



Evaluation support study on the impact of the CAP on territorial development of rural areas: socioeconomic aspects

Executive Summary

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**Evaluation support study on the impact of the CAP
on territorial development of rural areas: socioeconomic aspects**

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1. Aims and approach

This evaluation study assesses the impact of the Common Agricultural Policy (CAP) on the balanced territorial development (BTD) of rural areas, with a focus on socioeconomic aspects. Effects on rural regions in the EU-28 are examined during the present programming period (2014-2020).

A comprehensive list of socioeconomic and social inclusion aspects¹ are considered in the assessment of CAP impacts on BTD. This study provides an evaluation of the mechanisms and pathways through which the CAP is successfully supporting BTD, and provides recommendations for improvements in the following upcoming policy cycle.

The effects of CAP instruments and measures on socioeconomic aspects and social inclusion are examined through quantitative methods such as input-output analysis, clustering, and statistical regressions, as well as qualitative methods, including case studies, literature review and the observation of development trends over the programming period. Rural regions in the EU-28 are considered at the NUTS3 level, and grouped via clustering into four distinct social and economic development trajectories: 1) diversified rural and intermediate regions, 2) peripheral rural and intermediate regions, 3) dynamic rural and intermediate regions, and 4) traditional rural and intermediate regions².

2. Main findings

According to the evaluation study findings, the issues and needs faced by rural regions in the EU-28 are significant. **There are stark differences between more and less urbanised regions in terms of economic development, infrastructure provision and maintenance.** These differences are exacerbated by the fact that access to innovation, knowledge transfer, and digital infrastructure, generally found in densely populated areas and urban centres, tends to be limited in more rural areas, particularly those which are less economically developed. Poorly-serviced rural regions routinely suffer demographic decline, especially among young, educated populations. In turn, the resultant lack of human capital and innovative capacity further reduces the attractiveness of these regions for funding and investment.

Study findings reveal that these cyclical **depopulation trends may be partly reversed by the development of tourism and non-agricultural rural activities**, which in some cases are associated with positive growth patterns and other beneficial effects. In other instances, however, study findings demonstrate how such diversification may actually **limit new entry into the agricultural sector and contribute to competition over agricultural land.**

Quantitative and case study findings indicate that the impact of the **CAP's support of BTD through the improvement of socioeconomic and social inclusion aspects is generally positive.** In case studies, public administration interviewees generally report overall EU added value from CAP interventions, noting that while CAP funding is not able to effectively address all of the issues faced by rural areas, without it, these regions would face higher rates of rural poverty and decline. Regression and input/output findings similarly suggest **positive effects of the CAP in supporting agricultural development and employment in the primary sector.** Still, CAP

¹ Depopulation/abandonment, income/employment, generational renewal, remoteness/communing, social fabric, research and innovation, social rights and systems, quality of life and culture, cultural and natural heritage, social inclusion.

² Intermediate regions are considered in the study due to their agricultural significance.

impacts tend to vary considerably according to the characteristics of the rural region analysed and the policy mix applied.

Pillar I instruments, in particular **direct payments, have been found to positively impact regional employment and re-investment**. However, direct payments have been criticised by respondents³ as instruments that provide significant funding to larger farms, and for their tendency to be more concentrated in already developed agricultural areas, thereby limiting the overall effectiveness of Pillar I in addressing BTD. Because direct payments are allocated in relation to farm size, larger farms are eligible for proportionally larger amounts of funding than small farms. As such, there is some concern that the differential benefits experienced by small and large farms may ultimately widen the economic divide between them, and further limit the ability of small farms to compete.

Pillar II measures, some of which are specifically designed to address socioeconomic issues, **are associated with positive effects on BTD**. Furthermore, Pillar II is less often associated with favouring larger farms. Nonetheless, this study has observed that high administrative burden in Pillar II reduces access to funding for small farmers, organisations, and enterprises. **Study findings highlight the primacy of targeting to ensure that local socioeconomic needs are met** in the context of Pillar II's flexible implementation and policy mix selection. For example, despite relevant and very attractive programming options and eligibilities offered under the European Agricultural Fund for Rural Development (EAFRD), access to social services and support for innovation continue to be frequently-cited needs in rural regions, indicating that some programs may not be implemented to their full capacity.

3. Effectiveness

Across the EU, **CAP funding is especially helpful in the development of highly rural, remote and/or agriculturally-dependent areas**, as findings from the case studies and the regression analyses suggest. Yet, it is difficult to generalise the effect of CAP funding given the considerable variation observed when comparing specific measures or instruments and their budgetary allocations.

