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ANNEX 4

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Annex 4: Rural Development

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1. BACKGROUND

Rural development is today Pillar II of the CAP taking up 20% of the CAP budget.¹ The policy has gradually evolved from supporting structural adjustment in agriculture to an integrated policy for the sustainable development of all rural areas in the EU. Moreover, in the Health Check of the CAP (HC), the policy benefited from additional resources earmarked for new challenges (climate change, biodiversity, water management, renewable energy, innovation and dairy restructuring), with broadband added to the list by the European Economic Recovery Package (EERP).

The EU added value of rural development lies in its contribution to the cohesion objective and in the fact that it addresses challenges which are fully or partially cross-border - such as climate change and the need for improved economic / environmental / social co-operation in rural areas. In fulfilling these missions, Pillar II usefully complements Pillar I. It should be noted that rural development policy is the major EU funding instrument for supporting environmental land management. The support for the policy from the EU budget – in line with an objective of cohesion - assists Member States in achieving environmental goals that might otherwise be difficult for them to prioritize.

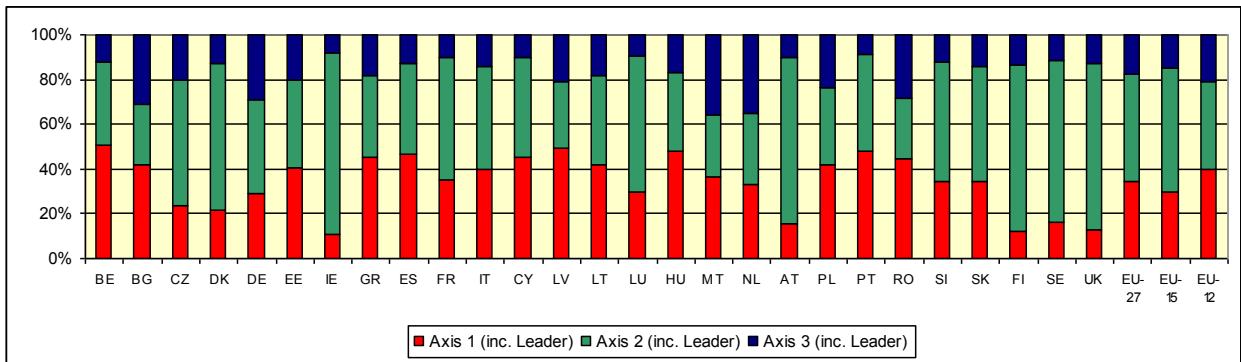
The policy operates on the basis of multi-annual programming where Member States / regions assume responsibility for shaping the policy in their territories. In the framework of strategic guidelines that set out common priorities at EU level, Member States design and co-finance rural development programs (RDPs) tailored to their specific needs; there are 94 national and regional programs operating in the current (2007-2013) period.

Each program consists of measures taken from a menu established at EU level that groups measures into three thematic and one methodological 'axes':

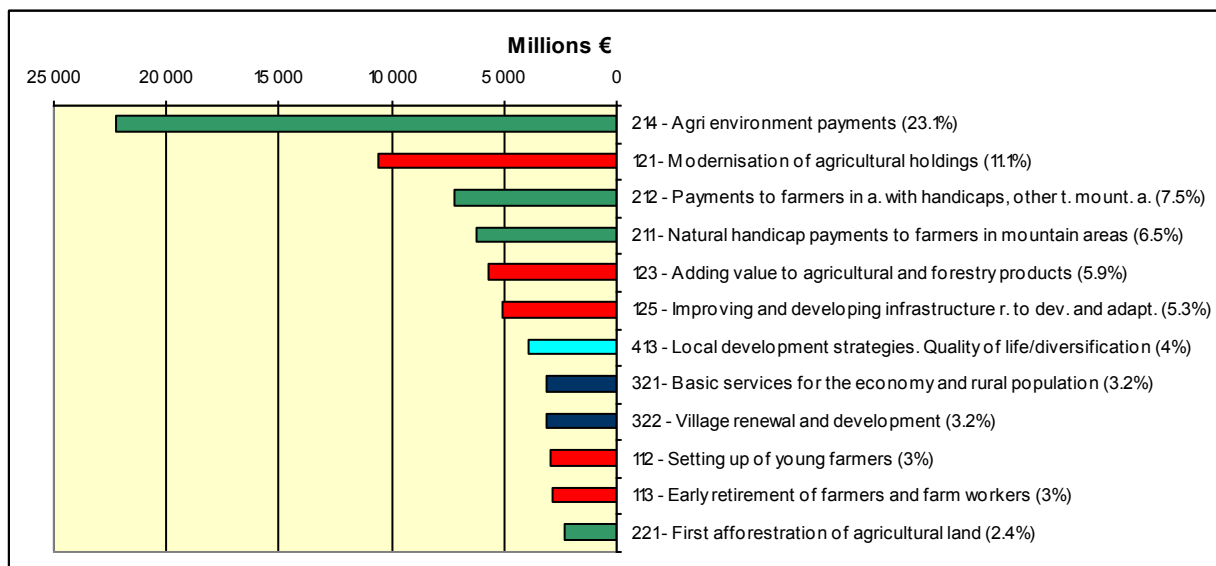
- **Axis 1:** improving the competitiveness of agriculture and forestry (e.g. farm investments, support to producer groups, training actions);
- **Axis 2:** improving the environment and the countryside (e.g. agri-environment measures compensating land managers for the provision of eco-system services, measures targeting the sustainable use of forestry);
- **Axis 3:** promoting economic diversification and quality of life in rural areas (e.g. basic services for the rural population, business creation and development); and
- **Axis 4:** the horizontal bottom-up Leader approach based on Local Action Groups (LAGs) for mobilizing local actors by means of local integrated strategies.

Relative importance of the three axes by Member State in the current period

¹ For a description of the current rural development policy, see *APP Brief no 4: The future of rural development policy*, and *Rural development in the EU, Statistical and Economic Information, Report 2010*.



Main rural development measures programmed in the EU-27 in the current period



In addition, to ensure that all objectives are addressed in each program, there are minimum spending requirements per axis, while results are assessed under a common monitoring and evaluation framework (CMEF). The European Network for Rural Development (ENRD) brings together national networks, organizations and administrations active in the field of rural development for the purpose of collecting, analyzing and disseminating information and good practices.

The two pillars of the CAP work together in a complementary way towards common objectives. In fact, the structural measures offered in Pillar II complement the more general income support in Pillar I as well as open alternative employment opportunities in rural areas, while more targeted environmental measures in Pillar II allow farmers to provide goods above the environmental baseline set by Pillar I.

2. ACHIEVEMENTS AND CHALLENGES

2.1. Assessment of the current policy framework

The design of the future policy as well as the analysis of the impact of different options relies on the experience gained with the operation of the policy to date. This section

provides a brief assessment of the current policy framework on the basis of evaluations and other available information.²

See **Annex 4a** for a more detailed assessment.

2.1.1. Overall assessment

The strategic approach put in place in the current period has had a positive impact, as Member States have made considerable efforts to develop strategies on the basis of a SWOT analysis so as to best tailor their intervention to policy objectives. Still, there has been some evidence of path dependency in programming, as well as of lack of capacity of certain areas and groups to use rural development funding (though final spending amounts for the period 2007-13 are not yet known). Some Member States have struggled to set the right relationship between programmes and national strategy plans.

The economic, environmental and social policy objectives are often mutually supportive, as shown in the examples below:

Use of the farm modernisation measure to deliver environmental benefits - France, Champagne-Ardenne, 'Plan Végétal pour l'Environnement' (PVE)

In France, the farm modernisation measure is being used to combat the environmental impact of agriculture by supporting investment in precision farming equipment. At a national level the focus of the PVE is to reduce pollution from pesticides and fertilisers and green house gas emissions; reduce soil erosion; reduce the pressure on the use of water resources; and improve energy efficiency at farm level. Investment in new equipment is intended to address these environmental issues at the same time as helping farmers gain an economic advantage in the market. The government is partly funding this programme in conjunction with local authorities and water agencies. Investments can be between €4 000 and €30 000 (up to €80 000 for cooperative farms). Although the programme has a detailed list of eligibility requirements, some regions found that their financial resources were insufficient to cope with demand. In Champagne-Ardenne, the PVE was so successful in its first year that many applications had to be turned down. A more stringent application system has now been put in place. This prioritises investment in precision equipment for planting hedgerows as the top priority, alongside investments to reduce the use of pesticides.

Source: Issue 5 of the EU Rural Review

Employment and social benefits of agri-environment schemes in Poland - Beka Nature Reserve

The Beka Nature Reserve, a coastal Natura 2000 site important for birds and wet grassland and sedge habitats has benefited since 2005 from a 100 hectares agri-environment contract, covering half the reserve and supporting organic farming on permanent grassland, and specialised habitat management. To meet the requirements of the scheme the reserve employs a full-time manager plus a shepherd during the May – October grazing season. Local businesses benefit too, including the farmers who save veterinary and feed costs for the 60-70 cattle and horses they lend to graze the reserve during summer. Local contractors mow grass in summer and reeds in winter, and maintain stock enclosures. The reserve is used to train agricultural advisers, acts as an informal advisory point for local farmers and cooperates closely with 4-6 local schools. It has become an additional tourist attraction in the commune, a bike path along the coast will be constructed in 2010 and a new educational path is planned.

Source: ENRD TWG3 Public goods and public intervention, Final report, December 2010, p.46

² See the evaluation *Synthesis of ex-ante evaluations of rural development programmes 2007–2013 (2008)*; the study *Defining EU Priorities: A Review of Rural Development Instruments (2008)*; and the final report of the Thematic Working Group 1 of the ENRD *Targeting rural territorial specificities and needs in rural development programmes 2007-2013*.

In this respect, the axis system provides a crude guarantee for the allocation of resources to objectives, which relies on a simplified intervention rationale and may thus at times mislead since a single measure often serves more than one objective. In addition, the ring fencing introduced in the Health Check to match the additional funds made available with the new priorities has considerably increased the administrative burden of the system.

Implementation is well under way and performance is measured using the CMEF. See Annex 4a for more details on financial implementation to date, reasons for low uptake of certain measures, output and result indicators.

Work is under way to improve the CMEF; admittedly, it is a challenge to capture the spill over effects of intervention while keeping the system simple. Selected output and result indicators are shown below:

State of play on selected output indicators

	Measure	Indicator	Total realised 2007-2009	Target 2007-2013	% of target achieved
111	Vocational training and information actions	Number of participants in training	1136877	5258036	21,6%
121	Modernisation of agricultural holdings	Number of farm holdings supported	105802	592700	17,9%
211 212	Payments to farmers in areas with handicaps (Article 36 (a) (i) and (ii) of Reg. (EC) N. 1698/2005)	Number of holdings supported	2568319	3734832	71,5%
		UAA supported (Ha)	49005000	51700000	94,8%
214	Agri-environment payments	Physical area supported (Ha)	21528712,65	50000000	43,1%
		Number of contracts	1675447	2931033,14	57,2%
225	Forest-environment payments	Physical area supported (Ha)	187256,52	919762	20,4%
		Number of contracts	8747	75884	11,5%
312	Business creation and development	Number of micro-enterprises supported	6111	94700	6,5%
321	Basic services for the economy and rural population	Number of actions supported	8707	86651	10,0%

Selected result indicators (targets 2007-2013)

AXIS 1	
Increase in GVA in supported holdings/enterprises ('000 EUR)	25.900.000
121 Modernisation of farms	5.362.000
123 Adding value to agricultural and forestry products	7.839.000
Number of holdings / enterprises introducing new products and/or new techniques	334.000
121 Modernisation of farms	172.000
122 Improving the economic value of forests	50.000
AXIS 3	
Increase in Non-agricultural gross value added in supported business ('000 EUR)	3.100.000

312 Business creation and development	1.491.000
Gross number of jobs created	307.000
313 Encouragement of tourism activities	108.000
Population in rural areas benefiting from improved services (unique number of persons)	71.000.000
321 Basic services	21.048.000
322 Village renewal	25.939.000
Increase in internet penetration in rural areas (unique nbr of persons)	47.060.000

As regards the possibilities to facilitate implementation of rural development measures, and in this context ease the access to finance of rural development beneficiaries, 9 Member States (IT, LV, LT, RO, BE, DE, FR, NL, EL) have set up guarantee and/or loan funds as part of the financial engineering actions under rural development, or provided for these options in their rural development programmes. Total EAFRD commitment amounts at present to more than EUR 540 million. However, these funds are operational for the moment in only 4 of these Member States (IT, LV, LT and RO) and the Greek modifications covering EUR 107 million of EAFRD were just recently approved. By end of 2010, a total amount of EUR 274 million of EAFRD has been paid out to the active funds in these 4 Member States (the total amount paid by Member States to these funds, including national/regional contributions, amounts to EUR 371 million).

As far as renewable energy development is concerned, most of the Member States indicated in their National Renewable Energy Action Plans that they make use (and plan to continue to make use) of existing rural development measures in order to reach their renewable energy legally binding target.

Member States have generally been successful in setting demarcation lines and ensuring coordination between rural development and other policies; however, synergies have not always been fully exploited to allow the different policies to work together towards common objectives. In other words, in some cases the authorities have satisfied themselves with avoiding overlaps between policies instead of actively attempting to use the policies in such a way that they strengthen each other. Furthermore, synergies have sometimes been asserted without being demonstrated.

All in all, considerable steps have been taken to better target resources, monitor progress and evaluate results. A learning process is under way that will no doubt still bear fruit in the next period, while the policy would benefit from further improvements in the management system.

2.1.2. Farm investments

Farm investments aim at improving the overall performance of agricultural holdings. There is strong evidence of a positive contribution to reducing production costs and improving quality thus having a positive impact on income – as well as on job creation and maintenance. There is also a positive environmental impact deriving from investments in greener technologies. This measure has a high leverage effect.

The measure is particularly relevant in regions with small or medium-size farms that use it to become more efficient, as well as in regions with highly productive farms that use it to address environmental issues. Evaluations have, however, in some instances shown poor targeting, leading to deadweight effects in the case of support for large, highly

productive farms undertaking 'traditional' investments, and support for farms with significant asset value which could invest without public assistance.

2.1.3. *Agri-environment measures*

Agri-environment payments are a key EU policy measure on which depend many aspects of environmental protection. As a result, agri-environment payments have for many years been the sole rural development measure (leaving aside the Leader approach) which Member States must make available throughout their territory (though its use is voluntary for farmers).

Agri-environment measures support the provision of a wide range of environmental public goods, from biodiversity, water, soil, to climate change and genetic resources, by encouraging farmers and land managers to apply practices delivering environmental outcomes going beyond legal obligations, while leaving flexibility to Member States and regions to optimize their design to address national, regional and sub-regional needs. The measures often allow for simultaneously addressing a number of environmental objectives, e.g. reduction in chemical inputs has a positive impact on water quality while also contributing to preservation of biodiversity. At the same time, they may contribute to generating additional employment (especially in tourism - by contributing to the preservation of natural heritage and landscape elements) and enhancing quality of life in rural areas.

Some agri-environmental measures are inherently complex. Such complexity is often necessary to achieve high quality environmental results. These are often measures that consist of multiple obligations to be implemented in a spatially differentiated manner and where compliance must be continuous or at different points in time. Although this complexity can imply an increased error rate, the rate still remains acceptable compared to that of other policy areas and is justifiable in view of the public good outcomes. Finally, the focus is necessarily on management requirements rather than results, partly because of WTO rules that require payments to be based on costs incurred and income foregone to benefit from green box classification and partly because the latter are subject to multiple drivers that are only partly under the control of beneficiaries.³

2.1.4. *Key measures in axes 3 and 4*

Within axis 3, business creation and diversification are particularly important in areas where there is a high share of part-time farmers or where significant restructuring of the agricultural sector is still under way. The provision of basic services is considered to be one of the main drivers for the development of rural areas, and is particularly important for social inclusion in poor regions.

Leader has successfully brought local actors together and allowed for the development of local governance capacities. However, its mainstreaming in the current period has in some cases meant that the specificities of this innovative bottom-up approach were

³ See also *Evaluation of the agri-environment measures (2005)*.

compromised, due to narrowing the scope to pre-defined measures and to the lack of clear distinction of roles between managing authorities, paying agencies and LAGs.⁴

In connection with Leader-related difficulties it is worth noting that, in response to feedback from various sources – including Special Report No. 5/2010 from the European Court of Auditors - the Commission has already improved the implementing rules related to the Leader approach and revised guidance to Member States, thus clarifying the requirement that Leader be implemented in a flexible way.

2.2. The role of agriculture

The economic structure of rural areas is changing with the importance of the primary sector declining. Still, agriculture remains important for the rural economy in many parts of Europe. This is particularly the case in predominantly rural areas where the primary sector represents around 5% of added value and 16% of employment, as well as in the new Member States where structural adjustment is still under way.

In addition, agriculture has strong links with other economic activities in rural areas, notably food processing, tourism and trade, while one third of farmers have other gainful activities outside of agriculture. Beyond economic aspects, farmers contribute considerably to the provision of public goods, both environmental and non-environmental, valued by society and not remunerated on the market.

