

Funding multifunctional entrepreneurship.

A framework for identifying factors influencing the allocation of European Agricultural Funds for Rural Development for multifunctional entrepreneurial activities.

Master Thesis of Management of Life Science

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Abstract

The most important constraints and needs for the generation of new (multifunctional) activities of farmers is funding. That is one of the reasons why the European Union, since the year 2000, includes rural development in its Common Agricultural Policy as a 2nd pillar, instrumented by the European Agricultural Funds for Rural Development (EAFRD). The EAFRD's aims to aid the development of new activities by providing funds to the segments of farmers which shows the most multifunctional entrepreneurial behaviour: a) young farmers, b) small farms and c) short supply chains. However, there is a challenge: a distortion between offer and demand of funds by multifunctional entrepreneurs. In the past period of the Common Agricultural Policy (2007-2013), 20% of the farmers (whether or not multifunctional) obtained 80% of the Common Agricultural Policy financial support, while the aim of those funds is to address mostly segments like small farms and young farmers, which are not the ones owning the majority of the land. The objective of this research is to identify the influencing factors that play a key role in the allocation of EAFRD's for young entrepreneurs, by employing as a case study the funding allocation process of one particular measure of the Rural Development Programme of the region of Castilla-Leon in Spain titled: "development of new agricultural activities for young farmers". The general research question of this research is: *which factors play a key role in the allocation process of EAFRD's for multifunctional entrepreneurial activities?* Therefore the main value added by this research is the construction of a framework to identify and analyse potential enablers and hindering factors in the application for funds cofinanced by European Agricultural Funds for Rural Development. This evaluation research should enhance available knowledge regarding the funding mechanism of the EAFRD's at a regional level, decision-making, and should also inform practitioners and lead to practical applications.

Executive Summary

The most important constrain and need for the development of new (multifunctional) activities of farmers is funding (Watson et al., 1998; Grande, 2011, Ferguson and Olofsson, 2011). That is one of the reasons why the European Union, since the year 2000, includes rural development in its Common Agricultural Policy as a 2nd pillar, instrumented by the European Agricultural Funds for Rural Development (EAFRD) (European Commission, 2014). The EAFRD aims to aid to the creation of new activities by providing funds to the segments of farmers which show the most multifunctional entrepreneurial behaviour: a) young farmers, b) small farms and c) short supply chains (Seuneke, 2014).

This need for funding is addressed by the multifunctional entrepreneurs in a push way (demand-led services), while public policies as the EAFRD are conceived to pull the rural actors to start new activities (offer-led services) (Alsos et al., 2011). However, there is a challenge: a distortion between offer and demand of funds by multifunctional entrepreneurs. In the past period of the CAP (2007-2013), 20% of the farmers (whether or not multifunctional) obtained 80% of the Common Agricultural Policy (CAP) financial support, while the aim of those funds is to address segments like small farms and young farmers, which are not the ones owing the majority of the land. In the current and new period of the CAP (2014-2020), one of the main goals of the reforms made is to restore the balance in the allocation of funds and to promote multifunctional entrepreneurship (European Commission, 2014).

The objective of this research was to identify the influencing factors that play a key role in the allocation of the EAFRD for young entrepreneurs, by employing as a case study the funding allocation process of one particular measure of the Rural Development Programme of the region of Castilla-Leon in Spain titled: “development of new agricultural activities for young farmers”. The general research question of this research is: Which factors play a key role in the allocation process of European Agricultural Funds for Rural Development for multifunctional entrepreneurial activities?

This investigation was conducted by analysing in depth the rural development policy of Castilla-Leon, the type of measures promoted and granted, the profile of the applicants, the requirements and other factors influencing the allocation process of funds cofinanced by the EAFRD, in Castilla-Leon region, Spain. A core knowledge acquired by this research was the analysis of the causes and factors of success to obtain funds cofinanced by the EAFRD.

The methodology used to gather and analyse the empirical information needed to answer the general research question of this research is i) literature study, ii) semi-structured interviews to the ‘offer side’, to the ‘demand side’ of the stakeholders (named, respectively, European Funds Managers and rural entrepreneurs that applied satisfactorily to European funds), and to other informants as agricultural

union employees. The two methods employed for the analysis of the qualitative information gathered by the interviews were: iii) Content Analysis and iv) Recursive abstraction technique.

By contrasting the factors and concepts identified through the literature review and the empirical data gathered through interviews, a conclusive integration of the influencing factors in the allocation process of an EAFRD for multifunctional entrepreneurial activities was conducted. The identified factors were categorized into five groups, with their specific variables: i) Entrepreneur factors – a) Gender, b) Family, c) Farm, d) Network, e) Age -, ii) Business Plan factors - a) Feasibility, b) Net margin, c) Job creation, d) Monitoring -, iii) Market factors - a) Place and b) Alignment with regional strategic sectors -, iv) Product/Service factors –a) Innovativeness and b) Quality differentiation)-, and v) Sustainability factors -a) Water and Land management and b) Community development. The influence of these factors can be direct or indirect (e.g. Feasibility or Network, respectively), meaning that there are factors which objectively add score to the applications for the EAFRD, and others that subjectively add value to those applications. A detailed presentation of the particular influences of each of the identified key factors is exposed in this research.

To conclude, the main value added by this research is the construction of a framework to identify and analyse potential enablers and hindering factors in the application for funds cofinanced by European Agricultural Funds for Rural Development. This evaluation research should enhance available knowledge regarding the funding mechanism of the EAFRD's at a regional level, decision-making, should inform practitioners and lead to practical applications.

As a recommendation for further studies, a cross-country investigation using the conceptual framework created by this research and re-applying the methodology used could provide the necessary information to evaluate the effectiveness of the measures of the 2nd Pillar of the CAP which targets multifunctional entrepreneurs. Moreover, it could provide evidence of how cultural heritage can influence the way those funds are managed, which is an interesting knowledge for future programmes of rural development at every level: European Union, National and Regional.

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1. Introduction

1.1. Background information and problem identification

Rural areas constitute the 77% of the European Union (EU) territory (30% forests and 47% farm lands), and they comprise 56% of EU population (Eurostat, European Commission, 2014). Rural context is outlined as a resource-constrained context and rural activities usually have income fluctuations over the year. Therefore, it becomes mandatory to be well-organized by the time of using those resources effectively and efficiently in order to reach socio-economic achievements. Nowadays, 80 % of the farm lands of the EU are owned by 20% of the farmers (European Commission, 2014). However, in the 20th century in Europe, agricultural activities were mostly conducted by small family farms who's emphasis was mainly to improve their current productive-oriented activity, rather than to open up new ones (Haugen and Vik, 2008; McElwee, 2008; Vesala, K.M. and Pyysiäinen, 2008; Morgan et al., 2010).

Since the first decade of the 21st century, due to i) the liberalization of the European Union's Common Agricultural Policy (CAP), to ii) the globalization and its rapid changes, and to iii) the awareness and activism of a more critic society, a great number of European farmers are choosing for being multifunctional (Van der Ploeg and Roep, 2003). That is to say, to diversify their activities to non-farming goods and services. Wilson (2008) enclosed those farmers' who conduct multifunctional agricultural activities under the term 'multifunctional entrepreneurs'.

Multifunctional entrepreneurs¹, beside their traditional agricultural activities in their family-farms, develop non-farming side businesses. They are focused both on the production of food and fibres, on the one hand, and on the generation of diversified goods and services on the other hand (i.e. agro tourism, short producer-consumer supply chains, vertical integrations, educational centres, etc.) (Randall, 2002; Huylenbroeck et al., 2007; Renting et al., 2009). They not only generate new businesses

¹ This research will refer to farmers conducting multifunctional farming activities as multifunctional entrepreneurs.

for the aim of profit, but also contemplate improvements in the environment and the society around them (Wilson, 2009). Therefore, multifunctional entrepreneurs play a key role in the rural development of nations, intended as the strategic policies and practices for enhancing the quality of life of rural population (Morgan et al., 2010).

Various studies identified that the most important constrain and need for the generation of new (multifunctional) activities of farmers is funding (Watson et al., 1998; Grande, 2011, Ferguson and Olofsson, 2011). That is one of the reason why the European Union, since the year 2000, includes rural development in its Common Agricultural Policy as a 2nd pillar, instrumented by the European Agricultural Funds for Rural Development (EAFRD), which is gaining terrain over the years by increasing its budget and scope (European Commission, 2014).

The EAFRD's aim to aid the development of new activities by providing funds to the segments of farmers which show the most multifunctional entrepreneurial behaviour: a) young farmers, b) small farms and c) short supply chains (Seuneke, 2014; Spinelli and Adams, 2012). Describing it briefly, the EAFRD is financed under Pillar II of the CAP. In the actual period of the CAP, 2014-2020, it has a budget of € 95.580 billion. As it was stated, the main aim of the EAFRD's is: "*...to contribute to the Europe 2020 Strategy by promoting a sustainable and innovative rural development throughout the Union...*" (European Commission, 2014).

This need for funding is addressed by the multifunctional entrepreneurs in a *push* way (demand-led services), while public policies as the EAFRD are conceived to *pull* the rural actors to start new activities (offer-led services) (Alsos et al., 2011). However, there is a **challenge: a distortion between offer and demand of funds by multifunctional entrepreneurs**. In the past period of the CAP (2007-2013), 20% of the farmers (whether or not multifunctional) obtained 80% of the Common Agricultural Policy (CAP) financial support, while the aim of those funds is to address segments like small farms and young farmers, which are not the ones owing the majority of the land . In the current and new period of the CAP (2014-2020), one of the

main goals of the reforms made is to restore the balance in the allocation of funds and to promote multifunctional entrepreneurship (European Commission, 2014).

Rural development measures comprehended in the 2nd pillar of the CAP are organized at a regional level within each Member State of the EU (MS). In order to effectively achieve practical conclusions, this research will be narrowed down and conducted into one specific Member State (MS) of the European Union and to one specific region: Castilla-Leon, Spain. The main reasons behind the selection of the area are three: i) the network of the researcher provides direct access to the managers of the EAFRD's in the region, ii) it has a really low density of inhabitants (26,5 habitants/km² vs. 92 habitants/km² in Spain and 116,9 habitants/km² in the EU), which means that rural development is needed, and iii) the Small and Medium Enterprises (SME's) in Spain are the ones that shows the biggest inaccessibility of funding in the EU, after Greece (European Central Bank, 2014), and among the available funds, only 2.1% is given to rural activities (Bank of Spain, 2013), which means that funding for rural development is desirable.

The identified problem will be addressed by this research by **analysing in depth the rural development policy of Castilla-Leon, the type of measures promoted and granted, the profile of the applicants, the requirements and other factors influencing the allocation process of funds cofinanced by the EAFRD, in Castilla-Leon region, Spain.** A core knowledge to be acquired by this research is to evaluate the causes and factors of success to obtain funds cofinanced by the EAFRD's.

Therefore **the main value added by this research will be the construction of a framework to identify and analyse potential enablers and hindering factors in the application of funds cofinanced by European Agricultural Funds for Rural Development.** This evaluation research should enhance available knowledge regarding the funding mechanism of the EAFRD's at a regional level, decision-making, and should also inform practitioners and lead to practical applications (Saunders et. al, 2012).

1.2. Research objective and research questions

THE OBJECTIVE OF THIS RESEARCH IS TO IDENTIFY FACTORS THAT PLAY A KEY ROLE IN THE ALLOCATION OF EUROPEAN AGRICULTURAL FUNDS FOR RURAL DEVELOPMENT BY EMPLOYING AS A CASE STUDY THE FUNDING ALLOCATION PROCESS FOR MULTIFUNCTIONAL ENTREPRENEURIAL ACTIVITIES IN CASTILLA-LEÓN, SPAIN.

According to the research objective the following research questions are defined:

General research question:

Which factors play a key role in the allocation process of European Agricultural Funds for Rural Development for multifunctional entrepreneurial activities?

In order to gain direct knowledge that can be afterwards extended to other regions of the EU, this investigation will focus on the Castilla-Leon region in Spain.

Specific research questions:

- 1) HOW IS THE PROCESS OF ALLOCATION OF FUNDS FOR RURAL DEVELOPMENT COFINANCED BY THE EAFRD'S IN CASTILLA-LEON, SPAIN?

An in-depth research over the evolution and actual situation of the European Agricultural Funds for Rural Development will be conducted in order to gain knowledge and frame the Spanish policies for Rural Development (and particularly the ones in Castilla-Leon).

The criteria used by policy-makers to implement the allocation of funds for rural development will be thoroughly investigated in order to gain understanding about how the process of allocation is actually conducted.

A list of the measures for Rural Development adopted in Castilla-Leon will be made. Afterwards, a selection of the measures targeted to multifunctional entrepreneurs will be conducted.

2) WHICH FACTORS INFLUENCE THE APPLICATION PROCESS FOR FUNDS TO DEVELOP A NEW ENTREPRENEURIAL ACTIVITY?

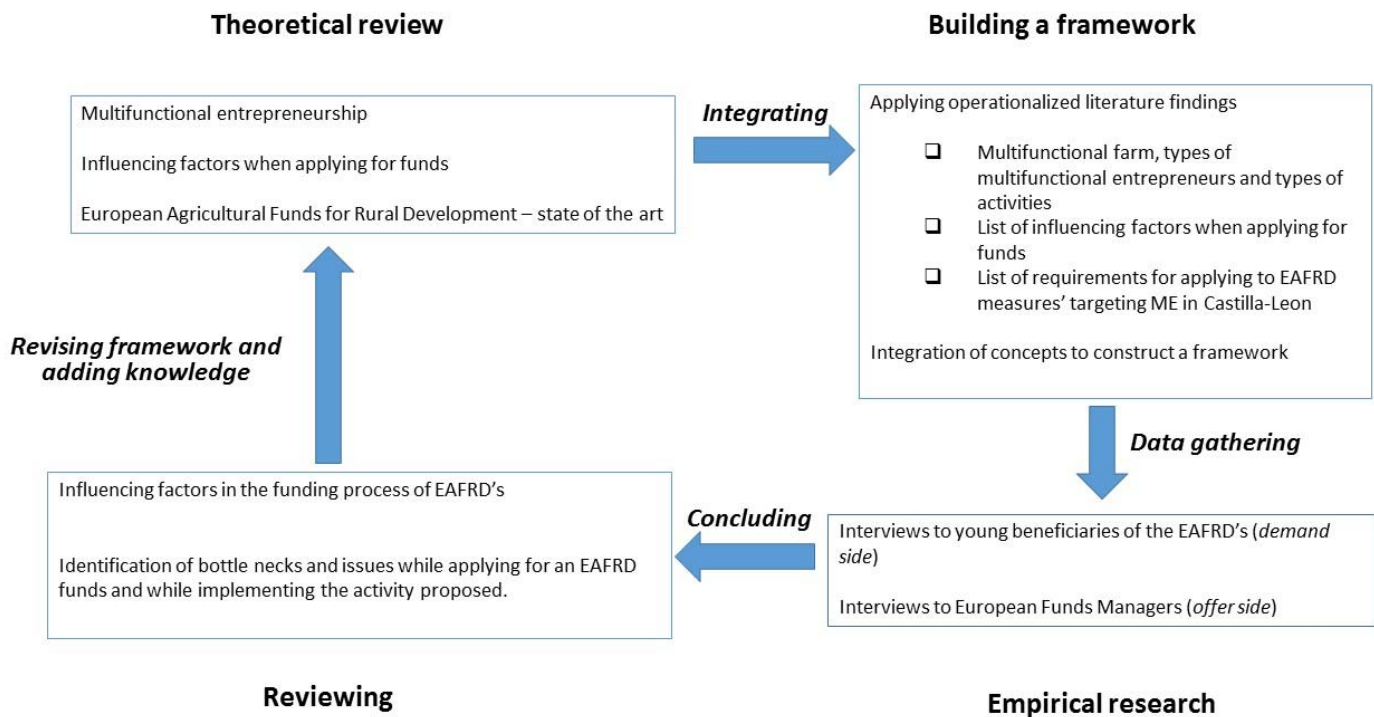
An identification of the common factors which may influence the process when an entrepreneur applies for funds will be conducted. Literature over several business sectors will be studied in depth. The knowledge gained will aid this research to focusing on key and common aspects valorised by funders. Furthermore, a critical integration with rural development factors will be conducted in order to understand if there exists a mismatch over the key factors of success of the more business-oriented funders and the more social and rural development-oriented funders and to what extent.

The critical scientific fields related to this research consists of multifunctional entrepreneurship, European Agricultural Funds for Rural Development, rural development, funding rural development projects, and the influencing factors associated to it.

1.3. Research framework

As illustrated in figure 1, this research comprises four sequential sections.

Figure 1: Research Framework



Firstly, a literature review will provide inputs to build up a conceptual framework of analysis. This framework will integrate theoretical assets of several disciplines, since there are no studies made analysing the factors influencing the application for European Agricultural Funds for Rural Development targeting multifunctional entrepreneurial activities. After this integration, empirical data will be gathered in order to gain understanding on the topic from different angles: a demand point of view (multifunctional entrepreneurs) and an offer point of view (regional managers of EAFRD's). The last stage will consist of reviewing procedures and indicators of the application of funds, in order to arrive to conclusions about which are the key factors of success in the funding achievements of multifunctional entrepreneurial projects.

