S1. Executive Summary

S1.1. Background to Regulation 951/97

In 1997, the European Union adopted the Council Regulation (EC) No 951/97 (henceforth referred to as Regulation 951/97). The Regulation provided Community co-funding (a total of €1.5 billion over the six years of the programming period) from the EAGGF (European Agricultural Guarantee and Guidance Fund) Guidance Section under Objective 5a of the Structural Funds[1] for the agri-food sector with the objective to "facilitate the improvement and rationalisation of the treatment, processing and marketing of agricultural products". The scheme was also intended to help achieve Objectives 1, 6 and 5b. The Regulation stipulates that it must be ensured that farmers have a share in the economic benefits of the investments and that they create new market outlets for the primary sector and/or increase the value added of the primary product.

The logic for intervention in the processing and marketing of agricultural products is a continuation of a rationale conceived in the 1970s, when the Commission perceived a need to increase the efficiency of processing and marketing sector. This would place the sectors downstream from agriculture in a better position to pay improved prices to producers, diversify output, stimulate demand and re-orientate production towards exports. Regulation 951/97 continued this logic. It was designed to contribute to the financing of investments that fell under a range of criteria including facilitating the:

- improvement and rationalisation of marketing channels;
- improvement of product quality and presentation;
- development of new outlets for agricultural products;
- adoption of new environmental technologies; and,
- adjustment of regions facing economic changes in the agricultural sector.

[1] Objective 5a had the aim of "speeding up the adjustment of agricultural structures" in the EU.

Focus of the scheme

- The main focus of the design of measures under Regulation 951/97 was on facilitating companies to increase their competitiveness through cutting production costs and adding value. An important element of the measures was also to help companies meet EU regulations on the environment and health and safety. Several Member States also explicitly designed their measures around support for "innovative" projects such as new product lines and niche market products.

Under Regulation 951/97, the aid was implemented within the framework of national plans designed to improve the processing and marketing of the various products in question. Expenditure could be made on investments in property construction or purchase (not land), new machinery and equipment and general costs. Investments could not be made at a retail level or in the processing and marketing of products from third countries. The aid was provided at a maximum of 50% of the total costs of investments in Objective 1 and 6 regions and 30% in other regions. Member States provided at least 5% of the total cost of the investment. The recipients of the aid were required to provide at least 25% of the total cost of the investment in Objective 1 and 6 regions and 45% in other regions.

S1.2. Objectives of the evaluation

Objectives of the evaluation

- The primary objective of the ex-post meta-evaluation is to provide an evaluation synthesis on how effectively the measures implemented under Regulation 951/97 have responded to the stated objectives in terms of relevance, coherence, effectiveness and efficiency, utility and sustainability.

- The aim was also to consider the implementation and effects of the Regulation in the various Member States, what can be said about the objectives underlying the Regulation and the conditions of success in its design and implementation.

The evaluation was carried out primarily through analysis of Member State ex-post evaluations submitted to the European Commission. These evaluations were complemented by a review of programming documents, statistical analysis and the carrying out of qualitative interviews with relevant stakeholders. The main limitation to the work was the lack of statistically significant scheme data which meant it was difficult to assign causality to impacts. Where these gaps in data existed further interviews were conducted and secondary data reviewed.

A number of constraints were encountered during the research:

- ex-post evaluations were not available from all Member States;
- some ex-post evaluations were made available to the researchers too late in the life of the project, so that they could not be taken into account fully for the sub-contractors evaluations;
- the quality of the ex-post evaluations was variable;
- methodologies and indicators used in the ex-post evaluations were not always consistent;
- the evaluation questions appear to have been devised after the Regulation was introduced. The schemes were therefore not implemented with an evaluation in mind and therefore full data to facilitate such evaluations was not being collected;
- no consistent database (number of beneficiaries, money disbursed, etc.) at the EU level for all years was available thus making it impossible to fully compare implementation over the whole period by Member State;
- the incorporation of Regulation 951/97 into the Operational Programmes for Objective 1 and 6 regions. This means that there is no ex-post evaluation in these areas relating specifically to Regulation 951/97 measures.

This evaluation also investigated to what extent the national authorities' evaluations, which were used as a basis of this study, followed the Commission's guidelines to the national authorities for evaluation of measures under Regulation 951/97.

