



HÁSKÓLI ÍSLANDS

Stjórnmálafræðideild

MA-ritgerð í alþjóðasamskiptum

**Finland: the “Leader“ of Rural
Development in Europe**

**What can Iceland learn from its Nordic
counterpart?**

Inga Dís Richter

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Útdráttur

Meginviðfangsefni þessarar ritgerðar er að skoða og meta dreifbýlisþróunarstefnu Evrópusambandsins út frá Finnlandi, nágrannaríki Íslands, sem fylgt hefur henni frá árinu 1995. Finnskar og íslenskar aðstæður í dreifbýli er hliðstæðar á allnokkrum sviðum. Gefin verður sýn á hvar hagstætt er fyrir Ísland að samsama sig dreifbýlisþróunarstefnu Finnlands og í hvaða tilvikum það ætti fremur að feta eigin braut. Í þessu skyni verður rakin sú þróun sem orðið hefur á dreifbýlisþróunarstefnu sambandsins og fjallað ítarlega um finnsku dreifbýlisþróunarstefnuna með það að markmiði að finna leiðir sem komið geti Íslandi að gagni. Að lokum verður gerð grein fyrir stöðu Íslands gagnvart dreifbýlisþróunarstefnunni og gerð tilraun til þess að lýsa því hvernig íslensk stefnumörkun þyrfti að líta út ef til aðildar að Evrópusambandinu kemur.

Helstu niðurstöður ritgerðarinnar benda til þess að gagnlegt væri fyrir Ísland að leita til nágranna sinna í austri og hagnýta svipaðar aðferðir og Finnland á mörgum sviðum dreifbýlisþróunarstefnu. Sérstaklega ætti Ísland að tileinka sér aðferðarfræði Finna við að efla grasrótina og hefja afmörkuð verkefni á dreifbýlum svæðum. Einnig eru margvísleg tækifæri sem lúta að eflingu samkeppnishæfni smárra- og ör- fyrirtækja sem vert er að skoða. Einnig ætti Ísland að leggja áherslu á að viðhalda tekjum bænda. Ísland ætti að tileinka sér gagnsæja stjórnsýslu og gagnsæjar leiðir við innleiðingu líkt og Finnar. Hins vegar ætti Ísland að tileinka sér einfaldari stjórnsýslu en Finnar, leggja áherslu á skýra markmiðasetningu og markvissa eftirfylgni. Rammi Evrópu-sambandsins er víður og það er í höndum aðildarríkja að sníða hann að þörfum eigin landsbyggðar. Hugtakið dreifbýlisþróun heyrir vart í íslenskri orðræðu heldur er eingöngu rætt um byggðapróun. Það þarf að breytast. Stjórnkerfi og stofnana-uppbygging Íslands á þessu sviði er bæði flókin og lagskipt. Nauðsynlegt er að einfalda kerfið og gera skilvirkara til að auðvelda framkvæmd, utanumhald og eftirlit, bæði innanlands og fyrir Framkvæmdastjórn ESB þegar meta á framkvæmd stefnunnar.

Abstract

The main aim of this paper is to examine and evaluate the Rural Development Policy of the European Union from the case study of Finland, a Nordic counterpart to Iceland that has followed the Policy since 1995. Finnish and Icelandic conditions in rural areas are similar in several aspects. An idea will be given on where it is favorable for Iceland to identify with Finland's Rural Development Policy and where it should follow its own path. For this purpose, the developments that have taken place in Rural Development Policy in Finland are discussed in depth, with the purpose of finding ways that could benefit Iceland. Finally, the situation in Iceland with respect to Rural Development Policy is explicated, concluding with reports on what needs to be done in this Policy field in Iceland if it should become a member of the European Union.

The main findings of the thesis suggest that Iceland can indeed look towards their neighbors in the east, and to use similar methods and Finland in many areas of Rural Development Policies. Iceland should especially adopt Finland's methodology in involving the local people in the urban areas with its Leader approach, maintaining farmer's income and adopting transparent governance and transparency in implementation. Iceland should however adopt simpler methods when it comes to administration and bureaucracy. Iceland has to be careful not to distribute energy and resources of many actors. The framework of the European Union is wide and it is in the hands of the Member States to tailor it to its needs. In terms of the institutional structure of Iceland in this field it is complicated and layered. Work must begin to simplify it, by for example reducing the number of parties involved in implementation and by enhancing centralized management. That would make implementation, monitoring and management, both domestically and for the European Commission that much easier.

Formáli

Þessi ritgerð er unnin sem 30 eininga lokaverkefni í meistaranámi í alþjóðasamskiptum við stjórnmálafræðideild Háskóla Íslands. Verkið var unnið undir leiðsögn Daða Más Kristóferssonar, lektors við hagfræðideild, og fær hann miklar þakkir fyrir góðar ábendingar. Ritgerðin fjallar um dreifbýlisþróun og markmið hennar er að skoða dreifbýlisþróunarstefnu Finna út frá ramma Evrópusambandsins og út frá því sjá hvað Ísland geti lært af þeirra stefnu og stefnumótun.

Ég vil þakka Samtökum iðnaðarins og Alþjóðamálastofnun Háskóla Íslands fyrir styrk sem mér var veittur við gerð þessa verkefnis.

Margir aðilar réttu mér hjálparhönd og vil ég þakka Piu Hanson fyrir frábæra vinnuáðstöðu og skemmtilegar samræður. Ég vil einnig sérstaklega þakka Andra Júlíussyni og Sirpu Karjalainen fyrir aðstoð við heimildaöflun. Samnemendur mínir fá einnig góðar þakkir og vil ég þar sérstaklega nefna Maríu Björk sem deildi með mér skrifstofu og veitti mér aðstoð við heimildaskráningu. Amy Elizabeth fær miklar þakkir fyrir framúrskarandi yfirlestur.

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Introduction

A changing political environment in the 21st Century with increased interconnectedness and interdependence has brought about new political and environmental challenges that the Icelandic government is imminently facing. Changes have been occurring in Icelandic politics in recent years, affected by globalization and European integration. These two concepts contribute to Iceland gradually moving closer to Europe, beginning already with membership of EFTA¹ in 1970, the EEA-Agreement² in 1994, and through the Schengen cooperation in 2001.³ Last but not least is the Icelandic application for membership of the European Union (EU) put forward on July 16th 2009.

Being an EU applicant country calls for a re-assessment on the administrative and legislative changes due with membership, one of them being Rural Development Policy and the focus of this essay. In conjunction with other factors such as global development, the World Trade Organization negotiating new rules for international agricultural and food trade, and the European Union's Common Agricultural Policy changing its emphasis on direct payments to the multi-functional role of agriculture, all emphasize the fact that this re-assessment is needed. More broadly, whether Iceland will end up as a Member State of the European Union, or not.

A recent Icelandic research indicated that if Iceland should join the EU, changes relating to Iceland's rural regions are likely. Membership would open financial access to the European Agricultural Fund for Rural Development as well as provide opportunities for development in rural areas and employment (Björnsdóttir and Guðjónsdóttir, 2009). With membership of the European Union, doors to several EU funds open and one of them being the European Fund for Rural Development. With those funds simultaneously come legislative frameworks and strategic guidelines that Member States of the Union need to study and evaluate pertaining to their interests and focus areas.

¹ The European Free Trade Agreement involves free trade in industrial goods

² The European Economic Area - Iceland joined the inner market of the EU

³ The Schengen area represents a territory where free movements of persons is guaranteed

In Icelandic political discourse the main focus has been on the Common Agricultural Policy of the Union. The discourse, however, focuses more on the Policy's first Pillar and how it relates to farmers with market interventions, coupled subsidies, and direct income support (Reform the CAP, 2009). Therefore, a need for research on the Second Pillar, The Rural Development Pillar, is in order. Concerning Rural Development, Iceland has great interest due to the fact that the country has large land coverage, despite a low population with sparsely populated rural areas. Interests need to be protected, and looking into the EU's Rural Development Policy framework can shed a light on what possibilities are out there for Iceland to enhance and strengthen in its rural areas.

The name of this essay is *Finland: The "Leader" of Rural Development in Europe, what can Iceland learn from their Nordic counterpart?* The main purpose is to examine and evaluate the Rural Development Policy of the European Union (EU) using the case study of Finland as a comparative approach for Iceland's own EU aspirations.. The focus of this essay will be on Finland and its two most recent Rural Development Programmes, the first spanning from 2000 to 2006 and the second and ongoing one from 2007 to 2013. From these examinations possible focuses for the Icelandic administration will be drawn out as well as recommendations on using some of the measures available within its framework.

The goal of this essay is to look into Rural Development policies that align with Iceland's present policies to add to the debate on membership to the European Union. Iceland's interests in Rural Development measures are kept in mind. The case study used as a comparison is Finland due to rural similarities between Finland and Iceland, and Finland has been considered successful in their implementation of Rural Development measures.

This thesis examines, in the light of the Finnish experience, possible effects the EU's Rural Development framework would have on development measures in rural areas and possible changes on the current status of the Rural Development Policy set-up within the Icelandic Government. It is aspired that this research can shed some light on what lies ahead for the Icelandic authorities and actors involved in Rural Development measures. Hopefully this thesis can benefit those actors involved by demonstrating possible actions and measures in this Policy field.

For this thesis it is fitting to use qualitative research methods. Within the school of qualitative research a choice of several ways are available that lead the researcher through his or her study. Here, the *case study* method is used. A *case study* is a focus on a single case, a person, a group, a setting, etc... It allows for investigation on details, including contextual matters of an observable fact. The emphasis is on explication (Hart, 2005). The thesis is largely presented by the available data on the subject, such as EU Regulations, Rural Development Programmes, EU Guidelines, reports, academic journals, appropriate websites, interviews, and other written material. The thesis uses inquiries directly to the researcher from experts on the topic, chosen with regard to their knowledge and/or experience in the appropriate field that could be used to provide answers for the research. This *case study* is developed by the author's proprietary understanding of the subject by reading available sources and by gathering information from experts on the subject. These experts include persons from the Icelandic Ministry for Fisheries and Agriculture, the Icelandic Ministry for Foreign Affairs, experts working at the Directorate-General for Agriculture and Rural Development of the European Union, and last but not least Finnish experts on Rural Development Programmes in Ministries and research centers. Approaching the material can be done in different ways (Creswell, 1998). By reading the data for this specific topic, a critical eye was needed to attain good insight into the subject. Since the Policy was only formally established in 2003 not many independent publications on its successes and failures have been made, most are published by or on behalf of the European Union. The information obtained from the European Union was taken with notice as one can expect a unilateral disclosure. In the light of the official data available regarding EU's Rural Development Policy, a practical way to approach the material in an uncolored and pragmatic way, is to get direct information from specialists in Finland, who have been involved in and taken part in implementing Rural Development Policies in Finland since 2000 and to this day.

The thesis is divided into five parts. The first chapter rakes through the history of EU's Common Agricultural Policy with a clear emphasis on CAP's Second Pillar, the Rural Development Pillar. The second chapter discusses and analyses the 2000-2006 Rural Development Programme in Finland, concluding

with an assumption on its strengths and weaknesses. Chapter three explains the a recently established new framework named the Community Strategic Guidelines that is used by Member States in the ongoing period, 2007-2013. Chapter 3 is a description of Finland's ongoing Rural Development Programme showing how it uses the framework described in Chapter 3 with a focus on their objectives and possible achievements. Iceland is the subject of the Chapter 5. Here the possibilities within EU's framework judging by the Finnish case are evaluated. The current situation in Iceland when it comes to Rural Development measures is explained followed by a description on administrative participation in Rural Development Measure. Chapter 5 concludes on addressing the possibilities for Iceland within the EU Rural Development framework and pointing out what the Icelandic administration needs to put their focus on in the light of the Finnish experience with Rural Development affairs after joining the European Union. To wrap up, the author will draw conclusions from the results set out in Chapter 5 about Iceland's position towards the Rural Development Policy of the European Union judging by the Finnish case. The aim is to realistically assess how it would be for Iceland to participate in such a framework and bring forth ideas on the next steps the Icelandic administration could make, making this essay as a usable working document.

1. A Policy Brief on the Common Agricultural Policy

The Common Agricultural Policy (CAP) dates back to the 1950s and the early days of European integration in Western Europe. Europe was damaged by years of war, agriculture was crippled, and food supplies were neither consistent nor guaranteed. The Member States of the European Union (EU) made a commitment aiming to restructure and increase food production, previously deteriorated by the Second World War. The main emphasis of the early CAP was encouraging better agricultural productivity so that consumers could conceivably enjoy a stable supply of affordable food, while also aiming to ensure that the EU had a viable agricultural sector (European Commission Directorate-General for Agriculture and Rural Development, n.d.). Additionally, the establishment of a Common Agricultural Policy was considered a premise for and a prelude to the common market and the free movement of goods and services amongst European countries. Not only does agriculture contribute to increased food supplies and economic development, but it is also a source of employment (Hill, 1984).

Over the years, the CAP has been reformed several times and various structural changes have been made to meet current Policy goals and also to project the future direction of the market. The first reform was almost forty years ago and the nature of the rural economy and the environment in the EU has changed dramatically since then. Significant fluctuations in the overall economy and development of Europe, like the introduction of mass-producing technology, has induced changes in workforces and forced migration from rural to urban areas that continues to increase to this day. Changes can be expected to continue and a range of other issues can be expected to emerge in both agriculture and Rural Development, the Policy areas that constitute the two Pillars of the CAP (ÖIR-Managementdienste, 2007). Many important changes to the CAP already were made in the 1980s, but some of the most significant alterations came at the beginning of the 1990s when production limits were created to help reduce surpluses. Additionally, a new emphasis also was placed on environmentally sound farming. Farmers had to look more to the market place to respond to the

public's shifting priorities. These developments created a momentum shift in Policy (European Commission-Directorate-General..., n.d.).

Today, the CAP plays a large role in the EU, not simply for the fact that farmland and forests account for more than 90 percent of land within the EU and of which more than half is farmed, but additionally it has been used as a means to face new challenges in terms of food quality, environmental protection, and trade. Agriculture and forests play a role in determining the health of rural economies, as well as the rural landscape in Europe. Agriculture also contributes towards member states' sustainable economic development. In general, farming can be described as having multiple impactful roles. Farmers perform a variety of roles and tasks ranging from food and non-food agricultural production, to countryside management, nature conservation, and even tourism. Europe, meanwhile, has many different regions where the conditions for agricultural production vary (European Commission Directorate-General..., n.d.). Many, however, raise questions on its success. The European Union may constitute many of the wealthiest states of the world, but there are big internal disparities in terms of income and the amount of opportunities between its regions (European Union, 2010).

The CAP continually has evolved which reflects the changing needs of agriculture and modern society. Even back in the 1950s, in the very beginning of the CAP, certain measures were introduced in the form of help for early retirement, professional training, and more attention given to neglected regions, which today are still all parts of today's Second Pillar, the Rural Development Pillar. Through reforms of the CAP, the European Union aims to respond both to its critics, as in for example milk quotas generating mass overproduction, as well as to other emerging challenges like the 'phasing-in' mechanism on direct payments. Other criticism of the CAP to mention focuses on its First Pillar of production and income support and proposes the transfer of funds to the Second Pillar for Rural Development and environmental protection. Farmers hotly debated the reduction of direct payments to farmers and transferring them to Rural Development. The role of agriculture in environmental protection and management, however, gradually receives greater and greater emphasis, while agriculture is still the primary sector in maintaining the viability of the rural areas.

Besides trying to ensure the basic function of agriculture to produce food and raw materials, the main issues behind changes already made include quality, as well as health and safety for employees and for production animals. Criticism directed solely at the Second Pillar tends to come from environmentalists who focus on its ecological shortcomings (Zahrnt, 2009). Agriculture often faces conflicting expectations from society and divisive opinions are strongly reflected in the discussions on the multifunctional roles of agriculture and its European model. In 2004 a number of new member states entered the EU and enlargement is likely to continue in the next few years. New rules for the international agricultural and food trade are being negotiated in the World Trade Organization. These processes have significant impacts on the CAP by affecting European agriculture's standing and competitiveness on the international market (Ministry of Agriculture and Forestry, 2006/2009).

1.1. CAP's Second Pillar: Rural Development Policy

Rural areas⁴ represent 92 percent of the territory and 56 percent of the population in today's European Union. They generate 45 percent of Gross Value Added⁵ and provide 53 percent of the Union's employment. They tend, however, to lag in a number of socio-economic indicators, compared to non-rural areas. In rural areas, income per habitant is around a third less⁶, activity rates for women are lower, the service sector is less developed, higher education levels are generally lower, and fewer households have access to broadband internet. Remoteness and peripherality are major problems in some rural regions. These disadvantages tend to be even more significant in predominantly rural regions, although the general picture at EU level can vary substantially between Member States. Lack of opportunities, contacts and training infrastructure are a particular problem for women and young people in remote rural areas (Commission of the European Communities, 2005). Due to these aspects the EU has established a separate pillar under its Common Agricultural Policy especially made for the Union's rural areas, the Rural Development Pillar. Farming and forestry are the main land uses in rural areas and as such play a big role in rural communities. Member States each conducted opinion polls clearly demonstrating that a living and sustainable

⁴ According to the OECD Definition measured by population density

⁵ GVA measures the contribution to the economy of each individual producer, industry or sector.

⁶ As measured by GDP at purchasing power parity.

countryside matters to European citizens (European Commission Directorate-General., n.d.). Rural Development can also play a role in view of present and future challenges like globalization, population trends, migration, and climate change (Fisher-Boel, 2008).

Rural areas are complex economic, natural, and cultural locations that differ markedly from one another in their economic structure and activity, their natural and human resources, the remoteness of their location, their demographic and social conditions, as well as culturally. This diversity is widely perceived as a promising feature in coping with change and in developing new bases for economic and social life (Shucksmith, Thomson and Roberts, 2005). RD measures under the CAP are largely directed at the agricultural population in rural areas. They are meant to help farmers diversify their holdings, exploit new income sources, better market their products, etc. They provide direct support to farmers in Less Favoured Areas (LFAs⁷), contain measures for professional and environmental training, and include social elements, such as support for basic rural services or setting-up of farm relief services. They also contain important measures of environmental relevance, such as training, afforestation, and agri-environmental schemes. The agri-environmental schemes are the only obligatory measures and take up about 50 percent of RD spending in EU Member States. Opportunities also exist in creating a new, diverse range of farm products, in rural tourism, or through an increased demand for environmental services of farmers and rewarding them via agri-environmental schemes (Department of Agriculture, Fisheries and Food, e.d.).

1.2. Reforms concerning Rural Development: The Evolution of Pillar 2

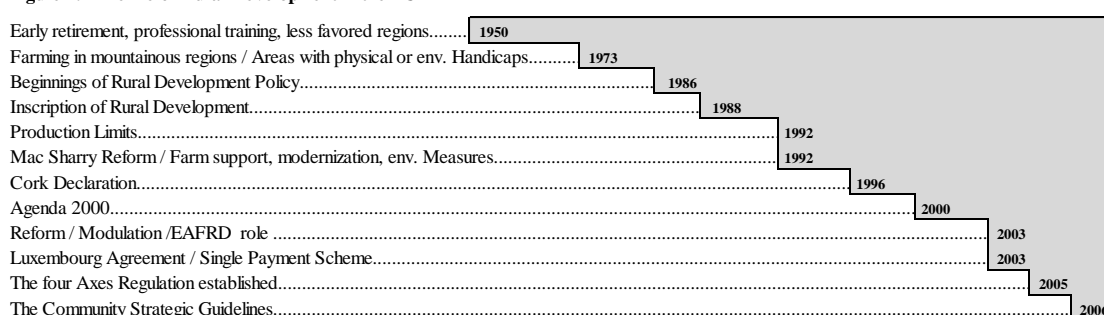
From an early stage there was a realization that the basic problems of agriculture cannot be solved by price support measures alone. In order for agriculture to develop into a dynamic sector and successfully compete on world markets, structural issues needed to be addressed. Farm fragmentation, inadequate production scale, low levels of investment, and ageing farmer profiles were all issues many Member States needed to address. In addition, regional differences also needed to be taken into account. These differences could not be

⁷ Less favoured areas are areas experiencing handicaps where aid to farmers is granted

accommodated into a one-size-fits-all centrally determined Policy (ÖIR-Managementdienste, 2007). Therefore the major reforms influencing Rural Development will be dissected thoroughly to explain why this Policy was set-up and why its importance has gradually grown over the past decades.

As previously stated, all the way back in the 1950s, in the very beginning of the CAP, measures were introduced in the form of Rural Development by providing help for early retirement, professional training and favoring less favoured regions (European Commission Directorate-General..., n.d.). The measures that make up the current RD Policy mainly were introduced during the nineties, and some have even earlier origins from the seventies and eighties. In 1973 a directive concerning farming in mountainous regions and areas with physical or environmental handicaps were established that today still hold a specific place within the EU's CAP. In the eighties, rural areas looked to become more specifically and systematically defined and the 1986 Single European Act, often referred to as the beginnings of a Rural Development Policy, was the first to evoke the notion of rural areas and RD was designated as one of the five objectives of Cohesion Policy. In 1988 the inscription of RD in the Programme of Cohesion Policy was sealed. This Policy initiated the support for the development of rural areas and in targeting regions that developmentally were lagging behind (ÖIR-Managementdienste, 2007 and Chambon and Tomalino, 2009).

Figure 1. Timeline of Rural Development in the EU



The Second Pillar has emerged out of the development as well as a more scrutinous reform of the CAP, especially since the nineties. RD Policy is not a new Policy, but rather a Policy that has been adapted and developed out of the existing CAP. The 1992 MacSharry Reform, discussed in more detail later, was very significant for the CAP in initiating the shift from price support to direct payments to producers. Also in 1992, CAP reform reached a new stage with the

definition of an EU RD Policy, which strengthened the weighting of agri-environmental measures and partially compensated falls in agricultural prices with support measures (Chambon and Tomalino, 2009). As the 1990s progressed, the importance of RD as a Policy priority for the CAP increased. In a context of growing criticism that the CAP as an agricultural model had focused more on quantity rather than quality, generated pollution and health risks, and damaged traditional landscapes, the Cork Conference marked a turning point. This was the first official conference focusing solely on RD. The Cork Declaration of 1996 set out to put RD at the top of the EU agenda. The declaration pushed for a much expanded RD role to embrace the whole farmed countryside. Many of the existing schemes needed to be brought together to simplify the array of Policy measures. RD had appeared as a means of adapting the CAP to new challenges, particularly to the need to respond to the changing preferences of consumers. An emphasis on subsidiarity with regional programming, greater transparency, and bottom up participation were seen as important in achieving an integrated RD Policy. By proposing an integrated and multi-sectoral approach to RD, the reform was an attempt to create a non-agricultural vision of the CAP's measures (ÖIR-Managementdienste, 2007 and Chambon and Tomalino, 2009).

Agenda 2000 continued the reform that the MacSharry reform had established by promoting the competitiveness of European agriculture, and more importantly supporting the RD Policy. Its stated objective was to help farmers restructure their farms, create rural initiatives, and to diversify and improve their product marketing (European Commission Directorate-General..., n.d.). Here, CAP reforms took a new turn. The aims of agricultural Policy were reformulated to give greater emphasis to the environmental Policy objectives and to the multifunctional role of the European model of farming. The CAP structure formally was divided into two pillars with Rural Development given a much more prominent role as the Second Pillar. An integrated RD Policy was introduced, it brought together the accompanying measures of the MacSharry reform, plus compensatory allowances under the LFA measure, as well as RD measures previously financed by the European Agricultural Guidance and Guarantee Fund (EAGGF) into a single Rural Development Regulation (RDR). The new RDR also included a new set of measures to promote the adaptation and development of

rural areas. This extended the scope and eligibility of the CAP to non-farmers and nonagricultural activities. This also appropriates for the CAP the currently popular thinking on agriculture's multi-functionality (ÖIR-Managementdienste, 2007 and Chambon and Tomalino, 2009).

States, however, rarely decided in favour of the Second Pillar. It wasn't until the 2003 reform and the implementation of the compulsory modulation⁸, explained in detail later, that Second Pillar tools and reforms gained a sense of balance. The RDR system was too complicated to coordinate because the funds did not respect the same accounting rules and based on optional modulation it quickly showed its flaws. From these observations emerged the idea for a unique RD Fund to simplify the Policy and the modulation obligation for Member States. In Salzburg 2003 the European Agricultural Fund for Rural Development (EAFRD) lost its status as a structural fund so there no longer was an obligation of integration with the other funds (European Conference on Rural Development, 2003). In return the EAFRD intends to respond to the needs of rural areas. This financial engineering helps to improve the coherence of the different measures and places RD principally under the auspices of the CAP, allowing individual regions to plan rural measures within the framework of their own regional programmes (Chambon and Tomalino, 2009). The next reform was the Luxembourg Agreement reached in 2003 as part of the mid-term review of the Agenda 2000 agreement. The main aim of the reform was to decouple the support from production using the Single Payment Scheme (SPS) and to strengthen the position of the RD Policy as the Second Pillar of the CAP. As part of the agreement, direct payments for bigger farms were reduced, known as modulation, by three percent in 2005, four percent in 2006 and five percent from 2007 onwards (see Table 1). This generates approximately 1.2 billion Euros per year. The modulated money then is redistributed among Member States (Agra CEAS Consulting, 2005).

⁸ Modulation aims to reduce direct payments to farmers and to transfer corresponding appropriations to RD

Direct payments of up to 5000 Euros per farm, however, were made immune from reductions. The objective was to improve the competitiveness of agriculture by making it market-oriented (Ministry for Agriculture and Forestry 2006/2009 and ÖIR-Managementdienste, 2007). From here on out the vast

Table 1. Modulation reductions

	2005	2006	2007	2008-2013
Farms with up to 5000 Euros direct payments per year	0,0%	0,0%	0,0%	0,0%
Above 5000 Euros per year	3,0%	4,0%	5,0%	5,0%

Source: Agra CEAS Consulting, 2005.

majority of aid to farmers is paid independently of how much they produce. Farmers also have to respect environmental, food safety, phytosanitation, and animal welfare standards, whether their personal ideology supports those measures or not. Farmers who fail to adhere will face reductions in their direct payments, a condition known as cross-compliance. Severing the link between subsidies and production, usually termed decoupling, will enable EU farmers to be more market-oriented. They will be free to produce according to what is most profitable for them, while still enjoying a required stability of income (European Commission Directorate-General..., n.d.). Another part of the Luxembourg Agreement was that the scopes of measures available from 2005 under RD were extended. The changes were geared towards agriculture and aimed at helping farmers respond to new challenges. Member States and regions choose if they wish to take up these measures as part of their Rural Development Programmes discusses in detail later in the essay. The new measures included food quality, support in meeting standards in the areas of environment, public, animal and plant health, animal welfare and occupational safety, and support to help farmers with the cost of using farm advisory services. It also included support for farmers to improve the welfare of farm animals beyond the common practices of good animal husbandry (ÖIR-Managementdienste, 2007). Today's set-up involves seven-year plans, established at Agenda 2000 with the European Agricultural Fund for Rural Development (EAFRD). Also within the legislative framework, four strategic Axes were developed. Axis 1 has a strong emphasis on infrastructure support in relation to the adapting of agriculture and forestry towards new market conditions, modernization of agricultural holdings, adding value to agricultural and forestry products. Axis 2, the largest budget share, contributes to agri-environmental measures coupled with a variation of single

measures, depending on the national or regional needs, such as organic farming, environmental protection measures, and ground water protection. Notably, areas with handicaps or those presenting special difficulties also are funded through this Axis. Axis 3 promotes the tourist industry, basic services for the rural economy and rural population, business development, micro-enterprises, village renewal and development, diversification into non-agricultural activities, and investments in rural heritage. Axis 4 is a methodological Axis practicing the bottom-up approach (ÖIR-Managementdienste, 2007). These Axes and today's set-up will be thoroughly outlined in *Chapter 3*.

1.2.1. From Scattered Measures towards a Rural Development Policy

The history of the EU's action for rural areas is one of slow, discontinuous incremental support. As a result of its mixed origins, RD under the CAP is somewhat of a hybrid concept and a function of different reforms. RD Policy combines EU aids targeted to the agricultural sector not directly used to market management and support. Thus it supports a range of actions that traditionally would not have been considered as Rural Development. At the same time clear RD issues such as infrastructure development and social cohesion are not addressed directly under Pillar 2 (ÖIR-Managementdienste, 2007). All in all the bureaucratic hiccups called for greater reflection on the possibilities for the future development of the CAP and the Rural Development perspective.

Within the CAP, EU's Structural Policy has evolved from a uniform, farm-orientated Policy based on horizontal measures through regionally differentiated programmes, to a post-Agenda 2000 and a post-Luxembourg Agreement Policy, with an emphasis on RD in which Member States and regions can choose 'à la carte' from a set menu of programmes. EU's agriculture structural policies tried to influence the pace and direction of adjustments of agricultural structures over time. Structural policies addressed issues such as the production structure of individual farms, as well as, the size structure of holdings and the demographic structure of farming. More recently the focus has been an agricultural view of structural Policy with wider issues of RD and an integrated EU RD Policy supporting the multi-functionality of agriculture and the economic improvement of rural areas. The CAP RD Policy, however, has a limited interpretation of Rural

Development and continues to have a very strong agricultural focus (ÖIR-Managementdienste, 2007).

We can see that the RD Pillar evolved similarly to the development of the CAP, from a Policy dealing with the structural problems of the farm sector to a Policy addressing the multiple roles of farming in society and, in particular, the challenges faced in its wider context. Today's Second Pillar aims to support agriculture as a provider of public goods in its environmental and rural functions, and should help rural areas in their development (European Commission Directorate-General for Agriculture and Rural Development, 2006a).

Besides the CAP, EU's RD Policy complements the Cohesion Policy and the Common Fisheries Policy of the Union, which both offer tools for Rural Development as well. Through the Cohesion Policy, the Community aims to minimize the development disparities between regions and support the development of regions in a weaker position than other regions, including the rural areas. The Common Fisheries Policy is concerned with the sustainable development of the fisheries sector. All the Community policies are built on the Lisbon and Gothenburg conclusions. What is important for the viability of rural areas is the coordination of the operations of different Policy sectors that have an impact in rural areas (Ministry for Agriculture and Forestry, 2006/2009). The coordination of these programmes has been debated and remains hazy, and to some extent complex, despite changing the Funds and only applying one Fund, especially for Rural Development measures. For the sake of their similarities, a thin blurry line still exists between Rural and Regional Policy.