1.4. Research strategy

The strategy to address this research will consist in firstly conduct an in-depth academic literature review to identify concepts over the topics of i) key characteristics of multifunctional entrepreneurship in the European Union, ii) state of the art of the EAFRD's funding process in general and specifically in the Castilla-Leon region in Spain, and iii) influencing factors to be considered in different stages of the process of application for funds cofinanced by the EAFRD's. Furthermore, secondary sources such as official reports and reviews, websites, among others, will be investigated. Key concepts, background information and theories will be identified, analysed, and presented. Afterwards, an integration of concepts and theories will be generated in order to present a conceptual framework over which this thesis will be based.

Secondly, this research will gather empirical information about the three mentioned topics through in-depth interviews. The importance of the empirical research relies on the fact that there is little information available on the success factors in funding new multifunctional activities related to rural development. EAFRD's are given to the Member States of the European Union. Each one, assigns the funds to a selected group of measures related with rural development. Therefore, to narrow down this research, interviews will be conducted in one selected country, Spain, and in a specific region: Castilla-Leon. In order to gather related empirical and practical information, two target groups – segments – will be interviewed. At the one side, the “offer” group, composed by the managers of the EAFRD's at a Spanish national level. Within this offer group, also the managers of the available funds for rural development projects at a regional level will be interviewed. The selected region is Castilla-Leon. At the other side, the “demand” group will be interviewed. This target group is composed by multifunctional entrepreneurs which applied and received funds to implement their rural development projects in the later period of the CAP (2007-2013)². At least five of these enterprises

² The mentioned period is selected for studied because it was the first one in introducing a measure directly focused in multifunctional entrepreneurs: measure 112 of 'Instalación de jóvenes agricultores' (promotion of access to land

will be interviewed. The questionnaires for the interviews will be constructed based on the conceptual framework build after the literature review. The scope of interviewing is to gain insight into a) the application process of EAFRD's, b) the reasons why they aim to promote multifunctionality, c) the allocation process and the influencing factors for achieving those funds, d) the perceived effectiveness of this supportive policy, d) the bottle necks experienced during the application to funds, e) the difficulties and support experienced during those applications f) and the scope and actual state of multifunctional entrepreneurial activities started in the past period of the CAP (2007-2013).

All this information will be then integrated in order to contribute to answer to the general research question: *Which factors play a key role in the allocation process of European Agricultural Funds for Rural Development for multifunctional entrepreneurial activities?*

1.5. Report outline

This research consists in eight chapters. Chapter 1 introduces the background information of the topic of study and covers the conceptual and technical research design. Chapter 2 provides a theoretical background over the topics of i) multifunctional entrepreneurship, ii) European Agricultural Funds for Rural Development, and iii) influencing factors at the time of requesting funds to develop new activities. Based on the latter in-depth literature review, in Chapter 3, a conceptual framework will be constructed by integrating the concepts of each of the three mentioned topics. Chapter 4 presents the methodology used for the empirical research, which gathers empirical information for answering the research questions. Chapter 5

and new activities for young farmers). Two other main reasons for choosing the 2007-2013 period of the CAP for investigate are i) there will be several projects ongoing still by this date (beginning 2015) that can provide with fresh and important information to this research and ii) The high level of transparency in the assignation of the EAFRD's funds permits the identification of those enterprises.

exposes and analyses the results of the empirical research. Chapter 6 presents the conclusion of the research, answering the general and specific research questions. In chapter 7 a discussion over the conclusions achieved is elaborated, including the researcher's personal impressions about what was investigated. Finally, in Chapter 8, recommendations for further research topics are proposed.

2. Conceptual background

2.1. Multifunctional entrepreneurs – a new conceptualization of rural entrepreneurship

Multifunctional agricultural farmers are also named by literature as multifunctional entrepreneurs (Heringa et al., 2012). The 'multifunctional agriculture' concept was first presented at the Earth Summit in Rio de Janeiro, in 1992. The term evolved over time and attracted a wide range of academics to study it. It is a broad concept which lacks of a uniform definition (Heringa et al., 2012), It is often cited the OECD (1998) definition on multifunctional agriculture:

"Beyond its primary function of producing food and fibre, agricultural activity can also shape the landscape, provide environmental benefits (...) and contribute to the socio-economic viability of many rural areas. Agriculture is multifunctional when it has one or several functions in addition to its primary role of producing food and fibre."

Since the year 2000, when the CAP included its 2nd pillar of Rural Development, multifunctional entrepreneurship was not only contemplated but also promoted. (European Commission, 2014). CAP's sponsor and support, based in funding, market liberalisations and decoupling of direct agricultural payments, rearranged and developed new markets and business configurations for farmers, motivating them and

pushing them to explore greater scopes in their businesses (Renting et al., 2009). Multifunctional farmers reoriented their traditional family-farm activities (usually of small and medium size), interacting with the social and environmental context in a stronger degree than for example agri-industrial companies, with a profit-oriented policy. Therefore, multifunctional entrepreneurs play a key role in the rural development paradigm, which provides an interesting and important approach for this research. However, the level of multifunctionality can vary.

A model of a 'multifunctionality continuum' who distinguishes *weak* to *strong* levels of multifunctionality was firstly exposed by Wilson (2008). The differences between the levels are based in the working conditions and the environment (Seuneke, 2012). One of the most important of those differences is that strong multifunctional entrepreneurship works on 'ensuring the protection of the environment, healthy farming and rural communities' (Wilson, 2008). Consequently, strong multifunctional entrepreneurs are the ones targeted by rural development policies in their programmes.

The motivations of the multifunctional entrepreneurs identified in the literature review are three: i) maximize returns, ii) exploit opportunities and iii) maintain a farm life-style (Alsos et al., 2003). According to those incentives, three types of multifunctional entrepreneurs can be classified: a) *pluriactive farmer*: develops new activities in order to be able to continue with the main farming venture, b) *resource-exploiting entrepreneur*: is motivated to start a new activity by perceived opportunity to use the firms (farms) resources more fully and also c) *portfolio entrepreneur*: strong entrepreneurial drive undertaking new activities, where the challenge and satisfaction in developing an idea into a sustainable business activity leads to action (Alsos et al., 2003).

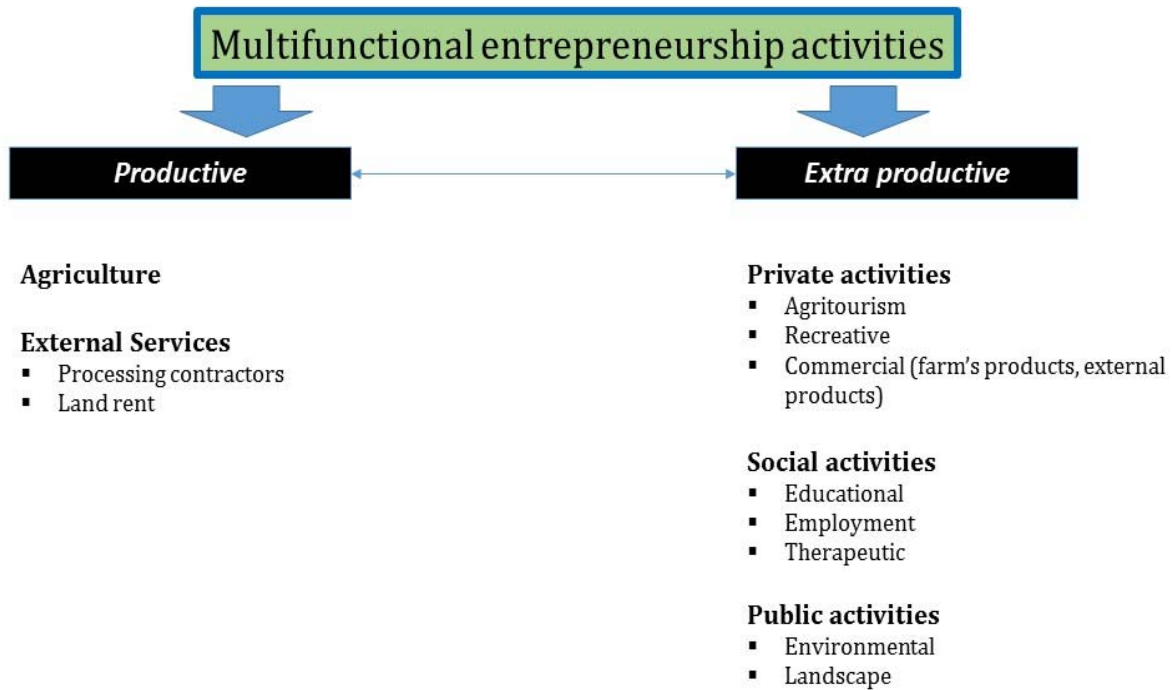
2.1.1. Multifunctional Farms

Multifunctional farming activities are usually influenced by three aspects: the farm, the new activity and the family (Getz and Carlsen 2005).

Usually, farms are a family business (Jervell, 2002). The farm comes first: it has always been a mayor family asset and its importance relies on leveraging of its own natural and acquired resources. Thus, the farm becomes the groundwork for rural entrepreneurs.

Illustrating a typical multifunctional farm (figure 2), it can be seen that productive (farming) and extra productive (non-farming) functions are developed, and usually simultaneously (Blasi et al., 2009). Within the productive ones, the farms resources and the direct payments of the CAP are used to cultivate different crops, originating food and fibres. The extra productive activities are distinguished by the scope and degree of remuneration they achieve in the market (Huylensbroeck et al., 2007), and can be designated as private activities (commercial activities), public activities (beneficial activities for the landscape, environment and community) and social activities (educational and cultural activities).

Figure 2: Multifunctional farm scheme



Source: Adapted from Blasi et al., 2009

The development of new and non-farming businesses on- or off-farms inspires farmers to innovate, moving from their traditional practices to new entrepreneurial competences (Pyysiäinen et al., 2006, McElwee, 2008; Morgan et al., 2010; Vesala and Vesala, 2010). Entrepreneurial competences involve “a combination of skills, knowledge and resources that distinguish entrepreneurs from their competitors” (Fiet, 2000). Some of the competences founded in multifunctional entrepreneurs are shared with those that literature describe for social entrepreneurs. These are i) networking, ii) people management, iii) fund raising, iv) mentoring, v) reactivity, vi) innovativeness, and vii) social mission (Thompson, 2002; Weerawardena and Mort, 2006).

Rural multifunctional entrepreneurs develop projects that usually aim to improve, not only their economic situation, but also the social and environmental conditions of a specific group of people and rural area. This multifunctionality enhances rural development. Therefore, **it can be stated that the strong multifunctional entrepreneurs can also be considered social entrepreneurs, and rural developers.**

2.1.2. Contrasting entrepreneur vs multifunctional entrepreneur characteristics

Evidently, the characteristics found while reviewing the literature regarding multifunctional entrepreneurs and the 'urban' entrepreneurs show certain differences (Table 1). Beside the one already exposed (of the drivers of multifunctionality: much more than profit), there are other key differences. Firstly, the place for develop entrepreneurial activities is usually the farm. So it is fixed, in comparison to the 'urban' entrepreneur, who usually selects the most convenient place for its project (Wilson, 2009, Spinelli and Adams, 2012). In multifunctionality, the new activities tends to integrate the other activities conducted by the farm (Seuneke, 2014). Integration is therefore, the preferred governance strategy of multifunctional entrepreneurs. Another main characteristics that contrasts both entrepreneurs, is that the multifunctional ones usually involve their family not only as a first source of resources (Spinelli and Adams, 2012), but also as co-developers of their projects playing an active role on the new activities (Seuneke, 2014).

Table 1: Main differences founded in literature contrasting the characteristics of entrepreneurs' vs multifunctional entrepreneurs.

	(urban) Entrepreneur	Strong multifunctional (rural) entrepreneur
Number of activities	one or more	more than one: productive and extra-productive
Product aim	profit oriented	profit-community-environment-social oriented
Place for development the activities	the most convenient	fixed: the farm
Work environment	not fixed, chosen	fixed by the farm context. Usually family and community is involved
Governance strategy (porter, 1985)	market-contracts-integration	Integration usually

Source Own elaboration over Spinelli and Adams 2012; Seuneke, 2014

2.1.3. Conclusions

This research will be focused in strong multifunctional entrepreneurs for several reasons.

Firstly, their aim is not only based on the profit, but also community, environmentally and socially oriented. That is to say, that they contribute directly to the rural development of their communities, which is a central point in this investigation.

Secondly, they integrate the farm-productive activities with the extra-productive ones. By the usually chosen governance strategy of integration, the current resources are aligned in order to add value and innovate by managing them as most efficient as possible (Bolwig et al., 2010).

Finally, this segment of multifunctional entrepreneurs is developing entrepreneurial skills rapidly due to the fact that they conduct simultaneously more than one activity (Alsos et al., 2011).

Strong multifunctional entrepreneurs can therefore be considered social entrepreneurs and rural developers.

2.2. State of the art over the EAFRD's allocation

2.2.1. Introduction

The EAFRD is tagged as the 2nd pillar of the European's Common Agricultural Policy. It comprehends and aims to enhance several aspects related directly with rural development, such as competitiveness of agricultural activities, quality of life, networking and landscape management.

In order to describe, analyse, frame and discuss this policy, this research will adopt a *descriptive* approach. This approach regards what are the objectives and instruments of the policy (Oskam, 2009).

A descriptive approach will be also used to offer an overview over the Rural Development measures of Castilla-Leon, Spain.

To sum up, this type of approach will contribute with a complete background for then answer the first sub research question: *how is the process of assignation and implementation of funds for rural development cofinanced by the EAFRD's in Castilla-Leon, Spain?*

2.2.2. 2nd Pillar of the CAP: the EAFRD

With the reform made in Agenda 2000 (Figure 7 in the Appendix), the 2nd pillar of the CAP was introduced and its instrument is the European Agricultural Fund for Rural Development.

The CAP has two pillars with several Axis per pillar. Pillar one is related to direct payments, and Pillar 2 with rural development. The importance given to rural development relies on the sustainability of the agricultural production in Europe, encouraging public goods generation and conservation and helping to modernize farms (European commission, 2014).




The 2nd pillar of the CAP is subdivided in 4 axis in order to increase the effectiveness of policy applications. These are:

Table 2: axes of the 2nd pillar and measures comprehended in them.

<i>Axis 1 - Competitiveness in the agriculture and forestry</i>	i) promote knowledge and improve human potential
	ii) restructure and develop physical potential and promote innovation
	iii) improve the quality of production and agricultural products
<i>Axis 2 - Environment and countryside</i>	i) sustainable use of agricultural land
	ii) sustainable use of forest lands
<i>Axis 3 - Quality of life in rural areas and diversification of the rural economy</i>	i) diversification of rural economy
	ii) training and inform economic actors - in the fields covered by axis 3.i
	iii) acquisition of skills for planning and implementation of local development strategies
<i>Axis 4 - LEADER</i>	i) local development strategy for selecting the best development plans of local action groups in which a partnership between public and private actors,
	ii) implementation of cooperation projects between affected territories
	ii) networking bottom up

Source: own elaboration over European Commission, 2014.

The official objectives of the EAFRD are:

-  **To improve the competitiveness of agriculture and forestry**
-  **To improve the environment** and the countryside through support for landscape management,
-  **To improve the quality of life in rural areas and boosting diversification of economic activities.**

Source: European Commission, 2014.

To sum up, the EAFRD is a funding instrument that aims to improve the competitiveness of the following sectors and activities: agriculture, forestry, environment, management of rural landscape, quality of life in rural areas and diversification of activities. It brought under a common umbrella various management, social, economic, environmental and territorial measures.

2.2.3. Modifications for the new period 2014-2020 and Institutionalism behind the EAFRD's management

A new legal framework for the EAFRD started to be applied in 2014 for the new period of the CAP (2014-2020). To become more effective, the 2nd pillar will be “better coordinated with other EU funds, have a reinforced strategic programming process, and have a revised list of measures” (European Commission, 2014). It will enhance the pillar two of EAFRD through promoting safety nets and making emphasis on rural development (table 16 in the Appendix). It continues focusing in its three main objectives:

-  **To ensure a stable supply of healthy and affordable food** to the population of the European Union,

- ✚ **To increase quality of life for the agricultural community and to manage in a sustainable way the natural resources,**
- ✚ **To ensure** that all regions of the European Union maintain its **agricultural production with a balanced development of rural areas** throughout the EU.

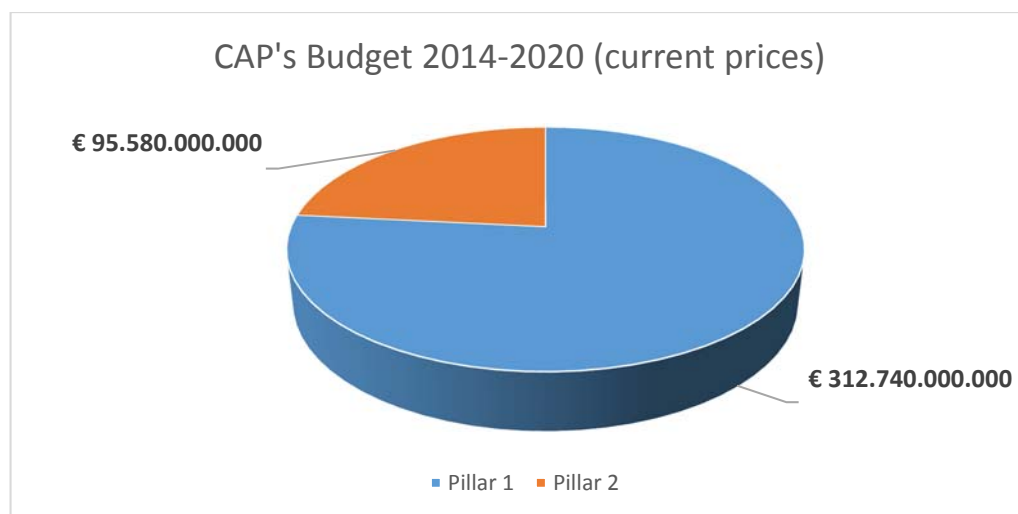
Source: European Commission, 2014.

