

# Agricultural Policy Perspectives Briefs

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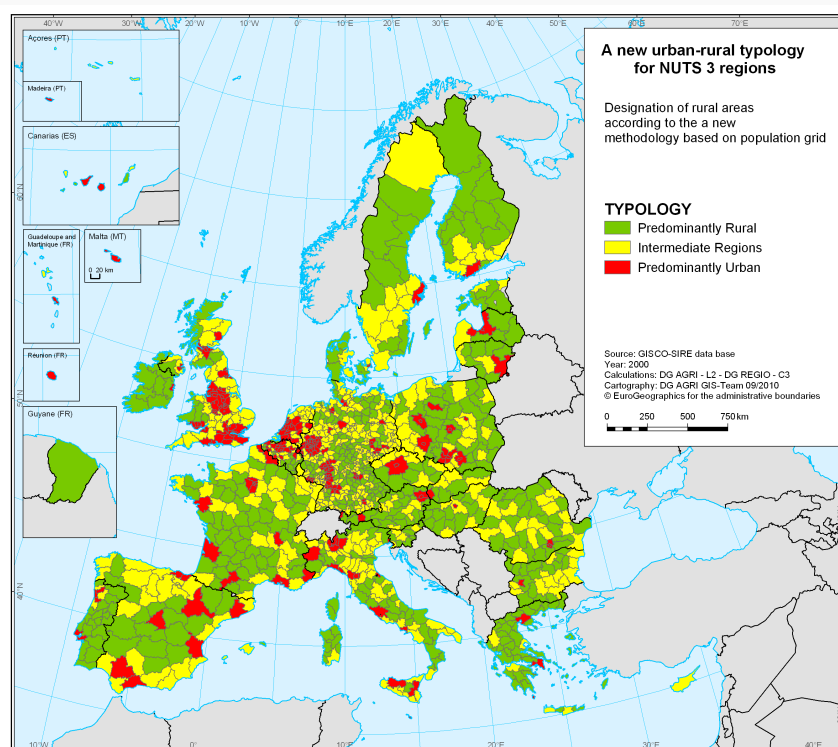
## The future of rural development policy

1. The role of rural development within the CAP
2. The challenges for rural areas and the role of agriculture
3. The rural development policy response

Climate change, resource efficiency and territorial balance are high up on the agenda in the EU. All these issues, and many more, are addressed by the rural development policy, the so-called 2<sup>nd</sup> pillar of the Common Agricultural Policy (CAP). With 20% of the CAP budget, rural development works alongside the 1<sup>st</sup> pillar (direct payments and market instruments) to support sustainable agriculture and dynamic rural areas across the EU.

This *Brief* looks into the role of rural development policy today, and how it can best respond to the challenges for agriculture and rural areas in the future. More specifically: what priorities should the policy set, and how could delivery be improved? How should the future rural development funds be distributed?

Map 1. Rural areas in the EU.



Source: DG Agriculture and Rural Development, 2010 Rural Development Report.

More on *Briefs*:

[http://ec.europa.eu/agriculture/analysis/perspec/app-briefs/index\\_en.htm](http://ec.europa.eu/agriculture/analysis/perspec/app-briefs/index_en.htm)



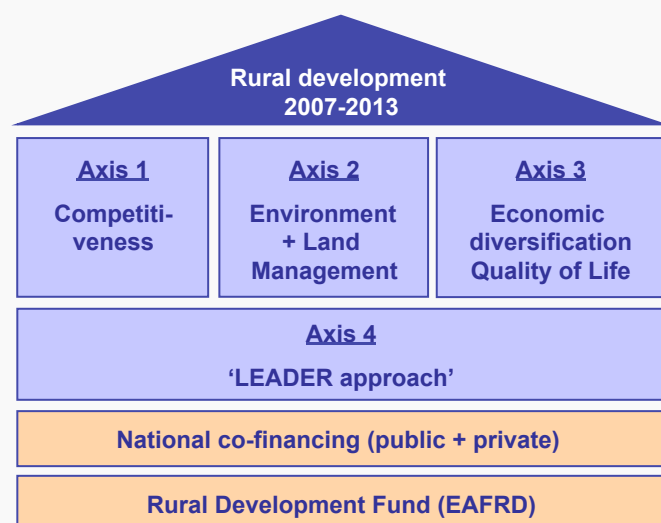
## 1. The role of rural development within the CAP

Rural development became the 2<sup>nd</sup> pillar of the CAP with the reform in 2000, Agenda 2000, by bringing together under a common umbrella various structural and territorial measures, such as support for Least Favored Areas (LFAs). The policy has gradually evolved from supporting structural adjustment in agriculture to better reflecting the multiple roles of farming in the wider rural context. Today rural development is a fully fledged integrated policy for the sustainable development of all rural areas in the EU .

