

# CAP SPECIFIC OBJECTIVES

## ...explained

– Brief No 8



## JOBS AND GROWTH IN RURAL AREAS

*This is part of a series of Briefs summarising the facts and addressing the policy relevance around the 9 proposed specific objectives of the future CAP.*

### KEY MESSAGES

- ✓ *Predominantly rural areas cover 44% of the EU-28 territory, and account for 19% of the EU population today. Relying more on the primary sector and its links to the food chain in terms of employment, these regions have a per capita income that is significantly lower (by a third) than the EU average.*
- ✓ *Both the level of poverty and the share of poor people in the total population is higher in rural areas, but the gap between Member States is so significant that comparisons are difficult.*
- ✓ *The degree of structural transformation and access to the internet play a major role in determining employment prospects in rural areas. Isolated rural areas suffer more from a lack of social inclusion and a poorly performing labour market, compared to those rural regions that are close to urban poles.*
- ✓ *The CAP plays a major role in alleviating some of the unemployment and poverty pressures on rural areas. A recent study by the World Bank demonstrated the positive role played by the policy in reducing poverty and helping passing through its benefits to the wider economy of rural areas, especially through the positive effects of decoupled payments and rural development measures.*

*This brief is based on contributions from: Barthélémy Lanos, Maria Gafo Gomez, Gesa Wesseler.*

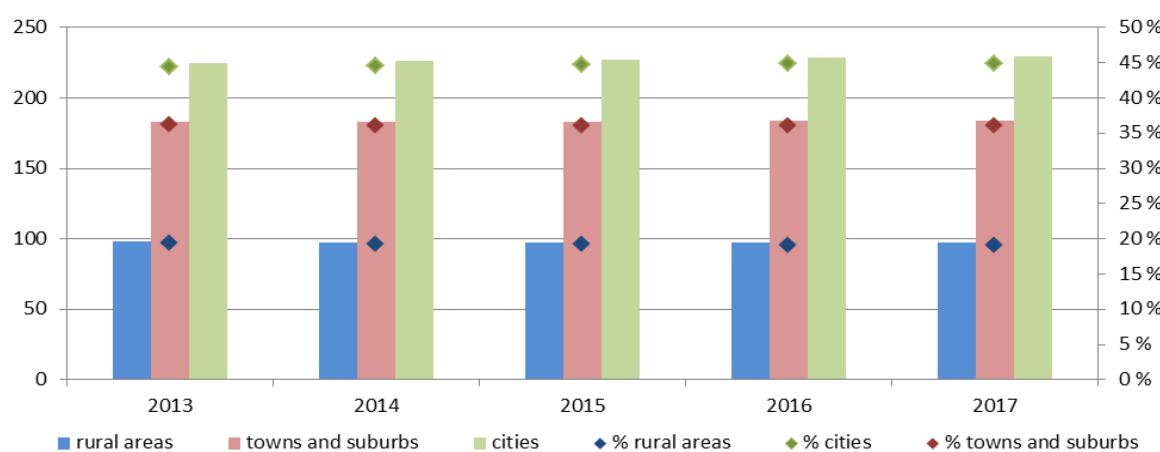
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# 1. Jobs, growth and poverty in rural areas

## a. GDP growth and poverty rate in rural areas

In the EU-28, 44% of the territory is classified as predominantly rural. Their total population in these areas is decreasing; from 2013 to 2017, about 500 thousand people left rural areas, mainly to go toward towns and peri-urban areas. This trend led the overall share of rural population to decrease by one percentage point in this period, and represent 19% of the EU population today.

**Figure 1. Total population by degrees of urbanisation in the EU-28**



Note: Million (left axis) and share of the population in designated areas (right axis).

Source: DG AGRI based on Eurostat.

