Fact Sheet

European Commission
Agriculture and Rural Development

RURAL DEVELOPMENT IN THE EUROPEAN UNION

Contents

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Rural development in the European Union

Rural areas cover 80% of the European Union's (EU) territory and are home to approximately 25% of its population. A distinguishing feature of Europe's rural areas is their diversity both in geographical and landscape features, and in the different challenges they face. These range from restructuring of the agricultural sector, remoteness, poor service provision and depopulation to population influx and pressure on the natural environment, particularly in rural areas near to urban centres. European citizens value rural areas as offering an alternative landscape and quality of life in their highly urbanised society.

Although in most rural areas the primary sector has become less important in terms of its economic weight and share in employment, agriculture and forestry are the main land users and play a key role in the management of the natural resources in rural areas and in determining the rural landscape and cultural heritage. Even with its reduced share in the overall economic activities in rural areas these interdependencies mean that agriculture still has a valuable contribution to make to the socioeconomic development of rural areas and full realisation of the growth potential of rural areas.

The viability of rural areas cannot depend on agriculture alone, but to ensure agriculture's role in protecting the rural environment, in producing safe and high quality food and in contributing to maintaining the attractiveness of rural areas for young people and new residents, rural development policy has to place agriculture in its broader rural context. Equally, rural development policy has an essential role to play in promoting the viable rural areas and communities on which a healthy agricultural sector depends.

The EU's common agricultural policy (CAP) has been developing in recognition of this. Over recent years the policy has shifted from supporting production to supporting producers' income directly and towards the objective of sustainable agriculture. An important part of this reform process is the encouragement that farmers receive, via rural development measures, to adjust their businesses, land management methods and agricultural practices to society's demands. Rural development policy increasingly targets individuals and groups, other than farmers, who are active in these areas in order to promote the integrated and sustainable development of rural areas.

In recent years issues such as environmental sustainability, the viability of rural economies, food quality, animal health and welfare standards have become more prominent. Changing patterns of agricultural trade, concern over the budgetary cost of supporting farmers and the need to accommodate new Member States mean that the EU cannot continue to subsidise production as it has previously. All of these factors have led to the emphasis of the CAP shifting gradually in favour of the reinforcement of rural development measures. Several CAP reform agreements, notably those of March 1999 (known as 'Agenda 2000') and June 2003, have marked this change of emphasis.

The strengthening of EU rural development policy has become an overall EU priority. The conclusions of the Göteborg European Council of June 2001 make this clear: 'During recent years, European agricultural policy has given less emphasis to market mechanisms and through targeted support measures become more oriented towards satisfying the general public's growing demands regarding food safety, food quality, product differentiation, animal welfare, environmental quality and the conservation of nature and the countryside'.

The present document summarises the main features of rural development policy following Agenda 2000 and the CAP reform agreement of June 2003.

1. Rural development and Agenda 2000

Rural development – some recent key dates

- **European Conference on Rural Development (Cork, November 1996).**
- **Agenda 2000 CAP reform (Berlin, March 1999)** – made rural development policy applicable in all rural areas of the EU; brought together the previous nine instruments into a single legal framework for rural development (Council Regulation (EC) No 1257/1999); and, increased financial resources for rural development. CAP Pillar 1 and 2 concept introduced.
- **January 2000-December 2006:** duration of current generation of national and regional programmes including rural development measures.
- **Göteborg European Council (June 2001)** took reform forward, agreeing 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'.
- **'The new, reformed agricultural policy' (Luxembourg, June 2003)** – comprehensive and fundamental reform to the CAP, including strengthening of rural development policy, in scope and financial resources.
- **EU Conference on Rural Development (Salzburg, 12–14 November 2003).**

Agenda 2000

The reform agreement reached at the Berlin 'Summit' of EU leaders in March 1999 as part of the 'Agenda 2000' strategy was a major landmark in the CAP's development, particularly in terms of rural development policy. Much preparation and consultation, including an important rural development conference in Cork, Ireland in 1996, involving all stakeholders in the rural economy, preceded elaboration of the Agenda 2000 strategy. The eventual agreement reinforced rural development policy in several ways.

The rural development policy introduced by Agenda 2000 established a sustainable framework for the future of rural areas throughout the EU, complementing reforms in market sectors in promoting a competitive, multifunctional agricultural sector and encouraging alternative sources of income in rural areas as well as bolstering agri-environment measures. The guiding principles of the new policy were: decentralisation of responsibility; and, flexibility of programming based on a 'menu' of actions to be targeted and implemented according to Member States' and regions' specific needs, and able to take into account the diversity of rural areas within the EU.

