

Review of Rural Development Instruments: DG Agri project 2006-G4-10

Final Report Executive Summary
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by:

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Executive summary

Aim

1. The aim of the study was to review the policy instruments under the framework of the European Agricultural Fund for Rural Development (EAFRD), 2007-13, by:

- reviewing intervention rationales and instruments and their use against the objectives, priorities and key actions in the EU Strategic Guidelines;
- assessing whether and how RD rationales and instruments should be adapted to deliver these more effectively.

Context

2. An explicit, integrated approach to EU rural policy within the CAP began with the creation of the Rural Development (RD) Regulation, 1257/1999. This new 'second pillar' was formed by bringing together a range of existing measures (accompanying measures, farm structure aids, RD measures from structural fund programmes and LEADER). However, the EAFRD Regulation reflects successive policy developments since then. From 2004 (enlargement), new measures offered support to semi-subsistence farms and producer groups in new MS. From 2003 (CAP Mid-Term Review), additional measures for farm advice and quality production were added. For the EAFRD (from 2007), new measures for economic development (micro-businesses, local area strategies), and also in respect of biodiversity, water and forestry, were added. In addition the Regulation created a single, common RD fund and grouped instruments under four 'axes', corresponding to its strategic goals: farming and forestry competitiveness; environmental land management; rural diversification and quality of life; and the LEADER approach. Some former measures were combined, too. It is thus timely to review the scope and appropriateness of the framework, for the future.

Approach

3. The study involved 8 tasks, grouped into 3 themes of analysis:

- 1) the **targeting of EU-27 rural development expenditure, 2000-13**, including the development of databases of EU-27 rural area characteristics and 'indicators of need' for RD;
- 2) consideration of the **adequacy of the current EAFRD framework**, based upon an evaluation of instruments' cost-effectiveness; the *a priori* development of a typology of RD interventions and catalogue of instruments; an analysis of delivery mechanisms; and assessment of instruments in 'fiches';
- 3) **conclusions and recommendations.**

4. In the event, progress in finalising national and/or regional RDPs 2007-13 was delayed, over the study period. Thus, the approach was modified to incorporate more qualitative analysis and the expenditure analysis was made using incomplete figures (July 2007), so 4% of total EAFRD planned expenditure was missing¹.

Theme 1: Targeting of RD expenditure, 2000-13

Results

5. A novel, comparative analysis of RD expenditure across the periods 2000-06 (combining RDR Guidance and Guarantee, SAPARD and transitional instrument) and

¹ Missing data included 10 regions (8 in Spain) and 4 national network plans

2007-13 (available data, July 2007) was undertaken. An increase in total public funding from €88bn to €142bn and in EU allocation from around €58bn to €90bn, (increases of c.40 per cent, once adjusted for inflation), mainly reflects enlargement from 15 to 27 Member States. The totals mask a much greater increase in EU funding to new MS and a cut in EU funding to the EU-15 (of 1 per cent, in real terms)². Although in most programmes, axis 2 (environmental land management) tends to be the largest spending axis in both periods, generally non-convergence programme areas focus more strongly on these measures while convergence ones tend more to prioritise agricultural restructuring (axis 1).

6. Overall, RD spending patterns have changed between funding periods. 2007-13 programmes plan significantly more spend on axis 3 (rural diversification and quality of life – an almost 2.5-fold increase in EU funds, in real terms) and to slightly increase resources for axis 2. In addition, relatively more axis 1 funding is devoted to human capital (training, advice, co-operation) and market-orientation (adding value, quality), and a smaller share to inter-generational transfer (young farmers, early retirement), where large decreases in funding among EU-15 exceed increases in the new MS. Within axis 3, a large increase in funding for village renewal and rural services in the new MS is notable. For axis 4, project spend (i.e. local projects supported by LEADER groups) is planned to increase significantly (almost 30-fold). These changes may represent evidence of targeting RD priorities, in that they generally move in a direction recommended by independent and international RD studies.

7. Nevertheless, patterns of measure choice and planned funding exhibit a degree of path-dependency. This may reflect persistent needs, as well as ongoing financial commitments. However, there is evidence of programmes retaining and expanding measures rather because they are instruments with which implementing authorities and potential beneficiaries are familiar, and/or are certain to spend significant sums relatively simply, particularly for aid to the farm sector³. Especially in those ten MS acceding in 2004 whose programmes ran only for short periods (2000-04 and 2004-06), more conventional measures dominate. The programme-level analysis using RDPs, literature review and expert interviews suggested insufficient capacity among administrations, and sometimes civil society, to implement more ambitious measures (including targeted agri-environment aids, and LEADER). In view of developments already made in the Regulation (e.g. Article 6 strengthens the principle of partnership in delivery, compared to 1257/1999), the findings suggest a continuing need to encourage institutional learning and adaptation, in the planning and implementation of RDPs.

