

## 1. Introduction

The Directorate-General for Agriculture requested a meta-evaluation, or synthesis, of the national/regional mid-term evaluations carried out under the Rural Development Regulation (RDR) in 2003. This was divided into two Lots, Lot I covering the areas funded by the European Agriculture Guidance and Guarantee Fund (EAGGF) Guarantee across the EU and Lot II covering the areas funded by EAGGF Guidance through the Objective 1 Operational Programmes. Agra CEAS Consulting Ltd. was contracted to provide this research under both Lots. This document comprises our Preliminary Final Deliverable for Lot I and comprises research carried out between January and the end of August 2005.

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The report is structured into four Chapters as set out in the terms of reference. This Introduction sets out the structure of the report and presents a history of rural development in the EU. Chapter 2 sets out the methodology used in this meta-evaluation and discusses the intervention logic behind the measures contained in the RDR. Chapter 3 sets out answers to the evaluation questions. This Chapter is sub-divided into: an overview of financial inputs and policy outputs; answers to measure-specific evaluation questions, itself sub-divided by RDR Chapter; answers to cross cutting evaluation questions; an assessment of the evaluation system; an assessment of the delivery system; and an assessment of the overall objectives of the rural development. Chapter 3.6 presents our evidence-based conclusions and recommendations. Appendix 1 contains full references to documents cited in the text, Appendix 2 presents our analysis tools, the specific rural development programmes selected for further investigation and the contacts made as part of this investigation. Appendix 3 sets out the evaluation questions, their criteria and indicators and presents our comments on these. Finally, Appendix 4 contains detailed information on the use of Commission-specified evaluation questions, alternative indicators and additional national questions.

## 1.1. The history of rural development measures

This section provides an inventory of rural development measures as they have developed over the different reform stages since 1992 including major changes in the regulatory framework and the implementing rules.

Rural development policy has had a long process of evolution since the establishment of the Community and the key dates in the development of European Union rural development policy are set out below:

- 1957 Treaty of Rome;
- 1968 Mansholt Plan;
- 1972 Directives on the modernisation of agricultural holdings, early retirement and training;
- 1975 Directive on support for LFAs;
- 1987 EU-funding for agri-environment measures;
- 1988 Reform of Structural Funds and 'The Future of Rural Society';
- 1992 MacSharry CAP Reform;
- 1995 European Agricultural Strategy Paper;
- 1996 First European Conference on Rural Development in Cork;
- 1999 Agenda 2000 and the Rural Development Regulation;
- 2003 Mid-term review agreement on Rural Development;
- 2003 Second European Conference on Rural Development in Salzburg;
- 2004 Commission proposal on rural development policy 2007-2013.

### 1.1.1. Treaty of Rome and the origin of rural development

The current rural development policy essentially developed from the gradual interlinkage of three major policy areas: **agricultural structures policy**, **regional development policy** and latterly **agri-environment policy**.

Both the Treaty of Rome 1957 and the Stresa conference establishing a Common Agricultural Policy stressed the importance of structural improvement in agriculture. Article 39 of the Treaty of Rome asserts:

*'In working out the Common Agricultural Policy...account shall be taken of the particular nature of agricultural activity, which results from the **social structure of agriculture** and from **structural and natural disparities between the various agricultural regions.**'*

In 1964, Regulation (EEC) 17/64 introduced the distinction between the 'Guarantee' and 'Guidance' Sections of the CAP's financial instrument, the European Agricultural

Guidance and Guarantee Fund (EAGGF). According to this Regulation, the EAGGF-Guidance Section was to finance the adaptation and improvement of:

- the production structures of agricultural holdings; and,
- the structures and conditions for processing and marketing agricultural products.

### 1.1.2. Mansholt Plan and the modernisation of agricultural structures

As a result of Article 39 of the Treaty of Rome and due to the clear need for improving the efficiency of the sector, initial policy development focused on **agricultural structures**, rather than on rural development per se. Thus, in 1968 the European Commission issued a Memorandum known as the '**Mansholt Plan**', after the then Commissioner for Agriculture, Sicco Mansholt. The intention of the Mansholt Plan was to begin a major reform of European Union agriculture to assist structural change in agricultural production and in the processing and marketing of agricultural products. This agricultural structures policy was considered a necessary part of an overall common policy for agricultural markets. Commissioner Mansholt believed that by modernising the structure of agriculture, some of the difficulties that the European Union agricultural sector was facing at the time could be solved.

The new Council Regulation on the financing of the Common Agricultural Policy (Regulation (EEC) 729/70) formalised the regulatory framework of the structures policy up until the reform of the Structural Funds in 1988. Structural measures were defined as 'common actions' and their financing was brought into this Regulation alongside the price and market policies. In 1972 the Mansholt Memorandum was given concrete form by the approval of **three 'socio-structural' directives concerning:**

- the **modernisation of agricultural holdings** (Directive 159/72/EEC), providing *inter alia* for support for farm investment, keeping farm accounts and the setting up of producer groups;
- **encouragement to cease farming**, i.e. early retirement aid (Directive 160/72/EEC); and,
- **vocational training** measures for people working in agriculture and support for the development of services providing socio-economic advice to farmers on whether to continue farming or to move out of agriculture (Directive 161/72/EEC).

These directives were replaced in the mid 1980s by Regulation 797/85 and later consolidated by Regulation 2328/91 on improving the efficiency of agricultural structures (Section 1.1.5). However, Member States did not make use of the possibility of offering early retirement aid to farmers, and Regulation 797/85 therefore made no provision for the continuation of Directive 160/72. Only in 1988, was a new

Regulation (1096/88) 'establishing a Community scheme to encourage the cessation of farming' adopted. By 1991, the scheme was only operating in one Member States so that it was again reviewed and amended under Regulation 2079/92 in the context of the 1992 MacSharry reforms (see Section 1.1.6).

