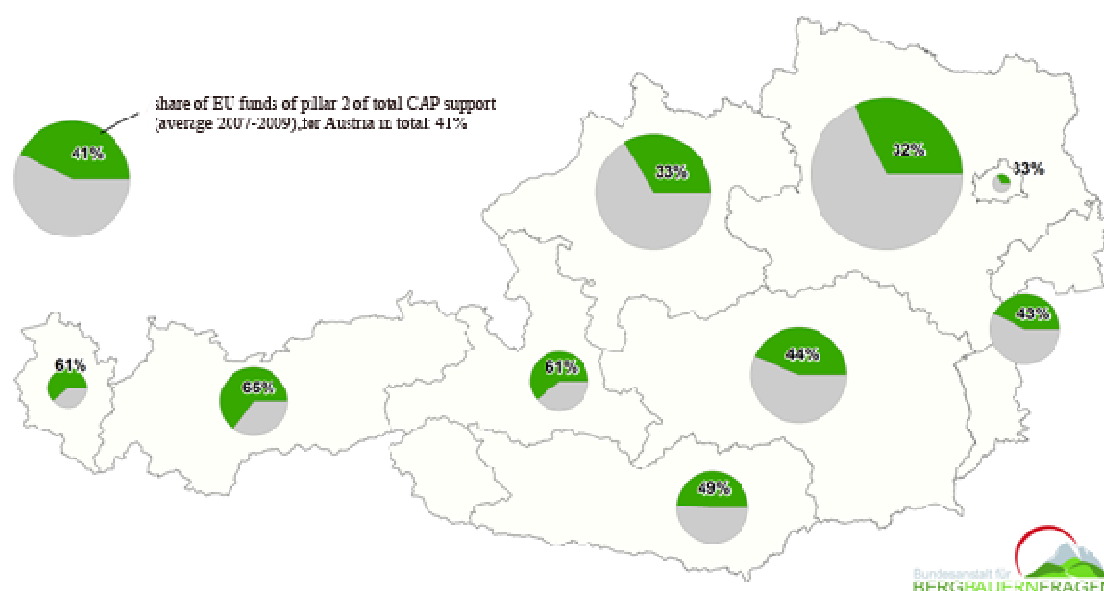
2.2. Allocation of CAP funds and priority settings

In Austria the funding priority of CAP is particularly oriented at Pillar 2, measured by the high level of rural development expenditure in comparison to other MS. Thus, the RD Policy will receive for the current period 2007-2013 4.0 billion € from the European fund ELER, (i.e. together with the national co-funding a total of 7.8 billion € of public funds) and Pillar 1 will obtain with 5.2 billion € about 30% more out of European funds, but substantially less than total public funds for Pillar 2. Interestingly Austria is situated with this priority setting similar to the distribution of the two pillars for Portugal and most of the New Member States (NMS). Thus, all NMS apart from Czech Republic, Hungary and Cyprus have a marked focus on the RD

Policy which is additionally extended by the national co-funding of Pillar 2. The relation between Pillar 1 and Pillar 2 within this group is on average between 46% and 54%, as measured by national ceilings of all MS in terms of Pillar 1 and (indicative) financial plans of Pillar 2. The “old” MS, like the UK, Germany, the Netherlands etc. defend with a relation from 81% (Pillar 1) to 19% (Pillar 2) a strong position of direct payments (Pillar 1).

Compared with the EU average, where 76% of CAP funds are used for Pillar 1 and 24% for Pillar 2, the situation in some Austrian regions, especially in mountain areas, is almost the opposite. Although Austria’s funding priority is concentrated on Pillar 2 it is however important to look beyond the national findings and average values in order to consider regional specificities and aberrations. From a more in-depth analysis at provincial level a West-East disparity arises within Austria (see Figure 1).

Figure 1. Distribution of CAP support of pillar 2 (green) and pillar 1 (grey) in Austria



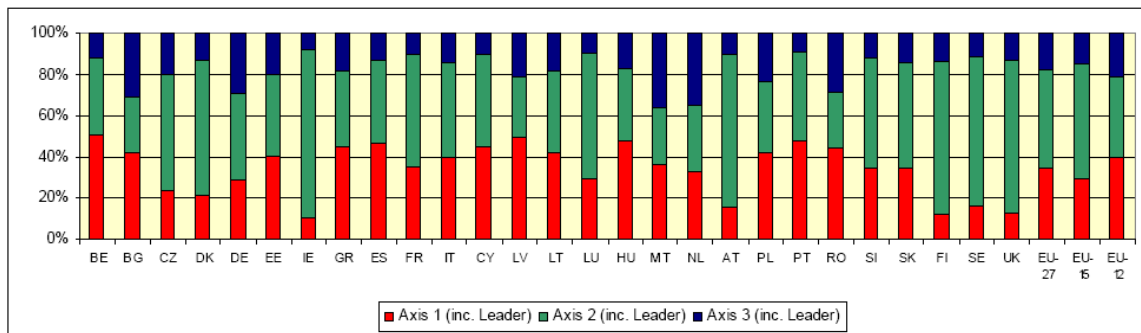
Source: Mid-Term-Evaluation 2010, BMLFUW