It is worth mentioning that there is a distinct separation of Rural Development plans from Regional Development policies. Rural Development policies are an assorted mix of old and new tools. The more traditional tools are indeed those derived from the classical structural Policy introduced in the early seventies. The main types of intervention that belong to the classical structural Policy are farm investment supports, incentives for agri-food industry, and income support to farmers operating in disadvantaged areas. In 1992, a reform of the agricultural Policy introduced new measures aimed at accompanying the reduction of farm support, modernizing the agricultural sector, and driving it towards more environmentally oriented practices. The MacSharry Reform in 1992 introduced a

group of measures known as the “accompanying measures” of the 1992 reform process, which were early retirement, agri-environment and re-afforestation of agricultural land. All provide direct aid to farm income without a specific link to an investment project. Their specific objectives range from offering incentives for elder family members to retire, implementing environmentally sustainable farm practices, and the reduction of utilizable agricultural land. The more recent measures introduced in the EU toolbox are those devoted to the support of the rural territories and farm diversification. This group includes different types of measures, for example the support of irrigation investments, services for farm and rural populations, and craft and tourism activity in rural areas. These measures correspond to a new vision of RD Policy that has been taking place in the EU language and regulations in the 21st Century (Mantino, F., 2005).

1.3. Rural Development Programmes

With the latest reform of 2003, the EU made a Policy obliging member states and applicant countries to make Rural Development Programmes with a number of fundamental rules and elements. National or regional Programmes are prepared by Member States or regions on a multi-annual base, usually for seven years. All programmes are co-financed by the EU, Member States, and regions with common rules for programming, implementing, monitoring, evaluating and financial control. The types of interventions, or measures, are pre-defined by EU regulations. This results in a so-called menu approach where the member states decide the main dishes and then adapt them to their needs. Limitations usually are linked to financial resources the EU allocates to the Member States, who in turn allocate funds amongst its regions, alongside their rules of implementation like sectoral restrictions, required detailed financial plan modification, and top-down criteria for selecting beneficiaries (Mantino, 2005). The general rules for RD Policy are established by the Member States and the EU institutions together. Member States decide exactly which parts of the Policy they wish to promote. RDP's are decided at national, regional, and local level, but the national state authorities are ultimately responsible for their correct implementation. Therefore, all rural stakeholders, not only farmers, can help devise and be part of a Rural Development Programme. The approach is bottom-up, not top-down and decisions are taken at the local level (European Commission, n.d).

Rural Development Programmes determine the priorities of EU member states for a seven-year period, in accordance with Article 11 of Regulation 1698/2005 on the support of Rural Development by the EAFRD, in which it is stipulated that the national strategy for Rural Development will be applied via the Rural Development Programme. The Regulation reads,

To ensure the sustainable development of rural areas it is necessary to focus on a limited number of core objectives at Community level relating to agricultural and forestry competitiveness, land management and environment, quality of life and diversification of activities in those areas, taking into account the diversity of situations, ranging from remote rural areas suffering from depopulation and decline to peri-urban rural areas under increasing pressure from urban centres.⁹

The main components of Rural Development Programmes differ by both country and region. An analysis for RDP's from 2000 to 2006 in EU countries highlights different strategy models. Environmental practices always absorb a great number of resources. Nevertheless, there are countries and regions where modernization is still a significant objective. On the whole, two groups of countries have seemed to emerge, first a group of Mediterranean, Central, and Eastern European countries, where modernization has an important role in influencing RDP strategies, and secondly northern-European countries, where protection of the environment and the compatibility between environmental and agricultural practices and initiatives to enhance the environmental context are the most important priorities. Northern European countries have put considerable emphasis on the importance of the environment within their programmes, without taking into account the structural agriculture problems. Their strategies essentially are based on compensating farmer's higher unitary costs with direct income supports, if they adopt eco-compatible practices and/or they operate in special areas and continue to farm for a reasonable period of time (Mantino, 2005).

Next, a case study of a Northern-European state, Finland, on the last programming period, 2000-2006, will be described and analyzed, starting with an overview of the country and the actors involved. The four Axes of EU's Rural Development Policy, established in the 2003 reform alongside the singular financial instrument and a single programme, the European Agricultural Fund for

⁹ Council Regulation (EC) No1698/2005a

Rural Development, will be explained thereafter. In particular these tools, the Axes and the fund, are supposed to improve management and control of the Rural Development Policy for the period 2007-2013 (European Union, 2009). The explanation of the current framework is followed by a description of the ongoing 2007-2013 period in Finland, it's goals are categorized by each Axis chased by how they tend to achieve those goals.

2. Finland's Rural Development Programme 2000-2006

Let us take a closer look at Finland, a Nordic European state with a large, sparsely populated countryside, entering the European Union at the beginning of 1995. Finland serves as a good example of the impact the EU's RD Policy can have on a state, predating and following membership into the European Union. It is useful for Iceland, a Nordic counterpart, to study how Finland has implemented its policies and evaluate the pros and cons. Finland could serve as a Rural Development model for Iceland. This chapter will highlight the evolution of the Rural Development Policy in Finland from before their accession in 1995 up through the installation of the EU's Policy framework exercised in Finland today. A general overview of Finland's rural characteristics will be discussed, proceeded by a look into the structure of the Finnish administration responsible for Rural Development. That is followed by a case study of the 2000-2006 Rural Development Programme.

2.1. Finland Overview

In 2009 the Finnish population was 5, 3 million and its land area 338 145 km². Finland is a big country with a small population. It has 338 municipalities, 332 in the mainland and 16 in Åland, and a population density of 17 inhabitants per km² (Murtomaki, 2009). Finland is Europe's northernmost and most rural country (except for Iceland). According to the Organization for Economic Cooperation and Development's (OECD) definition of rural countries, 94 per cent of Finland's area is rural and 40 percent of the Finnish population lives in rural areas. Eighty percent of the land is sparsely populated or unpopulated. Forests constitute 68 percent of total land coverage and eight percent of that is agricultural land. Its natural features, long distances, and remoteness are reflected in its history, traditions, regional and industrial structures, and its government (Ministry for Agriculture and Forestry, 2006/2009). According to the OECD definition of rural areas, Finland ranks fifth in terms of territory covered by predominantly rural regions, 89 percent, and second both in terms of the population in those regions, 53 percent, and in GDP produced within these areas, 45 percent (OECD, 2008).

Finnish agriculture differs from agriculture in most other parts of Europe, both structurally and due to the northern climate and peripheral location. Finland constitutes a mixture of arable lands, forests, peat lands, and lakes and rivers, where forests and water bodies represent significant shares in the surface area. The state of the environment is in most respects considered healthy. Actions and cooperation of different Policy sectors is needed to preserve and improve the viability of the Finnish countryside and the rural environment due to the sparse population and the special conditions mentioned above (Ministry for Agriculture and Fisheries, 2006/2009). Finnish agriculture is mainly composed of small family holdings. Dairy farming and livestock production account for about 70 percent of Finland's farm income (Finnish National Committee on Irrigation and Drainage, n.d.). Most farms receive about half their earnings from agriculture and the rest from forestry and outside sources. In Finland a clear difference exists between rural municipalities close to urban areas, rural heartland municipalities, and sparsely populated rural municipalities. Scattered settlement structures and heterogeneity are specific features of Finnish rural areas, especially in the northern and eastern parts of the country. It is in these two regions where there is a greater dispersion of people and a higher population living in rural municipalities in comparison to the southern and western regions. Despite these figures, rural regions with a population increase can still be found in southern Finland. Weak rural regions with a decline in the population are located in the eastern part (Ex post evaluation of Cohesion Policy programmes, 2009). The Finnish Rural Development Programmes have tended to put more of their focus on the eastern and northern part of Finland due to their long rural tradition. In 2004 twenty percent of the Finnish population was living in small, scattered communities away from service centers and towns. The strength of these rural forces in Finland's economy and society result from a strong role of forestry and private forest ownership of farmers, which has carried the export revenues of Finland's forestry resources to the farms and communities around the countryside (Aldea-Partanen, Lehto, and Oksa, 2004).

Finland's rural population underwent important changes in its settlement patterns since the 1990s. On the one hand, the areas with the fastest population growth and the youngest age structure in the country are rural municipalities close

to urban areas. Conversely, sparsely populated rural municipalities and rural heartland municipalities are facing depopulation and, in some cases, even approaching zero (OECD, 2008). In Finland, both urbanization and industrialization took place relatively late; it was not until the early 1960s that the share of the population active in primary sectors declined below one third of the population (Aldea-Partanen, Lehto, and Oksa, 2004). Moreover, the percentage of agriculture in Finland's GDP, the total number of farms, people employed in the farming sector, and income from agriculture also has been decreasing gradually. Housing and living circumstances are considered to be of good standard in the Finnish countryside, so it remains quite competitive as a location for various kinds of enterprises, provided that the physical contacts have been organized and sufficient communication networks are in place.

Northern climate conditions such as long cold winters, short vegetative periods and excessive humidity, however, make farming particularly difficult in Finland, resulting in low yield and high production costs. Finland has experienced a rural exodus, exacerbating these difficulties, leading to measures being taken to slow that down. In regards to the environment, pollution threatens the surface waters but recent actions have led to positive developments in that area as well (European Commission-Directorate-General for Agriculture and Rural Development, 2000).

According to Finland's Rural Development Policy Draft made in 2006, the share of jobs in agriculture and forestry was around four percent and processing around 25 percent. Primary production and processing in Finland was above the EU member state average, meaning that despite growth in the service sector, production and processing still had significant impacts on the Finnish economy, and in particular on the economic activities in rural areas (Ministry of Agriculture and Forestry, 2007/2009). In the beginning of the 21st century the industrial structure of rural areas became more and more diverse, however, the number of jobs had decreased as a result of a growth in productivity in agriculture and forestry along with structural changes in the public sectors. Only a little more than thirty per cent of the jobs were located in urban-adjacent rural areas, rural heartland areas, and sparsely populated rural areas. Growth in employment in rural areas in Finland is founded on entrepreneurship. About thirty per cent of

Finnish enterprises are located in rural areas; most of them are small and many rural enterprises simply operate on the farms themselves. The number of small or medium-sized enterprises (SMEs) in rural areas was around two thousand in the beginning of the 21st Century while there were almost 64 thousand microenterprises, which are classified as having less than ten staff members and an annual balance sheet covering less than two million Euros, operating at that time. The further away from urban-adjacent rural areas to sparsely populated rural areas, the smaller the enterprises become. A majority of private services was still in urban areas in 2004, which remained a problem in Finland (EUR-Lex, n.d.). and Ministry for Agriculture and Forestry, 2006/2009). The number of small rural enterprises has stayed the same but their employment effects and turnover grew in the beginning of the 21st Century. In general, the rural enterprises continue to engage in production activities. Fifty-five per cent of Finnish food enterprises and 67 per cent of small enterprises engaged in further processing of wood were located in the countryside in 2006. Due to the changes in technologies, operating culture, and working methods, rural areas have become more attractive locations for businesses, with that said, the location of enterprises increasingly depends on the proximity of human resources and expertise (Ministry of Agriculture and Forestry, 2006/2009).

2.2. Actors involved in Finnish Rural Development Policy

Rural Development in Finland has earned international acclaim for its multi-sectoral and multi-level approach. According to Sirpa Karjalainen, a ministerial adviser at the Finnish Ministry for Agriculture and Forestry, however, they feel content but not satisfied with their achievements, as they understand that success today is no guarantee for a bright future (Ministry for Agriculture and Forestry 2006/2009 and Finnish Agency for Rural Affairs, 2008). For the purpose of coordinating various measures targeted at rural areas, the Ministry of Agriculture and Forestry in Finland appointed a joint inter-departmental working group. Its job was to coordinate RD efforts and to improve the use of RD resources (Aldea-Partanen, Lehto and Oksa, 2004). It was responsible for planning the Finnish Rural Development Programme 2000-2006, make any changes to it, and give political guidelines. It prepared national legislation and allocation funding to the regions and the LAGs. The Ministry for Agriculture and Forestry selected the

operating LAGs. The Finnish Agency for Rural Affairs was the national authority responsible for the administration of rural funding. It had payment authority as well as delegated managing authority. It compiled application forms and instructions and was responsible for paying and supervising the funds granted, it gave all administrative training to the LAGs, guided them, and revised their lists, applications, and payment forms (Murtomaki, 2009). The Ministry of Trade and Industry, the Ministry of Agriculture and Forestry, and the Ministry of Labor made the decisions on funding that came through them, providing the loans, grants and development services for businesses, entrepreneurs, and private individuals to the Employment and Economic Development Centres (Aldea-Partanen, Lehto and Oksa, 2004).

2.3. Finland and Rural Policies

Here, the focus is on the Finnish RDP's and their subjects of most value in RD. The positives and the negatives will be assessed to see what Iceland, another Nordic state, can learn from their neighbors in the east. There is much to look at for a small EU applicant state like Iceland. Finland and Iceland share certain similarities when it comes to Rural Development. Agricultural circumstances, for example, are quite similar. When compared to mainland Europe, agriculture in these states is worse off. Weather conditions are unfavorable in both states, growth period is shorter, soil is less fertile, and growing possibilities are fewer. Both states are rural countries with largely scattered low-density population. Differences are in place as well, forestry and population being the most obvious. Since Finland joined the European Union in 1995 many feel the country has been quite successful in its dealings with the Union (Kuipers and Selck, 2005). Therefore, Finland is often referred to as a living demonstration of how a less populated country can be influential within a group of many. The Finns indeed have been able to pursue many of their most important issues within the EU, such as in their environmental Policy and the Northern Dimension (Magnúsdóttir, 2009). Let us look at how the Rural Development Policy has fared for Finland.

A primary objective of RD Policy is to improve the preconditions for living in the countryside, by making and keeping Finnish rural areas diverse and viable in terms of industries, services and the population minimum. The Finnish RD model has been convincingly successful in achieving coherence among sectoral

policies oriented to rural areas and in tailoring specific programmes to promote development in rural areas. Finland has a so-called Rural Policy Committee (RPC) in place, a cooperation body appointed by the government, that has played a valuable role in the governance of rural Policy, bringing together the public, the private, and third sector stakeholders involved in rural affairs, all advocating for rural communities. More than 500 persons from several ministries and other organizations participate in its work (Rural Policy Committee, n.d.-a and -b).

Finland has implemented and developed its own national Rural Development Programmes since the late 1980s and since joining the EU the RDPs are written in accordance with Finland's national rural policies (CAP in 27 EU Member States, n.d.). According to Tuomas Kuhmonen, A specialist on Rural Development working on the implementation on the Finnish Rural Development Programme for 2007-2013, the most significant changes after joining the EU is the programming approach. According to Sirpa Karjalainen, membership gave Finland more resources for diversification training, project based development, and Leader-type of village or sub-regional actions. The national rural Policy comprises extensive cooperation between different Policy sectors aimed to lay the foundation for maintaining the viability of the rural areas and keeping it well managed. Under this Policy Finland is implementing regionally targeted sectoral rural Policy on the one hand, and cross-sectoral Rural Development in cooperation between different administrative sectors and stakeholders on the other (Ministry of Agriculture and Forestry, 2006/2009).

Since joining the European Union in 1995 there have been three official Rural Development Programmes put forward in Finland. The first was from 1995 to 1999, the second from 2000 to 2006, and the third, ongoing programme began in 2007 and runs through 2013. Due to an economic depression the Finnish nation experienced in the early nineties the main focus on the Finnish strategies from 1995 to 1999 was on making new employment opportunities, as well as improving competitiveness for SME's. Other focuses were on improving access to education, supporting business management, and encouraging diversity within conventional professions like giving farmers funding to add a tourism aspect as a side-business to their day jobs (Vainio and Laurila, 2002 and Applica-Ismeri Europa, 2008). Rural areas were considered to be successfully developed during

Finland's first period through seven different Structural Fund programmes in addition to the CAP and its accompanying measures. RD Programming was new to all concerned, but in spite of that, the implementation of the programmes was considered successful and they achieved the expected results (Ministry for Agriculture and Forestry, 2006/2009).

The focus in this paper is firstly on the 2000-2006 period and secondly the 2007-2013 period. The Programmes before 2000 will not be described in further detail due to the change of emphasis that has taken place in Finland since the first period in conjunction with the change of economic stability, environmental focus etc. Turning first to the Rural Development Programme in Finland from 2000 to 2006, the programme period will be dissected and evaluated in further detail.

2.4. The Finnish RDP from 2000 to 2006

From 2000 to 2006 a different emphasis was evident in Finland from the nineties. Greater emphasis was put on the development of the IT Community, by, for example, supporting innovation and knowledge, and giving sustainable development more attention (Vainio and Laurila, 2002). This new emphasis can be linked to the Lisbon Treaty, where sustainability was placed at the forefront, as well as internally the increased focus on the financial stability of Finland. Emphasis was more specifically put on increasing businesses and jobs in rural areas through the training of employees and offering counsel to businesses among other measures taken. Funding was spent to support tourism, culture, information technology, transportation, and services in rural areas (Applica-Ismeri Europa, 2008).

There were two separate programmes implemented, one for the Continental Finland and one for the Åland Islands. The Rural Development Programme 2000-2006 consisted of two main parts, the Horizontal Rural Development Programme and the Regional Development Programme. The Horizontal RDP included the LFA and agri-environmental measures, aiming at safeguarding farmer's income, encouraging profitability of production, all while taking into account specific natural handicaps, environmental constraints, maintaining the population, and widening the range of activities in rural areas (E1 Unit, 2003 and Kuhmonen, 2010). The Regional part included six programmes with the objectives to improve employment and entrepreneurship possibilities in rural areas, to increase

communality, facilitate structural changes of agriculture and to diversify farm economy. They were implemented from the perspective of four different themes: business and employment, communality, knowledge and skills, and environment.

In this period the single EAFRD fund for RD had not been established so RD projects received funding from the Regional Policy's Structural Funds. This was considered to be a complex set-up with Regional Policy targeting Member States and/or regions that are lagging significantly behind the EU average, measured in terms of GDP per capita. Basically to reduce economic disparities across the EU. The areas covered may be urban or rural; they are targeted based on their level of prosperity. The Rural Development Policy is similar in its aims, but is targeted on all rural areas and the agricultural and forestry sectors, eligibility is regardless of the regional level of economic prosperity (Peppiette, 2010).

Starting with the horizontal part of the Programme. In Finland during the programming period 2000-2006 the RD measures carried out in projects co-financed by the EAGGF were agri-environmental support and compensatory allowances in the Horizontal Rural Development Programme. Measures for developing rural areas were in Objective 1¹⁰ programmes for north and east Finland. The Leader approach was mainstreamed in Finland during this period. On the basis of evaluation of this programming period the key strategic areas and selected measures have been judged fairly successful. The most important national schemes were the national aid for agriculture and horticulture, structural aid, and early retirement schemes. Investment aid in agriculture has been one of the key structural Policy instruments in Finland, with a crucial impact on the continuity of agriculture based on family farms. Investment aid has proven to help family farms grow who are caught in a low productivity trap related to their small size, thereby upholding the competitive position of Finnish agriculture on the EU market. Most of the funding intended for RD was allocated to area-based payments to farmers due to the importance of agri-environmental payments and the natural handicap payments (Ministry for Agriculture and Forestry, 2007/2009). In accordance with the conclusions of the Lisbon and Gothenburg European Councils, the selected national strategy in Finland from 2000 to 2006 comprised the preservation of a

¹⁰ Objective 1 regions is where GDP is below 75% of EU's average

viable and active countryside, improving the state of the environment, and promoting sustainable use of renewable natural resources. They were promoted in three areas. First, that agriculture and forestry were practiced in a way that is economically and ecologically sustainable, as well as ethically acceptable in all parts of the country. Second, the area focused on using action favoring and furthering the competitiveness of businesses, new entrepreneurship, and networking among entrepreneurs to diversify rural economies and to improve employment. Lastly, the third area focused on strengthening local initiatives to improve the viability and quality of life in rural areas (Ministry of Agriculture of Finland, 2006/2009).

The LFA measures and the agri-environmental measures based on commitments from farmers to last several years (Kuhmonen, Salo, Arovuori, Pyykönen, Keränen, Juntunen, Kytölä, 2008). Tuomas Kuhmonen, Michael Kull and Sirpa Karjalainen all agree that the LFA scheme was simple and successful for Finland in this period. Compensatory allowances implemented in LFA's covering the whole continental Finland were a main priority in the period. They played an essential role in Finland at the time to compensate costs caused by the geographical situation of the country and its specific handicaps, such as the harsh climate the country experiences and its sparse population. They aimed at maintaining an acceptable level of income for farmers in order for them to continue to farm in an ecologically viable way and to preserve the natural landscape. These payments were distributed according to the severity of the natural handicaps and requiring compliance with good agricultural practice. The importance of Compensatory allowances are explained in Table 2, showing how much out of the total support from the EU these allowances received, as well as the increase per year, both calculated in percentages. Out of the total they are at least 33,6 percent with the national financing, stagnating between the years, implying contentment with the measure as it is, around 35 percent of the total (Vihinen, 2006).

Table 2. Agricultural support based on the Compensatory allowances 2000-2006 (mEUR)

	2000	2001	% incr	2002	% incr	2003	% incr	2004	% incr	2005	% incr
TOTAL	1.072	1.134	5,8%	1.148	1,2%	1.185	3,2%	1.237	4,4%	1.260	1,9%
Compensatory allowances	414	418	1,0%	422	1,0%	423	0,2%	423	0,0%	423	0,0%
Percentage of Total	38,6%	36,9%		36,8%		35,7%		34,2%		33,6%	
EU Contribution	128	130	1,6%	131	0,8%	137	4,6%	137	0,0%	137	0,0%
National financing	286	288	0,7%	291	1,0%	286	-1,7%	286	0,0%	286	0,0%

Source: Vihinen, H.

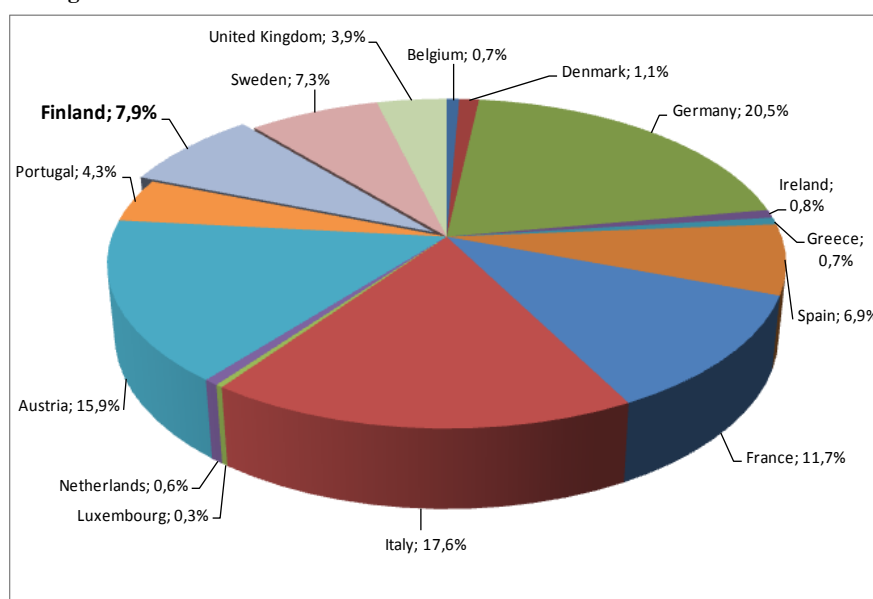
Compensatory allowances made an effective contribution to compensate the handicaps in place without leading to overcompensation. They have also meant that, despite the low level of agricultural income and profitability, almost the entire area of agricultural land remained in cultivation in the period. Furthermore, the allowances secured the continuation of environmentally sustainable agriculture in the Nordic conditions of Finland. In the end these allowances turned out highly important for the Finnish agriculture, as they contributed to the basic livelihood of farmers, with 85 percent of Finland's total arable land receiving these funds since 2000 when Finland became the first EU Member State in which all farmers in all parts of the country were eligible for LFA support, covering the whole cultivated area of 2.16 million hectares (E1 Unit, 2003).

The agri-environmental scheme was implemented in the whole of continental Finland. The scheme was implemented with compulsory basic undertakings as well as optional roles under the Special Protection Scheme (SPS), where commitments were made between the farmer and the state for 5 to 10 years, for example on organic production or conversion to it (Ministry for Agriculture and Forestry, 2006/2009 and European Commission-Directorate-General..., 2000). The agri-environmental support compensated farmers for additional costs and loss of income resulting from the adoption of environmentally friendly farming techniques that go beyond usual good farming practice. The support consisted of basic measures, additional measures and special contract measures. In 2004 environmental support paid to Finnish farmers totaled 312 million Euros. On average the EU pays 55 percent of the environmental support (Vihinen, 2006). The aid intensity of agri-environmental measures was not regionally differentiated, but the scheme included several measures (Kuhmonen et al., 2008). For example, they established a basic level for reducing fertilization¹¹ that applied

¹¹ The objective of reduced phosphorus fertilization is to maintain the soil's easily soluble phosphorus content at the same level in low phosphorus classes and to decrease the content in higher classes faster.

to nearly all of the Finnish farmers. The number of headlands and filter strips increased and the significance of the agri-environmental measure establishing riparian zones were considered to have been excellent in the period. One objective was to raise plant cover outside the growing period, nonetheless there was no increase in actual plant cover in winter over from 2000 to 2006. According to evaluations Finnish farmers became more aware of pesticides and their impacts on the environment, but all the same there was an increase in the use of herbicides. The agri-environmental scheme and its measures on farms were not believed to adequately reflect differences between areas and farms. The agri-environmental scheme in the programming period 2000-2006 was not a solution for safeguarding biodiversity in rural areas or for reducing nutrient load. In order to develop these measures, monitoring studies on agri-environment measures were launched and their results were to be used in the preparation of the Finnish agri-environmental measures for 2007-2013 (Ministry for Agriculture and Forestry, 2007/2009). According to Tuomas Kuhmonen, the agri-environmental aid scheme was quite extensive and enhanced the long-term shift towards more sustainable farming, although not able to change the dominant processes or 'big role' of the countryside in society. Kull and Karjalainen believed these schemes were challenging due to its big size. On a more positive note, the agri-environmental measures did encourage development of agricultural techniques that respect the environment and natural resources, in addition to the production of high quality foodstuffs (European Commission-Directorate-General for Agriculture, 2000). A comparison between Finland and other EU Member States for agri-environment and LFA measures are displayed in Charts 2 and 3 below. Only four states, Germany, Italy, France and Austria, spent more on agri-environmental measures than Finland, despite Finnish results being somewhat disappointing.

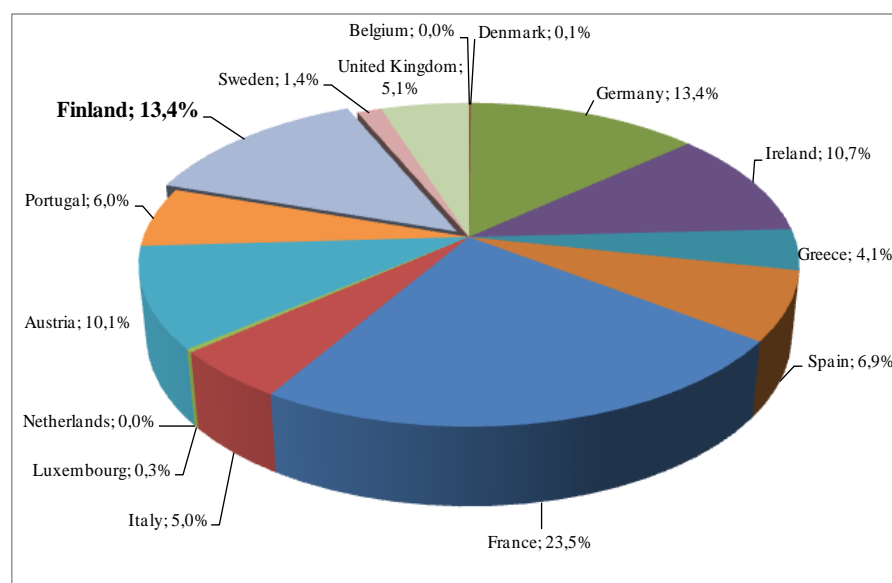
Figure 2. EAGGF Guarantee – Rural development expenditure 2000-2006 by member state agri-environmental measure



Source: European Commission, DG for agriculture and rural development, Unit 1,4

For LFA measures, considered to have been both important and successful in Finland, the only state spending more than Finland was France with Germany spending the same, 13,4 percent.