The horizontal measures introduced in 1972 were subsequently supplemented by both regional and sectoral measures as follows:

- First, Regulation 1035/72 concerning the constitution of **producer groups** in the fruit and vegetable sectors, followed later by Regulation 1360/78 on producer groups and associations thereof;
- then, in the middle of the 1970s, a Directive (Directive 268/75/EEC) in support of agriculture in **mountainous and certain less-favoured areas** and,
- then, a measure designed to improve **processing and marketing conditions for agricultural products** (Regulation 355/77); and,
- finally, support for the setting up of **young farmers** was introduced in 1981 via Directive 81/528 for farmers under 40 who undertook to participate in farm development plans under Directive 72/159 within 5 years.

The introduction of compensatory measures for mountainous areas and LFAs represented the first territorial approach in agricultural structures policy. The aim was to stop the agricultural and rural exodus that threatened the social integrity of rural areas and the survival of the natural environment.

All these measures were co-financed by the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF-Guidance).

However, the common structural policy encountered considerable difficulty in being effectively launched. Implementation of the measures foreseen in the socio-structural guidelines was slow in some countries because of existing conflicts of interest, differing expectations of what was to be achieved as well as institutional and administrative obstacles. In addition, difficulties in obtaining co-funding of structural measures in view of tight national budgets may also have contributed to the slow pace of development.

### **1.1.3. Support for regional development, Structural Funds reform and Commission Communication on the future of rural development**

In the 1970s, the variations in the levels and pace of economic development of various European regions increased because of the general economic crisis and rising unemployment. Therefore, **regional development policy** became an increasingly significant political and economic focus for the Community.

The preamble of the Treaty of Rome includes the aim of decreasing the differences in economic development between regions in Europe. This political objective was included as an individual aim of Cohesion policy in the Single European Act in 1987. The Treaty of Rome had already established the European Social Fund (ESF) and the European Investment Bank (EIB) as instruments to reach these goals. In 1975, a further 'Structural Fund', the **European Regional Development Fund** (ERDF) was set up as the central instrument for the common regional policy.

In the context of the **Structural Funds reform in 1988**, an integrated approach for regional development was established in the so-called Objective 1, 5b<sup>1</sup> and later on also Nordic Objective 6<sup>2</sup> regions. Thereby, measures from the three policy fields and the available funds – mainly EAGGF-Guidance, ERDF and ESF – were combined in regionally targeted and co-ordinated multi-annual programmes with the overall aim of furthering economic and social cohesion. As part of this process there was a major expansion of the EAGGF-Guidance Section, most of which became part of a broader territorial approach to integrated development, with new partnership and decision-making arrangements for programme management established between the European Commission, Member States, and sub-national actors. The revised structural funding rules applied for the first time for the 1989-93 programming period.

In addition to the main Structural Fund programmes, the Community also established a large number of much smaller 'Initiatives' for particular purposes. Of these, the LEADER Initiative (Link Between Actions for the Development of Rural Economy) was set up to promote 'bottom up' integrated and innovative approaches to rural development at local community level.

Also in 1988, the **European Commission** presented its **communication on 'The Future of Rural Society'**. This formed the basis for many of the initiatives which have subsequently followed. It also recognised rural development as being a legitimate EU policy area in its own right, and from 1989, all EU Agriculture Commissioners from Ray MacSharry onwards have officially had responsibility for 'rural development' as well as for 'agriculture'.

In this 1988 Communication, the Commission expressed its belief that rural development policy:

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<sup>1</sup> Under Objective 5b, support was provided for the development and economic diversification of fragile rural areas.

<sup>2</sup> Under Objective 6, development support was provided for sparsely populated areas in the North of Finland and Sweden (this objective was created in 1995 when Finland and Sweden joined the EU).

*'must ... be geared to local requirements and initiatives, particularly at the level of small and medium-sized enterprises, and must place particular emphasis on making the most of local potential'.*

The Commission stated that this does not simply mean continuing to work on established and accepted rural development practices. Instead, the Commission took it to mean making the most of all the advantages of each particular rural area. Accordingly, the European Union's agricultural structures policy began to be shifted away from enhancing productivity to improvements in the quality of agricultural output, and establishing new markets for agricultural products.

#### **1.1.4. Introduction of agri-environmental measures**

In the 1980s, the general public became increasingly aware of the important role agriculture plays in relation to the environment and the maintenance of cultural landscapes (both in a positive and negative sense). Under Regulation 1760/87, that provision in Regulation 797/85, which had allowed Member States to carry out their own programmes in environmentally sensitive areas, was amended so as to incorporate the support for such areas among the measures co-funded by EAGGF-Guidance. In this manner **agri-environmental measures** were introduced as part of the EU agricultural structures policy.

#### **1.1.5. Summary of rural development measures prior to MacSharry**

Council Regulation 4256/88 (implementing Regulation of Regulation 2052/88 as regards the EAGGF-Guidance Section) sets out the kinds of measures which could be funded by EAGGF-Guidance, i.e. support for agricultural restructuring and rural development. It provided for support from the EAGGF-Guidance Section for the attainment of Objective 1 ('Promoting the development and structural adjustment of less developed regions'), Objective 5a ('With a view to the reform of the CAP, speeding up the adjustment of agricultural structures') and Objective 5b ('With a view to reform of the CAP, promoting rural development by facilitating the development and structural adjustment of rural areas').

In a review of the structural measures in 1989, the European Commission stated that 'the measures to be adopted in future must be increasingly integrated into a broader vision of maintaining economic activity and the social fabric in rural regions'. The necessary amendments to existing Community-wide schemes on improving the efficiency of agriculture, early retirement, and the setting up of producer groups were contained in **Regulation 3808/89**. Certain innovations in the Regulation should be highlighted: it provided for support for the encouragement of diversification of enterprises on the farm through tourism, craft activities,

manufacture and sale of farm produce; and the improvement of hygiene in livestock enterprises, and animal welfare standards.