The table below summarizes the work of the thematic group 2 of the ENRD⁵ pointing to **important forward linkages between agriculture and the rural economy, especially with the food processing, hotel, catering and trade sectors.**

Agriculture and the wider rural economy
<p>The aim of TWG2 was to identify and describe the relationships, and potential synergies/conflicts, between agriculture and the wider rural economy in various types of EU rural areas.</p> <p>Analytical activities were undertaken in order to provide a better understanding of the <i>relationship</i> between agriculture and rural economy at the local level; identify the <i>key factors</i> that determine the potential of different types of regions; assess the <i>contribution</i> of current policies and institutional arrangements to successful outcomes; present the <i>main findings</i> that could be relevant for the development of policy; consider what <i>further issues</i> warrant investigation or development. This involved a series of <i>in-depth analyses</i>, using a mixture of techniques: input-output analyses, general economic assessments, and case studies, in 18 selected NUTS3 regions - the smallest geographical areas for which comparable EU-wide data is available for most of the key economic and social characteristics.</p> <p>The input-output analysis considered the economic relationship between agricultural activities and other sectors in the local economy, and the direct and indirect impact of changes in agricultural activity in terms of:</p> <p>backward linkages – the extent to which changes in output in the agriculture sector result in increased purchases from the rest of the local economy;</p>

⁴ See also *Ex-post evaluation of Leader+ (2010)* and the work of the ENRD focus group 1 on 'Implementation of the bottom-up approach of Leader'.

⁵ Final report of the Thematic Working Group 2 of the ENRD *Linkages between agriculture and the wider rural economy*.

forward linkages – the extent to which changes in output in the agricultural sector result in increased sales to the rest of the local economy.

The estimated effects of changes in agricultural output on suppliers (**backward linkages**) were found to be generally low or average, in line with estimates from other studies. In numerical terms, the typical coefficient is around 1.5 indicating that an increase in agricultural output of (indicatively) 1 million EUR will produce an additional output of 0.5 million EUR in other sectors in the local economy, due to the fact that local sectors provide inputs to agriculture.

The effects on the local economy of sales of increased farm output to other sectors in the region (**forward linkages**) were found to be high in most areas, with a typical coefficient of around 2.5; this indicates that an increase in agricultural output of 1 million EUR will produce an additional output of 1.5 million EUR in the local economy.

In terms of forward linkages, **agriculture was identified as a ‘key sector’ in 14 out of 18 regions studied**, in the sense that increases in output in the sector result in above-average increases in output elsewhere in the region, compared with the average results for all sectors in the region. Agriculture has **especially high forward linkages with food processing, hotels and catering and trade, all sectors that, in turn, have further high linkages with the rest of the rural economy.**

2.3. Challenges and opportunities for rural areas

Rural areas span more than 90% of territory and more than 50% of population in the EU. The picture is increasingly diverse, especially following successive enlargements: some regions are facing decline with young people leaving and land abandoned, while others are among the most dynamic in the EU. See **Section 2.6 of Annex 1** for a more detailed picture of rural areas across the EU.

A recent study on employment and growth in rural areas⁶ identified the following key drivers for rural economies: natural resources and environmental quality, the sectoral structure of the economy, quality of life and cultural capital, infrastructure and accessibility. The analysis also identified the following key barriers to growth: demographic developments, infrastructure and accessibility and the sectoral nature of the economy.

Notwithstanding this diverse picture, all rural areas face today important economic, environmental and territorial challenges. And they have been severely hit by the economic crisis against the backdrop of an already fragile economic situation with income in rural areas 50% lower than in urban areas.

At the same time, one of the most important assets of rural areas is their natural capital, with most land under agricultural management or forest. Agriculture and forests in rural areas are in fact entrusted with managing eco-systems for the purpose of maintaining the rural landscape, combating biodiversity loss, improving the status of water and mitigating climate change, all the more important in the face of climate change and other environmental challenges. But the EU 2010 biodiversity baseline⁷ shows that 75% of the assessments of the conservation status of habitats linked to agro-ecosystems and some 70% of assessments of species of European interest in agro-ecosystems are unfavorable.

⁶ See *Study on employment, growth and innovation in rural areas (SEGIRA)*, and the report of the thematic group on rural development and territorial cohesion.

⁷ EEA Technical report No 12/2010

The European Environmental Agency also indicates that the trend in common farmland bird populations is negative (decline by 20-25% since 1990).

As regards forests in particular, it should be noted that forest cover is roughly equal to agricultural area and hence important for land management and rural development. A great diversity of natural forest types, forest covers, and forest ownership structures exist in the EU, and with enlargement the importance of forests has increased considerably. Forests are one of Europe's most important renewable resources and provide multiple benefits to the economy but also public goods for the environment. As a result of afforestation programmes and due to natural regeneration on marginal lands, forest cover in the EU has increased over the past few decades.

In addition, there are growing expectations from consumers for quality and diversity of food and rural amenities that open up new possibilities to give value to the assets of rural areas, for instance in developing quality products and local markets.⁸

All in all, there are important challenges for agriculture, forestry and rural areas ahead that are further exacerbated by the economic crisis and climate change, **as well as opportunities to be seized**. As regards the role of agriculture, on the one hand agriculture relies on dynamic rural areas (in terms of human capital, infrastructure and basic services),⁹ on the other hand, agriculture has an important role to play in maintaining rural vitality, a public good that is recognized as an objective for the vast majority of measures included in the RDPs.¹⁰

3. FUTURE OBJECTIVES AND POLICY OPTIONS

3.1. Main issues for the future

The future rural development policy should continue to **enhance agricultural competitiveness, improve the sustainable management of natural resources (including climate change mitigation) and promote a balanced territorial development across the EU**.

The results of the public consultation showed considerable support for increasing the rural development budget in the pursuit of these objectives; however, some respondents were concerned that such an increase could come at the expense of decreased spending in

⁸ See also sub-Annex V of Annex 5 (market measures) on the role of short marketing chains in the context of the discussion on addressing issues related to the food supply chain. Short marketing chains are often linked to the development of local markets.

⁹ See in particular the work of the thematic group on rural development and territorial cohesion created in the framework of this impact assessment. The group looked into drivers of rural development to signal the importance of diversification (including the link between agriculture and the wider rural economy), accessibility to services of general interest and development of human capital as particularly important. These drivers can be stimulated by rural development and cohesion policy using a coordinated territorial approach.

¹⁰ See the final report of the Thematic Working Group 3 of the ENRD *Public goods and public intervention in agriculture*, where it was found that of the 88 RDPs examined, 85 had measures with explicit objectives expected to contribute to rural vitality. Of the 36 measures, 31 were identified having rural vitality as a focus.

1st pillar measures. The consultation also identified concerns on Member States' ability to co-finance, draw good programmes and reach out to farmers, as well as the need to improve delivery and reduce administrative burden.

In the light of the achievements and challenges discussed above, the following issues are particularly important for the future:

- **how to ensure the best fit with the EU priorities, notably the Europe 2020 strategy** for smart, sustainable and inclusive growth, especially given the broad scope of rural development policy: A lot of attention in the debate on the future of the policy revolves around the policy's contribution to enhancing resource efficiency for the purpose of helping rural economies exit from the crisis while addressing climate change and other pressures on resources, as well as its contribution to preserving habitats and biodiversity and to the bio-based economy.
- **how to make the policy more efficient and effective:** This is particularly important for a policy that operates on many levels, from defining a strategic framework at EU level to drawing national / regional programs to implementation by local administrations, and seeking to promote bottom-up approaches (such as initiatives taken by local groups). A related issue is **how to improve cooperation with other EU funds that operate in rural areas to maximize synergies** without losing the important synergies with Pillar I of the CAP. In the end, effective policy delivery should result in more flexibility and better targeting the policy response to the challenges while at the same time reducing the administrative burden for administrations and beneficiaries. Moreover, consideration should be given to offering incentives to Member States / regions to make their rural development programmes perform as well as possible.
- **how to ensure that the policy is backed by adequate funding.** It may be envisaged to use criteria based on the future policy objectives for the distribution of support between Member States with a view to ensuring a better fit between policy objectives and the budgetary means available, thus making a better use of the EU budget. And to increase the leverage of EU spending, existing possibilities to provide support in a form other than grants should be further explored (for instance, to subsidize interest rates on loans or contributions to venture capital funds, guarantee funds and loan funds).

For rural development policy as an integral part of the CAP to contribute effectively to the CAP objectives, **it will be important to set clear priorities and ensure effective delivery backed up with adequate funding.**

3.2. Policy options

This table below elaborates in relation to the rural development policy instruments the three broad policy options set out in the Communication (adjustment, integration and refocus):

	Budget	Objectives	Instruments	Management system
Adjustment	Moderate increase in funding Same distribution between MS	Additional resources go towards: <ul style="list-style-type: none"> ▪ option 1: competitiveness / innovation, or ▪ option 2: environment ('new challenges') 	Same	Same
Integration	Same funding Redistribution between MS	Policy better aligned with Europe 2020: <ul style="list-style-type: none"> ▪ priorities ▪ related targets 	Streamlined toolkit	Common Strategic Framework (CSF) Strengthened strategic targeting No axis system Enhanced possibilities to combine measures
Refocus	Funding doubled Redistribution between MS	Focus on the environment and climate change Limited temporary measures to ease the impact of phasing out direct payments	Significantly reduced toolkit	Simplified management system No Leader

In terms of budget, the adjustment scenario follows the Health Check model of a moderate increase in the rural development budget within a constant CAP budget, while the refocus scenario provides for a significant increase in the rural development budget; for the present exercise and taking into account possible limits in terms of absorption capacity in different Member States, a doubling of the budget is foreseen.¹¹ Moreover, under the integration and the refocus scenarios it is foreseen to distribute the support between Member States on the basis of objective criteria also looking at the current distribution.

¹¹ For purposes of this annex, the integration of risk management into Pillar II and the corresponding budgetary needs has not taken into account, as this is dealt with in a separate annex on risk management.

As regards the policy objectives, the analysis of future challenges for agriculture, forestry and rural areas has made clear the need to put further emphasis on climate change and innovation. The adjustment scenario includes two options for channeling the additional resources made available either 1) towards the environment ('new challenges' of climate change, water, biodiversity, renewable energy and innovation, as in the Health Check) or 2) towards competitiveness / innovation. Innovation, climate change and the environment in general are explicitly recognized as guiding considerations that cut across all three objectives in the integration scenario. The refocus scenario has a single objective: the environment (including climate change, which in turn includes the sustainable production of renewable energy and of biomass for bio-based products) with the continuation of axis-3 type measures possibly left to cohesion policy.

On this basis, the current toolkit of around 40 measures is streamlined into approximately 20 measures in the integration scenario and significantly reduced in the refocus scenario. The latter consists mainly of environmental measures also including limited temporary measures to ease the phasing out of direct payments. In all cases, measures are reviewed to address issues with current implementation, to make them more effective and relevant and to facilitate uptake - in particular in relation to measures that are very important from the perspective of Europe 2020 and that have not been fully used to date (such as support for co-operation for the development of new products, processes and technologies).

With respect to the management system, the adjustment scenario maintains the status quo while the refocus scenario aims at further simplification given the reduced policy remit. Building on the positive experience in the current period, the integration scenario proposes to reinforce the strategic approach in two respects:

- first, to improve coordination with the other funds by placing the European Agricultural Fund for Rural Development (EAFRD), the European Regional Development Fund (ERDF), the Cohesion Fund, the European Social Fund (ESF) and the European Fisheries Fund (EFF) under a Common Strategic Framework (CSF) in the service of the Europe 2020 strategy for smart, sustainable and inclusive growth (in this context, the EU targets concerning climate change and biodiversity are particularly relevant) – and also under corresponding national framework documents of some form; and
- second, to strengthen strategic targeting in programming by requiring Member States / regions to draw their programs on the basis of a common set of priorities and to set appropriate targets under these priorities, as well as enhancing possibilities to use measures in combination while doing away with the axis system (as well as with the ring-fencing introduced in the Health Check).

Finally, it is foreseen that the outcome of the review of the delimitation of intermediate NHA areas that is currently under way will be implemented under all options (see section 6.2. below).

The Communication presented by the Commission on 29 June 2011 *A budget for Europe*¹² set the budget and main lines for rural development policy in the period 2014-2020. It is proposed to keep the same budget in nominal terms as in the current period, and to include rural development policy within a Common Strategic Framework with all

¹² COM(2011) 500 final.

structural funds as well as within Partnership Contracts with Member States. Moreover, the policy should be subject to ex-ante "conditionalities" (i.e. preconditions for the approval of programmes and / or the disbursement of payments through programmes) and a performance reserve, like the structural funds.

3.3. Alignment with Europe 2020 through priorities and associated targets

An important aspect of the integration scenario is the use of "priorities" and associated targets (see **Annex 4b**) - with a view to ensuring the best fit with the Europe 2020 strategy for smart, sustainable and inclusive growth, and notably the resource efficiency flagship with the associated climate and biodiversity targets.

In sum, the following priorities may be set at EU level to steer the policy:

- (1) Transfer of knowledge;
- (2) Competitiveness and farm viability;
- (3) Food chain organisation and risk management;
- (4) Preserving and enhancing ecosystems dependant on agriculture and forestry;
- (5) Low carbon economy and resource efficiency
- (6) Job potential and development of rural areas.

The expected contribution and the actual performance of the policy in relation to the different priorities could then be measured by making use of specific "target" indicators to be defined for each of these priorities. As an example, indicators such as "total energy savings in the agriculture and agri-food sectors in supported projects by 2020" and "total water savings in supported projects by 2020" may be used – among others - to quantify ex ante target levels for the programmes in relation to priority 5 ("Low carbon economy and resource efficiency") and to regularly assess the contribution of the programmes to this priority during the implementation phase.

A common set of indicators would be part of the new CMEF for the future policy, which would in turn be part of performance measurement for the CAP as a whole. Improved indicators would make the CMEF better suited to a more outcome-oriented approach. Ex-ante evaluations would be used more thoroughly in programme preparation.

4. IMPACT ANALYSIS

4.1. Impact on the agricultural sector

The overall impact of the reform on the agricultural sector will in all likelihood **be driven more by the changes in Pillar I, in particular in direct payments**, than by the changes in rural development policy, considering the size of the budgets involved. As shown in Scenar 2020, "Within the limits of the foreseeable budget, the total amount of

EU Rural Development support per farmer or per agricultural area is small in comparison to the regional GVA in the agricultural sector in most EU regions"¹³

See also the table below for a broad indication of the magnitude of EAFRD support involved for the entire programming period 2007-2013, which translates on a yearly basis on average to EUR 100/farm for investments under the farm modernization measure (121), EUR 17/ha for agri-environment measures, and EUR 14/rural inhabitant for axis 3 measures.

Table 2 - Allocation of resources to farm investments (€/farm), to agri-environment measures (€/ha) and to axis 3 (€/rural population) for the entire period 2007-2013

Member State	Measure 121 – €/farm	Measure 214 – €/ha	AXIS 3 - €/rural population	Member State	Measure 121 – €/farm	Measure 214 – €/ha	AXIS 3 - €/rural population
Belgium	2.367	90	38	Hungary	1.787	207	104
Bulgaria	928	117	235	Malta	916	815	
Czech Republic	5.494	239	138	the Netherlands	465	57	1.350
Denmark	608	77	10	Austria	1.599	565	78
Germany	2.266	120	137	Poland	558	119	178
Estonia	6.097	186	138	Portugal	1.044	117	4
Ireland	195	278	0	Romania	202	57	200
Greece	354	165	106	Slovenia	820	500	112
Spain	543	41	44	Slovakia	4.488	138	98
France	1.309	42	23	Finland	891	287	86
Italy	664	150	58	Sweden	1.841	315	71
Cyprus	822	271		United Kingdom	567	148	221
Latvia	2.218	72	223	EU-27	706	119	104
Lithuania	1.307	110	140	EU-15	822	118	67
Luxembourg	8.545	205		EU-12	624	122	169

As regards the three scenarios under consideration, the impact on the agricultural sector will differ depending on 1) the level of the rural development budget and co-financing possibilities at national level, 2) the orientation of the funding more towards competitiveness or more towards the environment, and to a lesser extent 3) on the absence of axis 3 type measures in the refocus scenario.¹⁴

4.1.1. Adjustment scenario

A small positive impact on competitiveness due to investments in human and physical capital that increase productivity is expected under this scenario. In fact, the Modulation Study found a relatively small overall impact of a transfer from Pillar I to Pillar II of the

¹³ *Scenario 2020 Follow-up Study (2009), and Scenario 2020: scenario study on agriculture and the rural world (2006).*

¹⁴ *See also Situation and prospects for EU agriculture and rural areas (2010).*

same level as the moderate increase in the RD budget under the adjustment scenario, with most impact resulting from the decrease in direct payments.¹⁵

- Under option 1 (additional resources for competitiveness/innovation), an increase in the support for farm investments should result in an increase in income, better use of production factors and improvement in quality of farm products. Investment in physical and human capital may also accelerate existing trends towards fewer, larger farms.
- Under option 2 (additional resources for the environment/climate change), a small positive effect on agricultural employment may result from supporting more labor intensive extensive production systems. Increased support for NHA and agri-environment payments may help maintain the economic viability of farms that would otherwise disappear.

Of course, within an overall moderate impact across the EU, regional impacts could be more pronounced (Scenar 2020).

4.1.2. Integration scenario

In a context of greater demands on the agricultural sector to contribute to the provision of public goods, the quality of the design of RDPs should be considerably higher under this scenario with Member States under a reinforced strategic approach putting the resources to the best use to meet the Europe 2020 priorities. If the right balance is struck, there is considerable potential to improve resource efficiency that is a win-win situation for both farmers and the environment.

In addition, support possibilities for NHAs in Pillar II will be further reinforced by the Specific Natural Constraints component of direct payments (see **Annex 3**).

