Towards a Post-2020 Rural Development Policy in the EU

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Abstract: *The aim of this research is to identify the elements of continuity and the main changes brought by the CAP reform completed in 2013 and entered into force in 2015, which guides the EU rural development for the period 2014-2020. The analysis of the CAP budget and of the new rural development funding lines reveals the changes and conditions imposed for public funding. Our comparative analysis of the priorities and programs of measures established by Romania, Poland and Hungary demonstrates the greater flexibility offered to the EU Member States by the New Approach of the CAP in establishing their own hierarchies of rural development priorities and their financing. Currently, the European Institutions are committed to adopting a new CAP reform before the 2019 European elections. So, the final part of this article looks at the prospects for the post-2020 Common Agricultural Policy reform, which could set new regulations and new mechanisms for financing rural development in the EU with 27 Member States, without the UK.*

Keywords: *common agricultural policy, rural economies, agricultural finance, EU*

JEL Classification: *Q18, R10, Q14*

1. Introduction

The European Union's Rural Development (RD) Policy was introduced by Agenda 2000 reform as the second pillar of the Common Agricultural Policy. Although some changes have been made since then in the Common Agricultural Policy as a whole, the Rural Development pillar continues to remain important, contributing to the implementation of the Europe 2020 Strategy, promoting growth and jobs.

The Common Agricultural Policy (CAP) is a policy adopted by all 28 EU Member States, being funded from the resources of the EU budget and national co-financed. Annual expenditure on agriculture and rural development amounts about 55 billion euro (45% of the total budget of the European Union).

The Common Agricultural Policy (CAP) has undergone successive reforms in the past 25 years that have led to greater market orientation of agriculture, while ensuring support' incomes and safety mechanisms for producers, improving the integration of environment protection requirements and strengthening the support for rural development in all EU Member States. Reforms have been driven by agriculture endogenous factors as well as by exogenous factors like economic, environmental and territorial challenges.

The economic challenges include food security and globalization, the decline in labour productivity growth, price volatility, pressure on production costs caused by high input prices for agriculture (as known as price scissor) and deteriorating farmers' position in the food chain.

Environmental challenges include resource efficiency, soil and water quality, threats to habitats and biodiversity.

Territorial challenges are related to demographic, economic and social developments, including depopulation of rural areas and relocation of businesses.

As a result, in order to achieve the long-term objectives of the CAP, it was necessary to change and to adapt the instruments for improving the competitiveness of agricultural sector and long-term sustainable rural development.

2. Rural Development Policy for 2014-2020

The Reform known as Agenda 2000 was an important moment for the sustainable rural development in the European Union because it introduced a second Rural Development Pillar in the Common Agricultural Policy, in addition to the Agriculture Pillar.

A new major reform of the Common Agricultural Policy (2013) entered into force in January 2014, preserves the basic principles of the Common Agricultural Policy, respects EU animal welfare and environmental regulations, ensuring a normal standard of living for European farmers. Through this latest reform, the two-pillar structure of the CAP has been preserved. Pillar 1 Agriculture includes income support for farmers and market orientation management, and Pillar 2 covers rural development.

2.1 Identifying the elements of continuity for 2014-2020 financial framework

The general principles of the Pillar 2 remain the same as in the previous financial multiannual framework. So, the implementation of the new Rural Development Policy is based on the Member States' projects on multiannual rural development programs (RDPs). These programs implement a personalized strategy, designed to simultaneously meet the needs of each Member States in line with the priorities of the European rural development policy (EU Regulation no. 1305/2013). The programs are based on a combination of measures selected from the "Menu of measures" at the EU level, detailed in the EU Regulation no. 1305/2013 and co-financed by the European Agricultural Fund for Rural Development (EAFRD). Programs must be approved by the European Commission and must include a financing plan and a set of performance indicators.

2.2 Identifying the changes of the Rural Development Policy for 2014-2020

Rural Development Policy for 2014-2020 has been restructured in order to obtain a greater effectiveness. A closer link with the EU structural and investment funds will allow European funds from various sources, co-financed by Member States to support a wide variety of innovative projects in rural areas, from combined agriculture and aquaculture farms to a larger digital infrastructure in broadband. For the period 2014-2020, the emphasis is put on coordinating the action financed by the European Agricultural Fund for Rural Development with that funded by other European structural and investment funds such as cohesion funds (the Cohesion Fund, the European Regional Development Fund and the European Social Fund). The common rules for these funds, set out in the EU Regulation no. 1303/2013 include a common strategic framework to facilitate sectoral and regional programming and coordination of measures taken through European structural and investment funds. On this basis, each Member State enters into a 2014-2020 Partnership Agreement, which specifies how to use Structural Funds and investment funds in an integrated way.