Details on the main support schemes (eligibility conditions, funding rates etc.) in place just before the 1992 MacSharry reforms are laid down in:

- **Regulation 2328/91** on improving the efficiency of agricultural structures (providing for support for farm investment, young farmers, introduction of accounts, producer groups, farm management and relief services, LFAs and mountainous areas, agri-environmental measures, forestry measures, vocational training projects);
- **Regulation 1096/88** establishing a Community scheme to encourage the cessation of farming; as amended by Regulation 3808/89; and,
- **Regulation 866/90** on improving the processing and marketing conditions for agricultural products.

#### 1.1.6. MacSharry reforms

**Table 1.1: Summary of rural development and the MacSharry reforms**

Reform measures relating to RD	Main RD regulations and inventory of measures
Introduction of the newly named set of enhanced 'accompanying measures', namely:	<ul style="list-style-type: none"> <li>• Introduction of Council Regulation (EC) No 2078/92 on agri-environmental measures;</li> </ul>
<ul style="list-style-type: none"> <li>• Agri-environmental measures (the reform obliged all Member States to offer these measures to their farmers);</li> <li>• Farmland forestry; and,</li> <li>• Early retirement for farmers.</li> </ul> <p>The reform provided for a change in the funding system for these 'accompanying measures', which were from 1993 co-financed by the Guarantee Section of EAGGF.</p>	<ul style="list-style-type: none"> <li>• Introduction of Council Regulation (EEC) No <b>2079/92</b> on early retirement from farming</li> <li>• Introduction of Council Regulation (EEC) No <b>2080/92</b> on forestry measures in agriculture.</li> <li>• Remained in force; Council Regulation (EEC) No <b>2328/91</b> on improving the efficiency of agricultural structures; and,</li> <li>• Remained in force: Council Regulation (EEC) No <b>866/90</b> on improving the processing and marketing conditions for agriculture products.</li> </ul>

The first major reform of the Common Agricultural Policy to focus specifically on rural development issues was the 1992 MacSharry reform. This reform included a marked reduction in support prices for grains, oilseeds and beef in order to bring Common Agricultural Policy prices closer to world market prices and the introduction of direct payments to arable and beef farmers in order to compensate for these price cuts. In addition, the reform introduced obligatory set-aside to reduce the over-production

of arable crops as well as the newly named set of enhanced 'accompanying measures', that were literally meant to accompany market measure, namely:

- Agri-environmental measures (the reform obliged all Member States to offer these measures to their farmers);
- Farmland forestry; and,
- Early retirement for farmers.

All of these measures had already been supported at EU level prior to 1992, however, they were further developed by the MacSharry reform, and in the case of agri-environmental measures Member States were now obliged to offer the measures to their farmers. In addition, the funding provisions were changed: according to Regulation 1992/93, these measures were fully funded by the EAGGF-Guarantee Section from 1993. The European Commission argued that this would allow the concentration of the funds under Objective 5a on fewer measures, thereby increasing their impact.

Three regulations were drawn up governing support for each of the three measures listed above:

Council Regulation (EEC) No **2078/92** of 30 June 1992 on **agricultural production methods compatible with the requirements of the protection of the environment and the maintenance of the countryside**, providing for support to farmers who:

- use farming practices which reduce the polluting effects of agriculture, e.g. by significantly reducing the amount of fertiliser and/or pesticides they use;
- maintain farmland or woodland which has been set aside or who set aside farmland for a long period for environmental protection purposes; and,
- participate in education and training measures on types of farming compatible with the requirements of environmental protection and upkeep of the countryside.

Council Regulation (EEC) No **2079/92** of 30 June 1992 instituting a Community aid scheme for early retirement from farming, including measures to:

- Provide an income for elderly farmers and also for elderly family helpers and elderly paid farm workers who lose their employment as the result of a farmer's early retirement; and,
- Organise the transfer and expansion of agricultural holdings and the reassignment of agricultural land to non-agricultural use and ensure rational use of the countryside.



Council Regulation (EEC) No **2080/92** of 30 June 1992 instituting a Community aid scheme for **forestry measures in agriculture**, for the promotion of:

- afforestation as an alternative use for agricultural land; and,
- the development of forestry activities on farms.

The agri-environmental and afforestation measures introduced explicit environmental objectives to the CAP, i.e. to reduce the polluting effects of agriculture, to favour an environmentally beneficial extensification of farming, to contribute to countryside management practices compatible with environmental balance and to combat the greenhouse effect.

In 1993, the objectives of structural policy were modified (see Section 1.6) and Objective 5 was reworded (under Regulation 2081/93 amending Regulation 2052/88 on the tasks of the Structural Funds) as promoting rural development by:

- (a) speeding up the adjustment of agricultural structures in the framework of the reform of the CAP;
- (b) facilitating the development and structural adjustment of rural areas.

This is an important shift of emphasis: no longer is the reform of the CAP seen as an end in itself but rather as a means of achieving a wider goal for the rural sector as a whole. In order to take into account this change in structural policy objectives, the implementing Regulation for EAGGF-Guidance (4256/88) was amended by **Regulation 2085/93**. The latter Regulation introduced new measures such as encouragement for the production of non-food agricultural commodities, the promotion of quality local or regional agricultural and forest products, the renovation and development of villages, and the protection and conservation of the rural heritage.

### **1.1.7. European Agricultural Strategy Paper**

In 1995, the then Commissioner for Agriculture, Franz Fischler, took the next step in the reform process with the publication of a European Agricultural Strategy Paper. It acknowledged that the balance of forces shaping the CAP was shifting. The prospect of European Union enlargement, to include countries with sizeable agricultural sectors with many social and economic difficulties, raised the issue of how the CAP would need to adapt. There were also continuing pressures for more trade liberalisation.

Rejecting both the continuation of the status quo and 'radical' liberalisation of the CAP, the paper proposed an 'integrated rural policy' that would combine the spirit of the 1992 reforms (cuts in market support offset by direct payments to farmers) with a stronger emphasis on the integration of social and environmental policy aims.