The new rural development policy aimed to improve integration between the different types of EU assistance, helping to ensure smooth and balanced development in all European rural areas. The main features of this development are:

- strengthening the agricultural and forestry sector;
- improving the competitiveness of rural areas;
- maintaining and preserving the environment and rural heritage.

The result of the Agenda 2000 reforms was a new emphasis on assisting rural areas and their economies and communities, and not just farming. The key elements of Agenda 2000, as they relate to rural development, are described here.

1.1 Agenda 2000: a recipe for rural development

Agenda 2000 retained the system of co-financing by the EU and Member States but produced a unified system of rural development measures, with increased financial resources being made available. Following Agenda 2000 one main rural development regulation has governed these measures[1].

[1] Council Regulation (EC) No 1257/99 of 17 May 1999 (OJ L 160, 26.6.1999).

1.1.1 Main measures – the 'menu'

Rural development policy under Agenda 2000 offers a 'menu' of 22 measures which can be grouped into the following broad categories. Member States choose from this menu those measures that suit the needs of their rural areas best. These are then included in their national or regional programmes. The EU contribution to the financing of measures varies depending on the measure and the region concerned (Objective 1 status – less prosperous regions – or others).

Investments in farm businesses

The EU provides support for investments in farm businesses aimed at improving farm incomes and the living standards and the working and production conditions of farmers. Investments must meet one or more of the following objectives: reducing production costs; improving product quality; preserving and improving the environment; meeting hygiene and animal welfare conditions; and, encouraging diversification in agricultural activities. Investments could, for example, aim to modernise farm machinery and equipment so as to meet one of these objectives.

Human resources: young farmers, early retirement, training

A series of measures target human resources within and linked to the agricultural and forestry sectors. Support is provided for the transfer of farm businesses from one generation to another, via setting up-measures for young farmers (under 40 years of age) and through the encouragement of early retirement. Early retirement involves offering financial incentives (annual payments) to older farmers and farm workers to leave the farm earlier than planned. The land released may be transferred to another farmer able to improve the economic viability of the holding, or assigned to non-agricultural use.

Financing of training initiatives is available for those engaged in agricultural activities (or conversion to other activities), and to those involved in forestry activities which aim to improve the economic, ecological and social nature of forests. There is special emphasis on training linked to promotion of high quality products and environmentally-friendly production methods.

Less favoured areas and areas subject to environmental constraints

Certain rural areas are designated as less favoured areas (LFAs) because the conditions for farming are more difficult, due to natural handicaps which increase production costs and reduce agricultural yields. These conditions may threaten the long-term survival of farming, continued land management and the viability of rural communities in these areas. Farmers in LFAs are eligible for compensatory payments. Under Agenda 2000 these payments were adapted to reflect better the role which farmers play as managers of the natural landscape in such areas: payments are now calculated per hectare and not per head of livestock as before, so breaking the link with production, and are conditional on the farmer respecting good farming practice.

A new measure directed at areas subject to environmental constraints came in with Agenda 2000: farmers in areas subject to restrictions on agricultural use, as a result of implementation of EU environmental protection rules, can also benefit from payments intended to compensate for the additional costs and income losses linked to these constraints. This could, for example, be in areas designated under the EU's Natura 2000 network[2].

[2] Natura 2000 sites are those identified as sites of EU importance under the habitats directive (Council Directive No 92/43/EEC of 21 May 1992, OJ L 206, 22.7.1992), or classified as special protection areas under the birds directive (Council Directive No 79/409/EEC of 2 April 1979, OJ L 103, 25.4.1979).

Less favoured areas and areas subject to environmental constraints

Less favoured areas

The following areas are considered less favoured:
- mountainous areas subject to a considerable limitation of land use and a significant increase in production costs;
- areas threatened with abandonment and where maintenance of the landscape is necessary;
- areas affected by specific handicaps in which the maintenance of agriculture is necessary to ensure the conservation or improvement of the environment, the management of the landscape, its tourism value or in order to protect coastlines.

Areas subject to environmental constraints

Farmers in these areas can receive payments aimed at compensating the costs and income losses resulting from the implementation of EU measures on environmental protection. They may coincide with less favoured areas.