The budget of the CAP will be spent in 3 main areas:

- I. **Direct payments:** Income support for farmers for food safety, environmental protection and animal health and welfare. These payments are fully financed by the European Union, and account for 70% of the CAP budget.
- II. **Rural development:** modernization of farms to increase competitiveness in balance with the environment, for prospering rural communities. These payments are part financed by the member countries, and account for 20% of the CAP's budget.
- III. **Market support:** when crisis arise, for example when political fights destabilizes markets (for example the Apple's crisis in 2014 when Russia blocked the importations of Apples and the price fell because of an excess of offer in the European Union). These payments account for approximately 10% of the CAP's budget.

The total CAP budget for the period 2014-2020 is € 408.320.000.000. Figure 3 presents the distribution of CAP's funds by pillar

Figure 3: CAP's Budget 2014-2020 by pillar, in current prices.



Source: own elaboration over European Commission, 2014.

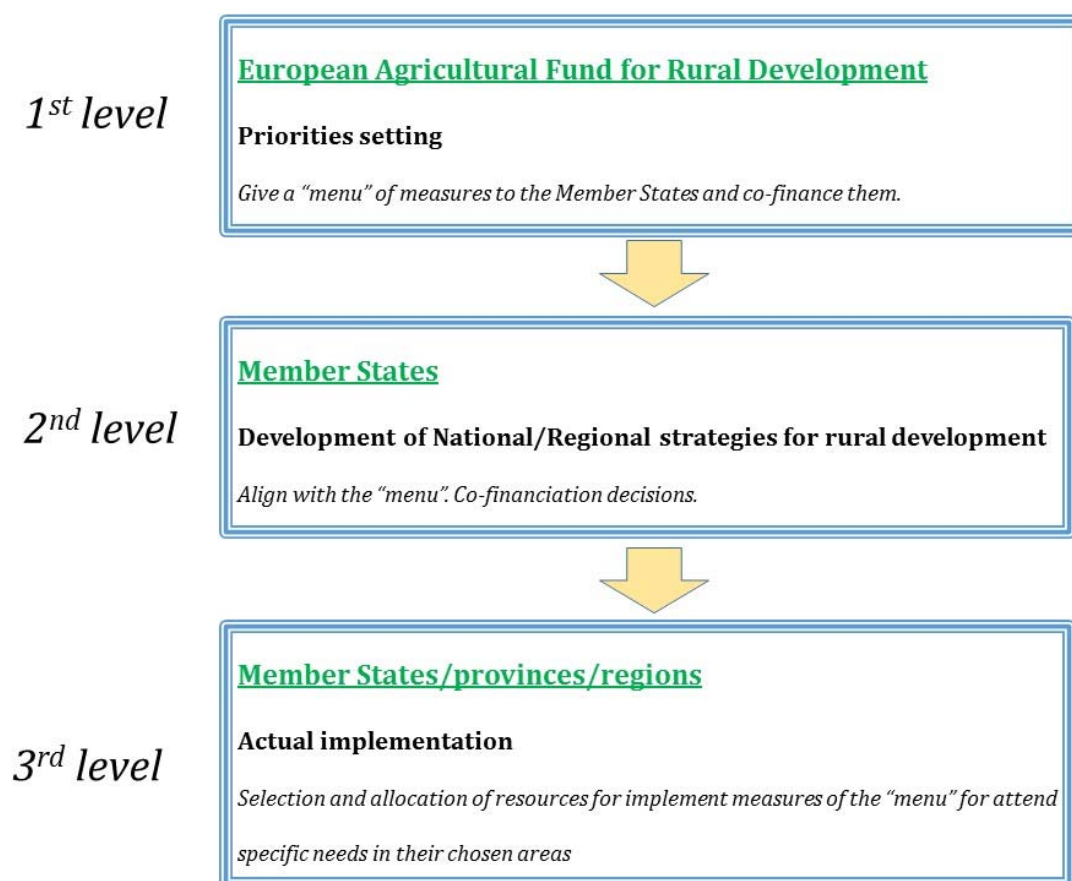
It can be observed in the figure 8 in Appendix that the budget reserved for Rural Development by the CAP presents an upward trend over the years. However, CAP's budget for the period 2014-2020 will be frozen at the level of 2013. In real terms, the budget diminishes compared with the latter period (2007-2013): 1.8% less for pillar 1 and 7.6% for pillar two (European Commission, 2014).

The second pillar of the CAP instrument the assignation of capital by the European Agricultural Fund for Rural Development. Each Member State of the European Union (MS from now on) set their own priorities for its rural development. In the 2014-2020 period, a big change was introduced. There are not any more compulsory expenditures per axis as there were before (at least 10% of their budget on '*making their farming and forestry sectors more competitive*', at least 25% on '*improving the environment and the countryside*', and at least 10% on '*diversifying the rural economy*') (European Commission, 2014). In its place, each MS and/or region will decide which measure will be promoted the most, based on their own specific needs. There are priorities of the EAFRD with sub-priorities (or focus-areas) to be

accomplished by each MS. MS and/or regions can then assemble the best combination of measures to implement and address their particular situations for achieving the European Rural Development priorities.

The general concept remains unchanged: the EAFRD assignment is based on a multi-annual programming approach, where MS outline and co-finance their particular rural development programs according to their own actual needs. This co-funding is made in three levels (see figure 4), via a national institution and then a regional institution. For example, in Spain, the Ministerio de Agricultura, Alimentación y Medio Ambiente, and the Consejería de Agricultura y Ganadería of Castilla Leon.

Figure 4: three level procedure for allocating and implementing the EAFRD's in the period 2014-2020.



Source: own elaboration over Schimid et al., 2010, and European Commission, 2014.

To sum up, and in simpler words, the EAFRD presents and co-finances a “menu” of measures to be undertaken, and each MS make choices, co-finances and then implements the selected measures according to their own needs.

2.2.4. Characterization of Castilla-Leon agricultural sector and types of measures co-financed by the EAFRD in the period 2014-2020.

The agricultural sector of Castilla-Leon is characterized by a high proportion of old people. According to the ‘Censo Agrario’ 2009 (Agricultural Census), 28.75% of the farmers are more than 65 years old, while only 4,77% of them is younger than 35 years old. Among the total farmers of the region, only 20,85% of them are women.

Due to the fact that this investigation is focused in the mentioned region of Spain, an overview of the measures for Rural Development cofinanced by the EAFRD’s for the period 2014-2020 was conducted. There exist sixteen measures, with several sub-measures (Rural Development programme of Castilla-Leon, 2014-2020). Among them, the measure number six of “development of agricultural activities” with its sub-measures³, is the one that comprehends the segment of the stakeholders which is the focus of this research: young farmers with a strong multifunctional entrepreneurial spirit. Because of that, this thesis will be focused on the investigation of the influencing factors in the application for funds for the activities promoted by this particular measure of the EAFRD’s in Castilla-Leon.

³ 6.1 *Aid for development of new agricultural activities for young farmers* and 6.2 *Aid for business development of SME’s*

2.2.5. Description, requirements and application process for the measure “development of agricultural businesses for young farmers” in Castilla-Leon for the current period 2014-2020.

A descriptive analysis (Oskam, 2009) of the objectives, requirements and the application process of the sub measure number 6.1 of “development of agricultural businesses for young farmers” cofinanced by the EAFRD’s in the period 2014-2020 will be exposed. For the purpose of this research, also the sister measure will be analysed (measure 112 of the CAP period 2007-2013).

These measures were selected because there are the most entrepreneurial oriented. These are the only measures that require to present a business plan. They are focused on subsidies related to the access to land for young farmers. The maximum subsidy is up to €75.000 by:

- Buying a farm
- Renting a farm
- Investing in co-owning a farm
- Integrating as partners in an associative agricultural farm

The requirements are:

Beneficiaries

- Young farmers – older than 18 and younger than 40 years old.
- Accomplished the following courses: ‘Incorporación a la empresa agraria’ (‘Incorporation to Agricultural enterprises’) or ‘Profesional Agraria’ (‘Professional farmer’).
- First time to own an farm

Assignment

- Business Plan (it will be a plus to present innovative and sustainable activities)

Commitments of the applicant

- Implementation of the Business Plan within 9 month from the application for funds
- Accomplish the condition of 'agricultor activo' (full time farmer) within 18 months from the allocation of funds
- Finish the mandatory capacitation courses within 36 months from the allocation of funds
- Conduct the activities at least for 5 years from the allocation of funds

The application process for rural development measures comprehended in the Castilla-Leon program follow the following order:

- a) The Consejería de Agricultura y Ganadería of Castilla y León publishes online in its 'boletín oficial' (official newsletter) the calls for presenting the applications, with deadlines dates and the required forms to be fulfilled.
- b) The multifunctional project proposals are presented
- c) The Consejería de Agricultura y Ganadería evaluate the proposals and assign a score on them. The minimum score to be approved is 10 points.
- d) The EAFRD's are allocated to those 'selected' proposals

2.2.6. Score of the projects presented to be funded under the measure 6.1 of “development of agricultural businesses for young farmers” in Castilla-Leon for the current period 2014-2020.

The projects applying for the funds given by the measure 6.1, are scored following a defined criteria (ORDEN AYG/1131/2014, 19 of December 2014, Castilla y Leon official newsletter). Following, the criteria of selection is presented:

Table 3: Selection criteria of the projects applying for the sub-measure 6.1: “development of new agricultural activities for young farmers”

Sub measure 6.1 “ Development of new activities for young farmers”		
<i>Criteria nr</i>	<i>Criteria for selecting the projects presented</i>	<i>Score</i>
1	Business plans promoted by women and involving women	5
2	Projects aligned with the strategic sectors of the Castilla y Leon Rural Development Programme	7
3	Projects which would add value to primary production	5
4	Projects to be conducted in less favourable areas or mountain areas	5
5	Projects contemplating the integration of the young farmer into a cooperative	5
6	Projects that combine the measure 6 with the sub measure 4.1 of improvement and modernization of the agricultural production	5
7	Projects promoted by young farmers for their first access to land	5
8	Projects in which the business plan shows a clear contribution to the efficiency of water management	7
9	Projects contemplating the modality of ‘share- ownership’	5
10	Projects where the business plan includes innovative actions	5
11	Projects where the business plan shows the potential job creation of the activity for the community	7

Source: own elaboration over Rural Development Programme of Castilla Leon for the period 2014-2020

There are three factors which are valued more than others: water management, job creation, and alignment with the strategic sectors promoted by the Castilla y León Rural Development Program⁴. In addition, there are independent factors playing a key role. It is the case of the criteria 1 (female gender of the applicant) accounts with half of the minimum score needed to be selected (5 over 10 points needed). It is also the case of planning a new activity in a less favoured area or mountain area, which also accounts for 50% of the score needed to be selected (5 points). Besides, presenting an innovative plan to add value to the projected production (will account for 10 points: criteria 3 + criteria 10) will provide, in theory, a consistent business plan for applying successfully.

2.2.7. Conclusion

Since the year 2000, the 2nd Pillar of the CAP aims for the rural development of Europe. It aims to enhance the multifunctional entrepreneurship by targeting the segment of young farmers, small farms and the development of short supply chains in rural areas.

Among the sixteen measures for Rural Development promoted by the Castilla-Leon program for the 2014-2020 period which are cofinanced by the EAFRD's, this thesis will focus in only one sub measure (number 6.1 of “development of new agricultural activities for young farmers”) for being directly related with multifunctional entrepreneurship. For the purpose of this study, the investigation analyses the beneficiaries and their proposals of the measure 112 of the period 2007-2013 of the mentioned programme, which is the same as the 6.1.

⁴ i) Sheep and Goats production, ii) Dairy, iii) Iberico's pigs, iv) Potato and horticulture, v) Beetroot, vi) Grains of high value added (durum wheat, popcorn, etc.), vii) Wine and viii) Organic Agriculture.

In the allocation process of the EAFRD's for the measure 112, the score is given relating eleven criteria's, which can be summarized as follow:

Table 4: Summarized criteria's for selecting the projects presented for being funded under the sub measure 6.1 of the Castilla Leon Rural Development Programme.

Criteria nr	Criteria for selecting the projects presented	Criteria nr	Criteria for selecting the projects presented
1	Gender	7	First access to land
2	Alignment with regional Rural Development strategy	8	Sustainable water management
3	Added value to primary production	9	Partnership
4	Less favoured ares	10	Innovativeness
5	Cooperativism	11	Job creation
6	Modernization		

Source: Own elaboration under the (ORDEN AYG/1131/2014, 19 of December 2014, Castilla y Leon official newsletter).

It is crucial for this study to gain understanding on what are the subjective, or 'the other', factors that also play a key role and score on the allocation of the EAFRD's.

2.3. Success factors for funding requests

The study of the success factors to raise funds for entrepreneurs was investigated by several authors (Tyebjee and Bruno, 1984; Hall and Hofer, 1993; Shepherd and Zacharakis, 2001; McMillan and Woodruff, 2003; Franke et al., 2008 and Rasmussen and Sørheim, 2012). Most of the mentioned authors have researched the offer side (the

funders or investors) by the means of interviews and conjoint analysis. The stakeholders studied were usually venture capitalists and business angels. That is to say, the private sector, or such called 'equity sources of funds' (Flores Mora, 2013). Instead, Hustedde et al. (1992) and Rasmussen and Sørheim (2012) have investigated the demanders of funds: the entrepreneurs. Concepts from their studies will be taken into account by the time of identify, describe and analyse the most suited factors for funding rural development activities.

For starting, a literature review over the decision-making process of funders and the factors influencing each step will be conducted. Afterwards, a categorization and compilation of the influencing factors over each of those steps found in literature will be presented.

To sum up, an identification and selection of the key influencing factors valued by funders when an entrepreneur presents a project to be financed will be presented and it will be integrated to rural development projects. This Section will address the sub question three: *Which factors influence the application process for funds to develop new activities related to rural development?*

2.3.1. Process of decision-making of funders to invest and the factors influencing it

A brief explanation of the process which the funders go through before actually invest in a new venture will be detailed. The reason behind this, is that certain influencing factors usually have more value on each particular stage of the funding process.

The process that generally funders' follows to take the decision to invest can be divided in six steps (table 5).

Table 5: process of decision-making of funders to invest – six steps

Step	Title	Description
1	Approaching	Get in contact
2	Screening	Funnel of presented projects asking for funds
3	Selection	Risk vs. Returns
4	Valuation	Defining amounts, terms and conditions ex-ante and ex-post, and performance measures
5	Monitoring	Post-investment relationship
6	Exit	Cash out

Source: Own elaboration and compilation over the following researches: Tyebjee and Bruno, 1984 and Ge et al., 2005.

Firstly, in the **Approaching** step, the new activity presented has to fit with the investors' conditions beforehand (Hall and Hofer, 1993). Entrepreneurs need to consider that funders are usually specialized in a determined segment of business (Hustedde and Pulver, 1992) and they require previous knowledge on the field of the new business (Rasmussen and Sorheim, 2012). Therefore, the entrepreneurs have to firstly investigate and identify the adequate investor. In this process, the network of the entrepreneur plays a key role (Ge et al., 2005). Moreover, the mentioned network

mitigates two issues that face every entrepreneur when looking for funds: information asymmetry and moral hazard (Denis, 2004)⁵.

Secondly, in the **Screening** step, the key factor of success to be selected to get funds is basically a well presented business plan (Mason and Stark, 2004; Barringer and Ireland, 2008). Funders appreciate very much that in their approach, the entrepreneurs present them a detailed and clear plan about how the management team will be composed and what are their skills, what the product/service would be, a realistic financial projection, a competitiveness analysis of the market and how the business will be conducted, among others.

Thirdly, in the **Selection** step, four main investment criteria can be identified: i) the founder and the management team, ii) the service or product, iii) the market and iv) the finances. However, in this stage the 'gut feeling' plays also a key role in the investors' decision-making (Milloud et al., 2012): the unconscionced preferences of the entrepreneur and its project⁶.

Regarding i) the management criteria, it is important to have an interdisciplinary team which shows familiarity with the market of the product or service and a strong leadership, and which have capacity to organise and implement the new business and to manage risks (Shepherd and Zacharakis, 2001; Franke et al., 2008 and Rasmussen and Sorheim, 2012).

Concerning ii) the product or service proposed by the new activity, the innovativeness, the product development process, the potential growth and the proprietary protection are important factors (McMillan and Woodruff, 2003; Cateora et al., 2009).

⁵ Information asymmetry refers to the fact that usually the entrepreneur knows more about what he is offering – product/service- than the investor. Moral hazard or opportunistic behavior refers to the uncertainty that the funder have about what will the entrepreneurs do after they would be granted.

⁶ The gut feeling is framed under the 'behavioral finance theory' stream, but it is not the aim of this research to go in depth into it.