It emerged that on average, 85% of the core questions were fully or partially answered, while only a small number of the other questions were addressed in the national authorities' evaluations. This is mainly due to the fact that only the core questions were obligatory but also due to a lack of data caused by insufficient monitoring systems in some regions or Member States. National and regional administrations also found some of the evaluation questions too complex.

This leads to the recommendation to set out a concise set of clear and accessible evaluation questions. It is worth noting that the Commission provided at the beginning of the 2000-2006 rural development programming period a set of common evaluation questions including a description of the intervention logic, criteria, indicators, and information sources.

S1.1. Socio-economic context

The implementation of the Regulation 951/97 took place against the background of the following key market and policy trends in the EU agri-food sector. The years prior to and during the programming period were characterised by a marked concentration of the agri-food sector, whereby an increasing share of the market in processing, wholesale and retail was taken up by fewer enterprises. As the size of companies increased they could wield greater power in the marketplace. The primary sector by contrast remained fragmented, with the exception of Member States like Finland and Denmark which have traditions of co-operative farm structures. This fragmentation meant that farmers were generally in a relatively poor bargaining position and so did not benefit from economic gains in the processing and retailing sector.

At a policy level the most important development in this period was the final completion of the process of trade and labour liberalisation in the EU. The creation of the Single Market allowed the faster growth of companies and increased the agri-food sector's competitiveness as administrative costs were reduced. This process also contributed to the sector's concentration.

At a consumer level, there was a small rise in consumption in real terms but preferences were changing towards more health oriented food (fresh vegetables, fish, cereals etc.) as well as convenience food, accompanied by a greater demand for information on how the food was produced. This does not appear to have caused the agri-food sector difficulty in responding and has created opportunities for small and medium enterprises (SMEs) who produced niche products.

The increasing concentration of the sector and its growing size and economic power raises questions about the type of market intervention that is suitable and whether it should constitute aid for such companies or be targeted in a different way. The changes in consumer preferences towards more health orientated produce and for more information on the production processes also raise new challenges for the design of the appropriate intervention. This evaluation seeks to analyse whether the Regulation is relevant to this socio-economic context and if the scheme needs to be better oriented towards these new realities.

Socio-economic context

- Liberalisation of trade across the EU as a result of the Single Market programme
- Increasing company size and concentration in the sector
- New regulations on health, safety and the environment for companies to comply with
- Greater demand from the consumer for health orientated, niche products

S1.2. Implementation of measures under Regulation 951/97

The relative size of the bureaucracies required to design and implement the scheme varied across the EU. Several Member States delegated scheme administration to external agencies whilst Ministries retained executive authority. Other Member States implemented the scheme through a combination of Ministries (e.g. Agriculture and Trade). Regional authorities in several Member States were fully responsible for implementing the scheme. Selection procedures varied between Member States. In several cases there were long time lapses between submission of applications and approval of projects. In general the level of awareness about the scheme was high, although companies, especially smaller ones, complained about the complexity of the application process.

Implementation of the scheme

- Different models including outsourcing to private sector
- Differences in size of bureaucracies
- Variation in selection procedures and timing of approvals
- High level of awareness within industry

S1.3. Impact of the scheme on competitiveness in the agri-food sector

The *added value of products* is achieved primarily through improvements in product quality and processing, by means of investment in both technological hardware and "soft" technologies like new management systems and better reading of market trends. Five Member States (Denmark, France, Germany, Greece, and the Netherlands) provided strong evidence that the scheme helped *improve product quality*. Across the EU, there is reasonably strong evidence that investments led to improved quality, manifested mainly through the more widespread implementation of quality control procedures and investment in specific new plant and machinery, but also as a side effect of other investments. However, it should be noted that there were also strong market and regulatory incentives for companies to improve performance in this area. Nevertheless, based on evidence from surveys of beneficiaries and stakeholder surveys, one can conclude that the scheme had a positive impact on the value added of products in the EU agri-food sector.

An *improvement in marketing channels* may be achieved in a number of ways, including the improvement in timing of the processing, the delivery of optimal supply and sufficient homogeneity, the creation of new market outlets and the degree of information exchange between market actors. There is evidence in a third of the Member States that the investments led to improvements in the marketing channels. In the remaining countries it was observed that the weight of total investment under the scheme was too small to enable any measurable improvements.

It is difficult to isolate the effect of the scheme on *the cost of processing and marketing of agricultural products*, because the focus of firms changed as they responded to new market incentives and regulations (and so probably increasing the cost of production) and achieved economies of scale (so reducing the cost of production). However, in half the Member States beneficiaries expressed the opinion that the scheme helped to reduce the cost of processing and marketing of agricultural products.