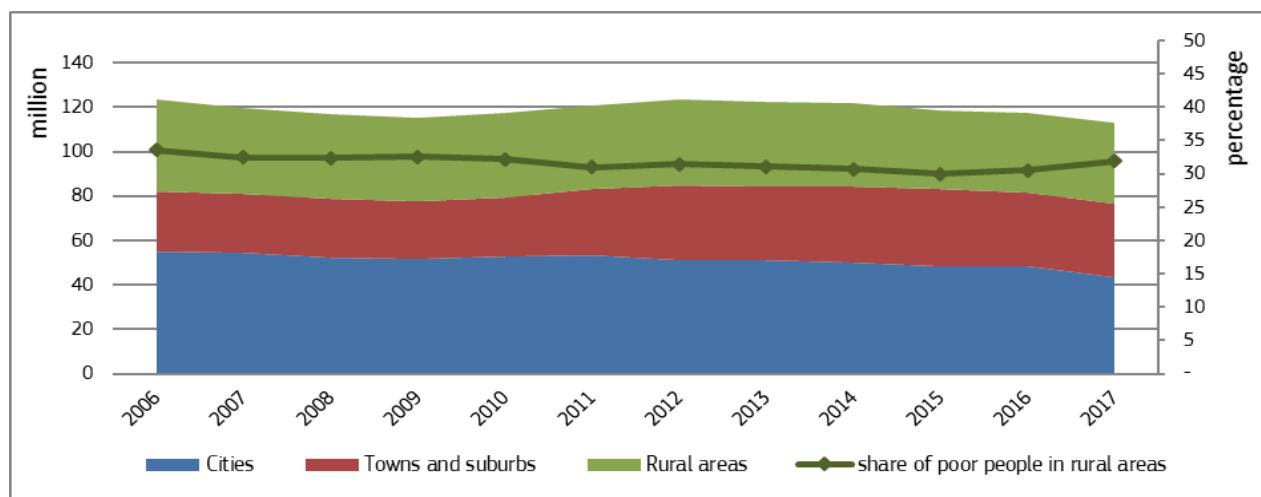
The GDP per inhabitant in rural regions represents 66% of the EU-28 average, compared to 82% and 118% in intermediate and predominantly urban regions, respectively. However, there are large disparities between Member States themselves, with the picture becoming increasingly diverse with the successive enlargements of the EU. In the countries joining the EU after 2004 (EU-N13), the GDP per capita in rural areas is at 48% of the EU-28 average while in EU-15 at 87%. In urban areas, the GDP per capita reached 111% in the EU-N13 and 121% in EU-15. Moreover, remote rural areas have the most limited access to general services (schools, primary health care).

Rural regions account for 13% of total gross value added in the EU, while urban centres have 56%. In rural areas, the primary sector (agriculture, forestry and fishing) represents 4.2% of the gross value added and 13% of employment. The role of agriculture is important, not only directly but also indirectly through the generation of additional economic activities. Strong forward linkages exist with food processing, hotels and catering and trade, all sectors that, in turn, have further links with the rest of the rural economy.<sup>1</sup>

With regard to poverty or social exclusion, the **level** of poverty, i.e. the number of people living in poverty or at risk of poverty in the EU, is decreasing in both cities and rural areas (although it increased slightly in towns and suburbs).

Nevertheless, the **share** of rural poor in the total number of people in poverty increased since 2015 (Figure 2). On average, poverty risk is higher in rural areas, with a serious rural/urban poverty gap in a number of countries in southern and eastern Europe. Isolated rural areas suffer more from a lack of social inclusion, access to infrastructure and services and a poor performing labour market, compared to those rural regions that are close to urban poles.

**Figure 2. People at risk of poverty in the EU-28 by regions**



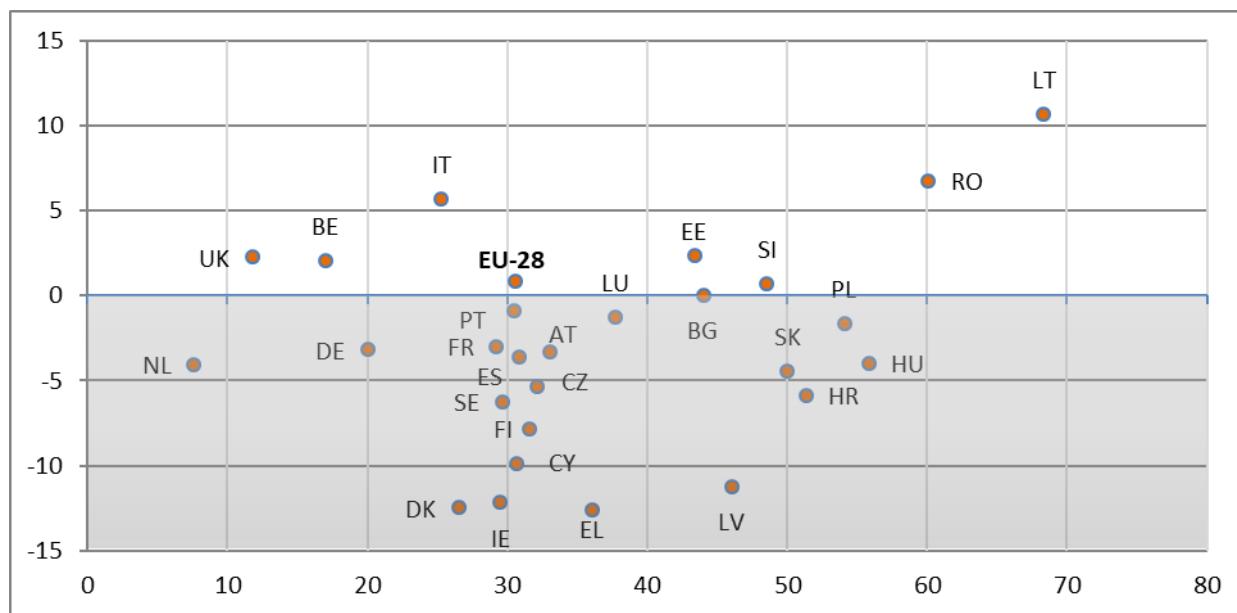
Source: DG AGRI based on Eurostat.