***Rural development is today  
a comprehensive policy  
for the sustainable development  
of all rural areas in the EU***

In the 2003 CAP reform, the policy benefited from additional resources transferred from direct payments by means of the so-called modulation mechanism. In the Health Check of the CAP (2008) rural development was further strengthened with additional resources earmarked for a range of new challenges, mostly environmental: climate change, biodiversity, water management, renewable energy, innovation and dairy restructuring. The development of broadband was added to the list by the recovery package (EERP).

Figure 1: Overall architecture of the rural development policy (2007-2013).



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

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

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

Moreover, to ensure that all objectives are addressed in each programme, there are minimum spending requirements per axis<sup>1</sup>, while results are assessed under a common monitoring and evaluation framework (CMEF).

The policy is funded through a single fund, the European Agricultural Fund for Rural Development (EAFRD) (figure 2).

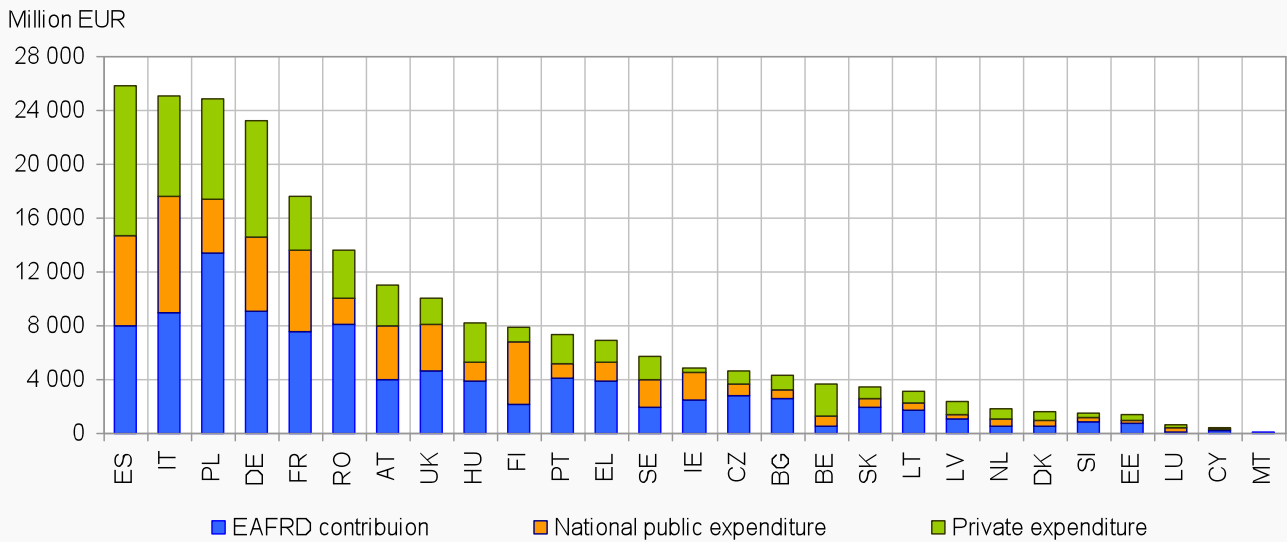
<sup>1</sup> See *Brief No 1: 'The CAP in perspective: from market intervention to policy innovation'*, pp 8-9, in particular figure 5 on the allocation of funds per axis for each Member State.



Today the two pillars work together in a complementary way towards the CAP objectives, with rural development responding to needs for structural adjustment generated by reforms in the 1<sup>st</sup> pillar. In fact, the lower the general level of economic development and the higher the structural adjustment needs of their agriculture, the higher the rural development needs of Member States concerned (figure 3).