#### **1.1.8. First European Conference on Rural Development, Cork**

The first European Conference on Rural Development was held in November 1996 in Cork, Ireland. It served as an opportunity for a large variety of stakeholders to discuss and provide input to the future of rural development policy. The conference concluded with a 10-point declaration covering the following points:

- Rural preference – i.e. sustainable rural development must be put to the top of the agenda of the European Union;
- Integrated approach - rural development policy must be based on an integrated approach, multi-disciplinary in concept, and multi-sectoral in application, with a clear territorial dimension;
- Diversification - rural development must provide support for diversification of economic and social activity in order to promote the development of viable rural communities;
- Sustainability - rural development policy must be sustainable;
- Subsidiarity - given the diversity of the Union's rural areas, rural development policy must follow the principle of subsidiarity, i.e. must be as decentralised as possible and based on partnership and co-operation between all levels concerned (local, regional, national and European);
- Simplification - rural development legislation has to be simplified, in order to increase coherence between various rural development measures and subsidiarity in decision-making, to decentralise policy implementation and enhance overall flexibility;
- Programming - the application of rural development programmes must be based on coherent and transparent procedures, and integrated into one single programme for rural development for each region;
- Finance - the use of local financial resources, financial engineering in rural credit techniques and greater participation by the banking sector and other fiscal intermediaries must be encouraged;
- Management - management assistance to regional and local governments and community-based groups must be increased; and,
- Evaluation and research – monitoring, evaluation and beneficiary assessment have to be reinforced.

### 1.1.9. Agenda 2000 reform

**Table 1.2: Summary of rural development and the Agenda 2000 reform**

Reform measures relating to RD	RD regulations and inventory of measures
<ul style="list-style-type: none"> <li>• Brought together the previous nine instruments into a single legal framework for rural development (<b>Council Regulation (EC) No 1257/1999</b>), offering a 'menu' of 22 measures;</li> <li>• Increased financial resources for rural development;</li> <li>• Introduced CAP Pillar 1 and 2 concept.</li> </ul>	<p>Introduction of Council Regulation (EC) <b>No 1257/1999</b>:</p> <ul style="list-style-type: none"> <li>• Investment in farm businesses (Chapter I);</li> <li>• Setting up of young farmers (Chapter II);</li> <li>• Early retirement (Chapter IV);</li> <li>• Training (Chapter III);</li> <li>• Less-favoured areas and areas with environmental restrictions (Chapter V);</li> <li>• Agri-environment (Chapter VI);</li> <li>• Improving processing and marketing of agricultural products (Chapter VII);</li> <li>• Forestry (Chapter VIII); and,</li> <li>• Various measures for the general development of rural areas ('Article 33 measures', including agricultural water resources management, encouragement for tourist and craft activities, renovation and development of villages and protection and conservation of the rural heritage) (Chapter IX).</li> </ul>

Agreed in March 1999 in Berlin, Germany, the Agenda 2000 package reformed the CAP, the Structural Funds and the Cohesion Fund, introduced two financial pre-accession instruments (ISPA and SAPARD) in order to prepare for enlargement and provided for a new financial framework for the period 2000-06.

In terms of rural development policy, the Agenda 2000 reform consolidated the previous nine legislative texts on rural development into a single regulation on support for rural development (Council Regulation (EC) **No 1257/1999**). The reform brought funding for rural development predominantly within the ambit of the EAGGF-Guarantee Section, partly for ease of administration, but also partly as a kind of political statement making clear that rural development and agri-environmental schemes were seen as being an integral part of the mainstream CAP. In addition, the reform increased the financial resources available for rural development.<sup>3</sup>

<sup>3</sup> Overall EU funding for rural development for 2000-06 and the EU-15 comprises over EUR 50 billion, with approximately EUR 33 billion of this coming from the Guarantee Section and EUR 20 billion from the Guidance Section (including EUR 2 billion for the LEADER+ Initiative). In the 10 new Member States, Community financial support for rural development in 2004 to 2006 is estimated at EUR 7.8 billion, with EUR 5.8 billion of this coming from the Guarantee Section and EUR 2.0 billion from the Guidance Section.

Agenda 2000 also introduced the 'CAP Pillar 1 and 2' concept, which comprises traditional market measures and price support under 'Pillar I' and rural development and agri-environmental measures under 'Pillar II'.

### **Reform of the common structural policy**

In the context of the **reform of the common structural policy**, the number of priority objectives for an intervention of the Structural Funds was reduced from 6 to 3: two geographical objectives (**Objective 1** supporting regions lacking behind in development and having a per capita GDP of less than 75% of the Community average; and **Objective 2** supporting areas facing structural difficulties) and a thematic objective (**Objective 3** supporting the adaptation and modernisation of policies and systems of education, training and employment). In both Objective 1 and 2 regions, special integrated regional development programmes were implemented and obtained support from the different Structural Funds working closely together. The EAGGF fund provides co-financing for rural development measures under both Objective 1 and 2.

### **Rural development financing**

All rural development initiatives are co-financed by the European Commission (via the EAGGF) and the Member States. Agenda 2000 reorganised the EU financial assistance for rural development measures as shown in : Structure of financial assistance for rural development measures (period 2000-2006)

The Agenda 2000 agreement added compensatory allowances for LFAs and areas subject to environmental constraints to the existing list of accompanying measures (agri-environment, early retirement, afforestation). These measures are co-financed by the Guarantee Section of the EAGGF throughout the Community. Likewise, **LEADER+** projects are funded throughout the Union from the Guidance Section of the EAGGF.