2.3. Analysis of CAP expenditures for pillar 2

At this point, based on the funding priority in Austria the RD Policy will be discussed in more detail in order to reveal the priority settings within pillar 2. Thus, the RDP as operating instrument can be characterized by 11 main groups of measures which receive the lion’s share of CAP support. These measures are allocated to the three axes which represent the RDP objectives as well as to Leader as horizontal axis which is used to contribute to the objectives of the other ones. The distribution of funds per axes varies also between the EU-27 (as the allocation of CAP support between Pillar 1 and Pillar 2) as shown in the following Figure 2. In Austria the focus is definitely on axis 2 as well as in Finland (both more that 70% of RDP), Sweden, the UK, Ireland and Denmark (Copus 2010). By comparing the EU-15 with EU-12 it is

visible that in terms of the NMS the funding amount between axis 1 and axis 2 is almost identical, whereas the old MS have a discernable orientation in CAP support towards axis 2.

Figure 2. Relative importance of the 3 thematic axes by Member State, programming period 2007-13

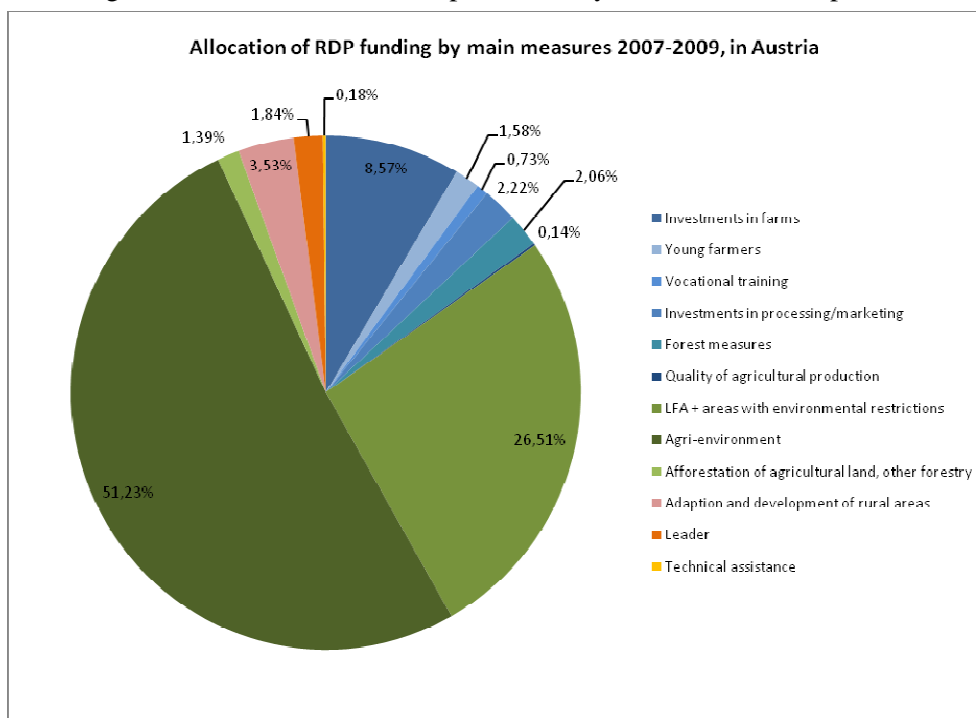


Source: EC, Rural Development Report 2009

Nevertheless, in order to indicate a priority-setting within the NMS it could be useful to look at the main measures, because one could assume significant differences within axes, but this in-depth-analysis is beyond the scope of this paper.

2.4. Austria's RD priorities

Figure 3. Allocation of CAP expenditures by main measures of pillar 2



Source: own elaboration, BMLFUW 2010

In Figure 3 the Austrian situation is represented for the period 2007-2009 of the programme. By itemisation of funding priorities it can be seen that more than half of the total fund of the RDP is reserved for the measure "Agri-environment", followed by the measure "Less favoured areas and areas with environmental restrictions" with 26.5% (both corresponding to axis 2). Together both measures obtain 3/4 of total CAP support for Pillar 2. All the other measures are comparably small and have much less influence on agricultural incomes. Moreover, the measure "investments in farms" of axis 1 is worth mentioning (8.6%) as well, because it represents the 3rd funding priority during this investigation period. Summarized by axes the funding priorities are situated within axis 2 (displayed in green) und axis 1 (displayed in blue), all measures of axis 3 (pink-coloured) for improving the whole rural economy and quality of life play by contrast only a minor role (3.5%).