8. Analysing 'intensity of spend' by utilised agricultural area, agricultural workforce and number of holdings showed unusually high intensities in a few programme areas (e.g. Finland, Luxembourg) and low intensities in others (e.g. Romania, Netherlands). An analysis of spending over time reveals how different kinds of measure are inherently more or less likely to disburse funds quickly or predictably. Annual payment measures (significant within axis 2) tend to have more consistent spending profiles than investment aids, and aids to build and mobilise social and private collective capital tend to be slower to spend than physical capital expenditure (most relevant to axes 1, 3 and 4).

² this includes some MS increases (e.g. UK) and other significant cuts (e.g. some German Länder, cuts over 20%), resulting from the 2005 Council decision on Financial Perspectives

³ In programme-level analysis (section 3.5) and 2 workshops with Commission officials and external experts

9. A broad set of rural characteristics was assembled by programme area, in respect of economic, environmental and social needs, using EU-level datasets. These illustrate how Europe's rural areas vary, including some that are buoyant economically while others are in persistent decline. A policy (RD) and literature review of RD 'needs' (including opportunities), was used to select and assemble characteristics into 'indicators of need'.

10. There are similarities between RD expenditure patterns (actual 2000-06 and planned 2007-13) and patterns of apparent need denoted by the indicators, between programme areas. Globally, more resources are devoted to areas where economic problems and the need for restructuring (particularly, small farm sizes, high employment dependence upon agriculture, low levels of education and training) are greater. Within axes, it seems there is conscious targeting for some particular issues (e.g. human capital, UK primary sector). By comparison with findings in previous studies (e.g. Dwyer *et al*, 2003), the recognition and justification of needs appears more prominent in RD programmes for 2007-13, and RD needs are more clearly conceptualised, evaluated and debated than they were for 2000-06.

11. The strong emphasis of RDP spending upon axis 2 cannot be assessed adequately, because for some aspects, comparable, relevant environmental data for all programmes is missing.

12. It is evident that pillar 2 is complemented by other national and/or EU regional policies. Particularly in respect of socio-economic funding, these may be of equal or, in some cases, greater financial significance. It is therefore difficult to assess the issue of optimal resourcing for socio-economic RD goals without fuller consideration of these wider policies and the role of RDPs in that context. However, in respect of rural socio-economic needs, analysis of indicators across the EU-27 and also needs identified at the programme-level suggests that RDPs alone may devote too significant a proportion of funding towards the agricultural sector and not enough to the wider rural economy and community⁴.

13. There is significant variability in the available financial resource for RD between different programmes which is difficult to justify in terms of apparent relative needs. This seems to be mainly due to the historic weighting of EU-15 RDP allocations. In respect of the new MS, our study suggests that the criteria and formula used as the basis for RD allocations are likely to overemphasise the relevance of needs for the agricultural sector, as compared to environment or wider socio-economic need.

14. At the same time, the analysis confirms that the current RD framework offers considerable scope to target measures and expenditure towards areas and circumstances of rural need and opportunity.

Recommendations

R.1. At the level of EU budgetary allocations between Member States, the current system is not in line with a balanced appreciation of relevant rural characteristics for pursuing the key goals of RD policy. Better indicators of natural and wider socio-

⁴ See sections 3.4 and 3.5.

economic / quality of life characteristics of rural areas, should ideally be included in the formula for determining allocations for RD actions, between Member States.

R.2. We recommend further refinement of the indicators of need, to improve their analytical value and address weaker areas. This should address gaps for the environment and 'new challenges'⁵, and non-farm, rural socio-economic aspects.

R 3. It is important to foster broader understanding between programme authorities, the Commission, stakeholders and civil society, about the rationale for comparing needs and resource allocations within RDPs. A process to foster ongoing learning is recommended, such as further analysis of agreed common indicators of need. This could be developed within the CMEF.

Theme 2: Adequacy of the RD Framework

Results

15. The study adopted a **typology of RD interventions** based on types of rural capital: physical, financial, human, social, natural and cultural. Examination of RD policy rationale and experience indicated a historic (pre-2000) emphasis upon physical and financial capital, as opposed to environmental, human, social, and cultural capital. These other types are increasingly recognised as critical to sustainable RD and have grown in importance as elements of EU RD expenditure (point 6).

16. A **catalogue of RD instruments** was made by combining the typology with four main possible intervention approaches (investments, regular/annual payments, funding advice and information, and funding quasi-regulatory processes). This showed that the current range of instruments in the EAFRD covers most potentially valuable RD interventions. Nevertheless, analysis suggested opportunities for a few potential new instruments and for simplification and enhanced consistency: for some existing measures we recommend increasing flexibility of application, while for others we recommend focusing more clearly upon specific purposes.

