




# MODERNISING & SIMPLIFYING THE CAP

Socio-Economic challenges  
facing agriculture and rural areas

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# MODERNISING AND SIMPLIFYING THE CAP

## Background Document

### Socio-Economic challenges facing EU agriculture and rural areas

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*Disclaimer*

*The contents of this publication do not necessarily reflect the position or opinion of the European Commission.*

*Closing date: 11 December 2017*

**SCOPE**

This document was developed by a team working within the Directorate General for Agriculture and Rural Development to provide background evidence and analysis on the predominantly economic dimensions of the global challenges facing EU agriculture. Related documents address the environmental and social dimensions. These papers form part of the preparatory stage of the Impact Assessment related to the modernisation and simplification of the Common Agricultural Policy (CAP). While a wealth of information is available, this review focuses on evaluations and other studies carried out for/by the EU Institutions, as well as data emanating from pan-EU or international sources.

Additional facts and figures are available on-line:

[https://ec.europa.eu/agriculture/statistics/facts-and-figures\\_en](https://ec.europa.eu/agriculture/statistics/facts-and-figures_en)

Challenges were selected according to their EU dimension, their magnitude and their relevance to the CAP. The document includes broader elements on Strengths, Weaknesses, Opportunities and Threats (SWOT).

On the basis this analysis, the paper identifies as the main economic challenges facing agriculture and rural areas:

- **Low growth, under-employment, poor generational renewal**
- **Sub-optimal infrastructures and services**
- **Territorial imbalance, social inclusion and poverty.**

A glossary on the CAP is available on line:

[https://ec.europa.eu/agriculture/sites/agriculture/files/glossary/pdf/index\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/glossary/pdf/index_en.pdf)

## 1. SOCIO-ECONOMIC STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS FOR EU AGRICULTURE AND RURAL AREAS

This section selects main Strengths, Weaknesses, Opportunities and Threats (SWOT) of EU agriculture and rural areas. While the clustering under SWOT analysis is helpful for identifying challenges, it has limitations with regard to two-sided factors (i.e. having a strength and a weakness, according to the context). This SWOT analysis is a contribution to the debate on the socio-economic challenges facing EU agriculture and rural areas.

### 1.1. Strengths

#### *1.1.1. Positive spill-over effects of agriculture on the rest of the rural economy*

The vitality and potential of many **rural areas** remain closely linked to the presence of a competitive and dynamic farming and forestry sector, which employs and provides income for an important number of rural inhabitants and at the same time has positive spill-over effects on many other rural activities (e.g. manufactures, local industries, services, tourism). This picture should, however, be nuanced by recognition of strong regional differences, and by the decreasing weight of agriculture in many rural areas.<sup>1</sup> The importance of agriculture for the well-being of a region does not necessarily depend on the scale of its agricultural activities, but reflects broader aspects.

Agriculture continues to have positive spill-over effects on the rest of the economy, particularly with local food-processing, hotels and catering, as well as with trade.<sup>2</sup> The links between agriculture and the wider rural economy are generally stronger and more positive than might be inferred statistically, where often agriculture has a low share of local Gross Domestic Product (GDP) or employment.<sup>3</sup> Many rural areas become socioeconomically more attractive when young farmers and new businesses are encouraged to set up, thus reinforcing a virtuous cycle of development.

The links between agriculture and other sectors are influenced by various factors including natural advantages (e.g. land quality, climate, local tourist attractions), the existence of infrastructure, the overall strength of the national economy, the level of education, training and entrepreneurial potential of the local population and the access to public funding.

#### *1.1.2. Positive spill-over effects of agriculture on the upstream and downstream sectors*

The farming and forestry sectors still employ and provide income for an important number of rural inhabitants. Strong production linkages with the **upstream** and **downstream** sectors remain crucial for growth and jobs in many rural areas. Thus, agricultural and forestry activities require and consume an important number of inputs produced upstream (e.g. fertilisers, pesticides, machinery). They provide outputs which are then processed downstream, possibly packaged, transported, and traded. This is true for food products but also for the production of fibres and construction materials and increasingly important for energy production, such as biomass and other renewable sources.

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<sup>1</sup> European Commission (2017) Statistical annex on the [Evolution of agricultural labour input](#)

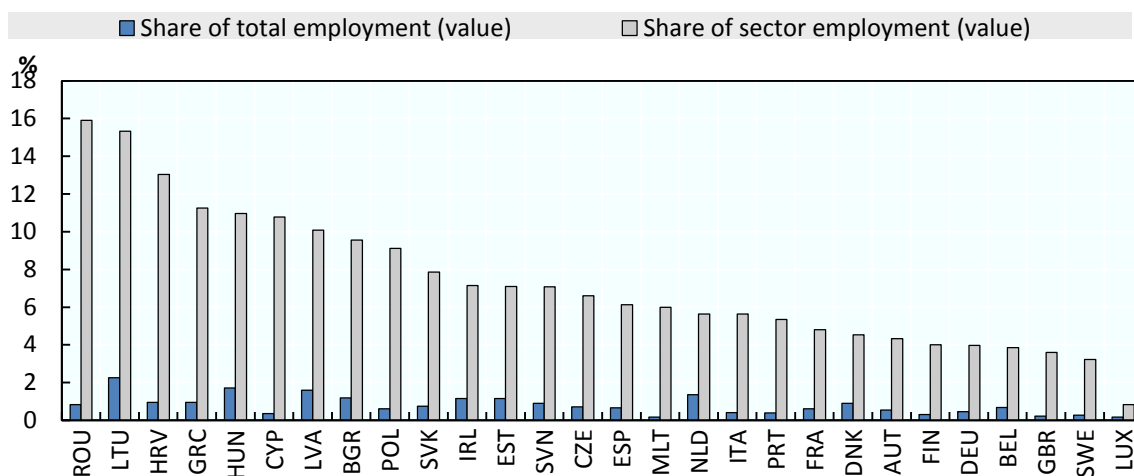
<sup>2</sup> European Network for Rural Development (2010) Agriculture and the Wider Economy, [ENRD-TWG2 findings](#)

<sup>3</sup> For the employment embodied in the final demand of each sector linked to the agriculture, see Ferrari E., Mainar Causapé, A., JRC (2017) "[Scene-setter on jobs and growth in EU agri-food sector](#)" workshop organised by DG AGRI

**Agriculture** itself has become, in many cases, a form of industry, as technology, vertical integration, marketing and consumer preferences have evolved along lines that closely follow the profile of comparable industrial sectors, often of notable complexity and richness of variety and scope. Hence, the deployment of resources in agriculture has become increasingly integrated in the network of industrial interdependencies.

Given the increasing globalisation of the upstream and downstream sectors' economy, it is difficult to evaluate and localise the generation and maintenance of growth and jobs. The global value chains approach (GVC)<sup>4</sup>, which addresses the full range of activities from concept to final good and represents all the links between industries, tries to overcome this difficulty. According to OECD analysis, world agro-food markets have changed, most notably in trade of intermediates (i.e. first processing of agricultural products), as have the ways that policies impact their domestic effects. Agro-food GVCs are important for EU jobs and growth, which rely on sourcing inputs internationally. Domestic agricultural policies (as well as policies outside agriculture) need to be carefully designed to avoid negative effects on Domestic Value Added.

**Figure 1. Employment effects from GVCs within the EU**



Source: Greenville Jared (2017) "[Links between global agriculture and food value chains and jobs and growth](#)", workshop organised by DG AGRI

Concerning the **upstream sector**, European agriculture creates demand for products of other industries and thus creates both jobs and growth. Some of the market leader companies of the upstream sector are located outside the EU, so the localisation of created jobs and growth can go beyond the European territory. The European agricultural machinery industry<sup>5</sup>, which includes 4,500 manufacturers of agricultural equipment, has a total turnover of EUR 26 billion and provides employment for 135,000 persons directly and another 125,000 persons indirectly in the distribution and service network.

The value of the EU seed market is estimated close to EUR 7 billion in 2016.<sup>6</sup> About 7,200 European seed companies provide direct jobs to 52,000 people, and spend an estimated EUR 1 billion annually on Research and Development, where 750 "Research and development stations" employing another 12,500 persons.

<sup>4</sup> Greenville Jared (2017) "[Links between global agriculture and food value chains and jobs and growth](#)", workshop organised by DG AGRI

<sup>5</sup> consisting of large multinational as well as numerous small and medium-sized enterprises (SMEs), [CEMA, European Agricultural Machinery Association](#)

<sup>6</sup> European Seed Association (ESA) (2016) [Representing the seed industry](#)

The number of people employed in the crop protection sector<sup>7</sup> increased by 2.5% to over 26,000 people in 2010. More than 11,000 employees are involved in production and logistics, over 6,500 in sales & marketing and nearly 5,500 in technical support, including research and development of crop protection products. Europe is the second largest volume and value market for pesticides in the world.<sup>8</sup>

Between 2010 and 2015, the annual average turnover<sup>9</sup> of member companies of Fertilizers Europe<sup>10</sup> was EUR 13.2 billion, for total investments of EUR 1.1 billion. They provided direct and indirect employment to 95 000 employees in more than 120 production sites.

Animal feeding stuff, including feed materials and compound feeds, are the main input into livestock production.<sup>11</sup> The value of all feedstuff used by EU livestock producers, including forages produced on the farm, is estimated at EUR 94.5 billion in 2013. This accounts for 38% of all inputs and 56% of the turnover in livestock production. Purchases of compound feed amounted, in 2012, to EUR 55 billion. The European compound feed industry employs over 110,000 persons on app. 4,000 production sites often in rural areas.

Concerning the **downstream** sector, a large part of agricultural production undergoes some degree of transformation between harvesting and final use. The industries which use agricultural and forest products as raw materials are quite diversified. Non-food industries (e.g. products related to bio-economy, textile fibres, fur, leather, wood products, paper and paper products, waste) have a wide variety of end uses and almost all non-food agricultural products require a high degree of processing. Moreover, many of these industries now increasingly use synthetics and other artificial substitutes (especially fibres) in combination with natural raw materials.

While agriculture, in most situations, is in a process of restructuring, which is leading to a lower share of total employment, the importance of the food chain in terms of employment remains substantial, with 21.9 million persons employed in the food processing industry, food retail and food services.<sup>12</sup> In the EU, about 12 million farms are producing the largest share of agricultural commodities used by the EU food industry's 300,000 enterprises. Food is then delivered to consumers through EU's 2.8 million enterprises in the food distribution and food services.

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<sup>7</sup> [European Crop protection](#)

<sup>8</sup> [Business Wire](#), Research and Markets: France Crop Protection Pesticides Market - Growth, Trends and Forecasts (2015-2020)

<sup>9</sup> Fertilizers Europe (2015) [Industry facts and figures](#)

<sup>10</sup> Fertilizers Europe represents the majority of fertilizer producers in Europe

<sup>11</sup> The value of livestock production – amounting to EUR 164.3 billion – accounts for 39.7% of the overall EU-28 agricultural output amounting to EUR 414 billion in 2015 (European Feed Manufacturers Federation, [Feed & Food Statistical Yearbook 2005](#))

<sup>12</sup> The number of persons employed in agriculture corresponds to the definition used in the FSS: individuals which have carried out farm work on the holding during the 12 months up to the date of the 2010 census (25 million people for the EU-27). This figure is different when measured in full-time equivalent jobs (around 10 million annual working units).

**Table 1: Enterprises/holdings, persons employed and value added in the EU-28 food chain, 2012**

2012	Enterprises / Holdings	Persons employed	Value added
	Million	Million	EUR million
<b>Total for EU-28</b>	<b>15.4</b>	<b>47.4</b>	<b>826 921</b>
Agriculture*	12.2	25.5	207 925
Food processing, beverages and tobacco industry**	0.3	4.6	216 184
Food retail and food services	2.8	17.3	402 811

Sources: [National accounts, Eurostat](#), [Farm Structure Survey](#), [Economic accounts for agriculture](#) and [Structural Business Statistics](#)

\* 2010 data for holdings and persons employed in agriculture.

\*\* Estimated EU-28 total for 2012.

Food production alone (i.e. the agriculture and the food processing industry<sup>13</sup>) provided for 6.7% of total employment in the EU<sup>14</sup> and a gross value added (GVA) of more than EUR 420 billion, which represented 3.7% of EU's total value added<sup>15</sup> in 2014.<sup>16</sup> The food industry contributed with 2.3% to EU employment and with 2% to EU's value added during the same year. The food processing industry is the biggest branch of the EU industry, representing about 13% of total industrial GVA and about 15% of total employment in this economic sector in 2011.<sup>17</sup> Europe's food manufacturing industry uses 70% of agricultural raw materials produced in the EU.<sup>18</sup>

There are structural differences in the food chain. Out of the 15.4 million holdings/enterprises in the food chain, the majority are small or medium sized. As a land-based activity, agriculture faces physical, logistical, economic and regulatory limits to concentration. By contrast, concentration in the food processing industry and retail sectors is high, with direct consequences on jobs' localisation.

### *1.1.3. Strong links with the environment and healthier lifestyles*

Agricultural and forestry landscapes can provide services and goods, which support the rural economy and the **quality of life** in rural areas (e.g. less noise, air and visual pollution, more space).<sup>19</sup> Landscape represents a resource for sectors of the rural economy such as tourism or the agri-food sector. In this context, land use and its effects on landscapes must also be seen in terms of an urban–rural-interconnection, “by which recreational and educational demands as well as issues of cultural heritage are to be included”.<sup>20</sup>

Protecting the distinctive rural landscapes of Europe plays a key role in safeguarding the attractiveness of rural areas as a place to live in or for tourism. Rural tourism represents a

<sup>13</sup> Food processing industry includes in this calculation beverages and tobacco.

<sup>14</sup> [Context indicator 13: Employment by economic activity](#)

<sup>15</sup> Gross value added is defined as production value minus intermediate consumption (inputs).

<sup>16</sup> European Commission (2017) Statistical annex on the [Food chain](#)

<sup>17</sup> For EU food wholesale, food retail as well as for the food service data is not available for this comparison.