Figure 3. EAGGF Guarantee – Rural development expenditure 2000-2006 by member state LFA- measure

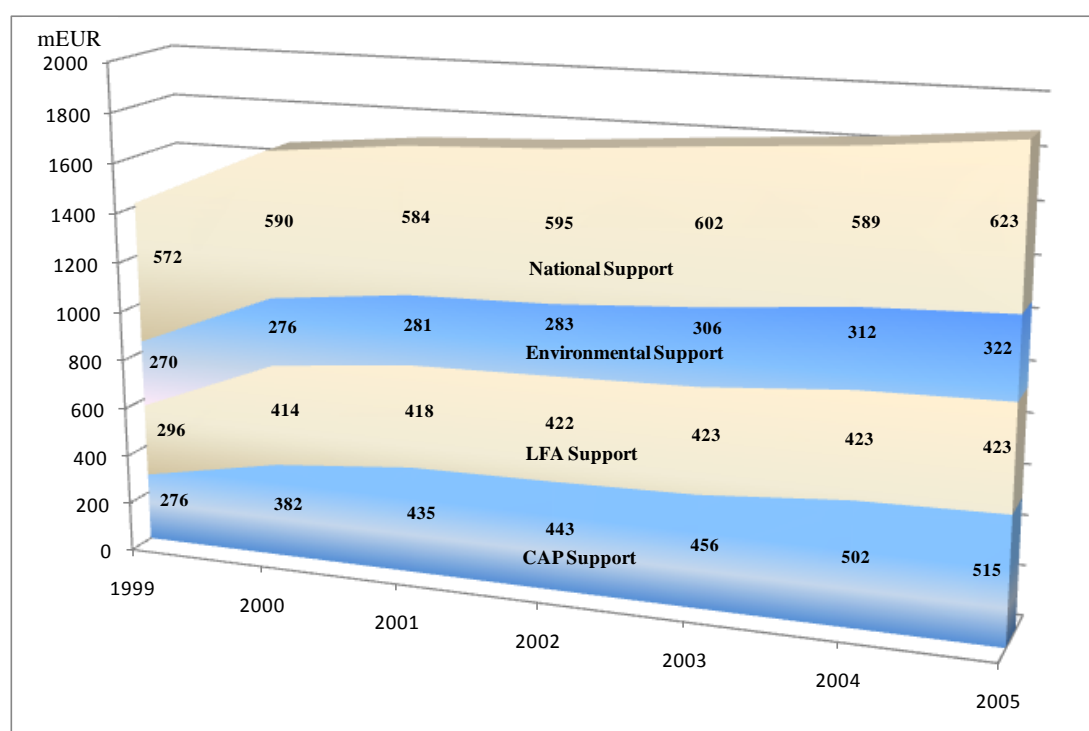


Source: European Commission, DG for Agriculture and Rural development, unit 1,4

In 2005, support under the CAP to Finnish agriculture totaled 1260 million Euros. This consists of the CAP support for arable crops and livestock, 515 million Euros, environmental support, 322 million Euros, and last but not least the compensatory allowances for farmers in less-favoured areas, which totaled 423

million Euros. The EU contributed around 32 percent of the compensatory allowances as shown in figure 4 (Vihinen, 2006).

Figure 4. Support on LFA and Environmental measures



Source: Vihinen, H., 2006

2.4.1. Regional aspects of the period

Now turning to the regional aspects of the programming period. There were five regional programmes in Mainland Finland (Karjalainen, 2010). The regional RD programmes, had a significant impact on maintaining the viability of rural areas in Finland. In general people were content with the forms of business support although some were neither satisfied nor willing to apply for business support from the RDP. Contentment of applicants could have been increased by accelerating payment and support decisions. Bureaucracy of small and international projects should have been made easier as well. The objective of the 2000-2006 RDP in Finland was to create 17000 new jobs in rural areas. This objective was set too high. Estimation is that about 60 percent of the target was reached. Recommended by the *ex-ante* evaluation was that the quality and quantity of communication should be adjusted to fulfill the information demand, accelerating payment and support decisions, set the employment objectives to a more realistic level and lessen and clarify the indicators needed to be reported

(Tödtling-Schönhofer et al., 2008). Concerning business and employment, the RDP was considered to be productive and to have enhanced business, maintain rural jobs and pave the way towards entrepreneurship, facilitating new businesses start-ups. (Ministry for Agriculture and Forestry 2007/2009).

In the 2000 to 2006 period Finland had 58 Local Action Groups (LAGs) covering 419 municipalities out of 432. Only the centres of larger cities and a few small cities remained outside. Approximately 7000 projects were established during this period. For the duration of the programming period, approximately 216 million Euros of public funding and 110 million Euros of private funding was used for projects established through LAG work (Uusitalo, 2007). The role of LAGs was not put under the direction of regional authorities because of their many administrative tasks, as the role of the LAGs was thought vital in supporting the actual realization of communal development projects. Action group activities were proven suitable and efficient development tools for Finnish rural areas. This way of working carved out a niche for itself in the development of rural areas. The input of action groups was felt to benefit the target areas in numerous ways. According to Michael Kull, Principal Research Scientist at MTT Agrifood Research Finland, the involvement of civil society was very positive in this period. Also the public and private sector plus key stakeholders ownership of the programmes. The mainstreaming of the Leader approach was also very positive in Michael Kull's point of view.

One of the regional programmes was called the Leader+ programme. It serves as a good Finnish LAG example for the 2000-2006 period as it attains all the special Leader characteristics: local orientation, a bottom-up principle, local partnerships, a pilot nature, an integrated strategy, networking and different types of cooperation, including international cooperation. The characteristics best implemented in Finland were considered to be the bottom-up principle, networking and local partnership in decision-making, in line with the principle of tripartition. Out of the special characteristics, the pilot nature was the least concrete and most difficult to measure during 2000-2006. Many evaluations have observed that, in relation to strengthening skills in rural areas and improving innovation, action groups have some valuable characteristics; people trust them and they are considered to be equal development partners. They are a central part

of the social capital in their territory. Leader activities improved the identity of regions, people's commitment to the region and their confidence in its future. As a whole, Leader clearly had a positive impact on sustainable development, especially as a result of measures promoting socially and culturally sustainable development (Ministry for Agriculture and Forestry, 2007/2009).

Despite the scale of RD and the weight that RD carries it was only loosely attached to regional development as a whole. The linkages between rural and regional development needed to be strengthened at strategic and operational levels i.e. by coordinating target-setting in both rural and general regional development. RD projects were proven to increase cooperation and networking with little effort. They increased cooperation between educational institutions, research institutes and enterprises, created human capital and skills for the benefit of enterprises and improved the position of enterprises in networks and their use of networks. Measures, however, needed to be more directed towards opportunities created by internationalization (Ministry for Agriculture and Forestry, 2007/2009). According to Kirsi Karjalainen, it would have been better if all the regional structural programmes and measures would have been more linked.

In relation to communality, the key finding of research during the 2000-2006 period was that Finnish rural areas communality had strengthened due to the influence of the RDP. Communal development projects showed to have had long-lasting effects on regional identity and strengthening local level cooperation. The RDP guided communities to target-oriented, well-organized, and long-term activities and at the same time the actions of the rural communities themselves had become more controlled by the monitoring regional authorities. The delicate balance between citizens and authorities was said needed to be maintained as their mutual trust forms successful, communal development projects (Tödtling-Schönhofer et al, 2008).

Contributing to sustainable development from the perspective of both people and nature was a principle throughout the RDP during the 2000-2006 period. A total of 6973 environmentally related projects were implemented, which was a third of all the projects. From an environmental point of view the only project with negative environmental effects and causing the need for guidance were motor-vehicle related projects. Remarkable environmental effects were

achieved especially in reducing Greenhouse gases with a large number of projects related to renewable energy. The RDP included 67 projects exploiting Natura2000 areas, explained in detail later. As a whole, the RDP contributed to sustainable development as well (Jumppanen, Saartenoja, Zawalinska, Kolehmainen, Pulkkinen, Korteniemi, Pohjola and Latvala 2008).

Co-financed investment aids and RD measures was a focus in the period as well. It looked to increase the possibilities for entrepreneurial activity as well as to strengthen the economic basis for farms. The Regional RDP was divided into three priorities. First was the development of agriculture and forestry that encouraged farmers to cooperate in order to reduce production costs and increase the quality where the objective was to maintain the pre-conditions for profitable part-time or full-time farming on as many farms as possible. The programme's investment aids had an impact on developing business activity, increasing turnover, creating jobs and reorienting farm and other business activities (Ministry for Agriculture and Forestry, 2007/2009). The second priority was the diversification of rural industries, aimed at improving competitiveness, skills, and co-operation in existing and new enterprises, in order to develop and diversify entrepreneurial activities in agriculture, forestry, and adjacent sectors. The third and final priority, the development of rural communities, encouraged development work based on local needs and initiatives. The priority was mainly implemented so that Local Action Groups could incorporate the measures into their own business plans as a part of the Rural Development Plan. The objective was to improve the village environment both for enterprises and as a place of residence for the inhabitants (E1 Unit, 2003). Farm-related business aid and development operations in the Regional Rural Development Plan in 2000-2006 achieved good results in terms of employment as they slowed down negative population and employment trends in the areas concerned and, in some cases, even reversed trends (Ministry for Foreign Affairs and Forestry, 2007/2009b).

2.4.2. Evaluating successes and failures of the 2000-2006 period

Starting with an overall assessment for the whole of the EU. The biggest lessons learned from the work package on Rural Development were that no singular definition of rural areas could serve all Policy purposes; simply, whether an area can be categorized as rural or otherwise depends on the context and purpose of the

analysis. The European Regional Development Fund (ERDF) supported regions had structural weaknesses independent of their rural, intermediate, or urban character. What was important for the ERDF and the public opinion on the amount they should receive from the EU depends entirely on the institutional settings in place and the enforcement of procedures in each of the Member States and the regions. Common strategies, instruments, and structures for all funds helped to avoid overlaps and to better coordinate the different funds contributing to RD. Overall, in most of the Member States the ERDF funded various measures supporting both endogenous and exogenous growth of regions and thus responding to the various needs of the regions. This flexibility allowed for a cross-sector approach and enabled its adaptation to different contexts, and as a consequence, also to rural areas. The ERDF also specialized in transport, telecommunications, environmental infrastructure, and support to enterprises and R&D. On the other hand, less emphasis was on social infrastructure, rural initiatives and regional governance, and therefore its effects on the ground lacked visibility compared to other funds (Ex Post Evaluation..., 2009).

Studies show that Member States have devoted considerable efforts in the development of their strategies, which are based on a thorough assessment of needs of their respective programme areas (Tödtling-Schönhofer et al., 2008). Concerning lessons learned from previous programming periods, the most recurrent topics included improving coherence and complementarity between different policies and interventions, setting clear strategic priorities, and reaching significant concentrations of funds for each of them. Additionally, they discuss increasing flexibility of funding through simplification and reduction of transaction costs, strengthening bottom-up based strategies, and improving the mechanisms for monitoring and evaluating programmes. The expected economic, social, and environmental impacts of the programmes are generally seen as positive and coherent with the RD problems identified in the respective regions. Positive combined effects of different measures on relevant issues such as biodiversity are frequently reported. The principle of subsidiarity and proportionality generally has been considered carefully, in particular in those MS that implement Regional Programmes, not simply a one-size-fits-all Programme

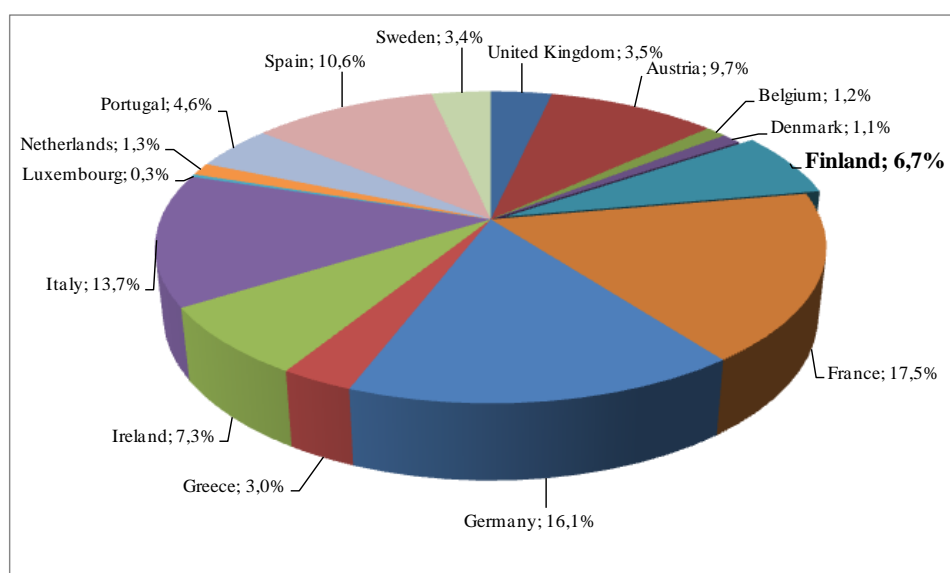
for the entire country (Directorate General for Agriculture and Rural Development. 2006, April).

Looking at Finland, the results or successes of RDP's are difficult to assess. It is difficult to evaluate what would have been different in Finland if the EU Rural Development Programmes would not have been implemented. The economic situation in Finland in the 2000-2006 period improved in many areas. Production escalated and jobs increased in rural areas. Conditions became better in many regions and in their neighbouring areas. Despite this, the evaluations show that the programme's measures only had a limited impact on general economic and population trends, neither good or bad (Ministry for Foreign Affairs and Forestry, 2007/2009b). The population distribution shift continued from the peripheral regions of Finland. Jobs did increase in some locations, especially in production, agriculture, and tourism. Heavier emphasis was placed on increasing competitiveness of businesses by, for example, augmenting their access to education and research facilities without the heavy overhead. This became essential to numerous companies in rural areas, especially the smaller ones that might not have had the financial competence to put into research and development work. Other good results generated from support to rural areas were investments in business counseling and employee training, leading to more companies and more jobs. The emphasis on the training of employees and consultation services in businesses also were considered extremely effective. It turned out more difficult preventing low profits for those who worked in primary industries such as agriculture and forestry, even though jobs had increased in these industries around that time period and several had started side-businesses. For the Rural Development objectives the results were considered good despite a rather low budget. (Applica-Ismeri Europa, 2008). One can safely say that immense emphasis was put on LAG work in this period. Concerning knowledge and skills the RDP affected the level of knowledge of rural enterprises even though enterprise-specific measures commonly strived for much more tangible goals. Programme-based RD in Finland had been significant and within the programmes a notable base of project and substance knowledge was developed.

Concerning the financial aspects of the Programme, experience showed that the added value of the Structural Funds could have been further improved by a

more flexible and effective implementation system. Simplification of the management and delivery of the Funds was needed by, for example, more transparent sharing of responsibilities between the Commission and the Member States. The stages of programming, clarification of financial management rules, strengthened coherence between the intervention of the Funds and the objectives established at the European level in the framework of the Lisbon Strategy also were considered desirable (Mairate, 2006). The final report on the *ex-post* evaluation for the Rural Development Funds showed that Finland received 6,7 percent of the total EAGGF funding in the period, which is similar to Ireland as shown in Chart 3. Whether this led to overlaps or synergies depended on the implementations in each of the Member States. In the current period the EAGGF has been replaced by EAFRD Fund (Ex post evaluation..., 2009).

Figure 5. Allocation of EAGGF Funding 1



Source: European Commission-Directorate-General for Agriculture and Rural Development, 2006

The Objective 2 area¹² in Finland during the 2000-2006 period experienced similar growth rates of population, employment, and GDP compared to the national average. Developments in the Objective 1 areas, however, were less uniform. Growth of GDP per capita was significantly higher than average, but at the same time population continued to decline. Most projects were well organized and gave rise to the results expected, in terms of both output and the longer-term

¹² Objective 2 area funding aim to support the economic and social conversion of areas experiencing structural difficulties

structural effects. The integration of EU programmes and domestic regional Policy was improved over the period which helped the regional authorities and the various organizations involved to coordinate their activities better. In general, both Objective 1 and Objective 2 programmes succeeded in achieving their aims, contributing to employment growth. It is also evident that relatively positive macroeconomic developments over the programming period made it easier for projects to create new jobs and to maintain old ones. Conversely, while the programmes helped to create new companies, the rate of new firms in assisted regions remained less than the national average. The programmes were successful in improving the competitiveness and networking of SMEs, including those in rural areas. They helped to increase educational attainment levels, the skills of the work force, and innovative capacity, including in rural areas. Continuing structural changes, however, in agriculture and heavy manufacturing, especially in the wood, paper, and pulp forest industry, together with an ageing and declining population, have made it difficult to close the gap in both the GDP per head and even more in employment rates between Objective 1 regions and the rest of the country. This is especially true in the case of remote rural areas while the few medium-sized urban areas seem to have succeeded better. (Applica-Ismeri Europa, 2008).

Another analysis that gives a clear view of Rural Development in Finland is an comparative analysis to the developments in other countries within this period. The rural economy had performed well in Finland by international comparison. All predominantly rural areas in Finland had a GDP per capita above the OECD average and higher than average growth from 1998-2003, with a number of regions catching up. High productivity, employment rates, and participation rates were the factors contributing to the most growth in the highest growing rural regions. Even though, in general, the most competitive sub-regions in the country were urban, certain rural areas ranked among the top quartile. Finland's case also showed positive impacts with regards to tourism. A survey carried out in the Eastern part of Finland showed that the occupancy rate of rural tourism farms had risen since the beginning of the programme (EPEC, 2004 and OECD, 2008).

According to an impact assessment on the 2000-2006 period many interesting aspects were brought up highlighting both the positives and the

negatives of the EU's RDP. Overall, Finland seemed content about its results from the RDP. A few of the successes were the before mentioned compensatory allowances covering around two thirds of the difference in production and costs and agri-environmental measures were having a positive impact on the landscape where key impacts related to the maintenance of farming landscapes themselves despite the difficulties mentioned above. Compensatory allowances were particularly important in the 2000-2006 period making it possible for farmers to earn a livelihood and to continue to live on their farms. The evaluation reported that the success of other non-farming small-scale entrepreneurship in the rural areas had an indirect effect on farmers' livelihoods, offering them employment opportunities, which helped them to maintain the rural infrastructure and communities. It was clear that in eastern Finland the RD priority had made quite a good start and had helped to maintain existing jobs and increased cooperation between companies and other actors. The RD measures helped to improve the structural characteristics of the rural economy in different ways, they contributed towards increasing activity and the capacity for independent rural development work, expanding cooperation, developing villages, and bringing further benefits through environmental development cooperation. The RD measures helped to improve the structural characteristics of the rural economy, although in different ways. They contributed towards increasing activity and capacity for independent, Rural Development work, expanding cooperation, developing villages, and bringing further benefits through environmental development cooperation (EPEC, 2004).

Regarding improvement of income for the rural population, it is difficult to estimate and comment what impact the RDP specifically had on the income and what were extraneous variables. Employment had dropped in Finland's rural areas, as measures had not been able to counteract an unrelated decrease in the number of small farms suggesting that the intervening exogenous factors were stronger than the effects of the measure itself. More scope for tailoring at the regional level was considered needed if the region's economic base was to be maintained. Success had clearly been weaker in agricultural development. Evaluators expressed concern that there were too few young people among the

beneficiaries. Dissatisfaction was also expressed with how long it took to implement the programme (EPEC, 2004).

A debate was in place in the beginning of the 21st Century concerning the effectiveness of the Less Favoured Areas (LFA) Policy, establishing the parameters for the classification of LFAs, and the setting of the payment rates. The mid-term evaluation was critical of the lack of quantified objectives specific to the LFA measure. The measures, however, were considered to have helped continue agricultural land use, yet the extent to which this had been the case could not be quantified. Some thought LFA measures needed to be more closely linked to the risk of abandonment and environmental degradation. In Finland the RDP evaluation suggested that greater flexibility would be better, that payments could be made in at least two installments. It also suggested that in addition to the five year commitments, the support system could also examine the application of shorter commitment periods in special cases such as for farmers who rent a significant part of their land through short-term rental agreements, and farmers reaching retirement age (EPEC, 2004).

Also important was the need for better integration of Rural Development Programmes with wider policies, including with CAP's Pillar 1, the Structural Funds, the Environmental Policy as well as National and Regional Rural Development Policies. This improved integration was considered needed at all levels; EU, MS, regional, and sub-regional levels. The evaluations pointed out a need for clearer, more transparent and better publicized systems for administering Rural Development measures, as well as for dealing with application and selection. The complex bureaucratic administrative procedures and payment delays were a widespread concern and not only in Finland's case. Administrative costs were a significant concern in many Member States, as well (EPEC, 2004).

Concerning expenditure in the 2000-2006 period, Rural Development Programmes only were able to make limited

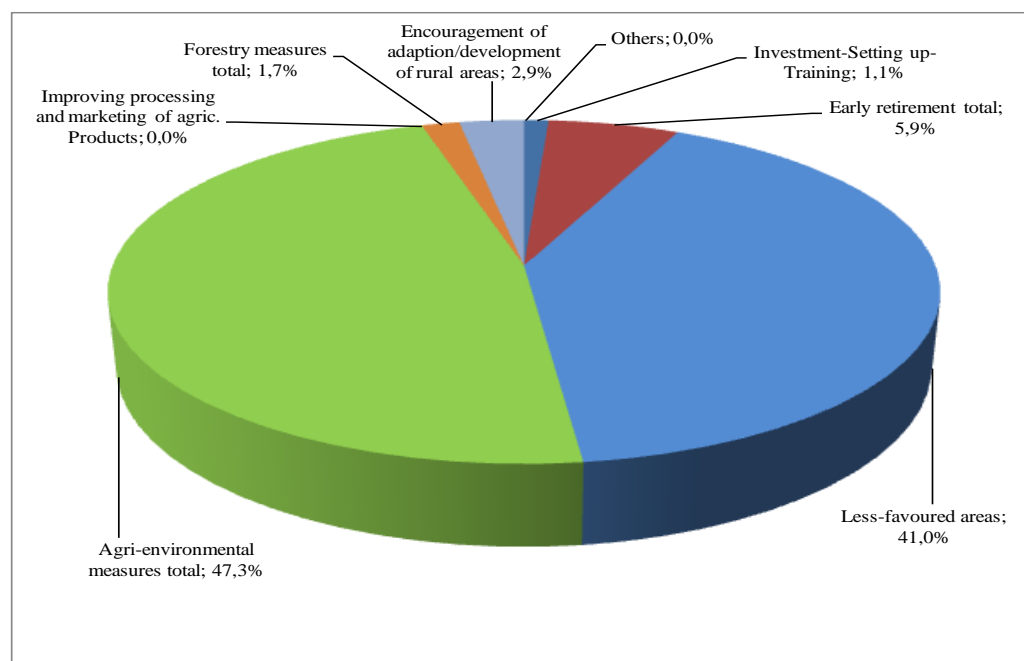
Table 3. EU budgetary expenditure for rural development in 2006

	Annual Commitment (total in million €)	Annual Commitments (€/capita)
Finland	293.276	55,8
Total EU27	12.284.019	24,9

Source: Juvančič, L., 2006.

impacts on the range of social, economic and environmental challenges that were facing rural areas. It was thought unrealistic to assume that the EU's RDP could solve all the problems of rural areas. The RDP needs to work in combination with other EU, national, and regional policies and programmes to have a greater impact. That said, according to Karjalainen it would be better if all the regional structural programmes and measures would be linked more than today. It was argued that the RDP still had too much focus on agriculture despite the fact that agriculture's role was diminishing in the field of Rural Development (EPEC, 2004). In figure 6 Finland's expenditure per axis in the 2000-2006 period is shown. Clear is the strong emphasis in agri-environmental and LFA-measures.

Figure 6. Finland's expenditure per Axis in 2000-2006



Source: European Commission, DG for Agriculture and Rural Development, Unit 1.4

Overall conclusions of the RDP impact assessments varied across EU Member States. Finland stands out as a Member State with more positive than negative experiences. As shown in table 5 EU's budgetary expenditure for RD in 2006 was 24,9 Euros per capita while in Finland it was 55,8 Euros per capita,

placing them at a 124 percent higher average than EU's total annual commitment per capita for the EU-27. Notably, the Finnish annual commitment makes for 2.39 percent of EU's total commitment per year. Each programming period has its own special challenges. Evidently in Finland, the period 2000–2006 was a time of general economic growth, which also provided a boost to Rural Development, however, there were still significant regional differences in place. In the next period, 2007–2013, the instruments are slightly wider in scope and enable new challenges to be addressed along with new resources. This is certainly needed in the constantly changing operational environment (Karjalainen, Sirpa, 2008).

According to Karjalainen, this period brought Finnish rural areas more resources, i.e. for diversification and training, but was also challenging for the big size of the programme and the agri-environmental and LFA-schemes. Further, Kull states that Finland was also successful with the Leader scheme and in creating coherence between sectoral policies in rural areas. Kuhmonen states the compensatory allowances was the most successful part. It is interesting to see these different viewpoints from Finnish experts working in RD affairs.

Turning to overall evaluations for the period. A mid-term evaluation report suggested that the RDP's had a positive impact against a variety of economic, environmental, and social objectives. The conclusion, however, was subject to a variety of anticipated variables, such as the adequacy of budgets, macro and micro impacts, maturity of RD measures, and differences between the measures and the monitoring of impacts. Naturally some measures were more successful than others. For example, schemes to encourage young farmers appear to have been less effective than other agricultural restructuring measures, as incentives did not seem strong enough for young farmers. One can speculate that perhaps young people do not have enough information and knowledge on the possibilities at hand or the profit turnover is too low to adopt any of the new restructuring methods. Some evaluations expressed concern about the scale of administration costs of RDP's, relative to the overall budgets for the measures concerned. A common theme of the study was the complexity of the Policy framework for Rural Development within the EU.

Many recommendations were addressed to the EU Commission pin-pointing specific areas to observe and evaluate for the next period. For example, they were

examining possible means of simplifying Rural Development measures while broadening their scope and simplifying the funding and delivery mechanisms. Also, it was felt that too many measures were applied in the framework and that they needed to be simplified and more broadly defined (EPEC, 2004). The Commission also was advised to coordinate programmes for the next programming period by insisting on cross-sectoral, strategic frameworks in the Member States: “Only one strategic framework programme should be applied in each programming area, embracing all sectors and aspects of territorial development regardless of the urban or rural character” (metis GmbH, 2008). Agreeing with these critical voices, both implementing authorities and the EU Commission felt that the synergy between RD measures and the Structural Funds was lacking. The overall approach to implementing RD measures and the Structural Funds, however, was considered appropriate as long as regions/member states continued to be encouraged to implement these policies with synergy in mind (Agra CEAS, 2005).

The Finnish case exemplifies the need to look not only at the place that Rural Development Policy occupies within the national administration, but also its legitimacy within societies, the different actors involved in rural affairs, government officials, the rural population, and its impact on civil society. Rural Policy is well known and accepted in Finland, which can largely be ascribed to the Rural Policy Committee (RPC) installed as a Rural Development Project since 1988 and recognized by law in 2000. Another reason for its success is the firm position it holds within the Finnish Government. Rural Development Policy used to be framed under a regional Policy, highlighting the Finnish cross-sectoral approach. Today it is now framed under the Ministry of Agriculture and Forestry influenced by EU RD Policy, therefore facing, as other countries in that situation face, a tension of competing priorities and constituencies between agricultural and rural Policy (OECD, 2009).

The Agenda 2000 reform did consolidate the previous nine legislative texts on Rural Development into a single regulation on support for RD. Appearing as a more coherent package, the Rural Development Regulation still does not offer a new menu of measures. It was said that it remains an agglomeration of previously available and separately implemented measures which could reduce the overall

efficiency in terms of delivering outcomes and meeting objectives at the Programme level (Agra CEAS, 2005). These evaluations mentioned here seem to have been somewhat effective. A new single EAFRD Fund focusing only on RD measures has been put in place and only three main objectives are set for the next and ongoing period that will be described in detail in the next chapter, starting with touching upon reforms made after the Agenda 2000 aiming to improve EU's RD measures even further.

Next, the new framework established will be described, explaining how EU Member States are to implement the Rural Development Programmes of the European Union and how to monitor them.

3. The Four Axes of EU's Rural Development Policy

The new programming period, 2007-2013, brings new challenges for EU's RD Policy. New legislation was adopted and a financial agreement was struck. RD Policy has emancipated itself from the Cohesion Policies (Juvančič, 2007). RD Policy was strengthened in order to try to help rural areas respond to economic, social and environmental issues of the 21st century. The Community¹³ Strategic Guidelines (CSG) for Rural Development were established in February of 2006. This new legal framework, along with the EAFRD, was created to respond to the dissonance surrounding the complexity of RD implementations and measures. More resources are available for RD because of the reduced direct payments to farmers and its transfer to RD measures, a debated practice known today as compulsory modulation. Assistance is provided for farmers and other actors in rural areas for such actions as training in new farming techniques and rural crafts, assisting young farmers to get set up on farms, assisting older farmers to retire, modernizing farm buildings and machines, and assisting farmers to meet the demanding EU standards regarding environmental, animal welfare, and public health criterion (European Commission Directorate-General..., n.d.).

The CSG for Rural Development officially aim to diminish disadvantages in Europe's rural areas. The Guidelines show European Union level priorities within the Rural Development Regulation (RDR) Framework. They show a particular focus on sustainability, growth and jobs (European Union, 2006). The Guidelines aim to help Member States identify the areas where the utilization of EU support for RD will create the most value added at an EU level. They combine the main EU priorities of growth and jobs, established at Lisbon, and sustainability, the focus at Gothenburg, and translate them into Rural Development Policy. The stated purpose of the CSG is to help Member States to ensure consistency with other EU level priorities, particularly in the field of cohesion and the environment. Finally, it accompanies the implementation of the new market oriented CAP and the necessary restructuring it will entail in the old and new member states (DG

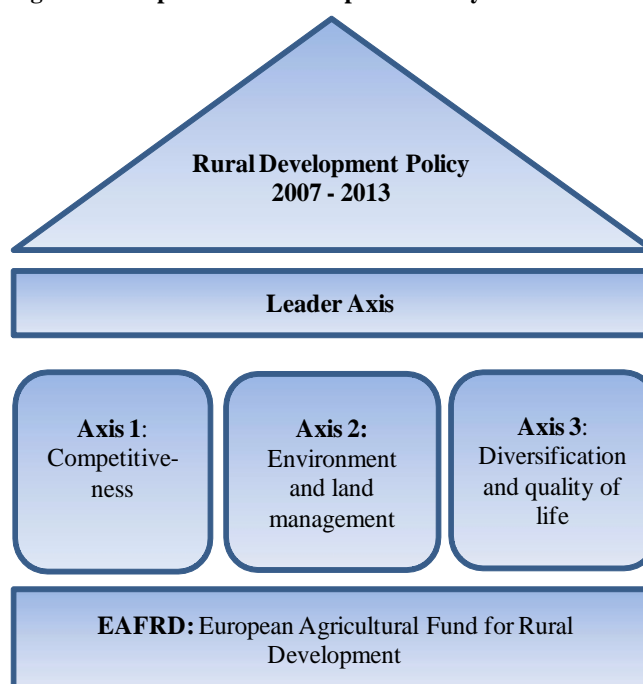
¹³ The EU Community. A phrase often used for the whole of EU

AGRI, 2005). The Council Regulation works as a broad toolbox for MS to apply their Rural Development Programmes (Malm, 2009).

Following the objectives of the CAP reform launched in 2003, four major goals for RDP have been set for the period 2007-2013. The aims are to increase the competitiveness of the agricultural and forestry sector, to improve the environment and countryside through support for land management and to enhance the quality of life in rural areas, and promote the diversification of economic activities. The reform also integrated the so-called Leader approach into mainstream RDPs. Each of these objectives corresponds to an Axis, while Leader is considered a methodological Axis (Directorate-General for Rural Development, 2008).