### **Rural poverty remains a challenge in large part of the EU**

*Most of the poor are located in cities. While the share of rural areas in overall poverty slightly decreased since 2006, it increased in recent years (+1 percentage point since 2013). Ultimately, in most Member States, the importance of rural areas in the national poverty rate decreased (Figure 3) and could be partly due to migration towards peri-urban zones.*

The picture of rural poverty is very diverse across the EU and changing. In some Member States, more than 50% of poor people are in rural areas (Lithuania, Romania, Hungary, Poland and Croatia), while the average across the EU is around one third (see Figure 3, next page).

There is a strong link between urban and rural areas, and especially peri-urban rural areas. It can lead to counter-urbanisation developments and new forms of rural growth. At the same time urban sprawl is expanding, generating strong pressure on peri-urban natural resources.

**Figure 3. Rural poverty in the EU-28 (in %)**

Note 1: Share of poor people located in rural areas (average 2015-17, horizontal axis) and change between 2013 and 2017 (vertical axis).

Note 2: To read the graph, in Romania for example, poor people in rural areas accounted for 60 % of the total number of poor people in 2017. This share increased by 7 percentage points since 2013.

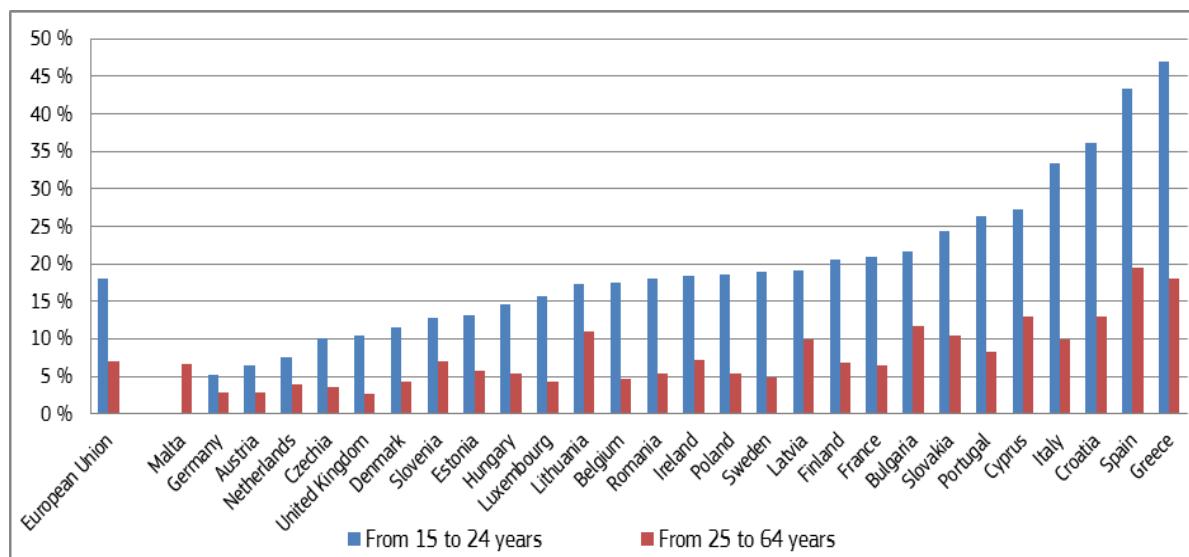
Source: DG AGRI based on Eurostat.

Still, some key economic sectors and emerging economy boost rural areas' vitality. The increasing value placed by society upon rural environment and heritage creates important diversification opportunities in areas with a high level of recreational amenities that attract urban populations.

The key sectors in terms of potential growth for rural areas include tourism (nearly three quarters of bed places in the EU-27 are located in rural areas), the bioeconomy and the renewable energy sector (it generated gross value added of over 9 billion € in the primary sector and sustained 210,000 jobs back in 2005).