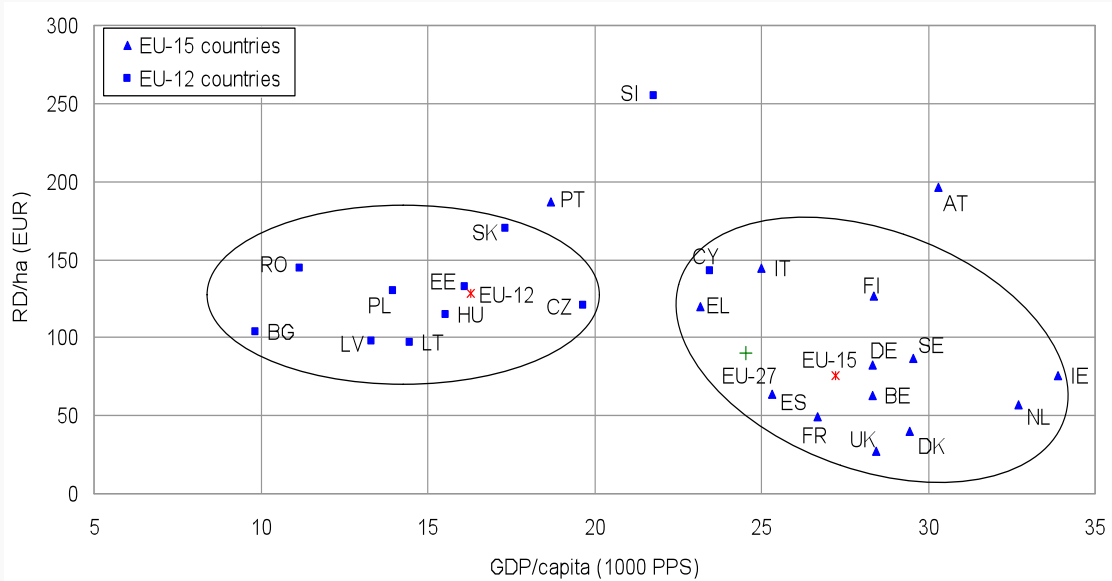
Thus the structural measures offered in the 2<sup>nd</sup> pillar complement the more general income support in the 1<sup>st</sup> pillar and open alternative employment opportunities in rural areas, while more targeted environmental measures in the 2<sup>nd</sup> pillar allow farmers to go beyond the compulsory requirements in the 1<sup>st</sup> pillar.

Figure 2: Expenditure in rural development programs for the period 2007-2013.



Source: DG Agriculture and Rural Development.

Figure 3: Rural development per ha (2013) and GDP per capita (2007-2009 avg.).



Source: DG Agriculture and Rural Development.

Note: ha = potentially eligible area; LU = 107 EUR/ha and 67 500 PPS/capita; MT = 1 554 EUR/ha and 18 800 PPS/capita.



## 2. The challenges for rural areas and the role of agriculture

Rural areas span more than 90% of territory and more than 50% of population in the EU.<sup>2</sup>

One of the most important assets of rural areas is their natural capital, with land largely under agricultural management. Agriculture and forests in rural areas are in fact entrusted with managing eco-systems, thus contributing to maintain the rural landscape, combat biodiversity loss and mitigate climate change.

Even if a growing number of rural areas are increasingly driven by factors outside agriculture, such as broader macro-economic and demographic developments and the challenge of climate change<sup>3</sup>, agriculture remains important for the rural economy in many parts of Europe. This is particularly the case in predominantly rural

areas where the primary sector represents around 5% of added value and 16% of employment, as well as in the new Member States where structural adjustment is still under way.