The European Commission describes the main features of the Rural Development Regulation for 2007-2013 as a one funding and programming instrument (the European Agricultural Rural Development Fund), a new strategic approach for RD with a clear focus on EU priorities, reinforced control, an evaluation and a clear division of

Figure 7. Setup of Rural Development Policy



Source: Finnish Ministry for Agriculture and Forestry

(Department of Agriculture..., e.d.). Before taking each Axis

and applying the Community Strategic Guidelines let us look at the legislative and financing aspects of these new Guidelines.

3.1. Legislation and financing for Rural Development in the EU

Concerning EU's legislation during the 2007-2013 period, the main focus is indeed on the CAP's Second Pillar. The CSG were established in order to try to improve the Policy's coherence, transparency, and visibility. Regulation 1698/2005¹⁴ lays down the general rules governing Community support for RD. It also defines the aims of RD and the framework governing it. The Rural Development Fund complements national, regional and local actions. The Commission and the Member States are also to ensure that the Fund is consistent and compatible with other Community support measures. The direction of the current CAP reflects its official strategic objectives to create an agricultural system that is competitive on world markets, which respects very strict standards of environment and food safety, as well as upholds exemplary animal welfare, all within a framework of a sustainable and dynamic rural economy (European Commission Directorate-General..., n.d.). This new legal framework is supposed to improve the implementation and governance of EU RDP's as follows:

- All existing measures are regrouped under a single funding and programming instrument, the European Agriculture Rural Development Fund (EARDF);
- The EU strategy for Rural Development serves as the basis for national strategies and programmes. This ensures better focus on EU priorities, and improves complementarity with other EU policies like cohesion and the environment;
- Reinforced monitoring, evaluation and reporting ensure more transparency and accountability for the use of EU money;
- Less detailed rules and eligibility conditions leave more freedom to the Member States on how they wish to implement their programmes;
- A strengthened bottom-up approach tunes better Rural Development programmes to local needs;
- The more strategical approach clarifies the division of responsibilities between Member States and the Commission (ÖIR-Managementdienste, 2007).

For financing today's CAP, the Commission introduced a new legal framework, set up under Regulation 1290/2005.¹⁵ The new legal framework established the before mentioned funds, a European Agricultural Guarantee Fund (EAGF) for the First Pillar of the CAP and a European Agricultural Fund for

¹⁴ Regulation (EC) No 1698/2005 of 20 September on support for rural development by the EAFRD

¹⁵ Regulation (EC) No 1290/2005 of 21 June on the financing of the Common Agricultural Policy

Rural Development (EAFRD) for the Second Pillar. The current Rural Development Fund operates with rules adapted for multi-annual programming. The European Council agreed in December 2005 on the new Financial Perspectives for the period 2007-2013. The EAFRD has a total budget for the period 2007-2013 amounting to a total of 96 billion Euros (Europa Media Public Service Corporation, n.d.). As shown in table 2 the per capita budget plan for the 2007-2013 period is in total for the EU-27 estimated at 21 Euros per capita and a corresponding figure for Finland of 51 Euros per capita is shown as a comparative figure. The European Council decided that member states, at their own discretion, might allocate additional sums from direct payments up to a maximum rate of 20 percent to RD (European Commission, 2006a). Like the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund, the new EAFRD contributes towards Community action in favour of the least developed regions, called the Convergence Objective. EAFRD financing rules differ to a degree from those offered by the EAGF. Whilst the EAGF finances its part of the CAP on the basis of monthly declarations, financing by the EAFRD is based on differentiated appropriations, or n+2 payments, and includes pre-financing, intermediary payments, and final payments. Financial management is planned to follow the approach known from the EU Structural Funds. The n+2 rule means that RD Programmes have to declare expenditure within a two-year period after public funds have been allocated. It is expected that the application of this rule to RD will improve the absorption capacity of RDPs (Barnier, 2002). It is interesting to note in this context that according to Karjalainen although the simplification of funding was good, the rules are now stricter, uncompromising and more formal than with the EAGGF and Structural Funds.

The new RDR has tackled the problem of unbalanced RD expenditure by prescribing the Member States the minimum levels of public

Table 4. Projection of EU budgetary expenditure for CAP Pillar 2 (Rural Development Policy) in 2007-2013

	€/capita	% GDP
Finland	51	0,15%
EU27	21	0,11%

Source: EUR Obréves, 2007.

expenditure along the priority Axes, 1 and 2. Axis 1, competitiveness of the agri-food sector and forestry, and Axis 3, economic diversification and quality of life in rural areas, should each receive at least ten percent of overall public financing for RD. Measures promoting sustainable use of natural resources and landscape, or Axis 2, should receive at least twenty-five percent of public financing for RD. The Leader Axis, or the lowest rate of public support for RD carried through local development initiatives, has been put to five percent. The MS will be able to reallocate funds between the measures within the same priority axis autonomously. Changes resulting in reallocation of funds between priority axes will have to be approved by the Commission.¹⁶

A key point when discussing financial issues of the RD Policy is the volume of committed public expenditure. Looking from the perspective of total volume of

Table 5. Comparison between the minimum thresholds required by the RD regulation and the RDP's

Repartition by Axis	Minimum required by Council	
	Regulation 1698/2005	RDP's (September 2007)
Axis 1: Competitiveness	10,0%	33,9%
Axis 2: Environment and land management	25,0%	44,0%
Axis 3: Diversification and quality of life	15,0%	19,3%
Axis 4: Leader	5,0%	5,8%

Source: EUR Obréves, 2007.

Community budget attributed to RD Policy, the situation is not encouraging. In relative terms, significance of RD expenditure is stagnating. In 2006, RD Policy amounted to 21.5 percent of CAP expenditure, whereas in 2007-2013 period, the share is virtually the same, 21.6 percent. This is due to the fact that the issue of RD expenditure was directly independent from the outcomes of the negotiation on total contributions to the EU budget, leaving no room for RD. The situation is therefore paradoxical. On the one hand, the new Policy framework paves the way for increased public efforts in the area of RD. On the other hand, these aspirations are not backed by the volume of attributed public funds. From the public

¹⁶ Council Regulation (EC) No 1698/2005b

financing perspective, RD Policy remains co-financed from the national budgets. Binding levels of co-financing from the national budget, at least 25 percent in less developed regions and 50 percent elsewhere, remain the same (Juvančič, 2007). Member States themselves will have to ensure that the relevant, often complex, management and control systems have been set up in accordance with the various detailed requirements. Under the current approach, the Commission can reduce or suspend payments for both funds, whilst the clearance of accounts and the conformity of clearance instruments are used to verify the sums spent by the member states. The heads of Paying Agencies (PAs)¹⁷ need to submit accounts covering all reimbursement demands during a year. This will be accompanied by a statement of assurance. The accounts and the statement of assurance will be the mirror at the MS level as the statement of assurance given by the Director General of the Commission's Directorate-General for Agriculture and Rural Development. Annual accounts will be accompanied by an audit opinion and a report of an independent audit service. These elements should simplify the financial management of the CAP by making the respective roles and responsibilities of the Commission and the member states clearer and more transparent (European Commission, 2006).

Availability of EU funding for Pillar 2 measures provides leverage for overall expenditure on RD. EU funding mainly serves as a support to national financing and the majority of the financing comes from the MS budget. This has implications for future expenditure on RD especially if there is not a consensus at MS level of RD priorities and if RD expenditure is perceived as merely support to agriculture. There is also a perception that the availability of EU funding is the driver of Rural development. While Regulation 1698/2005 requires MS to elaborate a rural Development plan suited to integrate the CAP RD plan, the practice indicates that such RD plans are aligned closely to available funding and to the requirements of 1698/2005. A more holistic approach to developing RD Policy at MS and EU level would take into account the many interdependent factors impacting RD rather than led by CAP finance (Juvančič, 2007).

¹⁷ The main purpose of the Paying Agency is to accept, process and authorize aid applications and effect payments to beneficiaries in the Maltese Agricultural Sector and in accordance with community rules.

Rural Development Policy can offer those who live and work in rural areas financial and practical assistance to keep their countryside alive and farmers competitive, if they play their cards right and learn how to play the ropes. The CAP has existed for more than 40 years as one of the most important European policies so it is not surprising that the CAP budget has represented a large proportion of the overall EU budget and expenditure, as it takes the place of national Policy and expenditure on agriculture (European Commission Directorate..., n.d.).

As for the administrative complexity of RD Policy the picture is somewhat ambiguous. On the one hand, procedures of programming and financing of RD support are simplified significantly. On the other hand, the complexity has increased with respect to the programming and implementation procedures at the local level, or areas participating in the Leader Axis, and in the establishment of a more demanding monitoring and evaluation system. As a result, this will create additional administrative burdens for the beneficiaries, with a more demanding reporting procedure (Juvančič, 2007).

3.2. Implementation of Rural Development

In the current programming period, 2007-2013, objectives for EU's RD Policy area are spelled out more explicitly within the EU and Member States, first in National Strategy Plans and next in official Rural Development Programmes. To better judge the extent to which these objectives are being met, a common monitoring and evaluation system also have been developed, agreed and established between the Commission and the Member States in order to support this objective explained in detail later (European Commission Directorate-General for Agriculture and Rural Development, 2006).

The CSG implement the defined priority headings to take into account political priorities of the EU. Each Member State produces its National Strategic Plan including its own priorities for action and those of the EAFRD, taking into account the Union's set Guidelines. The plan also sets out the specific objectives and levels of support from the Fund and other financial resources. These National Strategic Plans serve as a benchmark for Fund programming. Basically, a frame is given and if the MS stays within that frame the EU is content. Implementing the National Strategic Plans is carried out through RDP's, containing a package of

measures grouped according to headings, defined in Title IV of the EC Regulation, like improving the competitiveness of the agricultural and forestry sector, improving the environment and the countryside, bettering the quality of life in rural areas, increasing the diversification of the rural economy, and implementing the Leader approach. Each RDP sets out a strategy covering a period from 1 January 2007 to 31 December 2013, which includes an analysis of the situation, defines the priorities chosen, and predicts the impact. It also must propose the measures required for each heading. Lastly, a financing schedule is drawn up to complete the Programme (Council Regulation 1698/2005).

Let us now take each Axis and apply the Community Strategic Guidelines.

3.3. Axis 1: Improving the Competitiveness of the Agricultural and Forestry Sectors.

The focus of the first Axis is on economic concerns (European Commission-Directorate-General for Agriculture and Rural Development, 2008). Its aim is to improve competitiveness of farm and forest enterprises through support for restructuring and innovation. This Axis includes support for training, farm modernization, processing, infrastructure, natural disaster aid, installation aid, early retirement, food quality and downstream food and forestry activities (Department of Agriculture..., e.d. and European Commission-Directorate-General..., 2008) Its objectives and priorities concern, for example, human and physical capital, innovation, and knowledge transfer (Pielke, 2008). According to the CSG, the resources devoted to Axis 1 should contribute to a strong and dynamic European agrifood sector by focusing on these priorities mentioned above (DG AGRI, 2005a).

Concerning human potential the EU Regulation provides support for information and vocational training schemes in technical and economic matters, schemes promoting the establishment of young farmers, people under 40 years of age setting up for the first time as the head of a holding, and structural adaptation of their holdings. Early retirement for farmers falls under human potential, aimed at farmers deciding to cease activities with the aim of transferring their holding to other farmers, or to agricultural workers who decide to definitively cease all agricultural activities. Human potential also encompasses the set up of services that help assess and improve the performance of holdings, such as the use of

advisory services by farmers and forest holders, as well as the establishment of farm relief and farm management support services. Physical potential, on the other hand, is restructured in a number of ways, foremost by introducing new technology for the modernization of agricultural and forestry holdings and the improvement of their commercial performance. Value can be added to primary agricultural and forestry production through investments aimed at enhancing the efficiency of the processing and marketing stages of primary production, while at the same time simplifying the eligibility criteria for investment support compared to the extensive criteria applicable at present. Physical potential is also responsible for improving and developing infrastructure related to the development and adaptation of agriculture and forestry, restoring agricultural production potential damaged by natural disasters, and introducing appropriate prevention schemes. In terms of production and product quality, the aim is to assist farmers in adapting to the demanding rules laid down in the EU legislation, partly offsetting the additional costs or loss of revenue resulting from these new responsibilities. The aim is also to encourage farmers to participate in methods that promote quality food and that give consumers assurances of the quality of a product or production method, both adding value to primary products and boosting trade opportunities. Lastly, for production and product quality, support is available for producer groups in their information and promotion activities for products covered by food quality schemes (European Union, 2009).

3.4. Axis 2: Improving the Environment and Countryside

In order to explain the measures of Axis 2 it is necessary to start by explaining Agri-environment and Natura 2000 for they are the most important and applied measures within this Axis.

3.4.1. Agri-environment

Agri-environment schemes have been supported by the EU since they were introduced in the CAP reforms of 1992. They encourage farmers to provide environmental services that go beyond following good agricultural practice. Basic legal standards have been consolidated into one specific Axis of RD Policy for the period 2007-2013, Axis 2. Aids may be paid to farmers who sign up voluntarily to agri-environmental commitments for a minimum period of five years. It is obligatory for member states to offer such agri-environmental schemes to farmers

(European Commission-Directorate-General., n.d.) and it is the only obligatory measure for all Member States under the RD regulation. For agri-environment schemes a participation rate required by EU rules is minimum five percent of farms (European Environment Agency, 2004). It is widely accepted that agri-environmental measures are instruments of central importance in integrating environmental and sustainable development objectives into the CAP. Support may be granted to farmers and/or others and commitments are taken for five to seven years, even longer where justified. Support also covers possibly lost income and additional costs resulting from commitment plus transaction costs. In some cases the support also may be provided for the conservation of genetic resources in agriculture (Department of Agriculture., e.d.). Agri-environmental schemes can provide potential to address issues such as increased pressures from intensification, the management of marginal and abandoned land, and the maintenance of *High Nature Value* (HNV) farming systems (European Environment Agency, 2004).

The concept of *High Nature Value* farming developed in the early 1990s from a growing recognition that the conservation of biodiversity in Europe depends on the continuation of low-intensity farming systems across large areas of countryside. A fundamental shift in the distribution of CAP funds away from more intensive farming was recommended, in order to provide support for these beneficial landuses. With the exception of a minority of EU's Member States, this shift has not yet occurred. The idea was that CAP support should be weighted in favour of low-intensity farming systems throughout the EU territory, and that this would provide a robust basis for biodiversity conservation in Europe. Eligibility for support payments would depend on simple criteria applied at the level of the farm holding, such as livestock density (European Forum on Nature Conservation and Pastoralism, n.d.).

3.4.2. Natura 2000

In 1992 EU's governments adopted a legislation designed to protect the most seriously threatened habitats and species across Europe. This legislation is called the *Habitats Directive* and it complements the *Birds Directive* adopted in 1979. At the heart of these two directives is the creation of a network of sites called Natura 2000. The Birds Directive requires the establishment of Special Protection Areas

(SPAs) for birds. The Habitats Directive similarly requires Special Areas of Conservation (SACs) to be designated for other species, and for habitats. Together the SPAs and SACs make up the Natura 2000 series (Natura 2000, n.d.). Natura 2000 is constantly under development, covering an ever seemingly more diverse collection of European flora and fauna. Today it offers protection to over one thousand rare and threatened animal and plant species and two hundred habitat types across the EU member states. Natura 2000 is therefore at the core of EU nature Policy and the Union's biodiversity Policy. Some say it is a clear demonstration of Europe's commitment to act to preserve its rich native biodiversity for future generations (European Commission, 2009). Others call it a unique and ambitious programme for sustainable development and preservation of Europe's natural heritage. Its economic activities include farming, tourism, fishing, forestry, sustainable hunting, leisure pursuits and infrastructure projects. The Member States designate the Natura 2000 sites in partnership with the Commission, and have six years to put the necessary management measures in place. If we take Finland as an example, the Finnish Natura 2000 network in 2009 included 1860 sites, of which 87 were located in the Province of Åland. The surface area of the Natura network was about 4.9 million hectares, of which about three-quarters, 3.6 million hectares is land. Natura areas represented 0.35 per cent of agricultural land and 5.9 per cent of forest land. Of the total land area of Finland, 13.9 per cent was included in the Natura network in 2009 while the EU average was around 18 per cent (Ministry for Agriculture and Forestry, 2009)

EU's financial support for Natura 2000 has risen substantially over the years. In 2007 the budget for the regional development programme Life+, the 2007-2013 period financed projects worth 187 million Euros. The main funding for site management, however, is available for Member States through the Structural Funds and the Rural Development Fund (European Commission, 2009). Each Member State must compile a list of the best wildlife areas containing the habitats and species listed in the Habitats Directive and the Birds Directive. The lists are then submitted to the European Commission. For both types of sites it is the task of the Member State to put the necessary protection, provisions or designations in place (Natura 2000, n.d.). Now, let us go back to the second Axis.

3.4.3. Aims and measures of Axis 2

Similar to the previous period's Horizontal Programme the aim of Axis 2 is to take better care of the environment and the countryside through support for better forms of land management and the conservation of natural resources. It allows possible support for payments to farmers in LFAs, Natura 2000, the agri-environment, animal welfare and for forestry. Agri-environmental schemes are, again, the only mandatory payments. Beneficiaries must respect the EU and national mandatory requirements for agriculture (Department of Agriculture, Fisheries and Food, n.d.). The CSG for Axis 2 says that the resources devoted to it should contribute to three EU level priority areas: biodiversity, the preservation of HNV farming and forestry systems, and water and climate change (DG AGRI, 2005).

Measures aiming at rational land use and protection of the environment fall under Axis 2, which aim at ensuring the delivery of environmental services by agri-environment measures in rural areas, and by preserving land management. These measures should contribute to sustainable RD by encouraging the actors to keep up land management so as to preserve and enhance the natural space and landscape (European Commission, 2006).

A strategic issue is to create a balance between Agri-Environment, Natura 2000 and Less LFA (DG AGRI, 2005). Regarding land management, the support is to contribute to sustainable development by encouraging farmers and forest holders to employ methods of land use compatible with the need to preserve the natural environment and landscape and to protect and improve natural resources. Against this setting, the EU Regulation provides support for mountain regions with natural handicaps and other disadvantaged areas and for agri-environmental payments, which should only cover commitments that go beyond the corresponding obligatory standards. Assistance also covers support for investments without commercial return needed to comply with environmental commitments (European Union, 2006).

The strategic choices under Axis 1 and 2 support multifunctional, competitive agriculture which promotes environmental protection and sustainable development, organic production, and the entire food chain, which in turn is a precondition for the preservation and development of rural areas as attractive

places for tourism, leisure and residence (The Ministry for Agriculture and Forestry 2007/2009).

3.5. Axis 3: Improving the Quality of Life in Rural Areas and encouraging diversification.

The EAFRD contribution to Axis 3 never exceeds 40 percent. Finland spends about 12 percent on this Axis, considered neither high nor low. Axis 3 focuses on social aspects of Rural Development (European Commission., 2008 and European Commission-Directorate-General., 2008). Overarching priority of the creation of employment opportunities in the fields of diversification and quality of life in rural areas is what the third RD Axis is all about (Pielke, 2008). Measures for Axis 3 are, for example, diversification into non-farm activities, tourism, micro-enterprises, village renewal and basic services (Department of Agriculture, Fisheries and Food, n.d.). EU priorities in the CSG for Axis 3 are the creation of employment opportunities through the diversification of the rural economy in all sectors, and with the improvement of the quality of life by making attractive places for people to live and work. Key actions are supporting traditional and new activities, the participation of women in the labour market, micro-enterprises, training, distribution of Information of Communication and Technology, renewable resources, tourism and local infrastructure (DG AGRI, 2005b and Pielke, 2008). For Axis 3 there are three types of measures. The first targets the diversification of the rural economy that is non-agricultural activities of farmers, such as small business creation and development, then tourism, and finally small-scale infrastructure. The second measure targets the quality of life in rural areas, such as basic services for the rural population, rural heritage, and renewal. The third and final measure includes training, such as skills acquisition and animation area studies, promotional events, and partnerships (DG AGRI, 2005b).

Implementing the diversification of the rural economy can be done with the aforementioned diversification into non-agricultural activities, where the beneficiary is a farm-household member, or with micro-enterprises, and/or through entrepreneurship. The micro-enterprises need to have less than ten staff members with a turnover of less than two million Euros and it has to be addressed to the wider rural population. Tourism activities such as small-scale infrastructure, recreation infrastructure, and development and market services are examples of

implementing diversification into the rural areas. This, however, would have to be addressed to the wider rural population (DG AGRI, 2005b). Diversification of the rural economy also applies for improving the quality of life in rural areas, with a particular focus on renovation and development of villages and to preserve and make the best use of rural heritage. Lastly, provide vocational training, teach specific skills and apply operating activities in order to prepare and implement the local development strategy for economic operators in the previously mentioned fields (European Union, 2006).

Implementing the improvement of the quality of life can be done with the setting up of basic services for the economy and the rural population. A few of these services include cultural and leisure activities in one or more villages, small scale infrastructure, conservation and upgrading of the natural and cultural rural heritage by drawing up management plans for Natura 2000 and HNV places, as well as environmental awareness and maintenance. Implementing the improvement of the quality of life can also be done with training, skills acquisition, and implementation. This can be done with studies of the area, information about local strategies, training animators for preparation and implementation of strategies, promotional events, and the implementation of local development public-private partnerships for starters. The rural population at large is the beneficiary for the diversification and quality of life axis (DG AGRI 2005b).

3.6. Axis 4 (Leader): Building local capacity for employment and diversification

The Leader Axis or Axis 4 is an innovative approach within EU's RD Policy. Leader stands for 'Links between actions of rural development'.¹⁸ As the name suggests it is a method of mobilizing and delivering RD in local rural communities, rather than a fixed set of measures to be implemented (European Commission-Directorate-General for Agriculture and Rural Development, 2006b). In fact, there are no specific measures laid out for this Axis. It may be applied to any of the three other axes and measures and/or a combination of them. Each programme of Member States implements, however, must have a Leader element for the implementation of bottom-up local development strategies of LAGs

¹⁸ In French, *Liason entre actions de développement rural*.

(Department of Agriculture, Fisheries and Food, n.d.). LAGs must be well balanced between public and private partners (50/50). For the current programming period, 2007-2013, Leader is no longer a separate programme but is integrated in all national or regional Rural Development Programmes (The European Commission-Directorate., 2006b). Axis 4 is about building local capacity for employment and diversification and is where the Member State itself has most influence out of all the Axes. It should contribute to the priorities of Axis 1 and Axis 2, but in particular for Axis 3. It should also play an important role in the priority of improving governance and mobilizing the endogenous development potential of rural areas. Leader is particularly suited for innovation, since measures are not pre-defined and networking should facilitate knowledge transfer. Experience shows that it is indeed a successful approach, but that it takes time for Member States to implement it well. Cooperation and networking at a national and European level are useful for exchanging experience, realizing collective projects, and acquiring capabilities (DG AGRI, 2006b). There are three strategic issues for Axis 4. First, it is to balance between rural infrastructure, renovation, basic services, diversification, and local economic development. Second is the choice of a delivery system for Axis 3 (top-down or bottom-up), and lastly how to balance between local capacity building and implementing local development strategies (European Union, 2006).

The CSG priorities for Axis 4 is to use a 'Leader approach' for introducing innovation (in all Axes) with better governance at the local level and endogenous development (local resources for growth and jobs). Key actions could be local capacity building, public-private partnerships, networking, cooperation, and mutually supportive actions between the agricultural sector, the environmental sector, and the wider rural economy (DG AGRI, 2005b). The main concept behind the Leader approach is that development strategies are more effective and efficient when decided and implemented at local level by local actors, accompanied by clear and transparent procedures, with the support of the relevant public administrations and the necessary technical assistance for the transfer of goods practice (The European Commission-Directorate., 2006b).

There are seven key features of the Leader approach. They are area-based local development strategies, public-private partnerships (local action groups),

bottom-up approach, facilitating innovation, integrated and multi-sectoral actions, networking, and cooperation. The Leader approach is addressed to all rural stakeholders with an interest in setting up or participating in local RD initiatives. They may be administrators at national, regional, or local level, as well as farmers or other active members of the rural community, and therefore all have a potential role to play in Leader. The Leader approach can provide an opportunity for rural communities to take the initiative and to participate actively in RDP's in their local areas (The European Commission-Directorate..., 2006b).

The diversification of rural economies and the improvement of the quality of rural life, more so when realized through Leader, are key factors for providing a more positive context for farmers, facilitating the economic and social sustainability of rural areas, reducing the abandonment of rural areas through job creation and innovation in all sectors and by creating an attractive environment for society at large (DG AGRI, 2005b).

Leader encourages rural territories to explore new ways to become or to remain competitive, to make the most of their assets and to overcome the challenges they may face, such as an ageing population, poor levels of service provision, or a lack of employment opportunities. In this way, Leader contributes towards improving the quality of life in rural areas both for farm families and the wider rural population (The European Commission-Directorate..., 2006b).

Leader also assists sectors which often do not receive support, or only limited support, under the programmes operating in rural areas, such as cultural activities, enhancement of the natural environment, rehabilitation of architecture and heritage buildings, rural tourism and improving the links between producers and consumers (The European Commission-Directorate..., 2006b).

Priorities at national level for Axis 3 and 4 are identifying target indicators to measure progress. Challenges for sustainable rural areas are the employment situation in different economic sectors, relevance of farmers with other gainful activities and availability of job opportunities. It is an assessment of the development potential. Also, the Member States look into capabilities such as the level of education and skills of the rural population in relation to actual and potential labour demand. Entrepreneurship and risk taking is another viable element, as well as assessing training, animation, and information needs. Finally,

local capacity, both private and public, for developing a sustainable strategy using local strengths and opportunities is worth looking into for possibilities of improvement DG AGRI, 2005).

According to Sirpa Karjalainen what is good about this new framework is that there is more strategic background, more discussions with stakeholders and between the Member States and the Commission before the actual programme begins. These simplifications however, she feels, helped the Commission but moved much of the responsibilities to the hands of the Member States. Bureaucracy is not improving for the better in DG-Agri¹⁹ she concludes. Tuomas Kuhmonen agrees and says the administrative complexity has become worse over time and that it, along with the culture of implementations, are aspects needing further work. Kuhmonen does not feel this programming period is working better because of the increased bureaucracy and that the advantage of the single programme has not become evident. Michael Kull agrees as well pointing to the burden of bureaucracy. He also states that the situation in Finland as to Axis 3 and 4 is relatively good compared to other Member States i.e. that oppose to the strong local webs and prefer top-down steering. Kull believes that the political system of the CAP is a problem level and Policy measures another. Further, he believes more attention is needed to service infrastructure and innovative de-centralised solutions to provide services in rural areas, space for self-regulation should be enlarged and co-financing capacities could be improved. Apparently despite high hopes of a simple and efficient new structure there remain numerous aspects that the Commission, alongside its Member States need to look into.

3.7. Measures and Member States

In regards to the distribution of funding between the four Axes, Member States have made different choices in response to the specific situations and needs identified in their analyses.

In 2005, the only measure proposed by all Member States (except the compulsory one concerning agri-environment) was the support in Less Favoured Areas. Other measures largely implemented were afforestation, training, other forestry measures, investments in agricultural holdings, early retirement, improving processing, and marketing of agricultural products, and the

¹⁹ The Directorate-General for Agriculture and Rural Development

diversification of agricultural activities. The least successful measures were, for example, financial engineering and restoring of agricultural potential. Whereas some MS propose the full menu and some attempt only a few of the measures, most MS have selected at least two-thirds of all the measures (Directorate-General for Rural Development, 2008).

The current Member States RDP's calibrate the relative importance of measures within the Axes for the 2007-2013 programming period. In Axis 1 the measure 'modernization of agricultural holdings' is the most important. It is followed by 'adding value to agricultural and forestry products' and 'infrastructure related to the development of agriculture and forestry'. These three measures account for 64 percent of all funds under Axis 1. Under Axis 2, the same concentration can be observed on a few measures, with 'agri-environment payments' representing more than half of all funds, notably it is mandatory. It is followed by Less Favoured Area payments in- and outside mountain areas. These three measures account for 82 percent of all funds under Axis 2. Lastly, Axis 3 seems more balanced as the three main measures account for only 49 percent of the total funds available for this Axis. It is namely 'village renewal and development', 'basic services for the economy and rural population' and 'business creation and development' (Directorate-General for Rural Development, 2008).