*b. Unemployment in rural areas remains an issue, especially for young people*

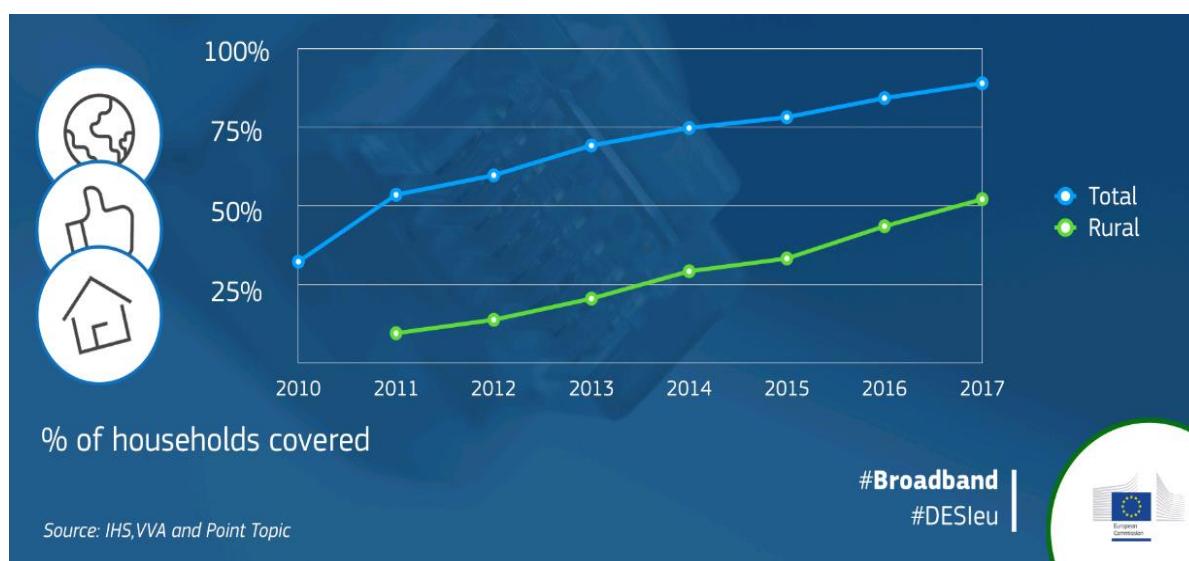
During the period 2015-2017 the unemployment rate in the EU reached on average 8.7% of the active population (between 15 and 64 years old) (Figure 4, next page). Greece and Spain recorded the highest level of unemployment in rural areas, with more than one fifth of the active population unemployed. Unemployment was much higher (18.6%) for young people (15-24 years old). In Greece and Spain, more than 40% of the young (active) were unemployed. Unemployment in rural areas increased in the aftermath of the 2008 economic crisis and decreased to the pre-crisis level. The 2015-2017 average is close to 8.1% unemployment of the active population, and 18% for the young population. The gap in the share of employment between young active people and the other is closing across the EU (except recently in BE, NL, SK).

**Figure 4. Unemployment rate in EU-28 rural areas (average 2015-2017)**

Source: DG AGRI based on Eurostat.

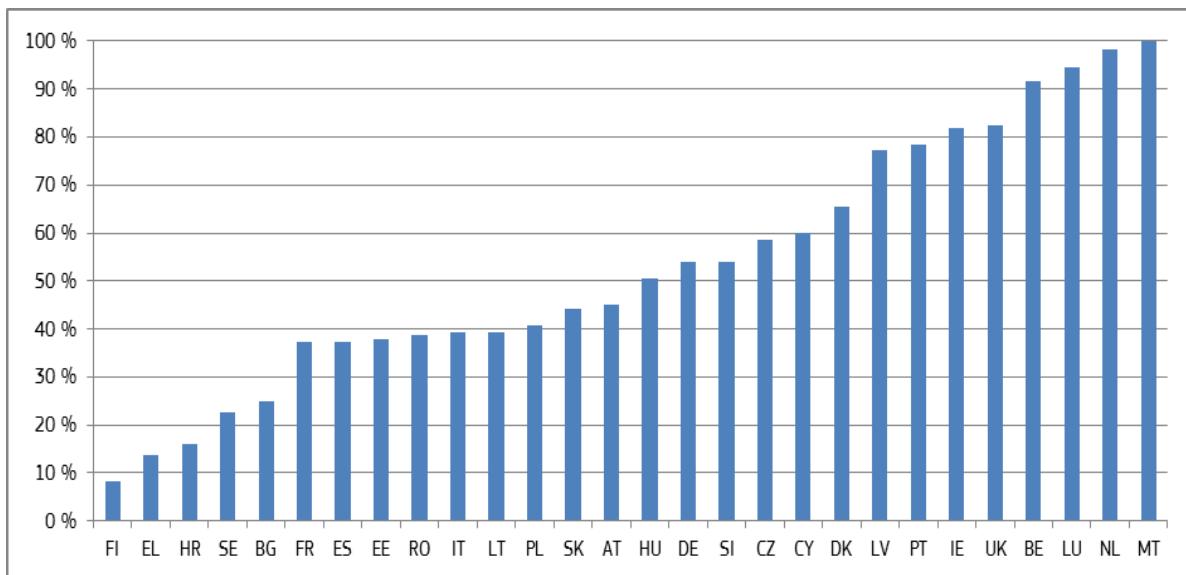
#### c. Broadband coverage still limited in rural areas across the EU

Although broadband access in the EU is improving, rural areas are still lagging behind. In 2017, 50% of EU rural households were covered by fast broadband internet access, compared to 80% in the overall EU territory (Figure 5). Any fixed network did not cover a remaining 8% of homes in rural areas.