Regarding iii) the market, it should be clearly open to the new product or service. Competitors shouldn't show strong dominance and it would be preferable to exploit an already established market. The called 'time to market' plays also a key role in the investor criteria, together with the potential substitute products or services (Shepherd and Zacharakis, 2001). Also important for funders is the potential long term growth and profitability of the new product or service (Hall and Hofer, 1993; Cateora et al., 2009).

Concerning iv) the finances, a return of the investment in a term of 5 to 10 years plays a key role, together with the potentiality of selling the business at the end of its cycle (cashing out) (Fürth and Rauch, 2014).

Fourthly, in the **Valuation** step is when a negotiation between the funder and the entrepreneur needs to be conducted in order to align the interests of both parties and also to reduce future disagreements (Miloud et al., 2012). A clear and satisfactory negotiation will reduce the transaction costs and future opportunistic behaviour between them. A satisfactory agreement between both parties will boost the new business implementation and it will increase the productivity by managing an efficient relationship (Ge et al., 2005).

In this step, again, the market size, competitiveness and opportunity, its barriers of entry and exit, the human resources, the product or service to be made or offered and its viability, the stage of development of the company and the potential growth of the new business also play a key role in the decision process of the funders (Hill and Power, 2002).

For the funders, also important in this step are the characteristics shown and the background of the entrepreneur itself. The entrepreneur is considered to be a resource to reduce risks (McMillan and Woodruff, 2003).

Fifthly, the **monitoring** step is related to the way the investor will relate with the entrepreneur after the investment. Monitoring the execution of projects is needed to analyse and improve the performance according with what was planned. Monitoring processes are key elements of each project, which have to be included in the Business

plan of the entrepreneur and to be negotiated afterwards between the parties. To monitor, project audits have to be conducted on a regular bases (Project Management Book of Knowledge –PMBOK-, 2013). It is through the monitoring process that stakeholders have feedback on the development and the actual situation of the project. It can comprehend management participation of the investors in the board of decisions and financial control (Fiegener, 2005), among other actions.

Finally, the **exit** step is a key criteria for investors (Fürth and Rauch, 2014), who want to assure the possibilities and the time-gap for going out of the activity funded and the revenues that it will bring. The business can go on Initial Public Offering, merger or acquisitions, or to ruin. The life cycle of the activity is a key criteria.

2.3.2. Categories of influencing factors identified in the literature review

The influencing factors exposed in each of the previous steps can be integrated and grouped into four categories:

1) *entrepreneurial factors*

- a) Confidence and passion of entrepreneurs
- b) Entrepreneur's network
- c) The entrepreneur experience and knowledge
- d) determination of the most suitable investors
- e) Age and gender

2) *business plan factors*

- a) Exit opportunities
- b) Sales forecast
- c) Financial projections
- d) Rate of returns
- e) Management team

3) *market factors*

- a) Potential Growth
- b) Market Size
- c) Competitiveness
- d) Being first to market

4) *product/service factors:*

- a) Access and time to market
- b) Inimitability of the product/service
- c) Contact customers before contacting investors
- d) Pre-test product/service
- e) Manufacturing capabilities

Benefits to the environment, the community and the society are key factors to fund rural development projects for the European Commission. Therefore, this researcher proposes a fifth category of influencing factors: sustainability.

5) *sustainability factors:*

- a) Land and water management
- b) Community development

2.3.3. Conclusion

This research preliminary integrates the concepts identified by clustering them into five categories of influencing factors by the time of requesting funds to develop new activities related to rural development. This integration of concepts is firstly presented on the basis of the six steps of decision-making that funders usually go through (Ge et al., 2005). Within each step, categories of factors and its variables will be listed. There

are variables which are dependent (which cannot be influenced by external factors: they are intrinsic), dependent (which can be influenced by external and internal factors) and intervening variables (which play a key role between the independent and dependent variables by influencing them to a certain extent).

Step 1 of Approaching comprehends the variables influencing the first contact of the multifunctional entrepreneurs with the funders. In the case studied by this investigation, the latter is a regional funding institution: Consejería de Agricultura y Ganadería de Castilla-León, Dirección General de Política Agraria Comunitaria⁷.

Table 6: Approaching Step in funding, categories of factors and its variables

Step of the funnel of decision-making for funding	Categories of influencing factors	Variables
1) Approaching	<i>Entrepreneur</i>	Experience and knowledge
		Confidence and passion
		Gender
		Age
	<i>Approach</i>	Determination of the most suitable investors
	<i>Network</i>	Entrepreneur's network

Source: own elaboration

Entrepreneur: this category of success factors includes several variables that influence the process of decision-making of funders. Among them, there are independent variables (*gender, age*), intervening variables (*confidence and passion*) and dependent variables (*experience and knowledge*). The latter variable is the one in which the multifunctional entrepreneur needs to prepare himself previously, before approaching the funder institution. The knowledge demonstrated of the activity to

⁷ In English: Agricultural Commission of Castilla-León, General Direction of the Common Agricultural Policy of the European Union

develop and the experience gained in his lifetime seem to have influence on funders' perception of risk (Rasmussen and Sorheim, 2012).

Approach: the variable of *determination of the most suitable investor* is a dependent one. It refers to the previous investigation and then the selection of the type of fund and funder institution that the multifunctional entrepreneur needs to conduct (Hall and Hofer, 1993).

Network: the *entrepreneur's* network is an intervening variable since it helps to mitigate two issues that face every entrepreneur when looking for funds: information asymmetry and moral hazard (Denis, 2004; Ge et al., 2005).



Step 2 of Screening comprehend the variables which denote the plan for conducting the activity.

Table 7: Screening Step in funding, categories of factors and its variables

Step of the funnel of decision-making for funding	Categories of influencing factors	Variables
2) Screening	<i>Business Plan</i>	Exit opportunities
		Sales forecast
		Innovativeness
		Rate of returns

Source: own elaboration

Business Plan: the variables comprehended are all dependent to the activity proposed, detailing the scope, time and resources that the activity will need (PMBOK,

2013). A well-presented business plan is a criteria that plays an important role on the decision-making process of funders (Mason and Stark, 2004; Barringer and Ireland, 2008).



Step 3 of Selection comprehends variables related to the outcomes of the activity proposed, and to the context in which it will be developed.

Table 8: Selection Step in funding, categories of factors and its variables

Step of the funnel of decision-making for funding	Categories of influencing factors	Variables
3) Selection	<i>Market</i>	Potential Growth
		Market size and competitiveness
	<i>Product/service</i>	Access and time to market
		Inimitability of the product/service
		Contact customers before contacting investors
		Pre-test product/service
		Manufacturing capabilities
	<i>Business Plan</i>	Management team
		Sales forecast
		Innovativeness
		Rate of returns

Source: own elaboration

Market: Among the two variables identified, there is one, the *market size and competitiveness*, which is independent of the activity proposed. The *potential growth* of the activity in economic terms is indeed dependent of the way the activity will be developed and it is important for funders to understand the potential profitability of

the product or service that the activity will develop (McMillan and Woodruff, 2003; Cateora et al., 2009).

Product/Service: while the *manufacturing capabilities*, the *inimitability* and *time to market* are dependent variables of the activity proposed, *having the feedback of the customers of the product or service of the activity* and/or *pre-test the product or services* are both influencing variables since the real feedback provided serves to adapt the product or service to the characteristics demanded or needed (Cateora et al., 2009).

Business plan: the *management team*, which is an independent variable since it is already constructed beforehand, is important to reduce the risk perception of the funders and needs to show interdisciplinary within the team and organizational skills (Shepherd and Zacharakis, 2001; McMillan and Woodruff, 2003; Franke et al., 2008 and Rasmussen and Sorheim, 2012). The *innovativeness* of the product or service is what differentiates it from the competence and, as a dependent variable, needs to be clearly stated. Regarding the variables of *sales forecast* and *rate of return*, there are also dependent variables of the activity proposed, which are related to the potential growth, the proprietary protection, the time of return of the investment (which preferable has to be in a term of 5 to 10 years) and to the possibility of selling the business at the end of its cycle (cashing out) (McMillan and Woodruff, 2003).



Step 4 of Valuation comprehends variables related to the alignment of interests of both parties. A clearly stated negotiation will reduce transaction costs and future opportunistic behaviours and it will boost the performance of the new activity (Ge et al., 2005; Miloud et al., 2012).

Table 9: Valuation Step in funding, categories of factors and its variables

Step of the funnel of decision-making for funding	Categories of influencing factors	Variables
4) Valuation	<i>Entrepreneur</i>	Entrepreneurial skills
	<i>Market</i>	Potential Growth
		Market size and competitiveness
		Being first to market
	<i>Product/service</i>	Inimitability of the product/service
		Manufacturing capabilities
	<i>Sustainability</i>	Water and land improvement and management
		Community development
	<i>Business Plan</i>	Management team
		Sales forecast
		Innovativeness
		Rate of returns

Source: own elaboration

Market: Again, the independent variable of the *market characteristics* and the dependent variable of the *potential growth* appear in this step. Funders conduct an in depth analysis to conclude whether the activity will be profitable or not. Also, the variable *being first to market* is a dependent one. It is a decision to take in the marketing strategy: or being first to the market or a being follower. (Hill and Power, 2002; Cateora et al., 2009).

Entrepreneur: The *entrepreneur's skills* is an independent variable that it is considered to be a resource to reduce risks (McMillan and Woodruff, 2003).

Sustainability: Rural development activities proposed by multifunctional entrepreneurs should improve, beside their economic situation, the environment, the community and the society. The variables exposed of *community development* and *land and water management* are both dependent on the activity proposed.

Business Plan: In this stage, the independent variable of the *management team* can be negotiated. The funder usually imposes the condition of including one of its members

on the team, or even to play a role in the director's board. The other three dependent variables could also be discussed in negotiations in order to adapt the interests of both parties.



Step 5 of Post-Investment comprehend one key variable: monitoring.

Table 10: Post- Investment Step in funding, categories of factors and its variables

Step of the funnel of decision-making for funding	Categories of influencing factors	Variables
5) Post-Investment	<i>Business Plan</i>	Monitoring

Source: own elaboration

Business Plan: In the business plan, the way the project will be audited and the way in which it presents regular performance measures is (or needs to) be addressed (PMBOK, 2013). *Monitoring* is an intervening variable since it influences directly the decision of the funder by stating the degree of involvement and the way the relation would be after the investment between the funder and the multifunctional entrepreneur.



Step 6 of Exit comprehend one key variable for every investment: the cash out.

Table 11: Exit Step in funding, categories of factors and its variables

Step of the funnel of decision-making for funding	Categories of influencing factors	Variables
6) Exit	<i>Business Plan</i>	Life cycle of the business

Source: own elaboration

It is important for the investors to know what would be their options to exit the investment (i.e. mergers and acquisitions, go to IPO), since it reduces the risk perception by knowing beforehand what to do at a certain point of the *life cycle of the product or service* funded (Shepherd and Zacharakis, 2001; Fürth and Rauch, 2014). The latter is therefore a dependent variable.

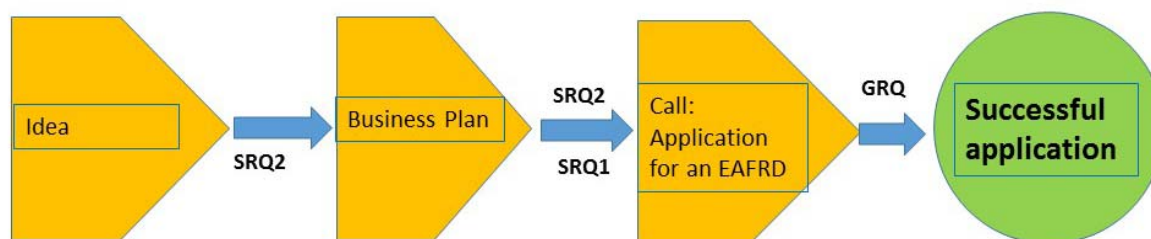
In conclusion, the six steps funnel that a funder (investor) goes through are i) Approaching, ii) Screening, iii) Selecting, iv) Valuation, v) Monitoring and vi) Exit. Within each step, several factors were identified in literature as key factors for successfully assignation of funds. This investigation compiled them into **five categories of factors: i) entrepreneur, ii) business plan, iii) market, iv) service/product, and v) sustainability.**

Following the six steps with the five categories of influencing factors will be used as basis for the construction of the conceptual framework of this research, in order to integrate and then operationalize the concepts identified in literature.

3. Conceptual Framework

The aim of this research is to gather information about the experience of the process of application for EAFRD's at the one side, and to gain understanding about the factors influencing the allocation process of the EAFRD's, at the other side. Therefore, the conceptual framework is constructed on the basis of a flow chart: from the idea of a new multifunctional activity until the approval and funding of that activity.

Figure 5: Flow chart of the process which a multifunctional entrepreneur go through to apply and get allocated an EAFRD.



In the Idea step, the influencing factors are related to the multifunctional entrepreneur and its context. As it was founded in the literature review, multifunctional farming activities are usually influenced by three aspects: the farm, the new activity and the family (Getz and Carlsen 2005). The consensus and support of the family is needed before making the next step for developing the new activity. The farm is also an important factor to be considered, not only for its location but also for its own resources and potential. Less favored areas are specifically targeted and benefited by the EAFRD's. (Rural Development Programme of Castilla y Leon, 2014-2020).

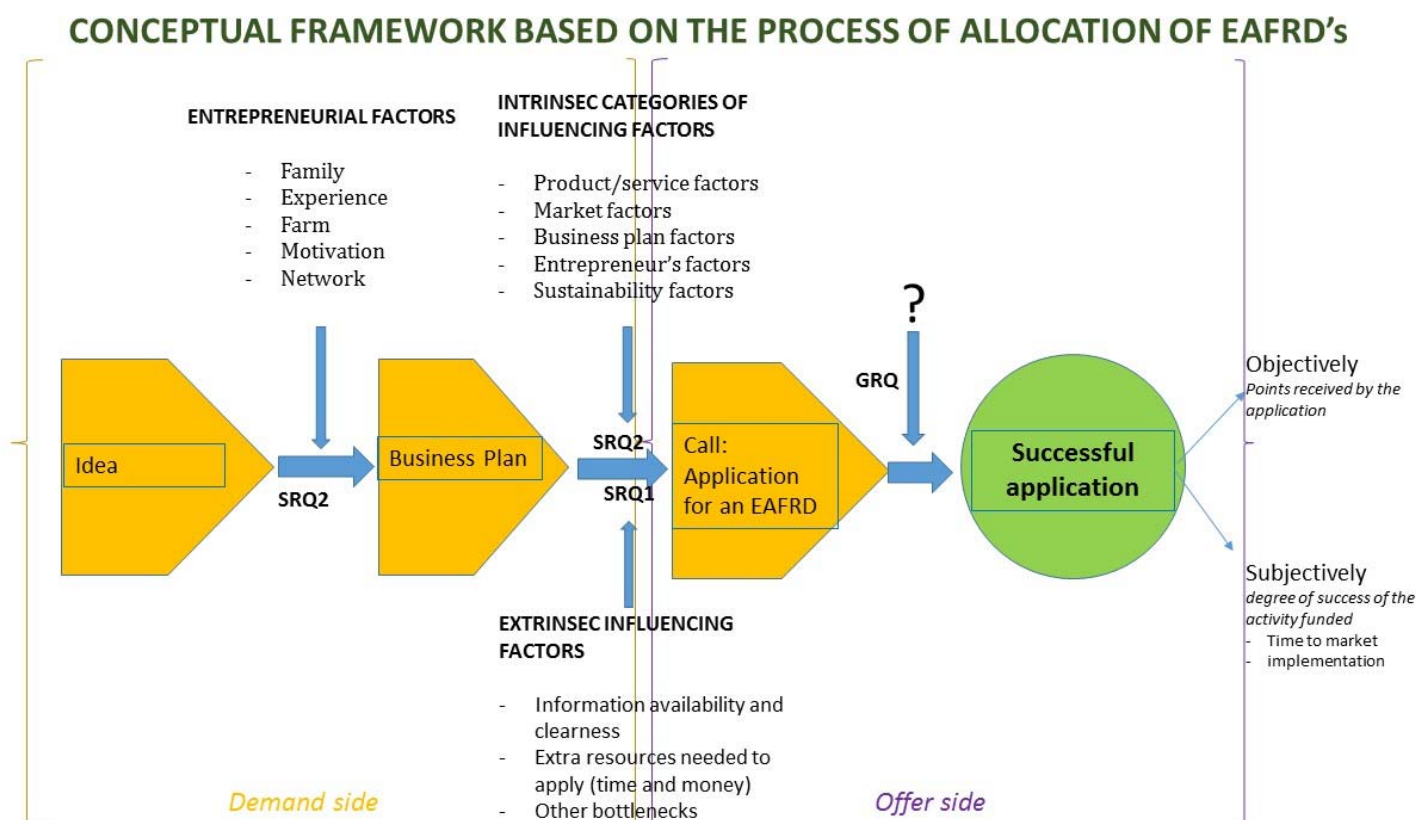
In addition, the motivation, experience, knowledge and skills of the entrepreneur are influencing factors into the flow to the next step: the Business Plan construction (Rasmussen and Sorheim, 2012; Flórez Mora, 2013).

The Business Plan step is where the idea of the new activity is transcribed to a concrete plan, contemplating the entrepreneur, market, product/service, sustainability, and business plan categories of factors, identified through the literature review (Section 2.3). Between this step and the next one, that actually comprises the application for EAFRD's funds, it can be stated that there are 'intrinsic' factors related to the activity proposed and explained in the business plan (within the mentioned factors), and 'extrinsic' factors. The latter are related to several contextual variables that are also influencing the success of the application. Among this, there can be found information and communication issues, like information availability and clearness, extra resources and time needed, and other bottlenecks that this thesis will try to identify.