3.8. Management, Control and Information of Rural Development Policies

In addition to providing for a strategic approach the EU Regulation on Rural Development sets out general provisions regarding management control and evaluation. Diverse support tools have been developed to further increase the value added resulting from the implementation of EU Rural Development Programmes. Their main aspiration is to guarantee better programme governance, thereby facilitating more effective and efficient outcomes of Policy interventions (European Commission-Directorate-General for Agriculture and Rural Development, 2008). First, for each Rural Development Programme, Member States will have to designate a Managing Authority (MA), an Accredited Paying Agency (PA) and a Certifying Body (CB). Second, RDP's shall be subject to *Ex-ante*, *Mid-term* and *Ex-post* evaluation. Third, a Monitoring Committee (MC)

must be established within three months of Programme approval. Fourth, each Member State has to establish a National Rural Network (NRN).²⁰

3.8.1. Managing Authority

Under the principle of shared management between the Commission and the Member States, the Member States must appoint a Paying Agency and a certification body for each Rural Development Programme known as a Management Authority (MA). A Managing Authority is responsible for managing and implementing the RDP in an efficient, effective, and accurate way. It should ensure that operations are selected for funding in accordance with the criteria applicable to the RDP. It needs to guarantee that there is a system to record and maintain statistical information on implementation in a computerized form adequate for the purposes of monitoring and evaluation. MA ensures that beneficiaries and other bodies involved in the implementation of operations are informed of their obligations resulted from the aid granted, and maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation. The MA must ensure a beneficiary's awareness of the requirements concerning the provision of data to the MA and the recording of outputs and results. In addition, the Management Authority for each programme must send an annual report to the Commission on the implementation of the programme.²¹

The MA leads the Monitoring Committee and sends it the necessary documents needed to monitor the implementation of the programme in light of its specific objectives. It also ensures fulfillment with the obligation concerning publicity referred to in Article 76. It draws up the annual progress report and, after approval by the Monitoring Committee, submits it to the Commission. Finally, when a part of its tasks are delegated to another body, the Managing Authority retains full responsibility for the efficiency and correctness of management and implementation of those tasks.²² By 30 June each year, the Managing Authority is supposed to send the Commission an annual progress report on the implementation of the programme and finally the Managing Authority needs to

²⁰ Council Regulation (EC) No. 1698/2005d-f

²¹ Council Regulation (EC) No 1698/2005c

²² Council Regulation (EC) No 1698/2005c.

send a last progress report on the implementation of the whole programme to the Commission by 30 June 2016.²³

3.8.2. Monitoring Committee (MC)

A Monitoring Committee, on the other hand, monitors the effectiveness with which RDPs are implemented and carried out, overseeing each RDP by means of their financial, output, and result indicators (European Commission-Directorate-General for Agriculture and Rural Development, 2008). To that end, it is imperative for a Monitoring Committee to assemble within four months of the decision approving the programme based on the selection criteria for all financed operations. Throughout the process, however, the selection criterion is revised according to adjustments in a programme's needs. A Monitoring Committee is required to frequently observe and evaluate the progress made towards achieving the specific targets of the programme, on the basis of the documents submitted by the MA. It examines the results of implementation, particularly the achievements of the targets set out for each Axis and any ongoing evaluations. It considers and approves the annual progress reports and the last progress report before they are sent to the Commission. The MC may propose to the MA any adjustment or review of the programme aimed at achieving the objectives of the EAFRD (defined in Article 4) or improving its management, including financial management. Finally it considers and approves any proposal to amend the content of the Commission's decision on the contribution from the EAFRD.²⁴ Together, the MA and the MC monitor the quality of programme implementation.²⁵

To better assess the extent to which the objectives set out in the RDPs are being met and to evaluate the efficiency and effectiveness of Policy delivery and budgetary spending on RD, the monitoring and evaluation of RDPs has been strengthened. The main instrument is a Common Monitoring and Evaluation Framework (CMEF), which defines a coherent and strategic set-up for monitoring and evaluation systems. Member States have to clearly identify and quantify the baseline situation in order to determine targets and to measure progress (European Commission-Directorate-General for Agriculture and Rural Development, 2008).

²³ Council Regulation (EC) No 1698/2005f

²⁴ Council Regulation (EC) No 1698/2005d

²⁵ Council Regulation (EC) No 1698/2005e

3.8.3. Ex-Ante, Mid-term and Ex-post Evaluations

In order to enhance the quality and effectiveness of implementation, the Rural Development Policy and its programmes are evaluated in three stages. Member states conduct the first evaluation, performed before the implementation of the programme, in hopes of identifying and assessing the medium and long-term needs, objectives, and quality of the implementing measures. It is called an *ex-ante* evaluation. The *ex-ante* evaluation is therefore a part of drawing up a RDP and aims to optimize the allocation of budgetary resources and improve programming quality. The evaluation should identify and appraise medium and long-term needs, the goals to be achieved, the results expected, the quantified targets, particularly in terms of impact in relation to the baseline situation, the Community value-added, the extent to which the Community's priorities have been taken into account, the lessons drawn from previous programming, and the quality of the procedures for implementation, monitoring, evaluation and financial management. An *Ex-ante* evaluation shall be carried out under the responsibility of the Member State.²⁶

The second evaluation is carried out during the implementation of the programme and is also in the hands of the Member States. This ongoing evaluation shall take the form of a separate *mid-term* evaluation report, proposing measures to improve the quality of programmes and their implementation. The MA and the MC described above are supposed to use an ongoing evaluation to examine the progress of the programme in relation to its goals by means of result and, where appropriate, impact indicators. They can also be used to improve the quality of the programmes and their implementation and to observe proposals for substantive changes to programmes. If necessary, the Commission requests a summary of the *mid-term* evaluation reports.

In 2015 the ongoing evaluation will take the form of a separate *ex-post* evaluation report. These evaluations aim to draw lessons for RD Policy by identifying the factors that have contributed to the success or failure of programme implementation, such as utilization of resources, the effectiveness and efficiency of the programming of the EAFRD, its socio-economic impact, and its

²⁶ Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD). Article 85

impact on the Community priorities. They need to cover the goals of the programme and aim to draw lessons concerning RDP. They should also identify the factors that contribute to the success or failure of the programmes' implementation, including in terms of sustainability and identifying best practices. Lastly, the Commission must compile a summary of these evaluations to be finalized by 31 December 2016 at the latest to be named *ex-post* evaluations (Directorate-General for Rural Development, 2006, September).

3.8.4. Paying Agency (PA)

The role of an accredited Paying Agency is to accept, process, and authorise aid applications and apply payments to the beneficiaries in the Member State's agricultural sector and in accordance with Community Rules. The Commission's payment from the Fund's contribution is made to the paying authority as defined in Article 9 (o) in accordance with the corresponding budget commitments.²⁷ The European Commission obliges Member States to publish the payments effected to all beneficiaries under the EAFRD and the EAGF funds, on the EU website of the relative Member State. Regulation 259/2008 stipulates that Member States shall publish the data of all beneficiaries applying for aid under the European Agricultural Fund for Rural Development (EAFRD) and European Agricultural Guarantee Funds (EAGF), to be more transparent in the distribution of Funds from the European Budget (Agricultural Services and Rural Development, e.d.). A Certifying Body is responsible for certifying the completeness and accuracy of the Paying Agency's account (DG AGRI, 2005c).

3.8.5. National Rural Networks (NRN)

Last of all, a Rural Development Network is to be established at national and EU level to support all aspects of implementation, evaluation, and exchange of best practice. Each Member State will establish a National Rural Network which groups the organizations and administrations involved in RD. The European Network for Rural Development will regroup national networks, organizations, and administrations active in the field of RD at EU level. The network also deals with issues such as preparation of training programmes for local action groups and technical assistance for inter-territorial and trans-national cooperation. (Department of Agriculture, Fisheries and Food, e.d.). It should operate as a

²⁷ Council Regulation (EC) No 1260/1999

network supporting and bringing together the organisations and administrations active in RD. Its roles include identifying and sharing tips on good practise, organising exchanges of experience and know-how, preparation of training programmes for Leader groups and assisting them with co-operation activities. Exchange of good practise and sharing evaluation results can contribute significantly to the effectiveness of RD. In this respect the European Network for Rural Development plays a central role in facilitating contacts by providing assistance at an EU level (European Commission-Directorate..., 2008).

Concerning strategic follow-up, the Regulation requires each Member State to submit a summary report, starting in 2010, and subsequently every two years, setting out the progress made in implementing its strategy and objectives and their contribution to achieving the CSG's defined by the Council. The Commission has the task of presenting a report every two years summarizing the main developments, trends, and challenges connected with implementing the national strategic plans and the Community Guidelines (European Union, 2008).

Regarding Technical Assistance (TA), a European Rural Development Network will assist the Commission in implementing the Policy, although, each Member State also must establish the National Rural Network explained above, bringing together all organizations and administrations involved in RD. At the initiative of the Member States, the Fund may finance up to a height of four percent of the total amount for each Programme, measures concerning the preparation, management, monitoring, evaluation, publicizing, and control of programme assistance. The Commission manages the twenty-five percent of the Fund's resources allocated to TA. For the period 2007-2013, the Council determined the amount of Community support to RD, its annual breakdown, and the minimum amount to be concentrated in regions eligible under the Convergence Objective²⁸ (Communities and Local Government, n.d.). It acts by a qualified majority on a proposal from the Commission, in accordance with the financial perspective for the period 2007 to 2013 and the Inter-institutional

²⁸ The convergence programme aims to improve the conditions for growth and development in the least developed regions where the economy is still lagging behind the rest of the EU

Agreement²⁹ 2000-2006 (European Union, 2004) on budgetary discipline and improvement of the budgetary procedure. Member States also take account of the amounts from the before mentioned modulation in the programming. The Commission also makes sure that the total amount of allocations from the European Agricultural Fund for Rural Development and other Community Funds, such as the European Regional Development Fund, the European Social Fund, and the Cohesion Fund, stay within specific economic parameters (European Union, 2009).

It is interesting to look at how a state, in this case Finland, has applied the four Rural Development Axes into their Rural Development Programme and used the above mentioned measures and authorities for the management, control, and information. Iceland, being an applicant country to the EU, can conceivably learn from its Nordic counterpart and its Rural Development Policy. Finland is often mentioned as being similar to Iceland when looking into agriculture and RD for numerous reasons such as a harsh climate conditions and heterogeneity. Let us now look into Finland's approach to the aforementioned Rural Development Axes.

²⁹ The purpose of the agreement is to implement, on a multiannual basis, budgetary discipline at Community level. It seeks to improve the functioning of the annual budgetary procedure and cooperation between the institutions on budgetary matters

4. Rural Development Programme for Mainland Finland 2007-2013

Let us take a closer look at the on-going programme period in Finland, 2007 to 2013, and see what lessons can be learned from its implementation and the changes made compared to former first period described in *Chapter 2*. Evaluation of the on-going programme period is somewhat premature since it has not even reached its mid-term evaluation, due in December 2010 (Haaranen, Helenius, and Herzon, e.d). Some parts of it, however, deserve closer attention in terms of the framework explained in the last chapter. The Finnish experience has been particularly successful in regards to the adoption of the Leader approach for example. Although the EU provides the framework, the programme is also written in accordance with national legislation (Implementation and vision of Common Agricultural Policy: CAP in EU 27 Member States, n.d.). There is one national strategy for Finland and there are two Rural Development Programmes: one for Mainland Finland and one for the Region of Åland. Here, the focus is on the Rural Development Programme for Mainland Finland. What follows is a description on how Finland has chosen to use the Community Strategic Guidelines described in *Chapter 3* to implement the RDP for Mainland Finland in the 2007-2013 period. New Member States and accession countries, such as Iceland, can potentially learn a great deal from Finland's approach.

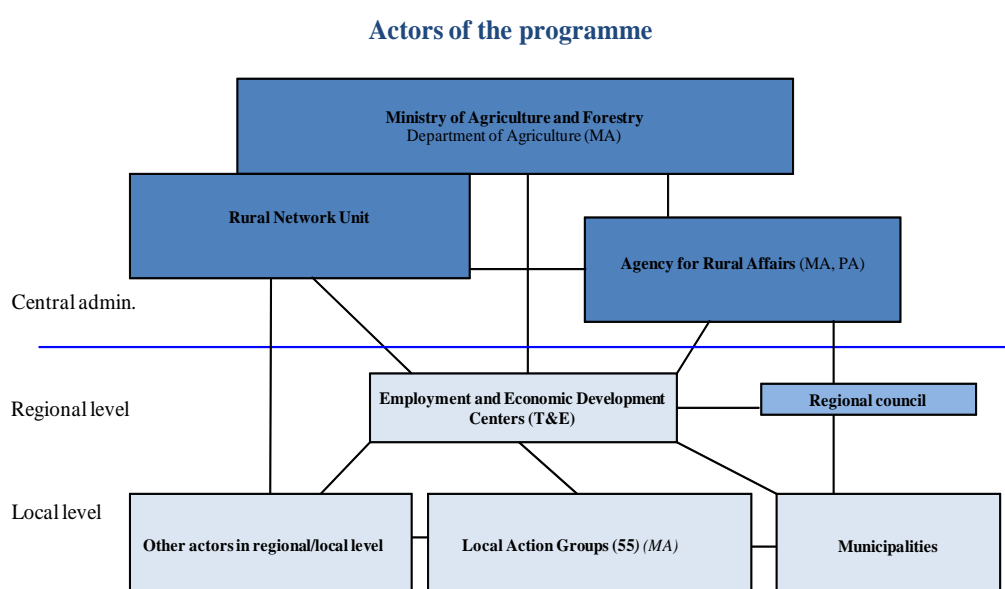
The programme spans an expansive 385 pages. Please note, due to the size of the Programme, page numbers in parenthesis are indicators of where in the RDP the specific information is located.

4.1. Finnish participants in the current Rural Development Programme

The Rural Development Programme 2007-2013 for Mainland Finland was drawn up at the Ministry of Agriculture and Forestry. It was prepared in broad working groups and circulated among different stakeholders and the public at large for input and amendments (Ministry of Agriculture and Forestry, 2010). The main actor involved in the Rural Development Programme for Mainland Finland 2007-

2013 is the Ministry of Agriculture and Forestry's Department of Agriculture, also known as the Managing Authority. The Rural Network Unit then provides the link between rural developers and services for the Local Action Groups and assists them in finding international partners. Additionally, the Rural Network Unit organizes training relating to good practices and the Local Action Groups. The Agency for Rural Affairs is also a managing and payment agency of Finland's RDP. Under these institutional set of actors come the T&E Centers (Employment and Economic Development Centers) and below them come the actors involved at the local level; the Local Action Groups and the Municipalities (Murtomäki, 2009).

Figure 8. Actors of the current programme



Source: Finnish Ministry for Agriculture and Forestry, 2009

The T&E Centers provide funds for business aid and projects and they grant payments for special agri-environment measures. They make all the final project approvals and payment decisions in Leader-projects and Leader business aids. They delegate managing and paying authority duties and perform legal and “on the spot” checks. The municipalities fund Leader activities totaling around twenty percent of public funding and also grant agri-environmental payments. The LAGs make the local rural strategy plans for their area and therefore they provide funding for enterprises and development projects that are in line with the local strategy. Registered associations are eligible to apply for support for special agri-environmental measures. All applications and payment applications are sent to the

LAGs. Finally, LAGs provide training, advising, and information (Murtomäki, K., 2009).

Although many actors stay involved in the Rural Development Programme in Finland the set-up has been simplified as compared to the previous programme described in *Chapter 2*, i.e. with only one Ministry formally involved. This underlines a focus on simplification. Simplification indeed has been an objective for Finland in the ongoing period and has been achieved already in some areas. Despite the positive results, the goals are set higher still and are seen as a work in progress. The Finns believe that the institutional structure is still too complex and bureaucratic. They are working on cutting down the number of middlemen agents who implement the process and increase central governance (Karjalainen, 2010).

4.1.1. The Current Period: Status of the Programme

EU's Rural Development Committee, consisting of representatives of the twenty-seven Member States, approved the RDP for Mainland Finland on 20 June 2007 and for the Region of Åland on 20 December 2007 (CAP in EU Member States, Fact Sheets: Finland, e.d.). The European Commission approved the overall programme on 10 August 2007 (Karjalainen, 2010).

In the current period, 2007-2013, the Community's RD Policy emphasizes, as set down in the Lisbon and Gothenburg strategies, the improvement of the competitiveness of agriculture and forestry, sustainable use of natural resources, quality and food safety, diversification of rural industries, and improving the quality of life and the environment in the countryside. Consolidation of the bottom-up approach in the RD Policy planning is very important according to the Finnish programmes because it has proven to be a success for them, gaining area-based local strategies by developing the endogenous potential of the regions (Finland Ministry of Agriculture and Forestry, 2006/2009 and Loriz-Hoffman, 2010). A Finnish example of the bottom-up approach is the numerous Finnish Local Action Groups that work from the grassroots on up. In the previous programming period, 2000-2006, there were twenty-five LAGs in Finland. Over the period 2007-2013 it is intended to create between fifty and sixty LAGs, covering about 300,000-350,000 km² total (CAP in EU Member States, Fact Sheets: Finland, e.d.).

4.2. Finland's ongoing priorities and categorized measures

Finland has made a very detailed RDP for Mainland Finland for 2007-2013. The focus here is not on the minutia of every point of the programme, rather the core aspects will be described and discussed under each of the Axes, predominantly its implementations and objectives. Turning first to understanding each Axis and its priorities, beginning with Axis 1.

4.2.1. Axis 1: Improving the competitiveness of the agricultural and forestry sector

Significant still, Axis 1 is used more by EU Member States from Eastern and Central Europe trying to improve the position of their agro-food systems and catching up with other Member States. Finland spends 11.6 percent on Axis 1 while for example, Latvia and Hungary spend over 45 percent (European Commission., 2008). In Finland the most popular measures for Axis 1, according to Sirpa Karjalainen, involve training, agriculture, and forestry advisory services plus the aid for young farmers (Karjalainen, 2010). In order to achieve its goals, improving current industry related skills and adopting an innovative and customer-oriented approach towards development are necessary. The growing demand for renewable energy for example, opens opportunities for Finland's regions to increase the use of wood and other renewable energy sources.

The Finnish measures for this Axis are targeted at new forms of agricultural and forestry production. On top of enterprise-specific measures, broader development programmes, and umbrella projects are to be made in order to develop these sectors (Rural Development Programme for Mainland Finland 2007-2013, p. 80).

The priorities set in the RDP for Mainland Finland 2007-2013 for improving the competitiveness of the agricultural and forestry sector (Axis 1) are the following:

1. To develop the productivity and competitiveness of main agricultural production sectors and to prevent the weakening of the age structure of farmers by supporting structural development of family farms. To promote the diversification of forms of practicing agriculture and farming operators.
2. To improve the competitiveness of small enterprises processing agricultural and natural products. To develop the production and use of wood energy and other

forms of renewable bioenergy. To increase the value added of small scale wood-processing. To increase the development and utilization of new products, production methods, and technologies based on innovation.

3. To develop the business management skills, environmental awareness, and awareness of the welfare and health of production animals among agricultural entrepreneurs. To improve the knowledge and skills of forest holders on the use and management of forests and to maintain the diversity of forest nature.³⁰

The Programme introduces numerous measures under Axis 1. The first measure articulated here is '**Vocational training and information actions**'. There are three objectives listed for this measure. The first is to improve the potential for achievement in the agricultural, forestry, and food sector through talent promotion among entrepreneurs, through augmenting to their skill set to meet the increasingly stricter requirements on agricultural holdings, and by supporting their voluntary efforts to update their professional skills. The second objective is to put forward training to farmers aimed for climate change adaptation and reducing Greenhouse gas emissions (GHG). The plan is to achieve the objective through information and dissemination of knowledge on renewable energies awareness and to increase the competence of operators in agriculture, forestry, and food sectors. The third objective is to boost awareness and knowledge relating to water management and biodiversity through information sharing and the distribution of knowledge (Rural Development Programme for Mainland Finland 2007-2013, p. 80-81).

It is estimated that some of the projects in this measure are implemented through the Leader approach. Local action groups mainly finance projects that benefit local farmers, forest holders, and other local enterprises in this sector. Examples include projects that help maintain the working ability of farmers and their well-being at work (Rural Development Programme for Mainland Finland 2007-2013, p. 81). This measure receives 4,700,000 Euros from the EAFRD contribution for 2009-2013.

Another measure for Axis 1 is '**Setting up of young farmers**'. The objective of this measure is to promote transfers of farms to the next generation and thus, to improve the economic conditions of farmers setting up on a holding

³⁰ RDP for Mainland Finland 2007-2013. 2007. P. 61-64.

and the viability and competitiveness of agriculture in general. Other objectives are maintaining the number of new, young farmers, improve the age structure of farmers, and facilitating capital acquisition for new farmers. Additional national financing is granted under this measure.

Another measure under Axis 1 for Finland is the ‘**Modernization of agricultural holdings**’. Improving the operating environment of agricultural holdings is the primary objective of this measure. For milk production, the objective is to maintain the current level of production. Other objectives are achieving national environmental objectives and promoting the use of renewable energy, particularly biogas energy. According to the measure certain investment aid may be granted for farms that produce renewable energy, which is also mainly used on the farm (Kalliokoski, 2010). This is thought to be achieved by promoting the spread of environmentally friendly practices in agriculture (Rural Development Programme for Mainland Finland 2007-2013, p. 93). National additional financing is granted under the measure as well.

The next two measures for Axis 1 focus on the continuation of employment, improvement of competitiveness for farmers and their incomes, and both center on the forestry sector. The first is ‘**Adding value to agricultural and forestry products**’. The objective is to improve profitability, quality and competitiveness of the entire food chain, maintaining and creating new jobs in rural areas by adding value to agricultural and forestry products, as well as facilitating their access to markets. (Rural Development Programme for Mainland Finland 2007-2013, p. 97). Support is granted to micro-enterprises and SMEs, including agricultural enterprises that produce and market agricultural products in order to achieve the set goals. Support is also granted to micro-enterprises which practise small-scale mechanical wood processing, production, and the processing of energy raw materials based on the utilization of arable and forest biomass (Rural Development Programme for Mainland Finland 2007-2013, p. 97). The measure encourages farms to diversify into other business activities than agriculture, for example it includes aid for the production of renewable energy. The measure includes processing of biomass from agriculture and forestry into renewable energy and installations/infrastructure using biomass and other renewable energies such as geothermal power. Investment aid is available for instance to operations

concerning meat and meat products, milk and dairy products, vegetables and cultivated berries, as well as wild berries and mushrooms (Kalliokoski, 2010).). In this measure aid is granted for tangible and intangible investments for starting up or expanding the business activities. The aid is granted within the maximum levels of 10-35 percent of the eligible costs depending on the national support area and size of the enterprise.

The second measure focusing on the continuation of employment is **‘Cooperation for development of new products, processes and technologies in the agriculture and food sector and in the forestry sector’**. The objective of this measure is to make sure that the processing of products in SMEs and mechanical small-scale wood processing are customer-oriented and competitive in the market. This, Finland believes, will be achieved by developing and introducing new cost, energy-saving and quality-improving products, technologies, processes, and logistics solutions. In the field of bio-energy the aim is to develop and introduce more efficient technology to facilitate both ecologically and economically sustainable energy solutions in the long run. Another objective is for actions to develop gross value added and profitability of enterprises involved in the sector in the long run (Rural Development Programme for Mainland Finland 2007-2013, p. 102). In the past years the bio plant cultivation area has been about 17000 to 18000 hectares yearly in Finland. Priority is given to cultivate fields that are reserved for food production and not for energy crops. The goal is to increase the share of renewable energy to 38 percent by 2020, in line with the obligation proposed for Finland by the European Commission ((Kalliokoski, 2010).). These measures enable the enterprise specific development and cooperation between enterprises, primary producers and other actors within the field of food processing. Training, research and other expert organisations can participate as well. In this measure aid for the groups of enterprises is 50 percent of the eligible cooperation costs. Aid level, however, is 75 percent when training, research and other expert organizations work together with the enterprises involved (Kalliokoski, 2010). Operations for this measure are numerous. They are i.e. improving energy efficiency, with the potential effect of reducing carbon dioxide emissions by saving energy; processing of agricultural/forest biomass for renewable energy, with the potential effect of

substituting fossil fuels; and innovative operations to address climate change mitigation and adaptation measures, with the potential effect of reducing GHG emissions and adaptation of agriculture to climate change (Rural Development Programme for Mainland Finland 2007-2013, p. 244).

One of the main challenges of the Finnish enterprises is to create value while working closely in cooperation with other enterprises, for example, in product or service advertising, marketing, or logistics. More people are interested in buying organic, natural, and often exotic products, which can be nowadays obtained mainly from small private shops. Small enterprises often have difficulties in producing large quantities of their products which often is a requirement of the large supermarket chains. Small companies also are challenged by the requirements of the different laws, which often mean expensive investments. These challenges are under discussion and things are being solved both at the enterprise level and at the government level and in close cooperation with various stakeholders (Kalliokoski, 2010).

4.2.1.1. Financing and expected impacts

Of the EAFRD contribution for Axis 1, a minimum of 60 percent is allocated to the structural development of agriculture and a minimum of five percent is allocated to utilizing research and promoting innovation to develop, in particular, the food, wood and bioenergy sectors. The rest of the EAFRD funding is mainly allocated for promoting the other priority objectives described above. To meet the objective of the strategy a significant part of Axis 1 is funded nationally (Rural Development Programme for Mainland Finland 2007-2013, p. 61). Financing of the Finnish RDP for Axis 1 is 544,583,444 Euros. The co-financing from the EAFRD is forty-five percent which makes the EAFRD funding 245,062,550 Euros (Karjalainen, 2010).

According to the *ex-ante* evaluation for the 2007-2013 period, the expected results in Axis 1 include that the modernization of Finnish agriculture will continue, the age structure of agriculture will not deteriorate, the use of bioenergy will spread, skills will be strengthened, and the value added of agricultural and forestry products will increase. The measures also are supposed to improve the competitiveness of agricultural and forestry production. The measures under Axis 1 simultaneously should affect the regional economy. When looking at the

employment impact of agriculture on agricultural holdings, other rural businesses, and self-employment it can be expected that measures under this Axis will, as a whole, bring significant value added to employment in rural areas through their multiplier effects (RDP for Mainland Finland 2007-2013, p. 65).

4.2.2. Axis 2: Improving the environment and countryside

Contribution to Axis 2 is the second highest in Finland, 79.6 percent, out of all the EU-27 Member States (European Commission., 2008). That said, this is also the Axis where Finland puts most of its emphasis in this period. The agri-environmental payments are the largest in Finland out of all the Member States. Most emphasis is put on reducing nutrient load from agriculture in the watercourses and enhancing biodiversity. There is wide participation of farmers in these measures. Finland is considered being innovative in these measures, with a good deal of networking between farmers, institutes, and innovation centres and is the first Member State to use the Leader approach for agri-environmental support (Karjalainen, 2010).

The priorities set in the RDP for Mainland Finland 2007-2013 for improving the environment and the countryside (Axis 2) are the following:

1. To maintain valuable, open, cultivated agricultural landscape as well as meadows and pastures, independent of whether they are used to produce food, raw materials, renewable energy or managed without cultivation. The measures to achieve this are payments for natural handicaps and payments for the agri-environment, plus special measures for management of traditional biotopes and enhancing of biological and landscape diversity are in place.
2. To reduce environmental load to the soil, surface waters, groundwater, and air from agricultural sources by the promotion of environmentally-friendly production methods. To support the reduction in GHG and the preservation of the organic matter in the soil and the carbon sink effect through renewable bioenergy produced on agricultural and forest land.
3. To preserve biodiversity in agricultural and forest environments. Special emphasis is given to the preservation of the Natura 2000 network of agricultural and forest areas.³¹

³¹ RDP for Mainland Finland 2007-2013. 2007. P. 61-64.

On the basis of the strategy the RDP highlights the preservation of traditional agricultural landscapes and water protection. Measures to preserve agricultural landscapes fall under the natural handicap measure. In water protection the most important instrument consists of the agri-environmental payments. Organic farming and biodiversity in farming and Natura 2000 areas also are promoted with the agri-environment payments (RDP for Mainland Finland 2007-2013, p. 62).

Three measures will be articulated here, starting with '**Natural handicap payments in mountain areas and payments in other areas with handicaps**', an important area for Finnish farmers. When applying for the first time for natural handicap payments based on this programme, farmers have to comply with set terms concerning natural handicap payments on their entire farm. Farmers also have to agree to continue farming for five years on his/her farm from the date of the first payment under this measure (Rural Development Programme for Mainland Finland 2007-2013, p. 107). This measure has the highest relative importance within the total EAFRD contribution in Finland (Directorate-General for Rural Development, 2008). Another important measure for Axis 2 is the '**Agri-environment payments**'. The objective of these payments is to carry out agriculture and horticulture in a sustainable way so that production causes less strain on the environment, that maintenance of biodiversity and cultural landscapes in the agricultural environment is guaranteed, and conditions for carrying out production are maintained for the long term. The second objective of this measure is to grant agri-environment payments to ninety-three percent of Finnish farmers, constituting ninety-eight percent of arable land (Rural Development Programme for Mainland Finland 2007-2013, p. 121). Operations for this measure include soil management practices, the establishment and management of riparian zones and more efficient reduction of nutrient load. The main emphasis for agri-environmental measures in this period is to reduce nutrient load from agriculture in the watercourse and enhance the biodiversity and wider participation of farmers (Malm, T., 2009 and Rural Development Programme for Mainland Finland 2007-2013, 2009, p. 245). The final measure mentioned here focuses on animals, '**Animal welfare payments**'. The general objective of this measure is to improve the health and safety of livestock and other farm animals. Another more definite objective is to promote more species-specific maintenance

of production animals and to enhance farmers' awareness of factors that affect animal welfare. Also, importantly, these measures will help farmers to adjust to stricter legislative requirements (Rural Development Programme for Mainland Finland 2007-2013, p. 178-179).

4.2.2.1. Financing and expected impacts

Financing of the RDP for Mainland Finland for Axis 2 is 5,454,229,588 million Euros and the co-financing from the EAFRD is twenty-eight percent which makes 1,538,339,171 Euros (Rural Development Programme for Mainland Finland, 2007/2009 and Karjalainen, S. 2010). As we can see from the numbers, even though the measures for Axis 2 are substantially fewer than the ones of Axis 1 there is much more expenditure, and therefore emphasis, on this Axis.

Natural handicap payments have been an important measure for Finland to compensate for the permanent handicaps caused by the northern location of its agriculture. In the *ex-ante* evaluation for the ongoing period, natural handicap payments were indicated as one of the few instruments that could help preserve agricultural production in areas with special problems as well as maintaining and caring for rural areas. Agri-environment measures are primarily thought to reduce the environmental load in water bodies in the long-term. As for reversing the downward trend in biodiversity and the diversity of landscapes, the expected impacts of the measures are not straightforward. Diversity mapping, the basic measure for biodiversity and landscape management, can be expected to have a positive impact on general awareness of biodiversity and the diversity of landscapes. Farmers may become more interested in the importance of various habitats in terms of biodiversity and the diversity of landscapes on their own farms. As for animal welfare payments, it can be expected that farmers will take greater consideration for animal welfare in their activities. It also is expected that the number of animals per area or production unit will decrease. Together with agri-environment payments, setting up a new animal welfare measure will help farmers adapt to the increasingly strict statutory requirements and meet consumer expectations at the same time (RDP for Mainland Finland 2007-2013, p. 65-66).

To sum up, the strategic choices under Axis 1 and 2 support multifunctional, competitive agriculture which promotes environmental protection and sustainable development, organic production and the entire food chain, which in turn is a

precondition for the preservation and development of rural areas as attractive places for tourism, leisure, and residence (Rural Development Programme for Mainland Finland 2007-2013, p. 63).