**Figure 5. Next-generation broadband coverage in EU rural areas**

Note: published in June 2018. <https://ec.europa.eu/digital-single-market/en/news/study-broadband-coverage-europe-2017>

Despite an overall improvement for the past decade, the extent of the coverage in rural areas by Member States is heterogeneous. In 14 Member States, less than 50% of the households are covered with fast broadband access.

**Figure 6. Broadband coverage in EU rural areas – by Member States (2017)**

Note: In Malta, no region in the national statistics fulfils the criteria to be determined as rural areas.  
Source: European Commission, Digital Scoreboard.

With broadband coverage depending significantly on the extent of the territory to be covered, the population density and the difficulty of implementing necessary infrastructures in certain regions (for instance in forest areas or mountains), its further expansion remains a major challenge for rural areas to fully benefit from the internet-based economy.

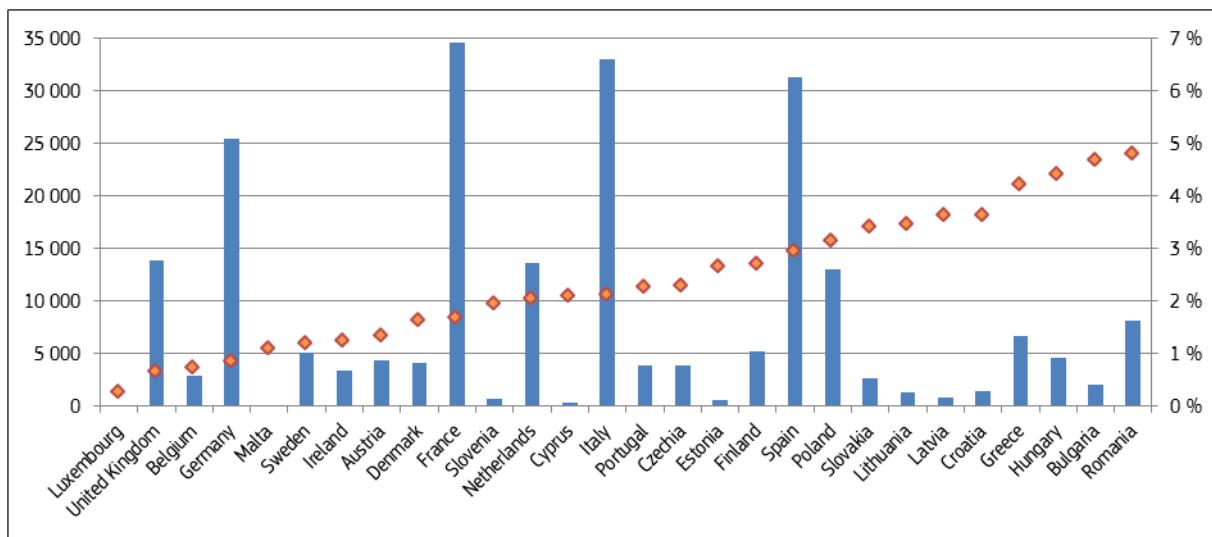
## 2. Jobs and growth of the agri-food sector

### a. The vibrant agri-food sector and evolution of the labour force

Agriculture represents a non-negligible share of the economy in rural areas, especially in certain Member States. On average in the EU, the GVA of agriculture represents 1.7 % of the total economy. The picture can be quite different across the MS, the highest being in Romania for which it represents 4.8 %. The gross value-added (GVA) of agriculture has increased by 1.5% between 2008 and 2017. It is only 0.04% slower than the overall economy.