Between the application step and the actual approval (or allocation of funds), there are several objective factors influencing. Those are transparently listed by the Consejería de Agricultura y Ganadería of Castilla y León in the order 'ORDEN AYG/1131/2014', published in the official newsletter of the 30th of December 2014. Among them, gender (females are more benefited), innovativeness, sustainable water management, value added to primary production and the job creation figured as key factors (Section 2.2). However, an assumption of this research is that, in addition to those 'objective' factors, there have to be more 'subjective' factors. Otherwise, just being a woman and living in a less favored area would be already enough to get the funds, no matter what activity are you proposing.

Therefore, and to conclude, hereby the conceptual framework of this research is presented (Figure 6). In the next chapter 4 (Methodology) indicators for each factor are presented and used as a basis to develop the interviews that this research uses to gather empirical information.

Figure 6: Conceptual Framework – A flow chart of the process which a multifunctional entrepreneur goes through to apply and get allocated an EAFRD, including the factors influencing it.



4. Methodology

This investigation aims to gather information about the experience of the process of application for EAFRD's at the one side, and to gain understanding about the factors influencing the allocation process of the EAFRD's, at the other side.

This study will conduct a qualitative exploratory research which will serve as a basis for future studies over the influencing factors affecting the allocation of EAFRD's for multifunctional entrepreneurial activities of young farmers.

An exploratory research comprehends the exploration of an unknown phenomena that will help researchers to gain understanding (Jupp, 2006). Its objective is to identify key factors and key variables: in this investigation, the influencing factors in the process of allocation of EAFRD's. For these reasons, exploratory researches not often provide conclusive responses to the research questions, but act as the groundwork for future investigations (Jupp, 2006)

As a methodology, the process of allocation of EAFRD's in the Castilla-Leon (Spain) region serves as a **Case Study**. In particular, within this case study, this research will investigate in depth the allocated funds of one particular measure (nr. 112) of the Castilla-Leon Rural Development Programme 2007-2013, which comprehends multifunctional entrepreneurial activities of young farmers. It requires the cooperation of both the authorities of the mentioned programme, and of the young farmers that successfully received funding. The means for study the case will be **secondary source analysis⁸ and interviews**.

Semi-structured interviews are a technique for collecting qualitative information, which aims to understand the respondent's point of view. These types of interviews are conducted by having a questionnaire with open questions to be asked when the interviewer feels it appropriate during the conversation. Therefore, the questions and the order of them will not be the same for each respondent (Berg, 2004). A questionnaire will be developed for each target group, focusing on the mentioned points that are crucial to this investigation. Preferable, interviews will be conducted in a direct, face-to-face way.

Two groups of informants' will be interviewed in order to gain the empirical knowledge needed for answer the general and specifics research questions of this investigation.. At one hand, the 'offer group, which is comprehended by the authorities in charge of the allocation of the EAFRD's in Castilla –Leon region. At the other hand,

⁸ as the Rural Development Programme of Castilla y Leon 2007-13 and 2014-2020, its midterm report (2011), and official bulletins related

the ‘demand group’, which comprises young farmers that accomplish the requirements (see section 2.2.5) and their projects were funded by the EAFRD’s in the period 2007-2013 of the Castilla-Leon programme, by applying to the measure 112. Furthermore, informants from Unions, Associations and others will be used for the empirical research.

The design of the information gathering consists on a cross-sectional study. That is to say, the information will be gathered in one point of time.

To sum up, this section aims to apply the concepts and variables integrated in the conceptual framework to build up an interview guide to be used in the empirical research.

4.1. Interviews

The goal of the interviews is to gather qualitative empirical information about the process of allocation of EAFRD’s in Castilla-Leon region, and the factors influencing it.

4.1.1. Interview protocol

Several interviews will be held personally, in the form of in-depth and semi-structured interviews. It is important to realize in-depth interviews with the rural development policy managers in Castilla-Leon in order to retrieve information from the point of view of the ‘offer’ side. Concerning the ‘demand side’, the multifunctional entrepreneurs who applied to the measure 6.1 in 2014, and to the measure 112 in the period 2007-2013 are the target informants. Several interviews will be conducted. An interview is expected to require 30 to 45 minutes per respondent.

A well-designed interview requires thought and effort, and needs to be planned and developed in a number of stages. Qualitative interviews data often gather more in-depth insights on participant attitudes (Friesen, 2010). This research will construct the

interview guides by using mostly open questions, in order to be able to explore and identify the influencing factors over the allocation of EAFRD's.

4.1.2. Informants to be interviewed

This research targets two groups of informants to be interviewed.

On the one hand, the 'offer segment', which comprehends the politicians in charge of the EAFRD's allocation in the region of Castilla y Leon. A thorough analysis of the management organization of the institution in charge – the 'Consejería de Agricultura y Ganadería' – was conducted. Then, the researcher looked into the person in charge of the evaluation of projects and allocation of funds for the measure which this investigation identified as the most entrepreneurial one: the measure 112 (period 2007-2013) and the measure 6 (period 2014-2020). Several telephonic communications were held until the researcher could reach that person. An interview in her office was conducted.

The other politicians were not interviewed because the aim of the measures with which they work with are not related to entrepreneurship in rural development. Instead, these other measures are more related to the improvement of different aspects of the production -for example, to support investments related to preventive actions aiming for the reduction of the consequences of natural disasters (measure 5.1, period 2014-2020).

At the other hand, the 'demand segment', which comprehends the beneficiaries of the measure 112 of the period 2007-2013. Again, the reasons for focusing in this group of beneficiaries was that they have an entrepreneurial approach and their projects need to be presented together with a business plan. A list of these beneficiaries was provided by the Consejería de Agricultura y Ganadería of Castilla-Leon by mail – list which is also available in the official bulletin of that institution (resolution of the 12 of February,

published the 27 of February, 2014). This list contains the names of the beneficiaries and the amount of the subsidies given, but not their contacts.

Even though those contacts were asked, due to the law ‘Ley Orgánica 15/1999’, of protection of personal data, the Consejería refused to provide them. Therefore, this researcher implement three tactics to reach them. The first one was to search the names of the beneficiaries into the Telephonic Directory through its web page. The web page asks you mandatorily to also include the province were the beneficiary lives in. Since there are nine provinces⁹, and hundreds of beneficiaries, the time needed to search for each beneficiary was way too long to actually conduct the search. The second tactic was to search for the beneficiaries by using the social media Facebook. All of them were contacted, but the number of respondents was lower than expected. Only one beneficiary was successfully interviewed by the mean of contacting him through Facebook. The third tactic was to use the method of snowballing: asking the informants for contacts of more potential informants. This was the tactic that actually worked: M, Consejería (offer group) kindly contacted six beneficiaries asking them the permission to provide me their telephone numbers. The six beneficiaries agreed on it, and were interviewed.

The fact of not having the contact information of the beneficiaries was an unexpected constrain of this research, and should be taken into account for future investigations.

4.1.3. Ethics

Regarding to the ethical aspect of the *informed consent*, the respondents of the interviews were informed beforehand about the nature of the research and their role

⁹ Provinces of Castilla y Leon region: Ávila, Burgos, León, Palencia, Salamanca, Segovia, Soria, Valladolid y Zamora

within it. The first telephonically or digital communication (email or Facebook) detailed them the aim of this investigation. In addition, the introduction of the interviews comprehended a summary of the key aspects of the research (Appendix: interview guides).

Furthermore, in the introduction, the researcher made the respondents aware that the data cannot be traced back to them, and that it won't be used outside the academic sphere. In other words, that all their identities remain *anonymous* and that the information provided is *confidential*.

The researcher also offered to *share the end investigation to the respondents*.

4.2. Method of analysis of the results of the interviews

The interviews will be firstly fully transcribed. Then, tags and categories will be included in the selected parts of the answers. Afterwards, two methodologies will be used: content analysis and recursive abstraction technique.

4.2.1. Content analysis

To analyze the gathered data in the interviews, a content analysis will be applied. In content analysis, textual and oral data sources, such as interviews are analyzed upon its relevant data mentioned. (Krippendorff, 2004). In this way the content analysis functions as a tool that enables reasoning from data to its context.

4.2.2. Recursive abstraction technique

To analyze the qualitative data gathered in the interviews, the recursive abstraction technique will be used. It compacts the data in topics in a sequence of six steps. It allows the identification of patterns within the qualitative data by compacting it in tags and categories. (Polkinghorne and Arnold, 2014)

4.3. Validity and reliability

The quality of the data gathered can be assessed on reliability and validity.

The term 'reliability' refers to the extent to which results are consistent over time and an accurate representation of the total population under study. Subsequently, if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable (Golafshani, 2003).

The level of reliability of this study is expected to be acceptable, since the conceptual framework to study the influencing factors in the allocation process of the EAFRD's was constructed by the integration of concepts taken from literature. Of course, the empirical data will always be different, but the conceptual boundaries of the information are set by the conceptual framework constructed.

'Internal validity' is described as the extent to which the structure of a research design enables to draw unambiguous conclusions from the results (De Vaus, 2001). This research begun with the identification of categories of factors obtained from literature review, and afterwards with listing variables related to the influencing factors which play a key role in the allocation process of EAFRD's for multifunctional entrepreneurial activities. By then, removing overlapping variables and not significant variables to be used in rural development funding reduces the possibility of double counts while conducting the interviews. Thus, this study is expected to have a high internal validity, permitting to arrive to reliable conclusions.

'External validity' is about the issue of knowing whether a study's findings are generalizable beyond the immediate assessment project (Yin, 2003). This research presents a low external validity. In view of the fact that the conceptual framework in which the empirical research is based on was only applied to one specific country (Spain) in one specific region (Castilla-Leon), it cannot be said that the external validity is high. If future practitioners' conduct a cross-country research using this constructed

conceptual framework comparing different countries and regions of the EU, and the conclusions are aligned, its external validity could be proved.

4.4. Limitations

The research is constrained by two main limiting conditions. Firstly, one of the limitations of this study relates to the chosen set of theoretical concepts. This applies to both the choice for the input for the framework (i.e. concepts and variables), and the framework itself. Since the influencing factors in the allocation of funds for multifunctional activities related to rural development wasn't investigated before, the framework of this research was constructed by the use of concepts of other sectors in entrepreneurship (i.e. high technology). Therefore, in the integration process to generate the conceptual framework of this research, there always exists the bias of the researcher. This framework will prove to be valid once this investigation concludes.

Secondly, due to a confidentiality law, this research could not address as many beneficiaries of the measures 112 (period 2007-2013) and 6 (period 2014-2020) of the Castilla Leon Rural Development Programme, as it would have been desirable. In order to get the contacts of the interviewed beneficiaries, snowballing technique was used as strategy. However, that technique is always biased: people tend to propose other subjects that they know well or have a good relationship. Due to this, is that the recommended persons usually share the same characteristics, what means that the researcher could obtain only a small subgroup of the entire population. (Atkinson and Flint, 2004).

5. Empirical Results and Analysis

In this section, the empirical data gathered will be presented and analysed by the use of two techniques for qualitative data analysis: recursive abstraction and content analysis.

In order to organize the information gathered, it will be structurally exposed into the steps of the process detailed previously in the conceptual framework (chapter 3.2).

5.1. Idea

The answers given are compiled and firstly presented into a table (Table 12) which includes the main influencing factors by the time of generating and developing the idea of the new activity.

The **farms** of all the beneficiaries interviewed were **family** farms, and they use the same ‘access to land’ while applying for EAFRD’s: renting the family farm. Only one beneficiary actually bought new lands, but to expand his family business. Due to the fact that the amount of beneficiaries who were interviewed is not statistically representative, it cannot be said that this is the majority of the cases. However, one point to address is that the measure of ‘incorporation of young farmers’ aims to provide the financial possibility of access to land by renting or buying (Rural Development Programme of Castilla y Leon – RDPCL). It can then be stated that it is a contradiction that the beneficiaries interviewed are accessing to land, when that land is a family asset. Moreover, the activity that all the informants proposed to do in their business plans presented was exactly the same that it had been done by the family in their farms historically. Even more, the activities proposed were for all the beneficiaries’ only one, with no integration and complementation of activities, as for example sunflower crops plus beekeeping. In a few words: no new land, no new activity, and no multifunctionality.

Table 12: Influencing factors identified in the interviews in the Step 1 (IDEA) of the conceptual and their characteristics

Step 1: IDEA							
	Beneficiary 1	Beneficiary 2	Beneficiary 3	Beneficiary 4	Beneficiary 5	Beneficiary 6	Beneficiary 7
Farm	Family-owned	Family-owned	Family-owned	Family-owned	Family-owned	Family-owned	Family-owned
Family	support	support	support	opposition at first, finally accepted the idea	support	support	support
Motivations	laboral independce, apply the knowledge gained in university	farmer's legacy, apply the knowledge gained in university	laboral independence in 'crisis' times	help the family	laboral independce, apply the knowledge gained in university and help the family	Farm legacy	Farm legacy
Difficulties				overcome the family resistance		Find lands to buy	
Facilities	farm, tractors and other inputs	farm, tractors and other inputs	farm, tractors and other inputs	farm, tractors and other inputs	farm, tractors and other inputs	farm, tractors and other inputs	farm, tractors and other inputs
Experience	yes: farmers	yes: farmers	yes: farmers	yes: farmers	yes: farmers	yes: farmers	yes: farmers
Kick off of the idea	own determination	Being informed by the association who is member about the subsidy for developing a new activity as young farmer	Being informed by the association who is member about the subsidy for developing a new activity as young farmer	Being informed by the association who is member about the subsidy for developing a new activity as young farmer	Being informed by the association who is member about the subsidy for developing a new activity as young farmer	own determination	Being informed by the association who is member about the subsidy for developing a new activity as young farmer
Newness of the activity	no: cereal cultivation	no: dairy farm	no: cereal cultivation	no: cereal cultivation	no: cereal cultivation	no: dairy farm	no: cereal cultivation

Source: own elaboration

Regarding the **motivations** of the beneficiaries interviewed, they stated that the main ones were:

i) *laboral independence*

“With the economic crisis, there are no job opportunities, and the ones which exists, doesn’t allows you to grow economically. Doing agriculture one becomes independent and generates an income which are proportional to his dedication and work.” (Beneficiary 1)

“After I graduated as an Agricultural Engineer, I was working in a cooperative of dairy products. In a matter of months, I realized that by working there or in other related jobs, I wouldn’t be able to grow economically and provide to my family what my family provides me. So I decided to change and dedicate myself to my own activity.” (Beneficiary 2)

ii) *continue their family’s legacy,*

“My family was always dedicated to their dairy farm, for more than one generation. Now my parents which were the ones who managed the farm are old and in pension. If I wasn’t to continue the farm, it would probably have to close. So my more important motivation was to continue this family legacy of being dairy producers.” (Beneficiary 6).

Another motivation was to help the family. One beneficiary (nr. 4) stated that his motivation was to help economically to his family by financing their necessary investments to increase the productivity of the farm. He planned and implemented this by applying to the EAFRD of incorporation to land and modernization of the farm. Their investments were financed by the mentioned measures and he was happy about it. Nowadays he is working with new technologies that he said have meant a breakthrough in their production and yield (and that for his parents it would have been probably difficult to use).

5.2. Business Plan

The business plan needed for applying for the measure 6.1 (old measure 112) is standard and must be made on-line. There is an on-line application which generates the business plan. Everyone can use it with a digital firm (an equivalent to the Dutch Digi ID). The reason why it is standardized was explained by one of the managers of the mentioned fund in the Castilla Leon regions¹⁰: to gain efficiency by the time of scoring the applications.

Basically, the business plan consists a financial plan (or almost a budget) and a feasibility plan, strictly on financial aspects. The items contemplated are:

- **Investments:** Description, cost, amortization, annual maintenance. It comprehends Land (buy or rent) and agricultural machinery (i.e. tractors).
- **Activity** itself like crops or livestock: type, area dedicated, benefits costs, gross margins.
- **Labour:** valued in 'unidades de trabajo' (UTA), or labour units¹¹. More than 1 UTA is needed as a requirement according to the Rural Development Program of Castilla y Leon 2014-2020. However, according to an informant in an extra-official interview in an agricultural union who manages this type of funds for their associates-, ½ UTA's is the minimum, but it gives the beneficiary with 17.500 euros maximum, instead of the maximum of 75.000 euros.
- **Feasibility Plan**
 - **General fixed costs** per UTA (salary plus social service) and per year over Land, Crops and Livestock
 - **Activity fixed costs:** amortizations of infrastructure and agricultural machinery, extra labours and others.
 - **Net Margin**

¹⁰ From now onwards the manager of the EAFRD's of the Castilla Leon region will be tagged as M.

¹¹ One UTA corresponds to a yearly full time job of 40hs per week.

- **Labour rent**
- **Indicators**
 - *actual rent / reference rent*¹² (must be more than 35% as a requirement)
 - *future estimate rent / reference rent*
 - *future estimate rent / actual rent*

Even though it is easy to use the on-line programme, the data to fill the plan is not easy to find according to some respondents, which mentioned as an example the unknown price of an agricultural machine in the second hand market (beneficiary 1). The Consejería de Agricultura y Ganadería controls that the declaration of the business plan correlates with reality and that it is feasible. Therefore, the applications are usually made by organisms who manage more and better information, and therefore are able to 'talk the same language' (M, Consejería). As examples, there can be mentioned i) Unions (i.e. ACOA), ii) Associations (i.e. ASAJA) or even iii) private intermediaries (i.e. CEDER Merindades).