4.2.3 Axis 3: Diversifying the rural economy and improving the quality of life in rural areas

Axis 3 focuses on employment in rural areas. According to Sirpi Karjalainen these measures can be described as diversification combined with agriculture. It bridges existing business support to rural areas with T&E centers, diversifying farms, micro-scale entrepreneurship, and tourism in rural areas. It is used to extend and adapt innovation systems. A key priority is strengthening the operational environment and competitiveness of rural firms. Challenges under this Axis are providing services to a dispersed and ageing population, integrating rural firms to the knowledge economy and providing them with a positive business environment. For Axis 3 local programmes and commitment are extremely important (Karjalainen, 2010). Axis 3 is mainly implemented through regional and local measures. All the Employment and Economic Development Centres and action groups have prepared RD plans for their territory for the ongoing period together with a wide range of regional actors. Each regional and local plan has a strategy to develop the territory and selected priorities for development. To ensure consistent business development and equal treatment of enterprises, each territory is supposed to hold negotiations before the programming period begins and make agreements on the division of tasks and rules of the game in writing. Each action group and local RD plan must fulfill certain criteria in order to receive Leader financing from the Programme (Rural Development Programme for Mainland Finland 2007-2013, p. 195).

The priorities set in the RDP for Mainland Finland 2007-2013 for diversifying the rural economy and improving the quality of life in rural areas (Axis 3) are the following:

1. To slow down the decrease in the population of sparsely populated rural areas and rural heartland areas and to contribute to an improvement in employment at the same time in the whole country.
2. To support an increase in the number of rural enterprises and jobs and the diversification of economic activities. To reinforce the share of women and the young in economic activity. To promote new innovations and product development

and their utilization to create employment opportunities to needy rural areas. To improve the capacity and skills in both entrepreneurship and in the fields of information and other technology in rural areas.

3. To improve the attractiveness of rural areas as places of residence and leisure. To contribute to the efforts aimed at maintaining the activity and vitality of villages.

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The Programme introduces many motivating measures under Axis 3. The main measure and a Finnish priority in the 2007-2013 period is the **Diversification into non-agricultural activities** with the focus of starting up new enterprises in the countryside and developing and modernizing the existing ones. Precedence is given to enterprises that create new jobs or preserve the present jobs. Financing is targeted to all rural micro-sized enterprises, with less than ten employees. All the sectors of business can be funded, but competition within the region may not be altered (Kalliokoski, 2010). Safeguarding existing jobs is another important objective of this measure. Other objectives are to boost employment opportunities in rural areas and to help farmers and their families earn a living by encouraging them to diversify into other business activities. This is a preventative measure to allow income generated to be used to offset any losses of income arising from the decline in direct agricultural income. Another goal is to provide expert and professional advisory services for the creation of enterprises, as well as other export services for the various business sectors For rural areas of sub-regions (Rural Development Programme for Mainland Finland 2007-2013, p. 196). Operations for this measure include processing of agricultural/forest biomass for renewable energy with the potential effects of substituting fossil fuel, installations for renewable energy using biomass and other renewable energy sources like solar and wind power, and geothermal, also with the potential of substituting fossil fuels (Rural Development Programme for Mainland Finland 2007-2013, p. 246).

Support under this measure is granted to members of farm households who diversify into non-traditional agricultural production, such as services, crafts and the marketing of products manufactured on the farm (Rural Development

³² RDP for Mainland Finland 2007-2013. 2007. P. 61-64.

Programme for Mainland Finland 2007-2013, p. 196). State aid is allowed for this measure.

Among the biggest challenges in the structural change process are in the farming industry, as it is hard to find new jobs or business opportunities for people, who have come accustomed to earning their livelihood from farming. Fifteen regionally operated Centres for Economic Development, Transport and the Environment work in the front line for this measure. They receive the applications and grant the aid for the rural businesses. They also receive the payment requests from the beneficiaries, check the eligibility and make payment decisions. Centres for Economic Development, Transport and the Environment take into considerations the special characteristics of their region when granting the aid (Kalliokoski, 2010). ‘Diversification into nonagricultural activities’ represents 40 percent of the total EAFRD contribution devoted to Axis 3 in Finland (Directorate-General for Rural Development, 2008).

Another significant measure for the Finnish countryside under Axis 3 is **‘Support for the creation and development of enterprises’**. The objective of this measure is improving the structure of the rural economy and creating income opportunities and new jobs in rural areas. This is done through promotion and encouraging the creation, expansion, and development of micro enterprises and by improving the rural business environment, similar to the before mentioned measures in Axis 1. The motivation for this measure is to prevent ever-increasing economic and social inequalities in rural areas and the resulting migration. To achieve its goals business aid is used to encourage further development of business activities of existing micro-enterprises and the creation of new micro-enterprises. These measures promote entrepreneurship in rural areas and develop economic fields by diversifying them and thus improve the quality of life and the service structure in these areas. Support is granted for starting up, expanding, and developing micro-enterprises in the case of business activities outside the farm economy. Support is also granted for product manufacturing businesses. Investments in the development of and the starting up of enterprises in the metal, plastics, and electronics industry, those engaged in the second-stage processing of foodstuffs and handicraft enterprises, enterprises that provide business services

and care, and tourism and recreational services are all eligible for support (Rural Development Programme for Mainland Finland 2007-2013, p. 201).

The next four measures focus on tourism and village renewal. The first focuses on the '**Encouragement of tourism activities**' with the objectives to launch rural tourism products to the international market and to raise the potential for rural tourism business and jobs and to improve the attractiveness of rural areas. The next measure is focused on '**Basic services for the economy and rural population**'.

The objective of this measure is to maintain a versatile and equivalent service structure in rural areas as present in urban areas, including cultural and leisure services, services for enterprises, and opportunities to utilize the benefits of the information society. To achieve the set goals, its standard calibrations improve the existing broadband infrastructure and will construct new broadband infrastructure in the whole country, especially in sparsely populated rural areas. Another objective for this measure is to increase the number of establishments producing renewable energy in rural areas (Rural Development Programme for Mainland Finland 2007-2013, p. 211). The types of operations in this measure are creation of new broadband infrastructure, upgrading of the existing broadband infrastructure and laying down passive broadband infrastructure (Rural Development Programme for Mainland Finland 2007-2013, p. 245). This measure alone receives 24,570,362 Euros contribution from the EAFRD fund in 2009-2013. State aid is allowed. The next measure is '**Village renewal and development**'. The objectives for this measure include diversified development networks, cooperation procedures, and increasing social capital through active village participation in rural areas. Positive developments of villages can be promoted by increasing local commitment and motivation of residents (Rural Development Programme for Mainland Finland 2007-2013, p. 215). It is estimated that most of the projects in this measure are implemented through the Leader approach and state aid is allowed. Similar is the '**Conservation and upgrading of the rural heritage**' with the objective to maintain a pleasant and distinctive rural environment that supports social and economic development of the area drawing from its natural and cultural heritage. It is used to implement projects that utilize cultural heritage sites and valuable buildings as well as natural

heritage sites and HNV sites in rural areas. Promoting their conservation, maintenance and development are the primary aim of Finland (Rural Development Programme for Mainland Finland 2007-2013, p. 218).

The final measure mentioned for Axis 3 is '**Training and information**'. This measure includes skilled entrepreneurs and other rural actors, transferring the latest know-how, ideas, applications, and utilizing innovations, particularly in the commercial sense. The measure is used to put into action projects that improve the occupational skills and competence of those involved in rural entrepreneurship and reforming it in such a manner that they, either directly or indirectly, contribute to the creation of new enterprises and jobs. The projects also support the continuous self-development of the residents and the updating and upgrading of professional skills. In addition, the projects increase the willingness of local residents to take part in various development measures and strengthen cooperation. Training targeted at women and young people is a specific priority (Rural Development Programme for Mainland Finland 2007-2013, p. 211). State aid is allowed.

4.2.3.1. Financing and expected impacts

The financing of the Finnish RDP 2007-2013 for Axis 3 is 480,783,293 Euros and the co-financing rate from the EAFRD is forty-five percent, translating to 224,420,362 Euros (Rural Development Programme for Mainland Finland, 2007/2009 and Karjalainen, S. 2010). Of the EAFRD contribution for Axis 3, a minimum of 60 percent is allocated to the creation of employment opportunities and a minimum of 25 percent is allocated to promoting the quality of life in rural areas. The rest of the funding is mainly allocated for promoting the other objectives described above (Rural Development Programme for Mainland Finland 2007-2013, p. 63). Majority of funds under Axis 3 measures are allocated to the setting-up, expansion, and development actions that safeguard existing jobs and create new employment opportunities. A net increase in rural jobs is the primary objective in these measures. In addition to business advisory services and enterprise specific development support, investment aid is accessible to develop enterprises that form new jobs.

To achieve the strategic objectives of measures aimed at improving the quality of life in rural areas, it is essential that rural areas are regarded as high-

quality and attractive places to live for employment, entrepreneurship, and leisure among all ages, particularly for young people and women (Rural Development Programme for Mainland Finland 2007-2013, p. 210) The objective of these measures is then to promote and encourage the creation and expansion of rural enterprises that are significant for rural employment and balanced regional development by helping enterprises succeed in the market and by developing the operative environment of rural micro-enterprises (Rural Development Programme for Mainland Finland 2007-2013, p. 195).

According to the *ex-ante* evaluation for 2007-2013, new opportunities for earning a living in rural areas, diversified business activities and developed services that should be achieved under this Axis will improve living conditions in rural areas. The diversification of rural business and business growth will bring economic value added and improve income in rural areas. The economic value added from these measures should be seen both at the level of individual people and in the entire society. This highlights the need for measures that are targeted at individual enterprises. Supporting entrepreneurship in these areas will contribute to achieving social and environmental objectives. Measures under Axis 3 are not expected to have direct conflicting impacts on economic and social development. The diversification of the rural economy, however, can be restricted to a specific population group. Bridging the gender gap is very important in rural areas. Growth of rural business activity and the resulting migration to rural areas and construction activities may put pressure on the environment, village renewal, and development measures and will have some impact on the environment as well. This measure should bring the communities together and village activities closer to its people. Possible conflicts in village development, such as those associated with land ownership and sales, may arise locally when promoting living in villages. Other conflicts in the measure may arise between the natural environment and the business perspectives (RDP for Mainland Finland 2007-2013, p. 66-67).

4.2.4. Axis 4: Leader

Axis 4 combines the contextual objectives of Axes 1, 2 and 3 with the methodological approach of Leader activities described in *Chapter 2*. The Leader approach has been implemented in Finland since 1996. During this period, Leader

activities have been geographically mainstreamed to cover nearly all rural areas in Finland. The objective for mainstreaming in 2007 to 2013 is to broaden the content of Leader activities to serve the objectives of all Axes and to broadly utilize this method in RD. Leader promotes a hands-on approach; it encourages cooperation and requires many types of funding. The bottom-up orientation is essential to the Leader approach. This approach is defined for each area and its needs. It also is considered a precision tool in development work that focuses on local, municipal, or sub-regional projects. Activity by residents is fundamental. All these factors are prerequisites for successful Leader activities (Rural Development Programme for Mainland Finland 2007-2013, p. 226).

By preparing and implementing local development plans, local people and actors have the opportunity to contribute to the development of their region on a broad scale. Local action groups prepare local development plans that implement the projects of Axes 1 through 4 at a grass-root level. Supporting the activities of the LAGs enables locally based decision-making and the activation, training, and advice of local people. LAGs select the projects to be financed under the local RDP. In selecting these projects, they assess the relevance of the project, whereas the regional Employment and Economic Development Centres assess their legality (Rural Development Programme for Mainland Finland 2007-2013, p. 226).

The priorities set in the RDP for Finland 2007-2013 for the Leader approach (Axis 4) are the following:

1. To implement strategic, systematic rural development driven by local needs in accordance with the bottom-up principle. This provides each rural area with precise solutions for improving the opportunities for employment and earning a living. The Leader approach is applied in the whole country. The Leader approach is applied in all Axes of the programme.
2. To bring together and activate new people and groups of actors to rural development work and to tell about development opportunities. To strengthen local rural communities and improve the living conditions, quality of life, and the environment of the residents.
3. To develop cooperation between the civic society and public administration and create new modes of operation. To improve the opportunities of the rural residents to participation and influence.

4. To network and create cooperation between different kinds of actors at the local, regional, national, and international level. To use networks to disseminate new, innovative solutions and know-how that can improve the competitiveness of rural actors.³³

The first measure out of three mentioned here is **‘Implementing local strategies’**. Leader activities will mainly support and activate small enterprises and start-ups in the territory of action groups. In training and business development projects, Leader activities will support mainly local development actions that do not go beyond the territory of action groups. For this measure Leader action groups may finance the actions mentioned above under the agri-environment payments and the non-productive investments measures (Rural Development Programme for Mainland Finland 2007-2013, p. 233).

Another measure for Axis 4 is **‘Inter-territorial and transnational cooperation’**. The objective of the measure is to bring added value to rural areas by increasing cooperation, implementing concrete joint projects and actions, and creating international and inter-territorial cooperation networks and to enhance international skills. Inter-territorial and international cooperation is expected to add value to local rural areas through the transfer of learning, new ideas, networks, and good practises. Some projects from a mixture of LAGs. These projects include, for example, international projects that exchange information on RD, including environmental management, improving the living conditions of young people, developing the rural economy, or allowing entrepreneurs of two Leader areas to exchange information and skills or plan joint marketing (Rural Development Programme for Mainland Finland 2007-2013, p. 235).

The final measure for Axis 4 is **‘Running the local action group, acquiring skills and animating the territory’**. The objective of this measure is to smooth the progress of the practical operation of Leader action groups and to activate and promote local projects. The administrative arrangements of Leader action groups include the salary costs of staff, rents and publicity, travel, and meeting expenses. The measure is implemented entirely by granting operational funding to Leader Action Groups. Target groups are local residents and the beneficiaries of this measure are the LAGs.

³³ RDP for Mainland Finland 2007-2013. 2007. P. 61-64.

The acquisition of skills necessary to activities of LAGs, the recruiting of staff, the transfer of information to local actors, and training are financed for the reason of ensuring the implementation of local RD Policies. Funding for these activities ensures the implementation of the Leader approach in the Finnish Programme and the creation of value added at the local level, as well as achieving the objectives for Axes 1-4 (Rural Development Programme for Mainland Finland 2007-2013, p. 239-241).

4.2.4.1. More on Leader, Finland's area of expertise in Rural Development

Direct cooperation based on trust and division of tasks between public and private sectors has proven to be important for Finland in the LAG work method. These can be achieved by having rules that emphasize equality, clear responsibilities, and immediate personal contacts and knowledge. The approach calls for new practices between authorities and actors, and the experience gained has been positive. At local level, Leader initiatives bring together municipalities, state administration, local associations, enterprises, and active citizens. Decisions are made by the boards of the LAGs based on the principle of tripartition³⁴ (Rural Development Programme for Mainland Finland 2007-2013, p. 226). The approach promotes networking and builds horizontal integration. It is true one focus of LAG work is inter-territorial cooperation, including the joint projects by neighbouring action groups and increasing international cooperation, including joint projects by action groups from various countries. International Leader activities are a window to Europe for rural people who, in addition to increasing inter-territorial cooperation, add value to rural areas through the transfer of experiences, new ideas, and innovations (Rural Development Programme for Mainland Finland 2007-2013, p. 227).

Transparency and trust are key principles in the Finnish Leader approach. Both apply not only to the relationship between the actors and decision-makers of small entities, such as villages, and larger entities, such as sub-regions, but also the relationship of the action group and its projects with external factors, such as authorities, national, or international partners and experts. The key feature of the LAG work is innovation. The Leader approach makes it possible to start

³⁴ The principle of tripartition guarantees equal voting rights for local administration, associations and organizations, as well as local residents.

practically from scratch, so, in fact, activities are generally experimental to begin with. This baseline situation, which is very common in rural conditions, applies to business activities, service provision, and other activities.

4.2.4.2. Financing and expected impacts

The financing of the programme for Axis 4 is 246,888,889 Euros, out of which forty-five percent is co-financed by the EU funds, around 111,100,000 Euros (Rural Development Programme for Mainland Finland, 2007/2009 and Karjalainen, 2010). Of the EAFRD contribution for Axis 4, a maximum of 20 percent is allocated to activation and acquisition of skills at the local level and a maximum of 80 percent is allocated to implementing local development strategies (Rural Development Programme for Mainland Finland 2007-2013, p. 64). The Leader Axis also gets private funding which is 128 million for this period. It constitutes 5.3 percent of total RD EU funding and 3.7 percent of total public funding. Due to the nature of this Axis, the funding, however, will overlap with funding for the other axes (Murtomaki, 2009).

According to the *ex-ante* evaluation the expected impacts of this approach its work will likely be achieved through mechanisms that create and enhance social capital. Strengthening civic society, facilitating genuine locally-based development work, the pilot nature and reinforcing the potential for citizens to take part on developing their own area and in decision-making are expected to be some of the impacts of the Leader approach. As for the dimensions of sustainable development, experience shows that the so-called Leader+ programme for example has had the most significant and indisputable impacts on socially and culturally sustainable development at the local level. Environmental sustainability has been promoted locally as well. This is expected to continue during the forthcoming period. The Leader approach involves women and the young in development work (RDP for Mainland Finland 2007-2013, p. 67).

4.3. Finland's Funding per Axis

To understand RD Funding measures better it is paramount to show a table that demonstrates the numbers and at the same time the Finnish priorities for the ongoing RDP.

Table 6. Preliminary allocation of funding according to measures (in EUR)

Measure/axis	Public funding	Private funding	Total costs
Measure 111	55.611.111	9.814.000	65.425.111
Measure 112	111.111.111	280.307.000	391.418.111
Measure 113	56.000.000		56.000.000
Measure 121	180.694.556	180.694.000	361.388.556
Measure 123	100.833.333	151.250.000	252.083.333
Measure 124	40.333.333	18.120.000	58.453.333
Axis 1 in total	544.583.444	640.185.000	1.184.768.444
Measure 211	1.657.000.000		1.657.000.000
Measure 212	1.302.000.000		1.302.000.000
Measure 214	2.370.229.588		2.370.229.588
Measure 215	105.000.000		105.000.000
Measure 216	10.000.000		10.000.000
Measure 221	10.000.000		10.000.000
Axis 2 in total	5.454.229.588		5.454.229.588
Measure 311	155.555.556	122.222.000	277.777.556
Measure 312	174.000.000	131.263.000	305.263.000
Measure 313	26.000.000	2.889.000	28.889.000
Measure 321	84.227.738	25.743.000	109.970.738
Measure 322	20.000.000	2.222.000	22.222.000
Measure 323	6.000.000	667.000	6.667.000
Measure 331	15.000.000	2.647.000	17.647.000
Axis 3 in total	480.783.294	287.653.000	768.436.294
Local development strategies:			
- Measure 411 under axis 1	10.000.000	8.182.000	18182000
- Measure 412 under axis 2	9.000.000		9000000
- Measure 413 under axis 3	163.888.889	109.259.000	273147889
Measure 421	24.000.000	6.000.000	30000000
Measure 431	40.000.000		40000000
Axis 4 in total	246.888.889	123.441.000	370.329.889
Axes 1, 2, 3 and 4 in total	6.726.485.215	1.051.279.000	7.777.764.215
Technical assistance 511,	40.000.000		40.000.000
of which the natural rural network	11.800.000		11.800.000
- administrative costs (a)	1.000.000		1.000.000
- action plan (b)	10.800.000		10.800.000
GRAND TOTAL 6	6.766.485.215	1.051.279.000	7.817.764.215

Source: Rural Development Programme for Mainland Finland 2007-2013

As illustrated, Axis 2 is where most money is spent, even though it has the least measures. Axis 2 is also the only Axis where no private funding is available.

Above you can also see the amount spent on Technical Assistance (TA) in Finland explicating the use of TA in the preparation administration, monitoring, evaluation, provision of information, and control of the programme. The preliminary allocation of funding for TA is 40 million Euros of which 11,8 million will be allocated to the National Rural Network. Public funding consists of the EAFRD contribution and the national contribution. The EAFRD contribution is forty-five percent of eligible public expenditure. The national contribution to TA is paid from state funds. The Agency for Rural Affairs annually prepares a plan for using TA, monitors its overall use, and draws up reports on the assistance. The plans need to be approved by the Ministry for

Agriculture and Forestry (Rural Development Programme for Mainland Finland 2007-2013, p. 277). Karjalainen feels that TA is a constant problem in Finland, they are allowed to pay up to four percent of the whole financial envelope, however Finland is only using 0,5 percent which, in her opinion, is painful because there should be more resources for the delivery of the programme.

When comparing Finland to their fellow Member States it shows that the more recent Member States are concerned with improving the position of their agro-food systems on world markets and catching up with other EU Member States. They therefore devote an above average proportion of EARDF expenditure to Axis 1. At the other end, there is a group of countries whose primary objective is to maintain a sustainable agricultural and forestry activity over as much of the country as possible and concentrate heavily on Axis 2. Thirdly, many new MS are also greatly concerned to improve rural infrastructure and the quality of life in rural areas, therefore, expenditure on Axis 3 in these countries is also far higher than average (ÖIR-Managementdienste GmbH, 2007). As indicated in the chart above, Finland clearly fits in the groups focusing on maintaining a sustainable agriculture and forestry activity.

4.4. Changes between the 2000-2006 and the 2007-2013 periods

This continuing programme aspires to transform RD Policy from the measure-led system described in *Chapter 3* to an objective-led system and consequently it is likely to improve programme efficiency and internal coherence with respect to the overall Policy objectives targeted within each programme. The Commission acknowledged the potential for a lack of coherence between individual measures at the programme level and in the new Regulation the programming period takes a much more strategic approach to Rural Development than the one from 2000-2006 (Agra CEAS Consulting, 2005). What is important to keep in mind is that the choice of measures to offer in individual programmes is always the responsibility of the implementing authorities at any given time and it is incumbent upon them to ensure that the measures selected are appropriate to their RD needs.

Finland has tried to lessen the complexity of its Policy framework alongside the EU, with clearer and more strategic measures and implementations than in the 2000-2006 period. Since the mid-term evaluation report for the last period showed

positive impacts on economic, environmental, and social objectives, it seems as though Finland has continued on that track visible in its ongoing emphasis. Although the scheme to encourage young farmers was not considered a success in the last period, Finland still keeps the measure alive implying its importance, with grants given to cover overhead and set-up costs and with additional national funding. The mid-term evaluation was also critical of the lack of quantified objectives specific to the LFA-measures and as seen from the ongoing period, Finland has worked on improving in that field shown by the extensive emphasis on these measures. Leader activities were considered a big success in the last period and Finland has kept its focus on that scheme, although funding is less on Axis 4 than on all the other Axes. The payments, however, are included in the other Axes as well, especially Axis 3, due to the methodological nature of the Leader scheme. The actors involved, although plentiful, are fewer than in the 2000-2006 period, implying the before mentioned focus on simplification. The emphasis on Axis 2 implies an objective to maintain a sustainable agriculture and forestry activity in the country.

Although it was felt that too many measures were applied in the 2000-2006 framework, they were not lessened; rather simplification and a more strategic approach, is the aim. Synergy between the RD measures and the EU Structural Funds was found lacking. Although the EAFRD Fund has been established solely for RD measures it is difficult to separate these funds completely. They are seen by the Commission as complementing each other with no clear line drawn on where regional supports end and rural support begins (Loriz-Hofman, 2010). Another difficulty is bureaucracy. Although Finland's aim has been to try to lessen it, on the contrary it has shown an increase in this period (Maalm, 2010). In May 2009 the Finnish Ministry for Agriculture and Forestry appointed a working group to examine the administrative burden and how to reduce it; its results have been given to the Ministry.

Due to what we have learned concerning the criticism of the bureaucracy and administrative burden, the Finnish Ministry for Agriculture and Forestry appointed a working group in May 2009, to examine the administrative burden and how to reduce it, its results have been given to the Ministry (Working Group Memorandum, 2009). The memorandum of the working group was handed

formally to the minister at 17 December 2010. “It is in the interest of the minister, that the suggestions made are examined and realized as soon as possible. There is a constant follow up of the progress in the ministry and especially in the central administrative body” (Karjalainen, 2010).

According to Karjalainen there were no major changes made between the two periods discussed in this essay except the possibility to aid all the micro-scale enterprises in the rural areas which has been a success in her opinion. Kuhmonen adds to the micro-scale aid, animal-welfare measure. The IT systems were changed which caused a delay in implementing regional measures. According to Michael Kull he misses that Leader was not prioritized even more in the 2007-2013 period and regrets the less spending on Axis 3 and 4. A domestic problem pointed out by Kuhmonen is that the programme does not have a nominated programme manager which he believes is a major drawback for achieving a strategic grip.

Finally, let us look at the situation pertaining to Rural Development Policy in Iceland, followed by an examination on what Iceland can learn from their neighbors in the east in the Rural Development arena.

5. Possibilities of Icelandic Rural Development within the EU in light of the Finnish experience

Iceland is Europe's most sparsely populated country with only 2.9 inhabitants per km². Almost 80 percent of the land is uninhabited and often uninhabitable. Although parts of Iceland's Agricultural Policy include characteristics of Rural Development Policy, Iceland not have a set Rural Development Policy in place. In Iceland RD Policy is characterized by results of many different policies directly or indirectly affecting the interests and the livelihood of rural areas. Rural and regional development policies are generally spoken of as one and the same: regional Policy. The settlement pattern in Iceland is characterized by a growing urban agglomeration in the capital region and its surrounding area and a sparsely populated rural area consisting of small towns and farms. Approximately 37 percent of the total Icelandic population lives in these rural areas. According to the OECD definition of rural regions, six out of eight regions in Iceland are categorized as significantly rural and the other two as predominantly urban (The Ministry for Foreign Affairs, 2010). Taken that all areas outside the capital and its surroundings are considered significantly rural it is clear that the Icelandic countryside could receive funding from EU's RD Policy framework described in *Chapter 3*, in many of the available measures.

From what has been discussed in this essay it is clear that Iceland can look to Finland in numerous fields in the area of Rural Development. Despite similarities mentioned it is important to note, however, that situations are indeed different in numerous fields in Finland and Iceland. Today, there is still a great difference between Icelandic farmers and their European confreres concerning government support and market protection. Furthermore, the support system in Iceland and in the EU is different, both concerning scope and methodology. Support is higher in Iceland and agricultural subsidies are production based (Hagfræðistofnun Háskóla Íslands, n.d.). Iceland applied for membership of the European Union in July 2009. Since then much debate has existed throughout society and in Althingi, the Icelandic Parliament. Many organizations and

stakeholders have discussed the issue over the years at length and have taken a stand, either for or against membership (Ársælsson, G., 2009).

Table 7. Number of active Finnish farms and agricultural income in 1994-2004

Year	No. Of farms	Change from prev. year	Change from 1994	Agric.inc. at 2004 prices (mEUR)
2004	71.100	-1,3	-31	1.175
2003	72.000	-1,9	-30	1.126
2002	73.386	-2,7	-29	1.161
2001	75.384	-3,2	-27	1.131
2000	77.896	-5,2	-24	1.086

Source: Vihinen, H, 2006

Icelandic EU critics use the example of Finland, pointing out that the number of farms has decreased (see Table 7) and there have been downturns in agriculture, since joining the EU. They believe that for Iceland a similar fate awaits. Matti Vanhanen, the Finnish Prime Minister and a public figure known for speaking out against the EU, pointed out that the number of farms in fact has decreased since joining the EU, but that the transformation started much sooner. Furthermore, he argues that in today's environment, agriculture needs to be profitable because young generations today do not take over the family farms unless they are profitable. Vanhanen also made the point that EU membership was never an easy question for Finnish rural areas, asking themselves what would have happened if they did not have membership. For both Iceland and Finland, the lead up to applying came at a time when each country was in a state of economic recession. As Vanhanen commented, "If I look at the membership overall then I believe it has helped Finnish economy and secured more stability in rural areas". Vanhanen encourages Icelanders to look at the available EU funds pointing out the LFA schemes, detailed earlier in the essay, saying, "Within the Union the aim is to practice agriculture in all its areas, even where weather conditions are harsh" (Gunnarsson, 2009). Although things have been on a rise in Finnish rural areas since the 1990s it cannot solely be prescribed to Rural Development Policy. Other aspects such as the immense economic growth in Finland after the economic crisis in the 1990s influenced the rural areas simultaneously need to be taken into account (Lahtinen, 2007).

The national characteristics of Iceland make few policies not affect its rural communities in one way or another. According to the Ministry for Foreign Affairs this factor amongst others such as urbanization, contribute to the fact that no

consolidated RD Policy exists in Iceland (The Ministry for Foreign Affairs, 2010). One, however, might consider these are exactly reasons for why a Rural Development Policy is needed in Iceland.

5.1. *The current rural situation in Iceland*

As in Finland, Icelandic society has undergone structural changes in the past decades resulting in emigration from the rural to the urban areas. The source of employment has shifted from agriculture and fisheries to industries and services. At present, less than three percent of the total workforce is employed in agriculture, which in 2007 provided 1.4 percent of the gross domestic production. In 2006 there were 3,045 farms in Iceland. Despite these relatively low figures on

Table 8. Agricultural Figures for Iceland

Key figures for Iceland	
Rural Population	6.5%
No. of operational farms	3,045
Proportion of manpower in agriculture 2008	2.5%
Proportion of GDP from agriculture 2007	1.4%
Gross farm income, incl. support payments 2008 (estim. mISK)	27,588
Producer support estimate 2008	51%

Source: Icelandic Ministry for Foreign Affairs, 2009

the national scale, agriculture remains an important sector outside the densely populated south-west corner of the country. In fact agriculture is the

backbone for livelihood and employment in many remote rural areas, providing a basis on which various services and new initiatives are built (Icelandic Ministry for Foreign Affairs, 2009). It can be argued that both public and political willingness to support agriculture is to a large extent, based on two pillars, food security and the vital role that agriculture plays in rural society. Livestock production provides 87 percent of farm income from agricultural production, the remaining 13 percent derive from horticulture and potato growing. Dairy and sheep farming are the dominating sectors in terms of both employment and production as well as in supporting rural habitation. In 2009 there were 738 dairy farms and 1955 sheep farms with support entitlements. Farm tourism has increased in Iceland in recent years and it is predicted to expand further in the future. This diversification activity supplements income on many Icelandic farms and is the main source of income on quite a few farms around the country. Moreover, the total number of people employed in the farming sector has been decreasing gradually as Table 9 demonstrates. The decrease from the year 2000 to 2008 reaches 36.2 percent (The Ministry for Foreign Affairs, 2009).