Box 1: The EU Rural Development set of priorities for 2014-2020

1. **Knowledge transfer and innovation:** Fostering knowledge transfer and innovations in agriculture, forestry and rural areas (developing basic knowledge in rural areas, focusing on the links between agriculture, forestry and research);
2. **Farm viability and competitiveness:** Enhancing farm viability and competitiveness of all types of agriculture, promoting innovative technologies and supporting sustainable forest management;
3. **Food-chain organisation:** Promoting food-chain organization, including processing and marketing of agricultural products, animal welfare and risk management in agriculture;
4. **Enhancing ecosystems:** Restoring, preserving and enhancing ecosystems related to agriculture and forestry (biodiversity, water and soil);
5. **Resource efficiency:** Promoting resource efficiency (water and energy) and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors;
6. **Balanced territorial development:** Promoting social inclusion, poverty reduction and economic development in rural areas.

Source: Author, based on the European Parliament (2017) and The European Network for Rural Development (2015).

Member States will continue to develop their own programs, but flexibility will be even greater as the new Regulation on rural development refers to six economic, environmental and social priorities (Box 1), laid down for each Member State, but whose ranking constitutes each State attribute. Member States and regions draw up their rural development programmes based on the needs of their territories and addressing at least four of the following six common EU priorities: Knowledge transfer and innovation; Farm viability and competitiveness; Food-chain organisation; Enhancing ecosystems; Resource efficiency and Balanced territorial development.

3. Analysis of rural context indicators in the EU-28 and some Member States

The objective of our analysis is to highlight the wide variety of the role and conditions in the EU Member States rural areas as well as the different need for each country to receive European support for rural development. We start from the assumption that substantially higher financial support (relative to rural population and rural areas) for lower-income and high risks of poverty EU member states would stimulate the intra-European real convergence.

Methodology

To illustrate the importance of the rural areas in the European Union and the Member States, we analysed four common context indicators specific for rural development programs (2014-2020), namely: rural population (as% of total population), rural surface (% of total area), GDP per capita in the rural area (PCS) as a percentage of EU-28 average GDP per capita (PCS) and the risk of poverty and social exclusion in rural areas (as % of rural population).

The comparative analysis refers to the nine member states: Austria, Bulgaria, Croatia, Estonia, Finland, Ireland, Hungary, Poland and Romania, chosen according to the highest weights of the surface and the rural population in the total area and, respectively total population of each country. The comparative analysis is made between the nine countries and the EU-28 average, the EU-15 average and the EU-13 average (see Table 1).

3.1 Rural population

From the data on the common context indicators for rural development programs (2014-2020) resulted that out of the total EU-28 population of 510 million inhabitants in 2016, about 80% live in the old core developed countries (EU-15), and the rest in the new member states (EU-13). Most of the EU-28 population live in the urban or predominantly intermediate areas and only 19.2% or 97.2 million people live in the rural areas.

The share of the rural population in the total population varies widely between the 28 EU Member States. Thus, 60% of Ireland and 53% of ***Romania*** inhabitants, 40-45% of Finland, Austria, Croatia and Estonia and 35% of Poland live in the rural regions (not taking into account the rural areas in the intermediate areas). Bulgaria has the lowest share of the rural population among the nine compared countries (about 13%), but the lowest share of the rural population in the EU-28 we found in Netherland (0.6%), Spain (3.5) and UK (3.6%).

3.2 Surface of the rural areas

The EU-28 territory is about 4.5 million square kilometres, out of which three quarters are located in the EU-15 and the remaining one quarter in the EU-13. The rural areas represent almost half (44%) of the total EU's territory

Significant differences arise from the comparative analysis between Member States concerning rural areas. For instance, in Austria, Estonia, Finland and Ireland rural areas represent 75-90% of their respective territory; in ***Romania*** and Croatia 60-70%, and in Poland under 60%. Between the nine analysed countries, Bulgaria has the smallest share of the rural surface in the total area (about 22%); the minimum EU-28 share of the rural surface is found in Netherlands (about 2 % of its total area).

3.3 GDP / inhabitant in rural areas

GDP per capita (PPS =purchasing power standard) in the EU-28 rural areas is below the EU-28 general average (73% in 2016), with large differences for the EU-15 (88%) and EU-13 (46%).