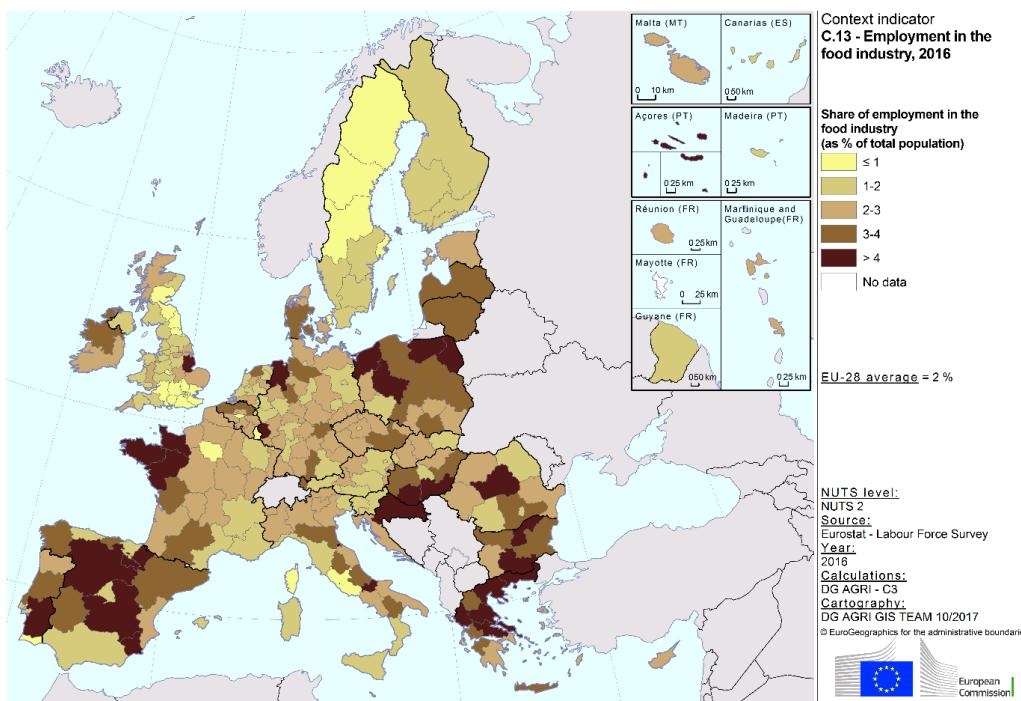
The agricultural sector solely is employing about 5 % of the total active population in the EU (full-time equivalent). According to the World Bank,<sup>2</sup> this share is reaching 20 % when looking at the overall agri-food sector. In certain regions, the food industry (without agriculture) can employ up to 7% of the population (in La Rioja in Spain, see map below). In rural areas, despite the fact that the primary sector employs 13 % of the population, the share with other sectors is declining over the years. A continuous outflow of labour force from agriculture towards other sectors of the economy is lasting.

**Figure 7. Role of agriculture in the overall economy - EU Member States (2017)**



Note: Gross Value Added in million EUR (left axis), share of agriculture in all economic activities (right axis).  
Source: Eurostat.

**Map 1. Share of employment in the EU food industry (% of total population)**



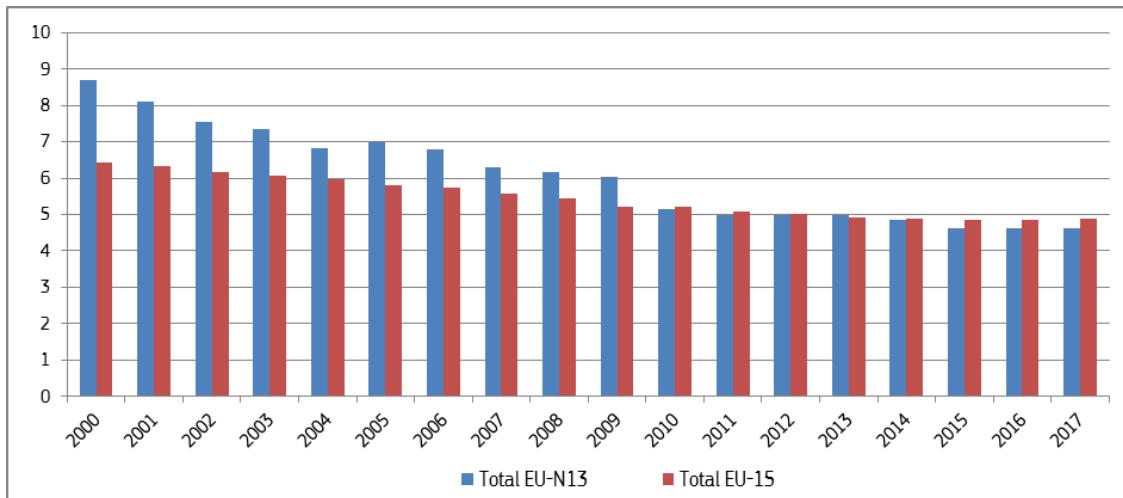
#### b. A continuous decrease of both the labour force and the number of farms

From 2000 to 2017, 5.6 million workers left the agricultural sector, a decrease of more than 35 % of the total labour force in agriculture (or 4.6% annually). Although a long and steady downward trend in the outflow of labour from agriculture has been present for decades in the EU (as well as in the world), a large part of this drop is due to structural changes in the Member States who joined the EU after 2004 where 70 % of the decrease occurred.

This trend is steady, but uneven. Part of this change is due to the redefinition of farmers, and the subsequent exclusion of very small farms in a few of the EU-N13. Another part is due to structural changes (land consolidation and mechanisation) that have driven the evolution of the agricultural sector. And part is due to a break that seems to have happened in 2010, when the outflow of labour force slowed down in the aftermath of the economic crisis. In certain Member States, as in Italy, Lithuania, and Romania, the labour force in agriculture has even slightly increased.

The slowdown of labour outflow also comes from the fact that the agricultural sector in some regions seem to have completed its structural transformation. Indeed, the pace of labour outflow in EU-15 has been much slower than in the EU-N13 since 2000. Nevertheless, the modernisation of the sector and technology breakthrough could lead to further economic and structural adjustments.