4.1.3. Refocus scenario

Clearly, the additional employment and income opportunities for farmers as land managers under Pillar II cannot make up for the significant impact on farm income of the phasing out of direct payments (see annex on direct payments). The temporary axis 1-type measures foreseen under this scenario should alleviate to some extent this pressure on farm income by opening possibilities for the farmers concerned to either leave the sector or to modernize.

In addition, the discontinuation of funding for axis 3-type measures may put at risk basic conditions for the sector in terms of infrastructure and basic services in certain regions that depend heavily on agriculture in Member States lagging behind.

4.2. Impact on the environment and climate change

It is important to consider the impact on the environment and climate change of the different scenarios **for the policy instruments as a whole**. In fact, direct payments in combination with cross compliance play an important role for the supply of basic environmental public goods that are then complemented by the more targeted measures

¹⁵ *Economic, Social and Environmental Impact of Modulation (2008).*

of Pillar II delivering public goods in particular with respect to environment and climate change. See also **Annex 2**.¹⁶

As regards in particular the impact of the changes in rural development:

4.2.1. Adjustment scenario

The moderate increase of the available funds will positively benefit measures that aim to improve environmental conditions. The effects of this are difficult to quantify since it depends on how Member States use the available funds. As an indication, see the relevant target indicators corresponding to the CAP Health Check / European Economic Recovery Package budget in the table below:

Selection of main relevant target indicators 2007-2013 (outputs) per priority for the HC/EERP budget defined in the Rural Development Programmes

<i>Priority/indicators</i>	<i>Unit of measure</i>	<i>Value</i>
Climate Change		
Improvement of energy efficiency	total volume of investments ¹⁷ (million EUR)	243
Improve efficiency of nitrogen fertiliser use	total volume of investments (million EUR)	104
N of participants in trainings	% of participants in CC related topics	40%
Soil management practices (measure 214)	N of ha supported (million ha)	1.4
Afforestation and the establishment of agro-forestry system	N of ha supported (ha)	10,000
	Programmed expenditure (EAFRD – million EUR)	47
Renewable energy		
Installations/infrastructure for renewable energy using biomass and other renewable energy sources (solar and wind power, geothermal)	total volume of investments (million EUR)	248
Processing of agricultural/forest biomass for renewable energy	total volume of investments (million EUR)	197
Biogas production using organic waste (on farm and local production)	total volume of investments (million EUR)	62
Water management		
Water storage (including water overflow areas) – Axis 1	total volume of investments (million EUR)	184
Water savings technologies (e.g. efficient irrigation systems) – Axis 1	total volume of investments (million EUR)	568
Westland restoration (measure 216)	total volume of investments (million EUR)	119
Meandering rivers (measure 323)	total volume of investments (million EUR)	71
Biodiversity		
Extensive forms of livestock management (measure 214)	N of ha supported (million ha)	1.65

¹⁶ See also the studies *Study on the Provision of Public Goods through EU Agriculture (2009)*, *Reflecting environmental land use needs into EU policy: Preserving and enhancing the environmental benefits of "Land Services": Soil sealing, biodiversity corridors, intensification/marginalisation of land use and the permanent grassland (2009)* and *Reflecting environmental land use needs into EU policy: preserving and enhancing the environmental benefits of unfarmed features on EU farmland (2008)*, and the *CLIMSOIL* study (2008).

¹⁷ Total amount (= the sum of all public and private expenditure) of all the tangible and/or intangible investments related to the supported operations.

Integrated and organic production (measure 214)	N of ha supported (million ha)	1.58
Restructuring of dairy sector		
Investments related to dairy production (measure 121)	total volume of investments (million EUR)	1,116
Improvements in processing and marketing related to dairy sector (measure 123)	total volume of investments (million EUR)	270
Broadband infrastructure		
Creation and enabling of access to broadband infrastructure	total volume of investments (million EUR)	383
Upgrade of existing broadband infrastructure	total volume of investments (million EUR)	175
Laying down passive broadband infrastructure	total volume of investments (million EUR)	129

As regards the two options examined:

- Under option 1 where an increased focus is put on competitiveness and innovation, positive effects would mainly come through increased resource efficiency and through modernisation implementing more environment friendly systems.
- Under option 2 where an increased focus is be on the environment ('new challenges'), it is likely that this would see more funds being used for agri-environment measures and climate change mitigation measures (including renewable energy and bio-based products) with positive effects for biodiversity and climate change.

4.2.2. Integration scenario

Even if the budget stays the same, the shift of some agri-environmental actions to the first pillar will free up some funds that might then be used for more targeted and more ambitious agri-environment measures, thus producing a further reinforcement of the environmental outcome of the policy.

Among other things, under the "integration" scenario, rural development policy would be more closely aligned with the objectives of the *Europe 2020* strategy. This would be achieved through a Common Strategic Framework shared with other EU funds, through a set of rural development policy "priorities" in line with Europe 2020, and through the setting of targets against each of these priorities within Member States' / regions' rural development programmes.

As Europe 2020 has a strong environmental aspect – as expressed in its "sustainable growth" objective, its "Resource efficiency" flagship initiative and the associated EU climate and biodiversity targets – this alignment should be beneficial for the environment, with targets set in RDPs to contribute to the EU targets. So too should the requirement that the environment, climate change and innovation be treated as cross-cutting concerns.

Bottom-up approaches and efforts to enhance collaboration of farmers in terms of implementation of agri-environmental actions for better effect at the landscape scale will yield higher benefits for biodiversity and for mitigating effects of climate change. In addition, the greater freedom to use measures in combination – e.g. advice and training alongside demanding agri-environment measures – would maximize positive outcomes.

Finally, the focus on innovation should have the effect of a better dissemination of efficient measures that improve resource efficiency.

4.2.3. Refocus scenario

The doubling of funds under this scenario and the clear focus on measures for the improvement of the environment and climate change actions (including renewable energy developments) should result in significant positive impacts on these areas of concern.

However, **the fact that direct payments under Pillar I are phased out could severely compromise such an outcome.** Without basic income support, the less competitive farmers who very often manage marginal land and land in remote areas in an extensive manner, thereby helping to maintain areas of high natural value, may cease their agriculture activity because they no longer earn an adequate income; moreover, GAEC that are part of the baseline for agri-environment measures no longer apply to land that does not receive direct payments (see below relevant extracts from Scenar 2020 Follow-up study).¹⁸ On the other hand, agriculture activity may be concentrated and intensified in the most competitive areas.

It is thus questionable to what extent the increased budget that can be made available for NHA and AE support can make up for the loss of direct payments.

The fact that the Rural Development toolbox in this scenario will be emptied of most axis 1 and all of axis 3 measures will only further increase the risk of abandonment and have the effect of decreasing rural vitality in these regions.

Extracts from SCENAR 2020 - II

The role of farming to maintain landscape quality and biodiversity (associated with both Natura 2000 and HNV areas) underlines the potential risk associated with land abandonment, which is apparent to different degrees in the three scenarios elaborated in the macroeconomic part of Scenar 2020-II. This possibility is put into perspective by the type of subsequent regional analysis performed, and within Scenar 2020-II an attempt has been made to identify the regions particularly characterised by those types of land use that might indicate an ongoing process of land abandonment. To do this, the future shares of different farming types projected on the horizon of 2020 have been clustered to give a broad overview of agricultural performance (but only for the Reference scenario). The conditions representing a risk of land abandonment are found in a third of the EU regions. Most of the regions in this cluster are located in France, Greece, Italy, Portugal and Spain in the western and southern EU; in Bulgaria, Hungary, Poland and Romania in the eastern EU; and in Finland and Sweden in the northern EU. The reduction in agricultural utilised land projected in the macro-economic analysis with regard to the Liberalisation scenario, however, indicates the heightened risk of more widespread land abandonment within the EU as the agricultural economy becomes more liberalised. In any case in the Liberalisation scenario the Good Agricultural and Environmental Conditions (GAEC) do not apply anymore due to the cessation of direct payments in the absence of Pillar 1. Farmers will still have to fulfil requirements of the environmental legislation, without further consideration of good agricultural practices that are present in the GAEC and not in the existing legislation. In the less competitive regions, in particular, structural land abandonment would be accompanied by environmental decline. As a secondary effect of such structural change, targeted Pillar 2 measures aiming to enhance the environment would not find addressees and, therefore, could no longer contribute to sustaining extensive farming practices and thus securing the ecological values and benefits which these provide.

¹⁸ See also *Analysis of farmland abandonment and the extent and location of agricultural areas that are actually abandoned or are in risk to be abandoned (2008)*.

Note that the average decrease in the nitrogen surplus in the Liberalisation scenario at NUTS2 level hides local concentration of the production. Particularly under the Liberalisation, the narrower concentration of production which is expected would mean also greater localised water pollution risks. Moreover, the predicted increase in farm specialisation and concentration under Liberalisation would increase the negative externalities of agriculture, both by leading to increased concentrations of pollutants in more intensive areas, by losing the features of mixed and less intensive farms which are key to protecting farmland biodiversity, and by leading to the abandonment of farmland in remoter areas, with concomitant loss to biodiversity and landscape, and an increase in climate change gas release through increased soil erosion. These effects are, however, not taken into account in CAPRI.

In addition to this assessment of environmental conditions via the indicators included in the CAPRI model (nitrogen and phosphate surplus, ammonia and greenhouse gas emissions), the consequences of the decline in agricultural land use for the environment should be mentioned. In particular under the Liberalisation scenario, the steep increase in land abandonment risks seriously undermining the ecosystem services and biodiversity values of the respective landscapes. This should be a serious concern for future policy design.

The environmental status of forests may benefit from the doubling of the funding for environment and climate change in the refocus scenario. However the phasing out of axis 1 measures would weaken the multifunctional services of forestry and would lead to negative side effects on the environment, such as creating abandonment of the less productive forests.

Finally, the new distribution key under both the integration and refocus scenarios with its focus on environmental indicators will, depending on how it is designed, have an effect on the level and distribution of environmental improvements.

4.3. Impact on the socio-economic development of rural areas

First, given that agriculture remains an important driver in many rural areas, the impact of the three scenarios on the agricultural sector will also affect rural areas in general. In addition, axis 3 measures are directly relevant for the broader socio-economic development of rural areas.¹⁹

4.3.1. Adjustment scenario

The additional resources to be made available under this scenario could help meet challenges related to Europe 2020 objectives, e.g. through the development of renewable energy projects and contributions to the bio-based economy. This would make a certain contribution to the development of rural areas.

The minimum spending requirement of 10% ensures that a minimum amount goes towards axis 3 measures, but does not take into account the fact that the relevant Europe 2020 priorities (such as energy efficiency, employment and skills, poverty reduction) are cross-cutting priorities combining different elements that cannot be grouped into single measures such as those existing under axis 3. These priorities also call for strategic and

¹⁹ See also the report of the thematic group on rural development and territorial cohesion, the RTD project *RUFUS Rural Future Networks (FP7)*, the RTD project *RuDI Assessing the Impact of Rural Development Policies (FP7)*; the RTD project *CAPRI-RD Common Agricultural Policy Regionalised Impact - The Rural Development Dimension (FP7)*; and the *Green Paper on territorial cohesion (2008)*.

integrated approaches. Therefore, the rather "schematic" current structure of axis 3 would struggle to deliver maximum benefits for rural areas.

Finally, this scenario fails to address a number of shortcomings in the delivery of axis 3 measures identified in the current programming period, e.g. the fact that support for businesses outside agriculture and tourism is limited to micro-enterprises.

4.3.2. *Integration scenario*

This scenario facilitates the use of measures in combination and support for integrated projects provided that the Member State concerned can develop a good strategy to make the best use of the funds available in line with the EU priorities. LAGs also benefit from more freedom to deliver, and a better coordination with other funds should be ensured.

In the absence of minimum spending requirements, the Member States that are most advanced in reaching the socio-economic objectives of Europe 2020 in rural areas may choose to channel funds more towards objectives other than those currently covered by axis 3 measures (e.g. they might spend more on the environment), but this would have to be justified within the process of strategic programming. For the Member States that have yet to achieve significant progress towards Europe 2020 socio-economic targets, support for general socio-economic development would probably continue to be a priority.

4.3.3. *Refocus scenario*

In broad terms (i.e. taking into account **all** aspects of the scenario), the result would be a negative impact on the socio-economic development of rural areas, including the loss of valuable social capital formation and the undermining of micro- and family business development, which is currently an essential element of the rural economies. This would be especially felt in regions where agriculture is the main driver, as well as in regions most dependent on rural development funding.

The absence of axis 3 measures **in particular** (leaving aside the absence of direct payments) would probably have a more mixed impact from one region to another. In regions which depend heavily on agriculture, extra axis 2 funding might offset the effects of the loss of axis 3 measures, **at least in the short-to-medium term**, and as far as agriculture is concerned. By contrast, regions with diversified economies would probably suffer negative effects from a shift to a more sharply environmental focus.²⁰ Of course, the overall impact on rural areas would depend on how they would then be treated in the future cohesion policy.

See below the results of a case study of regional impacts under different scenarios:

Rural ECMOD research project

The **Rural ECMOD** research project estimates the impact on the rural and urban parts of EU's NUTS-3 areas of widening the scope of EU policy intervention from a clear agricultural focus to an approach aiming at rural development in a broader sense.

²⁰ See also the analysis *Standard of living and economic growth in rural areas and their main determinants by type of regions (2010)*, and the RegPOL model showing the importance of labor productivity as a driver of GDP in rural areas, and farm investments as the measure that had the greatest impact on GDP growth and the greatest influence on the regions' development.

The scenarios examined compare the economic impacts of alternative “paths” of pillar 1 and 2 measures (over the period 2006-2020) with those of the current policy context.

Scenario 1 – “Agricultural” rural development policy: All RD spending on axes 1 & 2.

Scenario 2 – “Diversification” rural development policy: All RD spending on axis 3.

Scenario 3 – “Reduction of pillar 1 support”: Pillar 1 support is reduced by 30%.

Scenario 4 – “SCENAR scenario”: EU-wide flat-rate direct payment is introduced in pillar 1; pillar 1 support is cut by 15% in nominal terms. Pillar 2 funds increase by 45% in nominal terms.

There are 3 other scenarios dealing with the distribution of funds within axis 3.

In this project 6 NUTS-3 regions representing different patterns (predominantly rural or urban regions; regions in the process of diversifying) are analysed. They were chosen with the help of the OECD-refined and TERA-SIAP (Weingarten, *et al.*, 2009) territorial typologies.

The selected case studies are: Aberdeen City and Aberdeenshire (UK), Arkadia (GR), Jihomoravsky kraj (CZ), Guipuzcoa (ES), Potenza (IT) and Rheintal-Bodenseegebiet (AT).

Some initial findings are set out below:

If a decrease of pillar 1 funding is compensated by an increase of pillar 2 funding, in general the effects on GDP (both rural and urban) are very limited. Within the farm sector specifically, the impact on agricultural output and farm household income may be greater but is also moderated by the extra rural development funding.

A diversification-focused CAP (scenario 2) has varied effects according to the characteristics of the region in question. **Over the period modelled (2006-2020)**, regional/local economies which are already diverse benefit (in particular from the perspective of the economic activity of their rural areas) from funding for diversification measures, whereas economies which still depend significantly on agriculture and food processing may suffer negative effects over that period, **particularly in the short / medium term**.

In general, keeping the total level of funding for axis 3 constant but reallocating it between measures has only a modest impact. However, in a given region the impact could be higher with the "right" choice of measures (in this case, investments made in rural public infrastructure and services with a view to improving the attractiveness of the rural areas of the region).

For the purpose of this Impact Assessment, an attempt was made to analyse the refocus scenario, in line with the following parameters: a progressive phasing out of pillar 1 from 2010 to 2013 and doubling of pillar 2 funds (EU, national public and private expenditure) during the same period. Within pillar 2, axis 3 is abolished and axis 1 maintained at its baseline level (CAP Health-Check): the full increase of pillar 2 amount is injected in axis 2. Indicative results suggest that, notwithstanding regional specificities, in general this scenario would impact negatively rural areas in terms of GDP, and as regards farm income, the negative effects from the phasing out of pillar 1 are dominant, overshadowing other possible effects of re-allocation within pillar 2.

All in all, the impact under all three scenarios **depends to a large extent on the situation of the area concerned.**²¹

²¹ See also the *Study on Employment, Growth and Innovation in Rural Areas (SEGIRA)*, 2010.

4.4. Impact from the change in the management system, including considerations of administrative burden

4.4.1. Adjustment scenario

The maintenance of the axis system under this scenario provides a crude guarantee of a minimum level of spending per objective, but may unduly constrain the development of a full-fledged strategic approach in combining measures in the best possible way to meet the policy objectives.

If, in addition, the same ring-fencing as in the Health Check is used to allocate the additional resources, the administrative burden will be considerable.

4.4.2. Integration scenario

If designed with the correct level of ambition (not too high, not too low), a Common Strategic Framework (CSF) will help to coordinate rural development policy with the other policies covered (i.e. the ERDF, the Cohesion Fund, the ESF and the EFF), especially in the case of Member States / regions that have struggled with coordination in the current period. The CSF will also help to link the policies covered to the objectives of the Europe 2020 strategy. With regard to this last point, a useful aspect of the CSF would be the inclusion of "thematic objectives" which between them would link the scope of Europe 2020 to the areas of action of the policies covered. All of the priorities of rural development policy would be included in these thematic objectives.

At national level, the CSF could translate into Partnership Contracts (PC) on the use of the EU funds concerned, including the relevant coordination mechanisms. Within the PCs, Member States would have to explain how they would use the policies covered to serve the thematic objectives of the CSF – in ways which would be in line with their National Reform Programmes set in the framework of Europe 2020. Other key features of the PCs would include: the specification of indicators for assessing progress on the objectives chosen; and a description of national and regional mechanisms for co-ordinating the use of EU funds.