For other rural development measures, the source of Community funding varies according to the regions concerned:

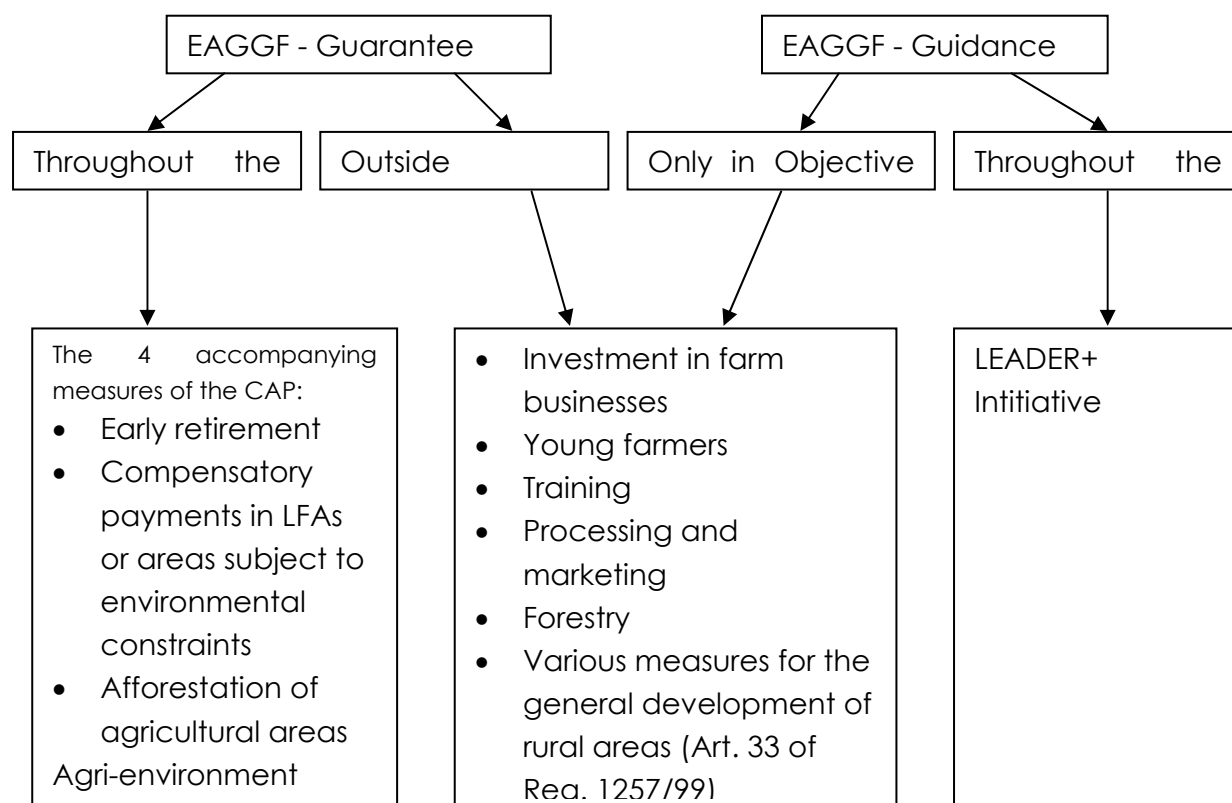
- **In Objective 1 regions** of the Structural Funds (the least developed regions) the source of funding is the EAGGF-Guidance Section;
- **Outside Objective 1** regions, the source of funding is the EAGGF-Guarantee Section.

Figure 1.1 shows that finance for the majority of rural development measures in Objective 1 regions still comes from the EAGGF-Guidance Fund, which falls under the ambit of structural policy.

The Agenda 2000 agreement gives Member States the possibility of shifting funds from the First to the Second Pillar by reducing direct payments (for certain categories of farmers) and using them as additional funds for rural development ('voluntary modulation'). However, only four Member States (France, Portugal, the UK and Germany) seriously considered applying modulation before it became mandatory under the 2003 CAP reform as of 2005 onwards, and only the UK and Germany actually modulated funds before 2005<sup>4</sup>.

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<sup>4</sup> France introduced a modulation programme and then subsequently suspended it.



**Figure 1.1: Structure of financial assistance for rural development measures (period 2000-2006)**

### Rural development programming

Under a flexible programming approach, Member States and regions can choose from a 'menu' of 22 measures those which suit best their specific needs. However, the obligation to offer agri-environmental measures as introduced by the MacSharry reform remains.

Agenda 2000 introduced three categories of programming of rural development measures:

#### *Horizontal rural development programmes*

Programmes are termed 'horizontal' when they apply throughout the Community, implemented at the geographical level deemed most appropriate by each Member State. They cover initiatives supported by the EAGGF-Guarantee Section (and therefore do not include measures arising from the EAGGF-Guidance Section in Objective 1 regions, see Figure 1.1: Structure of financial assistance for rural development measures (period 2000-2006)).

#### *Programmes in Objective 1 regions*

All rural development measures apart from the CAP accompanying measures in these regions are co-financed by the EAGGF-Guidance Section. These measures are compulsorily integrated within Objective 1 regionalised programmes, in the form of an Operational Programme aimed at rural development.

#### *Programmes in Objective 2 regions*

The rural areas concerned are those which face particular reconversion difficulties. Over and above funding from the EAGGF-Guarantee Section for rural development measures, they receive support from two Structural Funds, the ERDF and the ESF. Member States can choose between two options when programming measures in these areas:

- either to integrate rural development measures into the Objective 2 regionalised programmes;
- or to include them in the horizontal programmes.

The four CAP accompanying measures are financed, as in other parts of the Union, by the EAGGF-Guarantee Section and are part of the horizontal programming.

For the programming period 2000-06, only France has integrated its rural development measures in its 21 Objective 2 regions in the specific regionalised programmes in these areas. All other Member States are operating rural development measures in Objective 2 regions under the general horizontal rural development programme.

#### **The 'Second Pillar'**

Agenda 2000 introduced the Pillar 1 and Pillar 2 concept, under which traditional market support schemes form the 'First Pillar' of the CAP and the totality of rural development measures, agri-environmental and other related CAP programmes form the 'Second Pillar' of EU agricultural policy. With this new concept, the Commission wanted to show a shift in policy towards an increasing importance of the environmental and rural development dimension of agriculture, in line with consumers' and taxpayers' demands. It introduced a new emphasis on assisting rural areas and their economies and communities, not just farming.