<sup>18</sup> [Joint FoodDrinkEurope - EFFAT Position on Industrial Policy](#)

<sup>19</sup> For more details on the environmental challenges, see also the "climate and environment" background document

<sup>20</sup> Wiggering, H., Dalchowa, C., Glennitz, M., Helming, K., Müller, K., Schultz, A., Stachowa, U. & P. Zander (2005). Indicators for multifunctional land use - Linking socio-economic requirements with landscape potentials, *Ecological Indicators* 6 (2006). 238–249

main provider of accommodations with 47% of total bed places in tourist accommodation in 2015.<sup>21</sup>

Maintaining and enhancing biodiversity can help provide a wide range of socio-economic outcomes, such as increased opportunity for rural tourism and leisure activities, development of quality products, local brands as well as changes in employment opportunities both on and off farms (due to changes in practices and resulting from corresponding training), enhanced added-value to products based on environmental qualities, etc.<sup>22</sup>

Improving energy efficiency, reducing dependence on imported fuels and increased deployment and use of low carbon and renewable energy sources, offer opportunities for alternative local economic development. Renewable energy may provide remote rural regions with the opportunity to produce their own energy, generating extra income for farmers and forest owners, land-based activities and related value chains and may thereby lead to improved competitiveness of the agriculture and forestry sectors. Farmers and forest owners who integrate renewable energy production into their activities can potentially diversify, increase, and stabilise their income sources.

A 2011 report highlights that producing input for biomass or biogas installations has a positive income effect on farmers and a positive effect on labour.<sup>23</sup> Investments in such installations have also proved to be profitable, positively impacting the rural economy as a whole.

## 1.2. Weaknesses

### 1.2.1. *Low growth, under-employment, poor generational renewal*

Within EU28, in 2014, the Gross Domestic Product (**GDP**) in purchasing power standard per capita (PPS/cap) amounted, on average, to EUR 27,600. The EU-15 had GDP values above average, but the economic growth was highest in the EU-13 in the period 2007-2014, however starting from low absolute levels.

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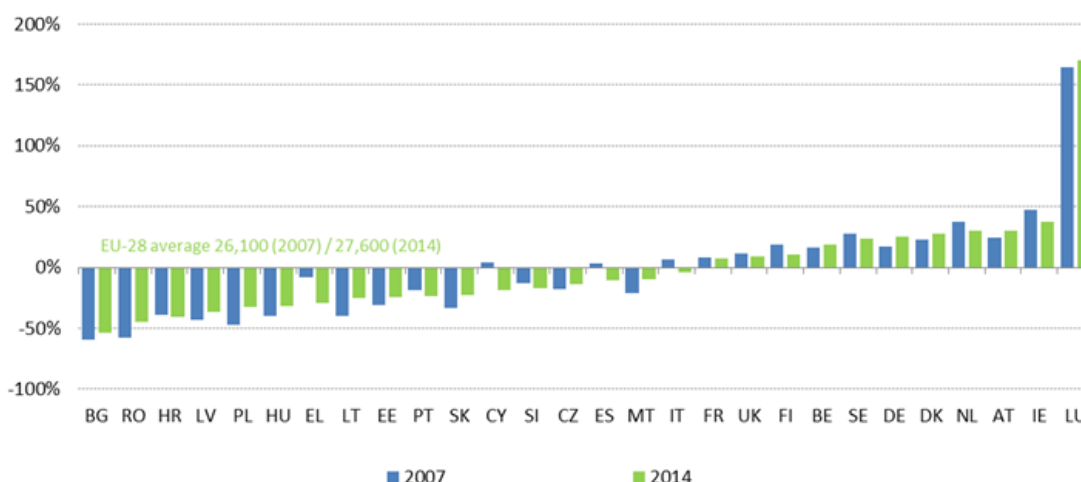
<sup>21</sup> For the EU-28 as a whole, 46.7% of the available bed places can be found in rural areas, 31.3% in towns and suburbs, while 22.8% of bed places are located in the cities. ([Context indicator 30: Tourism infrastructure](#))

<sup>22</sup> Poláková, J, Tucker, G, Hart, K, Dwyer, J, Rayment, M (2011) [Addressing biodiversity and habitat preservation through Measures applied under the Common Agricultural Policy](#), Report Prepared for DG Agriculture and Rural Development, Institute for European Environmental Policy: London.

<sup>23</sup> Alterra Wageningen UR and al. (2011), [Impacts of renewable energy on European farmers. Creating benefits for farmers and society](#). Final Report for the European Commission Directorate-General Agriculture and Rural Development



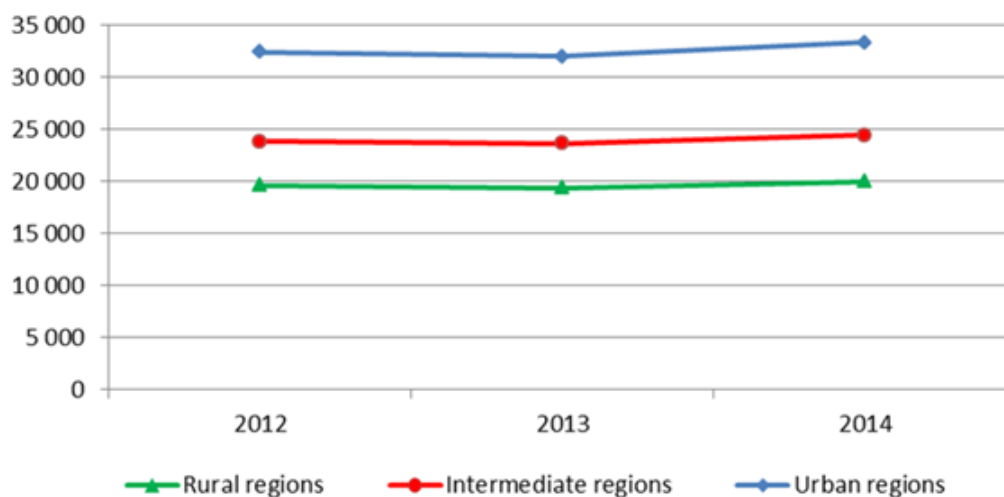
**Figure 2: GDP at current market prices (PPS/capita) in Member States, % deviation of EU-28 average 2007/2014**



Source: Eurostat, [Main GDP aggregates per capita](#)

Moreover, rural regions appear to have consistently the lowest GDP per capita levels.

**Figure 3: GDP (PPS/capita) by type of regions in the EU-28 (2012 – 2014)**



Source: Eurostat, [Gross domestic product \(GDP\) at current market prices](#)

EU28 average farm **income** is only around 40% of average income. Indeed, compared to the average wages in the economy, the entrepreneurial income per family work unit only came to around 38% in 2015.<sup>24</sup> During the economic crisis of 2009, this comparative value even fell to 27.5%, reflecting the significant drop in overall agricultural income. However, the average farm income does not discriminate between the relatively low number of big holdings and the large amount of subsistence and semi-subsistence farms.

Agriculture as source of **employment** in the primary sector faces a long term trend of sectoral decline everywhere, the result of economic development. The EU is no exception and since 2005, more than one out of four agricultural jobs disappeared (26.5%), with the consolidation process is expected to continue. Declining farm numbers have led to larger farms and an increase in output per farm as well as to a drop in employment in the agricultural sector.<sup>25</sup> In 2013 only 12% of jobs in rural areas were related to agriculture, and the decreasing trend persists even if the situation across

<sup>24</sup> Facts and figures on EU agriculture and the CAP, [Statistical annex: Agricultural and farm income](#)

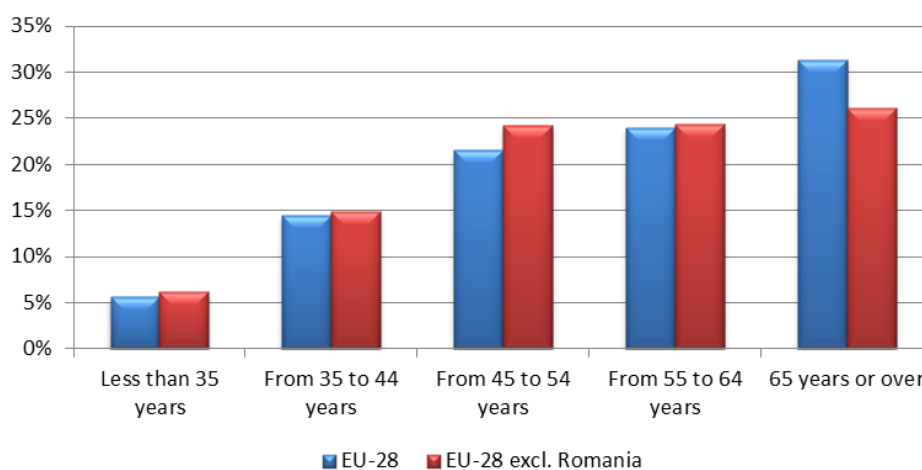
<sup>25</sup> Copenhagen Economics (2016) [Impacts of EU trade agreements on the agricultural sector](#)

countries greatly differs. However, the CAP seems to play a major role in making this process smoother and slower.<sup>26</sup>

Labour productivity is often much lower in rural areas. On average, measured by gross value added by employed person, it is about 80% of that in urban areas of the EU.<sup>27</sup> The reasons for this situation are multiple, but the result could be negative both for those employed and for prospective investments in rural areas.

In 2013, close to one-third (31.4 %) of all farmers were older than 65 in the EU, while only 5.6% of farmers were younger than 35 years.<sup>28</sup> For each farmer younger than 35, there are 5.6 farmers older than 65 in Europe.

**Figure 4: Age structure of EU farmers, 2013**



Sources: [EU Agricultural and Farm Economics - No 15. - Young farmers in the EU](#)

However, **demographic** structures differ across Member States. In Portugal, half of all farmers are older than 65. This is in stark contrast to Germany, Austria and Poland, where less than 10% of all farmers continue to work beyond the age of 65. The ratio of young (below 35) to old (above 65) farmers is highest in Poland, Austria and Germany (above 1) and lowest in Cyprus, Portugal, Spain and the United Kingdom (below 0.1).<sup>29</sup>

<sup>26</sup> - M'barek, R., Barreiro-Hurle J., Boulanger P., Caivano A., Ciaian, P., Dudu, H., Espinosa, M., Fellmann, T., Ferrari, E., Gomez y Paloma, S., Gorrin Gonzalez, C., Himics, M., Louhichi, K., Perni, A., Philippidis, G., Salputra, G., Witzke, P., Genovese G. (2017). Scenar 2030 - Pathways for the European agriculture and food sector beyond 2020. EUR 28797 EN, doi:10.2760/887521

- World Bank (2017) forthcoming EU Regular Economic Report 4 Thinking CAP: Boosting agriculture incomes in the EU

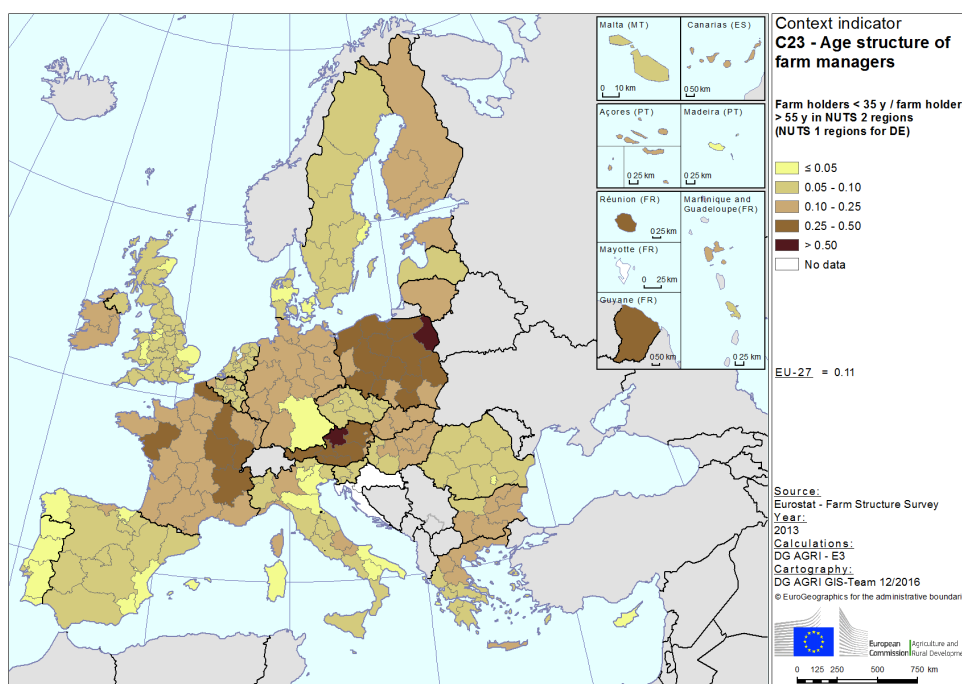
- Nowicki, P., Weeger, C., Van Meijl H., Banse M., Helming J., Terluin, I., Verhoog, D., Overmars K., Westhoek, H., Knierim, A., Reutter M., Matzdorf B., Margraf, O., Mnatsakanian R. (2006) [Scenar 2020. Scenario study on agriculture and the rural world](#), Study to the European Commission

<sup>27</sup> [Eurostat series - Gross value added; Employment by NUTS 3 regions](#)

<sup>28</sup> These figures are strongly influenced by Romania, which contributes more than 45% of all EU farmers older than 65

<sup>29</sup> EU Agricultural and Farm Economics Briefs (2017) - No 15.- [Young farmers in the EU](#)

**Map 1: Age structure of farm managers**

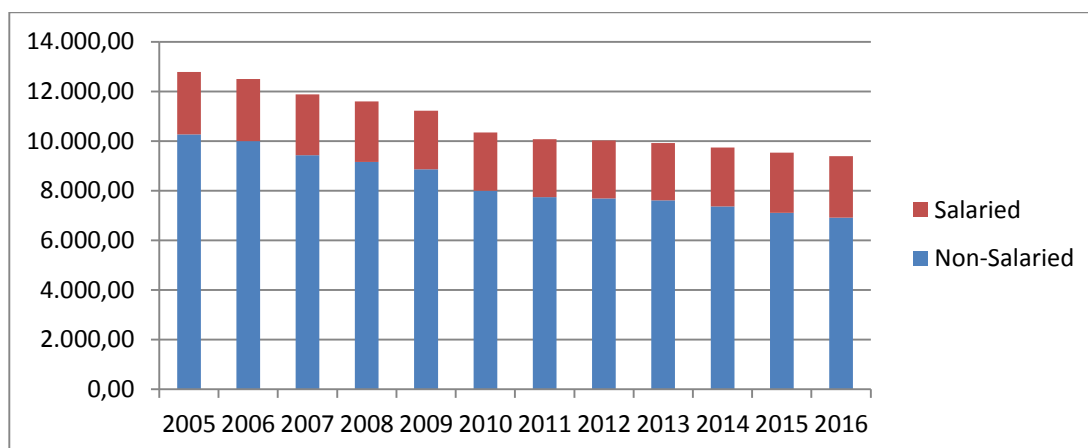


Source: [Context indicator n°23](#)

While the average farm size is lowest for elderly farmers, young farmers, especially in the EU-15, tend to manage the largest holdings.