The basic model of a PC outlined above could help to co-ordinate rural development policy with other EU policies in the service of Europe 2020 - provided that it respected the particular characteristics of rural development policy. PCs would however add an extra layer of administration and it would be important to ensure that this did not lead to delays in approving and implementing programmes.

At the same time, structuring rural development programmes essentially around priorities which reflect Europe 2020 – and setting appropriate targets against those priorities within the programmes – would likewise strengthen links with Europe 2020.²²

The Commission proposal for the Multiannual Financial Framework for 2014-2020 provides that rural development policy shall be included within a Common Strategic

²² See Annual Growth Survey, Annex 1: Progress Report on Europe 2020, COM (2011) 11 final, that includes provisional national targets set by Member States in their draft National Reform Programmes.

Framework with all structural funds as well as within Partnership Contracts with Member States. Moreover, the policy should be subject to ex-ante conditionalities and a performance reserve, like the other structural funds.

Conditionality is not a new concept for rural development policy. The regulatory framework in the current period is already geared towards maximizing the efficiency and effectiveness of policy intervention with detailed conditions for the operation of programmes and individual measures (though in comparison to other policies, rural development policy operates more through conditions applying at the level of individual measures and beneficiaries). It is now proposed to bring these elements together in a more structured approach also in line with the approach for the other funds.²³ New / refined ex-ante conditionalities for rural development policy should be essential for good programme performance and feasible in practice (a possible example would be the provision of sufficient resources and capacity-building activities to address needs related to requirements of monitoring and evaluation).

There is moderate evidence to suggest that the minimum spending requirements of the axis system have influenced the spending decisions of Member States. (For example, according to a simple analysis, planned spending levels have in some cases been close to the minimum permitted levels, especially with regard to axes 3 and 4 – see **Annex 4c**). Therefore, the abolition of the axis system might lead some Member States / regions to change their spending patterns.

However, provided that strategic programming worked effectively, these changes should be appropriate to the individual situations of programming areas and clearly justified by a more realistic intervention logic (i.e. one which could depict a given measure's contribution to more than one priority / objective, instead of artificially limiting its contribution to one objective only).

To ensure that strategic programming did indeed function effectively, the Commission would have to be firm in not approving a given rural development programme before being satisfied that the programme was of adequate quality. Subsequent programme modifications would also have to be treated firmly.

The abolition of the axes would also reduce the burden on financial management.

All in all, reliance on a strengthened form of strategic targeting would make it easier for Member States to combine measures intelligently under a more results-based approach, thus allowing for a better fit of intervention to the objectives provided that the programming was done well.

There would be some additional administrative burden involved in putting new systems in place, which nonetheless should be compensated by the resulting better synergies and increased efficiency of the new management system.

²³ See also the impact assessment for cohesion policy and the work of the Conditionality Task Force with Member States and other EU institutions.

4.4.3. Refocus scenario

The programming will be simplified, as there would no longer be any competition for funding between objectives. There would also be fewer issues of demarcation with cohesion policy.

Some Member States may lack the absorption capacity to make the full use of the environmental measures. In addition, some Member States may be even more tempted to use the now reduced set of measures for other purposes (e.g. income support) under the guise of environmental measures.

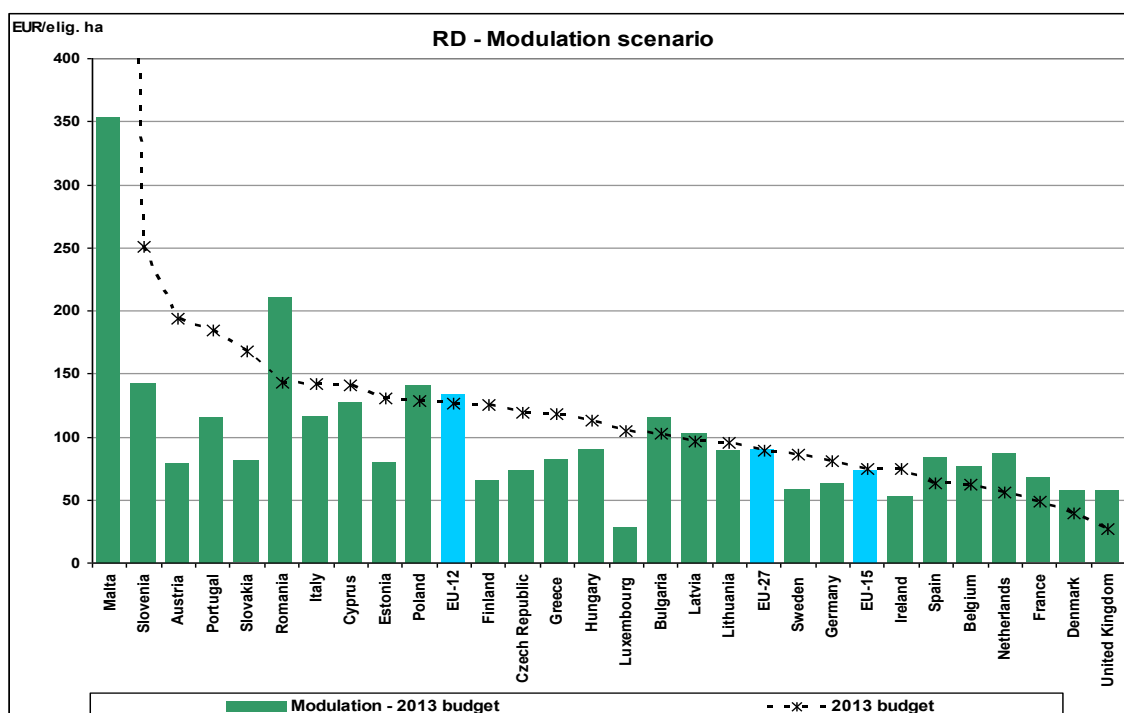
Finally, the absence of Leader would deprive rural areas of an important engine of innovative, tailor-made policy-making, which has a strong tradition in many Member States as a method for community-led local development in rural areas.

5. DISTRIBUTION OF RURAL DEVELOPMENT SUPPORT AMONG MEMBER STATES

In response to calls for more equity in the distribution of support in the next period, it is foreseen under the integration and the refocus scenarios to use objective criteria also taking the current distribution into account. This should maximize the added value of EU spending by ensuring a better fit between resources available and policy objectives.

One option is to use the so-called modulation formula that was used to distribute among Member States the additional resources made available through modulation.

- Modulation: $(0.65 \text{ Area} + 0.35 \text{ Labour}) \times \text{GDP inverse index}$



Another option is to come up with a new formula using criteria related to the future policy objectives weighed on the basis of their importance in the policy design. Clearly, the criteria would differ in the two cases of the integration and the refocus scenario.

5.1. Criteria for the distribution of support

For the integration scenario:

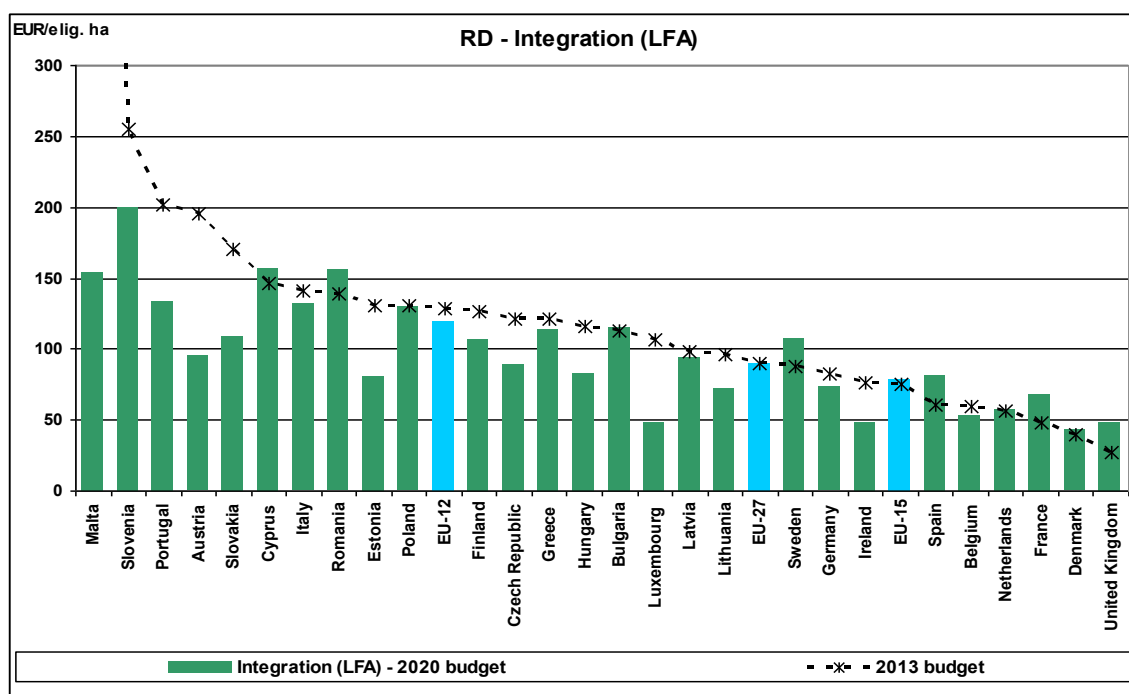
- In relation to Objective 1 (competitiveness of the agricultural sector), agricultural area and labour force are used as indicators of the economic size of the agricultural sector and labour productivity of the extent to which the sector is lagging behind;
- In relation to Objective 2 (climate change and the environment), agricultural area, Natura 2000, NHA, forest and permanent pasture areas are used as indicators of the public goods provided. Work on climate change vulnerability indicators is still ongoing and hence such indicators cannot be used.
- In relation to Objective 3 (balanced territorial development), rural population is used as an indicator of the target group benefiting from the support while the extent to which rural areas are lagging behind is covered by the use of a GDP coefficient for the whole formula.

For cohesion purposes, the whole formula is then calibrated by GDP/capita in PPS (the lower the GDP in the MS, the higher the MS envelope).

For the refocus scenario, only those indicators related to the environment and climate change remain relevant.

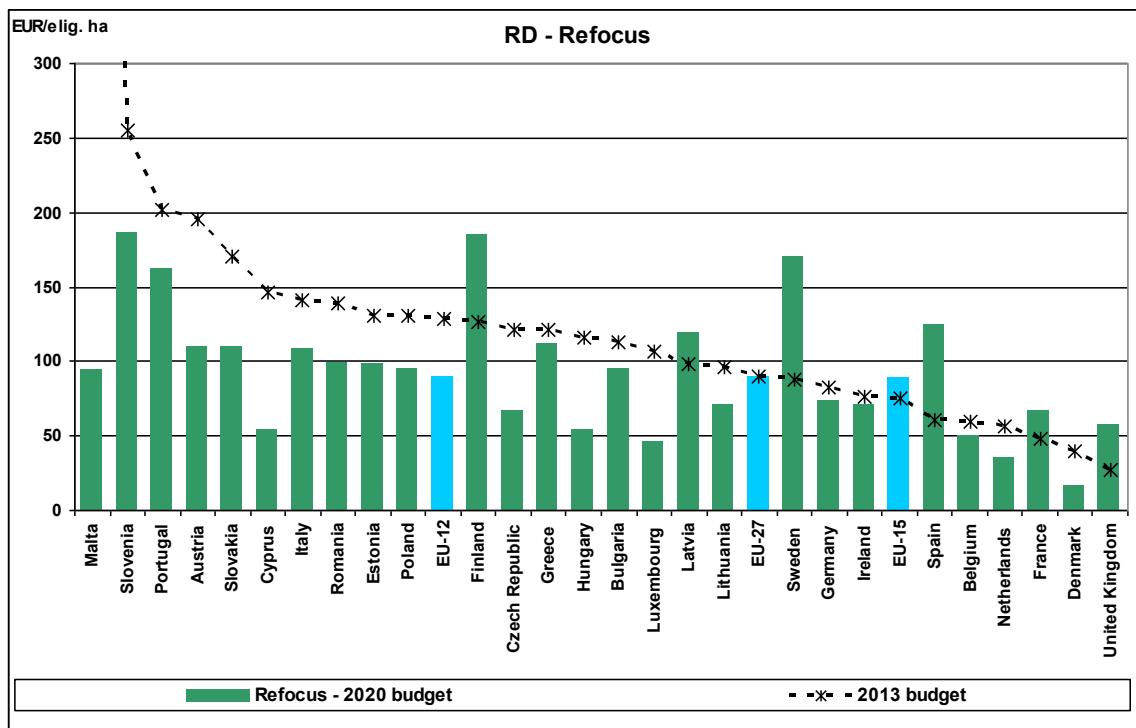
On this basis, the following options are considered:²⁴

- Integration scenario: $[1/3 [(1/2 \text{ Area} + 1/2 \text{ Labour}) \times \text{labour productivity inverse index}] + 1/3 (1/3 \text{ NHA area} + 1/3 \text{ Natura 2000} + 1/6 \text{ Forest} + 1/6 \text{ Permanent pasture}) + 1/3 \text{ Rural population}] \times \text{GDP inverse index}$



²⁴ This distribution key doesn't take into account the transfers made through the market reforms in the tobacco, cotton and wine sectors. These amounts are exempted from the redistribution and added to the national envelopes afterwards.

- Refocus scenario: (1/3 Area + 1/3 Natura 2000 + 1/6 Forest + 1/6 Permanent pasture) x GDP inverse index

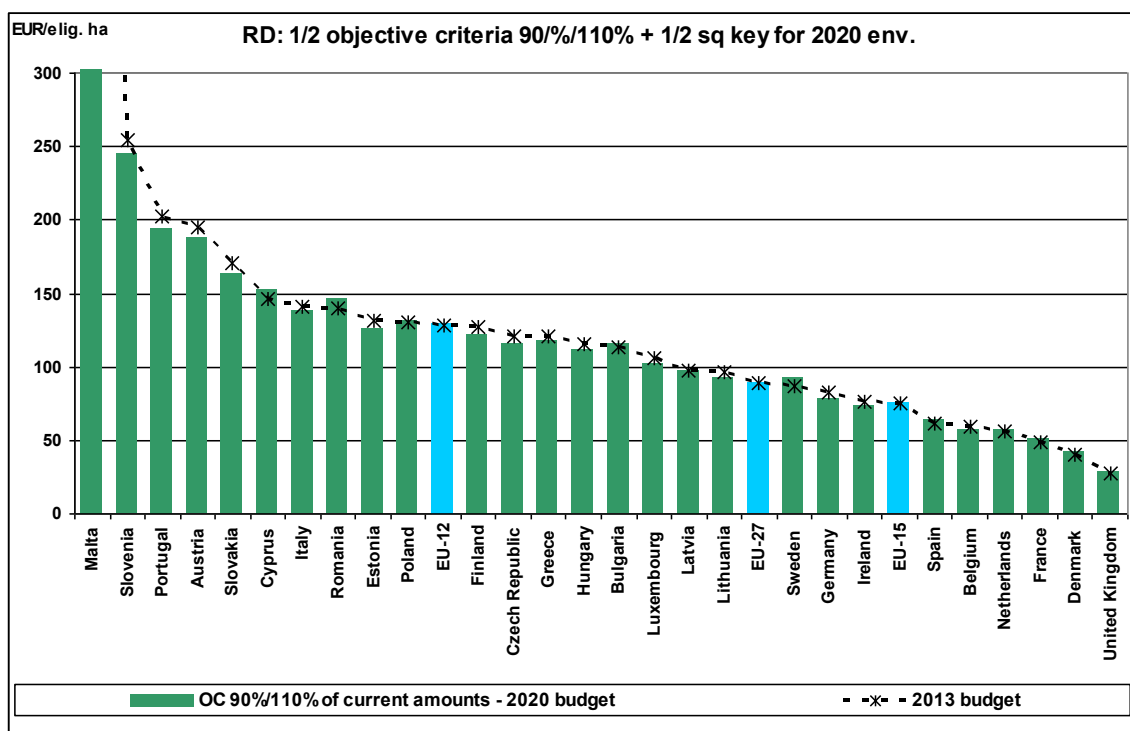


The results shown above differ considerably from the current distribution.

To smooth out the impact of redistribution, the current distribution may be taken into account in the following way:

- by distributing 50% of the total envelope on the basis of the current distribution key and 50% on the basis of the new distribution key (transfers from the market remain exempted from the redistribution)
- by providing that no MS should end up with less than 90% and not more than 110% of its current envelope
- by providing for a transitional period gradually moving towards the new distribution

For the small Member States (LU, MT) an *ad hoc* solution would in any case be required.



5.2. Assessment (for the integration and refocus scenarios)

As a general matter, a distribution on the basis of objective criteria would allow for a better fit between the policy objectives and the resources made available, thus a better use of the EU budget. However, this is less the case the closer we stay to the current distribution, and the more discretion the MS reserve to use the funds across the different objectives.

At the same time, a smooth redistribution based on the aforementioned elements ensures that there is no disruption, especially in relation to ongoing measures, and allows Member States the opportunity to find alternative financing or to introduce new measures as appropriate.

6. OTHER ISSUES

6.1. EIP "Agricultural Productivity and Sustainability"

The setting up of a European Innovation Partnership (EIP) on "Agricultural Productivity and Sustainability" is currently under consideration. The aim is to increase agricultural productivity through innovation with a focus on sustainable land management. The actions envisaged would rely to a large extent on opportunities under the 7th Framework Programme for research as well as a range of rural development measures.