Prior to Agenda 2000, agri-environment and rural development policy were less closely linked. Now these two policy areas have come together under the Rural Development Regulation. On the one hand, this process could be seen as increasing the scope and the geographic scale of rural development policy in the European Union. On the other hand, the fact that Member States are able to draw up their own programmes from a menu of measures means that rural development

can be implemented differently within the overall framework, both between and within Member States.

### **Rural development in the candidate countries**

In order to support structural development in the candidate countries, Agenda 2000 foresaw the creation of two pre-accession funds, ISPA (providing support for environmental and transport infrastructure projects, Regulation 1267/99) and SAPARD (providing support for the restructuring of the agricultural and rural sectors, Regulation 1268/99). In addition, a reserve of €40 billion was set up for anticipated structural funds measures following accession. Poland, Czech Republic, Hungary, Slovakia, Slovenia, Lithuania, Latvia, Estonia, Bulgaria and Romania have been eligible for support under the SAPARD instrument. The main objectives of the programme are to:

- establish an EU framework for supporting sustainable agricultural and rural development in the central and eastern European candidate countries during the pre-accession period;
- solve problems affecting the long-term adjustment of the agricultural sector and rural areas; and,
- help implement the EU's *acquis communautaire* in relation to the CAP and related policies.

At the same time, Cyprus and Malta have had access to specific pre-accession funds to help them prepare to implement the *acquis communautaire*.

#### **1.1.10. Göteborg European Council**

In June 2001, the Commission adopted its proposal for a European Union strategy for sustainable development. In order to achieve the 'sustainability' objective under this heading EU policies should become more environmentally oriented, with concrete sustainable development criteria providing guiding principles in future reviews of common policies such as the CAP.

The summit agreed that, amongst its objectives, the CAP should contribute to sustainable development by 'increasing its emphasis on encouraging healthy, high quality products, environmentally sustainable production methods, including organic production, renewable raw materials and the protection of biodiversity. These have been taken into consideration in the development of the new Rural Development Regulation for the time post-2006, which introduces 3 'axes' of rural development policy, of which one aims to enhance the rural environment (see Section 1.1.14)



### 1.1.11. 2003 CAP reform ('Mid-Term Review')

**Table 1.3: Summary of rural development and the 2003 CAP reform**

Reform measures relating to RD	RD regulations and inventory of measures
<ul style="list-style-type: none"> <li>• Increase in funds for rural development by introducing compulsory 'modulation';</li> <li>• Introduction of new rural development measures (meeting standards, animal welfare, food quality, developing (as well as applying) new technologies), increasing the number of measures from 22 to 26;</li> <li>• Increase in EU-funding rates for agri-environmental and animal welfare schemes from 75% to 85% in Objective 1 areas and from 50% to 60% in other areas; and,</li> <li>• Increase in investment support for young farmers, compensatory payments in certain less favoured areas and areas with environmental restrictions, expansion of forestry support measures to state-owned forests.</li> </ul>	<p>Remained in force: <b>Council Regulation (EC) No 1257/1999</b> on support for rural development from the EAGGF:</p> <ul style="list-style-type: none"> <li>• Investment in farm businesses (Chapter I);</li> <li>• Setting up of young farmers (Chapter II);</li> <li>• Early retirement (Chapter IV);</li> <li>• Training (Chapter III);</li> <li>• Less-favoured areas and areas with environmental restrictions (Chapter V);</li> <li>• Agri-environment (Chapter VI);</li> <li>• Improving processing and marketing of agricultural products (Chapter VII);</li> <li>• Forestry (Chapter VIII); and,</li> <li>• Various measures for the general development of rural areas ('Article 33 measures', including agricultural water resources management, encouragement for tourist and craft activities, renovation and development of villages and protection and conservation of the rural heritage) (Chapter IX).</li> </ul> <p>Introduction of: <b>Council Regulation (EC) No 1783/2003</b> amending Regulation (EC) No 1257/1999:</p> <p>Added the following measures to the list above:</p> <ul style="list-style-type: none"> <li>• Support to help farmers to adapt to standards based on Community legislation in the fields of the environment, public, animal and plant health, animal welfare and occupational safety; and to use the farm advisory services in this context;</li> <li>• Support for the improvement of animal welfare;</li> <li>• Support for agricultural production methods designed to improve the quality of agricultural products and for promotion of those products; and,</li> <li>• Support for the development and application of new technologies.</li> </ul>

In June 2003 as part of the so-called Mid Term Review, EU Agriculture Ministers agreed a major reform of the CAP. It strengthened rural development policy both in

scope and financial resources by introducing the reform measures listed in Table 1.3. The changes agreed were laid down in **Council Regulation (EC) No 1783/2003**, which amended Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF).

### **Increased funds for rural development**

Member States will have to reduce direct payments to farmers by 3% in 2005, 4% in 2006 and 5% from 2007 to 2012 ('modulation'). The first €5,000 per year in direct aids received by any farmer is exempted from the reduction. This will generate approximately €1.2 billion per year from 2007 onwards. The modulated money will be redistributed among Member States according to a complex formula.

### **New rural development measures:**

- A new chapter on '**meeting standards**' offers temporary, degressive financial support to farmers incurring costs or foregoing income in order to apply standards related to the environment, public health, animal or plant health, animal welfare or occupational safety under the new 'cross-compliance' requirements<sup>5</sup>. These standards must be based on Community legislation and must have been newly introduced into national law. In addition, support is provided to help with the costs of using farm advisory services to assess the performance of farms against the new cross-compliance standards.
- The agri-environment chapter in Regulation 1257/99 is updated to encompass **animal welfare**. EU support is provided to farmers who enter into voluntary commitments of at least five years to meet standards which go beyond good animal husbandry practice.
- Under another new chapter, farmers can apply for financial support for their voluntary participation in Community or national **quality schemes** for agricultural products and production processes, and for informing consumers about these schemes.
- The scope of the 'improving processing and marketing of agricultural products' chapter was expanded to include **developing** (as well as applying) **new technologies**.