**Figure 8. Agricultural labour force across the EU (million people)**



Source: Eurostat.

The number of EU farms also decreased quite substantially, with a drop of 4 million farms across the EU since 2005. Apart from statistical reasons (higher thresholds applied in farm surveys), this is mainly the result of land consolidation and farm size growth, as total agricultural area has only marginally declined. Throughout this period, the overall standard output of the agricultural sector increased by 27 % and therefore substantially increased as per farms and per AWU.

This hides a significant duality in EU agriculture. Despite their small contribution to the overall gross value added of agriculture, subsistence farms account for around 40% of total EU farms. Subsistence and semi-subsistence farmers and their families, especially in new Member States, are particularly exposed to poverty and social exclusion risks. Around 43% of small farms (< EUR 8000) are classified as subsistent. A very high proportion (above 90%) of the very small farms in Latvia, Romania and Slovenia are subsistence households.

### 3. The challenges of jobs and growth

#### a. A positive link of the CAP to jobs and poverty reduction (WB report)

A recent World Bank report on the CAP<sup>3</sup> found the policy to be associated with the reduction of poverty and the creation of better jobs for farmers across the EU, but this contribution differs depending on where a country finds itself along the process of structural transformation. The EU's successful structural transformers have delinked agriculture from poverty, while incomplete transformers still show a link between agriculture and poverty.

With the progress of the structural transformation of the economy, and thus, the productivity increase in all sectors including agriculture, the link between agriculture and poverty is reducing. In Member States where the structural transformation is complete, agriculture is not linked with poverty anymore. Investments in rural areas and particularly in the agri-food sector help to increase productivity along the value chain as well as the value created by agriculture.

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#### ***Why did the World Bank look into the CAP?***

*Agriculture globally plays a role in the successful structural transformation of the economy, as agricultural growth has various trickle-down effects on the wider economy providing labour force for other sectors and allowing a reduction of the income gap between economic sectors but also between the regions with different rate of urbanisation.*

*The EU has been no exception in this trend. However, with the Common Agricultural Policy (CAP) present in EU rural areas for over six decades, the question arises as to whether the policy has had an impact in alleviating some of the negative pressures on employment and poverty that generally characterise rural areas. In answer to this question, in the context of its Impact Assessment for the Future CAP, DG AGRI asked the World Bank to focus their planned study on EU agriculture around the CAP's contribution in the social dimension of policy objectives, and more specifically on jobs, growth and poverty reduction.*

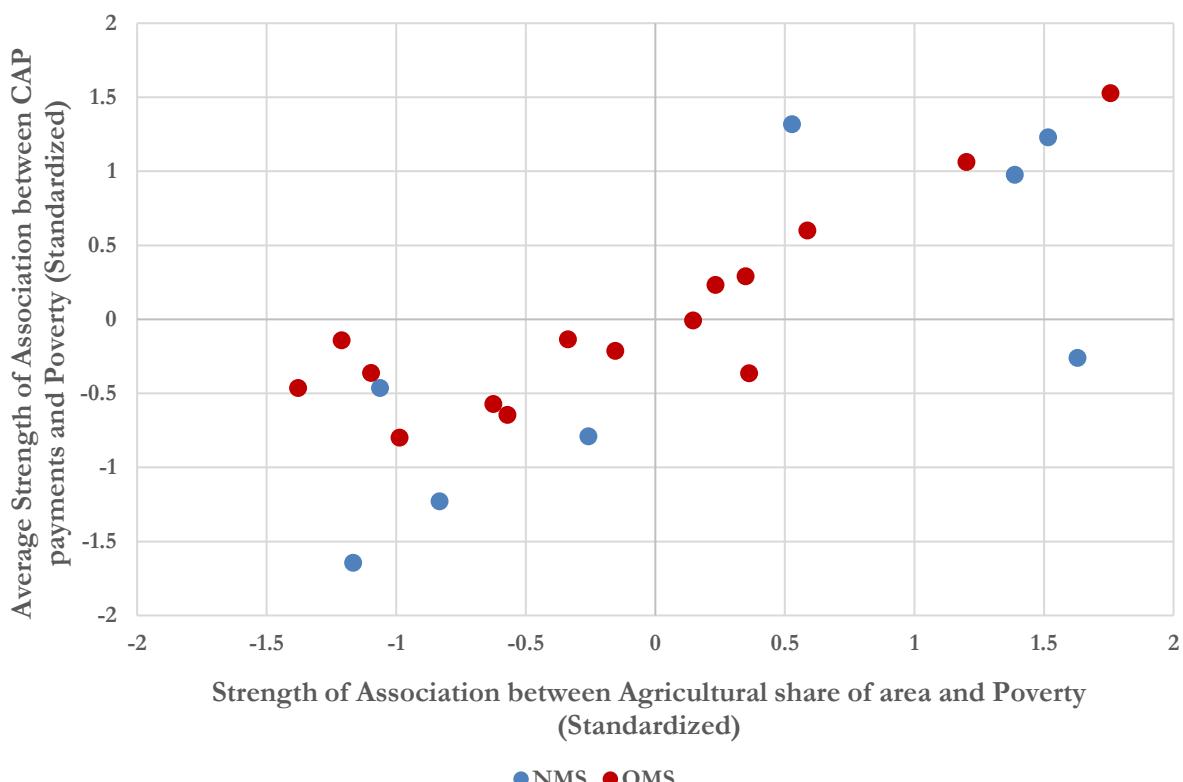
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Decoupled payments of Pillar I and Pillar II payments have a positive impact on agricultural productivity growth, but not the coupled payments. When farmers no longer received subsidies coupled to the production of low value-added crops, they switched to higher value added crops, while the reduction in the outflow of labour is associated with higher productivity that sustains better jobs in agriculture.