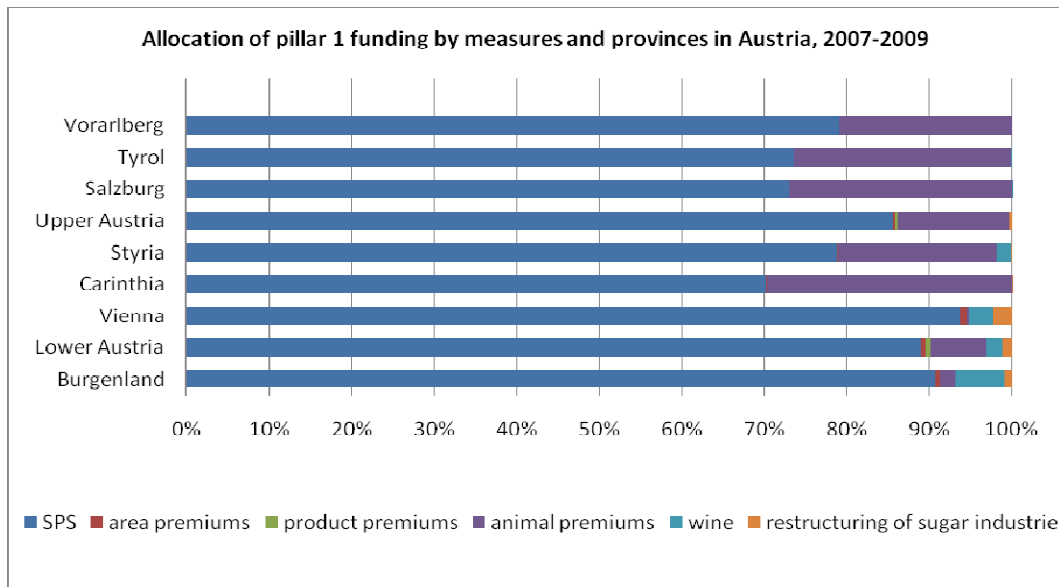
3. REGIONAL ANALYSIS OF CAP EXPENDITURE

Evaluations of policy programmes are due at the programme level, mostly equivalent to the level of MS, although the regions are the actors who can profit mostly from CAP funds and can enable incentives for the regional economy. Nevertheless, the evaluation process is rarely broken down to regional level. Therefore, the analyses of CAP expenditure comprise also the territorialized database for Austria in order to expose the regional differences in priority setting. Furthermore, both pillars and their priorities are also taken into account in the investigation. The findings of the Mid-Term-Evaluation serve as base for the further calculations.

3.1. Territorial investigation of Pillar 1

Based on Austria's focus of CAP expenditure on Pillar 2 the results concerning the funding priorities by main measures of Pillar 1 are classified only at provincial level. Direct payments of CAP which are in general completely supported by EU-funds (without national co-funding) are characterized by 6 main measures. The allocation of CAP funds among these is very unbalanced, with a strong predominance of the "Single Payment Scheme" (SPS) with 84.3% of the whole budget (2007-2009), based on the fact that SPS is the principal agricultural subsidy scheme in the EU. Thus, as payments are not linked to production, farmers are free on the choice of their farm management but environmentally friendly farming practices (cross-compliance) are acknowledged. Apart from that the measure "animal premiums" achieves 13.0% of funds, the second funding priority of Pillar 1. The wine production is supported with 1.4% of funds and represent the 3rd albeit rather weak focus. All other measures are negligibly small.

Figure 4. Regional distribution of pillar 1 funding



Source: own elaboration

Figure 4 shows how the funding priorities of Pillar 1 are distributed within the Austrian provinces. Lower Austria, located in the East of the country, is the largest beneficiary of Pillar 1 support. Apart from the measure “animal premiums” this province dominates in terms of funds received, compared to the other provinces. The strongest focus in Lower Austria as in all other provinces is on the SPS measure, followed by the “animal premiums” apart from the provinces Burgenland and Vienna where the “wine production support” is the second funding priority. All other measures are comparatively negligible. Generally, it can be noted that the provinces in the West focus much more on “animal premiums” than regions in the East, due to predominance of grassland in the mountain area of Western Austria. Thus, we can notice a distinct west-east divide in consequence of the payments allocation according to mountain areas and LFA.

3.2. Territorial investigation of Pillar 2

As available from Pillar 2 data, the regional analysis is extended from the provincial level down to the NUTS 3 level in order to illustrate in more detail the different priority settings reflecting the regional conditions.