### **1.1.12. Second European Conference on Rural Development in Salzburg**

The 2nd European Conference on Rural Development<sup>6</sup> was held in Salzburg, Austria in November 2003. It provided a platform for a wide range of rural stakeholders to debate how they see current Community rural development policy for the period

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<sup>5</sup> The 2003 CAP reform linked the full granting of the direct payments to the respect of a certain number of statutory environmental food safety, animal and plant health, and animal and plant health, and animal welfare standards.

<sup>6</sup> Planting seeds for rural future - rural policy perspectives for a wider Europe.

2000-06 and what they consider are the priorities for the future development of the policy in the next programming period from 2007 onwards in a wider EU. The results of the conference served as a basis for developing rural development policy post-2006 (see Section 1.1.14). The main recommendations were as follows:

- bring EU rural development measures under a single fund from 2007 onwards;
- give Member States (and regions) more flexibility to decide on how their funds are allocated; and,
- put greater emphasis on the rural economy, i.e. measures going beyond the agriculture.

In a concluding declaration, the conference suggested the following guiding principles for future rural development policy:

- preserving the diversity of Europe's countryside and encouraging the services provided by multifunctional agriculture;
- increasing competitiveness of the farming sector;
- covering all rural areas of the European Union;
- serving the needs of broader society in rural areas and not basing rural development on agriculture alone;
- taking a decentralised, 'bottom-up' approach, i.e. relying on local partnerships and regional input;
- increasing flexibility and responsibility (including capacity building); and,
- simplifying rural development policy by introduction a single programming, financing and control system.

### **1.1.13. Rural development and enlargement**

The Act of Accession (Annex II, Chapter 6) defined, for the period 2004–06, a special rural development regime for the new Member States who joined the EU on 1st May 2004. Given the short programming period until the end of the current financial perspectives, the new regime was built on the experience gained by the implementing bodies set up under SAPARD and thereby adapted to the needs of the new Member States. The regime is mainly based on a new Temporary Rural Development Instrument (TRDI), funded by the EAGGF-Guarantee Section.

In addition to the existing measures in the EU-15 rural development programmes (e.g. setting up aid for young farmers, support for LFAs, agri-environment programmes), new measures are available in the new Member States under the TRDI, for example for:

- income support for semi-subsistence farmers undergoing restructuring;

- setting-up of producer groups;
- support for meeting EU standards (as for existing Member States but there is an additional derogation for new Member States to finance investments);
- technical assistance;
- topping-up direct payments;
- LEADER+ type activities, in particular capacity building at local level;
- the provision of extension and advisory services.

The financing instruments for rural development in the New Member States until 2006 are illustrated in Figure 1.2

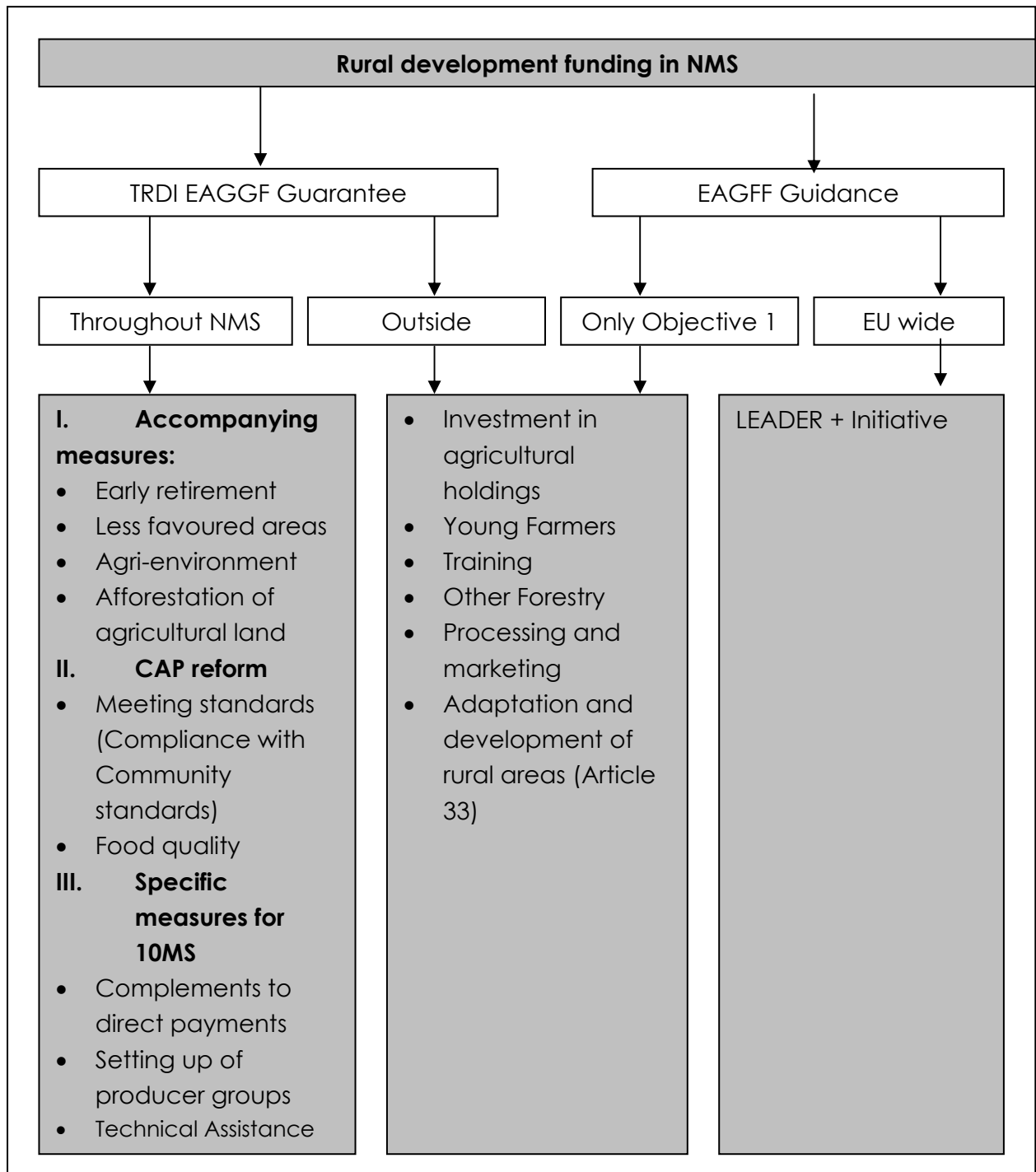


Figure 1.2: Structure of financial assistance for rural development measures in NMS (2004-2006)