The partnership should contribute to the Europe 2020 strategy by increasing resource efficiency. Even if the setting up of the partnership does not depend on the policy choice to be made for the future CAP that is the subject of the current impact assessment exercise, the use of innovation as a guiding theme as well as enhanced possibilities to put measures together under the Integration scenario should facilitate actions under the partnership.

6.2. Future delimitation of intermediate NHA

Work is ongoing on the use of biophysical criteria for the future delimitation of the non-mountainous areas with natural handicaps on the basis of the Communication from the Commission *Towards a better targeting of the aid to farmers in areas with natural handicaps* of 21 April 2009 accompanied by an impact assessment, and of the Council Conclusions of 22 June 2009.

For that purpose, the 8 biophysical criteria proposed by a scientific panel of independent experts have been tested by all Member States. The results of the simulations demonstrated the relevance and applicability of the biophysical criteria. Overall, they resulted in a modest increase in the total size of NHAs in the EU, with some changes within Member States. At national level, particular situations could arise, where the changes might affect large areas (mainly due to the removal of population and others socio-economic related criteria).

The analyses of the simulations also showed that a number of MS have to develop better datasets and that some refinements of the criteria, scientifically validated by experts, are necessary to adapt the method to better reflect data availability and others specific situations in Member States.

The end result of this exercise should be a credible and sound delimitation which is transparent and comparable across all EU Member States. Some areas will cease being eligible for payments to areas with natural handicaps, while some other areas will newly acquire this possibility.

6.3. State aid aspects

As is the case today, it will be necessary to continue to ensure consistency in the future between rural development measures in the framework of the rural development programmes and rural development measures financed through state aids.

This means that state aid rules for the agricultural sector and forestry will have to be modified to take into account the changes to be introduced in the rural development policy.

These rules are currently foreseen in:

- the Community Guidelines for state aids in the agricultural and forestry sector and
- the Commission Regulation (EC) n° 1857/2006 of 15.12.2006 on the application of Articles 87 and 88 of the Treaty to state aid to small and medium size enterprises in the production of agricultural products.

This impact assessment will be used to justify the changes to be introduced on state aid rules.

6.4. WTO aspects

As a general matter, the measures currently in place comply with Green Box criteria as set out in Annex 2 of the Agreement on Agriculture. The changes proposed in the three policy scenarios under consideration do not affect the WTO compliance of the measures concerned.

Annexes

Annex 4a – Assessment of rural development policy in the current period (2007-2013)

Annex 4b – Alignment with Europe 2020 on priorities and targets

Annex 4c – Implications of a change in the management system

Annex 4a – Assessment of rural development policy in the current period (2007-2013)

Introduction

This note presents a brief assessment of rural development policy in the current period (2007-2013) - always bearing in mind that, at the time of writing, the programmes will run for a further five-year period.

The note first analyses what might loosely be referred to as the "management system" of rural development policy.

It then assesses the strengths and weaknesses of three individual rural development measures which are considered especially significant (as well as the set of forestry measures).

Finally, it offers analysis of the Leader approach.

1. THE MANAGEMENT SYSTEM OF RURAL DEVELOPMENT POLICY²⁵

1.1. Description of key components

Rural development policy functions according to three broad objectives, which are: (a) to improve the competitiveness of agriculture and forestry; (b) to improve the environment and the countryside; and (c) to improve the quality of life in rural areas and to encourage economic diversification.

The current management system of rural development policy essentially takes these broad objectives, links them to needs at national, regional and local level, and provides the tools with which Member States (MS) and regions target financial resources at these needs.

This management system is significantly more sophisticated than its predecessors and now carries the label "strategic targeting". A brief summary of the process of strategic targeting could be the following:

- EU strategic guidelines spell out the most important areas for action under each of the three overarching objectives.
- On the basis of the strategic guidelines, MS draw up national strategy plans (NSPs) which set out (still in relatively broad terms) their needs and their planned use of rural development policy.
- Next, rural development programmes (RDPs) are produced at either national or regional level. RDPs contain an analysis of strengths, weaknesses, opportunities and threats (SWOT), a list of measures to be used to address that situation (based on a preset menu, but with tailoring of individual measures) and a set of targets.
- The ongoing implementation and impact of RDPs are assessed via a system of monitoring and evaluation with accompanying indicators, set out in the Common Monitoring and Evaluation Framework (CMEF).

The individual "building blocks" of this approach are set out in the table on page 16.

Two further aspects of the management system need to be understood.

²⁵ Relevant studies include:

Delivery Mechanisms of Rural Development Policy, Step One Report (European Network for Rural Development, October 2010);

Review of Rural Development Instruments: DG Agri project 2006-G4-10 (Dwyer et al., July 2008)

Synthesis of Ex-Ante Evaluations of Rural Development Programmes 2007-2013 (December 2008)

First, the predefined measures of rural development policy are divided up according to "axes". There is one axis for each of the three objectives of the policy (and a cross-cutting axis related to the Leader approach – see section 6). A given measure is assumed to contribute to the objective attached to the axis to which it "belongs" – and only to this objective. Within its RDP, a MS / region must spend a minimum proportion of its EU rural development funding on each axis, for the sake of balance between objectives.

Secondly, as part of the CAP Health Check agreed in 2008, an extra financial ring-fencing was introduced. At the end of the current period, MS / regions will have to show that they have spent certain amounts of money on operations²⁶ related to a small list of specific "priorities" (e.g. climate change, water management). In order to steer MS / regions into spending the funding on operations which will be genuinely useful, the Commission provided detailed (indicative) lists of eligible operations.

1.2. Assessment: identifying needs, setting objectives, allocating funding

Strong points

The current approach of strategic targeting marks a considerable advance from the previous period (2000-2006) – in which MS / regions simply selected whichever measures they wished from the preset menu and allocated funding as they saw fit, with little formal justification.

Overall, the new approach has built an effective bridge – though an imperfect one – between the general goals of the EU, needs at national, regional and local level, and measures to be used to meet those needs.

Many of the SWOT analyses conducted by MS / regions contain some high-quality work, even if there have been divergent approaches in applying certain concepts and terms. The analyses have made it possible to compare national and regional circumstances across the EU.

The subsequent setting of quantified objectives by MS / regions in their RDPs on the basis of this analysis has allowed a significantly better targeting of resources than in the previous period.

Clearly, MS / regions need to acquire additional experience of the new approach, but they have essentially taken it on board – using experience from the previous programming period but adapting it to new requirements.

Weak points

In some RDPs, a certain divergence appears between the needs identified, the choice of measures and the pattern of resource allocation. The following reasons have been suggested, among others:

²⁶ In this context, an "operation" is a practice or project serving one or more of the priorities in question. An example would be a reduced use of nitrogen fertiliser to lower greenhouse gas emissions.

- The RDP is only one tool available for addressing needs in rural areas – it is part of a "bigger picture".
- There seems to be a certain path dependence: if the authorities are familiar with a given measure and have "successfully" spent money through it in the past, they look on it with greater favour.
- Ongoing spending commitments from the previous period have a certain influence – especially in the case of multi-annual measures with a long duration.
- Certain areas and groups whose needs are relevant to rural development policy may not have made a convincing case that they would be able to absorb funding.
- Last but not least: in some cases, discussions over resource allocation are seen as significantly "political", and certain groups (especially farmers and land managers) may exert a particularly strong influence in some MS.

Another perceived weak point is that the axis system is misleading, because it supposes a 1:1 relationship between measures and objectives: i.e. that one measure serves one objective (i.e. competitiveness OR the environment OR quality of life / diversification), and one only. This supposition is clearly false (e.g. an investment can raise a farm's economic and environmental performance), and therefore its application inhibits the effectiveness of strategic targeting.

The ring-fencing introduced by the CAP Health Check has not been in operation for long, and therefore analysis of this subject is scarce. However, anecdotal evidence suggests that the administrative burden associated with ring-fencing has been very heavy – even for the small number of priorities involved. Furthermore, the approach is not seen as effective at linking spending to results.

1.3. Assessment: ensuring complementarity with other policy instruments

Strong points

With regard to the interplay between rural development policy and other policies, the task at which MS / regions have generally performed well is that of "demarcation" – a simple drawing-up of the respective boundaries of action of the various policies (e.g. stating that, in rural areas, small-scale infrastructure could be funded by rural development policy, larger-scale infrastructure by regional policy).

This has been achieved partly through the use of formal inter-ministerial co-ordination mechanisms.

Weak points

On the other hand, MS / regions have less often moved beyond simple demarcation to a full "complementarity" between policies – i.e. they have been less successful in finding synergies between policies and avoiding funding gaps.

The comment has been made that at national, regional and local level the mechanisms in place ensuring such complementarity on the basis of consultation were sometimes not adequate.

There have also been a few problems of demarcation between rural development policy and instruments in the first pillar of the CAP.

1.4. Assessment: specific points on NSPs & RDPs, links & organisation

Strong points

MS / regions seem to have had good intentions when drafting NSPs and RDPs. Attempts were made at reasonably broad consultation with stakeholders, and authorities made efforts to learn the new principles and procedures involved, drawing on technical support from the Commission.

In some cases, these efforts have led to positive results – both in terms of RDPs which are better structured than they were in the previous period, and in terms of coherence between NSPs and RDPs.

Weak points

On the other hand, the process of producing both NSPs and RDPs has entailed difficulties in some cases.

Some MS which implement regional RDPs rather than a single national programme perceived a tension of principle between NSPs and RDPs: if regional RDPs are based to a large extent on a SWOT analysis carried out at regional level, to what extent should they be influenced by the national analysis behind the NSP?

Particularly (though not uniquely) for these MS, the process of producing NSPs and RDPs which were both consistent with each other and individually rigorous seemed highly time-consuming – in a situation where time was arguably in short supply.

Furthermore, some commentators have criticised the fact that NSPs are simply "submitted" to the Commission, without a full approval process. However, it should be noted that the Commission engages in detailed discussions with MS where it believes that NSPs are flawed.

1.5. Assessment: specific points on the CMEF

Strong points

Overall, the CMEF is regarded as a significant improvement on the preceding approach to monitoring and evaluation. A fundamental aspect of the new approach is that the CMEF provides common indicators for use by all MS (though MS may design additional indicators of their own), and in doing so provides a much more comprehensive picture of what rural development policy is achieving.

Weak points

The CMEF is seen as having flaws in terms of the volume and value of data involved. The list of common indicators is seen to be long (leaving aside the additional indicators to be designed by MS); this fact, along with notably the obligation to break down indicators by age and sex of the beneficiaries where possible, is perceived as imposing a significant administrative burden.

Given the novelties of the system, MS / regions have used many of the indicators with varying levels of quality and completeness.

The CMEF has not fully overcome the difficulties involved in assessing the impact of policy action in cases where that impact is subject to multiple influences. However, it should be noted that such difficulties are certainly not unique to rural development policy – they are common in policy-making in general - and that the now-established European Evaluation Network For Rural Development will contribute to easing these difficulties.

2. MEASURE 121 – MODERNISATION OF AGRICULTURAL HOLDINGS²⁷

2.1. Description

The main purpose of investments under this measure is to improve the overall performance of farms by helping them to make better use of the factors of production. It can also provide assistance in complying with EU standards under certain conditions.

The maximum aid intensity permitted under the measure is 40 % in most cases. However, in Natural Handicap Areas (NHAs) the standard maximum rate is 50 %; young farmers are eligible for an extra 10 percentage points, inside NHAs and outside them; aid intensity can reach 75 % in outermost regions and in smaller Aegean Islands.

The range of investments which can be supported is very broad. Examples include (among many others):

- construction and renovation of buildings, including increased storage capacity for manure for fertilizing or energy production;
- new machinery and equipment (including computer software), including for spraying plant protection products and distributing fertilisers more accurately on the field;
- installation of on-farm renewable energy plants for on-farm consumption;
- energy efficiency;
- improvement of irrigation systems and facilities for water treatment and recovery;
- environmental and hygiene investments;
- improvement of product quality.

²⁷ Provided for in articles 20 (b) (i) and 26 of Council Regulation (EC) No 1698/2005

Measure 121 is programmed in all Member States in the current period and in 86 RDPs (Wales and Valle d'Aosta have not programmed it). The EAFRD budget allocated by RDPs to this measure is € 10 667 million for around 527 000 beneficiaries. The average contribution from the EAFRD is € 18 300.

According to the financial plans in force at the end of 2010, this EAFRD contribution will be matched by € 6 645 million of national public funding and € 25 770 million of private funding.

Support is mostly paid as a grant, but in some cases as both a grant and an interest rate subsidy.

2.2. Assessment – measure design and implementation

Strong points

In general, this measure can be very effective in its essential mission of improving the overall performance of farms. There is clear evidence that the measure has made a strong contribution to:

- reducing production costs²⁸ – especially by encouraging a more efficient use of labour;
- improving quality – often indirectly, as only a small proportion of investments appear to have been made with this in mind as a specific objective;
- increasing income;
- securing employment – even though the measure also leads to a more efficient use of labour;
- improving working conditions;
- improving animal welfare conditions;
- improving environmental performance (e.g. cutting greenhouse gas emissions through investments in heating, biomass, energy efficiency and liquid manure storage and sustainable use of pesticides).

The measure has been especially useful when appropriately targeted by sector and geography to meet specific needs²⁹. For example, according to various evaluation reports it has been particularly relevant in:

²⁸ Mid-term evaluations of the 2000-2006 period and DG AGRI's note "Analysing the support for investment in agricultural holdings" (2009)

²⁹ Rural Development Instruments study (2008)

- regions with small or medium-sized farms with low productivity where the measure is used to foster general modernisation, advance the pace of structural change and add value to products – though animal welfare and environmental concerns have also sometimes been addressed in such cases³⁰;
- regions with highly productive farms where the measure is used to address challenges related to the environment and animal welfare.

Several Member States report a very good uptake and financial execution, and the measure is considered to be a very important asset within the programmes³¹.

DG AGRI calculated that this measure has a high leverage effect. For every € 1 of EU funds allocated, the total public support is € 1.62 (i.e. with € 0.62 from national / regional public funds). In addition to that, the average private expenditure is € 2.47 – giving total spending of € 4.09 for every € 1 of EU funding.

Weak points

As stated above, the measure delivers clear benefits when targeted well; on the other hand, evaluation reports have suggested some instances of poor targeting, sometimes leading to deadweight effects in the case of support for large, highly productive farms undertaking 'traditional' investments - and for farms with a significant asset value which could have raised funding for investment from private-sector sources.

(However, it has been difficult to assess the extent of deadweight because of problems related to quantitative methodology and available monitoring data. Moreover, much of the relevant work carried out so far has focused on the EU-15 – whereas the picture is somewhat different in many regions of the EU-12, where lending markets are less developed and the scope for raising private capital is more limited.)

Although targeting has been introduced as prerequisite for the programming period 2007-2013, its possibilities have not fully been utilised³². In some cases, Member States / regions have made insufficient effort to target support at real needs (e.g. through eligibility conditions and selection criteria). In certain other cases, they applied targeting in theory, but in practice the application procedures and general administration attached to the measure were complex, and this sometimes led to a *de facto* exclusion of some farms in genuine need (e.g. small farms).

3. MEASURE 214: AGRI-ENVIRONMENT PAYMENTS³³

³⁰ DG AGRI's note "Analysing the support for investment in agricultural holdings" (2009)

³¹ This has been confirmed in the strategic monitoring reports submitted at the beginning of October 2010.

³² Rural Development Instruments study (2008)

³³ Provided for in art. 36 (a) (iv) and 39 of Council Regulation (EC) No. 1698/2005

3.1. Description

Agri-environment payments encourage farmers to adopt agricultural practices or levels of production intensity which deliver positive environmental outcomes but imply lower profits. They are an essential tool for integrating environmental concerns into the CAP, and they play a crucial role in meeting society's demand for environmental public goods and ecosystem services provided by agriculture.

In order to be supported by agri-environment payments, a given practice must go beyond a farmer's or land manager's legal obligations. The agri-environment payment then provides compensation for additional costs and income foregone resulting from the commitment.

In general terms, the payments help to combat and adapt to climate change (e.g. by cutting greenhouse gas emissions and sequestering carbon), preserve valuable habitats and biodiversity, conserve diversity in genetic resources, care for landscapes and manage a range of natural resources sustainably (e.g. water and soil).

The range of the specific practices / types of farming which are covered is extremely wide. Just a few examples include:

- organic farming (N.B. for environmental benefit only – not to influence product markets);
- maintenance or introduction of extensive farming practices and extensive livestock management;
- maintenance and management of landscape features;
- more sustainable use of chemical inputs (fertilisers and pesticides);
- conversion of arable land into grassland;
- management of habitats, and biodiversity preservation;
- establishment and management of riparian zones, buffer strips and field margins;
- maintenance of traditional and local breeds and conservation of genetic resources.

Agri-environment payments are not only by far the leading environmental measure but also, in terms of planned expenditure, the leading measure overall: in the current period, spending earmarked for measure 214 from the European Agricultural Fund for Rural Development (EAFRD) amounts to about € 22 231 million, i.e. 23.1 % of total EAFRD funds.

The EAFRD contribution will be matched by € 15 399 million of national public funds.

3.2. Assessment – measure design and implementation³⁴

Strong points

Essentially, although in the environmental sphere quantification is sometimes difficult, it is beyond question that measure 214 has delivered strong environmental benefits (see, for example, IEEP 2009).