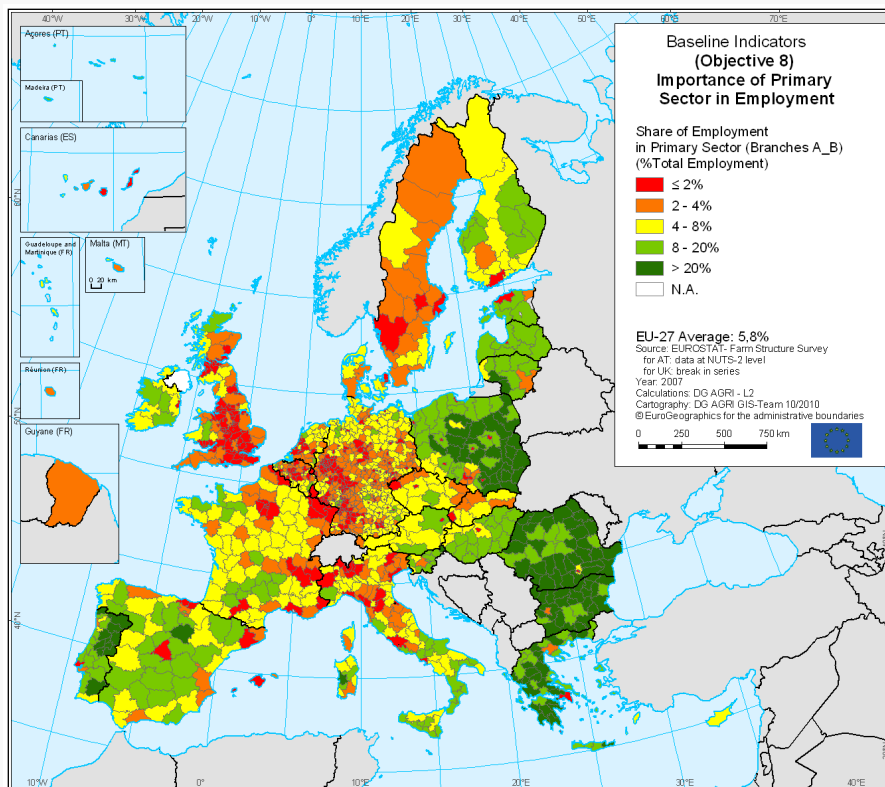
In addition, agriculture has strong links with other economic activities in rural areas, notably food processing, tourism and trade, while one third of farmers have other gainful activity outside of agriculture. Agriculture thus not only contributes to but also relies on dynamic rural areas for human capital, infrastructure and basic services. With significant outmigration of young people in many rural areas, attracting and developing human capital is essential.

**Agriculture both promotes  
and relies on wider  
rural development**

<sup>2</sup> Regions are classified as predominantly rural, intermediate or predominantly urban following a new EU methodology based on population grid (see Map 1).

<sup>3</sup> See the Scenar 2020 study for the European Commission: [http://ec.europa.eu/agriculture/analysis/external/scenar2020ii/index\\_en.htm](http://ec.europa.eu/agriculture/analysis/external/scenar2020ii/index_en.htm).

Map 2. Importance of agriculture in EU employment.



Source: DG Agriculture and Rural Development, 2010 Rural Development Report.

The overall picture for rural areas in the EU is increasingly diverse, especially following successive enlargements: some regions are facing decline with young people leaving and land abandoned, while others are among the most dynamic in the EU.

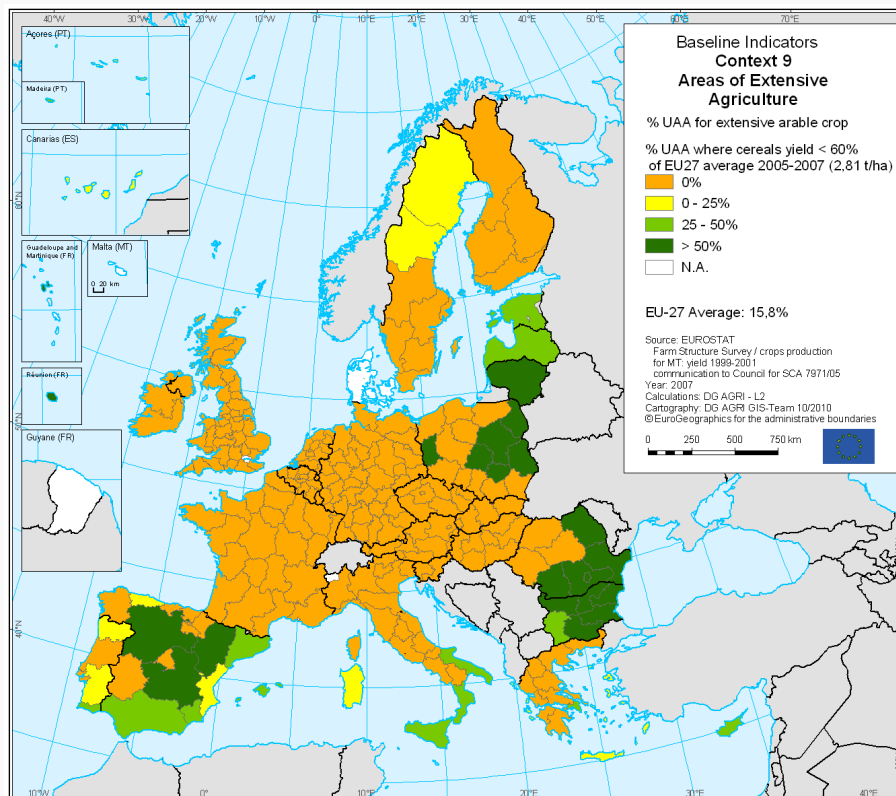
Notwithstanding this diverse picture, all rural areas face today important economic, environmental and territorial challenges. And they have been severely hit by the economic crisis against the backdrop of an already fragile economic situation since income in rural areas is on average 50% lower than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