Furthermore, under the scheme investments were made in improvements in the collection of raw materials, improvement in storage facilities and compliance with EU health and safety regulations.

A priori reasoning suggests that investment in improved processing technology should result in *more efficient use of resources, resulting in less waste*. However, there is little evidence with which to address this question, mainly due to the lack of an established monitoring system during the course of the programming period.

Impact on competitiveness

- Improvements in product quality due to implementation of quality control procedures and investments in new plant and machinery
- Improvements in timing of processing, delivery of optimal supply and homogeneity
- Reductions in the costs of production and marketing
- Contribution to improvements in the collection of raw materials, improvement in storage facilities and compliance with EU health, safety and environment regulations
- Lack of monitoring means little evidence on use of natural resources and wastage

S1.4. Impact on primary producers

An important objective of Regulation 951/97 is that the primary sector shares in the economic benefits enjoyed by the agri-food sector as a result of the investments. In one third of Member States, the majority of beneficiaries believed that the investment led to increased demand and improved prices for producers. There is no independent evidence to corroborate this perception. In the remaining Member States, there is no strong evidence of improvements in prices and demand due to the scheme.

The extent to which producers benefit from this increased demand from the agri-food sector depends on their bargaining power. In a situation where upstream retailers and wholesalers exert strong market power, a fragmented farming community is in a poor position to negotiate an increased share of the value added in the supply chain. This trend is illustrated by the divergence between falling producer prices and increasing consumer prices. **Where farmers are organised into co-operatives or have a financial stake in the processing sector, the economic benefits enjoyed by the food processing sector can be more easily transferred to primary producers.**

We recommend further analysis to assess any correlation between co-operative structures and the primary sector gaining a greater share of the profits earned over the supply chain. The findings of such research could feed into any future review of the design of the Regulation.

There is very limited evidence that *co-operation between primary producers and processors* increased.

Impact on primary producers

- Powerful market position of processors vis-à-vis farmer, so few economic benefits of investments shared with farmers
- More evidence of benefits for primary sector in Objective 1 and 6 regions

S1.5. Impact of the scheme on health conditions in the workplace and the environment

Given the lack of monitoring procedures accompanying investments it is difficult to estimate the likely environmental impact of the scheme other than by *a priori* reasoning (that investments in new technology should increase the efficiency of resource usage). Evidence suggests that in several Member States specific investments did improve environmental performance, but otherwise improvements were attributed to the side effects of investing in improved machinery and management procedures.

Impact on health in the workplace and the environment

- Lack of hard scheme data on health and environmental impacts
- Some positive side effects observed for new investments

S1.6. Targeting of aid

In its implementation at Member State and regional levels, the aid was generally made available to all eligible beneficiaries (i.e. non-competitive applications) and for investments that met the objectives of the scheme, namely to improve the competitiveness of the sector. However, it was noted in several Member States (Sweden, Spain, Finland) that the scheme did not target "innovative" investments that would enable companies (usually SMEs) to access and develop new markets. This failing has been acknowledged in Denmark with the inclusion of the criteria of "innovation" in the current programming period of the Rural Development Regulation.

In the Netherlands, the administration developed a more targeted approach to direct aid to "innovative" products and processes, areas for which it would normally be more difficult to access capital, especially for SMEs.

The majority of Member States took a "traditional" approach, concentrating on improving competitiveness, helping companies meet EU regulatory requirements and increasing added value. This also meant that there was a higher potential for "deadweight"[2] in the investments, partially as a result of the non-targeting of aid and partially due to the small amount of aid that was granted as a proportion of total investment. However, whilst failure to receive the subsidy would not necessarily have prevented applicants to go on to make the investment anyway, the scheme is considered to have speeded up investments.

Targeting of aid
• Lack of targeting and low weight of funding gave rise to deadweight • Aid speeded up investments • Lack of targeting to "innovative" projects

S1.7. Side effects

The evaluation finds that the scheme had important side effects: creation of employment, improved health and safety conditions in the workplace and an improvement in the environmental performance of companies. However, in view of the saturation of the agri-food market, any increases in employment in one company may well be just displacing employment in either another region or Member State. This, however, is not necessarily a negative outcome as there may be consumer benefits from efficiency gains.