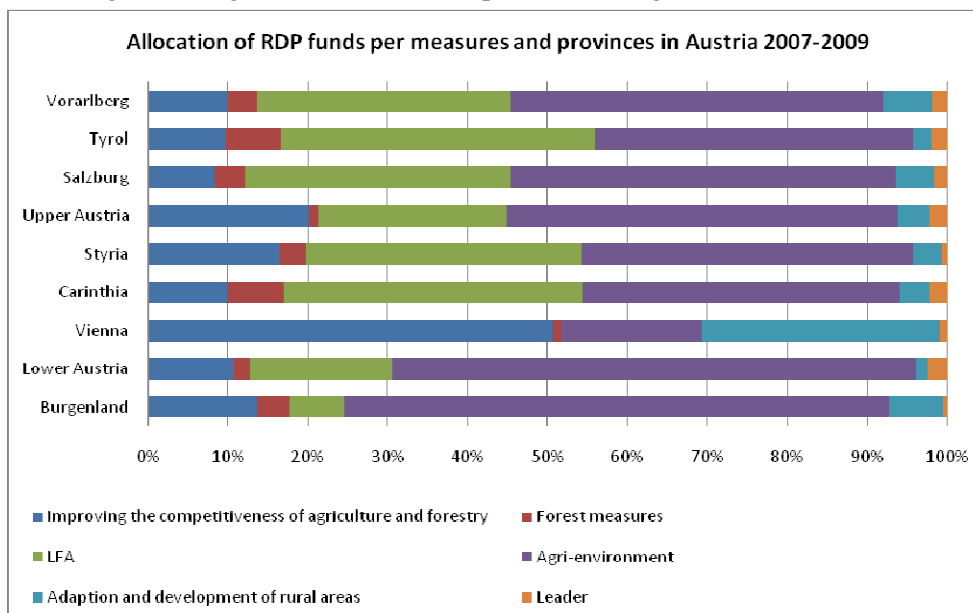
At the provincial level it is obvious that for Pillar 2 also Lower Austria received the largest funding portion. Its priorities are mainly on “Agri-environmental” measures and “LFA” payments as in the other provinces apart from Vienna and the Burgenland (see figure 5). Nevertheless, there are also significant regional differences to be noted. Albeit these two main measures and investment support as third priority are the most important measures almost everywhere, there are regional differences for other measures. Lower Austria has a particular strong use of Leader measures so far. However, in this context it should be mentioned that through Leader mainstreaming its application extends to all measures of axis 1-3 which has

changed the administration and selection of measures, and decreased innovation orientation in many regions (Dax et al. 2010).

The provinces Tyrol (24.7 mio. Euro) and Carinthia (21.1 mio. Euro) had a particular funding priority on forest measures due to their richness of forest plants and consequently they received the most forest funding support within the investigation frame. Upper Austria, Styria and Salzburg focused activities on measures of axis 3 “Adaption and development of rural areas”. But Upper Austria had also a focus on “investments in processing and marketing” and is in this measure the largest beneficiary. The allocation of funding support in Vorarlberg as most western province shows a similar priority for investment in farms and axis 3 measures. Vienna as capital (which is negligible in relation to overall RDP support) and the Burgenland are outliers. Vienna had its funding focus on measures of axis 1 “Improving the competitiveness of agriculture and forestry” and the Burgenland on measures of “agri-environmental scheme”. Figure 5 reflects these different funding priorities depending on contextual influences in an illustrative manner.

With regard to the regional distribution of expenditure it can be noted that the province of Lower Austria (NUTS 2) was most supported, followed by the province of Upper Austria and Styria. It is important to note that these are the three biggest provinces of Austria. However, a standardized comparison reveals that the differences in funding priorities at NUTS 2 level are relatively small with few exceptions.