At the same time there are growing expectations from consumers for quality and diversity of food and rural amenities that open up new possibilities to give value to the assets of rural areas. All in all, there are not only important challenges but also opportunities for the future of rural areas. And agriculture has an important role to play in maintaining rural vitality, a public good that is recognized as an objective in the vast majority of RDPs.<sup>4</sup>

**Rural areas need to deal with important challenges while seizing opportunities to make the most of their diversity**

<sup>4</sup> See [http://ec.europa.eu/agriculture/analysis/external/public-goods/index\\_en.htm](http://ec.europa.eu/agriculture/analysis/external/public-goods/index_en.htm) - Study 'Provision of public goods through agriculture in the European Union'.

Map 3. Areas of extensive agriculture.



Source: DG Agriculture and Rural Development, 2010 Rural Development Report.



### 3. The rural development policy response

The debate about the future of rural development is part of the broader debate about the future of the CAP, its link with the Europe 2020 strategy and with the budgetary framework of the next Financial Perspectives. This means that we cannot look at rural development in isolation, but must also take into account changes in direct payments and market instruments, as well as the broader policy context.

In the face of the multiple challenges for agriculture and rural areas, rural development aims at enhancing agricultural competitiveness, improving the sustainable management of natural resources and promoting a balanced territorial development across the EU.

A fundamental question, especially given the broad scope of rural development policy, is how to ensure the best fit with the EU priorities, notably the Europe 2020 strategy for smart, sustainable and inclusive growth<sup>5</sup>. A

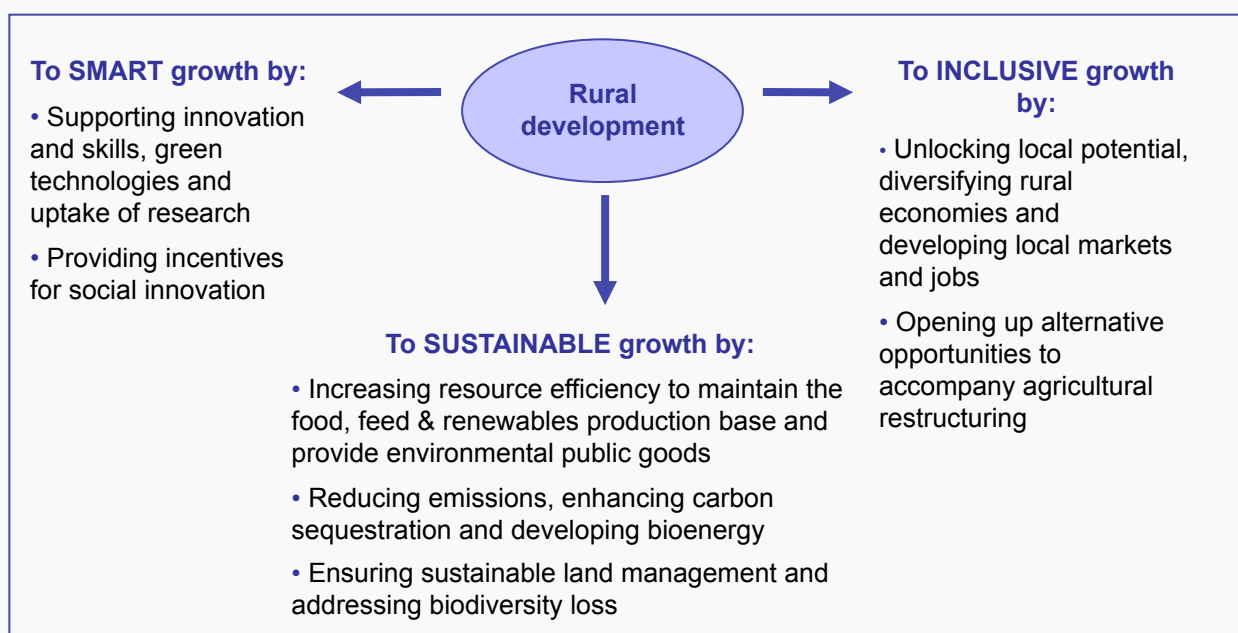
lot of attention in the debate on the future of the policy revolves around the policy's contribution to enhancing resource efficiency for the purpose of helping rural economies exit from the crisis while addressing climate change and other pressures on resources.