Side effects
• Important side effects observed with respect to job creation, improved health and safety in the workplace and environment • Displacement effect in employment

S1.8. Judgements

Relevance

National and regional authorities in the EU implemented Regulation 951/97 in a mainly "traditional" way, concentrating on improving competitiveness, helping companies meet EU regulatory requirements and increasing added value. The aid was principally focused on four sectors (meat, dairy, fruit and vegetables and wine). Given the need for firms to compete on price and quality in an enlarged EU, the scheme as far as the agri-food sector is concerned, can be judged as being

[2] That the change would have taken place anyway without the scheme intervention.

relevant to the needs of the industry. The scheme was particularly relevant for SMEs for which access to capital is more difficult than larger companies.

The relevance of the scheme for primary producers is less clear cut. The evaluation observed that the scheme stimulated demand for primary products, but given the small level of investment in relation to the overall gross product of the industry, any increase in prices was temporary.

The primary sector did not share the economic benefits of increased gross product in the agri-food sector over the period of the scheme. As the agri-food sector grew increasingly concentrated, the negotiating position of farmers worsened and the upstream industries captured most of the added value in the supply chain. The structure of the agricultural and agri-food sector has altered significantly from the early 1970s when the logic of the intervention was originally conceived as manifested in Regulation 355/77. Farmers bargaining power has only tended to improve when they are organised into co-operatives and in cases where they have taken equity stakes in the processing sector. Similarly where the industry is at an early stage of development and wields less market power, the primary sector has benefited from higher prices or contracts with the processor. This was, for example, observed in Objective 1 and 6 regions.

Relevance

- Regulation 951/97 implementation mainly focused on improving competitiveness, helping companies meet EU regulations and increasing added value, therefore relevant to industry
- Particularly relevant to needs of SMEs
- Market has changed substantially since the scheme's conception in the 1970s. Due to market concentration, primary sector could not benefit from scheme, except in Objective 1 and 6 regions and where cooperation/downstream equity stakes have increased

Efficiency

Efficiency

- The investments under Regulation 951/97 were granted to applications which were already substantially funded by the private sector. In this respect the market had already assessed the risk on the investment was worth bearing and that it was likely to yield a return. On the assumption that the market delivers efficient investments, the evaluation therefore judges that the investments were in most cases efficient.

Effectiveness

Over the whole programming period of 6 years, the scheme provided approximately €1.5 billion worth of investment. Whilst not an insignificant amount, as a proportion of the total output (e.g. €726 billion in 2000), the size of the investment cannot be considered as effective within the industry as a whole. However, in the peripheral regions of Europe, and those designated as Objective 1 and 6, where the development of the sector is less advanced, the Regulation was more important in stimulating investment and thus contributing to wider cohesion of the EU. Furthermore, the measures were linked into a range of measures for industry under the Operational Programmes of Objectives 1 and 6. This holistic approach where properly integrated and co-ordinated improved effectiveness.

A further consideration is that the support for investments to reduce production costs and improve marketing may well increase the competitiveness of EU companies in export markets. There is however no specific research on this impact and given the size of the investments in relation to the overall gross product of the sector, these effects are difficult to detect.

The evidence for the effectiveness of the spending itself and what was achieved under the scheme suggests that whilst the sector viewed the subsidies favourably and in cases planned investments were speeded up as a result of the intervention, many investments would have taken place anyway.

Effectiveness
• Effectiveness limited by small scale of intervention compared to overall industry output • Regulation 951/97 important for Objective 1 and 6 regions • Implementation of Regulation 951/97 within Operational Programme framework represented more holistic approach

Coherence

The internal coherence[3] in the scheme is constrained by the structure of the market which has changed since the scheme was first conceived in the 1970s, when it was feasible that investment in the processing sector would lead to benefits in the primary sector. The objectives in the scheme thus do not complement one another in this respect, except in parts of Objective 1 and 6 areas.

The external coherence[4] is partially dependent upon the manner in which the national and regional authorities have implemented the scheme and what national fiscal policies and subsidies already existed for the sector. There was no evidence that suggested incoherence in this respect. Within the Objective 1 and 6 regions, Regulation 951/97 was successfully integrated into Community Support Frameworks and so could be judged as coherent with other EU-wide policies.