More broadly, family labour (or non-salaried workers) is of great importance when it comes to inclusion of agricultural workers in the social fabric, though trends are showing a growing share of salaried workers in total agriculture workforce.

**Figure 5: Agriculture workforce in EU-28 in absolute terms**



Source: DG AGRI calculations, based on Eurostat, [Agricultural labour input statistics](#)

**Work** in agriculture is often precarious, and cases of infringements regarding labour rights, exploitation and forced labour have been reported across the EU.<sup>30</sup> Some social groups face special challenges. For example, the great majority of women in farming are officially categorised as working on farms as family members, even when the daily routine of running the farm is shared equally with their partners.<sup>31</sup> Moreover, women's

<sup>30</sup> Hunt, J. (2014) "Making the CAP Fit: Responding to the Exploitation of Migrant Agricultural Workers in the EU". The International Journal of Comparative Labour Law and Industrial Relations 30, n° 2

<sup>31</sup> Rossi R. (2017) [Women and their roles in rural areas](#), European Parliamentary Research Service

contribution to local and community development is significant, but rural women are in a minority in decision-making and planning, particularly in the agricultural sector.<sup>32</sup>

Youth unemployment has increased dramatically in recent years. The percentage of young people without a job, or not in education or training, is much higher in rural areas than elsewhere.<sup>33</sup> Exodus of young people is one of the most pressing issues for any future sustainability of rural communities. Young people's migration decisions are influenced by the geography of the locality, the social setting, the level and the degree of accessibility to infrastructure, the provision of social services, the condition of the local labour market and the role of family, friends and social networks.<sup>34</sup>

Improving **knowledge and skills** is directly linked to employability: people better prepared are more likely to find a (better) job, if such a job is available. Limited offer of high-skill jobs is a prominent problem in rural areas and one of the reasons why young people will out-migrate in search of better opportunities. In general, rural areas and the agricultural/forest sector lag behind urban areas and other economic sectors in levels of education, but there is a positive trend on educational attainment in rural areas. More than two-thirds (70%) of EU farmers have not received any agricultural training other than their own practical experience. In Romania, Bulgaria, Greece, Croatia, Cyprus and Malta, this share surpasses 90%.<sup>35</sup> The oldest farmers are least likely to have received any kind of training. They also tend to work on the smallest holdings.

Rural areas have the lowest (but increasing) levels of people with tertiary education. Most people in rural areas have upper-secondary and post-secondary non-tertiary education levels. The percentage of people with less than lower secondary education is decreasing everywhere, also in rural areas.<sup>36</sup> Furthermore, it is broadly accepted that knowledge and skills are basic to boost economic growth, to contribute to the development of regions as well as to improve the sustainability and performance of business.

### *1.2.2. Sub-optimal infrastructure, services*

Many rural regions and communities (especially the remote and poor ones) suffer from a lack of services and infrastructures. These handicaps are among others responsible for the lack of attractiveness of these regions and are barriers for many businesses and corresponding job creation. These regions are thus under vicious cycles of underdevelopment. Low population density weight negatively, as it is associated with a lack of accessibility and generally less addressed by public funding. Very few national governments explicitly guarantee that public services should be uniformly available across their territory, but there is a growing perception that spatial equality of access should be part of the statutory rights of citizens.<sup>37</sup>

In several rural areas, especially the more remote, certain **services are** not available, or are available at considerably higher cost and/or lower quality than in urban locations. The costs of service delivery in rural areas are impacted by economies of scale (unit costs in small communities tend to be significantly higher than in large ones).<sup>38</sup> Because of the need to maintain a critical mass, provision rates of services tend to show lower levels

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<sup>32</sup> European Institute for Gender Equality (EIGE), (2016) [Gender in agriculture and rural development](#)

<sup>33</sup> Facts and figures on EU agriculture and the CAP, [Statistical annex: Rural areas and the primary sector](#)

<sup>34</sup> Sucksmith M. (2010) ["How to promote the role of youth in rural areas of Europe"](#) Study to the European Parliament

<sup>35</sup> [Context indicator 24: Agricultural training of farm managers](#)

<sup>36</sup> [Eurostat: Population by educational attainment by degree of urbanisation](#)

<sup>37</sup> OECD (2010) [Strategies to Improve Rural Service Delivery](#), Editions OCDE, Paris

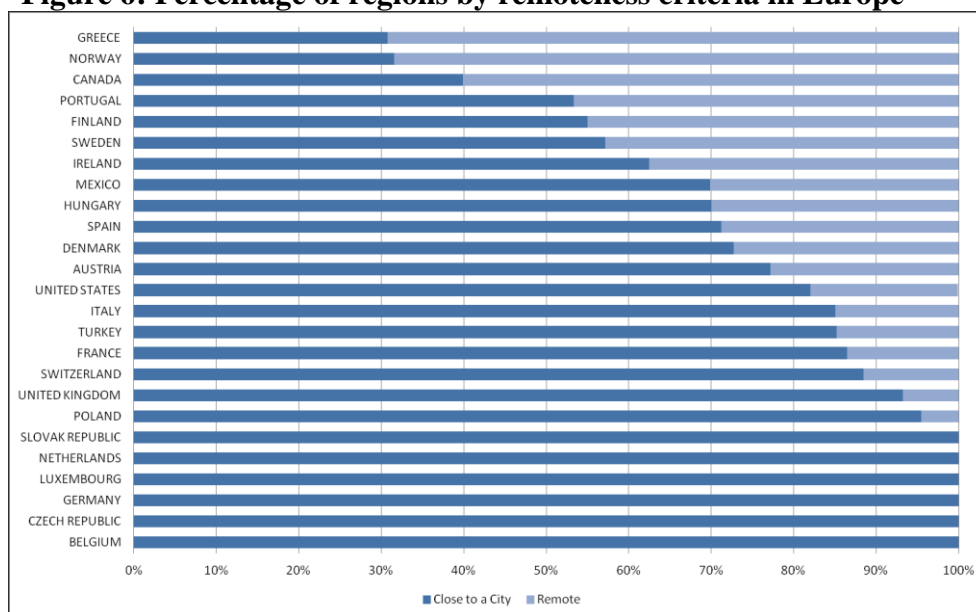
<sup>38</sup> OECD (2010) [idem](#)

than what would be tolerated in an urban setting), additional travel costs because of greater distances, high level of unproductive time (more time spent travelling results in higher levels of unproductive staff time, which may have also an impact on considerable differences in compliance of national standards), additional communication costs and difficulties in networking.

The SEGIRA study<sup>39</sup> identified **infrastructure** as an important driver for the rural economy and as key barriers to growth demographic developments, infrastructure and accessibility and the sectoral nature of the economy.

Of the 32 countries participating in the European Spatial Planning Observation Network (ESPON)<sup>40</sup>, 40% of the population lives in municipalities, in predominantly urban regions, 35% live in the intermediate regions close to a city and 18% live in predominantly rural regions. There are significant national variations between urban and rural occupancy.

**Figure 6: Percentage of regions by remoteness criteria in Europe**<sup>41</sup>



Source: [ESPON ATLAS](#), Mapping European territorial structures and dynamics, 2014

**Accessibility** (the link between services and users) and remoteness influence quality<sup>42</sup> and cost of life. Accessibility is a multi-dimensional concept that includes physical, temporal, economic and socio-cultural aspects. Distance is a defining concept of rurality. Many rural areas are far from major urban centres and this makes all forms of connectivity more expensive. Limited access to public transport is reported as affecting 26% of rural population, compared with 11% of urban dwellers.<sup>43</sup> Transport times are significant. Power lines have to be strung long distances and suffer line losses. Moreover within a rural area distance imposes similar burden because of the extensive geography.

<sup>39</sup> Ecorys, ECOTEC, CRE, IDEA Consult, ÖIR (2010) [Study on employment, growth and innovation in rural areas \(SEGIRA\)](#), Study to the European Commission.

<sup>40</sup> [ESPON ATLAS](#) (2014) Mapping European territorial structures and dynamics,

<sup>41</sup> Lewis Dijkstra and Vicente Ruiz (2010) [Refinement of the OECD regional typology: Economic Performance of Remote Rural Regions](#)

<sup>42</sup> For example, distance from the doctor's office, hospital or medical centre made it either a 'little' or 'very' difficult to access a doctor or medical specialist for 27% of people living in a village or in the countryside, compared with 21% in more urban areas (Eurofound, European Foundation for the Improvement of Living and Working Conditions (2014) [Quality of life in urban and rural Europe](#), Ireland)

<sup>43</sup> Eurofound, European Foundation for the Improvement of Living and Working Conditions (2014) [Quality of life in urban and rural Europe](#), Ireland

While some technologies (ICT) have reduced the distance penalty facing rural regions, the majority of the ways rural people exchange goods services and ideas are still subject to distance penalties.

Many rural areas face **depopulation** trends. Even in the countries where the rural population is expanding, only certain regions are experiencing population growth.<sup>44</sup> For many rural regions, population is low enough that it is difficult to achieve scale economies of production of many goods and services, including public services. Even ignoring the burden of increased transport costs there are often too few people in a rural region to allow services to be provided in the same way that is done in urban areas. Distance and low population levels result in low density. The low density of population is a crucial factor in many rural regions. In urban areas a concentration of population in geographic space facilitates connectivity. In rural regions, people tend to be dispersed across much of the territory, which makes connectivity harder to achieve. In those rural regions where the population is clustered in a small number of communities it may be possible to reach some degree of critical mass, but in rural regions with a large but dispersed population the costs of connecting people through markets or government action are high.<sup>45</sup>

Improving **mobility** remains a major issue in sparsely populated areas. The low population density in these localities often means that lack of investments in these areas, longer journeys are required to access services, carry out everyday activities or maintain social links. Whole sections of the population – in particular older people, young people, stay-at-home parents in single-car households, and seasonal workers – are effectively handicapped in mobility terms by inadequate public transport provision and an overdependence on people who have cars.<sup>46</sup>

**Connectivity** plays an essential role in agriculture and rural development, contributing to the delivery of e-services that can overcome the sub-optimal access to infrastructure and services affecting many rural areas. However, rural areas are less well served with broadband internet access: next-generation access (NGA) covered only 40% of rural households by mid-2016, compared with 76% of total EU households.<sup>47</sup>

Moreover, empirical evidence suggests that there may be significant territorial differences in the use of public infrastructure services in the EU. For example, large differences exist across EU regions in access to broadband, ranging from 85% to 20%.<sup>48</sup> In addition, rural residents exhibit a lower percentage of internet use than their urban counterparts, leading to a rural-urban “digital divide”.<sup>49</sup> The Green Paper on Territorial Cohesion<sup>50</sup> reflected concerns about this digital divide. According to the Digital Agenda Scoreboard<sup>51</sup>, basic broadband is available to everyone in the EU, while fixed

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<sup>44</sup> [Context indicator 4: Population density](#)

<sup>45</sup> OECD (2010) [Strategies to Improve Rural Service Delivery](#), Editions OCDE, Paris

<sup>46</sup> OCDE (2012), [Linking Renewable Energy to Rural Development](#), Editions OCDE, Paris

<sup>47</sup> European Commission, Digital Single Market (2017) [Europe's Digital Progress Report, Staff Working Document 2017](#)

<sup>48</sup> Dauvin, M; Grzybowski, L. (2014) [Estimating broadband diffusion in the EU using NUTS1 regional data](#), Economic Research Southern Africa (ERSA)

<sup>49</sup> Shucksmith et al. (2009); Novo-Corti et al.(2014) according to Clifton, J., Díaz-Fuentes, D., Fernández-Gutiérrez, M. (2015) [Public infrastructure services in a territorial perspective: Analysis in the EU context](#)

<sup>50</sup> European Commission (2008) [Green Paper on Territorial Cohesion. Turning territorial diversity into strength](#), Communication from the Commission to the Council, the European Parliament, the Committee of the Regions and the European Economic and Social Committee

<sup>51</sup> European Commission (2015) [Digital Agenda Scoreboard: Most targets reached, time has come to lift digital borders](#)

technologies cover 97% of households and Next Generation Access (NGA) networks, cover 68% of households.

Nevertheless, rural coverage remains significantly lower, especially in NGA. Moreover, still in 2016, for all but three of the EU Member States, the lowest proportion of people making use of the internet on a daily basis was recorded in rural areas.<sup>52</sup>

**Consumption** expenditure may be expected to vary between rural and urban areas as a function of the ease with which consumers can access various goods and services. In rural areas choice may be limited, and retailers might charge more for their goods or services as they face less competition, have a smaller mass of customers, and (in the case of independent shops) may have less bargaining power with producers, suppliers or wholesalers.<sup>53</sup> As a result, some consumers from sparsely populated areas may choose to defer or abandon making specific purchases, while others may prefer to make journeys to urban centres on an irregular basis. People living in rural areas are more likely to produce their own food (and perhaps other products), the value of which may not be completely captured by the household budget survey.

The structure of expenditure by degree of urbanisation shows that people living in sparsely populated areas of the EU-27 spent 16% more of their budget on food and non-alcoholic beverages than those living in densely-populated urban areas.<sup>54</sup> They also spent a considerably higher proportion of their household budget on transport (possibly travelling longer distances to work or to buy goods and services). In contrast, those living in urban areas devoted higher shares of their total expenditure to education; housing, water, electricity, gas and other fuels; restaurants and hotels; recreation and culture.<sup>55</sup>

### *1.2.3. Territorial imbalance and poverty*

Significant **regional disparities** remain across EU rural regions concerning physical constraints, income distribution, labour productivity and economic disparities. Many rural regions and communities (especially the remote and poor ones) suffer from important handicaps because of lack of services, job opportunities and infrastructures. These handicaps contribute to the lack of attractiveness of these regions and are barriers for many businesses and job creation.