All the beneficiaries interviewed received help from Associations or Unions by the time of writing the business plan. One of the beneficiaries even answer to the question *to what extent did you receive help by the time of writing your business plan?*

"I am an associate of ASAJA. In the association, they basically give you the business plan done. You go there, you say that you want this and that (like buying a tractor), and they built for you your business plan. I would say that constructing that business plan alone is very difficult, for not saying almost impossible. Simply, one doesn't count with all the information needed. We don't know a lot of details. We don't know what content they specifically ask for, how to apply, etc. For example, the feasibility

¹² The reference rent is a Spanish PBI per capita: 27907 euros.

plan it wouldn't have been possible for me to make it, and it would have been for sure insufficient to being approved by the Consejería. " (beneficiary 1)

In the Business Plan, the beneficiary basically set its own compromises, which are ultimately set by the Consejería.

"When the business plan is done, the beneficiary states a series of compromises (like buying a tractor) which are objectives that should be accomplish. Then we define a time gap to accomplish each compromise, that won't be bigger than 36 months after the approval. Only once all the compromises are accomplished, the subsidy will be paid". (M, Consejería)

While asking about what are according to M, Consejería the most **important factors** to be addressed and well detailed **in the businesses plan** presented, the answers given were:

*"Regarding **Sustainability factors**, because until now there were enough funds to allocate to all the applicants, they were not valued by the time of selecting projects. In this period we have a lower budget. So sustainable factors will become more important. Our focus will be on water management and renewable energies. All the applications which contemplate sustainability factors will be scored with less 'strictness' than for example applications for improving yields by the use of a new machine. We demand only that those sustainable projects demonstrate a minimum rent (>35% of the Reference rent of 27000 euros). Even though there were not a rent increment projected, the project should be eligible." (M, Consejería)*

*“Regarding the **team composition and its experience**, the only thing that we demand is that the applicant has a competent education. If he or she will start a production of turkeys, they should know about turkeys don’t you think? If they had not a university degree in for example agriculture, they must make the course that we provide. They have 36 month after the approval of their projects to do it. The thing is that they shouldn’t have experience in the proposed activity. They are starting something new. It is a requirement that they had never been dedicated to agriculture before.” (M, Consejería)*

*“Regarding the **market factors**, because the business plan is basically a financial and feasibility plan, the numbers included on it are of course influenced by the market. I’m talking about fluctuation of prices of crop, inputs for agriculture and livestock, etc. However, there are project which fail because even though the ‘numbers’ presented in the business plan were feasible, by the time of conducting the activity the beneficiary found himself that there were no market for his product, or that he cannot compete without making an extra investment which wasn’t contemplated at the beginning.” (M, Consejería)*

*“Regarding the **innovativeness** of the activity, it gives 5 points more of score if it is innovative of course. If it is an activity which is also sponsored by another institution, it helps. We think new activities should be promoted – others than livestock or agriculture, which are the most common activities presented to be subsidised.” (M, Consejería)*

Besides the business plan, an application should contain a description and proposal of the activity, forms and documents.

5.3. Application

The callings to apply for the measure 6.1 of “development of agricultural businesses for young farmers” are made once a year, and they are open each year for 3 to 5 months (M, Consejería). Almost all the applications are made by the intermediation of Associations or Unions who aid the beneficiaries in the process. Anyhow, regarding the application process, contrasting points of view were stated by the informants.

On the one hand, beneficiaries 1, 4, 5 and 7 described the process of application as ‘easy’ and ‘quick’.

“It is not complicated to apply. You go to the association one morning and it’s made. You say to the person in charge in the association what would you like to do, and they construct the business plan for you. The difficulties appear after the approval, by the time of accomplishing the commitments stated in the business plan.”
(Beneficiary 1)

“The application process was quick and easy. It is a lot of paperwork, but the association (ASAJA) helped me a lot to provide the documents asked for in a proper way” (Beneficiary 4)

At the other hand, beneficiaries 2, 3 and 6 described the process of application as ‘difficult’ and ‘heavy’.

“The application process was really heavy. It is a lot of paperwork, loads of documents, which for us, farmers, are not easy at all to do them as they (the Consejería) want. In my application, I had to make modifications and corrections to the business plan presented several times, even though I counted with the help of an association (ASAJA)” (Beneficiary 7)

"I had a lot of difficulties by the time of accomplishing with the documents needed for actually justifying the commitments stated in the business plan of the application. For example, for having the renting contract of my family's farm, I had to make a Limited Society with them to do it. This supposed extra expenses, time, and money which was tied, because you have to have a certain amount of money in a bank account by the time of forming a new society. If it wasn't for the help of my parents and their trustable lawyer of the village, it would have been impossible to me to do it. Then I had to make other modifications to the forms and business plan presented. These difficulties delayed my application in a significant way." (Beneficiary 2).

M, from the Consejería Agrícola, has also the opinion that the application process is not easy.

"I think that the application process is not easy. It is not difficult also, but I understand that can be difficult for a young farmer to make a business plan. A young farmer without a higher education not always has the capacity to interpret an official bulletin or other official documents from the European Union, nor also to generate a consistent business plan. The thing is that it's difficult for us to simplify the application process, because the European rules and norms are really strict and exigent, and have to be 100% accomplished. We ask the applicants to make a business plan, but we know that it is difficult for them. Due to that we created an on-line software to guide them and make our job easier (by the time of scoring the applications). However, anyway, it can be still difficult for the young farmers. Many times, what I see is that young farmers, because they are young for sure, are too impulsive and ambitious. They didn't think in a long term, so they leave a lot of 'holes' of their projects unfilled. It is then when we have to ask them to modify certain

aspects of their business plan in order to make them feasible. For example, to reduce the scale of their projects". (M, Consejeria)

After the application, it exists a period when the plan can (or need to) be modified. During this period, feedback from the Consejeria is given to the entity which applied in representation of the beneficiary. That entity, after consulting the potential beneficiary, make the pertinent modifications. This whole **'feedback' phase** lasts 2 month (M, Consejeria). Afterwards, the verification process starts in the Consejeria.

Fundamentally, all the applications are approved. However, after the feedback period comes a **verification phase**, where approximately 5% of the projects are rejected (M, Consejeria). The main causes of rejection are two: i) the requirements of the beneficiaries are not fully accomplished and 2) the business plans presented are not feasible even after the modifications asked in the feedback process *"due to for example, unreal numbers"* (M, Consejeria).

Afterward, the applications are scored. In the **scoring phase**, the items exposed in the table 4 in section 2.2.7 are taken into account. For example, an innovative project scores 5 points. A doubt that this researcher had and asked to M, Consejeria was when an application received 3 points instead of 5. The answer is that the scores are absolute. *"It is white or black, or it receives 0 or it receives 5 points"*. Depending on the score achieved, the applications receives more or less funds.

The beneficiaries don't know the score of their applications. It was asked to M, Consejeria why they don't communicate it, because it could be part of a learning process for the applicants for future fund requests. They communicate if the business plan was approved or not. The answer given was not clear, but it can be interpreted that for the Consejeria it can be an extra task that they wouldn't want to do, because from the score feedback, appeals can arise.

The **time spent from the moment to start making the application paperwork until it is approved** was asked among the beneficiaries. Most of the beneficiaries stated

that it last 4-5 months until they received the approval confirmation. However, in two cases (beneficiary 2 and 7), it lasted 8 and 12 month respectively. The mentioned beneficiaries were the ones that had to make several modifications to their business and feasibility plans. Therefore, if the applications are solid and well made, 4 to 8 month can be saved in the process. It supposes a big saving of time for the new farmers, which could have already started their activities in that time lost.

Once the applications are approved, the Consejería provided them a list of commitments with specific time goals to accomplish them. The beneficiaries have 14 month to accomplish every commitment demanded by the Consejería (M, Consejería). Also, they have to accomplish a capacitation course within the 36 month after the approval.

The commitments are justified by the presentation of bills basically, which are then monitored by an employee of the Consejería who goes to the farm to confirm that the beneficiary is effectively accomplishing the commitments stated. After the completion and control of the commitments, the payment is activated. It can take up to 3 years to be transferred to the beneficiaries.

“You commit to do what you state in the business plan. Once you did it, you present the bills and they (the Consejería) will come to the farm to check it. Afterward they will pay you. In my case it took another one and a half years to get paid.” (Beneficiary 1).

“Once you present the bills and they visit the farm to check if what you said is true, they should pay. But the payment is really delayed. Here is when the biggest problem of this measure arise: one has to finance every investment before actually getting paid. Now (2015) it is better, but when I applied to this subsidy in the peak of the crisis (2011), it was difficult and expensive to be financed by banks. If your family can’t help you, you don’t have another choice. I invested a lot and I had to wait 3 years to

get paid. (...) Agriculture activities gives you income once a year here, so making a living in that period becomes really difficult.” (Beneficiary 2).

Objectively, all the applications were successful, meaning that all of them accomplished their planned commitments’. The beneficiaries, basically, don’t have another choice, or they accomplish or they don’t receive the subsidy.

Subjectively, even though all the beneficiaries showed satisfactory results in their activities, by the time of implementing what they planned they found a huge constrain: funding.

All of the applicants complain about the payment method. All of them stated that these were difficult years. They were financially tied. As one of them said: *“I was with the rope around my neck until I received the payment of the subsidy”*. All of them were also very critical about this.

“I think that the way this subsidy is organized, it favours the banks more than the farmer. The interest rates are too high. At the end, you end up spending more than what you received.” (Beneficiary 1).

“In my opinion, the method of payment is wrong. They should give you at least a part of the subsidy at the beginning to actually help you to install as a new farmer. Of course, if then you didn’t accomplish your commitments you should return that money. But in this way you don’t have to be involved in credits and huge debts, which suppose a big risk. To ask a loan in the bank, the approval of the subsidy is not warrant enough for a bank. So you also have to put as warranties assets of your family, which suppose a big risk and a huge burden for yourself. I was really stressed until I got paid” (Beneficiary 6)

One informant of a Union stated that 90% of the young people who apply for this measure 6.1 receives funds from their families, and invest the subsidy given in their own family's farm (V, COAG union).

Asking M, Consejería about the financial problem discovered, she agreed upon that. Because the norms and rules are regulated by the EU, they cannot provide 'advances' of the subsidies. She is of the opinion that advancing part of the subsidy can help the beneficiaries with their financial issues. But it is simply not possible. So what the Consejería did for this period 2014-2020 is to combine the measure 6 with the measure 4 of modernization of farms. In this way, and through the measure 4, they can give a loan or an advance payment to the beneficiaries. It is all what they can do, she stated.

It is in this **implementation phase** were approximately 10 % of the projects failed for not being able to achieve what they planned to accomplished (commitments). The main reason is again funding: *"if they weren't able to get a loan from the family or a bank, they didn't have enough resources to do what they said to do"* (M, Consejería).

The last control that the Consejería makes is done in the 5th year after the presentation of the application. A controller from that institution goes to the farm to check that the activity is ongoing. It is a requirement to commit to develop the activity planned for 5 years minimum. (M, Consejería).

One item that arose during the interviews which is important to point out is that none of the beneficiaries knew to which measure they applied. This happened because they all applied being represented by the associations and unions. That is to say, those organizations intermediate for them. The fact that they don't know to which measure of the EAFRD they are applying make this researcher to conclude two things. Firstly, that those intermediary organisms are not sharing all the information (information asymmetry). Secondly, that the beneficiaries are led by those institutions to apply, more than having the initiative of searching for potential sources of funds.

6. Conclusions

This chapter concludes on the results and analysis of collected data and provides the answer to the general research question:

Which factors play a key role in the allocation process of European Agricultural Funds for Rural Development for multifunctional entrepreneurial activities?

Before answering the general research question, the answers to the specific research questions (SRQ) will be presented. These specific research questions were investigated in order to gain knowledge to be used as insights for the general research question. Due to the fact that this investigation was based on the research of the factors influencing one particular process (the allocation of EAFRD's), a flow chart was developed to study each particular link between the steps of the process (figure 5), and to gain specific knowledge to answer the SRQ's.

SRQ 1: How is the process of allocation of funds for rural development cofinanced by the EAFRD's in Castilla-Leon, Spain?

The allocation of EAFRD are assigned for all the applicants who accomplish the requirement. Within the measure 6.1 of 'development of new activities for young farmers', the basic requirements are i) being younger than 40 years, ii) starting an agricultural activity for the first time, iii) accomplish the formation course within 36 months after the approval of the application.

The callings to apply for the measure investigated (6.1) are made annually and they remain open for 3 to 5 month. After the application is presented, four phases were identified.

Firstly, a feedback phase, where the institution managing the EAFRD's make the first review over the business and feasibility plan presented, and request, if necessary, modifications to them to accomplish their particular and regional requirements. These requirements change from region to region and from country to country within the EU. This phase last 2 months.

Secondly, there is a verification phase, where after the corrections asked to the beneficiary or its intermediary (associations, unions or private intermediary), the institution managing the EAFRD's (Consejería de Agricultura y Ganadería of Castilla-León, in the case studied) check that the business and feasibility plans accomplish their goals set. It is in this phase where 5% of the applications presented in the year failed because they didn't accomplish the requirements.

Thirdly, the scoring phase starts. The applications are scored objectively following pre-set aspects which scores in an absolute form: or 0 or 5 points in the case studied. The applications with a bigger score basically gets more funds than the rest. Some of the aspects valued are: i) innovativeness, ii) gender (females get 5 more points), iii) area of the activity (if it is a less-favourable area like a mountain area it receives 5 more points), and iv) job creation, among others. Is in this phase where the applications get approved or disapproved.

Fourthly and finally, the implementation phase, where the beneficiaries must accomplish the commitments planned and then set by the managing institution within 14 month after the approval. The justifications of their commitments are made by the presentation of bills of their investments, and by a checking of an official controller who visits the farm of the beneficiary. Once the commitments are accomplished, the payment of the subsidy gets activated. The payment can be delayed up to 3 years after that moment. Afterwards, there is a last control 5 years after the application for the subsidy given by the measure 6.1 of the EAFRD's, to check if the activity is still ongoing, since it is a requirement to compromise the activity proposed at least for 5 years. It is in this phase where approximately 10% of the projects failed for not being able to find the funds to invest.

SRQ 2: Which factors may influence in the application process for funds to develop a new activity?

The preliminary integration presented in the section 2.3.3 about the influencing factors by the time of requesting funds for new activities related to rural development was organized based on the six steps of decision-making that funders usually go through (Ge et al., 2005). Within each step, the factors found in the literature study were compiled in five categories. For each category of factors, variables were identified.

Five categories of factors influencing the application process for funding new activities related to rural development were found in literature and then confirmed through empirical evidence. These categories are i) Entrepreneur, ii) Business Plan, iii) Product/Service, iv) Market, and v) Sustainability. Within each category, several variables were identified.

The integration of the categories of factors and their variables is illustrated in the table 13, providing an answer for sub question two:

Table 13: integration of concepts identifying influencing factors for requesting funds for rural development cofinanced by the EAFRD's.

Categories of Factors	Variables
<i>Entrepreneur</i>	Experience, knowledge and skills
	Confidence and passion
	Gender
	Network
	Age
	Determination of the most suitable investors
<i>Business Plan</i>	Sales forecast
	Innovativeness
	Management team
	Monitoring
	Life cycle
	Rate of returns
<i>Market</i>	Potential Growth
	Market size and competitiveness
<i>Product/service</i>	Access and time to market
	Inimitability of the product/service
	Manufacturing capabilities
<i>Sustainability</i>	Sustainable water and land management
	Community development

Source: own elaboration

GRQ: Which factors play a key role in the allocation process of European Agricultural Funds for Rural Development for multifunctional entrepreneurial activities?

In order to answer the general research question of this investigation, the categories of influencing factors by the time of requesting funds for new activities related to rural development found in literature will be contrasted to the influencing factors identified in the empirical research.

The categories of factors are analysed separately in order to provide a better understanding of its variables, and the way those variables seems to influence the EAFRD's allocations.

Category of factors 1: Entrepreneur

The **network** of the entrepreneur is a success factor by the time to apply to an EAFRD. The affiliation of the entrepreneur to agricultural associations or unions seems to be a key aspect, since these institutions act as intermediaries. That intermediation is apparently essential because it mitigates two issues that face every entrepreneur when looking for funds: information asymmetry and moral hazard (Denis, 2004).

The **age** is also crucial, since only applicants younger than 40 years have access to reservoir rights and supplements of their direct payments (of the first pillar of the CAP, 25% more annual payments per right, M. Consejería) and to a special measure of EAFRD, which is the ones that this investigation studied: the measure 6.1, of 'development of new activities for young farmers'.

The female **gender** is favoured by the time of applying for EAFRD's, because the CAP understands, based in the fact that the population of females in the rural areas is a minority (European Commission, 2014) that the rural population of women should be promoted. In the applications for EAFRD's, woman score 5 points more than man.

For applying to the measure 6.1 of 'development of new activities', young farmers should not have any **experience**. Yes they should have or acquire theoretical **knowledge**: an agricultural related university degree, or attend to a course. Also, these two factors do not provide any score. Therefore, it can be said that **experience** and **knowledge** are not factors of success in the applications for EAFRD's.