Regression analysis findings suggest that the degree of economic impact of CAP funding on regional economies depends on the instruments and measures and the structural and developmental characteristics of the regions in question. In clusters⁴ 1 and 3 (those closer to urban centres, or those with generally more advanced economies) the observed effects of productivity-enhancing measures (M04 investments and M06 business development) are generally limited to the agricultural sector. The regression analyses suggest a positive association between Pillar I funding and changes in primary sector employment in cluster⁵ 1. Pillar II funding in knowledge transfer and innovation measures (M01, M02, M16⁶) in clusters⁷ 2 and 4 is positively associated with increased gross value added across the entire regional economy.

In this regard, basic payments and green payments play an important role in supporting farm viability by providing some measure of income stability. Stable farm incomes boost local expenditure and allow farms to employ and retain labour. During this programming period, **Pillar I is estimated to have helped rural economies**

³ public authority, rural development expert, farmer, processor and producer organisation

⁴ 1) diversified rural and intermediate regions, 3) dynamic rural and intermediate regions.

⁵ 1) diversified rural and intermediate regions.

⁶ M01 – knowledge transfer, M02 advisory services, M16 cooperation

⁷ 2) peripheral rural and intermediate regions, 4) traditional rural and intermediate regions.

created and safeguarded 5.2 million employees. However, the basic payment scheme and single area payment scheme (BPS/SAPS) have been reported by some respondents to aggravate income disparities between smaller and larger farms.

Pillar II measures contribute to the economic development of rural areas by supporting farm modernisation, encouraging diversification outside agricultural activities, and bolstering human capital, both on farms and in rural areas more broadly. The **effectiveness of Pillar II** in addressing socio-economic development in rural regions **depends on several factors, including the policy mix of the rural development program, the volume of funds provided, and the implementation of the measures** at national, regional and/or local levels.

4. Efficiency

Pillar I (particularly the direct payments) is largely reported in most of the case studies as efficiently delivered, with relatively low administrative burden and swift application and payment processes. However, stakeholders perceive the targeting of Pillar I as not necessarily conducive towards BTD. Interviewees from the public administration, experts and non-governmental organisation stakeholders explained that most Pillar I aid per farm goes to areas and territories where farms are productive and well-structured (including large size-farms). Nonetheless, the direct payments are seen as very important for sustaining farming incomes and farming in contrasting locations where otherwise, the land would be abandoned (marginal territories) or it would be taken for development (peri-urban areas under pressure where agricultural incomes remain lower than most others). Direct payments are also vital for areas beset by crises caused by droughts and plant pathogens. In the case of common market organisation (CMO – e.g. wine sector), these payments are more targeted towards specific needs than the direct payments. Since delivery of funding is channelled via intermediary bodies to farmers, the costs to the public administration are also low for these instruments.

Rural development measures, because they offer a wide range of types of support that can be targeted to different local situations, are well designed to remove structural factors of relative weakness and tackle uneven economic development in the farm sector. However, it is reported in many case studies that Pillar II funds are complicated, and frequently made difficult to deliver by rules which pertain to principles of public funding that were not specifically designed within the CAP (e.g. public procurement) and which appear to be applied in an inappropriate way to rural development programme (RDP) measures' delivery. Many experts, farmers and stakeholder organisations agree that often, the administrative processes are lengthy and difficult (i.e. costly and requiring complex skills) to follow. This reduces their accessibility to socially and economically-disadvantaged beneficiary groups. Nevertheless, in some countries and for some measures (e.g. examples in Ireland, Italy, Estonia, Spain), managing authorities have established innovative mechanisms via co-operation and knowledge exchange among public and private actors, that integrate different policy measures in packages tailored to local needs (e.g. young farmers, small farms, new entrants). These solutions reduce the costs of accessing aid for beneficiaries, encouraging disadvantaged groups to engage.

5. Coherence

The analysis of policy coherence highlights three relational typologies within the CAP and between the CAP and other instruments: a) complementarity; b) synergy; c) counterproductive relations.

Complementarity, which denotes positive interactions of varying intensity, is most prevalent, especially in its weak form. Strong complementarity is present alongside effective collaboration between the CAP and the European Structural Investment Funds and is enabled by political will at the national/regional level.

Synergy is used to denote interactions that do not occur spontaneously or by chance, but are structured within specific policy design. Examples of synergy are between CMO instruments and rural development measures addressed to some agri-food chains in Spain and Italy. Synergic policies tend to occur as a result of innovations in delivery mechanisms, and go beyond the simple demarcation of requirements.