The range of environmental benefits delivered is wide – partly because the range of practices / operations covered is also wide. These benefits vary not only in nature but also in "depth": it is possible to support both "light-green" measures (with relatively light commitments but broad coverage) and "dark-green" measures (with more demanding commitments but usually narrower coverage).

Many agri-environment measures provide multiple environmental benefits. For example, a reduction in chemical inputs will have a positive impact not only on water quality but also (in many cases) on climate change mitigation and biodiversity preservation.

The voluntary agri-environment approach complements the contribution of the first pillar of the CAP. Direct payments help to keep farming in place around the EU and the link to cross-compliance helps to ensure that farmers observe a mandatory baseline of environmentally sustainable farming practice. Agri-environment measures then help to meet objectives beyond that baseline – often, a long way beyond it – in line with the expectations of society.

Agri-environment measures are very flexible and may be designed at the national, regional, or local level so that they can be adapted to particular farming systems and specific environmental conditions, be spatially differentiated and target specific environmental objectives.

In many cases, agri-environment measures also provide non-environmental benefits, especially in terms of local employment (e.g. by making the countryside more attractive and thereby stimulating tourism).

³⁴ Relevant literature includes:

The Provision of Public Goods through Agriculture in the EU, IEEP 2009

Synthesis of Rural Development Mid-Term Evaluations EAGGF Guarantee, Agra CEAS Consulting 2005

A Pan-European Overview of How MS Approach the Delivery of Environmental and Social Public Goods through the 2007-13 RDPs, TWG3 2010

Impact Assessment of RDPs in View of Post-2006 Rural Development Policy, DG AGRI 2004

Evaluation of Agri-Environment Measures, Report for DG AGRI, Oréade-Brèche 2005

Review of RD Instruments, DG AGRI project, 2008

Measure 214 is now familiar to Member States and regions and well accepted by farmers. It is therefore widely used: according to an indicative target, in this period the measure will cover 50 million ha of land, or 28 % of the EU's utilised agricultural area (see section 4.1 for spending figures).

Weak points

In practice, although all proposed agri-environment measures must be justified (the justification including a calculation of related costs incurred and income foregone), in practice some measures are proposed whose likely net benefits are limited – e.g. in cases where:

- measures are insufficiently tailored to regional / local needs;
- measures involve only commitments just above the baseline of legal obligations (i.e. they are not combined with more demanding commitments);
- demanding commitments are (for budgetary reasons) not matched by an appropriate payment rate (which discourages take-up).

Measure 214 works on the basis of obligations defined in a contract which must last at least 5 years. This is sometimes seen as too short, and sometimes as too long – in the latter case, possibly discouraging some farmers and land managers from applying (e.g. if the land is rented).

The rules on using measure 214 to pay for "transaction costs" as well as (in some cases) costs arising directly from the environmental obligations are seen as unclear.

It is difficult (though not impossible) in the current rural development policy to link more complex agri-environment measures to support for relevant training for farmers and land managers who need help to make use of those measures.

Agri-environment measures sometimes entail the risk of a higher error rate than in some rural development measures. It should be emphasised, however, that this fact is inherent in some of the practices / operations supported and necessary to meet the measure's objectives (e.g. multiple obligations may be involved which can be checked only at certain times or over a relatively long period) – and it should be weighed against the benefits delivered.

4. MEASURES SPECIFIC TO THE FORESTRY SECTOR

4.1. Description

The current Council Regulation on rural development policy provides for eight measures specific to the forestry sector – one in axis 1 and seven in axis 2 (though there are many other measures which are not specific but relevant to the sector).

The forestry-specific measures are:

- Improving the economic value of forests (measure 122, article 27 of Council Regulation (EC) 1698/2005;

- First afforestation of agricultural land (measure 221, article 43);
- First establishment of agro-forestry systems on agricultural land (measure 222, article 44);
- First afforestation of non-agricultural land (measure 223, article 45);
- Natura 2000 payments in forests (measure 224, article 46);
- Forest environment payments (measure 225, article 47);
- Restoring forestry production potential and introducing prevention actions (measure 226, article 48);
- Non-productive investments (measure 227, article 49).

4.2. Assessment – measure design and implementation

Strong points

Between them, the forestry-specific measures address a broad range of objectives, economic and social (this range is further extended by the measures which are relevant to the forestry sector but not specific to it).

The relatively popular afforestation measures have helped to increase the extent of EU forests, which are a vital resource for combating climate change, maintaining environmental stability in other respects and providing raw materials for the sustainable production of energy and goods.

The measures addressing suitable care of forests rather than their creation have helped to meet a range of genuine needs, including:

- carbon sequestration;
- improvement of water balance;
- soil protection;
- preservation of biodiversity.

Weak points

Although the uptake of the afforestation measures has been good overall, these have been markedly less popular in areas of intensive farming.

The "baseline" for forest environment payments – i.e. the basic requirements for which the measure may not offer support - is not defined in the rural development Regulations. This has caused difficulties for programming authorities and probably helps to explain the measure's modest uptake.

The forestry-specific measures have struggled to catch the interest of owners / holders of the many small, fragmented pockets of forest which make up a significant share of the EU's total forest area.

Finally, anecdotal evidence suggests that some programming authorities and potential beneficiaries have found the sheer range of the forestry-specific measures a little confusing.

5. MEASURE 312 – SUPPORT FOR THE CREATION AND DEVELOPMENT OF MICRO-ENTERPRISES³⁵

5.1. Description

The essential aim of the measure is to support the creation and development of micro-enterprises "with a view to promoting entrepreneurship and developing the economic fabric" in rural areas (quotation from Regulation 1698/2005).

The measure has a wide scope, covering non-agricultural and non-forestry activities – as well as services linked to agriculture and forestry.

Typical supported investments include those in premises, equipment and (processing/industrial) facilities, IT software and patents.

Implementation of the measure is generally based on a business plan (especially in the case of starting a business), and on the demonstration of adequate professional abilities.

In the current period, the measure is programmed by 21 Member States, in 50 rural development programmes. The total planned EAFRD funding is € 2 209 million.

According to the financial plans in force at the end of 2010, this EAFRD contribution will be matched by € 885 million of national public contribution and € 2 878 million of private funding. With national and private co-funding added, total investment should reach about € 5.97 billion.

Actual spending started slowly – as is common in the case of measures in axis 3 – but has accelerated significantly.

The measure aims to support some 95 000 businesses and create 115 000 jobs.

5.2. Assessment – measure design and implementation

Strong points

The measure is extremely relevant to the general development of rural areas, offering support to existing and potential small-scale entrepreneurs to widen and develop the sources of growth and jobs in the countryside.

According to discussions with managing authorities, the measure is easy to implement and has a good absorption capacity – even in a context of economic crisis.

MS have found it feasible to use financial engineering tools in connection with this measure.

Targeting of the measure has been relatively strong – including through eligibility conditions (e.g. a minimum level of investment), selection criteria and aid intensities. Groups targeted include:

³⁵ Provided for in articles 52 (a) (ii) and 54 of Council Regulation (EC) No 1698/2005

- female entrepreneurs;
- young people;
- particular business sectors;
- particular parts of rural areas where economic diversity needs to be stimulated (mountains, areas with natural handicaps, remote areas, etc.)
- beneficiaries likely to score a good level of job creation.

Weak points

The limitation of the measure to micro-enterprises has been criticised (e.g. in official requests to the Commission from certain managing authorities). It is judged that supporting small enterprises would lead to considerable benefits – especially as this "gap" is in many cases not filled by other EU funds.

6. THE LEADER APPROACH

6.1. Description

The "Leader approach" is a tool for stimulating rural development which is more flexible, territorial, innovative and especially "bottom-up" than the traditional delivery approaches of rural development policy as a whole. Its main elements are:

- area-based local development strategies intended for well-identified sub-regional territories;
- local public-private partnerships (local action groups – LAGs);
- a bottom-up approach with decision-making power for LAGs concerning the elaboration and implementation of local development strategies;
- multi-sectoral design;
- implementation of innovative approaches;
- implementation of co-operation projects;
- networking of local partnerships.

In the previous period (2000-2006), the Leader approach was implemented through the Community Initiative "Leader +" and worked entirely outside the menu of mainstream rural development policy measures.

In the current period (2007-2013), the Leader approach has in a sense been brought into the "mainstream". This means that it can be used to implement projects which naturally relate to rural development measures in the main menu – though it is not limited to doing so.

Planned spending on Leader from the EAFRD in the current period is € 5 755 million– 6 % of total EAFRD resources³⁶. According to the financial plans in force at the end of 2010, this EAFRD contribution will be matched by € 3 426 million of national public funding and € 4 963 million of private funding, thus generating a total financial impact of € 14 144 million in the areas selected. More than 2100 LAGs have been selected so far (not counting groups in Romania or Bulgaria) – more than double the number under Leader +.

Actual spending on Leader started slowly but has been accelerating.

As the implementation of the Leader local development strategies in the current period is still at a relatively early stage in some Member States, the comments below relate both to Leader + (2000-2006) and to the current approach – distinguishing where necessary.

6.2. Assessment – conception and implementation

Strong points

Generally, Leader has been successful in promoting the diversification of rural economies.

There has been a positive impact on employment creation and maintenance, on income (through creation of new enterprises and activities and through improved marketing and promotion of existing activities) and the creation of new facilities and services for local people.

Leader has brought local actors together at both strategic and operational levels who would not otherwise have met or co-operated. It has supported the development of local governance capacities. It has developed professionalism, local knowledge and contacts, increasing local actors' capacity for self-organisation. The areas covered by Leader have critical mass but are small enough not to threaten personal interaction between stakeholders of various types.

There is evidence that social capital and territorial competitiveness have been enhanced by Leader. It has complemented mainstream programmes and in particular created the right conditions (i.e. in terms of actors' knowledge, experience and contacts) for drawing in financial support from other funds.

Innovation has been fostered - particularly through enabling local actors to start new activities, by combining existing activities/actors in new ways, and by linking local competences to external sources of knowledge and technology.

Greater fiscal autonomy appears to have led to greater scrutiny at LAG level of value for money, and thus contributed to greater added value.

³⁶ Member States of the EU-15 are obliged to spend at least 5 % of their EAFRD allocation on Leader; for Member States of the EU-12, the obligatory level is 2.5 %.

In the current period, where MS have taken advantage of the mainstreaming of Leader as intended, this shift has provided them with a useful "new" delivery mechanism and governance tool for achieving the objectives of mainstream rural development measures.

Weak points

In the current period, a significant number of Member States have subordinated Leader to the rules of the predefined measures in the measure catalogue. In these cases, the "innovative" quality of Leader has been compromised.

Following the inclusion of Leader in the administrative management of rural development policy as a whole, in some MS LAGs have no longer had adequate decision-making powers. This has hindered Leader's effectiveness.

In some cases, LAGs have lacked administrative capacity, and this and other factors have meant that the quality of local development strategies has been varied.

With regard to Leader + in particular (2000-2006), monitoring and evaluation were sometimes inadequate.³⁷

³⁷ It should be noted that, at the time of writing, the full evaluation of Leader + is about to become available.

Delivery mechanisms of rural development policy

Delivery mechanism	Description
EU strategic guidelines	<ul style="list-style-type: none"> • adopted by the Council • set out the EU goals to be addressed through rural development policy
National strategy plans	<ul style="list-style-type: none"> • submitted by Member States to the Commission (but not "approved") • identify national rural development needs and link them to EU objectives • set out means for co-ordinating rural development policy with other EU policies
Rural development programmes (RDPs)	<ul style="list-style-type: none"> • drawn up at either national or regional level • analysis of strengths, weaknesses, opportunities, threats (SWOT) in Member State / region concerned • set quantitative targets • select appropriate measures (see below), adapt these to national/regional needs • allocate funding to measures – ensuring that a minimum percentage of funding will be spent on each axis
Rural development measures	<ul style="list-style-type: none"> • basic building blocks of policy (for example the <u>measure</u> "farm modernisation") • describe <u>types of operation</u> (e.g. investment support for drip irrigation) that can be supported – with eligibility criteria, aid intensities, payment levels, other rules etc. • grouped into "axes" according to supposed effect (axis 1: competitiveness; axis 2: environment; axis 3: economic diversity and quality of life) + one "methodological" axis – Leader (axis 4)
Common Monitoring and Evaluation Framework (CMEF)	<ul style="list-style-type: none"> • provides indicators <ul style="list-style-type: none"> – output indicators (e.g. area under agri-environmental support) – result indicators (e.g. area under successful land management contributing to biodiversity) – impact indicators (e.g. reversing biodiversity decline) • and other tools for: <ul style="list-style-type: none"> – mapping out the baseline situation in Member States/regions – setting targets and monitoring progress – evaluating the impact of RDPs

Financial implementation – State of play

Measure code	Measure description	EAFRD realised 2007-2010	EAFRD programmed 2007-2013	EAFRD: % on target
111	Vocational training and information actions	178.374.159	1.088.770.755	16%
112	Setting up of young farmers	960.913.203	2.887.459.093	33%
113	Early retirement	1.087.495.694	2.853.038.896	38%
114	Use of advisory services	24.905.326	440.116.503	6%
115	Setting up of management, relief and advisory services	4.765.168	93.521.358	5%
121	Modernisation of agricultural holdings	4.006.385.790	10.667.014.207	38%
122	Improvement of the economic value of forests	91.251.870	653.687.055	14%
123	Adding value to agricultural and forestry products	1.184.998.893	5.647.323.016	21%
124	Cooperation for development of new products, processes and technologies in the agriculture and food sector and in the forestry sector	22.091.416	349.276.602	6%
125	Infrastructure related to the development and adaptation of agriculture and forestry	902.139.120	5.129.438.277	18%
126	Restoring agricultural production potential	128.594.404	477.542.677	27%
131	Meeting standards based on EU legislation	46.477.476	103.920.898	45%
132	Participation of farmers in food quality schemes	18.561.738	294.073.244	6%
133	Information and promotion activities	16.182.663	206.366.222	8%
141	Semi-subsistence farming	402.845.455	993.869.819	41%
142	Producer groups	61.948.011	327.863.144	19%
143	Providing farm advisory and extension services	1.912.534	131.773.438	1%
144	Holdings undergoing restructuring due to a reform of a common market organisation	0	17.030.527	0%
Axis 1		9.139.842.921	32.362.085.731	28%
211	Natural handicap payments to farmers in mountain areas	3.581.524.850	6.240.877.766	57%
212	Payments to farmers in areas with handicaps, other than mountain	3.788.760.958	7.241.359.414	52%

	areas			
213	Natura 2000 payments and payments linked to Directive 2000/60/EC	68.235.935	476.726.824	14%
214	Agri-environment payments	9.793.423.243	22.231.273.684	44%
215	Animal welfare payments	170.177.253	543.036.224	31%
216	Non-productive investments	72.592.201	591.086.049	12%
221	First afforestation of agricultural land	682.098.301	2.294.955.976	30%
222	First establishment of agroforestry systems on agricultural land	13.327	16.382.490	0%
223	First afforestation of non-agricultural land	48.658.741	347.805.392	14%
224	Natura 2000 payments	7.211.959	101.956.083	7%
225	Forest-environment payments	17.514.378	271.411.253	6%
226	Restoring forestry potential and introducing prevention actions	389.600.509	1.609.673.680	24%
227	Non-productive investments	131.439.024	808.940.730	16%
Axis 2		18.751.250.678	42.775.485.565	44%
311	Diversification into non-agricultural activities	201.037.922	1.488.899.856	14%
312	Support for business creation and development	199.303.071	2.208.788.801	9%
313	Encouragement of tourism activities	158.336.140	1.291.017.104	12%
321	Basic services for the economy and rural population	445.229.953	3.120.183.405	14%
322	Village renewal and development	655.075.573	3.107.941.407	21%
323	Conservation and upgrading of the rural heritage	247.085.155	1.314.598.779	19%
331	Training and information	19.961.244	147.529.893	14%
341	Skills-acquisition and animation measure with a view to preparing and implementing a local development strategy	40.488.786	150.021.451	27%
Axis 3		1.966.517.845	12.828.980.696	15%
411	Competitiveness	32.969.085	471.879.819	7%
412	Environment/land management	3.450.284	167.031.778	2%
413	Quality of life/diversification	293.883.419	3.877.472.891	8%
421	Implementing cooperation projects	5.070.698	278.555.888	2%

431	Running the LAG, skills acquisition, animation	166.786.045	959.729.194	17%
Axis 4		502.159.530	5.754.669.570	9%
511	Technical assistance	347.836.012	1.877.371.428	19%
611	Complimentary direct payments	438.676.604	645.581.697	68%
Total		31.146.283.591	96.244.174.687	32%

Where uptake of individual rural development measures has been slow at the time of writing, reasons include the following:

- administrative requirements which are relatively time-consuming in the start-up phase (*e.g. Leader approach*);
- limits on premia which are seen as low in relation to costs to be covered (*e.g. measure 114 – use of advisory services*);
- unclear level of need of measure in some areas (*e.g. 115 – setting-up of farm management, relief & advisory services – some services already in place in several Member States*);
- new measure, therefore more difficult to use – sometimes resulting in complex conditions put in place by Member States / regions (*e.g. 124 – co-operation for development of new products, processes & technologies*);
- in the case of measures "establishing" certain natural features, policy choice by Member States / regions to focus on maintaining existing areas with those features rather than establishing new areas (*e.g. 222 – first establishment of agro-forestry systems on agricultural land*);
- more demanding administrative procedures for implementing axis 3 types of measures compared to certain annual area related payments. This includes in particular the need for MS to prepare state-aid schemes and to organise broad project selection processes.
- preferences given by MS to other measures than axis 3 aid schemes in the context of accreditation processes when these were done by axis or by measure, with axis 3 (and its measures) being in general the last one to be accredited;
- need of running of public procurement procedures for selection of sub-contractors, which delay implementation (*e.g., 321 – basic services where municipalities are beneficiaries, but sub-contractors implement projects*);
- lack of advance payments to training institutions for carrying out vocational training activities (*e.g., 331 – training and information actions in rural areas*);
- difficulties of access to finance, especially for rural businesses (*e.g., 311 – farm diversification, 312 – micro-business development, 313 - rural tourism, etc.*)