Figure 5. Regional distribution of pillar 2 funding



Source: own elaboration

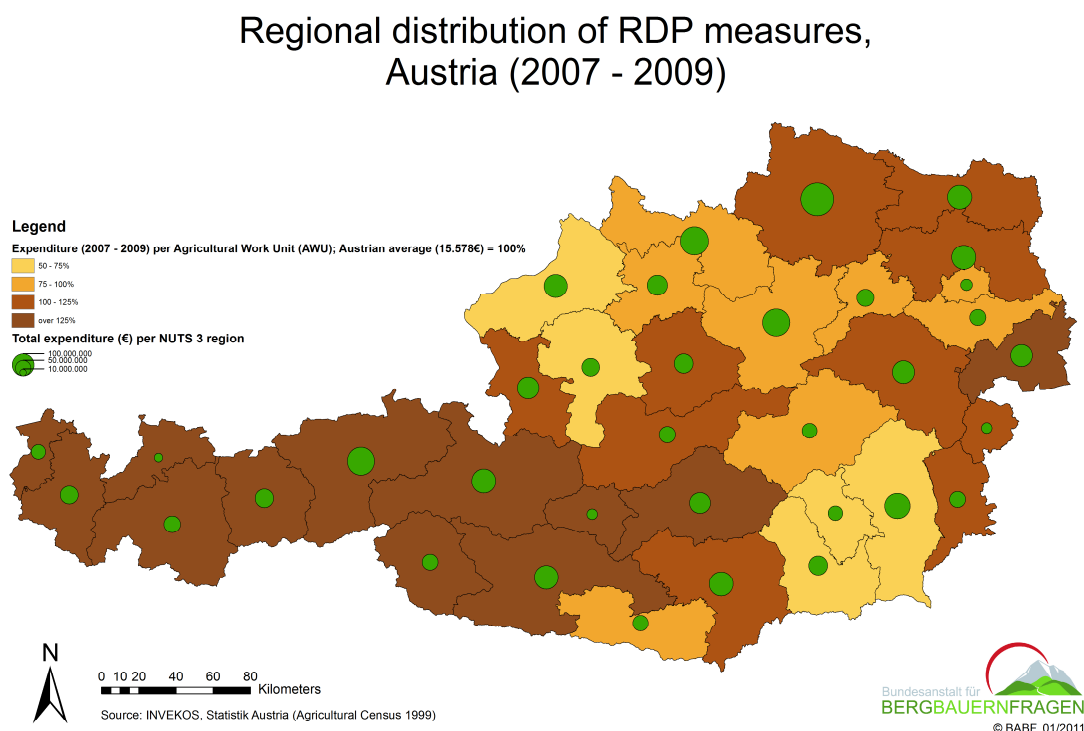
By involving the NUTS 3 level in the expenditure analysis for illustration of regional differences obviously also regions of Lower Austria, primarily agricultural orientated, especially the “Waldviertel” in the North benefited most from the Pillar 2 funds. But also regions in the

West and the province Burgenland received higher funds within the investigation frame (2007-2009). Furthermore, the NUTS 3 regions "Pinzgau-Pongau", "Tiroler Unterland", and "Oststeiermark" in the West and South are the typical less favoured areas of mountains, also influenced by agriculture, where expenditure at the regional level is above average.

The attached map (Figure 6) refers to the situation of regional distribution of funds per Agricultural Work Unit (AWU). Here it becomes obvious that most of support is used for the areas in the western part of Austria, in Lower Austria and in the previous Objective 1 area Burgenland in the East. The highest amount of RDP expenditure can be found in large parts of the Alps, Northern Austria and some (more agriculturally oriented) parts of Eastern Austria. A lower expenditure level per AWU can be found near the agglomerations as well as in some other regions in Upper and Lower Austria and in Styria.

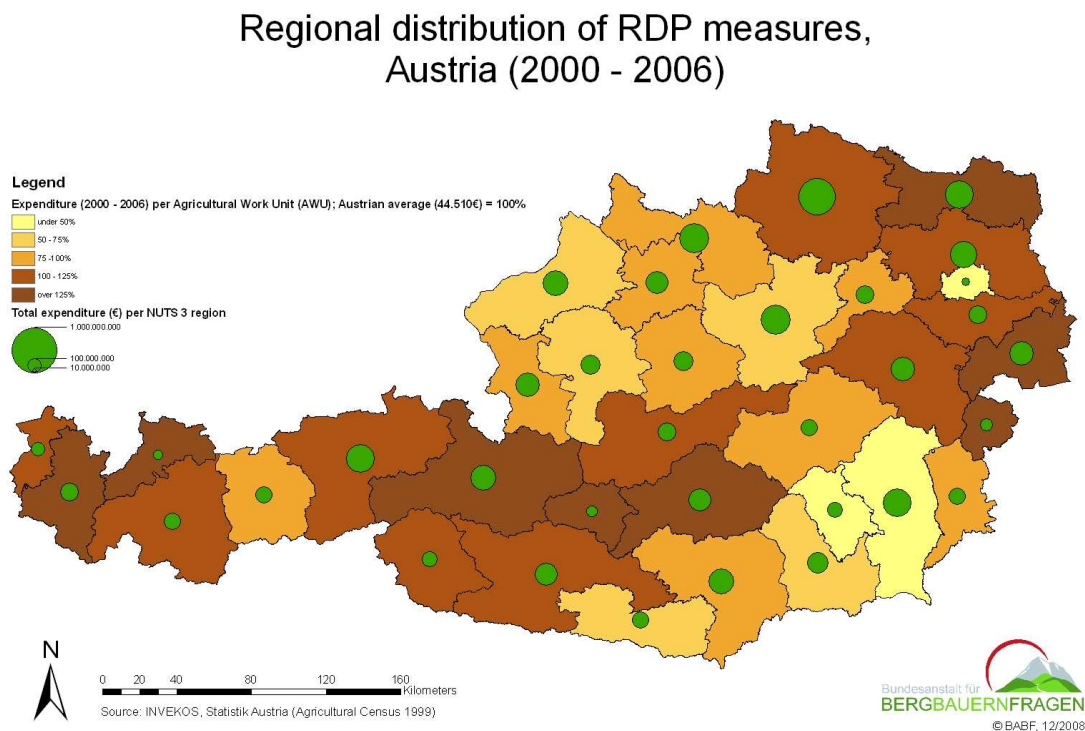
Apart from "Tiroler Unterland" all regions with the highest support are regions which showed significant regional development difficulties due to the former "closed" border to the Eastern European neighbouring countries and were seen as peripheral regions in the Austrian context over several decades. These regions are characterized by a predominance of primary agricultural production and also characterised by structural economic weaknesses. Another focus of expenditure is on the (less favoured) mountain areas in central and western regions of Austria (Strahl et al. 2008).