Demography, remoteness, education and labour market may interact and generate “vicious circles”, which may reproduce and amplify the phenomenon of poverty of rural areas.<sup>56</sup> The population density is sometimes 10 times lower in rural areas than in urban ones in the EU, or even lower in some Member States.<sup>57</sup> This results in worse economic conditions there what affects the wellbeing their inhabitants and thus the attractiveness of those areas.

In the EU-27 households living in densely populated areas (with more than 500 inhabitants per km<sup>2</sup>) spent 6% more than households in intermediate areas (100-499 inhabitants per km<sup>2</sup>), and 9% more than households in sparsely populated areas (with less than 100 inhabitants per km<sup>2</sup>) in 2005.<sup>58</sup> Despite their lower spending, standards of living and purchasing power are relatively lower in rural areas because GDP per capita is lower in rural areas than in other areas –it stands at 73% of the overall EU average, compared

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<sup>52</sup> Eurostat (2016) [Data on digital divide](#)

<sup>53</sup> Eurostat (2009) [Consumers in Europe](#)

<sup>54</sup> Croatia entered the EU in 2011; data relative to previous periods referring to EU-27

<sup>55</sup> Eurostat (2009) [Consumers in Europe](#)

<sup>56</sup> Bertolini, P., Montanari, M., Peragine, V. (2008) [Poverty and social exclusion in rural areas](#), Fondazione Giacomo Brodolini

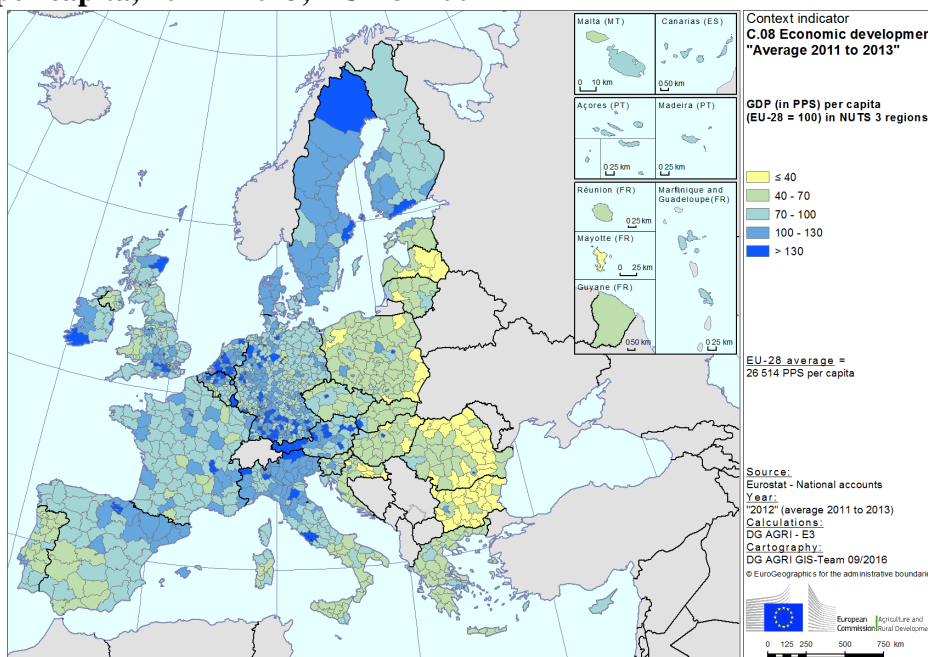
<sup>57</sup> [Eurostat series - Population density](#)

<sup>58</sup> Eurostat (2009) [Consumers in Europe](#)

with 88% in intermediate areas and 120% in urban areas.<sup>59</sup> However, the situation varies significantly among Member States.

The GDP per capita in predominantly rural regions of Bulgaria, Romania and Latvia was below 40% of the EU-28 average during the period 2011-2013, whereas in the Netherlands it was 119%.<sup>60</sup> Also at the level of particular Member States that indicator in rural areas may vary, from half to double of the urban average of the country. Within rural areas, the purchasing power in the richest ones can be 2-4 times higher than in the poorest, in some particular MS.

**Map 2: Gross Domestic Product (GDP) in Purchasing Power Standard (PPS) per capita, 2011 - 2013, EU-28=100**



Source: [Eurostat: GDP per capita & average annual population by NUTS 3 regions](#)

Significant heterogeneity of rural areas implies not only varying development needs for those regions, but also exposes varying socio-economic potential for implementing any improvement actions. While many areas would need help, part of them might not be able to use it effectively. By contrast, some attractive rural areas may not need assistance at all. Tailor-made solutions, while theoretically possible, might be difficult to get due to practical complications in their design, coordination and implementation. Finding a suited approach may also be complicated by shortages of resources and conflicting priorities of various stakeholders in the rural communities.

Since 2009, **poverty** in the EU has increased. While by 2011 the EU had already fully recovered its pre-crisis GDP per capita, even by 2015 it had only recovered less than two thirds of the poverty increase incurred during the crisis. In the case of Southern Europe, the contrast is even higher. However, agriculture functioned as a shock absorber during crisis.

Of all sectors, agricultural growth was least affected by the crisis. In several countries, there was a temporary decline in the secular outflow of labour from agriculture, as the

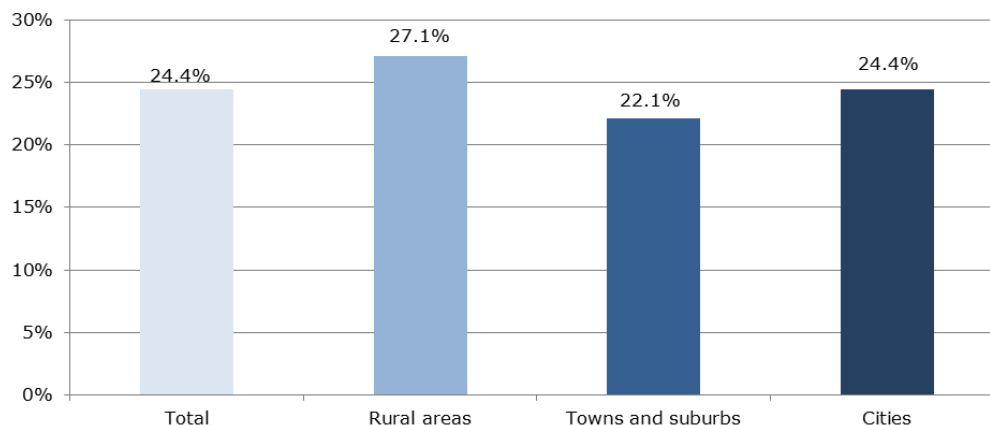
<sup>59</sup> [Context indicator 8: GDP per capita](#)

<sup>60</sup> Facts and figures on EU agriculture and the CAP, [Statistical annex: Rural areas and the primary sector in the EU](#)



agriculture sector fulfilled the role of crisis shock absorber.<sup>61</sup> Nevertheless, on average poverty risk is higher in rural areas, with a serious rural-urban poverty gap in a number of countries in southern Europe and most of EU13.<sup>62</sup> In general isolated rural areas suffer much more from a lack of social inclusion and a poor performing labour market, compared to those rural regions that are close to urban poles.<sup>63</sup> The situation is roughly similar with regard to GDP per head.

**Figure 7: Poverty rate by type of region in EU-28 in 2014**



Source: [Context indicator 9: Poverty rate](#)

There are also **inequalities** between certain categories of persons and specific groups, such as elderly people, subsistence farmers, Roma and migrants.<sup>64</sup> The risk of poverty and social exclusion are higher for some: e.g. women living in rural areas are particularly affected by poverty, suffer from extremely high unemployment rates and limited access to education and healthcare. There is a correlation between the general poverty rate in a country and the level of rural/urban disparities: the higher the level of overall poverty, the wider the poverty gap between rural and urban areas.<sup>65</sup>

For a number of reasons, there is a lack of public awareness of the rural poverty problem and of the need to address it<sup>66</sup>. Some authors argue about a non-effective rural-proofing of policy. Key national policy documents gave little or no attention to rural areas, for example neither the national skills strategy nor the enterprise strategy.<sup>67</sup> For these and other reasons, rural poverty is often neglected.<sup>68</sup>

While small and very small farms accounted for more than two thirds (69.1 %) of all the farms in the EU-28, their share of standard output was less than 5 % of total. Almost three quarters (74.4 %) of very small farms (in economic terms) consumed more than

<sup>61</sup> World Bank (2017) forthcoming EU Regular Economic Report 4 Thinking CAP: Boosting agriculture incomes in the EU

<sup>62</sup> Bock B., Kovacs K., Shucksmith M., (2015) Changing social characteristics, patterns of inequality and exclusion. In Territorial cohesion in rural Europe. K.Kopus A., De Lima F. (ed).

<sup>63</sup> Pagliaci, F (2017) [Regional paths towards Europe 2020 targets: a spatial approach](#), European Planning Studies, Volume 25, Issue 4

<sup>64</sup> Augère-Granier, M-L. (2017) [Rural poverty in the European Union](#), European Parliamentary Research Service

<sup>65</sup> Boulineau, E. and Bonerandi-Richard E (2014) "La pauvreté en Europe. Une approche géographique", Editions PUR, Géographie sociale

<sup>66</sup> European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities (2008) "[Poverty and social exclusion in rural areas](#)"

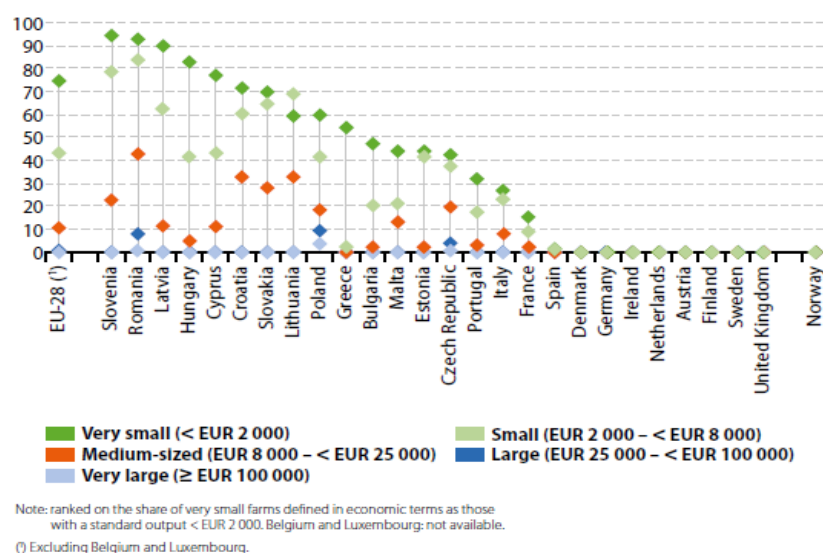
<sup>67</sup> Walsh K., Harvey B. (2013) [Employment and social inclusion in rural areas: a fresh start](#), POBAL, Government supporting communities

<sup>68</sup> Bock B., Kovacs K., Shucksmith M., (2015) Changing social characteristics, patterns of inequality and exclusion. In Territorial cohesion in rural Europe. K.Kopus A., De Lima F. (ed).

half of their own production in 2013.<sup>69</sup> In some cases this may be explained by part-time farming, but in many other cases it evidences the high number of very small, subsistence farms in the EU.

A very high proportion (above 90%) of the very small farms in Latvia, Romania and Slovenia are subsistence households. Over two fifths (42.6 %) of small farms are classified as subsistent. Despite their small contribution in the overall production value, the large number of these farms implies that around 40% of total EU farms can be classified as subsistence.

**Figure 8: Share of farm holdings with more than half of production being self-consumed, by economic size of farm, 2013**



Source: Eurostat (2016) [Small and large farms in the EU](#)

Subsistence and semi-subsistence farmers and their families - especially in new Member States-, are particularly exposed to poverty and social exclusion risks as many of them will not be able to catch up the current trend of modernization of the agricultural activity.

### 1.3. Opportunities

#### 1.3.1. Cultural and social capital

The scientific literature considers that the essential element for a consolidated collaboration is **social capital**, which means trust and spirit and capacity of cooperation. Thus, trust is the core, the foundation of a social capital. It also constitutes, among others, a necessary condition for economic efficiency. Former structures for co-operation promote new ones<sup>70</sup>, and in general, pre-existing social and economic networks seem to facilitate the emergence of new synergies<sup>71</sup>, because they are often built upon existing trust relations. Positive prior experiences through a network create a favourable environment for the establishment and maintenance of continuing relationships, because the familiarity developed through prior alliances has enhanced trust. The importance of

<sup>69</sup> Facts and figures on EU agriculture and the CAP, Statistical annex: [Farm structures](#)

<sup>70</sup> Putnam, R. (1993) *La trazione civica nelle regioni italiane*, Milan, Mondadori.

<sup>71</sup> Brunori, G., and Rossi, A. (2000) "Synergie and Coherence through Collective Action: some insights from wine routes in Tuscany", *Sociologia Ruralis*, 40, 4: pp. 409-423.

existing networks lies in access to information, emotional and tangible support, status and a governance mechanism that facilitates trustworthy and predictable behaviour.<sup>72</sup>

Social capital is highly relevant for stimulating innovation as innovation is more and more viewed as the outcome of collaborative networks where information is exchanged and a process of learning takes place. Collaboration is positively associated with innovation intensity and the level of innovation output. Due to fragmentation and limited resources (human/ social capital, financial) of the SMEs (representing 99% of the agri-food sector) the sector is highly dependent on external sources of information for innovation.

Social capital is generally defined as the trinity of “networks, norms of reciprocity and trust”. It refers to anything that facilitates individual or collective action, generated by networks of relationships, reciprocity, trust, and social norms. A certain circularity can be discerned: through social networks trust is developed, but trust is also needed in order to engage in networks. The relationship between trust and the performance of cooperatives can be used among others as a separate component of measurement of social capital<sup>73</sup>: 21,769 agri-cooperative groups, 6,172,746 members and have a turnover of EUR 347,342 million in 2014 in the EU-28.<sup>74</sup>

Networking is sometimes more easily adopted in the rural context than in towns, first of all because the small size of the villages encourages the interpersonal relations. Secondly, networking is a way for farmers to share experience and knowledge and develop ideas to face certain issues as production reductions, unspecialized staff or lack of technologies. Networking structures bring people together and give them the opportunity to exchange experience and knowledge, inform and promote actions and find project partners. They also make people feel stronger because they are part of a larger unit. Networking may take different forms depending on the territory or the circumstances (spontaneous social mobilization or more institutionalized processes). 2287 Local Action Groups were operating under Leader in the EU-27 (2007-2012), covering an area of 4,007,304.94 km<sup>2</sup> and 136,440,623 people.