Iceland is divided into six parliamentary constituencies.

The southwest constituency and the two Reykjavik constituencies

constitute the capital region. The Northwest, the Northeast and the South constituencies constitute the rural region. According to officials this division of the country is however not the basis for any rural or regional development planning, as all areas outside the capital area are considered rural. Different opinions are in place on how the land would be divided if it is to join the EU and therefore must create a Rural Development Programme. A common approach is a two-tier vision based on population density, the capital region and the rest of the country (The Icelandic Ministry for Foreign Affairs, 2010). From a panel discussion at a conference held by The Ministry for Foreign Affairs 15 April 2010 on Regional development support from the EU to its Member States, by many officials working on rural and regional matters it was clear that opinions differed on how Iceland could be divided. Some believe one plan for rural land could be put forward in Iceland, at least outside Reykjavik, others believe making five big projects with each focusing on a specific area such as education and infrastructure would serve Iceland well and call for Leader Action Group application to these areas. A representative from the Confederation of Icelandic Employers recently stated that Iceland should be looked at simply as one area of work. A common understanding is that municipalities are way too many in Iceland today and a clearer division is needed (Árnason, Eggertsson and Jakobsdóttir, 2010).

Table 9. Total employed persons in agriculture in Iceland 2000, 2004 and 2008

	2000	2004	2008
Persons employed in agriculture	6.900	5.400	4.400

Source: Icelandic Ministry for Foreign Affairs, 2009

5.1.1. Rural is indeed Regional

Icelandic Regional Policy always has focused on the countryside and is therefore more intact with EU's Rural Development Policy than its Regional Policy. One, however, cannot say that it does not have anything in common with EU's Regional Policy either, as various components within EU's Regional Policy harmonize with the Icelandic Regional Policy (Guðjónsdóttir, 2010) The Icelandic Regional Policy is quite extensive. A set four-year Regional Policy has been in place since the beginning of the 1990s. Measures on the subject, however, are exemplified more sporadically in Iceland's administration. A fund available for young farmers, for example, is located in the Agricultural Policy, not the Regional

Policy. This fund however has recently been criticised by the Organization of young farmers in Iceland, stating they want ‘real’ support for young farmers (Ungir bændur..., 2019).

Whether the government of Iceland has clearly laid out how contributions to agriculture are a part of regional actions can be disputed. In Iceland a debate centers on whether agriculture should be a part of Regional Policy or not, is hotly contested in Iceland. Guðmundur Lárusson, the former president of the Association of Icelandic Dairy and Beef Cattle Farmers, believes it impossible to carry out these two objectives, one requiring a minimum price for agricultural products and the other retaining some undefined regional Policy. “If people start to look at direct debit to farmers [...] as support to rural areas, then they are entering a dangerous path” (“Eru styrkir...” 2006) he says. Haraldur Benediktsson, the Chairman of the Farmer’s Association of Iceland, looks at the issue from a rather different angle. He points out that one cannot look past the fact that agriculture plays a major role in maintaining settlement in rural areas and people need to look at the direct funds flowing from the government to agriculture in that light. He also argues that many provincial areas connected to agriculture get support and benefits from sheep farming and dairy production such as tourism, SME’s, and various other activities in rural areas, already shown here as falling under the EU’s RDP. “If prices fall in sheep and dairy produce that affects areas that otherwise have been strengthening in the last few years” (“Eru styrkir...”, 2006). Despite this statement, Haraldur and the Farmer’s Association of Iceland are completely against EU membership, believing Icelandic farmers are better off outside the CAP, not even wanting to take part in any discussions on EU membership while the accession talks go on. They issue their own newspaper, The Farmer’s Paper, to get their message through to its supporters, their demographic consisting mostly of farmers and residents of rural areas (Ársælsson, 2009). In the OECD, direct debit to farmers originally was subsidized with the pledged purpose to lower prices to consumers. WTO has defined direct debit to sheep farmers as regional grants, regarded as complying with WTO rules, although cynical comments have been made on that expenditure. On the other hand, direct debit to cow farmers is not defined as regional grants but as production support grants and therefore justified in a different light. Clearly there are several irregularities here;

different demands are made towards agriculture in the broader sense of the word. Some consider that state funding for agriculture are parts of efforts trying to maintain settlement in rural areas. Others believe that that demands towards agriculture is that it is subject to competition rules as any other business in the country.

5.1.2. Icelandic Actors involved in Regional Policy

Iceland has established an institutional framework for implementing its Regional Development Policy, comprising of different institutions. Numerous actors are involved and a large share of all of Iceland's Ministries. Compared to the small size of the country this complexity does not need to be in place.

The Ministry of Industry, Energy, and Tourism is responsible for the government's official Regional Development Plan, it works in cooperation with the Icelandic Regional Development Institute (RDI), an independent institution owned by the Icelandic state, and in consultation with municipalities, and other bodies. It is the RDI that implements the Regional Policy. The Institute formally was established in 1985. The first regional plan spanned from 1994 to 1997. Its current Regional Plan is from 2010 to 2013. The supreme authority of the Institute is held by The Ministry of Industry, Energy, and Tourism. The stated purpose of RDI is monitoring and researching Regional Development in Iceland. Its primary function is to contribute to Regional Development through the implementation of government Policy via the introduction of regional strategies. The RDI aims at strengthening settlements in rural areas through the support of viable, long-term projects with diverse economic bases. It also aims at supporting and strengthening local development by the provision of credit and other forms of financial support, with the aim of improving economic and living conditions particularly in those regions threatened by depopulation (Byggðastofnun, n.d.). So far RDI mainly has looked into EU's Regional Policy, but not to its Rural Development Policy. The director of the Institute's department of development said that it could be considered a little off-key for the reason that it can be argued that Regional Development Policy in Iceland is indeed the Rural Development Policy as well (Sigurðsson, 2010). The RDI supports eight industrial regional development agencies in Iceland, one in each region of the country. These include municipalities, federations of municipalities, trade unions, businesses, and various

other parties who are concerned about and wish to participate in the general development and innovation of the economy. The Institute provides added financial support to projects conducted under the auspices of these agencies and which are concerned with development and innovation in regional areas. It also liaises with experts from industrial and technical institutes, investment funds, universities, and other parties working on similar tasks. It stimulates co-operation in support of such projects in the form of grants and assistance (Byggðastofnun, 2007). For some, this is considered a problem because projects and responsibilities overlap; loans to municipalities are the responsibility of regional development and investing in big projects is the task of RD.

As has been said, the Ministry of Industry, Energy, and Tourism carries the responsibility for Regional and Rural Development in Iceland. The Ministry oversees rural and regional issues, rural and regional research, economic development issues, and development agency issues. The Ministry formulates the Policy and submits a proposal to Althingi for a parliamentary resolution regarding a strategic regional development plan for a four year period. The plan describes the objectives and Policy of the Government with regard to regional development, plans for action and the place that regional development Policy occupies in relation to the economy in general as well as plans in the field of public services in Iceland. Under the Ministry's main activities, 'regional matters and employment development' ranks fifth on its website (Ministry for Foreign Affairs, 2009 and Ministry of Industry, Energy and Tourism, n.d.). *The Icelandic Masterplan for Hydro and Geothermal Energy Resources 1999-2009* is an example of RD project that falls under the auspices of the Ministry. It is a framework programme focused on the protection and utilization of nature areas with a focus on hydro energy and geothermal areas (Rammaáætlun, n.d.). The Innovation Center Iceland (ICI) falls under the auspices of the Ministry of Industry, Energy, and Tourism as well. ICI is a leading R&D and business support institute in Iceland with the mission to increase innovation, productivity, and competitiveness of Icelandic business by doing innovative technology research, diffusing knowledge, and supporting entrepreneurs and start-up companies. Much of its work falls under what the EU considers Rural Development (Innovation Center Iceland, n.d.). The ICI is the Governments' key organization responsible

for delivering support services and implementing business development initiatives that are specifically designed for the benefit of SMEs, start-ups, entrepreneurs and innovators with the overall aim of increasing national competitiveness. *Impra*, for example is a service center for entrepreneurs and SMEs, within the ICI, that includes support actions aimed at improving competitiveness of SMEs, facilitating their access to information, education, training and expert support in improving business management, accessing finance, developing new products and services and so forth (Innovation Center Iceland, n.d.-b).

As the name implies, The Ministry of Fisheries and Agriculture, is responsible for a central part of the framework for RD Policy, affecting the most sparsely populated parts of the country as well as all the rural regions (even if the formal RD Policy is in the hands of the Ministry of Industry, Energy, and Tourism). It is in charge of Iceland's Agricultural Policy involving numerous RD measures. The measures include research and supervision of agriculture, commercial forestry on farms and regional programmes in forestry, and loans and other support in innovation and business in agriculture. It also involves profit research, planning in agriculture, land use in the interest of agriculture, other land and tenancy issues, and finally production and marketing issues in agricultural imports and exports. Increased technological development in agriculture has led to a decrease in the number of farmers. According to the Ministry a search for new employment opportunities for farmers is in place. Moreover, official institutions in agriculture and food production sectors, under the Ministry of Fisheries and Agriculture, have been moved to rural areas aiming to increase employment in those areas (Ministry for Foreign Affairs, 2009 and Sjávarútvegsráðuneyti, n.d.).

The Ministry of Transport, Communications and Local Government is responsible for transportation, communications, and municipal affairs. Partly due to the fact that Iceland is so sparsely populated, some of the infrastructure in rural areas has been lagging behind, in particular the road network. Improvement of communication between the local governments and the state is needed. All the fields covered by this ministry have direct effects on RD, and Icelandic Policymaking increasingly takes this into account. Notable key Policy documents are the Telecommunication Plan and the Plan of Transport and Connectivity (The Ministry for Foreign Affairs, 2009). A new project has been put into work under

the auspices of the Ministry to strengthen municipalities in the country following a statement made by the Chairman of the Association of Local Authorities and the Minister of Transport, Communication and Local Government last fall. It is expected that a proposal for the conjunction of many municipalities will come to place in Iceland this year. The Association of Local Authorities encourages integration and expansion of municipalities. A committee of four persons has been put into work on this matter to discuss and evaluate the benefits of integration in each region of Iceland. When the committee completes its proposed changes it will be submitted to the Icelandic Parliament (Samgönguráðuneytið, n.d.).

The Ministry for the Environment, in cooperation with The Soil Conservation Service (SCS) of Iceland, a governmental Agency under the authority of the Ministry, collaborated on a RD project called 'Farmers heal the land'. Its purpose is to support farmers in soil conservation on their lands, to stop erosion, heal land to make it renewable and sustainable for agricultural or other purposes. The project started in 1990 and by 2009 there were 650 participants (Landgræðsla Ríkisins, n.d.-b) This serves as a good example of RD measures handled by the Ministry of Environment. The main tasks of the SCS include combating desertification, sand encroachment and other soil erosion, promotion of sustainable land use, and reclamation and restoration of degraded land. The work is performed on different levels, from Policy making and research, to extension services and management of large- and small-scale reclamation projects (Landgræðsla ríkisins, n.d.-a) The Ministry for the Environment was allocated the environmental aspect of afforestation and soil conservation and recovery in the beginning of 2008. It had been the responsibility of the Ministry of Agriculture. The set *Farmers' Management projects* regarding afforestation still are located in the Ministry of Fisheries and Agriculture's project agenda (The Ministry for Foreign Affairs, 2007/2009).

Regional development policies have a clear emphasis on education and culture in Iceland and that is where the Ministry of Education, Science, and Culture comes in. Science, technology, and innovation are of high priority in Iceland. The Science and technology Policy 2006-2009, for example, is an important Policy for the development of rural regions as well as for development in general. Universal basic education without charge is at the centre of RD in

Iceland. Efforts are made to ensure the welfare and well-being of children and youths in pre-schools and compulsory schools with effective co-operation between the Government and municipalities, affirming the commitment to the ideology of inclusive education (The Ministry for Foreign Affairs, 2007/2009).

The Icelandic government recently launched an offensive plan for national reconstruction named *Bringing Iceland Forward 2020*. Operational plans are envisaged for Iceland as a whole and will be implemented through multi-annual programming. The strategy may serve as a basis for the national strategic reference framework required by EU's cohesion Policy *acquis*. The national strategic reference framework will take into account the Lisbon strategy for growth and jobs as well as the *Europe2020*³⁵ priorities. Rural Development measures get some light in the programme in fields such as telecommunications, innovation, utilization of energy resources, environmental issues, tourism, regional issues, and enhancing the municipalities of Iceland (Ísland.is, n.d.). For Iceland's rural communities focuses are on education, continuing education, and changes in the labour market (Eggertsson, 2010). Emphasis will be placed on mapping out Iceland's opportunities in environmentally clean industrial production and on encouraging investment through temporary incentives and favourable energy prices. The aim is to attain cooperation between ministries, state institutions, and municipalities, associations of industries, labour unions, and societies for those interested in developing a strategic plan for Iceland. Consulting groups will be appointed in every part of the country, creating coordinated plans for each region having a mutual relevance for the strengthening of employment, education, and public service within the area. (Icelandic Ministry for Foreign Affairs, 2009).

The Agricultural Productivity Fund (APF) is the organization working solely on RD measures in Iceland. According to their official website APF has sought to support innovation, promised changes with financial donations, and to answer to requests and demands, without holding one above the other. For the past years APF's support has increasingly focused on development and research projects, projects that contribute to improved efficiency, as well as promote

³⁵ A new economic strategy in Europe proposed by the Commission to lead Europe out of the economic crisis and prepare EU economy for the next decade

diversity and productivity. It also has provided funding for bigger projects in the fields of economic activities or growth of jobs in rural areas as well (Framleiðnisjóður landbúnaðarins, 2009 and Framleiðnisjóður, n.d.). It grants small projects with the demand that it is located in the countryside. Therefore, this would be the institute most similar to what is categorized as Rural Development in the EU. Strictly put, if Iceland were to join the EU and implement its legislative framework, the aspects that would fall under Rural Development Policy, currently under the umbrella of The Icelandic Regional Development Institute, the Agricultural Policy, the Environmental Policy, and the Regional Policy, would technically need to be moved to The Agricultural Productivity Fund, or one could call it Iceland's EAFRD Fund. Today, however, it is small in scale, with only three employees and only one of those full-time.

In the year 2009 the Fund supported projects within the following categories:

1. Practical research- and development projects for agriculture
2. Innovative work on holdings, cooperative projects between farmers and other rural employment promotion
3. Continuing education and increase in knowledge of agriculture
4. Market procurement for agricultural products

Similar to EU's RD Policy the APF encourages both women and men to submit applications to the Fund for feasible projects. The Fund promotes active collaboration with other organizations that support development and innovation in rural areas of Iceland (Framleiðnisjóður landbúnaðarins, 2009). The Funds revenue for the year 2009 was 193 million Icelandic krona, a relatively small figure. As a comparison, forestry receives a billion krona and sheep farming two billion krona with occasional extra funding (Jónsson, 2003).

Economic development agencies, co-owned by municipalities, operate in rural areas to support and strengthen business development and innovation. There are a number of relevant bodies operating in the field of employment and social policies including the Ministry of Education, the Ministry of Social Affairs and Social Security, the Association of Employers and the Union of Employees. The Ministries have experience to varying degrees of EU funding through their participation in EU programmes (The European Commission, 2009).

Institutions focusing on agriculture in a small state like Iceland enjoy close cooperation. As an example of such cooperation the Icelandic Food and Veterinary Authority, the Farmers Pension Fund, the Soil Conservation Service of Iceland, the two Agricultural Universities of Iceland, and finally the Farmers Association of Iceland have set up a common information website with a joint database of articles benefitting each other (Landbunadur.is).

One can safely conclude that Rural Development is not high on the government agenda in Iceland per se. As illustrated, the Regional Policy, however, is quite extensive, and there exists no clear difference in Iceland today on what is regional development and what is Rural Development. Therefore, although the term 'rural' is not used, it does sneak into many policies and measures and is indeed more than it appears to be on the surface. To a somewhat different degree most ministries have a role to play with regard to RD. Even if they are not responsible for carrying out rural or regional measures, their work affects the rural regions in various ways. On top of these concerns, according to the answers from the Icelandic authorities to questions asked by the Commission, no formal venue for inter-ministerial cooperation exists (The Ministry for Foreign Affairs, 2010).

Finally, also worth mentioning in this respect, are Iceland's Regional Economic Development Centres (RDCs) and the Association of Local Authorities. The RDCs operate at eight locations in Iceland's rural area. RDCs are usually co-owned agencies. Their operation is funded by the Government and the municipalities both directly through allocations and indirectly through contracts. Public-private partnerships are implemented by governance procedures and are led by the RDCs. Through growth agreements and Iceland's Regional Development Plan the Ministry of Industry, Energy and Tourism sets up the objectives of national and European Policy documents on, for example, innovation, regional competitiveness, sustainability and environmental responsibilities, in to the regional development. In this context the RDCs deal with regional prioritization and aligning policies, as well as contributing to the formation of agreements and general rural or regional Policy.

The Association of Local Authorities in Iceland has taken part in many discussions evolving RD measures and has established a working committee

focusing solely on RD in Iceland. It is a medium for cooperation between the municipalities. The association is the joint representative of the country's municipalities. It safeguards their interests in relation to the Government and other parties both nationally and abroad. The association formulates a common Policy on individual issues and works with the Government and the Parliament. A cooperation agreement exists between the association and the Government, containing formal provisions covering relations between them (The Ministry for Foreign Affairs, 2009).

What is evident from the recitation above are various Policy aspects falling under the responsibility of many different ministries and several other actors all contributing to Rural Development in Iceland. There however exists no formal link between these different policies, and they contain no provisions for such linkage.

5.2. Rural Development Programmes in Iceland

Although not explicitly called Rural Development Policy, many projects likely to fall under the framework provided by the EU do take place in Iceland. Iceland has designed and is implementing a number of program documents either directly or indirectly relevant for RD Policy. The government's four-year Regional Development Plan mentioned above provides financial support for long-term, viable projects. In addition, a number of public-private partnerships in the form of growth agreements have been set up or are planned. These are implemented through governance procedures and are led by the Regional Development Centers explained above. Furthermore, long-term planning documents do exist in the area of transport, sustainable development, the use of hydro and geothermal energy resources, telecommunications, and tourism. A stand-alone human resources development Policy, however, does not exist. Human resource issues are integrated into other policies, in particular gender equality policies (European Commission, n.d.).

To mention a few Icelandic programmes that would likely be categorized as RD, the first to mention are regional forestry projects. Their aim is to provide as many people as possible the opportunity to participate in multi-functional development projects and to contribute to the maintenance of populated areas in all parts of Iceland. Parallel is healing and improving the land for future

generations. There are five big projects in action, covering all of rural Iceland. These regional forestry projects provide a foundation for many Icelanders to continue living on their lands and for others they create the possibility of utilization of lands previously without much utilizable resources (Skógrækt ríkisins, n.d.).

Information technology in rural areas is a RD campaign project performed in Iceland from 2002-2006. It offered training to farmers making it easier for them to use advantages of the information society. This project is the most powerful effort in Iceland so far in computer courses and advancing technology in rural areas in Iceland (Landbúnaðarráðuneytið, 2005).

The establishment of Vatnajökull national park is Iceland's largest job creating and regional development programme. The area of the national park stretches 13600 km², which covers thirteen percent of Iceland's land coverage. It is the largest national park in Europe (Vatnajökulshjóðgarður, n.d.).

Upper secondary education projects, including vocational education, are financed through the state budget. Primary investments, housing and equipment, is financed jointly with municipalities. The state provides 60 percent of the cost and the municipalities provide 40 percent. In order to provide all of Iceland's rural population equivalent access to education, secondary schools are operated all around the country (The Ministry for Foreign Affairs, 2009).

Measures specially focusing on the Icelandic farmers are for example the nationwide services projects. They are services provided by the Icelandic Farmers Association. It is supported by sectoral advisory panels that have a leading role in deciding areas of emphasis and the organization of the country's extension service. The Farmers Association provides regional consultants for information and support plus serving individual farmers consultancy in sectors where there is no scope for specialization at the regional extension centers. Also, there are miscellaneous farm projects where individual farmers can send applications to the Farmers Association with a declaration of its plan. A final example on projects aimed at farmers is Land Healing. The purpose here is to help the farmers re-vegetate degraded land, to halt erosion and to reclaim land so it can be made accessible for sustainable agricultural use or other land uses. The intended land

reclamation site must be barren or near barren and local grazing lands used in moderation. The Icelandic Soil Conservation Service pays about 85 percent of fertilizer costs, provides seed and surveys the areas in question and discusses progress. The implementation of land reclamation, along with sensible grazing constraints, improves pastureland capacity and production becomes more economical, considered is beneficial for the entire nation (The Ministry for Foreign Affairs, 2009).

To sum up, the Icelandic approach to RD projects has been shifting in recent years, moving from specific support to rural areas and sectors in distress more towards a common Policy aimed at strengthening the country's rural areas. In recent years efforts have been made towards diversification of the agricultural industry. Support is now available for a broader range of production and agricultural activities. Encouraging utilization of resources such as fishing in lakes and rivers, collecting eider down, driftwood collecting and processing are more recent efforts made. Fish farming and tourism are also projects Icelandic farmers have gradually got involved in for the purpose of bettering their income. Additionally, the responsibility of RD has been moved from Iceland's Prime Minister to the Minister of Industry and bigger emphasis has been placed on economic development and innovation (The Ministry for Foreign Affairs, 2010).

5.2.1. EU's Opinion on Iceland's capacity to implement EU's Regional Policy

According to an assessment made by the European Commission, Iceland does have experience and capacity in designing and implementing regional Policy measures and in participating in EU programmes. That result, however, could be debated. The Commission states that the Icelandic administration is small, but flexible, with considerable experience in programming, monitoring, and evaluating. One can speculate that being flexible means that the same people can be moved around to work on different projects rather than hiring specialists working solely on their matter. Around twenty staff members in different ministries have experience through direct involvement of EU programmes. Experience with multi-annual programming and management of EU-funded projects, however, is limited mostly to the EU programmes implemented under centralized management. According to the Commission additional administrative capacity and structures would need to be built up in order to allow smooth

management and implementation of projects financed within the scope of the EU's RD Policy (European Commission, 2010).

Considering Iceland's specificities, sparsely populated with a population density of 2.9 inhabitants per km² and two thirds of the population living in the capital area, its remoteness as a country, and its regional Policy being primarily understood as its Rural Development Policy, one gets a better idea of what Iceland is up against. As, the European Commission describes it: "a Rural Development Policy for economic development in rural areas outside the main capital region [...] it is best described as an SME Policy for economic development". The budget law does not explicitly provide for multi-annual budget programming, but allocates for implementing multi-annual policies or programmes and they are reported in the annual budget bill as 'binding agreements'. As a result of the EEA Agreement, Iceland has some experience of co-funding EU programmes through its participation in education and culture programmes such as in Lifelong Learning and in science and research programmes (European Commission, 2010).

A point of note, there is little experience in monitoring and evaluating EU co-funded programmes. The relevant ministries will need to carry out the regular monitoring and evaluation of programme implementation with the results provided to the Commission. Additional systems and procedures for monitoring and evaluating EU programmes, however, will need to be established, namely the different authorities and actors enumerated in *Chapter 2* like the Managing Committee, Managing Authority, Paying Agency and a National Rural Network (European Commission, n.d.). A framework for financial management and control, including auditing, exists in Iceland. It is limited, however, in terms of instruments relevant to regional Policy. The Ministry of Finance is responsible for issuing regulations regarding the execution of the general budget and for the financial management of the state. The National Audit Office is the main supervisory body with regard to the general budget as well as state entities (Fjármálaráðuneytið, n.d. and Ríkisendurskoðun, n.d.).

Up to the present, RD Policy is on the one hand laid down by Parliamentary resolutions where Althingi declares its position, urging the Government to carry out certain projects, prepare legislation in a specific field or to take other actions. On the other hand, Policy is formulated in long or short-term legislation

concerning specific, itemized, publicly supported projects, affecting RD (The Ministry for Foreign Affairs, 2010).

5.2.2. Similarities and special aspects

Similar to Iceland, Finland is a northern country on the border of the EU, located far away from global market centers, characterized by a big countryside and little agriculture. It is also a country with a long tradition of scattered settlement, where rural Policy is fairly well-established as an independent field of Policy. Rural Policy is, however, not deeply rooted in Iceland.

Before joining the EU, Finnish agricultural Policy resembled that of Iceland: the market was sheltered with high prices and a subsidy system with clear regional Policy objectives. Like Finland, Icelandic agriculture is heavily subsidized. Finland has put particular importance on agri-environmental schemes, compensation payments to less-favoured areas and nationally funded investment aid (Vihinen, H., 2006). Rural Policy Programmes focus on broad Policy issues. Preparing programmes is a long and difficult process, however, it extends rural Policy to the regional level.

Still for Finland, the most rural country currently in the EU, there is a great deficit of programmes (Uusitalo, 2007). CAP support alone is not enough to keep the Finnish farming sector alive under current market prices. Therefore, Finland negotiated the right for extra nationally-financed support. The national aid, however, cannot be used to increase production, nor can the total amount of support exceed the level in existence prior to EU membership. This extra aid laid down in Article 141 in the Accession Treaty of Finland has been a source of continuous discussion between the Commission and Finland. Article 141 has allowed this payment of aid as a result of serious difficulties from accession into the EU, although it does not define in any detail what is meant by serious difficulties. The Finns choose to understand it as a means of authority for extra payments over the long-term, while the Commission sees it only as short-term. The Commission thinks that Finland should increase their farm sizes so they can become more compatible and so eventually national aid will not be needed anymore. Every few years Finland has to re-negotiate Article 141 with the Commission (Vihinen, 2006). Iceland should aim to get this right in its accession negotiations as well. Many of Iceland's European thinkers believe that Iceland

indeed will negotiate that to its benefit (Björndóttir, and Guðjónsdóttir, 2009). Iceland, however, may wonder if the effort is worth the reward, seeing how Finland must fight every few years with the Commission for the extra aid.

5.2.3. What Iceland can learn from Finland from the 2000 to 2006 period

As explicated in *Chapter 2*, many success stories came out of the 2000-2006 period. Success, however, is a subjective word. Some things naturally have worked better than others. A small number of measures even were considered disappointing. Overall, there is always room for improvement. When drawing together the advantages and disadvantages of the RD Programme in Finland from 2000 to 2006 it nevertheless became clear that the benefits outweighed the weaknesses.

In terms of uptake, all measures were considered to be quite successful by Finnish standards. In terms of impact, however, one has to look more specifically at each measure or goal. The Leader and LFA schemes were successful in the 2000-2006 period but the agri-environmental measures were less so (Michael Kull, 2010). As declared in *Chapter 2* compensatory allowances turned out highly important for Finnish farmers in this period, with 85 percent of Finland's total arable land receiving these funds. Moreover all farmers in all parts of the country were eligible for LFA support, covering the whole cultivated area of 2.16 million hectares.

The number of small rural enterprises has stayed the same since the millennium, but nevertheless their employment effects and turnover grew in the period. Due to changes in technologies, operating culture, and working methods, the beginning of the 21st century saw rural areas becoming more attractive locations for businesses, but the location of enterprises increasingly depended on the available human resources and know-how. This implies that an important focus should be on the Icelandic people, trying to find out how rural areas in Iceland can attract people from urban areas, and specifically people with entrepreneurial skills and/or experience. University applications increase in Iceland each year and from numbers found from 2005, around 20 percent of applicants applying to attend The Agricultural University of Iceland had to be turned down but the increase between the years was just that, 20 percent (Logadóttir, 2005). This implies greater interests in Iceland in agricultural and RD

affairs. As stated in *Chapter 2* Finland had been convincingly successful in achieving coherence among sectoral policies oriented to rural areas and in tailoring specific programmes to promote Rural Development. Iceland needs to learn from Finland and achieve coherence in its own policies.

Iceland can look towards numerous Finnish measures. Synergies between different actors were improved, rural tourism was enhanced, human capital was put to a better use, the RDP enabled businesses in rural areas, traditions and culture in local areas were preserved, and cultivation continued in areas where it otherwise would have expired. These successes are just the beginning. Overall, Finns that were interviewed in the *ex-post* evaluation believed the programme objectives were achieved. EU's RD Policy was named 'the implementation and execution of expediency' (Ponnikas, 2009). Also the mid-term report from Finland stated that payments under LFA and Agri-environment played an indirect role in facilitating tourism and hence had a role in increasing income in the tourist sector, despite the fact that the agri-environmental measure was not held as a success in that period. The programming period seemed to have had no real influence on the environment (Ex post..., 2009).

Additionally, some things turned out neither bad, nor good for Finland. For example, the number of farms declined between 1994 and 2006, but interestingly, did not lead to a decrease in cultivation of the total surface area. Iceland can expect a decrease of farms to continue. EU's RD Policy is unlikely to fix this ongoing problem most European countries face. The decline in the number of farms has slowed down in Finland since 2000, going from sixteen percent in the mid-nineties to five percent. A growth in jobs did not reach the set goal, but through for example the regional programme Alma, implemented in 2000-2006, 80 percent of the ten thousand jobs aimed for were reached. Regional programmes, such as the Alma RD programme, were implemented at the grass-root level and created jobs for women. In the Alma area, 23 percent of beneficiaries were female and 3300 jobs were created or maintained as a result of support from the RDP in the year 2003 (Ponnikas, 2009). Farmers in Finland considered the payments to be generally sufficient, however, where prescriptions required an element of non-productive investments, for example, the establishment of filter strips and payments were considered inefficient.

Overall, the pros outweighed the cons, but there was still much room left for improvement after the 2000 to 2006 period. First and foremost, the complex bureaucratic administrative procedures and payment delays were a widespread concern. Administrative costs were a significant concern in many Member States, as well. In light of Iceland being such a small country these two points are of great importance. According to Michael Kull, principal research scientist at MTT Agrifood Research, CAP's political system was one problem, and level and Policy measures another. Kull believes that more attention should have been paid to the service infrastructure and then to innovate decentralized solutions that provide services such as health, education, transport, other forms of communication infrastructure, and energy production. Spaces for self-regulation should have been enlarged and co-financing capacities should have been improved (Michael Kull, 2010).