Figure 6. Regional patterns of RDP expenditure (Pillar 2) at NUTS 3 level 2007-2009



Compared to the previous programme period (2000-2006) there are hardly any differences in the current programme application (compare Figure 7). During the first half of the current funding period the western regions and a few others (for instance "Steyr-Kirchdorf" in Upper Austria or "Südburgenland") got relatively more subsidies than before. The map suggests that support was intensified in mountain regions (in relative terms). However, these figures only show the implementation of the first three years which include the uneven period of the start of the programme with substantially fewer funds being made available in the first programme year. As a consequence the regional distribution shown here might be effected by the different delays in starting the various support measures (e.g. LFA and agri-environment being continued over this period were not affected by such delays).

Figure 7. Regional patterns of RDP expenditure at NUTS 3 level 2000-2006



4. TERRITORIAL ANALYSIS OF THE NUTS 3 REGION "OBERSTEIERMARK WEST"

For a detailed analysis of funding priorities and the impacts of the CAP influence at the NUTS 3 level one region of the Austrian less-favoured mountain areas – the region "Obersteiermark West" – as part of the province Styria was selected as representative mountain region.

"Obersteiermark West" is characterized by high emigration of well-educated workers due to low economic growth and lack of job creation. The gross regional product is lower than the

Austrian average. The economic structure shows relatively more employees in the primary and secondary sector than on the Austrian average which is based on historical reasons. Thus, the Obersteiermark West was known as agricultural-industrial region, which belongs nowadays to the structurally-weak areas of Austria.

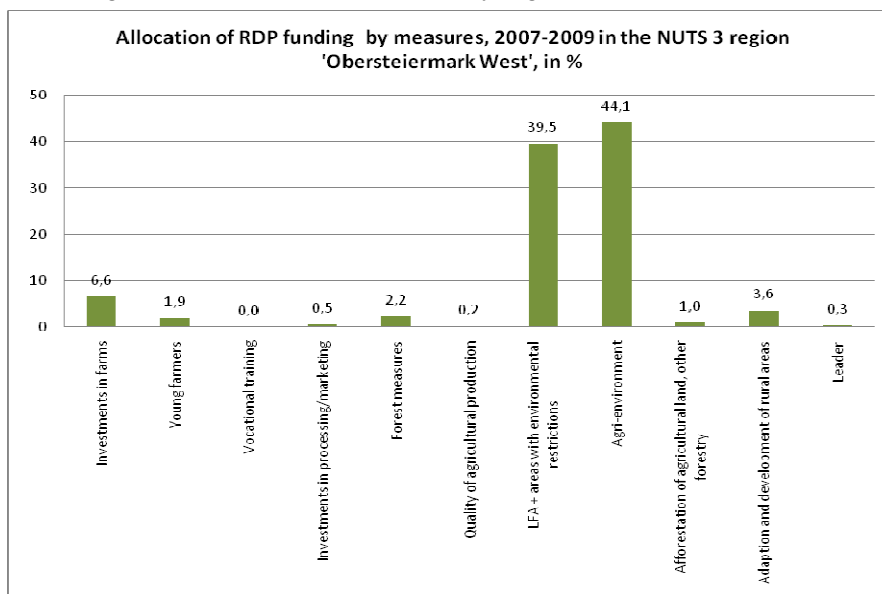
4.1. Funding priorities in Pillar 1

At this small-scaled level only 4 of the 6 main measures of Pillar 1 are used within the investigation frame from 2007-2009. The measure “SPS” got the most funds with 32 million € (73.7%), followed by “animal premiums” (26.2%) attributed to animal husbandry in less favoured and mountain areas as main farming practice. The other two measures “area premiums” and “restructuring of sugar industry” with only 0.1% each can almost be neglected. This shows the obvious influence on measure application by the geographical conditions of mountain areas.

4.2. Funding priorities in Pillar 2

All 11 main measures of pillar 2 are available in the region “Obersteiermark West”, albeit in quite different dimensions. Both “big” measures of axis 2 the “agri-environmental scheme” (44.1%) and the payments for “Less favoured areas” (39.5%) received a particularly high support amount. All the other measureas are comparably small and have much less influence on agricultural incomes than these two measures.