Many rural communities are often associated with strong local cultures and traditions, which bring cohesion and solidarity to social groups and rural communities; these elements can be very valuable to the creation of new business and project opportunities. However, the nature of social structures and networks in some rural areas leaves communities less able to adapt to globalisation or shocks and "strong" social capital (personal links) can be useful but can also shut out new people and initiatives, and is in any case declining in some areas.

Deeply rooted cultural values can remain relatively unaltered by modernisation. Affirming the local cultural identity and the improvement in the quality of life brought about by these activities strengthens the pride of rural populations and their sense of belonging to a territory –which mean guaranteed survival and development. Culture has the means and the ends of development at the same time: it is by emphasizing the wealth and diversity of their cultural heritage and traditions that rural areas will be able to develop those economic activities which can generate added value and employment.

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<sup>72</sup> Gall, R.,Schroder, B. (2006): “Agricultural producer cooperatives as strategic alliances”, International Food and Agribusiness Management Review, 9, 4.

<sup>73</sup> Methodology proposed in Bijman Jos et al. (2012) "[Support for Farmers Cooperatives](#)" Final Report to the Directorate-General for Agriculture and Rural Development, Brussels

<sup>74</sup> Cogeca (2015) "[Development of agricultural cooperatives in the EU, 2014](#)" PUB (14) 9112:2

### 1.3.2. Attractiveness of rural territories

Attractiveness is the image that population groups have for an area, based on estimated qualities and characteristics of the areas and their populations, such as accessibility, remoteness, dynamism, competitiveness, research and development, human resources, infrastructures, services available and more.<sup>75</sup>

Three types of **migration** are a key phenomenon in rural areas: (a) the “rural exodus” which (selectively) drains human capital out of remote rural areas, in favour of urban and accessible rural locations; (b) the flow of economic migrants from the poorer regions of the New Member States (NMS12) towards both rural and urban regions of the EU15; and (c) “counter-urbanisation” movements from cities and towns into accessible rural areas. The social and economic impacts of the first of these upon the origin regions are predominantly negative. The other two kinds of flow result in a complex balance of positive and negative effects upon rural regions.<sup>76</sup>

The decline of the farmers' population in some European territories is not always linked with a general decline of the population in these areas. In several cases, people decide to live in the countryside in order to benefit a better quality of life. Moreover, in the current context of economic crisis, some people decide or are forced to live in the countryside because in some cases the cost of life is lower in comparison with the urban areas. In fact, people living in low- and middle-income households in cities in particular more often reported difficulties making ends meet during the crisis, closing the gap that existed compared with households with similar incomes in rural areas.<sup>77</sup>

Net in-migration to rural areas rich in natural amenities can be observed typically on rural coastal areas, which are attracting for persons who are moving for lifestyle reasons rather than for jobs. Mountain communities can be attractive for in-migrants searching for engagement with nature. Rural retirement migration concerns mainly northern European retirees who settle in rural communities in Spain, Italy, Cyprus and a variety of other southern European destinations. Retired migration is possible also due to globalization and improved transportation infrastructure.<sup>78</sup>

Additionally, over the last few years, Europe is facing the biggest refugee crisis after the Second World War, with more than 2.5 million people having applied for asylum in the EU in 2015 and 2016.<sup>79</sup> The arrival of third country nationals could create opportunities in rural areas, in particular those affected by population decline. Although migration is predominantly an urban phenomenon, several rural communities have launched projects to support migrants arriving in rural areas.<sup>80</sup> This could provide a win-win situation, as the integration of migrants could contribute to reverse local depopulation trends, helping to the maintenance or reopening of public services, and the creation of new jobs and economic development in rural areas.

The reasons and the driving forces to live in rural areas, as a counter-urbanisation process, vary. In the economic and development planning sciences various approaches

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<sup>75</sup> ESPON (2011) EUROISLANDS – The development of the Islands - European Islands and Cohesion Policy, [Annex IV- Analysis of the relevant literature](#)

<sup>76</sup> ESPON (2011) EDORA ([European Development Opportunities for Rural Areas](#)), Final report for the European Commission, Luxembourg

<sup>77</sup> Eurofound (2014), [Quality of life in urban and rural Europe](#), Publications Office of the European Union, Luxembourg

<sup>78</sup> Brown David and al. (2010) [Rethinking the OECD's New Rural Demography](#), Centre for Rural Economy, Centre for Rural Economy, University of Newcastle Upon Tyne

<sup>79</sup> European Parliament, [A Welcoming Europe?](#)

<sup>80</sup> Martinez Juan, Ana (2017) European Parliament, Think tank. [EU rural development policy and the integration of migrants](#), briefing (Feb.)

have been developed on attractiveness for different kinds of economic actors (enterprises, people, infrastructures, services). Literature on attractiveness for enterprises (industry, services, and retailers) proposes a series of factors, namely location in terms of raw materials availability and remoteness from markets, population size of the area, infrastructure availability, human resources availability and quality, and administrative – tax framework.

New information technologies allowing teleworking offer the opportunity of creation of new jobs in rural areas, overcoming, to some extent, the lack of accessibility. Isolated rural parishes and islands can be more attractive where social and health services are better organised. An example is the EAFRD (European Agricultural Fund for Rural Development) funded Portugal projects, which aims at increasing social cohesion / inclusion in the vulnerable and disadvantaged population of the island of Faial with a specific focus upon: 1) supporting the independence and improving the quality of life of elderly people in isolated rural communities, and; 2) boosting the services of local authorities and encouraging those organisations with social responsibility to operate more effectively as part of a network.<sup>81</sup>

With reference to such interactions between urban and rural areas, the OECD has provided a framework to characterise, enhance and better manage so-called "rural-urban partnerships" and identify the factors that can hinder co-operation for better economic development.<sup>82</sup>

### *1.3.3. Bioeconomy and other agro-services*

The SEGIRA study<sup>83</sup> shows that the key sectors in rural areas remain agriculture, tourism, food and drink and construction. Within the first three sectors, **diversification** of regional economies is considered key in driving growth. The new activities which grow up include tourism, small scale / niche manufacturing and food production, and business services. Farm diversification appears as a concept in almost all regions as a way of finding new income possibilities, especially for small-scale farms. Healthcare has been identified as a potential growth sector and an expanding source of female employment in rural areas. Renewable energy is also regarded as a growth sector.

New job opportunities can appear in rural areas through the development of alternative - and complementary to agriculture - activities. Several successful examples across Europe show the importance to jobs and growth creation through rural tourism, social farming (providing services for educational or therapeutic purposes), or the development of leisure activities etc.

The cultivation and sourcing of **biomass** – organic materials can benefit the long-term economic growth of European territories and could be a key generator of new and high-skilled jobs, all within the broader context of a vibrant bio-economy<sup>84</sup> (production of chemicals, materials, energy, pharmaceuticals and many other sustainable and innovative products). In particular, the agricultural and forestry sectors can have a crucial role to play in bringing biomass's full potential to fruition, with efforts concentrated on ensuring

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<sup>81</sup> ENRD (2010) RDP Project Database ['Remote Care Services' in the Outermost Regions of Portugal](#)

<sup>82</sup> OECD (2013) [Rural-Urban Partnerships: An Integrated Approach to Economic Development](#), Editions OCDE, Paris

<sup>83</sup> Ecorys (2010) [Study on employment, growth and innovation in rural areas](#) Study to the European Commission

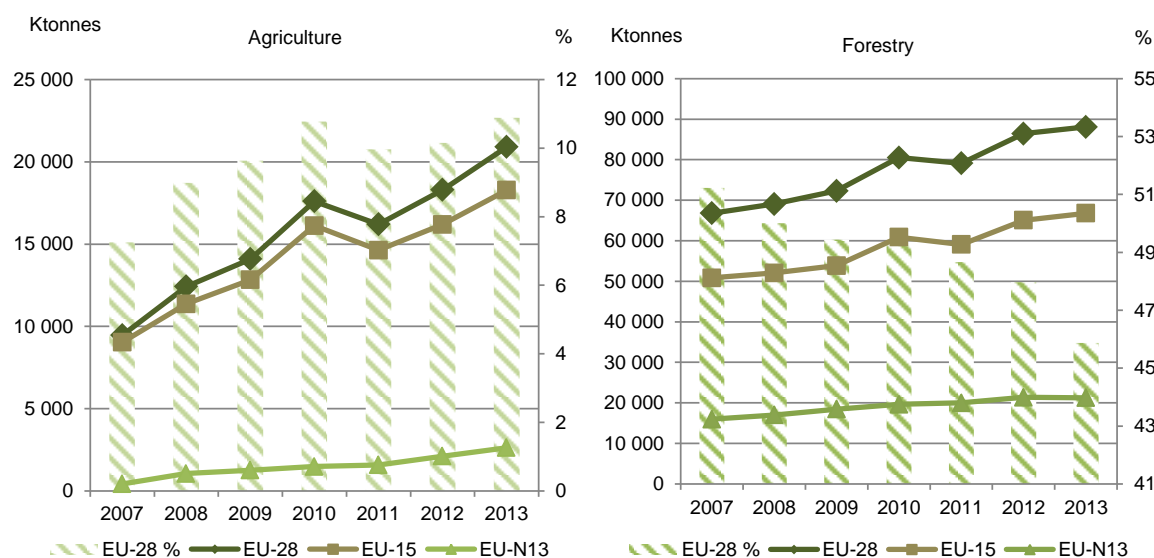
<sup>84</sup> Ronzon, T., Santini, F. and M'Barek, R. (2015). [The Bioeconomy in the European Union in numbers. Facts and figures on biomass, turnover and employment](#). European Commission, Joint Research Centre, Institute for Prospective Technological Studies, Spain

that the sector has the right knowledge and expertise to support resource – efficient and resilient strategies and solutions for biomass production.

Production of **renewable** energy from agriculture and forestry represents a source of green jobs creation in rural areas and it has increased over recent years, playing an important role in supplying renewable energy, with a much higher contribution from forestry (88 million tonnes of oil equivalent or 45.9% of the total) than from agriculture (20.9 million tonnes of oil equivalent or 10.9% of the total) in 2013. Whilst the share of forestry in the total production of renewable energy has been following a decreasing trend, the share of agriculture has grown at an average annual rate of 4% since 2008.<sup>85</sup>

Renewable energy policy is expected to deliver in three key areas: energy security, climate change mitigation, and economic development, including job creation. The economic development driver of renewable energy deployment gained momentum during the first phases of the current international financial crisis. A widely held assumption is that investment in renewable energy will trickle down to other sectors, such as construction, manufacturing and services, thus creating new employment opportunities in countries and regions. However, evidence collected in the case studies demonstrates that renewable energy deployment can easily fail to deliver results in one or more of the three areas. For instance, large biomass heat and power plants can generate new employment opportunities in rural communities, but may have a negative CO2 balance due to land-use change and transportation of feedstock over relatively long distance.<sup>86</sup>

**Figure 9: Production of renewable energy from agriculture and forestry and as a share of the total production of renewable energy, 2007-2013**



Source: DG-AGRI (2016) CAP context indicators 2014-2020, [Production of renewable energy from agriculture and forestry](#)

## 1.4. Threats

### 1.4.1. Population dynamics

The rural areas of the EU face different threats in terms of **demography** and population change, often linked to depopulation (following lack of jobs opportunities including decrease of jobs in agriculture for young farmers), peri-urbanisation of former rural areas

<sup>85</sup> [Context indicator 43: Production of renewable energy from agriculture and forestry](#)

<sup>86</sup> OCDE (2012), [Linking Renewable Energy to Rural Development](#), Editions OCDE, Paris

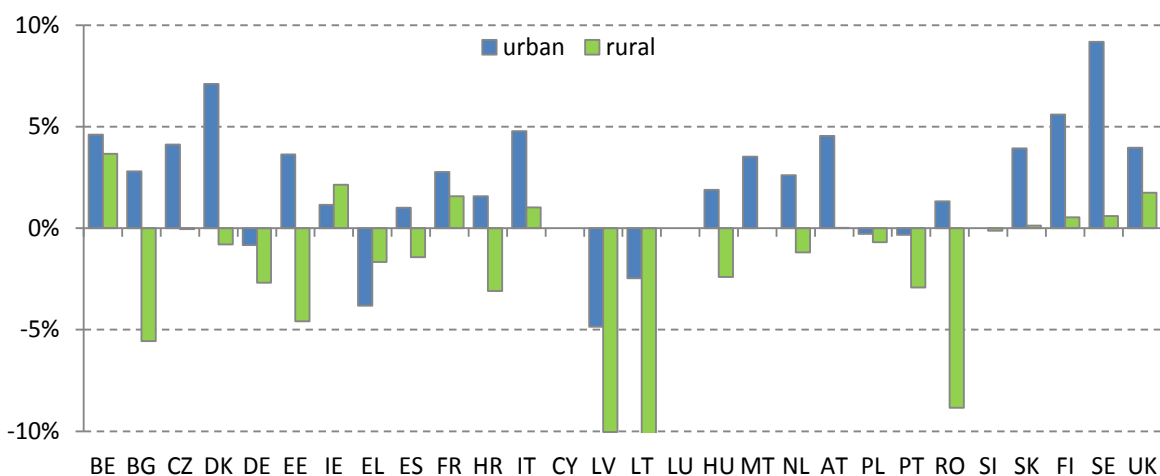
(with consequent agricultural land scarcity and artificialisation and pressures on land prices) and / or irregular influx of population (i.e. tourists or commuters). The variable population dynamics across Europe create different contexts and ask for specific solutions according to each case. Global solutions can hardly address such a complexity.

In the EU, 23% of the population lived in rural areas in 2014, but this proportion gradually falls. Last year there were 1.4% fewer inhabitants of EU rural areas than 5 years before. Yet the changes vary in level and sometimes in direction among Member States. In some, the reduction of the rural population amounted to 10% in the 5 years, in others the population grew by 2-4%. Regional differences are even higher. In urban areas, differently, the population numbers grew by 2% over last 5 years.<sup>87</sup>

In general, rural areas have a higher share of elderly population than urban ones.<sup>88</sup> An aging population structure, and in some cases a shrinking rural population, place additional strain on rural service delivery influx of older individuals into some rural regions. Other rural areas face peri-urbanisation, i.e. expansion of the areas of mixed urban-rural type.