Confirming what was previously concluded by Getz and Carlsen (2005), multifunctional farming activities are indeed influenced by three aspects: the **farm**, the

new activity and the **family**. Within the interviewed beneficiaries, all of them receive economical support from their families and also started an activity in their family farms.

The **motivation** of the entrepreneur make him/her proactive to look for funds for new activities and is valued by the investors (Flórez Mora, 2013). Usually, the associations or unions are the ones distributing the information related to the callings to the EAFRD's. Their role in the diffusion of subsidies is not being active, but passive: they only inform about the callings when people specifically ask them. Therefore, if the entrepreneur is motivated, he will go to inform about possible funds for which he can apply to his/her association or union.

Category of factors: Business Plan

A key factor of success to be selected to get funds is basically a well presented business plan (Mason and Stark, 2004; Barringer, Ireland, 2008, Informant M, Consejería).

Regarding the **management team**, for the EAFRD related to the development of new activities (measure 6), this is not an important criteria, since the requirements is that the applicant is a sole person who wants to install its first activity in rural areas.

With reference to the **return of the investment**, for the measure studied by this investigation, it is not a requirement. The only requirement asked is that the **life cycle of the activity** last at least for 5 years. Also, if this activity **generates** a permanent **job** position, it scores 7 points more.

The **sales forecasts** is a factor which is also valued by the Managing Institution of the EAFRD's. This institution actually asks as a requirement for applying a feasibility plan in which there has been detailed not only the sales forecasts, but also the expenses and investments, and expected net margins.

Concerning the **monitoring** of the implementation of the activity, the Managing Institution of the EAFRD's usually conducts two monitoring stages. The first one is within 9 month after the approval of the application for the subsidy, which consists in verifying the bills and documents where the beneficiary justified to have accomplished what he committed to and check it on the farm. The second monitoring stage is conducted in the 5th year, to check that the activity funded is still ongoing as it should.

Category of factors 3: Market

The **market size and competitiveness** not only can influence indirectly the success of the new activity (M, Consejería), but also, influences in a direct way the scoring of the applications of the EAFRD's.

One of the direct influencing factors that the managing institution values about the Market category of factors is the **Place**: If the project will be conducted in a 'less favourable' or 'mountain area', it scores 5 points more.

The other direct influencing factors is the **alignment of the new activity of young farmers with the strategic sectors** of the regional Programmes of Rural Development of the different countries of the EU. To be aligned means 7 points more.

Category of factors 4: Product/Service

Concerning the product or service proposed by the new activity, the **innovativeness**, is an important and direct influencing factor in the allocation of EAFRD's: an innovative business plan scores 5 more points (M, Consejería). Moreover, if it is projected to add value to primary production, it scores 5 more points.

The **quality differentiation** was found through the empirical research to be another important and direct influencing factor. Protected designations of origin (PDO's) and

other labels like the organic ones are being promoted and provide 5 more points to the final score.

At the contrary, the **manufacturing capabilities** do not affect the allocation of EAFRD's. It is not taken into account by the managing institution of the EAFRD's, even though M, Consejería, stated that sometimes the scale projected is too big and ambitious to be accomplished in the terms the subsidy asked.

Category of factors 5: Sustainability

Water and land management is highly promoted in the new period of the CAP 2014-2020. New activities which comprehend these aspects could be subsidised even if the plan is not profitable in financial terms, on solely demonstrating its environmental benefits (M, Consejería). Projects in which the business plan shows a clear contribution to the efficiency of water management particularly, scores 7 more points.

Community development factors intended as promotion of local economies', networking between different parties, involvement in educational activities, etc., are subjectively preferable by the managing institutions of the EAFRD's (M., Consejería).

Final Answer to the General Research Question

By contrasting the factors and concepts identified through the literature review and the empirical data gathered through interviews, a conclusive integration of the influencing factors in the allocation process of an EAFRD for multifunctional entrepreneurial activities was made. Table 14 presents in a schematic way the final answer to the general research question:

Table 14: Most influential factors in the allocation process of an EAFRD for multifunctional entrepreneurial activities

Factors	Variables	Type of effect	Influence over the EAFRD's allocation
<i>Entrepreneur</i>	Gender	Direct	Female is benefited with 5 more points in the scoring of their applications
	Family	Indirect	Family's moral and financial support showed to be important by the time of development new activities as young farmer.
	Farm	Direct	Even though the measure 6.1 aims to help young people to access to land, the empirical evidence gathered shows that having the family's farm helps the applicants to allocate the funds of the subsidies in other investments as machinery.
	Network	Indirect	The belonging, representation and intermediation of an association or union shows to be an important variable.
	Age	Direct	young people (less than 40) has more benefits.
<i>Business Plan</i>	Feasibility	Direct	The business plan must be financially feasible and profitable.
	Net margin	Direct	the net margin must be at least 35% of the GDP per capita in Spain (27.000 euros)
	Job creation	Direct	If new jobs are created the application is benefited with 5 more points in its score
	Monitoring	Direct	Once the commitments of the young farmers who applied for funds for developing new activities are achieved, there is a control made by the managing institution. Also, five years after the application that institution controls that the activity continues.
<i>Market</i>	Place	Direct	If the project will be conducted in a 'less favourable' or 'mountain area', it scores 5 points more.
	Alignment with regional strategic sectors	Direct	The alignment of the new activity of young farmers with the strategic sectors of the regional Programmes for the EAFRD's scores 7 points more.
<i>Product/Service</i>	Innovativeness of the product/service	Direct	Innovative products or services scores 5 points more. It is considered innovative if it is sponsored and supported by a third institution
	Quality differentiation	Direct	It has been promoted the quality labels of regions and denominations of origins. Furthermore, organic labelings are being promoted and give 5 more points to the final score.
<i>Sustainability</i>	Water and land management	Direct	Projects in which the business plan shows a clear contribution to the efficiency of water management particularly, scores 7 more points. Furthermore, projects with a sustainable water and land management could be subsidised even if the plan is not profitable in financial terms, but if demonstrate its environmental benefits (M, Consejería).

Source: own elaboration

7. Discussion

In the economic crisis faced by the European Community by the time of writing this investigation (2015), an unexpected phenomenon is occurring: young people are coming back to the rural areas (Van der Ploeg, 2009). One of their biggest motivations is to being able to live from what they work. This type of live is by definition more austere: in rural areas there are less services and less consumerism.

The motivations of young people for coming back to the rural areas are actually in contrast with the consequences of requesting an EAFRD through the measure 6.1 for developing new activities in those areas. If they want to start an activity, they have to loan a significant amount of money. Making an average of what the interviewed beneficiaries invested and what the informants commented, the commitment's investments are between €30.000 and €50.000.

So actually once their applications to this EAFRD are approved they are already in debt. Until they don't accomplish everything what they commit to do (funding their investments in the way they find and can), the payment of the subsidy is not activated, and when it is, it can take up to 3 years to be transferred to the beneficiary. Therefore, the young entrepreneurs end up with big debts for several years, while the objective of this measure is to support them. Taking into account that agricultural activities usually generates income only once a year, and the beneficiary should not have other dedications (nor other incomes), it can be said that this is not a 'comfortable' way to start up a new activity in a rural area. Of course, these arrear several risks. Three main risks can be mentioned.

Firstly, when their parents cannot fund the beneficiaries, they have to look for other sources of funds. The main one identified by this research is banks. Banks require not only the approval of their applications to the EAFRD's, but also other warranties. Who applies to this measure for access to land being younger than 40 years, usually doesn't have any assets to declare as warranties. So they have to declare their family's or friend's assets. To sum up, other's assets are risked by the time of taking a loan in a

bank, when the purpose of this particular EAFRD's is to facilitate the young entrepreneur who wants to develop a new activity in rural areas.

Secondly, to loan money has its costs. The interest rate is perceived in Spain as 'really high' among the interviewed beneficiaries. Those interests can have up to two digits (Beneficiary 3). Therefore, the cost of the capital ends up being higher than the subsidy perceived.

Thirdly, the applicants, young entrepreneurs, do not (or should not) have any experience in the field of the activity proposed (M, Consejería). Even though they have to make a course to accomplish the requirements of the measure, they do not have the experience nor the practice for developing satisfactorily the activity proposed at the beginning. These means that their overall productivity will be expected to be low in the first years.

These risks can only be reduced by having financial support from the family and friends, by having access to the land and by having knowledge of the activity proposed. It is because of these that the applicants are mainly sons of farmers (90% according to the informant V. from the union Coag).

Therefore, the majority of the beneficiaries of this measure are not 'accessing to land', as its main goal is. The beneficiaries interviewed were all sons of farmers, and all of them were 'renting' the land to their parents. However, these subsidies are actually being used to modernize and increment the production of the family farms.

What's more, the activities of the beneficiaries interviewed showed no innovation at all. They are all continuing the activities that their parents were developing (e.g. cereal cultivation and dairy in the interviewed beneficiaries). The exemplar activity case provided in the Mid Term Report of the Castilla y Leon Programme (2010) is a rabbit production. It shows the existing lack of innovativeness. According to M., Consejería, and the Mid Term Report, this case was exemplar for being two woman who form a society and generate one extra permanent job. But the activity produces only rabbits for meat. Nothing else. It is not the case of an integrated production which is for example

using all the potential products which can come from rabbits, like pheromones from the pee to make perfume, the leather, meat, fertilizers from their excrements, etc. To sum up, no innovation was found by this researcher in any of the activities studied and no multifunctionality is being promoted.

The business plan required by the measure 6.1 was standardized and an online application was developed in order to make the applications easier for the applicants on the one hand, and at the other hand, to facilitate the scoring of those applications to the managing institution. However, the applications are being monopolized by intermediaries, mainly associations, unions and private parties (even though the beneficiaries only need to get access to the online application through their digital firm). It seems that these intermediaries have certain information that an applicant cannot get access to. Two of the interviewed beneficiaries declare that they went to the association ASAJA and say “I have x amount of land, I would like to grow wheat, and I need to buy this and that machinery to improve the efficiency and the yield”, and the association made the business and feasibility plan in the moment. However much experience you have in making a business plan, it cannot be done ‘instantly’. There has to be a kind of ‘standardized’ information¹³ that the intermediaries shared with the managing institutions and allows them to be so quickly. Three other interviewed beneficiaries stated that they don’t have the information needed to build the business and feasibility plan asked by this measure. The information should be (and supposed to be according to EU regulations) open and shared to avoid information asymmetries.

A last point of discussion about what was investigated in this thesis, is that it seems that the young entrepreneurs who want to start an activity in rural areas are obliged to apply to the measure 6.1. In order to have the possibility of access to direct payments from the 1st pillar of the CAP, the young entrepreneurs have to ask to the National Reservoirs ‘reservoir rights’. The thing is that to ask for those Reservoir Rights, they

¹³ That is to say, for example: average yield of crops by region, price of those crops, and average price of lands (both for rent or buy).

must have the application for that measure approved. Therefore, in order to not lose a lot of other potential subsidies from the CAP (which the beneficiaries stated are really important for them to make a living), their only way that they have is to apply to that measure, meaning a big investment that in many cases it can be said it wasn't contemplated beforehand. To sum up, if the young entrepreneurs do not apply to the measure 6.1, they cannot ask Reservoir rights, meaning that they are losing a lot of capital which is given annually by the pillar 1 of the CAP, indeed, for supporting new and young farmers. It can be seen as a trap of the subsidy system. The new farmers seems to be obliged to start investing 30 to 50 thousand euros if they want to receive those subsidies.

8. Recommendations for future research

This investigation opens the doors of two main future lines of research.

The first one is related to a cross-country study. By applying the framework constructed in this thesis to investigate the influencing factors in the application and allocation of EAFRD in different countries of the European Unions, it can be found if there are similitudes or differences from region to region and from country to country in the way these funds are managed. These cross-country investigation can solid base to conduct a critic effectiveness evaluation of the 2nd Pillar of the CAP. Moreover, it could provide evidences of how cultural heritages can influence the way those funds are managed, which is an interesting knowledge from future programmes of rural development at all level: European Union, National and Regional.

The second line of research is related to create a profile of the beneficiaries of the measure 6 for young multifunctional entrepreneurs in as many countries of the EU as possible. This knowledge would serve to answer critical questions like i) are the majority of the young applicants sons of farmers or it is happening that people without any background are getting incorporated to agriculture? Furthermore, this knowledge

could be used by the European Commission to 'fine-tune' future programmes, since its main declared aim is to be focused more and more in young farmers and small farms and start up activities.

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9. Appendix

Budget of pillar 2 (EAFRD) of the CAP, per Member State per year, period 2014-2020

Table 15: budget of the second pillar of the CAP 2014-2020 per country per year.

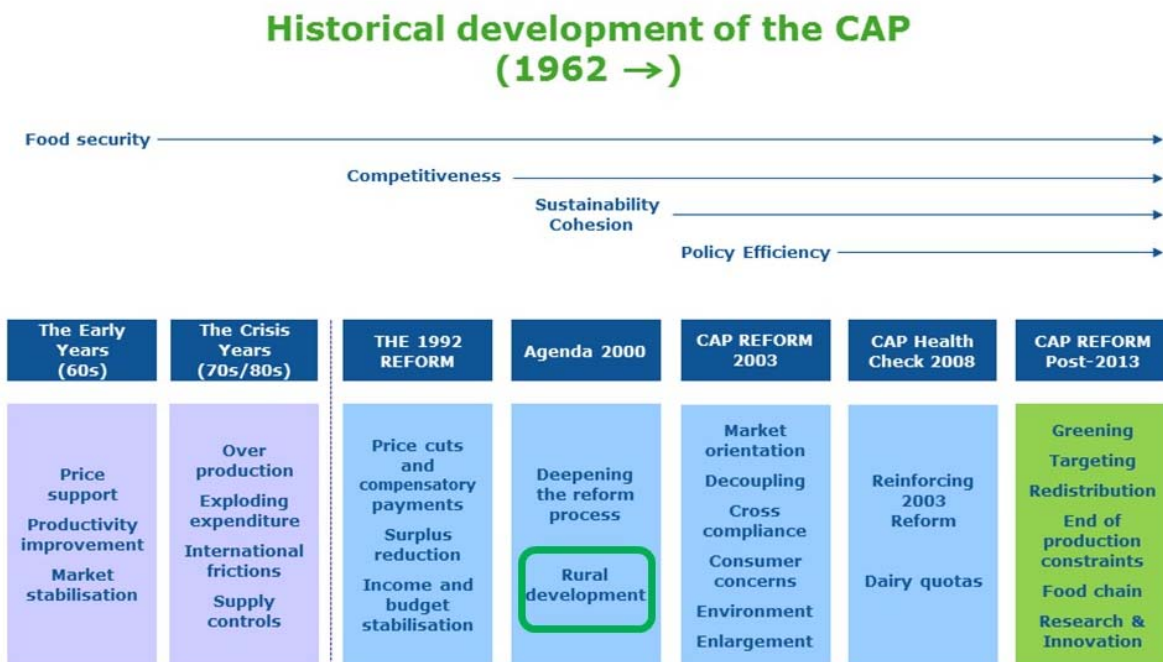
(current prices in EUR)

	2014	2015	2016	2017	2018	2019	2020	TOTAL 2014-2020
Belgium	78 342 401	78 499 837	78 660 375	78 824 076	78 991 202	79 158 713	79 314 155	551 790 759
Bulgaria	335 499 038	335 057 822	334 607 538	334 147 994	333 680 052	333 187 306	332 604 216	2 338 783 966
Czech Republic	314 349 445	312 969 048	311 560 782	310 124 078	308 659 490	307 149 050	305 522 103	2 170 333 996
Denmark	90 287 658	90 168 920	90 047 742	89 924 072	89 798 142	89 665 537	89 508 619	629 400 690
Germany	1 178 778 847	1 177 251 936	1 175 693 642	1 174 103 302	1 172 483 899	1 170 778 658	1 168 760 766	8 217 851 050
Estonia	103 626 144	103 651 030	103 676 345	103 702 093	103 728 583	103 751 180	103 751 183	725 886 558
Ireland	313 148 955	313 059 463	312 967 965	312 874 411	312 779 690	312 669 355	312 485 314	2 189 985 153
Greece	601 051 830	600 533 693	600 004 906	599 465 245	598 915 722	598 337 071	597 652 326	4 195 960 793
Spain	1 187 488 617	1 186 425 595	1 185 344 141	1 184 244 005	1 183 112 678	1 182 137 718	1 182 076 067	8 290 828 821
France	1 404 875 907	1 408 287 165	1 411 769 545	1 415 324 592	1 418 941 328	1 422 813 729	1 427 718 983	9 909 731 249
Croatia	332 167 500	332 167 500	332 167 500	332 167 500	332 167 500	332 167 500	332 167 500	2 325 172 500
Italy	1 480 213 402	1 483 373 476	1 486 595 990	1 489 882 162	1 493 236 530	1 496 609 799	1 499 799 408	10 429 710 767
Cyprus	18 895 839	18 893 552	18 891 207	18 888 801	18 886 389	18 883 108	18 875 481	132 214 377
Latvia	138 327 376	138 361 424	138 396 059	138 431 289	138 467 528	138 498 589	138 499 517	968 981 782
Lithuania	230 392 975	230 412 316	230 431 887	230 451 686	230 472 391	230 483 599	230 443 386	1 613 088 240
Luxembourg	14 226 474	14 272 231	14 318 896	14 366 484	14 415 051	14 464 074	14 511 390	100 574 600
Hungary	495 668 727	495 016 871	494 351 618	493 672 684	492 981 342	492 253 356	491 391 895	3 455 336 493
Malta	13 880 143	13 965 035	14 051 619	14 139 927	14 230 023	14 321 504	14 412 647	99 000 898
Netherlands	87 118 078	87 003 509	86 886 585	86 767 256	86 645 747	86 517 797	86 366 388	607 305 360
Austria	557 806 503	559 329 914	560 883 465	562 467 745	564 084 777	565 713 368	567 266 225	3 937 551 997
Poland	1 569 517 638	1 567 453 560	1 565 347 059	1 563 197 238	1 561 008 130	1 558 702 987	1 555 975 202	10 941 201 814
Portugal	577 031 070	577 895 019	578 775 888	579 674 001	580 591 241	581 504 133	582 317 022	4 057 788 374
Romania	1 149 848 554	1 148 336 385	1 146 793 135	1 145 218 149	1 143 614 381	1 141 925 604	1 139 927 194	8 015 663 402
Slovenia	118 678 072	119 006 876	119 342 187	119 684 133	120 033 142	120 384 760	120 720 633	837 849 803
Slovakia	271 154 575	270 797 979	270 434 053	270 062 644	269 684 447	269 286 203	268 814 943	1 890 234 844
Finland	335 440 884	336 933 734	338 456 263	340 009 057	341 593 485	343 198 337	344 776 578	2 380 408 338
Sweden	248 858 535	249 014 757	249 173 940	249 336 135	249 502 108	249 660 989	249 768 786	1 745 315 250
United Kingdom	371 473 873	370 520 030	369 548 156	368 557 938	367 544 511	366 577 113	365 935 870	2 580 157 491
Total EU-28	13 618 149 060	13 618 658 677	13 619 178 488	13 619 708 697	13 620 249 509	13 620 801 137	13 621 363 797	95 338 109 365
Technical assistance	34 130 699	34 131 977	34 133 279	34 134 608	34 135 964	34 137 346	34 138 756	238 942 629
Total	13 652 279 759	13 652 790 654	13 653 311 767	13 653 843 305	13 654 385 473	13 654 938 483	13 655 502 553	95 577 051 994

Source: European Commission, 2014.