According to the data provided by the Eurostat (2017), Ireland and Austria are the only two states out of the nine countries that outnumber the EU-28 average GDP per capita in the rural areas, while Finland is approaching this level (see Table 1). Unlike these countries, Bulgaria and ***Romania*** recorded minimum or almost minimum GDP per capita in rural areas, 32% and respectively 37% of the EU-28 average. (Table 1).

Table 1: Common context indicators for RDPs (2014-2020) in the EU and in some Member States in 2016

	Rural population % of total	**The surface of rural areas**% of total	**GDP per capita in rural areas** Index EU=100 % (PPS)	**Poverty rate and exclusion risk in rural areas** % of the rural population
Romania	53.8	67.8	37.0	50.8
Bulgaria	13.1	22.1	32.0	54.8
Austria	40.7	75.2	107.0	13.9
Croatia	43.1	62.9	46.0	34.9
Estonia	45.0	81.6	50.0	26.4
Finland	40.1	82.4	97.1	17.2
Ireland	60.2	90.0	105.0	25.3
Poland	35.1	52.1	49.0	30.0

	Rural population % of total	**The surface of rural areas**% of total	**GDP per capita in rural areas** Index EU=100 % (PPS)	**Poverty rate and exclusion risk in rural areas** % of the rural population
Hungary	19.0	27.6	43.0	32.5
EU-28 average	19.3	44.1	73.0	25.5
Minimum EU- 28	0.6 Netherlands	2.1 Netherlands	32.0 Bulgaria	12.8 Netherlands Czech R.
EU-15 average	15.4	42.7	88.2	25.5
EU-13 average (new Member States)	33.8	48.4	46.0	35.6

Source: Author, based on Eurostat (2017).

It should be noted that the GDP per capita in the rural areas of Bulgaria (32%) reach the minimum level of the EU-28 Member States, but the rural areas of Bulgaria have only 22% of the country's territory and only 13% of its population. In Romania, GDP per capita in the rural areas (36.7%), is approaching the EU-28 minimum level but rural areas are much more important as they cover over two thirds of the territory and more than half of the country's population. The degree of rural development in Romania is low and affects a larger part of the rural population and rural areas compared to all other countries.

3.4 The risk of poverty and social exclusion in rural areas

In rural areas of the European Union, about 25% of the population is at risk of poverty or social exclusion (Eurostat, 2017), but this average hides large variations between groups of countries (old and new EU members) with higher risks in the EU-13 than in EU-15 (see Table 1).

Box 2: Definition of the "Risk of Poverty or Social Exclusion Indicator

The risk of poverty or social exclusion indicator is defined as part of the population that is under at least one of the following three conditions:

- below the poverty threshold;
- severe material deprivation;
- living in a house with a very low work intensity.

Reducing the number of people at risk of poverty by 20 million is one of the main targets of the Europe 2020 strategy.

Source: Author on EC, 2016

In Austria, Finland and Estonia the risk of poverty for rural population is below the EU-28 average; in Ireland, Poland and Croatia is slightly above average. But, Bulgaria's rural population is at the highest risk of poverty or social exclusion among all EU Member States, followed closely by ***Romania*** (54.8% and 50.8% respectively). Related to the rural surface, these figures show that Romania is more affected than Bulgaria by the risk of poverty, as the surface of the rural areas is larger in Romania.

4. Funding regulation and distribution of funds for rural development by Member State

Under the EU's multiannual financial framework for 2014-2020, the CAP budget, including Pillar 2- rural development, has a downward trend compared to the previous financial years to reach 408.31 billion euro in current prices. This budget was allocated for each year and for each Member State.

2014 was a transitional year for the CAP, during which the Member States prepared to implement the new provisions, to make certain crucial choices regarding funds transfer between the two Pillars of CAP (Net transfers between the two pillars stood at some 4 billion euro for the period as a whole).

The pattern of multiannual financial framework 2014-2020 has changed in 2015 as a result of the transfers between the two pillars of the CAP decided by the Member States (Regulation (EU) No. 2015/141. OJ L 24). After the changes, over 75% of the CAP financing package for the 2014-2020 is heading to the Pillar 1 Agriculture, and the remaining 24% to Pillar 2- Rural development.

The EU's rural development policy is funded through ***the European Agricultural Fund for Rural Development*** (EAFRD). In 2015, after transfers between pillars made by Member States, the European Agricultural Fund for Rural Development (EAFRD) worth about 100 billion euro for the period 2014-2020 with each country receiving a financial allocation for the 7 years period (EC, Rural development 2014-2020). By adding national co-financing contributions, the funds used under Pillar 2 of the CAP will amount 161 billion euro for the whole period.