In the analysis of coherence within the CAP, cases of counterproductive interactions are frequently observed. These effects are strongly related to the distributive challenges that accompany polarised farm structures, where a large number of small farms compete not only with each other, but also against a smaller number of large-scale farms for access to funding.

Assessments of policy coherence in regard to social inclusion are varied. CAP instruments are complementary where social inclusion is limited to the most vulnerable people within the agricultural sector. They tend to be less evident when a broader concept of social inclusion is taken into consideration, including vulnerable people outside the agricultural sector, since other programmes are more capable to address social inclusion through more specific measures and instruments. Among the few measures addressed to social inclusion in the Pillar II, mostly LEADER/CLLD⁸ is identified as having significantly positive impacts on social inclusion issues. Case study results further highlight the internal coherence and complementarity of projects linked to M07 (basic services and village renewal in rural areas) and LEADER/CLLD, mainly in supporting village rehabilitation.

6. Relevance

Relevance findings indicate that the **CAP targets farm-based needs very well. Direct payments** (particularly BPS/SAPS and greening payments) **support income stability and business viability**. They counteract farm-based poverty and help preserve local employment. In times of crisis, they provide important financial cushioning against the effects of climate disasters and other external factors. Similarly, CMO is well suited to the needs of producers, and provides increased visibility and improved organisation.

Because **Pillar I instruments are specifically targeted at farmers** (and in the case of CMO, processors), wider rural needs (particularly in the framework of the inclusion of vulnerable population groups) are addressed only indirectly, if at all. These wider rural needs, such as infrastructure, or services of general economic interest, are indirectly supported by the maintenance of a viable farm sector and increased local tax revenues from agricultural production.

Several **Pillar II measures significantly meet agricultural and rural needs**, and support BTD, **by addressing a wider range of socioeconomic aspects**. Measure 04 (Investments in physical assets) and measure 06 (farm business and development) help improve farm-based productivity via physical capital accumulation and farm

⁸ LEADER is a French acronym which stands for *liaison entre actions de développement de l'économie rurale* (links between activities for the development of rural economy). CLLD refers to *community-led local development*.

modernisation. Meanwhile, measures related to knowledge transfer and innovation⁹ support farms by addressing two important needs that have been identified in rural areas — human capital and knowledge accumulation.

Pillar II measures aimed at improving infrastructure and service provision, such as Measure 07 (basic services and village renewal in rural areas) and in some cases, Measure 19 (Support for LEADER/CLLD), can be difficult to assess quantitatively. Despite their marginal visibility in quantitative studies, case study analysis reveals that these measures are highly relevant to the needs identified in rural regions, and provide ample examples of best practices on the local level. **Case study respondents describe these two measures as particularly well-targeted and relevant to local needs. Even though M07 and M19 represent only a small proportion of the CAP funding framework, they play an important role in the maintenance and revitalisation of social infrastructure and services of general economic interest.**

7. European added value

Overall analysis of the study suggests that the **CAP provides EU added value when it comes to supporting BTD by focusing significant resources on remote and very marginal rural areas¹⁰**, thus addressing needs that national or regional policy instruments may struggle to meet on their own. However, because it largely targets the farming sector without directly addressing necessary investment in infrastructure and services, this funding alone is insufficient to resolve the long-term decline in such marginal areas. In rural areas situated near urban centres, CAP funding provides EU added value by helping farms withstand the land pressures associated with close proximity to urban areas, with potential environmental benefits.

Farmers interviewed in all case studies attribute **positive effects to the CAP in terms of improving their economic situation**, with direct payments and the CMO framework. These funds help maintain existing structures and prevent land abandonment. In the case studies, public administration respondents generally report an EU added value from CAP funding overall, predicting higher rates of poverty and rural decline if CAP funding were not available.

The **strongest evidence for EU added value is seen in respect to the social benefits**, including strengthened social capital and social inclusion, derived from the CAP as a result of specific approaches and instruments that empower local intermediary bodies and enable holistic responses to local needs. Most notable in this respect is **M19 (LEADER/CLLD)**. The new provisions for producer organisations in olive and dairy sectors, and early indications from the best-established European innovation partnership (EIP) agri-initiatives, are also positively evaluated for EU added value, on similar grounds (although implementation of EIP remains challenging in some EU Member States).