Figure 8. RDP distribution in study region Obersteiermark West



Source: own elaboration

These findings are consistent with those at national and also provincial level (see Figure 5), although the study region received relatively more support within the measures “Agri-

environmental scheme" and "LFA" based on their location in the mountain area and its high share of grassland. The region Obersteiermark West shows the same priorities as the province Styria, but with one difference of the axis 1 measure "Investment in processing and marketing" which is quite important at the provincial level, but not in the study region. By contrast the region "Obersteiermark West" has a specific focus on forest measures (2.1 mio. Euro + 1.0 mio. Euro for "afforestation") due to its richness of forest plants. Figure 8 shows a detailed overview of the distribution of CAP expenditure (pillar 2) and the consequent funding priorities in the region.

5. TERRITORIAL EFFECTS OF CAP

In order to respond to the hypothesis of this paper and to detect the differences of CAP effects, both levels – national and regional – are investigated for comparing the distribution of funds. Due to the fact that Pillar 1 is primarily an instrument for supporting incomes of farmers through direct payments as main instrument and for market regulation (EC 2010), the distribution of Pillar 1 is tied closely to the structural conditions. The analysis of the ESPON 2.1.3 project reveal that Pillar 1 support does not support "cohesion" objectives at all, but on the contrary support is concentrated in more wealthy regions of North-western Europe (Dax 2006). This finding is underlined by the national results for Austria, where Pillar 1 support is much more oriented to the agricultural production areas in the East whereas Pillar 2 has a much greater influence in mountain areas and LFA. The local influence in the application of the measures is also much higher for some of Pillar 2 measures.

But in the frame of the RD Policy it would be possible to improve the application system in respect of the regional differences in order to increase the effectiveness of CAP and its underlying instruments (RDP, axes, measures, etc.). Moreover, the Austrian funding priority is obviously more targeted on Pillar 2 than in other countries. The following analysis of CAP effects will therefore be centred primarily on the RDP application.

5.1. CAP effects at national level

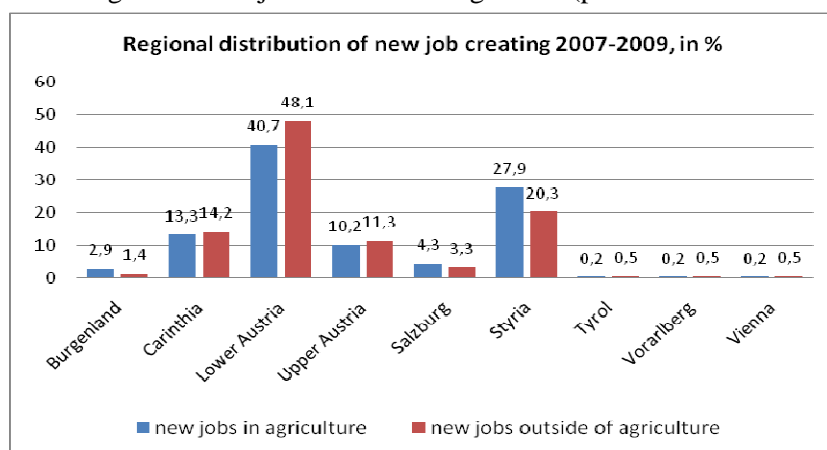
According to the results of Mid-term-Evaluation about 26,200 jobs (full-time job equivalents) could be created. Of these about 5,900 were created within the primary sector and about 20,300 outside of agriculture. For long-term perspective the effects of the RDP on the employment should be much larger because the RDP will ensure that a large part of rural areas right up to the alpine pasture remains accessible and will be used or maintained. In this context it is crucial to mention, that these results are based on a complex simulation model and don't reflect actual programme effects. Additionally to these modeled numbers about 2,200 (gross) new jobs should be created through the measures of axis 3 and 4. Furthermore, based on the simulation model an increase of the gross value added for the whole national economy would arise. Thereby, the highest gross effects would have been achieved by the measures "Investments in farms" and "Investments in processing and marketing". Furthermore, some

RDP measures should serve for broadening the range of the agricultural and forestry sector in terms of renewable energies. This would lead to an enforcement of income and employment impacts as well as to a reduction of the climate change effects (BMLFUW 2011).

Based on the information of the INVEKOS database 632 (gross) new jobs were created for the investigation period 2007-2009, of which 420 (66.5%) belong to the primary sector and the remaining 212 (33.5%) are located outside. Overall, the most (gross) new job were developed within measures of axis 3 "Adaptation and development of rural areas". In this context it is to mention that the objectives of both main measures of axis 2 "LFA" and "Agri-environmental scheme", are compensation payments for farmers' incomes foregone and environmental services provided, and not the creation of new jobs. Both measures contribute significantly to maintain farming in mountain areas and to secure agricultural jobs. Nevertheless, it has also to be taken into account that the INVEKOS database is not complete and accurate on these effects so that these figures can only be taken as indicative.