Comparative analysis of financing the most important rural development measures in Romania, Poland and Hungary, 2014-2020

Our analysis of the most important rural development measures chosen by Romania, Poland and Hungary has shown that the allocations of public money (EU and co-financing) are different from one country to another, depending on the major interests of each one, with a common feature, namely the allocation of the largest funds for investment in physical assets. (See Table 2).

Table 2: Funding of the most important rural development measures in Romania, Poland and Hungary, 2014-2020 (million euro)

	Romania	Poland	Hungary
Funding from public money 2014-2020	9 500	13 500	4 200
Measures rural development, of which:			
Investments in physical assets	2 400	2 120	1 425
Firm and business development	1 100	1 406	328
Payments for areas with natural constraints	1 400	1 378	...
Agri-environment and climate measures	...	753	638
Basic services and village renewal	1 300	684	279

Source: Author, based on data from EC (2017), EC (2017 b), EC (2017 c).

Romania allocates EUR 2.4 billion for investments in physical assets (25% of the total), payments for natural constrained areas (15%) and basic services and village renewal (13.5%).

Poland allocates 15% for investment in physical assets, 10% for firm and business development, and 10% for payments for areas with natural constraints.

Hungary directs rural development funds to around 35% towards investment in physical assets and 15% to agri-environment measures.

5. Prospects for a new reform of the Common Agricultural Policy and the future of rural development post 2020

The European Parliament's Committee on Agriculture and Rural Development (AGRI) has begun practically preparing for a possible post-2020 CAP reform, conducting studies on its behalf by prestigious organizations whose views are subsequently taken into account by the European Commission and debated in the European Parliament (COMAGRI, 2016).

We summarize the main changes and reasoned recommendations of the Rural Development Policy (RDP) specialists.

5.1 The Future of Rural Development Policy and the Requirements for Change

In the early years of the 2014-2020, there have been a number of changes to programs in the previous period, which were made possible through a mechanism for transferring funds between the two pillars of the Common Agricultural Policy (CAP) which allowed for a more consistent allocation of funds to the second pillar - rural development - in a number of countries and has led to an increase in EAFRD total financial resources of around 3% (Dax, Copus, 2016).

The main finding following the assessment of the current implementation of the Rural Development Policy (RDP) is that within the framework of the Common Political Structure there is ***a significant variation at national and regional level in program strategies and prioritization.*** This wide diversity in RDP implementation reflects the divergent needs of rural areas, but it is also the result of different strategic considerations.

An important conclusion of the study coordinated by Dax and Copus (2016) shows that ***there is little evidence that the second pillar of the CAP has a significant beneficial impact in terms of reducing territorial disparities.*** Rural development is at the intersection of political debates on CAP and the cohesion policy. Support for development for areas confronted with natural constraints and a focus on sustainable agriculture will remain at the heart of Rural Development Policy (RDP). Policies of coherence between the CAP and other policies with an impact on rural areas will also become increasingly important.

From all the debates and evidence available to the authors, there is ***a great interest in continuing and adapting the Rural Development Policy to the following main requirements***:

- ***The diversity of rural areas and the different needs and opportunities should be increasingly reflected in RDPs***. A "localized" approach could increase the relevance of real contexts to prioritization within the RDP.

- There is a need for ***increased territorial concentration of fund distribution*** to address specific regional challenges such as land abandonment, marginalization tendencies, and exposure to rural areas at a particularly high risk of poverty. Such situations are particularly relevant in the case of "new" Member States, regions of Mediterranean countries, areas facing natural constraints as well as distant regions of other EU Member States.

- Apart from territorial aspects, ***rural development programs must show in a much more clear way than before that they bring benefits to all citizens in rural areas and that they have a positive impact on the whole of society*** . This (continued) change in the interest of the beneficiaries should have appropriate effects on local economies and societies and a significant (positive) impact on welfare in rural areas.

- In order to facilitate the acceptance of the program, especially in regions with disparities in participation, ***special attention*** should ***be paid to capacity building, knowledge development and participatory local development actions***. It is necessary to give greater priority to these "soft" measures in certain regions in order to overcome the "downward spiral" and emigration trends.

- RDP has already included a number of "social" measures. For greater efficacy, it is necessary ***to give considerable priority and adequate funding to social measures***, and to further develop new measures to achieve measurable and relevant effects for the different types of rural areas.