Thus the CAP is positively linked with the increase of labour productivity in agriculture (defined as the agricultural value added per worker), as it reduces farmers exposure to risk and alleviates credit constraints.

The following graph summarises the link between the stage of agricultural transformation and poverty, linking the area devoted to agriculture (on whose basis CAP payments are granted), and the poverty rate in the area. Countries to the left of the origin (the meeting zero point of the two axes) are successful and countries to the right of the origin are incomplete transformers. Interestingly, in the EU-15 (OMS) and EU-13 (NMS) Member States are found in both ends of the spectrum, indicating that the successful transformation of agriculture is not just a matter of the level of CAP payments.

**Figure 9. The link between CAP payments and poverty**



Decoupled payments and rural development programmes were also associated with the maintenance of jobs in the agricultural sector. Recent research studies on the impact of CAP payments in maintaining jobs have shown a positive correlation.<sup>4</sup> Higher labour productivity in agriculture sustains better jobs. The redistribution of direct payments has a positive territorial impact by rebalancing support across the EU territory in favour more of EU-12 (before Croatia's accession), as well as more marginal areas and farming systems and thus contributing to a sustainable agriculture across the EU. The additional funds made available under rural development should also contribute to growth and jobs in rural areas, for example through the development of renewable energy projects.

In summary, the WB study found the CAP to be an EU-wide programme that has successfully reached all kinds of rural areas, from the best accessible to the uttermost remote ones. In regions where agricultural areas are still accounting for a high share of the poorest regions, the CAP is associated with a reduction of poverty.

*b. Rural development policy for vibrant rural areas*

Rural development policy can play a role in promoting a more inclusive society and making rural areas a better place to live. Keeping people, and notably the young ones, in rural areas and addressing other social challenges require enabling conditions, such as access to business opportunities, knowledge, and basic services.

In the pillar II of the CAP, there is a comprehensive toolkit of measures to assist with the sustainable development of rural areas throughout the EU; lessons learned from the current period have however shown the need to make adjustments in some cases. For example, the business creation and diversification measures bring economic activity to rural areas, also outside the agricultural sector. It is particularly significant in areas where there is a high share of part-time farmers or where restructuring of the agricultural sector is still under way. However, the limitation of the measure to micro-enterprises has been criticised and it is judged that supporting small and medium enterprises would also lead to considerable benefits.

LEADER has successfully brought local actors together and allowed for the development of local governance capacities. However, the programme being mainstreamed in the current period has meant that in some cases the specificities of this innovative bottom-up approach were compromised, due to the narrowing of the scope to pre-defined measures and to the lack of clear distinction of roles between managing authorities and paying agencies.

Finally, under the basic services measure the rural development policy contributes to the closing of the gap between the rural and urban population and tries to slow down the depopulation of rural areas by making them more attractive and viable, including for younger generations.

In terms of coherence with other EU policies and source of funding, Member States have generally been successful in setting demarcation lines and ensuring coordination between rural development and other policies. On the other hand, there is limited information about other EU policies intervention in rural areas and less attention was paid to moving beyond simple demarcation to a better complementarity between policies – i.e. there were fewer initiatives to find synergies between policies and avoid funding gaps.



## Endnotes

<sup>1</sup> This share and importance increase if the whole food chain is taken into account; see more in [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap\\_en#objectives](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap_en#objectives)

<sup>2</sup> World Bank (2017). Thinking CAP. Supporting Agricultural Jobs and Incomes in the EU. World Bank report on the European Union.

<sup>3</sup> World Bank (2017). Thinking CAP. Supporting Agricultural Jobs and Incomes in the EU. World Bank report on the European Union.

<sup>4</sup> Garrone M., et al. (2018). Jobs and Agricultural Policy: Impact of the CAP on EU agricultural employment. LICOS Discussion Paper Series, KU Leuven

## For more information

[https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap\\_en#objectives](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap_en#objectives)

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