Output and result indicators

Output indicators – State of play

Measures code	Measures	Number of RDP implementing the measures (max 88)	EAFRD 2007-2009	Total allocation 2007-2013	uptake level
111	Vocational training and information actions	78	93,266,011	996,338,654	9%
112	Setting-up of young farmers	69	537,109,921	2,729,762,572	20%
113	Early retirement	52	750,047,270	2,644,456,215	28%
114	Use of advisory services	60	12,241,690	662,546,667	2%
115	Setting up of farm management, relief and advisory services	33	1,958,763	137,271,564	1%
121	Modernisation of agricultural holdings	86	2,165,093,096	9,652,819,268	22%
122	Improvement of the economic value of forests	50	50,823,649	652,127,142	8%
123	Adding value to agricultural and forestry products	86	528,305,883	5,519,893,083	10%
124	Cooperation for development of new products, processes and technologies	55	8,006,806	336,457,412	2%
125	Infrastructure related to the development and adaptation of agriculture and forestry	78	456,373,495	4,866,010,414	9%
126	Restoring agricultural production potential damaged by natural disasters and introducing appropriate prevention actions	25	69,860,106	732,535,861	10%
131	Meeting standards based on Community legislation	17	44,128,620	96,683,558	46%
132	Participation of farmers in food quality schemes	51	7,694,531	293,455,582	3%
133	Information and promotion activities	47	6,998,387	212,320,517	3%
141	Semi-subsistence farming	8	268,766,385	915,274,606	29%
142	Producer groups	10	40,151,798	325,507,181	12%
143	Providing farm advisory and extension services	2	624,804	131,773,438	0%
Total Axis 1			5,041,451,215	30,905,233,734	16%
211	Payments to farmers in areas with handicaps (Article 36 (a) (i) of Reg. (EC) N, 1698/2005)	58	2,535,342,208	6,004,100,602	42%
212	Payments to farmers in areas with handicaps in mountain areas (Article 36 (a) (ii) of Reg. (EC) N, 1698/2005)	74	2,689,096,097	6,642,712,499	40%
213	Natura 2000 payments and payments linked to Directive 2000/60/EC (WFD)	28	38,923,729	471,826,214	8%
214	Agri-environment commitments	88	6,766,447,108	20,317,820,878	33%
215	Animal welfare payments	21	104,442,195	312,974,710	33%

216	Non-productive investments	49	26,179,845	462,790,092	6%
221	First afforestation of non-agricultural land	66	487,931,021	2,417,586,932	20%
222	First establishment of agroforestry systems on agricultural land	16	-	22,743,954	0%
223	First afforestation of non-agricultural land	39	21,584,293	360,798,588	6%
224	Natura 2000 payments	15	3,656,799	110,646,424	3%
225	Forest-environment payments	31	10,899,107	265,436,228	4%
226	Restoring forestry potential and introducing prevention actions	58	217,636,399	1,552,976,933	14%
227	Non-productive investments	71	71,172,180	808,852,967	9%
Total Axis 2			12,973,310,981	39,751,267,021	33%
311	Diversification into non-agricultural activities	67	84,033,772	1,442,111,649	6%
312	Business creation and development	51	57,332,430	2,185,744,982	3%
313	Encouragement of tourism activities	62	66,389,380	1,300,160,835	5%
321	Basic services for the economy and rural population	64	141,770,148	2,685,865,662	5%
322	Village renewal and development	54	223,388,217	3,046,071,082	7%
323	Conservation and upgrading of the rural heritage	69	125,595,829	1,265,471,141	10%
331	Training and information for economic actors operating in the fields covered by Axis 3	35	9,328,125	136,185,036	7%
341	Skills acquisition, animation and implementation	38	21,891,831	161,215,956	14%
Total Axis 3			729,729,730	12,222,826,343	6%
411	Implementing local development strategies - axis 1	61	13,841,102	522,378,659	3%
412	Implementing local development strategies - axis 2	43	1,446,691	165,209,131	1%
413	Implementing local development strategies - axis 3	86	96,583,627	3,725,553,233	3%
421	Implementing cooperation projects	87	1,038,962	265,619,794	0%
431	Running the local action group, acquiring skills and animating the territory	86	47,765,310	854,443,162	6%
Total Axis 4			160,675,692	5,533,203,979	3%
511	Technical assistance		197,240,105	1,925,361,913	10%
611	Direct Payments (RO and BG)		342,426,737	645,581,697	53%
Grand Total			19,444,834,460	90,983,474,687	21%

Monitoring output indicators 2007-2009, and targets 2007-2013
(before HC as at end 2009) ³⁸

Code	Measure	Output	Unit	Value (2007-2009)	Targets 2007-2013	% target
111	Vocational training and information actions	Number of participants in training	N,	1,136,877	5258036	22%
112	Setting up of young farmers	Number of assisted young farmers	N,	36,660	188,427	19%
113	Early retirement	Number of beneficiaries	N,	17,385	81,453	21%
		Number of hectares released	Ha	230,000	998,627	23%
114	Use of advisory services	Number of farmers supported	N,	34,800	1,125,166	3%
		Number of forest holders supported	N,	1,070	64,042	2%
115	Setting up of management, relief and advisory services	Number of newly set up management, relief or advisory services	N,	185	1,191	16%
121	Modernisation of agricultural holdings	Number of farm holdings that received investment support	N,	105,800	592,700	18%
122	Improvement of the economic value of forests	Number of forest holdings that received investment support	N,	6,020	68057	9%
123	Adding value to agricultural and forestry products	Number of enterprises supported	N,	7,060	69,000	10%
124	Cooperation for development of new products, processes and technologies	Number of cooperation initiatives supported	N,	353	5,683	6%
125	Infrastructure related to the development and adaptation of agriculture and forestry	Number of operations supported	N,	16,623	49,151	34%
126	Restoring agricultural production potential damaged by natural disasters and prevention actions	Supported area of damaged agricultural land	Ha	336,000	1,411,673	24%
131	Meeting standards based on Community legislation	Number of beneficiaries	N,	8,214	88,133	9%

³⁸ Source: RDIS IDIM 2009, outputs indicators for commitments made from 2007 onwards

132	Participation of farmers in food quality schemes	Number of supported farm holdings participating in a quality scheme	N,	134,000	393,381	34%
133	Information and promotion activities	Number of supported actions	N,	2,041	51,635	4%
141	Semi-subsistence farming	Number of semi-subsistence farm holdings supported	N,	8,885	110,889	8%
142	Producer groups	Number of supported producer groups	N,	280	2,162	13%
LFA	Support to Less Favoured Areas	Number of supported holdings in LFAs	N,	2,568,319	3,734,832	69%
		Supported agricultural land in LFAs	Ha	49,050,000	51,700,000	95%
213	Natura 2000 payments and payments linked to Directive 2000/60/EC (WFD)	Number of supported holdings in Natura 2000 areas/under WFD	N,	29,679	58,476	51%
		Supported agricultural land under Natura 2000/under WFD	Ha	536,492	1,506,695	36%
214	Agri-environment payments	Number of farm holdings	N,	947,000	2,778,267	34%
		Total area under agri-environmental support	Ha	33,150,000	60,000,000	55%
		Physical area under agri-environmental support	Ha	21,528,712	50,000,000	43%
		Total Number of contracts	N,	1,675,447	2,931,033	57%
215	Animal welfare payments	Number of animal welfare contracts	N,	126,700	184,287	69%
216	Non-productive investments	Number of farm holdings	N,	5,642	92,977	6%
221	First afforestation of agricultural land	Number of beneficiaries receiving support	N,	14,100	130,089	11%
		Number of ha afforested land	Ha	72,500	600,000	12%
222	First establishment of agroforestry systems on agricultural land	Number of beneficiaries	N,	0	277	0%
		Number of ha under new agroforestry systems	Ha	0	39,830	0%
223	First afforestation of non-agricultural land	Number of beneficiaries receiving support	N,	2,250	48,806	5%
		Number of ha of afforested land	Ha	19,500	222,776	9%
224	Natura 2000 payments	Number of forest holdings receiving aid in Natura 2000 area	N,	4,075	52,000	8%
		Supported forest land (ha) in Natura 2000 area	Ha	71,926	382,491	19%

225	Forest-environment payments	Number of forest holdings receiving support	N,	5,130	75,610	7%
		Total forest area under forest environment support	Ha	211,886	2,135,933	10%
		Physical forest area under forest environment support	Ha	187,256	919,762	20%
		Number of contracts	N,	8,750	76,939	11%
226	Restoring forestry potential and introducing prevention actions	Number of prevention/restoration actions	N,	19,370	132,717	15%
227	Non-productive investments	Number of supported forest holders	N,	39,411	136,876	29%
311	Diversification into non-agricultural activities	Number of beneficiaries	N,	4,971	83,944	6%
312	Business creation and development	Number of micro-enterprises supported/created	N,	6,111	94,700	6%
313	Encouragement of tourism activities	Number of new tourism actions supported	N,	3,691	44,146	8%
321	Basic services for the economy and rural	Number of supported actions	N,	8,707	86,651	10%
322	Village renewal and development	Number of villages where actions took place	N,	12,790	32,400	39%
323	Conservation and upgrading of the rural heritage	Number of rural heritage actions supported	N,	23,462	70,671	33%
331	Training and information	Number of economic actors participating	N,	49,390	501,000	10%
341	Skills acquisition, animation and implementation	Number of actions supported	N,	5,489	16,045	34%
414 412 413	Implementing local development strategies	Number of projects financed by LAGs	N,	7,090	1,118,258	0,6%
		Number of beneficiaries supported	N,	8,756	207659	4,2%
421	Implementing cooperation projects	Number of cooperation projects	N,	130	4,711	3%
431	Running the local action group, acquiring skills and animating the territory	Number of actions supported	N,	20,434	89,895	23%

Result indicators – state of play

	Result indicators		Targets
AXIS 1	Number of participants that successfully ended a training activity related to agriculture and/or forestry		2 200 000
	Increase in GVA in supported holdings/enterprises ('000 EUR)		25 900 000
	Number of holdings / enterprises introducing new products and/or new techniques		334 000
	Number of farms entering the market		130 000
	Value of agricultural production under recognized quality label/standards (millions of euros)		16 700 000
Axis 2	Agricultural and forestry areas under successful land management contributing to (ha)	Biodiversity	57 000 000
		Water quality	38 000 000
		Climate change	26 000 000
		Soil quality	37 000 000
		Avoidance marginalisation	53 000 000
Axis3	Increase in Non-agricultural gross value added in supported business ('000 EUR)		3 100 000
	Gross number of jobs created		307 000
	Additional number of tourist visits	Number of day visitors	7 808 000
		Number of overnight stays	7 366 000
	Population in rural areas benefiting from improved services		71 000 000
	Increase in internet penetration in rural areas (nbr of persons)		47 060 000
	Number of participants that successfully ended a training activity in the field of axis 3		572 000

Annex 4b – Alignment with Europe 2020 through priorities and associated targets

1. INTRODUCTION

This section presents a preliminary analysis of possible EU "priorities" for the rural development policy post-2013 (the concept of "priorities" being an important aspect of improved strategic targeting in the integration scenario).

2. PROPOSED CONTENT, MODE OF OPERATION

The EU priorities for rural development would aim at translating the broad policy objectives outlined in overarching policy documents of the Commission (Europe-2020 strategy, the Communication on the future CAP) into a set of concrete priority areas for action for the policy.

For the Member States the EU priorities will support the preparation of the rural development programmes (programming) by logically linking the objectives of the policy to possible operational outcomes and to the available instruments (including the set of rural development measures currently under development). For the Commission, the EU priorities will represent a reference tool for steering the programmes towards EU strategic priorities, thus ensuring the EU added value of the policy.

The following five EU priorities for the rural development policy may be proposed, based on the analytical work carried out within the Impact Assessment process:

- Transfer of knowledge;
- Competitiveness and farm viability;
- Food chain organisation and risk management;
- Preserving and enhancing ecosystems dependant on agriculture and forestry;
- Low carbon economy, and resource efficiency
- Job potential and development of rural areas.

This classification intends to provide a logic and structured presentation of the policy, for example by distinguishing between priorities applying at sectoral level (priorities 2 and 3) from those applying at a broader territorial scale (priorities 4 and 5), or those mainly based on land management practices (priority 4). This is considered to be particularly important for steering programming effectively.

The content of this proposed list of priorities shows clear links with the Europe 2020 strategy, especially as regards the issue of sustainable growth and corresponding headline targets.

A number of possible synergies and complementarities exist between the different priorities (e.g. increasing resource efficiency can equally support the competitiveness of agriculture etc.).

Each of the priorities is intended to be matched by a limited number of "target indicators" (currently under development), which will have to be quantified ex ante, within programming, and regularly monitored during the implementation of the programmes. The target indicators intend to capture the expected (during the programming phase) and actual (during the implementation phase) outcomes of the programmes in relation to relevant intervention areas within each priority.

As for the measures which could possibly serve each of the priorities, full flexibility would be left to the Member States concerning the choice of measures and instruments for achieving the different priorities, in the context of strategic programming. As a result of the programming phase, the Member States will have to demonstrate that relevant combinations of measures are included into the programmes in relation to each priority, in view of achieving the corresponding targets.

Specific provisions would be defined in the design of the measures to ensure strong links with the priorities and with the horizontal guiding themes concerning climate change, environment and innovation.

When looking at the priorities, it is important to consider that a single measure (and projects under a given measure) can contribute to different priorities (and therefore to different target indicators). As an example, a given investment increasing energy efficiency of an agricultural holding will certainly contribute to priority 5, but it may also support the competitiveness of the agricultural sector (priority 2). Similarly, a more rationale use of chemical inputs as a result of, for example, agri-environmental measures, will at the same time increase resource efficiency at the level of the agricultural holding, helping reducing GHG emissions from agriculture (priority 5) and contribute to the protection of ecosystems (priority 4). Many other similar examples can be drawn.

3. IMPACT

The impact of the use of "priorities" in the manner outlined above would depend to a significant extent on the choice of target indicators matched to each priority.

For the purposes of this impact analysis, it is assumed that the target indicators chosen would be closer to what are currently referred to as "result indicators" than to "impact indicators".

Result indicators measure the "immediate" effects of an intervention by policy. They provide information on changes in (for example) the behaviour, capacity or performance of direct beneficiaries of the policy.

By contrast, impact indicators refer to the benefits of the policy beyond its immediate effects on direct beneficiaries – e.g. in the agricultural sector as a whole, or even in rural areas as a whole. It is more difficult to set targets for such indicators because they are affected by a wider range of factors.

The difficulties related to impact indicators have been apparent in the current period. Rural development programmes are supposed to set targets at the level of impact indicators, aggregated from targets at measure level and axis level. However, this has proved challenging in some programmes; and in these cases, much of the reliable targeting carried out has been at measure level. Such targeting is not without value; however, the picture which it gives of the effect of rural development policy may prove not to be completely satisfactory.

Therefore, in the period after 2013, choosing appropriate target indicators closer to the result level than the impact level should make the targeting system more manageable. (It should be noted that impact indicators would still be used within the overall evaluation process, but would not be used for ex-ante targeting.) Of course, there would still be a certain administrative burden involved: the effort involved in agreeing the targets for a given programme - and then agreeing the combination of measures to be used to meet those targets – should not be underestimated. On the other hand, administrative effort is already involved in the current approach to setting the main targets. Overall, there should be a simplification effect (even if the provisions of "greening" in the first pillar of the CAP had to be taken into account in some cases for target-setting in rural development policy).

At the same time as being more manageable, a targeting system with the right priorities and indicators would provide an improved picture of what was being achieved by rural development policy, in line with Europe 2020 and other sources of strategic orientation. Result indicators are capable of providing "useful" information; moreover, priorities and target indicators chosen specifically with Europe 2020 in mind would of course give a clearer image of how rural development policy was serving the Europe 2020 strategy.

Furthermore, it should be repeated here that the explicit flexibility which MS / regions would enjoy in using measures in combination to achieve any given target set against priorities would allow them to construct programmes with stronger intervention logics.

Annex 4c – Implications of a change in the management system

Introduction

This annex attempts to assess the possible impact of various approaches to managing rural development policy, in line with the three scenarios set out in the impact assessment exercise as a whole.

It should be read in conjunction with annex [], which presents a picture of how (and how well) rural development policy has been functioning in the current period of 2007-2013.

As it limits itself to questions of management, it does not look in detail at the impact of the changes in the content of the policy.

1. SCENARIO 1: "ADJUSTMENT"

1.1. Summary of the management approach to be applied (see also table 1)

Under this scenario, the management approach for rural development (RD) policy would be essentially the same as in the current period (2007-13).