### 1.1.14. EU rural development policy post-2006

Following a series of reviews of past and present rural development policies, on 20 June 2005, the Agriculture Council reached political agreement on a Regulation on rural development support for the next programming period. The new Regulation is based on a proposal presented by the European Commission its on 15 July 2004. In line with the recommendations made at the Second European Conference on Rural Development in Salzburg (see Section 1.1.12), the Regulation aims to reinforce rural development policy and simplify its implementation by:

- Introducing a single funding and programming instrument for rural development, the European Agriculture Rural Development Fund (EARDF);
- Strengthening the bottom-up approach - Member States, regions and local action groups will have more say in attuning programmes to local needs;
- Introducing a new strategic approach for rural development with clear focus on EU priorities such as the Lisbon and Göteborg goals, and targeting the wider rural population, i.e. going beyond the agricultural sector;
- Reinforcing control, evaluation and reporting and dividing responsibilities more clearly between Member States and the Commission.

With the introduction of the EARDF, a new structure for CAP funding is being established with a single fund for each pillar (pillar 1 will continue to be funded from the European Agricultural Guarantee Fund).

Under the new strategic approach, rural development policy is to be focused on the following three core objectives:

1. Increasing the competitiveness of the agricultural and forestry sector through support for restructuring;
2. Enhancing the environment and countryside through support for land management; and,
3. Enhancing the quality of life in rural areas and promoting the diversification of economic activities through measures targeting the farm sector and other rural actors.

For each core objective, key actions are suggested across four Operational Axes as shown in Box 1.1.

#### **Box 1.1: EU rural development policy post-2006**

<b>Axis 1: Improving competitiveness of farming and forestry</b>
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Examples:

- fostering human capital by providing training and advice to farmers and foresters;
- improving and developing infrastructure related to the development and adaptation of agriculture and forestry;
- supporting farmers who participate in food quality schemes;
- setting up of young farmers; and,
- support for semi-subsistence farmers in new Member States to become competitive.

### **Axis 2: Environment and countryside**

Examples:

- natural handicap payments to farmers in mountain areas;
- NATURA 2000 payments;
- agri-environment measures;
- animal welfare payments; and,
- measures for sustainable forestry.

### **Axis 3: Improving quality of life and diversification of the rural economy**

Examples:

- diversification to non-agricultural activities;
- support for the creation of micro enterprises;
- encouragement of tourism; and,
- village renewal.

### **Axis 4: the LEADER approach**

Each programme must have a LEADER element for the implementation of bottom-up local development strategies of local action groups.

Rural development programmes in all Member States should pursue all three objectives. To ensure a balanced strategy with at least a minimum level of funding for these three core objectives, a minimum of 10% of the national envelope has to be spent on Axis 1, 25% on Axis 2 and again 10% on Axis 3. This leaves Member States

or regions enough flexibility to emphasise the core objective they wish taking into account their specific situation and needs. The EU co-financing rate is maximum 50% (75% in convergence regions) for Axis 1 and 3 and 55% (80% in convergence regions) for Axis 2. This may be increased to 85% for the outermost regions and small Aegean islands. For afforestation, the co-funding rate is 80% in LFAs and 70% in other areas, i.e. 20% higher than in the 2000-06 period.

Each programme must have a LEADER element (Axis 4) for the implementation of bottom-up local development strategies of local action groups. EU-15 Member States have to reserve a minimum of 5% of national programme funding for LEADER. The ten New Member States have to allocate at least 2.5% on average over the 7-year period and 5% by 2013. This element should contribute to the priorities of the three main areas described above, but also plays an important role in terms of improving governance and mobilising the endogenous development potential of rural areas. In particular, the building of local partnership capacity, the promotion of private-public partnerships, the promotion of co-operation and innovation and the improvement of local governance are sought.

For the New Member States, the agreement reached in June 2005 allows for the aid to semi-subsistence farming to continue until 2013 (rather than 2010 as originally foreseen).

A controversial aspect of the original Commission proposals was to redefine 'intermediate' less favoured areas<sup>7</sup>, in response to criticism from the Court of Auditors (Court of Auditors, 2003), to more objective and up-to-date criteria. However, following resistance among Member States, it was agreed that the current 'intermediate' LFA criteria would continue to apply until the start of 2010, but that new definitions will have to be agreed by then on the basis of a Commission report and proposal.

On the contentious issue of funding, the text agreed in June 2005 states that the budget commitments for 2007-2013 will be €88.75 billion for the period<sup>8</sup>, as originally suggest by the European Commission, but that these will be adjusted proportionately in accordance with any final agreement on the Financial Perspectives. This means in practice that as of writing this report, details of future RD funding still have to be agreed by EU Heads of Government.

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<sup>7</sup> "Intermediate" LFAs are LFAs other than "mountain areas" and "areas with specific handicaps", i.e. LFAs defined on the basis of socio-economic criteria.

<sup>8</sup> By Comparison, overall EU funding for rural development for 2000-2006 in the EU-15 comprises approximately €50 billion, with approximately €33 billion coming from the EAGG-Guarantee Section and €18 billion coming from the Guidance Section.