Population changes in peri-urban areas show high contrasts. In Central and Eastern EU, many rural areas depopulate, while urban areas experience modernisation, some with population decline and others with growth. In some western MS, many rural areas are repopulated by urban-based residents. In both cases, this process changes the structure of the population and the economy of those areas, with consequent changes in policy intervention needs.<sup>89</sup>

**Figure 10: Changes from 2009 to 2014 in urban and rural populations in Member States of the EU**



Source: DG AGRI, Calculations based on Eurostat data, [Demographic balance and crude rates by urban-rural typology](#) and [Population change - Demographic balance and crude rates at national level](#)

The proportion of women in rural regions is lower than in urban or intermediate regions. This difference has been widening since 2007, with the decline in rural regions starting to appear in 2005. This is leading to an ageing and masculinisation of rural areas.<sup>90</sup> The importance of the gender imbalance phenomenon, in particular among the young adult population has an impact on the future of rural communities. Although related to very

<sup>87</sup> [Context indicator 1: Population](#)

<sup>88</sup> European Commission, [Statistical Annex, Age structures](#)

<sup>89</sup> Piorr A, Ravetz J, Tosics I (2011) [Peri-urbanisation in Europe: Towards a European Policy to sustain Urban-Rural Futures](#), PLUREL, University of Copenhagen / Academic Books Life Sciences

<sup>90</sup> European Institute for Gender Equality (EIGE), (2016) [Gender in agriculture and rural development](#)

different realities, the current situation in many parts of rural Europe could be considered alarming.<sup>91</sup>

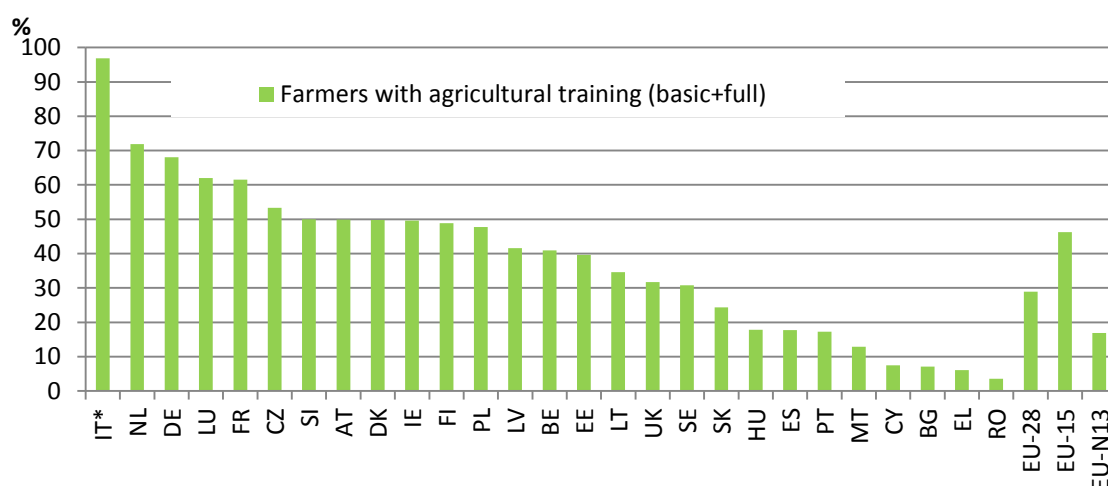
#### 1.4.2. Barriers and resistance to innovation

Resistance to innovation and inertia (due to routines, mind sets, culture etc.) can play a critical role in hampering or distorting innovation diffusion and processes of change. They may limit capability to adapt and cope with changes with implications in organizational, social and economic terms. Limited or bad contact (e.g. lack of practical dimension) between centres of innovation generation and their potential beneficiaries can stimulate different forms of resistance to adoption of innovation and change.

Any process of change and knowledge circulation can stimulate different forms of resistance of adaptation and knowledge re-modulation. Routines are defined as patterns being repetitive and persistent, having as an advantage their capability in economizing cognitive resources, which are generally scarce by reducing the space for undesired events and bad surprises and by taking advantage from known events. Thanks to routines, people can save time and efforts in elaborating processes based on scarce information and they can cope with complex and uncertain events and make choices even when, in a limited time span, the evaluation of all possible alternatives becomes problematic and when the cause/effect relationships are not evident.<sup>92</sup> But, on the other hand, routines can lead to inertia, an excessive stability, which is capable to persist even in case of evident negative performances.

Inertia establishes itself for several reasons. Among them are, cognitive limitations (e.g. low level of training, and education); inadequate organisational models (i.e. innovations that can be considered too risky and expensive, too long to realise or too theoretical or unrealistic); and cultural and psychological reasons (e.g. fear of change, consolidated opinions and visions, cultural and mental factors, bad past experiences)

**Figure 11: Farmers with agricultural training (basic and full)**



Source: [FSS 2013](#), no data for HR

\*IT: uses a different definition for the type of trainings

<sup>91</sup> Wiest (2016) Women and Migration in Rural Europe. Labour Markets, Representations and Policies, Karin (Ed.)

<sup>92</sup> Cannarella C., Piccioni, V. (2007) [Barriers to Innovation in Rural Enterprises: the Strategy of “Doing Nothing”](#), New Medit n°4



In certain rural areas, resistance to change and innovation can be stronger than in urban centres. The value of tradition is often stronger and age structure plays a role as well. This makes it more difficult to activate people to participate in development processes and to take advantage of opportunities created. In addition, there is the ‘threat’ that an initiative may be driven by a small group only. In rural areas with a small population, the power of such individual groupings can be particularly strong and this can hinder other parties from getting involved and voicing their interests and opinions.

Most businesses (99%) operating in the agri- food sector are SMEs which tend to be fragmented and have a low level of innovation capacity. This is mainly due to the lack of own resources (e.g. financial, human/ social capital) to implement research and innovation activities.<sup>93</sup> Consequently, this is making the sector highly dependent on external sources of information for innovation and is emphasising the need for developed social capital to incentivise engagement in innovation processes through their networks.

The creation of an enabling innovation environment and the promotion of knowledge exchange (e.g. through efficient advisory systems, contacts and relations with research centres) can help farmers to overcome inertia and commercial interests by input delivering companies, and to develop business strategies based on tailor-made innovation processes.

#### *1.4.3. Governance: an urban – rural divide in public attention*

In rural areas the pervasive problems of low density, distance and lack of critical mass are exacerbated by additional problems, including a generally weaker incentive for private providers to play a role and problems in adapting modern technologies to rural situations.<sup>94</sup> The concentration process, of both people and economic activity is often self-reinforcing, as it both reflects economic development processes and reinforces them. Agglomeration economies<sup>95</sup> reflect the cumulative effect of the economies of scale, labour market pooling, forward and backward linkages, network effects, knowledge spillovers and other internal and external economies that firms may be able to exploit when activity is geographically concentrated.

Low population density also has consequences in terms of political choices. Policy-makers may become focused on the performance of the big regional hubs, because these are viewed as major drivers of growth, even if the bulk of aggregate growth occurs outside hubs.<sup>96</sup> Moreover, as the electoral weight of rural areas is low, macroeconomic and macro-political decisions reinforce tendencies towards concentration, whether in terms of services to the population or professional integration.<sup>97</sup>

Historically, if there are significant disparities between regions (for example, in the level of economic development, the dynamics of growth, or living standard) these may evolve into political conflicts as well.<sup>98</sup> A characteristic type of this cleavage is the rural – urban divide. Because governments can substantially alter the incomes of particular economic branches to a great extent with taxation, tariffs, investment policy and in other ways, these sectors often mobilize for their political representation. The rural-urban divide

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<sup>93</sup> Minarelli, F., Raggi, M, Viaggi, D. (2015) [Innovation in European food SMEs: determinants and links between types](#), *Bio-based and Applied Economics* 4(1): 33-53

<sup>94</sup> OECD (2010) [Strategies to Improve Rural Service Delivery](#), Editions OCDE, Paris

<sup>95</sup> OECD (2012) [Promoting growth in all regions. Lessons from across the OECD](#)

<sup>96</sup> OECD (2012) [idem](#)

<sup>97</sup> Farrell, G, Thirion, S, Brunet, B. (2000) [Lutter contre l'exclusion sociale en milieu rurale](#), *Innovation en milieu rural, Observatoire européen LEADER, Cahier de l'innovation n°8*

<sup>98</sup> Tomka, B. (2013) *A Social History of Twentieth-Century Europe*, Routledge, Taylor and Francis Group, London and New York

developed into a major cleavage when the State preferred urban interests to that of rural ones. However, the urban-rural schism is most often cultural as well. The main trend in public policy, for more than the past two decades, has been to promote and enhance the importance of large urban areas, convinced that metropolises were pulling the whole economy.<sup>99</sup>

Many projects, and particularly infrastructure interventions, are high risk investments and may not be financially sustainable in absence of public support. The main types of public goods such as heritage, cultural and natural resources, but also public infrastructure assets and services (e.g. transport) require an actor « super partes » to ensure their optimal provision for current and future generations<sup>100</sup>.

Among the reasons accounting for low absorption of structural funds<sup>101</sup> in the 2007-13 period are the economic crisis, the insufficient administrative capacity, the changes in national/regional governments, and the effects of national sectoral reforms. Paradoxically, the most economically disadvantaged regions are also experiencing the greatest difficulties in spending (absorbing) these funds.<sup>102</sup> At the same time, they are the regions which need the greatest financial support their economies.

## 2. CHALLENGES

**Lower employment rate in rural areas and job losses in the primary sector.** The farm sector is losing jobs<sup>103</sup> due to a number of causes such as general restructuring, low prices and market uncertainty. Over the last half century in most EU Member States, the tertiary sector has grown faster than both the primary and secondary sectors. In recent decades both primary and secondary sectors have been generally associated with decline in employment, or slow growth in some cases, while the tertiary sector has shown higher growth. Hence one may anticipate a direct relationship between primary/secondary activity and unemployment, and an inverse relationship with the percentage tertiary employment. One might further anticipate a negative correlation between primary/secondary employment rates and GDP per capita, and a positive correlation with tertiary employment, although this depends on the relative productivity in each sector.<sup>104</sup> European rural areas have to face two opposite challenges: high rates of unemployment and consequent low growth in some rural areas and at the same time lack of active population to run the basic services in some other rural areas.

**Development prospects for rural economies.** The growth and jobs potentials in a region depend upon a number of drivers, including natural resources and environmental quality, sectorial structure of the economy, quality of life and cultural capital and infrastructure and accessibility.<sup>105</sup>

Rural-based non-farm businesses are making up for job losses in the farm sector in some areas, but not in others. There are opportunities for job creation in a range of sectors – not

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<sup>99</sup> Bonnet, F. (2016) [Aménager les territoires ruraux et périurbains](#), Ministre du Logement, de l’Egalité des territoires et de la Ruralité

<sup>100</sup> IRS, Csil, Ciset, BOP Consulting (2015), "[Ex post evaluation of 2007-2013, Culture and Tourism Final Report](#)", Work Package 9, Final report to Direction General for Regional and Urban Policy

<sup>101</sup> Projects funded through the Structural Funds are based on co-financing between the EU and MS.

<sup>102</sup> Katsarova, I. (2013) [The \(low\) absorption of EU Structural Funds](#) Library of the European Parliament, Library Briefing

<sup>103</sup> The number of agricultural workers fell from 25 million to 22 million between 2010 and 2013. [See also: Facts and figures on EU agriculture, Statistical annex: Rural areas and the primary sector](#)

<sup>104</sup> Nordregio (2006) [Study on Employment in rural areas \(SERA\)](#) Final Report to the Directorate-General for Agriculture and Rural Development, Brussels.

<sup>105</sup> Ecorys (2010) [Study on employment, growth and innovation in rural areas](#) Final Report to the Directorate-General for Agriculture and Rural Development, Brussels.

only food supply chains as a whole but also the broader bio-economy, tourism etc. However, businesses are held back by deficiencies in infrastructure, skills and capital (problems which also depress productivity). As a consequence, development prospects of the employment base in rural areas remain an important challenge.

**Setting up of youngsters in business.** Young people in rural areas are largely unaware of existing policies. This fact appears to derive from poor access to information (often in faraway urban centres) and from the inaccessible form and content of the information. At European and national levels, while there is a range of policies for young people concerned with employment issues, such policies tend to neglect the rural dimension. At the same time, where policies and programmes focus on rural development, young people are often ignored.<sup>106</sup>

Concerning the agricultural sector, the majority of EU farmers are older than 55. Young farmers are having difficulties in setting up in business. Key problems include difficulties in access to land and capital, and the reluctance of some older farmers to retire. Significant differences in national legislation on taxation, land and inheritance make it more difficult to find EU-wide solutions. This contributes to youth unemployment in some areas.

**Social inclusion / poverty/ territorial cohesion.** The economic and social cohesion through the reduction of disparities as well as the territorial cohesion are among the main objectives of the EU. Article 174 of the Treaty on the Functioning of the European Union refers to promoting overall harmonious development and reducing disparities with special attention to rural areas. But despite these overall objectives, such cohesion is difficult to achieve because of the heterogeneous needs of the different regions.

The challenges of service delivery are especially acute in rural areas because of lower density populations, larger distances that have to be travelled by service users and service providers, and the small numbers of people in any location that preclude economies of scale.<sup>107</sup> Rural areas risk being left behind, because investing in rural areas requires a significantly higher proportion of investment per head. The market often does not deliver some services in rural areas, as demand may be too small to ensure profitability and deployment costs are in some respects higher than in urban centres. Tailoring the service delivery to better fit the circumstances of the rural area is key issue.

Various drivers mentioned in previous sections affect some territories (e.g. remote rural areas) or groups more than others. In relation to employment and social policy, there is a clear message for policies and delivery mechanisms to reflect and address social differentiation. Flexibility to suit each person's circumstances will be essential.<sup>108</sup>

### 3. POLICY ACHIEVEMENTS AND SHORTCOMINGS TO ADDRESS CHALLENGES

The following sections describe successes and shortcomings of the current CAP with respect to above-mentioned challenges, considering different instruments employed (see also annex of main CAP instruments).