Seen in this light, fostering innovation, fighting climate change, and mobilizing the full potential of rural areas emerge as important priorities that cut across all policy objectives. For instance, when looking at farm investments, should the future policy give priority to green investments and investments in new technologies? As the current toolkit is quite comprehensive, this is probably more a question of making better use of existing tools in line with EU priorities rather than creating new tools.

*The rural development policy  
contributes to a  
resource efficient Europe*

<sup>5</sup> See [http://europa.eu/press\\_room/pdf/complet\\_en\\_barroso\\_007\\_-\\_europe\\_2020\\_-\\_en\\_version.pdf](http://europa.eu/press_room/pdf/complet_en_barroso_007_-_europe_2020_-_en_version.pdf) - Commission's Communication 'Europe 2020: a European strategy for smart, sustainable and inclusive growth'.

Figure 2: Rural development contributes to Europe 2020.





Another recurrent theme in the debate on the future of rural development policy is how to ensure a more efficient and effective policy. Setting priorities is one thing, then comes actually delivering on them. This is particularly important for a policy that operates on many levels, from defining a strategic framework at EU level, to drawing national programmes to implementation by local administrations, and seeking to promote bottom-up approaches (such as initiatives taken by local groups).

In this context, there is a need to better capture the impact of the policy with a view to guiding future policy choices as well as demonstrating its value added and thus enhancing its credibility. Hence calls for moving away from a spending towards an outcome oriented approach, with clear targets at EU level linked to the Europe 2020 agenda. Work on improving the common monitoring and evaluation framework (CMEF), including the design of indicators, is also under way. Examples of selected indicators and their targets for the current period are shown below:

Table 1. Rural development indicators (2007-2013)

Indicator	Target
Increase in gross value added (GVA) in supported holdings/enterprises	25.9 billion EUR
Population in rural areas benefiting from improved services	71 million people
Number of hectares supported by the NATURA 2000 measures	1 100 000 ha
Number of hectares under agri-environment schemes	50 700 000 ha

Source: DG Agriculture and Rural Development.

The European Network for Rural Development (ENRD) brings together national networks, organizations and administrations active in the field of rural development for the purpose of collecting, analyzing and disseminating information and good practices. The network has been a useful tool not only for the implementation of the policy but also in the debate on the future as a forum for the exchange of experiences and knowledge sharing.

A related issue is how to improve cooperation with other EU funds that operate in rural areas to maximize synergies and to facilitate the work of beneficiaries and administrations, as well as improvements in governance and network activities to mobilize local potential. In the end, effective policy delivery should result in more flexibility and better targeting the policy response to the challenges while at the same time reducing the administrative burden for administrations and beneficiaries.

Last but not least, the policy needs to be backed by adequate funding. As regards the balance of funding between the two pillars, this issue can only be properly addressed once the objectives and instruments are set. The continuation of the modulation mechanism that is used in the current period to facilitate the transfer of funding between pillars should not be needed in the future.

As with direct payments, the distribution of support among Member States is at present based on historical considerations reflecting the origin of the funding that is now allocated to the 2<sup>nd</sup> pillar. In the future, it may be envisaged to use more objective criteria on the basis of the future policy objectives.

To increase the leverage of EU spending, existing possibilities to provide support in a form other than grants should be further explored (for instance, to subsidize interest rates on loans or contributions to venture capital funds, guarantee funds and loan funds).

In conclusion, for rural development policy as part and parcel of the CAP to contribute effectively to the CAP objectives, it will be important to set clear priorities and ensure effective delivery backed up with adequate funding.

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***Rural development needs  
clear priorities and  
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adequate resources***

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