- Above all, ***rural areas should no longer be perceived to be the only areas with developmental problems or subordinated to urban areas***, but should be seen as presenting remarkable opportunities that should be continually stimulated in order to achieve the desired impact.

- In order to capitalize on this potential (specific for each area), it is essential ***to have a carefully adapted, rational land management system that allows for sustainable development and focuses on social innovation.***

5.2 The new budget for the 2021-2027 Common Agricultural Policy

The European Commission proposed on 2 May 2018 the new EU budget for the 2021-2027 period, including for a reformed, modernised Common Agricultural Policy (CAP). The new CAP will have a budget of 365 billion euro and continue to support direct payments to farmers and rural development.

Table 3: Proposed CAP budget allocation for 2021-2027,

CAP	**Million euro, current prices**
TOTAL ENVELOPE 2021-2027	365 005
of which:	
European Agricultural Guarantee Fund	286 195
European Agricultural Fund for Rural Development	78 811

Source: EC. (2018)

The budget will place a greater emphasis on the environment and climate, support the transition towards a more sustainable agricultural sector and the development of vibrant rural areas (ENRD, 2018). For the latter, the Commission proposes to increase national co-financing rates. Management will be shared between the EU and the Member States.

Box 3*:* The EU Budget and the rule of law

Under current rules, all Member States and beneficiaries are required to show that the regulatory framework for financial management is robust, that relevant EU rules are being complied with and that the necessary administrative and institutional capacity is in place. The current Multiannual Financial Framework also contains provisions to ensure that the effectiveness of EU funding is not undermined by unsound economic and fiscal policies.

The Commission is now proposing to strengthen the protection of the EU budget from financial risks linked to generalised deficiencies as regards the rule of law in the Member States. If such deficiencies impair or threaten to impair sound financial management or the protection of the financial interests of the Union, it must be possible to draw consequences for EU funding.

Any measure taken under this new procedure will need to be proportionate to the nature, gravity and scope of the generalised deficiencies in the rule of law. It would not affect the obligations of the Member States concerned with regard to beneficiaries.

The decision as to whether a generalised deficiency in the rule of law risks affecting the financial interests of the EU will be proposed by the Commission and adopted by the Council through reversed qualified majority voting*.It will take into account relevant information such as decisions by the Court of Justice of the European Union, reports from the European Court of Auditors, as well as conclusions of relevant international organisations.

The Member State concerned will be given the opportunity to set out its reasoning before any decision is taken

*Under reverse qualified majority voting, the Commission’s proposal is deemed to be adopted by the Council unless it decides by qualified majority to reject the Commission's proposal.

Source: EC. (2018). The Budget for the Future. The Multiannual Financial Framework for 2021-2027

The Commission proposes to introduce a new delivery model shifting from today’s compliance-based policy to a result-oriented policy to deliver on common objectives set at EU level but more flexibly implemented at national level (EC,2018).

6. Conclusions

Rural Development, the second pillar of the CAP 2013, provides Member States with an EU funding envelope, which is managed either nationally or regionally, on the basis of co-financed multiannual programs. The novelty for 2014-2020 is that the new system offers more flexibility to Member States. This flexibility also results from our comparative analysis of the programs and priorities set by Romania, Hungary and Poland, formally approved by the European Commission and financed by European funds and national co-financed.

The European Parliament's Committee on Agriculture and Rural Development (AGRI) has begun practically preparing in 2016 for a possible post-2020 CAP reform, conducting studies on its behalf by prestigious organizations whose views are subsequently taken into account by the European Commission and debated in the European Parliament.

There is a great interest in continuing and adapting the Rural Development Policy to the following main requirements:

- ***The diversity of rural areas and the different needs and opportunities should be increasingly reflected in RDP programs;***
- ***Rural development programs must show in a much more clear way than before that they bring benefits to all citizens in rural areas and that they have a positive impact on the whole of society;***
- ***Special attention*** should ***be paid to capacity building, knowledge development and participatory local development actions;***
- It is necessary ***to give considerable priority and adequate funding to social measures.***

The new CAP will have a budget of 365 billion euro (current prices) and continue to support direct payments to farmers and rural development. From this envelope, the allocations for rural development worth 78.8 billion euro. The Commission is now proposing to strengthen the protection of the EU budget from financial risks linked to generalised deficiencies as regards the rule of law in the Member States. If such deficiencies impair or threaten to impair sound financial management or the protection of the financial interests of the Union, it must be possible to draw consequences for EU funding.

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