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<sup>106</sup> Sucksmith M. (2010) ["How to promote the role of youth in rural areas of Europe"](#) Study to the European Parliament

<sup>107</sup> OECD (2010) [Strategies to Improve Rural Service Delivery](#), Editions OCDE, Paris

<sup>108</sup> Sucksmith M. (2010) ["How to promote the role of youth in rural areas of Europe"](#) Study to the European Parliament

### 3.1. Employment and growth

Most CAP instruments are designed to address jointly economic (sectoral), social and environmental issues. Therefore they cannot be regarded – or assessed - as instruments solely for growth and jobs. The net job effect is difficult to estimate, as several other factors influence the form and extent of the labour market in a given region, such as the general economic context, the alternative job opportunities, or the regional characteristics. In the agricultural sector, the employment rate is continuously decreasing with farms becoming bigger and more productive. The objective of improving agricultural competitiveness can imply that the labour outflow out of primary production continues, but it also requires creating added value and growth. One of the main challenges of CAP is to strike the right balance between the need to raise productivity, growth and employment.

**Direct payments** to farmers, as well as market measures and other safety net instruments (Pillar I), contribute to growth and jobs in many aspects, mainly through the slowdown of job decline in agriculture thanks to the support of farm income. Through their significant positive effects on the rest of the economy, direct payments bring positive knock-on effects on upstream and downstream sectors. Direct payments contribute to the maintenance of a diversified agricultural sector and to the sustainable management of natural resources and climate action. Moreover, instruments under **rural development** policy (Pillar II) promoting farm and business start-up, investment, knowledge transfer and information, advice, and diversification opportunities have positive effects in terms of job creation.

With regard to employment, opinions vary in the literature over whether or not CAP tools take adequate account of employment objectives in relation to other CAP objectives.<sup>109</sup>

A macroeconomic approach, using data at municipality level in Sweden, indicates a positive effect of **direct payments** on agricultural and private employment, but a negative one on public employment, suggesting displacement between public and private employment.<sup>110</sup> In fact, the effect on private employment (and agricultural employment) and public employment goes in different directions, indicating that these types of employments are substitutes, which means that private employment supplants public one. The findings indicate also that the impact of DP is larger for private than agricultural employment.

Some specific instruments of the 1<sup>st</sup> Pillar have been analysed for their indirect socio-economic impacts. Payments to **areas facing natural or other specific constraints** (ANCs) help farmers to continue agricultural activity and land management, thus preventing land abandonment and its negative socio-economic consequences in a large part of the EU's territory. The results of recent modelling studies suggest that there is likely to be significant levels of farmland abandonment in Europe over the next 20–30 years.<sup>111</sup> Preventing land abandonment is an important rationale for the CAP.<sup>112</sup>

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<sup>109</sup> For the literature review see also OIR, CCRI (2016) "[The role of the EU's Common Agricultural Policy in creating rural jobs](#)", Study for the European Parliament

<sup>110</sup> Blomquist J. et al. (2014) "[Do the CAP Subsidies Increase Employment in Sweden? Estimating the Open Economy Relative Multiplier Using an Exogenous Change in the CAP](#)" EAAE 2014 Congress 'Agri-Food and Rural Innovations for Healthier Societies', Ljubljana, Slovenia

<sup>111</sup> [Renwick, A., Jansson, T., Verburg, P., Revoredo-Giha, C., Britz, W., Gocht, A., McCracken, D. \(2012\) Policy reform and agricultural land abandonment in the EU](#)

<sup>112</sup> Terres, JM., Nisini, L., Anguiano, E. (2013) [Assessing the risk of farmland abandonment in the EU](#), JRC Scientific and Policy Reports & Eurostat site 'Agri-environmental indicator - risk of land abandonment'

Concerning **rural development** measures, as pointed out by the European Court of Auditors<sup>113</sup>, their success can be strongly related to the way the individual Member States implement the policy. According to other studies, higher rates of success have been found indeed in those Member States where rural development grants were conditional on target outputs, such as a target number of jobs created.<sup>114</sup> But, as was the case for the 2007-2013 period, Pillar II measures are generally much less used by small and subsistence farms, than by larger farms.<sup>115</sup> This might be due to lack of financial, administrative and professional capacity to succeed in an increasingly competitive market. However, it is important to note that the goal of Pillar II is the development of the rural areas as a whole, sustaining not only the jobs in the primary sector, but also creating new job opportunities in the tourism and hospitality sectors. In this sense, the policy can be considered successful in creating rural jobs, but these new opportunities can lead also to a loss of agricultural jobs.

While many RD measures aim at creating rural employment and those focusing on improving **labour productivity or modernising agriculture**, may lead to job reductions in the primary sector. Traditional forms of capital-intensive and often labour-saving investment undertaken for reasons of “modernisation” and “viability” will usually tend to displace conventional jobs, indirectly if not directly. On the other hand, work to restore ecosystems and develop local economies will often have direct and positive labour implications. A renewed emphasis on producer cooperation and marketing may lead to more labour-dependent value added in food production.

The ex-post evaluation of **LEADER +** concluded that LEADER + activities contributed directly and indirectly to the creation and maintenance of employment, with various degrees of importance from one Local Action Group to another.<sup>116</sup>

There are also a number of examples from national and regional **RDPs** having a positive contribution to employment. According to the Hungarian ex-post evaluation 2007-2013<sup>117</sup>, EAFRD interventions on quality of life, diversification of rural economy and LEADER were very important for rural areas, where often EAFRD was the only financial support received for developing the territory. EAFRD was the only Fund that contributed to investment during the 2007-2013 programming period in one fourth of the Hungarian municipalities. 31% of LEADER projects were realised in villages with less than 100 inhabitants, creating 8,938 new jobs.

The scientific literature also shows contradictory results comparing which Pillar of the CAP has had more positive impact on employment. According to some authors<sup>118</sup>, **CAP payments** contributed significantly to job creation in agriculture, although the magnitude of the economic effect was rather moderate. Pillar I subsidies exerted an effect approximately two times greater than that of Pillar II payments. On the other hand, a

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<sup>113</sup> European Court of Auditors (2013) Special Report 6/2013, "[Have the Member States and the Commission achieved value for money with the measures for diversifying the rural economy?](#)"

<sup>114</sup> ÓIR and CCRI (2016) "[The role of the EU's Common Agricultural Policy in creating rural jobs](#)" Study for the European Parliament

<sup>115</sup> Davidova S., Bailey A., Dwyer J.M Gorton M. Thomson K., (2013) "[Semi-subsistence farming: value and directions of development](#)". Study to the European Parliament.

<sup>116</sup> Metis GmbH, AEIDL and CEU (2010) "[Ex-post evaluation of LEADER +](#)" Study for the European Commission

<sup>117</sup> [Hungarian ex-post evaluation 2007-2013](#)

<sup>118</sup> Olper, A., Raimondi, V., Cavicchioli, D., and Vigani, M. (2012) [Does the Common Agricultural Policy Reduce Farm Labour Migration? Panel data analysis across EU regions](#), Comparative Analysis of Factor Markets for Agriculture across the Member States No. 28

geographically smaller study<sup>119</sup> of three East German states – Brandenburg, Saxony, and Saxony-Anhalt – reports that direct payments have led to labour shedding, whilst the only measures which contributed to an increase in employment were the agro-environmental ones. This was in particular due to the support to conversion to organic farming. OIR et al<sup>120</sup> argue that RDPs were not able to reverse rural depopulation, but the possibilities to create employment and additional income, and to increase the attractiveness of rural areas, have a positive influence in the long run.

An analysis about the role of the CAP in stimulating rural jobs in Poland<sup>121</sup> argues that despite the fact that job creation is not an explicit objective of the CAP, RDPs under Pillar II play important role providing financial support for activities focused on diversification of income sources of farmer households and creation of non-farm jobs. The CAP also backs the changes of institutional conditions contributing to creation of job opportunities via the development of human and social capital in rural areas. Funds spent under other measures of the CAP including Pillar I have strong demand and supply effects in the entire economy of Poland and various indirect effects in the area of job creation shall be expected. The author urges further improvements of the entrepreneurial institutional support system, the redesign of strategic objectives of the CAP and seeking synergies of support offered by various aid policies under the Cohesion Policy, CAP and domestic aid in order to strengthen their role in quality rural job creation.

### 3.2. Rural economies (businesses, infrastructures and services)

The development of local infrastructure and basic services in rural areas, including leisure and culture services, the renewal of villages and activities aimed at the restoration and upgrading of the cultural and natural heritage of villages and rural landscapes is an essential element for the **socio-economic development of rural areas**, which is one of the specific objectives of the CAP. The CAP is not only acting on the farming sector, but helps boosting the local rural economies. Support is also provided to small infrastructures, such as secondary roads, water and electricity supply, village renewal, tourism small-scale infrastructures, links with urban areas as well as broadband operations (e.g. access to ICT, and development of fast and ultra-fast broadband). Such measures, co-financed through the RDPs, help creating the conditions for growth and job generation in rural areas.

Other measures provide direct support to rural businesses (e.g. small enterprises, new entrepreneurs, farm diversification), in the form of investment supports or business start-up aids. Support provides further incentive to exploit potential of rural areas in full e.g. through diversification with off-farm enterprises or promotion of rural entrepreneurship by providing also incentives to small- and medium-size enterprises leading to job creation and increase rural population income. The initiatives supported can cover a broad range of activities: rural tourism, constructions, processing and marketing<sup>122</sup>, social services, craft activities etc. Such measures have contributed to the creation of 70 000

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<sup>119</sup> Petrick, M. and Zier, P. (2011) "[Regional employment impacts of Common Agricultural Policy measures in Eastern Germany: a difference-in-differences approach](#)", *Agricultural Economics*, vol. 42, issue 2, pp. 183-193

<sup>120</sup> OIR, OAR, University of Gloucestershire and Ecorys (2012) "[Synthesis of Mid-Term Evaluations of Rural Development Programmes 2007-2013](#)", Final Report for the European Commission

<sup>121</sup> Nurzyńska, I. (2016) "[The Role of the Common Agricultural Policy in Stimulating Rural Jobs in Poland](#)", 160th EAAE Seminar 'Rural Jobs and the CAP', Warsaw, Poland

<sup>122</sup> With non-Annex I products as output

full time jobs<sup>123</sup> in the period 2007-2013. However, according to the European Court of Auditors<sup>124</sup>, the efficiency of the support provided in that period was only limited, as Member States did not systematically direct the aid to the projects that were more likely to achieve the objectives of the measure, and did not sufficiently mitigate the risks of deadweight and displacement.

There is evidence of an "**investment gap**" in farming and in rural areas overall and the various relevant CAP tools do not completely fill it. Finance for grant support through RDPs is popular but limited and the take-up of support through financial instruments is still modest. In 2007-2013 there were deficiencies at national or regional level in effectively targeting the right infrastructure projects with rural development funding, as well as in co-ordinating the use of that finance with other EU funds<sup>125</sup>. The Commission decided to tackle the investment gap in the "Investment Plan for Europe"<sup>126</sup>, a package of measures to unlock public and private investments in the whole economy (of at least EUR 315 billion over the 2015-2017 period). This plan has a strong focus on digital infrastructures, notably broadband.

Access to **broadband** is necessary for the development of agriculture and related value chains, the diversification of the economic activity in rural areas and the delivery of e-services that can help to overcome the sub-optimal access to infrastructure and services affecting many rural areas. Denmark, Finland, Sweden and the Netherlands have the most advanced digital economies in the EU followed by Luxembourg, Belgium, the UK and Ireland. Romania, Bulgaria, Greece and Italy have the lowest scores on the DESI<sup>127</sup>. On connectivity, the highest score in 2016 was registered by the Netherlands followed by Luxembourg and Belgium. Croatia, Bulgaria and Poland had the weakest performance regarding broadband infrastructure and take-up.

The European Structural and Investment Funds (ESIF) programmes have planned during 2014-20 around EUR 6 billion of European Regional Development Fund (ERDF) and European Agricultural Fund for Rural Development (EAFRD) funding to finance high speed broadband roll-out and other digital infrastructure, especially in rural and peripheral areas. In addition, high speed broadband projects have also benefitted from EUR 1 billion from the European Fund for Strategic Investments.

**Community-Led-Local-Development** (CLLD – former LEADER) aims at boosting the local development by involving key public and private local actors and subsidising local projects selected by these local actors together. The social benefits are generally high with this method. The findings of the ex-post evaluation of LEADER + show that it was a prominent tool in creating new facilities and services for local people, for example in the areas of education, sports for young people, cultural activity and elder care.<sup>128</sup>

These contributed to the amenities of local areas and enhanced their attractiveness for local people. However, these measures continue to represent a relatively small share of RDPs spending. The reasons may be various: EU regional policy can cover a number of investments in rural areas (outside agriculture), the implementation of measures outside

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<sup>123</sup> Jobs created in supported operations of economic diversification in rural areas. Calculations based on CMEF results indicators of 2007-2013 EAFRD programming period submitted by MS in their RD annual reports 2015

<sup>124</sup> European Court of Auditors (2013) Special Report 6/2013, "[Have the Member States and the Commission achieved value for money with the measures for diversifying the rural economy?](#)"

<sup>125</sup> European Court of Auditors (2015) Special Report 25/2015, "[EU support for rural infrastructure: potential to achieve significantly greater value for money](#)"

<sup>126</sup> [Investment Plan for Europe: The Juncker Plan](#)

<sup>127</sup> [The Digital Economy and Society Index](#)

<sup>128</sup> Metis GmbH, AEIDL and CEU (2010) "[Ex-post evaluation of LEADER +](#)" Study for the European Commission

agriculture is more complex for managing authorities (with state aids clearance notably), rural actors are perhaps less aware of these supports from the CAP, and possibly because the agricultural sector still requires more funding from these programmes.

### 3.3. Generational renewal

The CAP includes many instruments to encourage generational renewal in the agricultural sector, both in the first and second Pillar. Besides the mandatory top up of the basic payment of young farmers for the first five years<sup>129</sup>, there is a wide range of support measures for the young under the rural development policy: for example, start-up aid for farm and business development or higher support rate for investments in physical assets.

Matthews<sup>130</sup> argues that **Direct Payments** do not help to encourage the exit of older farmers and the entry of younger farmers. The availability of a direct payment not linked to production but linked to land encourages some older farmers to remain in farming and increases the land value, making therefore generational renewal more difficult.