From 1999-2002 the farming population under 30 years declined from seven percent to 4.2 percent and between the age 30 and 39 it declined from 23.4 percent to 19.1 percent. The share of those aged forty years and up increased from 69.9 percent to 76.6 percent in 2003. Iceland also has been experiencing this trend and it can expect to continue after joining the EU. The EU, however, does offer measures trying to slow this down or even stop it. Young farmers in Iceland want an improved credit-environment for young people wanting to start farming and thereby facilitate the recruitment of agriculture (Ungir bændur..., 2009). As previously stated, the EU has specific measures to help young farmers to set up on new farms or when inheriting older farms.

Interestingly, in Finland there was no evidence of a positive impact from RDP measures on productivity and production costs. Even though the 2000-2006 mid-term reports generally suggested a positive impact, there was an implication that Finland needed to put more focus on this area in the 2007-2013 period. Iceland would therefore need to look to another state for how to gain positive impacts in productivity and production.

Although respondents in Finland felt that LFA Measures had been operated efficiently in the 2000-2006 period, improvements can and will be made for the 2007-2013 period. In the Alma area, for example, the support was considered to be too closely linked to the agricultural sector in order to have a sufficient impact

on the wider rural community. This example shows that farmers do have a pull in the agricultural sector in Finland, similar to the pull the Farmers Association of Iceland has in Iceland (Benediktsson, n.d.). The reduction of agricultural dependence was recommended by all interviewees including ministry staff members and RD experts. According to Eero Uusitalo, the Secretary-General of the Rural Policy Committee, Finland has experienced an economic recession, accession to the EU, and cuts in the public economy in the past decade. These factors reinforced the policies highlighting economic growth and that led to a decline of regional Policy, which was seen being as an inefficient reallocation of the existing resources. The Structural Funds of the EU, however, were not capable of filling that gap. The instruments applied in the broad and narrow regional and rural Policy cannot substitute for each other (Uusitalo, 2007).

From the mid-term evaluation, the main recommendations for the next period arising from interviews in Finland included standardizing approaches taken by regional implementing authorities to remove inconsistencies along with better information sharing between the national and regional authorities to avoid duplication of work and expanding the model of local action groups into all regions. There seemed to be little call for additional measures. Overall, this new shape of the Rural Development Regulation described in *Chapter 3* seemed to be broadly welcomed in Finland (Agra CEAS Consulting, 2005).

When looking at outcomes of the 2000 to 2006 programming period, one can see where the Finns are content and where they are dissatisfied. Iceland can indeed learn from their neighbor in the east in that period, it is however also important to look at the ongoing period to see the changes that have been made and the measures that are currently in the works. On top of the areas mentioned from the period ending in 2006 the most recent examples are in the ongoing period Finland is implementing in the field today.

5.2.4. What Iceland can learn from Finland from the 2007 to 2013 period

Rural Policy has made noteworthy progress in Finland, while the rural areas themselves have experienced both success and losses. Rural Policy in Finland must continue to develop its design, both in setting the objectives and in the organization of the actions in practice. Some recent Policy discussions in Finland imply a regret concerning a disappearance of regional Policy, or the fact that EU

programmes have replaced them. From this perspective, Iceland could experience a decline in its established regional Policy (Uusitalo, 2007).

Planning for the ongoing 2007-2013 period started in 2004 in Finland, implying that at least three years are necessary as a preparation phase for properly, and seemingly successfully, implementing the EU's RDP's. Several working groups of the Ministry of Agriculture and Forestry and non-official groups worked on the preparation planning. Out came 15 regional and 55 local plans by local action groups involving stakeholders, thousands of people, seminars, conferences, and open discussions. Finally, draft versions came forward (Malm, 2009). This implies Iceland would therefore need to start working on the next programming period, 2014-2020, as of next year, 2011.

One goal in the EU programmes is that they become a means of allocating public resources rather than developing tools aimed at reforms. An element of reform is just as present in objectives as in strategies. In the second programming period the traditional key areas of different administrative sectors have received increasing emphasis, which is far from progress (Uusitalo, 2007). At the other end it is said that the national perspective, the priorities of Finland's ongoing strategy, support the key areas that produce the highest value added in terms of the objectives set (RDP for Mainland Finland). In the current period, some new visible focuses are apparent. They are, for example, cultural identity measures, training of farmers, farm management services, and geothermal energy or renewable energy. The Finns still have an agricultural focus in their RDP, as shown in *Chapter 4*, implying that Iceland also can keep focusing on farmers in their rural policies.

Now moving to look specifically into the Finnish implementation for each of the Axis described in *Chapter 4* with Iceland's case in mind to see possibilities on the use the newer RD framework established in 2005, all while keeping Iceland's specific rural features in mind.

For Axis 1, improving the competitiveness of the agricultural and forestry sectors, Finland takes advantage of training for farmers, structural development of family farms, and giving grants to cover overhead and set-up costs for young farmers. These are all key areas Iceland should take into good use as Icelandic

rural measures are focused on the farmers. In modernization, the focus is on improving the operating environment and promoting use of renewable energy. Due to the northern location of Finland the structures of greenhouses are modern and that efficiency is maximized especially in the use of heating and lighting energy. Obviously the same applies in Iceland due to the similarities in climate. Support is granted to micro-enterprises and SMEs so this would be the area where Icelanders operating in such enterprises should look.

Under Axis 2 the agri-environmental payments take the lion's share as they are compulsory and are aimed at sustainability and decreasing unfavorable environmental impacts. Agri-environmental payments are granted to 93 percent of Finnish farmers, constituting 98 percent of arable land. It is essential for Iceland to study the framework of the agri-environmental measures well to find what measures would be most valuable to the country since it is mandatory. If Iceland is to join the EU, important measures will be the ones aimed at helping farmers. An objective under Axis 2, which consequently Finland does not use and yet could help Iceland, is 'first afforestation of agricultural land'. Iceland is in need of more forests while Finland is not. Iceland should therefore look towards another state on that measure. Natural handicap payments were considered one of the few instruments that specifically help to preserve agricultural production in areas with special problems as well as maintaining and caring for rural areas. Therefore, this measure would be important to Iceland to implement and put into good use.

As stated in *Chapter 4*, Axis 3 is mainly implemented through regional and local measures. All the Finnish Economic Development Centres and action groups prepare their own RD plans for their own territory together with a wide range of regional actors, each with its own development strategy. Iceland will need to do the same. This Axis describes the national priorities. Employment and Economic Development Centres (EEDC) would need to be established formally in Iceland, however the industrial regional development agencies mentioned above are of a similar sort and would likely re-organize as needed to become the EEDC's of Iceland. Information on this strategy would need to be distributed and posted online at the appropriate agencies so that regional actors in Iceland could start making their plans. In Finland business actions' divisions of tasks are agreed on nationally with the Ministry of Trade and Industry which manages business aid

operations on the ERDF, as well as environmental training. Infrastructure projects are decided alongside the Ministry of Labour which manages the Social Fund targeted at enterprises. In Iceland the Ministry of Trade, Industry, and Tourism would likely manage both the EFRD and the SF targeted to business aid operations and enterprises. Therefore they would work together with the Employment and Economic Development Centres and the Local Action Groups. One of its objectives, an important benefit for Iceland's rural communities, is to promote and encourage the creation and expansion of rural enterprises. Safeguarding existing jobs and creating new employment opportunities with investment aid is accessible through this measure, all important measures for small villages and sparsely populated areas in Iceland. Diversification into non-agricultural activities is another important measure for the Icelandic rural population and farmers. It encourages them to earn a living through diversification into other business sectors and activities and it could prevent or slow down the depopulation of rural areas and the deterioration of service structure.

Another important measure under Axis 3 is the encouragement of tourism activities. Development of the tourism industry can improve the overall service structure and the quality of life in rural areas, including their attractiveness as places of residence and leisure. Many rural areas outside the capital of Iceland would need help with such development structure. The same goes for the village renewal and High Nature Value development measure that Finland applies. As stated above, tourism is a growing field in Iceland despite the disadvantages of a short 'high-season' period. An easy and simple measure under this Axis that Finland uses is the conservation and upgrading of rural heritage. It is used to implement projects that utilize cultural heritage sites and valuable buildings, as well as natural heritage sites and HNV sites in rural areas. Promoting their conservation, maintenance, and development are the primary aim. This could be used in many small villages in Iceland. For these three measures articulated above, we can take the example of Hofsós, a small village with around 180 inhabitants (Nordurland.is, n.d.). The Icelandic Emigration Center was founded in Hofsós in 1996 to commemorate the Icelandic emigrants fleeing to North America and promote contact between their descendants and the people of Iceland (Icelandguest.com, n.d.) An old cooperative society house was used for the

museum, plus a number of old buildings have been renovated and the village was beautified. One of the oldest wooden store houses of Iceland, built in 1777, was renovated and has an exhibition downstairs and a loft for meetings and concerts. Summerhouses, a guesthouse, a coffee shop, and a bar are all in place in Hofsfós, as well as a brand new swimming pool (Hofsos.is, n.d. and Ferðavefur Norðurlands Vestra, n.d.). Valgeir Þorvaldsson, the Director of the Icelandic Emigration Center in Hofsfós confirms that since the renovation of the village it has attracted many more tourists and therefore higher revenue than ever before (Þorvaldsson, 2010).

Overall the measures under Axis 3, besides focusing on farmers, could be aimed at the numerous small villages in Iceland. To this date most of them do not have revenue for building up and renovating its society. Good practices and well-planned measures done by LAGs could turn out to be a great asset for Iceland's rural areas as a whole, creating new employment opportunities and attracting tourists, all in all driving more profit. They definitely should look towards Finland for examples in that area. When the Finnish objectives from the first three Axes are drawn together, what stand out is innovation, local actions, training, helping farmers make a decent living, renewable energies, and biodiversity. These are all measure Iceland could easily adapt to.

Axis 4 involves all the Leader activities. The Leader approach has been considered a big success in Finland (Kull, 2010). In 1995 when Finland was about to begin their RDP within the EU, observably the local population was interested in Leader activities, even though there were no first-hand experiences of it yet in Finland. Leader was the only EU programme tool that clearly inspired the Finnish citizens. The Icelandic administration should aim to promote the Leader method to its Icelandic citizens and try to get them as interested and enthusiastic on the measure as was the case in Finland. In the period 2007-2013 LAGs are key actors in Finland's RD work. LAGs aim to achieve a strong and recognized position as RD actors in the whole of Finland (Uusitalo, 2007). Icelanders should absolutely look to their Nordic counterparts and take full advantage of Leader programs, initiate its local people and get them involved by using the bottom-up Leader approach. This is an attractive model suited well for Nordic thinking. It relies on an exceptional level of community organization; therefore the Icelandic LAGs

need to plan their programmes well beforehand and have a solid, pre-existing communication web amongst both themselves and the Icelandic Administration. For the ongoing period, Michael Kull, believes it was a mistake not to make Leader a priority despite its success in the last period. He also believes that less spending on Axes 3 and 4 of Pillar II is a mistake (Kull, 2010). Yet, others believe that too much emphasis is put on the Leader scheme. According to Uusitalo, while preparing for the 2007-2013 period, it was clear that the objective was an extensive network of LAGs for the entire country, as well as financially strengthened actions with more extensive content. Therefore the remaining municipalities who stayed out in the 2000-2006 period were joining in for this one and that the tasks of the LAGs would also be broadened (Uusitalo, 2007).

Now the highlights of what Iceland can look for in these two implementation periods from Finland will be drawn together.

5.2.5. What Lilliput can learn from Gulliver, its Nordic counterpart

When looking at outcomes of the 2000 to 2006 programming period, one can see where the Finns are content and where they are dissatisfied. It is also important to look at the ongoing period to see the changes that have been made and the measures that are currently in the works. Since the policies have proved to be administratively heavy for Finland, one can only imagine the burden on the Icelandic administration. Moreover, complicated bureaucracy leads to the domination of consultants in the field. (Michael Kull, 2010). Indeed, many functions under the patronage of EU's Rural Development Policy do work; however, it has proven burdensome even for nations with millions of inhabitants and dozens of government officials. What then for a small state like Iceland? Sirpa Karjalainen, A specialist in Rural Development Policy at The Finnish Ministry of Agriculture and Forestry, recommends Iceland to keep the programming simple because of the many challenges there. She recommends using the countries' available human resources, commitments through joint planning, using strategy and reasoning, having national financial discussions, and focusing on coordination. Last but not least, she recommends avoiding bureaucracy in implementation (Karjalainen, 2010). According to Tiina Malm bureaucracy has been growing in Finland despite hopes of simplification for this period (Malm, 2010). Obviously the Icelandic government needs to pay special

attention to try to alleviate this burden. It can be lessened with diligent pre-planning and with as much simplification for the administration involved in RD Policy affairs as possible. For such a small state like Iceland, bureaucracy will always be a difficult task to manage when it comes to the EU. Uusitalo even states that in the context of EU affairs, simplification of the system is an impossible Policy objective, both within the EU and nationally. The schemes are becoming increasingly detailed and vulnerable. He states that in Finland development work often concentrates on large organizations with various kinds of expertise, accountants, and money, helping them to get past road blocks such as delays in funding. “This trend cannot be considered a desirable one” (Uusitalo, 2007). Simplification of the current system seems an unlikely factor judging by what has been articulated on the Finnish case. A lot of beforehand planning and organizing on Iceland’s behalf could possibly ease the burden of bureaucracy. A strength Iceland has above Finland is its smallness. Not too many people need to work on planning Iceland’s RD measures if the administration holds their cards right. A bad idea would be to simply move people around within the Ministries. A good idea would be to form a group of specialists, preferably under one Ministry, the Ministry for Fisheries and Agriculture, as in Finland.

Overall complexity of the Programmes has also been an issue in Finland. Concerning Axis 3 and 4 in general terms, however, the situation in Finland, compared to other EU Member States, is relatively good. In Finland, bureaucracy is also a problem because municipalities face the situation of being responsible for an increasing amount of tasks while not seeing an increase in the budget. Due to this fact, some municipalities in Finland have been considering reducing their activities in RD Policy. The increasing bureaucratic burden is a huge problem, in particular to small actors. As opposed to Finland, the level of local governance in Iceland is rather weak, impecunious with little strength. It is overburdened with legal expenses. Therefore it has little capacity to implement RD measures. Iceland, therefore, can expect their already weak municipalities to not want to participate in the programmes. Preventive action, therefore, is needed in this area.

Overall, since 2000 and to this day RD Policy and its instruments have been actively developed. In international comparison, both the EU and Finland can be considered success stories in that area, yet they still need to be developed further,

for example in balancing broad and narrow rural Policy. Broad Policy means sector policies oriented towards rural areas, such as labour Policy and social health Policy. Narrow Policy means specific programs to promote RD, which are the EU instruments and the RDP's. Finland was rather successful in creating coherence between sectoral policies in rural areas. What has been considered positive in Finland's case is the involvement of civic society and academia in the preparation of Policy and their knowledge input. Another pro is the ownership in Finland of the RD programmes, including the public and private sectors, as well as key stakeholders. Finland is considered to have made good use of EU funding in building narrow Policy, especially with Leader activities and the Local Action Groups. A good institutional basis is in place at all levels of governance. The mainstreaming of the Leader approach to cover the whole of rural Finland with LAGs throughout using both EU funds and national funds also is considered a success. Another positive aspect is the use of the tripartition of LAG boards mentioned in *Chapter 4*. Iceland should take advantage of the Finnish experience in this area and take up the tripartition guaranteeing equal voting rights for local administration, associations and organizations, as well as local residents. LAGs in Finland are quite independent to decide what to fund and up until now has proven to be successful (Uusitalo, 2007).

Finnish rural Policy systematically highlights the horizontal perspective in the development work of the different regional units. Villages, municipalities, sub-regional units, regions, nations and the whole EU all represent regional units of different sizes. Each unit has specific tasks of its own, and each of them concentrates on managing tasks of appropriate scale relative to the unit. Through active and responsible work the villages may become highly influential actors in rural Policy (Uusitalo, 2007). That, for example, would be an ideal situation for rural communities in Iceland. Extensive involvement of Finnish stakeholders in the preparation of the Rural Development Programmes nationally, regionally and locally, made a significant contribution to the strategy work according to the Ministry of Agriculture and Forestry of Finland (Ministry of Agriculture and Forestry, 2007/2009).

As we saw in both *Chapters 3* and *4*, the Finns have shown Iceland that the framework for RD does work for a less populated, rural nation. They have indeed

been quite successful in implementing EU's framework, yet the administration is heavy and the complexity is tiring. Finland has been especially successful in using the advantage of Leader and the bottom-up approach in their interest. They also are considered to be successful in applying the LFA and Agri-environment measures, less so in e.g. setting up of young farmers or the early retirement scheme. According to Eero Uusitalo the objectives set for the former EU programmes in Finland were far too high and could never have been reached. An indisputable benefit of the programmes, however, is that more funds have been allocated to the development of villages and environmental and cultural projects than would have been the case without the EU. The programme-based actions also have highlighted the role of partnership, local initiative in communities, and the bottom-up approach. Disadvantages include the extensive control and inspection operations and bureaucracy (Uusitalo, 2007).

Finland, like other Nordic countries, is characterized by a great deal of social cohesion and centralized special interest organizations covering the whole of society. Thus, it is quite unlikely that any single component could have been liberalized without an external impetus such as EU membership. This is simply because such liberalization would have upset the equilibrium of national rent-sharing of special interest groups (Lahtinen, 2007). This implies Iceland also needs this external actor to reshuffle its current regional Policy. Finnish rural Policy has evolved into a cross-sectoral Policy programme. The political support towards Rural Development is still insufficient. A major strength in Finland is the short political distance, practically a direct contact between central government, regional administration and local actors. A small administration, therefore, also can be a pro for Iceland.

Finland has established co-financed investment aids and RD measures with the objective to stop the decrease of the population and number of working places in the remote and core rural areas. They have increased possibilities for entrepreneurial activity and to strengthen the economic basis for farms. In Iceland there are many predominantly sparsely populated areas with a simultaneous decrease in its population. Municipal integration has been considered solutions in Iceland so far with debated outcomes. Under the RD framework, Icelanders could perhaps find other solutions similar to what Finland has done in some areas.

A need to clearly define what are the main interests of Iceland is needed without getting lost in details which tends to often be the case. Iceland should look towards the EU's methodology, the long-term Policy making with two year reporting. Iceland has to get on the train, changes are happening all over the world with globalization and new rules for the international agricultural and food trade are being negotiated in the World Trade Organization and sooner or later Iceland will need to change their agricultural Policy whether they like it or not, that everyone seems to agree on. The country needs to put up a framework, a performance criteria and report on the processes' successes and failures every two years. The EU application process is indeed a course in Rural Development Policy that Iceland can learn from, whether it becomes an EU member in the end or not. Cohesion and preparation are the two most important aspects to keep in mind while preparing a seven-year Rural Development Programme for such a small as Iceland.

5.3. Current priority areas for the Icelandic government concerning Rural Development: start preparing instantaneously

A thorough re-assessment would need to be done on the administration and the institute level in Iceland involved in what would be categorized as Rural Development if the country is to join the EU. As Finns criticize their own institutional structure they strongly recommend Icelanders to simplify the structure as much as possible beforehand, instead of spreading too thin the energy and resources of many local actors. That would simplify the implementation, monitoring, and the overall management both for the Icelandic administration and the European Commission (Karjalainen, 2010).

If Iceland joins the EU, it will need to adjust its budget law to allow the transfer of national co-financing budgets between EU programmes, funds, and between years. Efforts will be needed to strengthen multi-annual programming and the related coordination and integration of policies. Iceland also will need to establish institutional structures in line with choices of operational programmes it makes and allocate and prepare staff for the implementation of these programmes. Overall, Iceland should be able to assume the obligations of membership in this area (European Commission, 2010).

It is essential for Iceland to compare the Icelandic regional Policy to the Community Strategic Guidelines on Rural Development to find similar priority issues and joint objectives. From that research Iceland could see where its current Policy could be updated or prolonged. Also, from that research, Icelanders could see where there are no possibilities for its current goals to go on after implementation. Another important project for the Icelandic government is to evaluate what types of funding possibilities are at hand under the Structural Funds on the one hand and the EAFRD fund on the other. Stakeholder demands need to be carefully evaluated, such as those of farms, fishery farms, the Association of Farmers etc. The differentiation of the EU funds is an important turning point in the development of RD funding.

According to the EU officials re-assessing the role of the Icelandic Farmers Association is a necessity. Today the association has multi-dimensional roles, more similar to a Payment Agency, recipient and a consultant company. A clear separation is needed from management reports related to evaluations of applications, funding from RD funds etc. A SWOT analysis and an *ex-ante* analysis of the needs of Iceland in RD measures need to be available before anything else. New structures within the Icelandic government on capacity-building issues will be needed to. A Paying Agency needs to be established as well as a Monitoring Committee that has an overview on Icelandic RD measures.

Iceland needs to work on a clear definition on what the term 'rural' involves and take into account the statistical data needed for EU's common monitoring and evaluation framework. A definition of rural areas is needed in order to use Axes 3 and 4 correctly. Evaluation of current local or regional co operations is needed to use the Leader approach correctly. Public-private partnerships will need to be created and a need for methodological training. *Ex-ante* evaluation should start immediately. Rural Development Programmes are to be ready by accession (Loriz-Hoffman, 2010, January). So the first thing Iceland or the Ministry of Fisheries and Agriculture needs to do is publish a call for tenders for the *ex-ante* evaluation. The Finnish Ministry of Agriculture and Forestry did so in May 2005 for the programming period 2007-2013.

Finally, to sum up what has been explicated in this chapter, conclusions are drawn.

Conclusions

Here, conclusions are drawn from the results set forth in *Chapter 5* on Iceland's status towards the Rural Development Policy of the European Union in light of the Finnish case. The main reasons for using Finland were rural similarities between the countries and for Finland being considered quite successful in implementing Rural Development Programmes. Using Finland as a case study proved to be very practical. The focus of this essay was on Finland's two most recent Rural Development Programmes, the first spanning from 2000 to 2006 and the second and ongoing one is from 2007 to 2013. After examining these Rural Development Programmes it has become apparent that Iceland can indeed look towards their Nordic counterpart in several aspects when it comes to implementing EU's Rural Development Policy. A few aspects however stand out that Iceland needs to either look elsewhere for comparison or find what serves most value on its own advice. An example is forestry measures. It is also important to keep in mind that there are several differences between these two states which can reduce the possibility of direct transfer of measures between them, the most obvious being again the forestry.

Pertaining to the EU framework if it were to join the Union, Iceland can use similar implementing methods and often the same measures available as Finland in the many areas included in the current framework for Rural Development. Iceland should especially aim to adopt Finland's methodology in the Leader scheme, involving the country's local people. The Iceland Government should strive to inspire the municipalities to get involved and partake in Rural Development Programmes, in order for them to get the opportunities to establish their own goals, to develop and finally to gain access to the European Agricultural Fund for Rural Development, i.e. through village renewal or the tourism measures. Maintaining farmer's income is another area that is important to both states and is available through numerous measures.

Another area to highlight here is that Iceland should look to their Nordic counterpart's methodology concerning transparent governance as well as transparency in implementation. Iceland should however adopt simpler methods

when it comes to administration and bureaucracy as that was a red thread through this research and seems like a large problem area. Iceland also has to be careful not to distribute energy and resources between too many actors. The framework of the European Union is wide and it is in the hands of the Member States to tailor it to its needs. In terms of Iceland's institutional structure in Rural Development it is complicated and layered. Work must begin to simplify it, for example by reducing the number of parties involved in implementation and by enhancing centralized management. That would make implementation, monitoring and management, both domestically and for the European Commission that much easier

Changes in the area of Rural Development policy will be extensive if the Icelandic population decides to vote in favour of EU membership in a national referendum held after accession talks are concluded. The Icelandic Administration will have to adjust their working methods towards the regulation environment that applies for participation in Rural Development Programmes. That would likely lead to a total re-organization of the Icelandic Regional Policy, being that it today mainly consists of Rural Development measures.

The concepts regional and rural are the one and the same in Icelandic discourse today and there is no formal coordination on regional affairs and rural affairs. This needs to change dramatically.

Ideas on governmental priorities for the next steps:

- First and foremost, Iceland should make up two teams to prepare for implementation of the Rural Development Programme. One team shall focus on the programming side. The other on payment and legal aspects.
- Iceland needs to put forth a demarcation and definition of rural areas. It is up to the Member States to define what is rural to them
- A development of a harmonized and coordinated common strategy is needed. Iceland should first make a strategy and then see what fits in the framework.
- In Iceland various policy aspects fall under the responsibility of many different ministries and several other actors all contributing to Rural Development in Iceland. There however exists no formal link between these different policies, and they contain no provisions for such linkage. This is likely to be a liability if it

comes to implementing EU's RD policy. Therefore, a re-assessment is needed with the creations of clear-throat linkages. A definition for, and a re-assessment on where in the government the Rural Development projects belong are in order to increase efficiency rather than to spread resources around to many different ministries and human resources.

- Pertaining to institutions, examples of changes include that the Regional Development Institute would need to focus solely on Regional Development measures, the role of the Icelandic Farmer's Association needs to be evaluated, and the Agricultural Productivity Fund should either be enlarged or its institutional structure altered.

- *Bringing Iceland forward 2020* could be a good platform to start calling for Local Action Groups in Iceland and hopefully with time Icelandic Local Action Groups will evolve so that they may become equally successful as their colleagues in Finland.

- According to the Commission additional administrative capacity and structures will need to be built up in order to allow smooth management and implementation of projects financed within the scope of the EU's RD policy.

- The Icelandic government now has a task of trying to activate Icelandic interest groups that have interests in RD measures, get them involved and interested in order for them to assess their possibilities within CAP's second Pillar.

- For such a small state like Iceland, bureaucracy will always be a difficult task to manage when it comes to the EU. Moreover this difficulty is likely to enhance due to the fact that administrative capacity is rather weak with RD projects scattered around many different actors and numerous ministries with the ministerial authority without much coordination. No formal venue for inter-ministerial cooperation is in place in Iceland. This is a defect in the Icelandic administrative system. Each Ministry is too independent and they share little cooperation.

- Administrative costs are a concern in many Member States as well. In light of Iceland being such a small country both complex administrative burden and administrative costs are a big concern. These two areas are also the most difficult

to try to prevent or even ease. Since the administrative set-up in Iceland is already complicated as it is, one can imagine the difficulties if Iceland is to join and implement the EU framework and Community Strategic Guidelines following the RD policy.

Recommendations of measures:

What lies ahead for the Icelandic authorities and actors involved in Rural Development measures is extensive work. Work of integration, coordination, cooperation, simplification and more.

- Responsible ministries need to pull up their sleeves and dig into these affairs, including the European Agricultural Fund for Rural Development. They need to map what the Rural Development Pillar would entail for Icelandic rural areas and inhabitants in case of EU membership.
- Iceland needs to analyze its local situation. Demarcate what is Rural Policy and what is Regional Policy. The Icelandic Regional Policy has been criticized for the capital area blossoming but the countryside not. A good question is that will this change if membership comes?
- Iceland also needs to mirror the long-term vision the European Union has in policy formulation and programming. To put up a strategy for the long-term and regularly measure its success, with a biannual reporting rule for example should be an objective for the Icelandic government. Iceland needs to set up a framework, standards and formulate obligatory reporting.
- There are bricks within the Icelandic administration with little flow. It is of essence for the authorities to try to get through this EU application process without complicating things too much. However, as been said, things are complicated today so the goal should be to learn from as many as possible. If Iceland would join the EU, it will need to adjust its budget law for the transfer of national co-financing budgets between EU programmes, funds, and years and that needs to be evaluated in advance. Iceland will also need to establish institutional structures in line with choices of operational programmes it makes and sooner rather than later to allocate and prepare staff for the implementation of these programmes. The Managing Authority, Managing Committee, Paying Authority are all examples of Rural Development actors that need to be put in the works,

whether they end up in a single Ministry or two or a separate institution. As was obvious in this essay, the simpler the structure the better for everyone involved.

Turning into specific measures,

A need to look for opportunities where Iceland can adapt is important. Many of the already implemented projects in Iceland are the same as are being implemented within the EAFRD, such as support for young farmers, diversification into non-agricultural activities such as tourism, forestry, biodiversity and renewable energy.

- Forestry can be a clear-fitted measure for Iceland. Both for farmers healing the land, re-building land and the targeted areas include ones that have been arable before as well as grazing land.
- Training and information in agriculture and forestry are popular Finnish measures that include agricultural investments and aid for young farmers. The Icelandic organization for young farmers should study the framework and available funding to get a comparison to its neighboring colleagues.
- The Less Favoured Area measure has been a success in Finland in both periods and therefore Iceland should study the Finnish methodology in this respect. However, it might be too premature for Iceland to intend to do too much at a time. Interestingly, there is wide participation of farmers in this measure so perhaps Icelandic farmers can take advantage of this measure as their confreres in Finland.
- Bridging business support to rural areas, diversifying farms and new entrepreneurship are all popular measures in Finland. The new micro-enterprise specific measures have proven to be successful in Finland and for that reason Iceland should look into that as well. Diversification of rural entrepreneurship with aiming at better rural employment and income building are other popular measures that would help Icelandic rural communities if implemented successfully.
- Due to the Leader approach Finnish civil activity has been strengthened. The joint responsibility of implementation and the area-based approach are considered a success. Actions are diverse, development is continuous and the Finnish population trusts on the permanence of Leader. According to the Leader

approach in Finland, municipalities get increased weight in both decision-making as well as in financial resources. Leader, as the name of this thesis implies, is therefore a measure that would most likely help Icelandic municipalities get back on their feet.

It is my conclusion that the Rural Development Policy of the European Union will not work effectively unless immense preparation and planning is done beforehand. On the other hand I do believe that the measures available can, most if not all, fit into Iceland's current framework, as well as opening new doors, i.e. for micro-enterprises, village renewal and young farmers. Preferably one Ministry should be in charge of the Rural Development Programme with only a few other actors such as the Agricultural Productivity Fund, and perhaps the Industrial Regional Development Agencies could be altered to fit the criteria of the Economic and Development Centres.

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