- Strategic targeting (result-based management) would be applied, in more or less the same manner as at present.
- The overall strategic objectives of the competitiveness of agriculture, the sustainable management of natural resources and balanced territorial development would apply.
- Rural development programmes (RDPs) would still operate at either national or regional level. As at present, they would be subject to an approval process.
- RD measures would still be divided into axes. Each axis would still have one (and only one) strategic objective attached to it; minimum spending requirements would apply to each axis for each RDP. (This is a form of input-based management.)
- Under the "Health Check method" of ring-fencing, minimum spending requirements would also apply to operations related to a small number of objectives which would be more specific than the "strategic" objectives. These would be related either to competitiveness and innovation, or to the environment. (This is another form of input-based management.)
- Complementarity / demarcation between RD policy and other policy tools would still be ensured primarily at national / regional level.

1.2. Impact

The use of strategic targeting as it currently operates would continue to help MS / regions to base their national strategy plans (NSPs) and RDPs on the overall objectives of the EU as well as on their national, regional and local needs – with the help of: EU strategic guidelines; analyses of strengths, weaknesses, opportunities and threats (SWOT); ex-ante evaluations of RDPs; and ongoing monitoring and evaluation.

However, the effectiveness of strategic targeting would be compromised by the continued existence of the axis system:

- Some MS / regions would probably still yield to the temptation of agreeing the division of funding between axes as a "political" decision³⁹ in a first step, and then designing their NSPs / RDPs on this basis. In other words, decisions about funding would in some cases precede decisions about objectives, rather than the other way round.

³⁹ *Step One Report*, European Network for Rural Development Thematic Working Group 4, [October 2010]

- With the axis system still in place, the process of using measures in combination to meet objectives would continue to be problematic⁴⁰ - especially because there are administrative difficulties involved in combining measures from different axes. The axis system would also continue to make it impossible to give a full picture of the effects achieved by measures, as it would still be assumed that a given measure contributed to one objective and one only (so that an investment in a farm raised either economic or environmental performance – not both).

The axis system would nevertheless continue to provide a crude guarantee that the spending of a given MS / region on a given strategic objective would not drop below a certain minimum level. The guarantee would be "crude" in the sense that it would not reflect the fact that most measures contribute to more than one objective, and that it would in itself give no information about the quality or impact of measures.

Ongoing ring-fencing in the style of the Health Check would continue to ensure that certain amounts of funding were still being spent on certain relatively specific objectives (more specific than the strategic objectives). However, this would in no way guarantee outcomes – it would essentially be an exercise in "labelling" money – and would therefore contradict the approach of strategic targeting. By its very nature (as experienced in the current period), it would continue to add considerably to the administrative burden borne at EU, national and regional level.

2. SCENARIO 2: "INTEGRATION"

2.1. Summary of the management approach to be applied (see also table 1)

- Strategic targeting would be applied, with certain adaptations (see below).
- The overall strategic objectives of the competitiveness of agriculture, the sustainable management of natural resources and balanced territorial development would apply.
- The policy would also make use of a number of "priorities" (probably about 6 in number). These would reflect the broad objectives but be more specific / operational. Examples could include "food chain organisation and risk management" and "low-carbon economy and resource efficiency".
- Innovation, the environment and action over climate change would be guiding themes within the policy. In other words, they would have to be taken into consideration in the design of every section of a given RDP, even sections designed to contribute primarily to other objectives (e.g. competitiveness).

⁴⁰ *Synthesis of Ex-Ante Evaluations of Rural Development Programmes 2007-2013, Final Report*, European Commission, December 2008

- The current EU strategic guidelines for rural development would be replaced by a common strategic framework (CSF) which would cover the European Agricultural Fund for Rural Development, the European Regional Development Fund, the Cohesion Fund, the European Social Fund and the European Fisheries Fund.
 - The CSF would set out how each fund could contribute to the goals of the Europe 2020 strategy (smart, sustainable and inclusive growth). In the case of rural development policy, this implies that the CSF would indicate by which means the rural development "priorities" would contribute to achieving the overarching goals of the Europe 2020 strategy.
 - In one version of the scenario, strict "burden-sharing" would be attempted between the funds within the CSF. In other words, there would be an attempt to quantify – at EU level – the contribution which each fund could make to the objectives of Europe 2020.
 - In another version of the scenario, the description of how each fund could contribute would be mainly qualitative. Any quantitative targets which were set for rural development policy within the CSF would be indicative, and they would not be set with mathematical reference to the other funds.
- The CSF would be matched by equivalent national framework documents, reflecting the scope and objectives of the CSF at the level of each Member State. This could take the form of "Partnership Contracts", the precise structure and content of which will be defined by the Commission Services concerned by the CSF.
- RDPs would still operate at either national or regional level. As at present, they would be subject to an approval process.
 - All RDPs would contain a SWOT analysis.
 - On the basis of this, within each RDP, targets of the appropriate kind would be set for each "priority". (Those targets would have to balance several requirements: for example, they would have to function with indicators which would say something meaningful about what was being achieved but which would also be useable in practice.) The axis system would be abolished. Measures would be used more flexibly in combination to serve the priorities.
- Ring-fencing in the style of the CAP Health Check would be abolished.

2.2. Impact

N.B. For more detail on the use of "priorities" and associated targets, see annex 4.

Introducing a common strategic framework (CSF) matched by equivalent national "Partnership Contracts"

If it provided guidelines at EU level on how the five funds concerned would work together in the service of *Europe 2020*, the CSF and "Partnership Contracts" would provide greater consistency from one MS / region to another in terms of how the funds are co-ordinated. On the other hand, this could mean less flexibility for MS / regions in deciding how to co-ordinate the funds on their territory. Therefore, there might be a particular gain for MS / regions which have struggled to ensure this co-ordination in the current period, but less of a gain for others.

This point might be especially relevant to co-ordination at the regional (in the Member States implementing regional programmes) and sub-regional level, where the sophistication of strategies to co-ordinate funds varies significantly.

If the CSF attempted strict "burden-sharing" – i.e. if it selected targets related to *Europe 2020* and then quantified (in a binding fashion and at EU level) the contribution which each fund could make, a heavy technical and administrative burden would result:

- It would be difficult to make a reliable assessment of the potential contribution of each fund towards some targets – especially in cases where that potential contribution was small.
- There could be an organisational mismatch between the funds concerned and other tools for implementing the *Europe 2020* strategy. On the one hand, the CSF would define how instruments would work together at EU level. On the other hand, within the main framework of *Europe 2020*, MS would be defining how instruments should work together at national level – through their National Reform Programmes.

If the CSF limited itself to a primarily qualitative description of how each fund could contribute to the objectives of *Europe 2020*, the problems described above would be avoided. Nevertheless, the CSF would probably still help to steer RDPs into contributing to *Europe 2020* - though this would depend on how well the strategic programming approach was executed (see next section).

This steering effect might be amplified if, in relation to rural development policy, the CSF contained a small number of relevant indicative quantified targets set at EU level (e.g. "X % of the EU area covered by RDPs should be covered by biodiversity-related agri-environment contracts"), but not derived mathematically. The targets could also make the content of rural development policy more visible. However, it must be emphasised that setting realistic targets would be difficult, and it is open to question whether the targets would be of much value if failure to reach them resulted in no follow-up action.

Similar considerations can be made concerning the development of national "Partnership Contracts"

From the perspective of simplicity, creating a CSF and "Partnership Contracts" would have implications for the decision-making process: as they would involve several funds, the process of agreeing the CSF and "partnership Contracts" would probably be more complex than the process of agreeing individual sets of guidelines for each fund and separate coordination mechanisms within each fund.

Relying on strategic targeting, abolishing the axis system and ring-fencing

Perhaps the central question related to scenario 2 is: Would it result in RDPs that reflected the genuine needs of regions, MS and the EU in a balanced way?

A fear has been expressed that the abolition of the axis system and its minimum spending requirements would allow MS / regions to spend disproportionate sums of money on certain objectives (for example, competitiveness) for "political" reasons while inappropriately neglecting others (for example, environmental care).

It is very difficult to test this hypothesis about a possible future. However, a related question which can be addressed instead is whether the axis system has exerted any influence on spending choices in the current period. And indeed, an examination of the spending decisions which MS made prior to the CAP Health Check suggests that the minimum spending requirements of the axis system probably did exert a certain influence in some cases.

The table on page [10] presents planned allocations of EAFRD funding as of August 2008 (before the CAP Health Check came into effect), ordered by MS. It is intended to give an approximate view of how MS were dividing up their EAFRD resources once most initial difficulties with the programming process had been resolved.

It emerges from the table that planned spending levels were close to the minimum permitted minimum levels⁴¹ in some cases, especially with regard to axes 3 and 4.

The table must be treated with considerable caution for at least two reasons.

- First, for the sake of simplicity, the table does not take account of the fact that some MS operate regional rather than national RDPs.
- Secondly, the situation is complicated by the fact that, in the current period, all RDPs must offer the agri-environment measure. This obligation may have raised total spending per MS on axis 2 measures overall – though this cannot be proved.

Nevertheless, the table suggests (it falls a long way short of “proof”) that the axis system has probably had a certain influence on spending decisions in the current period.

There appears to be rather less comment in the public domain about the possible consequences of abolishing the ring-fencing that was introduced with the CAP Health Check. This may be because the system has not been in place for long.

It should be borne in mind that this type of ring-fencing was not designed to be a comprehensive management system in itself; it was intended as a means of steering existing RDPs to use additional funds (provided by additional modulation) in a particular direction mid-way through the current programming period.

⁴¹ Essentially, before the CAP Health Check made extra resources available with different rules attached, RDPs had to allocate at least 10 % of their EAFRD resources to axis 1, at 25 % to axis 2 and at least 10 % to axis 3. The obligatory minimum spending levels for axis 4 were 5 % for the EU-15 and 2.5 % for the EU-12.

Therefore, abolishing Health-Check-style ring-fencing for a new programming period should not make it difficult to produce balanced RDPs - provided that the management mechanisms still in place performed adequately.

Having considered the respective roles of the axis system and ring-fencing, we now come to the heart of the matter: Would the strategic targeting approach alone be sufficient to steer MS / regions into producing balanced RDPs?

An essential point is that the Commission would retain a very important lever: RDPs would remain subject to a full approval process, and the Commission would simply not propose approval for an RDP before being satisfied that the RDP was of sufficient quality – in other words, that it reflected the relevant ex-ante evaluation, that it was in line with the CSF, and that it addressed each priority adequately, also taking account of the cross-cutting guiding considerations of innovation, the environment and climate change.

A "firm" approach of this sort would be all the more effective if negotiations over RDPs focused clearly on important points and were not sidetracked by less significant details. Provided that the CSF did not create excessive additional complexities (see related section), we could reasonably expect that the process of strategic targeting would operate more effectively and efficiently after 2013 than in the current period because MS / regions would have acquired additional experience of the process⁴².

If we assume that the strategic targeting process would function reasonably well, there would be benefits from abolishing the axis system and the ring-fencing of the Health Check:

- It would be easier to combine measures to reach particular objectives / priorities.
- It would also be possible to explicitly design measures which contributed to more than one objective / priority.
- There would be one logical approach applied (result-based targeting), rather than two approaches (result-based plus input-based) founded on three elements (strategic targeting, the axis system and ring-fencing). This would be a simplification.
- The particular administrative burden imposed by ring-fencing would be gone.

Some might claim that there would be a disadvantage related to financial reporting. Once it had been admitted that many individual measures contribute to more than one objective / priority each, it would no longer be an easy process to state how much funding was being spent on a given objective / priority.

However, it must be re-emphasised here that the apparent ease with which this can be done within the axis system is misleading, because the system makes false assumptions about the range of impacts of measures and says nothing about what is actually achieved.

⁴² *Review of Rural Development Instruments, Final Report*, Dwyer et al., July 2008

In any case, it might be possible to estimate approximately how much was being spent on a given objective / priority . Moreover, precise financial reporting would still be provided with regard to spending on individual measures.

3. SCENARIO 3: REFOCUS

3.1. Summary of the management approach to be applied (see also table 1)

- Strategic targeting would be applied, but with a much narrower range of intended outcomes (see below).
- Rural development programmes (RDPs) would still operate at either national or regional level. As at present, they would be subject to an approval process.
- The policy would make use of a number of relatively specific "priorities" (see section 2). In this scenario they would be very sharply focused on the environment, though an additional objective would be to facilitate the phasing-out of direct payments.
- As the priorities would be more focused, the axis system would be abolished.
- Ring-fencing in the style of the CAP Health Check would be abolished.
- Within each RDP, a limit would be placed on spending on temporary measures to ease the process of phasing out direct payments.
- Rural development policy would retain its own set of EU strategic guidelines.
- The policy could participate in a Common Strategic Framework, though it could conceivably stay out given its sharper focus.

3.2. Impact

Some of the political "tensions" of the programming process might be removed, since there would no longer be "competition" between substantially distinct objectives: the objectives would all be of an environmental nature except the objective of easing the phasing-out of direct payments.

This statement depends partly on two assumptions, namely that:

- strict limits would be placed on spending on temporary measures related to the phasing-out of direct payments;
- the Commission would take care not to allow "hidden income support measures" – i.e. measures which were apparently "environmental" but in fact offered farmers excessively high payments for very modest environmental achievements.

The abolition of the axis system and of ring-fencing in the style of the Health Check would lighten the administrative burden.

It would probably be easier to achieve demarcation between rural development policy and other policies because the field of activity of rural development policy would be much narrower.

However, full complementarity – including the avoidance of "funding gaps" between policies – would be a much sterner challenge. Whereas at present, support for the general socio-economic development of rural areas is programmed within rural development policy, under the refocus scenario any such support would be administered through other EU policies (if it were maintained at all): the "automatic" synergies between funding for the environmental care and for socio-economic development would be lost. The inclusion of rural development policy in a CSF could be helpful in this respect (see section 2.2 for a discussion of the likely advantages and disadvantages of a CSF).

Strictly in terms of management: Difficulties of demarcation between the current first and second pillars of the CAP would be over, since the first pillar would no longer exist.

Overall, the programming process might be simpler with regard to rural development policy itself. However, this would depend partly on whether very precise targeting of funds at very precise environmental outcomes was sought. If the level of ambition were high in this respect, that would imply considerable effort in the development and use of sophisticated measures, priorities and indicators.

Table 1

Summary of key elements of each scenario for the purposes of this annex			
Management element	Scenario 1 Adjustment	Scenario 2 Integration	Scenario 3 Refocus
Strategic targeting?	Yes Broad objectives related to competitiveness, natural resources and development of rural areas retained	Yes Broad objectives related to competitiveness, natural resources and development of rural areas retained Innovation, the environment and climate change would be cross-cutting guiding themes Small number of operational "priorities" with accompanying indicators would fix areas of emphasis	Yes Overall objectives more focused on environment
RDPs – national or regional?	Both, as at present	Both, as at present	Both, as at present
Axis system?	Yes	No - abolished	No - abolished
Ring-fencing in style of CAP Health Check?	Yes Operates in favour either of competitiveness / innovation, or of environmental issues	No – abolished	No - abolished
Common Strategic Framework?	No	Yes	Possibly no, possibly yes
National Frameworks ("Partnership Contracts")?	No	Yes	Possibly no, possibly yes

Table 2

% levels of planned EAFRD spending per axis by Member State									
(situation in August 2008 – before CAP Health Check)									
MS	Axis 1 (10%)	Axis 2 (25%)	Axis 3 (10%)	Axis 4	MS	Axis 1 (10%)	Axis 2 (25%)	Axis 3 (10%)	Axis 4
BE	49 %	36 %	12 %	5.0 %	LU	29 %	59 %	9 %	5.9 %
BG	38 %	25 %	28 %	2.4 %	HU	46 %	33 %	16 %	5.5 %
CZ	23 %	55 %	20 %	5.0 %	MT	34 %	27 %	34 %	4.0 %
DK	21 %	63 %	12 %	9.6 %	NL	32 %	31 %	34 %	9.9 %
DE	28 %	41 %	29 %	6.0 %	AT	15 %	72 %	10 %	5.5 %
EE	38 %	37 %	19 %	10.0 %	PL	41 %	34 %	23 %	4.8 %
IE	10 %	80 %	10 %	10.0 %	PT	46 %	41 %	8 %	10.1 %
EL	44 %	35 %	18 %	6.1 %	RO	40 %	24 %	26 %	2.3 %
ES	45 %	39 %	12 %	11.3 %	SI	34 %	52 %	12%	3.0 %
FR	38 %	50%	10 %	5.1 %	SK	34 %	50 %	14 %	3.0 %
IT	38 %	44 %	14 %	8.1 %	FI	11 %	74 %	13 %	5.3 %
CY	44 %	44 %	10 %	2.7 %	SE	15 %	70 %	11 %	5.8 %
LV	47 %	28 %	20 %	2.5 %	UK	13 %	73 %	13 %	6.2 %
LT	40 %	38 %	18 %	6.3 %					

Notes:

(1) The figures are approximate, based on data published in *Rural Development in the EU, Statistical and Economic Information, Report 2008*. They do not add up to 100 % because of rounding, other spending and the fact that some axis 4 spending is also counted under axes 1, 2 and 3 (see note 3 below).

(2) The obligatory minimum spending levels laid down in Regulation (EC) 1698/2005 are 10 % for axis 1, 25 % for axis 2 and 10 % for axis 3.

(2) The minimum level laid down for axis 4 is 5 % for MS which acceded to EU before 1 May 2004 and 2.5 % for MS which acceded on or after 1 May 2004.

(3) Planned spending on measures 411, 412 and 413 is counted not only under axis 4 but also under axes 1, 2 and 3 (respectively). For the sake of simplicity, spending under other axis 4 measures is not also counted under axes 1, 2 or 3, even though it may contribute to achieving the objectives of those axes.

(4) It should be recalled that obligatory minimum spending levels operate at programme level – and some MS operate regional rather than national programmes.