Coherence
• Internal coherence limited by market concentration and poor bargaining position of primary sector • Externally coherent, particularly with respect to Objective 1 and 6 areas

Utility

The extent to which the Regulation 951/97 corresponds to society's needs and solves socio-economic problems is difficult to judge. There is evidence from national authorities that the scheme created jobs, but one may also reasonably conclude that there were displacement effects. This would therefore have reduced the net employment effect.

[3] Defined as the "correspondence between the different objectives of the same intervention", MEANS Collection 6, p89 (EC 1999).

[4] Defined as the "correspondence between the objectives of the intervention and those other public interventions that interact with it", MEANS Collection 6, p89 (EC 1999).

Given the dynamism of the sector, it is questionable as to whether it merits a public subsidy, except in regions where the original rationale applies. The market is reasonably efficient in allocating resources provided it works within a strong regulatory framework with respect to food safety, health and safety and the environment. Many beneficiaries were not located in rural areas and so did not generate important multiplier effects for the rural economy. The utility was greater in those regions where development is constrained by lack of investment, skills and market access. Overall however, these effects were mainly enjoyed in urban areas and so society (irrespective of the spatial dimension) benefited.

Utility

- Utility greatest in regions where development is constrained by lack of investment and skills

Sustainability

The degree to which investments provide durable benefits can only be assessed over the medium-term. This meta-evaluation has taken place only 4 years after the programming period finished (and 9 years after it began) thus partially restricting a judgement that can be made.

The environmental impacts of the scheme were not measured on a Member State level and consequently, there is no firm foundation on which to base a judgement. We recommend that there should therefore be long-term follow-up and specific indicators are developed for the scheme in terms of monitoring, so as to enable sustainability to be properly evaluated.

Sustainability

- Lack of monitoring system limits judgement

S1.9. Recommendations

The following recommendations are made on the basis of this ex-post evaluation.

The share of economic benefits of the scheme

In view of the growth and concentration in the agri-food sector since the scheme's inception in the 1970s and continuation under Regulation 951/97, it is clearly difficult to ensure that a powerful agri-food sector passes on the benefits of investments under Regulation 951/97 to the primary sector. This is not to say that there should therefore be a presumption in favour of small companies. Large companies deliver the consumer low cost produce on the basis of their economies of scale and bargaining power. However, these structural changes to the market place put into question the internal coherence of the scheme. If the objective remains that the scheme should ensure that the primary sector is to benefit from the investment, consideration should be given to targeting aid to organisations that are more likely to pass on these benefits to the primary sector. Such organisations include principally co-operatives, but perhaps also SMEs who wield less market power.

There is therefore need for further research to examine the extent to which organisations that wield less market power do in fact pass on to the primary sector any economic benefits derived from investments. If benefits to producers are transmitted in this way, consideration should be given to further targeting aid to these types of organisations.

Quality of projects

Most Member States directed aid to projects that met the agri-food sector's priorities (competitiveness, meeting new regulations), but mostly through non-competitive tendering processes. As a result deadweight was observed. To overcome this problem in future, aid should be awarded by either the application of stronger eligibility criteria or through competitive tendering procedures. This would help to deliver stronger projects as well as give Member States the opportunity to target aid more strategically.

Scheme monitoring

In order to provide an effective assessment of the scheme's impact, there is a need to build in the capacity to assess sustainability in the medium to long term from the start of the scheme through agreement by Member States on the establishment of effective scheme monitoring systems and indicators as a basis for evaluation. It is therefore welcome that for the current programming period the Commission has in co-operation with the Member States, designed compulsory evaluation questions with associated criteria and indicators with which Member States can evaluate the scheme.

Administration

Member States implemented the scheme according to their own national and regional models. The most frequent problem that arose was the length of the application process, and in some cases lack of transparency in selection. Administrations need therefore to set exact timetables for the review of applications and improve transparency in selection procedures.

Implementation should be carried out with the minimum administration burden both on the taxpayer and the recipient. Member States may wish to examine contracting external agencies to implement the schemes. This was viewed as a positive experience in the Netherlands and Ireland. In particular, the implementation benefited from a clear division between policy formulation and implementation at the ministry level and the specialist administrative skills of the agency.

Main recommendations

- Better targeting of aid to organisations likely to pass on benefits to primary sector
- Strengthen eligibility criteria and introduce competitive tendering process to improve project quality
- Improve monitoring procedures and set criteria and indicators for data collection in advance as basis for quality evaluations
- Administrations to set exact timetable for project cycle and ensure transparency
- Consideration given to the use of external agencies to improve efficiency of implementation