Historical development of the CAP: 1962-2020

Figure 7: Historical development of the CAP: 1962-2020



Source: European Commission, 2014.

Measures prioritized by the 2nd Pillar of the CAP for the period 2014-2020.

Table 16: Priorities and focus-areas of the EAFRD 2014-2020.

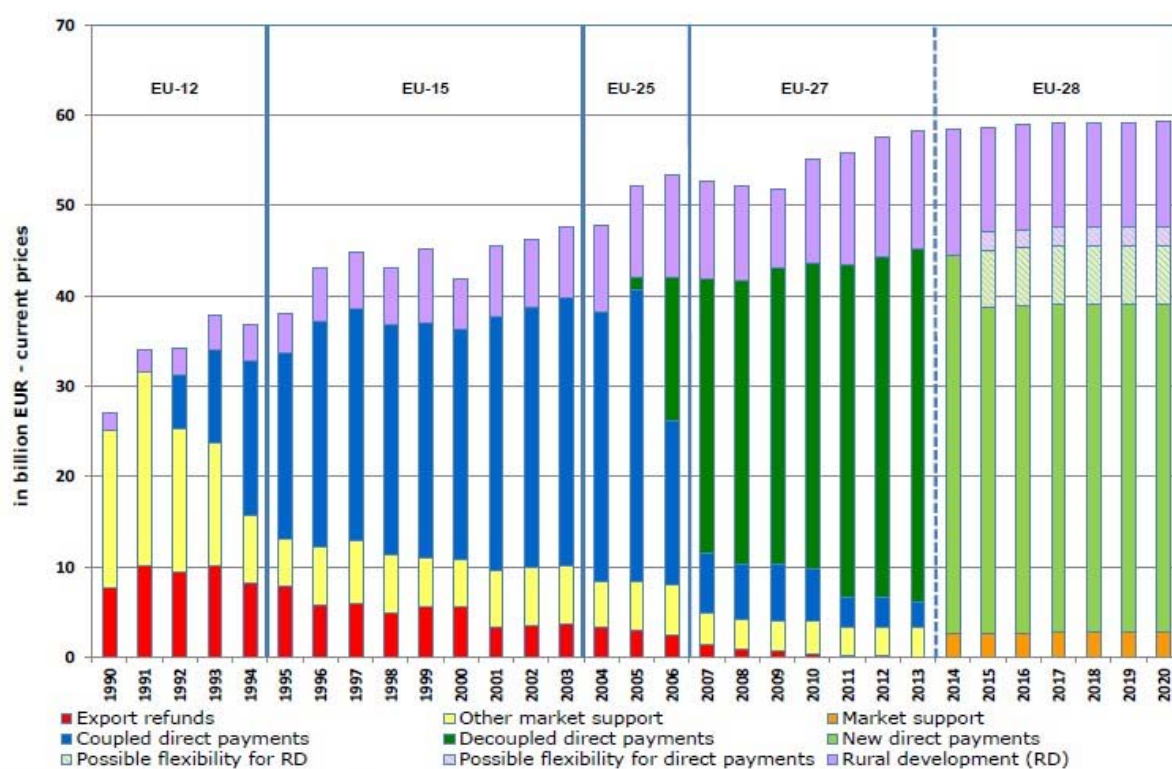
PRIORITIES	FOCUS -AREAS
1. Fostering knowledge transfer and innovation in agriculture, forestry, and rural areas	1) Fostering innovation, cooperation, and the development of the knowledge base in rural areas;
	2) Strengthening the links between agriculture, food production and forestry and research and innovation, including for the purpose of improved environmental management and performance;
	3) Fostering lifelong learning and vocational training in the agricultural and forestry sectors.
2. Enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and sustainable management of forests	4) Improving the economic performance of all farms and facilitating farm restructuring and modernisation, notably with a view to increase market participation and orientation as well as agricultural diversification;
	5) Facilitating the entry of adequately skilled farmers into the agricultural sector and, in particular, generational renewal.
3. Promoting food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture	6) Improving competitiveness of primary producers by better integrating them into the agri-food chain through quality schemes, adding value to agricultural products, promotion in local markets and short supply circuits, producer groups and organisations and inter-branch organisations;
	7) Supporting farm risk prevention and management.
4. Restoring, preserving and enhancing ecosystems related to agriculture and forestry	8) Restoring, and preserving and enhancing biodiversity, including in Natura 2000 areas, areas facing natural or other specific constraints and high nature value farming, and the state of European landscapes;
	9) Improving water management, including fertiliser and pesticide management;
	10) Preventing soil erosion and improving soil management.

5. Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors	11) Increasing efficiency in water use by agriculture;
	12) Increasing efficiency in energy use in agriculture and food processing;
	13) Facilitating the supply and use of renewable sources of energy, of by-products, wastes, residues and other non-food raw material for purposes of the bio-economy;
	14) Reducing greenhouse gas and ammonia emissions from agriculture;
	15) Fostering carbon conservation and sequestration in agriculture and forestry;
6. Promoting social inclusion poverty reduction and economic development in rural areas	16) Facilitating diversification, creation and development of small enterprises and job creation;
	17) Fostering local development in rural areas;
	18) Enhancing accessibility to, use and quality of information and communication technologies (ICT) in rural areas.

Source: own elaboration over European Commission, 2014.

Evolution in the assignation of all the funds of the CAP. Period 1990-2020

Figure 8: Evolution in the assignation of all the funds of the CAP. Period 1990-2020



Source: DG Agriculture and Rural Development

Interview guide: offer side managers of the EAFRD in Castilla-Leon region, Spain

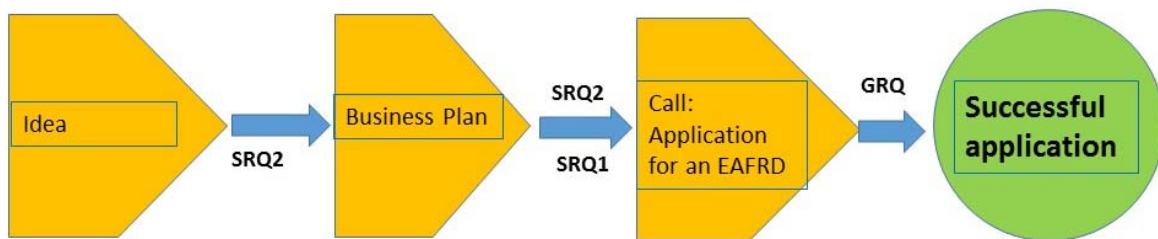
Hello, my name is Santiago Lusquinos. This interview is conducted under my Master Thesis of Management of Life Science at Wageningen University, The Netherlands.

This investigation aims to gather information about the experience of the process of application for EAFRD's at the one side, and to gain understanding about the factors influencing the allocation process of the EAFRD's, at the other side.

The information hereby detailed is confidential and your contribution is anonymous.

I would like to ask your permission to audio-record this interview.

1) Before starting, I would ask you to tell me your age and position.



This interview will be focus on the allocation process of EAFRD's funds oriented to young farmers. In particular, in relation to the measure 112 of the period 2007-13 and the measure 6 of the current period (2014-2020).

2) I would like to expose a doubt and ask you another question. If a women who is applying for a fund of the measure 6.1 to access for land in a less-favored area, objectively, for the fact of being female and develop her project in a less favored area, she would score only for these two factors 10 points. With 10 points she will get the funds. So my assumption is that there should be other factors influencing. Are there other, unmentioned, **factors playing an important role in the evaluation of projects?**

a. If yes, which ones?

- b. If no, what are the **minimum contents** that a **business plan** should present?

Factors: subjective influencing factors

- 3) Which are according to you are the most **important factors to** be addressed and well detailed **in the businesses plan** presented?
 - a. To which extend do the **market factors**, like competitive analysis or potential growth, have influence in the valuation of the project?
 - b. To which extend do **product factors**, like access and time to market, and manufacturing capabilities have influence in the valuation of the project?
 - c. To which extend do **sustainability factors** like water and land management and community development have influence in the valuation of the project?
 - d. And what about the **team composition** and its experience and skills, or the **innovativeness** of the idea?

Factors: influencing factors

- 4) The projects presented are evaluated and scored according to certain points exposed in the ORDEN AYG/1131/2014, which was published in the official bulletin of the 30 of December, 2014. I would like to ask you in which way the scoring and future allocation of funds are conducted.
 - e. Making an estimation, **what proportion of projects presented is rejected**?
 - i. Which are according to you the main reasons?
 - a. Please specify the main reasons of rejection
 - b. What proportion of projects do you estimate are rejected for these reasons?
 - c. Do you feel this is a significant amount?
 - d. What do you think can be done to diminish this number?

- e. For which reasons do you think this is not done in the moment?
- f. How do you feel this influences the efficiency of the programme?
 - i. Why?
 - ii. Why not?
- ii. Which other reasons of rejection of application can you think of?
- iii. To what extent the applicants have a second chance to improve their applications before the deadline?
 - 1. Do you take a feedback period into account?
 - a. Why? Why not?
 - 2. To what extent do you provide feedback to applicants regarding their projects (whether approved or not)?
 - a. Why? Why not?

Factors: influencing factors-information clearness and availability

In the Midterm review of 2010 of the Castilla-Leon Rural Development Programme, it was identified a low accomplishment of the objectives. In that report and up to that date, only 367 beneficiaries were funded, while the objective for the whole period 2007-13 was 2745.

- 5) What are according to you the main causes and **bottlenecks** that explain why this measure didn't match the demand?
- c. How **clear** is the **information** provided to the beneficiaries?
 - i. Which is the information available?
 - 1. Where can this information be found?
 - 2. Why do you feel this information to be sufficient? / Insufficient?
 - d. How easy do you think is the process of application?

- e. Do you think that changing any of the above (information or process of application) would have a benefit on the program?
 - i. Why? Why not?
 - ii. If yes, how would you like to see it changed?
 - iii. If yes, how would you think this changes would be of the benefit of the program?
 - iv. If not, what would you suggest to do to make the program reach a more significant level of beneficiaries?

Factor: bottlenecks-information availability and clearness

- 6) I couldn't find callings for applying for funds related to the measure 112 in the period 2007-2013 in the official bulleting. So, how do you usually **communicate** the 'callings' to EAFRD's?
 - f. To what extent do you think that the communication of this measures to the beneficiaries is being effective?
 - i. Why? Why not?
 - ii. What do you think can be changed to make it reach more people?
 - 1. Why do you think this is not happening?
 - g. How frequent are these callings conducted? (Annually, biannual, etc.)
 - i. Do you feel this is sufficient to make the program effective?
 - 1. Why? Why not?

Factor: information availability and clearness

- 7) How do you **monitor** the projects funded?
 - a. Is there a monitoring system?
 - i. After how many time do you monitor the funded projects?
 - ii. How do you monitor the funded projects?
 - iii. Which factors do you take into account to monitor the funded projects?
 - iv. How frequent do you monitor the funded projects?

- v. What happens if the monitoring of a project shows unsatisfactory results?
- b. In overall, how successful do you think the projects funded are being? Can you mention exemplar cases?

Factors: monitoring - subjective successfulness

It would be great for my investigation if you can **provide me some project proposals** to the EAFRD's, both approved and rejected. In addition, it would be a great add for my research to have access to the **contact data of the beneficiaries** of the measure 112 in order to be able to select and interview a group of them.

Thanks for your kind contribution to this research.

Interview guide: Demand side beneficiaries of the measure 112 of the CAP period 2007-2013

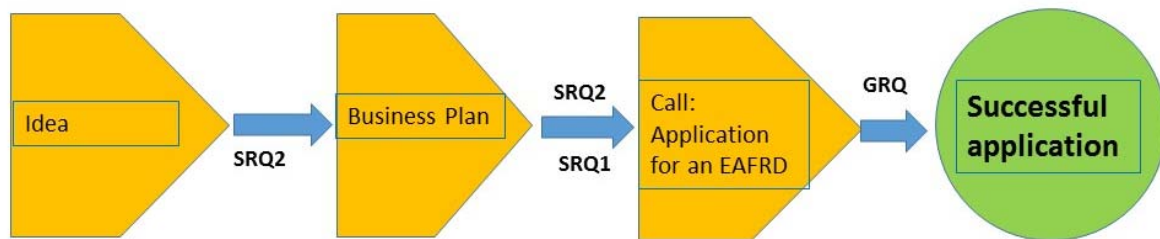
Hello, my name is Santiago Lusquinos. This interview is conducted under my Master Thesis of Management of Life Science at Wageningen University, The Netherlands.

This investigation aims to gather information about the experience of the process of application for EAFRD's at the one side, and to gain understanding about the factors influencing the allocation process of the EAFRD's, at the other side.

The information hereby detailed is confidential and your contribution is anonymous.

I would ask your permission to record this interview.

1) Before starting, I would ask you to tell me your age and profession.



Let's talk about the whole process of your application to the EAFRD's, starting from the conception of your IDEA.

Idea

- 2) Can you explain me how your IDEA was born?
 - a. Which were the **influencing factors** between that step until the concrete construction of a Business plan?
 - i. What about your **family**?
 - ii. With your idea, what aspects and resources of your **farm** would you wanted to exploit?
 - iii. What was your main **motivation** to develop your idea?
 - b. Which were the steps you took from the idea until the concrete construction of a business plan?
 - i. Explain please step by step maybe make them draw the steps? For good overview
 - ii. Which of these steps have had the most influence in the final outcome?
 1. In which of these steps did you experience **difficulties**?
 2. Which of these steps were easy?

Factors: Farm-Family, experience, knowledge and skills, motivations

Business plan

- 3) How was your level of familiarity with writing a business plan?
 - a. How was your experience while writing it?
 - i. **Difficulties**
 - ii. **Aid received**
 - iii. **Information availability**

- 4) What was contemplated in the business plan and to what level of detail? How much time did it take you?
- 5) Now that you have the subsidy, how much of the business plan are you actually realizing?
 - a. How will this affect your subsidy? (If you don't stick to your plan to the book do you have to pay back?)

Factors: Business plan-Market-Product-Sustainability- Entrepreneurs experience

Application process

- 6) How would you define the process of application to the EAFRD's?
 - a. Which were the Bottle necks you experienced in the process?
 - b. To what extent did you receive aid in that process?
 - i. Where did you receive this aid from? (friends, professionals, institutions)
 - Bureaucracy:
 - ii. How was your experience with the bureaucracy in the process?
 - iii. Which factors of the bureaucratic level do you feel helped you?
 - iv. Which factors of the bureaucracy you feel made your application more difficult?
 1. Why?
- 7) How available and clear was the information for the calls, requirements, etc.?
 - a. Where did you find this information?
 - b. How long before the deadline was this information available?
 - c. Are you up to date with the "callings" for the subsidies? Where do you look for this information?
- 8) How much time did it take you from the point you took the decision to apply to actually receive the approval of your application?

Score of the project

- 9) How aware were you about how the projects are scored?
 - a. What was the score received by your project?
 - i. Did the Consejeria explains you why that score?
 - ii. It would be great for my investigation if you can provide me a copy of your project proposal to the EAFRD's.

Thanks for your kind contribution to this research. Before ending I would like to ask you two final questions:

10) Would you apply again for EAFRD's?

- a. If yes: why?
- b. If no: Why not?

11) Can you put me in contact to other beneficiary of this measure?

Thanks.