17. The examination of **cost-effectiveness** identified independent evidence to support the cost-effectiveness of many measures in each EAFRD axis, although performance is strongly dependent upon delivery methods and local context. There is increasing empirical evidence to suggest that axis 1 and 3 instruments can be more effective when delivered in integrated (territory, filière or individual business) packages⁶. Agri-environment measures appear more cost-effective when targeted to defined environmental benefits and supported by appropriate information, training, applied research and co-ordinated investment (for management plans and restoration). Measures for the rural economy and community (mainly axis 3) are more likely to be effective if delivered via approaches which strengthen human and social capital, but these often take several years to establish (favouring long-term policy continuity). At the same time, empirical studies indicate poor cost-effectiveness for some measures including early retirement and Less-Favoured Area aids, due to insufficient tailoring of criteria to local contexts⁷. There is evidence that investment aids to private businesses (e.g. modernisation, young farmers, adding value, tourism) give low additionality if they

⁵ As raised in the Commission's CAP Health Check proposals, May 2008

⁶ See section 5.4 and Annex 4 Regionen Aktiv, Niger, Cumbria and Calabria cases

⁷ See Annex 4 Spain case also, for LFA

are not targeted to situations with a clear rationale for public funding and low risk of displacement.

18. The analysis of **delivery systems** demonstrated highly varied approaches and indicated that this is often necessary to reflect local conditions. Partly due to policy developments since 2000, the EAFRD regulation presents few direct obstacles to the effective delivery of RD goals. However, the choice of delivery approach is often critical for successful achievement of outcomes and this is not yet strongly emphasised in policy.

19. A comprehensive **review of RD instruments in 'fiches'** drew upon all previous elements in the study to generate detailed recommendations. 39 fiches were prepared.

Recommendations

20. To improve the effectiveness and efficiency of measures, we suggest the following.

R.4: The precise purpose of measures and measure-groups in the regulation could be further clarified and expressed in more consistent ways to ensure that the purposes are clear and avoid overlap.

R.5: There is a need to strengthen institutional learning in respect of the pros and cons of different delivery approaches and promote the use of apparently more promising approaches. Guidance on measures and programming could include more detail on appropriate delivery modes. Programme authorities could be required to describe their chosen delivery modes in more detail (e.g. centralised or devolved, single or combined measures), and explain how they relate to goals and local context. Guidance could describe the main kinds of recommended delivery system for particular strategic purposes, in particular contexts (e.g. combining measures in strategic packages for a territory, 'filière', or individual business).

R.6: A number of measures and outstanding needs could be reviewed, including:

- early retirement and aid for young farmers
- village renewal and basic services for the rural economy
- joint environmental-economic initiatives
- access to credit for micro-businesses in new MS.

R.7. We recommend some specific simplification to improve measure clarity and coherent application. Some measures represent 'variations on a common theme' which could be combined (e.g. measures for training, advice and advisory services).

21. From analysis of delivery approaches, cost-effectiveness and instrument fiches, we conclude that organising measures at EU level by axis limits flexibility of resource use across axes and requires duplication of measures. Nevertheless, it is important for the Commission and MS to have a clear overview of resource use against RD strategic goals.

R.8. The Commission could consider loosening the strict link between the main goals of RD activity expressed in the Strategy Guidelines, and the axes of the EAFRD regulation. We recommend retaining strategic goals, but encouraging more flexible use of measures between axes (or removal of axes). Minimum spend

thresholds would still be used in respect of strategic goals, but different combinations of measures could be used to deliver these, in RDPs⁸. We recommend that thresholds should be kept under review and modified in the light of future evaluations⁹.

22. The study has shown that while there is a significant amount of basic data in respect of the inputs and outputs of EU RD policy, there are significant challenges in trying to use this to identify lessons for improvement. The highly varied qualitative and contextual factors (embracing a wide range of goals and ensuring subsidiarity in implementation) that influence RD issues and policy impacts across the EU-27 call for a more profound, longer-term approach which should also uncover causal linkages between these variables.

R.9. We recommend further research to gather robust, longer-term, comparable information on the implementation cost of RD measures, as well as their hard (quantifiable) and soft (qualitative) results and outcomes, across the EU-27; to identify best practice in recording, valuing and applying the lessons from analysis; and to examine the roles and relationship between RD funding and outcomes and complementary funding from EU-regional and national sources, in more detail.

⁸ Authorities would need to explain which measures pursue which goals, as well as resources

⁹ reducing required shares if results show certain goals have been met, increasing them if they show continuing needs, perhaps differentiating thresholds by groups of MS.