The ex-post evaluation of the **LEADER+** initiative concluded that LEADER+ programmes did formally target some of their activities at young people, but the importance varies also a lot from one Local Action Group (LAG) to another.<sup>131</sup> Also, the involvement of young people in decision making and the participation in initiatives promoted by the local action groups proved to be problematic. There are, however, positive examples of projects in which young people were involved that enjoyed a good response.

From the ex-ante evaluation of the **Rural Development Programmes 2007-2013** it does not appear that priority is given by Member States to young people. In addition, the LEADER+ initiative seems to have largely failed to help innovative ways of engaging with young people in rural development. Actions directed towards young people focused on employment and professional training, but “the direct impact on job creation seems to be rather weak. The implementation of projects targeted at young people was partly hampered by their lack of capital and access to loans, and their mobility (e.g. for higher education)”<sup>132</sup>.

The same report has identified some pointers to improving the overall participation of local and regional actors. Some of these concerns relate to the uncertainty and confusion regarding rural development policies, problems exacerbated by complex bureaucratic structures and regulations. Information flows could also be improved and co-operation with different sectors encouraged synergies associated with existing programmes. Training and educational programmes should be geared more to the needs of the local area and a flexible approach which facilitates linkages between different programmes encouraged. Connections should also be made with regional and national authorities through the use of ‘facilitators’ as this enhances participation rates and improves the outcomes of rural development programmes.

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<sup>129</sup> Under the first pillar young farmers receive the basic payment and the greening payment, as well as young farmers top-up; in Member States implementing the Basic Payment Scheme young farmers receive a preferential access to the system of Direct Payments via the reserve.

<sup>130</sup> Matthews A. (2017) [“Why further reform of the CAP is necessary?”](#) in *CAP: thinking out of the box Further modernisation of the CAP – why, what and how?* RISE Foundation

<sup>131</sup> Metis GmbH, AEIDL and CEU (2010) [“Ex-post evaluation of LEADER +”](#) Study for the European Commission

<sup>132</sup> Sucksmith M. (2010) [“How to promote the role of youth in rural areas of Europe”](#) Study to the European Parliament



The European Court of Auditors has also recently recommended to the Commission to improve the intervention logic of generational renewal support by reinforcing the needs assessment and making explicit and quantifiable the expected results of the policy instruments.<sup>133</sup> In this respect, the diversity of conditions and territorial realities throughout the EU needs to be taken into consideration, as well as the fact that the Commission cannot replace Member States as regards the detailed assessment of specific young farmers' needs, the choice and articulation in the use of instruments available at national or EU level and the quantification of expected results from the support provided. ECA has further proposed to improve the targeting of measures, as well as the monitoring and evaluation system.

### 3.4. Social inclusion, reduction of poverty and territorial cohesion

Tackling income inequality and poverty requires efforts in multiple directions: **modernising** national social protection systems, tackling **tax evasion** and improving the effectiveness of tax and benefits systems in their redistributive function, improving the functioning of **labour markets**, ensuring access to quality education, adult learning and healthcare systems.<sup>134</sup> Most of these issues go beyond the scope of the CAP. The development of services and infrastructures leading to social inclusion and reversing trends of social and economic decline and depopulation of rural areas is encouraged through both CAP Pillars. Both Pillars aim at enhancing farm income. Promoting social inclusion, poverty reduction and economic development of rural areas is part of the 6 priorities for the current Rural Development Programs. Nevertheless, a mismatch between sectoral and territorial – social objectives can be observed in some cases.

Regarding the first Pillar, **direct payments** can act as part of a safety net for farmers and help to stabilise their income. However, EU direct payments have been criticised for the uneven distribution, at the EU level, due to the fact that on average, around 20% of the beneficiaries receive around 80% of the payments.<sup>135</sup> This "uneven" distribution of income support raises concerns of efficiency and social equity in the public debate.<sup>136</sup> Matthews argues that direct payments do not address in the most efficient way the issue of low income due to the lack of targeting, with an important share of direct payments going to substantial businesses for which there is no obvious need for 'income support'.<sup>137</sup> As explained in the background document on economic challenges, the 80/20 ratio is mainly driven by land concentration, as direct payments are mainly area-based. Nevertheless, half of the beneficiaries' are small farmers (with less than 5 ha or receiving less than 1,250 EUR per year).

Despite these possible controversial impacts on agricultural income due to lack of targeting claimed, the positive role of the Pillar I payments in maintaining agriculture and employment, the so-called welfare impact has been recognised in recent literature. Zawalińska argues that over the recent CAP reforms, the policy has moved towards more balanced, transparent and fairer distribution of direct payments.<sup>138</sup> This has been reflected in the Cohesion Reports, the most recent reports giving more positive messages of the

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<sup>133</sup> European Court of Auditors (2017) Special Report 10/2017, ["EU support to young farmers should be better targeted to foster effective generational renewal"](#)

<sup>134</sup> European Commission, DG Employment (2017) ["Inequality and poverty – what action is being taken by Member States?"](#)

<sup>135</sup> European Commission (2017) ["Reflection Paper on the future of EU Finances"](#)

<sup>136</sup> Ecorys (2017) ["Modernising and simplifying the CAP. Summary of the results of the public consultation"](#), Study for the European Commission.

<sup>137</sup> [Matthews A., RISE Foundation \(2017\) CAP: thinking out of the box' report. Why further reform?](#)

<sup>138</sup> Zawalińska K. (2017) ["Territorial cohesion through lenses of the CAP and rural areas"](#), workshop organised by DG AGRI

territorial impact of the CAP in comparison to the severe critics of the 2<sup>nd</sup> and 4<sup>th</sup> Cohesion Reports. Without the CAP and DP interventions several agricultural sectors would go out of business, thus leaving behind higher levels of unemployment and the DP supports plays a main role in reducing the gap between the farmers (who are normally located in rural areas) in comparison to the rest of the population.

CAP market measures also have spatial implications. In line with the sector aim of agriculture support, CAP resources are 'captured' by dynamic, higher specialized and productive agriculture.<sup>139</sup> It also emerges that the impact of **Rural Development Policies** and CAP is independent of socio-economic contextual conditions: their impact is not significant generally and nor is it conditioned by the socio-economic conditions of the regions.

The current programming period Rural Development can play an important role in promoting a more inclusive society, in particular under the Union Rural Development Priority 6 "Promoting social inclusion, poverty reduction and economic development in rural areas". A number of measures contribute towards this goal, with LEADER supporting bottom-up local development strategies. Even if CLLD/LEADER type approach were to be encouraged as a means of alleviating poverty and social exclusion at local level, only the most dynamics rural areas are capable of leveraging on the bottom-up measures of the EU Rural Development Policy. On the other hand, the top-down funding of the CAP seems to be able to concentrate some benefits in the most deprived areas.<sup>140</sup> This suggests that EU policy makers in all fields should constantly look for the best mix of bottom-up and top-down measures in order to tackle structural disadvantage.

The RDPs 2014-2020 show many examples of important and decisive contribution of the RD Policy to social inclusion.<sup>141</sup> EAFRD in coordination with other ESIF can contribute to create a supportive environment for female labour and entrepreneurship in rural areas as well as potentially assist migrants and new comers to settle and integrate into rural communities.

CAP payments overall are reported to address appropriately regional poverty and inequality; the CAP is reaching the poorer regions in MS (thus being associated with a decrease of inequality at the subnational level) and is, over time, associated with poverty reduction.<sup>142</sup> This impact is the stronger the less diversified/developed the rural economy is.

### 3.5. Social capital, knowledge exchange and innovation

The CAP has a number of instruments supporting the social capital, knowledge exchange and innovation. The innovation projects of Operational Groups of the European Partnership for Agricultural Productivity and Sustainability (**EIP-AGRI**), the EIP-AGRI network and the Horizon 2020 research and innovation projects are among the main instruments supporting these goals. Thanks to the EIP-AGRI, synergies have been built between the aforementioned CAP instruments and H2020. Rural development has a number of longstanding measures such as the funding for vocational training and information exchange actions. Since 2005 the use of advice and the setting-up of

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<sup>139</sup> Crescenzi R., Giua M. (2014) "[The EU Cohesion policy in context: regional growth and the influence of agricultural and rural development policies](#)" Department of Geography and Environment, London School of Economics and Political Science, LEQS Paper No. 85/2014

<sup>140</sup> Crescenzi R., Giua M. (2016) "[The EU Cohesion policy in context: Does a bottom-up approach work in all regions?](#)" Department of Geography and Environment, Environment and Planning A, 48 (11).

<sup>141</sup> ENRD (2017) [Workshop on Social Hubs in Rural Europe](#)

<sup>142</sup> World Bank (2017) forthcoming EU Regular Economic Report 4 Thinking CAP: Boosting agriculture incomes in the EU

advisory services could also be funded. As from 2013 funding for the training of advisors, for farm exchange schemes and for on-farm demonstration activities were added to the legislation.

With linear knowledge transfer becoming more and more outdated, and the introduction of the EIP-AGRI as from 2013, funding for innovative projects was enabled in the RD regulation with the goal of bridging the gap between science and practice and to encourage entrepreneurship to tackle bottom-up needs and opportunities for innovation. This has opened up the possibility to fund activities such as the development of new products or practices, pilot projects, supply chain cooperation, joint environmental projects or climate change actions, cooperation in biomass provision or renewable energy, forest management and much more. All these activities envisage actors, such as farmers, advisors, scientists and businesses with complementary knowledge to "co-create" innovative solutions and develop opportunities ready for practice. This approach creates "co-ownership" of results, which speeds up the acceptance and dissemination of new applications.

The EIP-AGRI is creating synergies and complementarities between policies by linking the Operational Groups to Horizon 2020 interactive 'multi-actor' projects<sup>143</sup> and transnational networks. This not only bridges the gap between research and practice but also between innovation projects at EU level and those at national/regional levels. Overlapping and common needs from practice which are tackled through several Operational Groups become more visible. Addressing such problems on an EU-wide scale will help reduce costs and duplication, enhance cross-fertilisation and create spill-over effects.

Some examples in Member States have shown how supportive interactive advisory services can be for the EIP-AGRI activities.<sup>144</sup> The current approach for the measures funding the advisory services under Rural Development faces difficulties among others as a result of the need to apply public procurement rules, but also mainly due to structural deficiencies and limited scope and skills of the advisors. Advisors in the funded services often lack technical competence and social skills.<sup>145</sup>

Despite being a new and voluntary measure, as much as 27 out of 28 MS include support for the EIP-AGRI under Rural Development: interest has been large (3,200 Operational Group projects planned across 98 RD programmes by 2020). According to the EIP Evaluation study, the EIP-AGRI's bottom-up and farmer-led approach is assessed as "truly distinctive and highly appreciated by farmers and stakeholders. The flexibility of the EIP-AGRI allows it to be shaped to widely different circumstances in countries".

Whilst the main focus of the EIP-AGRI is on the farming and forestry sector, its activities have always included tackling interactions across agricultural value chains up to the consumer. For example various Operational Groups are tackling the problems/opportunities by engaging partners along the value chains.<sup>146</sup> This can improve

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<sup>143</sup> European Commission "[Horizon 2020. Multi-actor projects](#)" [List of multi-actor projects](#)

<sup>144</sup> For example, innovative schemes can be tested in operational Groups, as they bring together stakeholders with diversified backgrounds, including advisors.

<sup>145</sup> Standing Committee for Agricultural Research's Strategic Working Group on Agricultural Knowledge and Innovation Systems (2017) "[Policy brief on the Future of Advisory Services](#)"

<sup>146</sup> Some example of an Operational Group tackling problems/opportunities at the level of the value chain: [ENU-WHEAT: a sustainable and environmentally friendly wheat value chain](#)

the position of farmers in the food chain.<sup>147</sup> Digital technologies may be an enabling factor in this regard.

Linking CAP and Horizon 2020, and integrating policy instruments through the EIP-AGRI is proving to be a powerful driver of innovation on the ground at different levels (farming, agri-value chains and rural development). It is also considered to be improving impact of science by changing the existing research paradigms and re-focusing research on the value of applicable solutions.

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<sup>147</sup> EIP-AGRI network, [Focus Group on Short Supply Chains](#) and a Workshop on "[Cities and Food – connecting consumers and producers](#)", where cities, farmers and rural development programming authorities developed common actions to build a city-region food system approach

## ANNEX: OVERVIEW OF MAIN CAP TOOLS

### Direct payments schemes as laid down in Regulation (EU) No 1307/2013

Scheme	Relevant section of regulation
Definitions	Article 4
Basic payment scheme	Title III, Chapter 1, Sections 1, 2, 3 and 5
Single area payment scheme	Article 36
Redistributive payment	Title III, Chapter 2
Payment for agricultural practices beneficial for the climate and the environment	Title III, Chapter 3
Payment for areas with natural constraints	Title III, Chapter 4
Payment for young farmers	Title III, Chapter 5
Voluntary coupled support	Title IV, Chapter 1
Crop-specific payment for cotton	Title IV, Chapter 2
Small farmers' scheme	Title V

### Rural development measures as laid down in Regulation (EU) No 1305/2013

Measure code	Measure name	Legal basis <sup>(1)</sup>
1	Knowledge transfer and information actions	Article 14
2	Advisory services, farm management and farm relief services	Article 15
3	Quality schemes for agricultural products and foodstuffs	Article 16
4	Investments in physical assets	Article 17
5	Restoring agricultural production potential damaged by natural disasters and introduction of appropriate prevention	Article 18
6	Farm and business development	Article 19
7	Basic services and village renewal in rural areas	Article 20
8	Investments in forest area development and improvement of the viability of forests	Article 21
9	Setting-up of producer groups and organisations	Article 27
10	Agri-environment-climate	Article 28
11	Organic farming	Article 29
12	Natura 2000 and Water Framework Directive payments	Article 30
13	Payments to areas facing natural or other specific constraints	Article 31
14	Animal welfare	Article 33
15	Forest-environmental and climate services and forest conservation	Article 34
16	Co-operation	Article 35
17	Risk management	Article 36
18	Financing of complementary national direct payments for Croatia	Article 40
19	Support for LEADER local development (CLLD)	Article 35 <sup>(2)</sup>
20	Technical assistance	Arts. 51-54

<sup>1</sup> References are to Regulation (EU) No 1305/2013 unless stated otherwise.

<sup>2</sup> Refers to Regulation (EU) No 1303/2013