Distinguished by provinces these numbers show that Lower Austria created for the previous period (2007-2009) the most (gross) new jobs in the field of primary sector as well as outside of agriculture. But compared with the extended CAP expenditure this province should also have created the most jobs because it has received the most support. In comparison, Upper Austria with the second largest support has created relatively few new jobs. Styria got the third largest expenditure but created more than twice as many new jobs as Upper Austria, and also Carinthia with an average support (see Figure 9). However, Tyrol got the 4th largest funding but has created in comparison relatively few (gross) new jobs. These examples illustrate the existing differences of CAP effects (pillar 2) between the provinces which are not visible at national level. Nevertheless, it should be remembered that these results are estimations.

Figure 9. New jobs created through RDP (provincial level of Austria)



Source: own elaboration

5.2. CAP effects at NUTS 3 level

More detailed information and an analysis of the impacts of the CAP funds at regional level can be drawn from the example of the "Obersteiermark West". The following analysis of

employment effects is restricted to the analysis of axis 3 and 4 effects. This based on the understanding that particularly those measures are relevant for employment creation, above all for non-agricultural jobs. Nevertheless we have to underscore that the high support levels for the main RDP measures (agri-environmental measures and LFA payments) indeed have an effect in securing agricultural jobs in the region and cannot be neglected from the spatial viewpoint. Overall these effects would predominate in a comprehensive analysis of employment effects for the RDP measures and all the CAP as well. However, these effects tend to remain largely limited to sectoral effects and to up- and down-stream activities at different spatial scales.

Within the investigation period (2007-2009) 9 (gross) new jobs were created in the "Obersteiermark West" out of axis 4 measures, all of them in the primary sector, which is equivalent to 4.3% of all new created jobs in Styria. This is below-average compared with the other 6 Styrian NUTS 3 regions, illustrating the differences in the impact of RDPs within one province. As an example, the NUTS 3 region "Oststeiermark" accounts for an employment share of 31.8% of all new created jobs from this programme (axis 3+4) in Styria. But compared with other provinces and their NUTS 3 regions the case study region "Obersteiermark West" created an average number of new jobs. Beyond creating new jobs a significant effect can be seen in *securing* jobs: In the region "Obersteiermark West" 22 jobs could be secured by these measures of the RDP, especially from axis 3. By contrast the "Oststeiermark" in comparison has secured with 65 jobs three times as many jobs.

Apart from the overall RDP effects as gross value added, employment and job creation also the establishment of new infrastructure (as one measure of axis 3 "Adaptation and development of rural areas") to improve the accessibility in rural areas has a sustainable impact on rural society and its quality of life. Thus, in the "Obersteiermark West" on the basis of 874,000€ of public funds 13.3 km new (transport) roads were built and further 26.8 km rebuilt during the investigation period (2007-2009). Through this new infrastructure 6,022ha were opened up or connected to the higher road network. In the region "Oststeiermark" with a support of 800.000€ 21.7 km new roads were established, 3.5 km renewed and 1,545 ha new opened up. This reveals the effects through another perspective highlighting the considerable impact of infrastructure development (for more peripheral and less-developed areas). Overall, according to the results of the Mid-Term-Evaluation 32.7 million € (2.7%) of Pillar 2 funds (with national co-funding) were used in Austria for infrastructure measures by which 425 km new roads could be built, 158 km rebuilt and 52,544 ha opened up (BLMFUW 2010).

6. CONCLUSIVE REMARKS

The analysis of regional distribution and the different effects of RDP (but generally also all CAP) funds between the Austrian regions underpin the requirement to include the regional level in the planning and application of the RDP and their main measures is essential for an efficient use of resources.

Although in the Austrian RDP 2007-2013 the heterogeneity of Austrian regions is generally taken into account; the programme is mainly conceived as a horizontal programme for

the whole territory: There is hardly any spatial differentiation and strategic inclusion of the territorial dimension in the design of the implementation of the respective RDP measures. Moreover all RDP measures, apart from "Less favoured areas" payments which depend on the production conditions and to some extent the spatially differentiated application of axis 3 and Leader measures, are applied horizontally across all regions of Austria. In consequence, the RDP is not adapted to or targeted at the inclusion of the needs arising from the regional conditions. With this conceptual approach the regional level is consciously turned off, also under the assumption that CAP expenditures are not achieving in all regions the same effects.

It might be an important step for future programming to consider the different regional conditions in programme design and implementation. Regional needs and spatial effectiveness could be targeted thereby more effectively than under the current application. In particular the focus on the effects from RDPs could be increased through such a conceptual change. Another approach, which is however at this time not realistic in policy terms, would be to split up the unique national RDP into regional programmes in order to respond more effectively to the geographical and socio-economic conditions of rural regions.

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