8. Recommendations

A first policy recommendation is the **maintenance of an institutional frame where a dialogue between the responsible of the European Agricultural Fund for Rural Development and the other European structural funds, as well as within**

⁹ M01 knowledge transfer, M02 advisory services, M16 cooperation

¹⁰ CAP funding provides vital financial support to such areas, notwithstanding the fact that the largest share of total CAP Pillar 1 aid goes to more productive farms and regions, as noted elsewhere in this study.

rural areas and among different stakeholders, can formally take place under the form of a partnership agreement.

In terms of the implementation of the CAP, the study shows that effective targeting is paramount when it comes to harnessing the potential of Pillar I and Pillar II instruments and measures. **Pillar I basic payments should be increasingly focussed on regions where farmers' incomes, in comparison with the whole economy, and quality of life lag behind those of farmers in other regions, and within regions. Likewise, basic payments should be more focused on those farm scales and types which suffer from the worst social and economic conditions.**

The Pillar II measures directly targeting BTD (M19 – LEADER, M06 – farm and business development, M07 – village renewal and partly M16 – cooperation for the potential implications on social cohesion and capacity building at the local level) should receive a higher funding share and more appropriate implementing rules in the next programming period. This also applies to Pillar I instruments such as CMO, which are significant in terms of improving of farmers' positions within the supply chain, and enhancing the cooperation between farmers and processing industries. **Funding should be more targeted to ensure that these Pillar I and II instruments and measures directly related to BTD can be utilised more effectively to achieve a more significant impact on socio-economic needs in rural areas.**

Other support within the CAP (M01 – knowledge transfer, M02 – advisory services, M04 – investments) can also contribute to BTD, when addressed to the most vulnerable areas. **With this said, interventions should be focussed on the poorest rural areas within the CAP strategic plan through a mix of measures, which takes into account the complementary effects of all CAP instruments and measures.**

Pillar II can also better harness and address the social and economic specificities and needs of rural areas when a Member State or region-specific definition of rural area is used, as indicated by case study findings. Findings principally stemming from interviewed managing authorities show that adopting a tailored definition, rather than strictly following administrative boundaries, allows for a greater result-orientation of the policy intervention and a better targeting of the local needs. **It is therefore suggested that managing authorities tailor their regional/national rural area definition closely tying it to the socio-economic, demographic, and territorial characteristics of these areas¹¹.**

Furthermore, region or territorially-based actors (e.g. regional development agencies, local intermediary bodies) may serve as 'one-stop-shops' for rural actors to access an appropriate mix of EU support for their specific needs. **The CAP should thus improve its effectiveness in fostering BTD in rural areas by broadening and better integrating various funding streams.**

In this regard, strengthening and deepening the partnership approach, beyond LEADER, should be one of the key levers of future policy addressed to BTD. It is suggested that **managing authorities further promote multi-actor partnerships between public authorities and stakeholders.**

¹¹ Nonetheless, it should be mentioned that, for any evaluation purposes, these specific definitions may hinder comparative endeavours, between regions and programme areas due to the lack of standardised funding data.

Looking forward, the objectives of the post-2020 programming period especially relevant for BTB should be carefully assessed. This is particularly relevant within those rural and intermediate regions where the socioeconomic role of agriculture is still relatively significant, and where the sector suffers from a lack of competitiveness.

Likewise, although adapting and fine-tuning the CAP legal framework and types of interventions provided is essential, continuity appears to be as important. **As such, it is recommended that the interventions and framework of application of the next CAP programming period maintains clear links with the framework of this programming period.** Such continuity is indeed necessary to assess the changes occurred and the relevance of the local needs from a period to the other.

The study findings on efficiency show the importance that implementing rules, controls and eligibility criteria can reduce the access of disadvantaged groups of beneficiaries to funding measures and instruments, to the detriment of the goals of BTB. **It is therefore recommended that CAP Strategic Plans should be scrutinised by stakeholders representing disadvantaged rural groups, and their opinions and concerns fully integrated into the ex-ante evaluation process in a transparent way.**

In many case studies, varying rules of public procurement not mandated as part of the overall CAP framework were found to impede access to CAP funds and increase administrative burden for beneficiaries and authorities. **It is suggested that the Commission ensures more thorough comprehension among Member States' and regions of the applicable public procurement or other administrative requirements on the ground of the flexibility that is now provided in the Public Procurement Regulations, to ensure that these are appropriately applied, at the local level.**

The study findings show that administrative burden for small applicants to CAP funding can be high, limiting their efficiency and reach. It is recommended that the **administrative burdens applying to small farms and small-scale Pillar I and II beneficiaries be kept under review, as part of the ongoing evaluation of CAP at Member State and EU levels.**

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