The list of less favoured areas can be modified by the Member States, who must notify changes to the European Commission. In the same way, the list of areas subject to environmental constraints is drawn up by Member States and sent to the Commission.

Agri-environment measures

Agri-environment schemes have been supported by the EU since they were introduced as an accompanying measure to the CAP reform of 1992. Rural development policy post-2000 confirms the essential role which farmers play in providing environmental services which go beyond following good agricultural practice and basic legal standards. Aids may be paid to farmers who sign up voluntarily to agri-environmental commitments for a minimum period of five years. Longer periods may be set for certain types of commitment, depending on their environmental effects. Aid is annual, calculated according to the income loss and additional costs resulting from the commitments, and to the need to provide a financial incentive.

Agenda 2000 established agri-environment measures as the only compulsory element of EU rural development policy (i.e. Member States must include this measure within their rural development programmes financed by the EAGGF-Guarantee Section[3]). This illustrates the political priority attached to agri-environment schemes.

Processing and marketing of agricultural products

Agenda 2000 recognised that adapting production to market developments, researching new commercial outlets and adding value to agricultural products are all important in helping to raise the competitiveness of the sector. Aids are made available for investments to improve the processing and marketing of agricultural products. They should contribute to one or more objectives, including applying new technologies, improving and monitoring quality, encouraging the development of new outlets for agricultural products, and protecting the environment.

[3] EAGGF - European Agricultural Guidance and Guarantee Fund. The EAGGF finances agriculture expenditure, measures linked to the environment, and structural and rural development measures.

Forestry

Support for forestry is part of the 1998 EU forestry strategy, aimed at ensuring the protection and sustainable management and development of the EU's forests. The strategy focuses on the essential ecological, economic and social role of forests (recognising their multifunctionality). Aid can cover the following measures:

- investments in forests to improve their economic, ecological or social value;
- investments designed to improve and rationalise the production, processing and marketing of forestry products;
- investments related to the use of wood as a raw material, limited to operations prior to industrial processing;
- promotion of new outlets for processing and marketing forestry products;
- creation of foresters' associations aimed at helping their members to improve forestry management;
- restoring the potential of forestry production following damage by natural disasters and fire, and introducing appropriate preventive measures;
- maintaining and improving the ecological stability of forests in areas which act to protect the public interest, and maintenance of fire breaks through agricultural measures.

In addition, support may be granted for the afforestation of agricultural and non-agricultural land, provided that plantations are adapted to local conditions and compatible with the environment. On agricultural land aids are also payable to cover maintenance costs. Annual amounts can be paid to compensate farmers for their income loss due to afforestation, for a maximum of 20 years.

Measures promoting the adaptation and development of rural areas (Article 33 measures)

Article 33 of the rural development regulation covers a set of 13 measures aimed both at the agricultural sector and at promoting the wider economic development of rural areas throughout the EU. Support offered under these measures can cover:

- land improvement;
- reparcelling;
- setting-up of farm relief and farm management services;
- marketing of quality agricultural products;
- basic services for the rural economy and population;
- renovation and development of villages and protection and conservation of the rural heritage;
- diversification of agricultural activities and activities close to agriculture to provide multiple activities or alternative incomes;
- agricultural water resources management;
- development and improvement of infrastructure connected with the development of agriculture;
- encouragement for tourist and craft activities;
- protection of the environment in connection with agriculture, forestry and landscape conservation as well as with the improvement of animal welfare;
- restoring agricultural production potential damaged by natural disasters and introducing appropriate prevention instruments;
- financial engineering.

Table 2 on page 9 shows the allocation of EU financial support for 2000–2006 planned by Member States by the main groups of measures.

1.2 Funding rural development

Pillar 1 and Pillar 2: How rural development is financed

EU support for rural development is co-financed by the EAGGF and Member States. Prior to Agenda 2000, rural development came under the various EU Structural Funds (primarily the EAGGF-Guidance Section). The CAP reform of 1992 saw the introduction of the three 'accompanying measures' (agri-environment, aid for early retirement and afforestation of agricultural land) financed by the EAGGF-Guarantee Section. Agenda 2000 brought together all rural development measures under a single regulation forming what has become known as the second pillar of the CAP, with the various market-related CAP regimes and direct aids for farmers constituting the first pillar. All rural development measures, including the previously distinct accompanying measures, have been grouped under the second pillar.

The four accompanying measures (including, as a result of Agenda 2000, compensatory payments for less favoured areas and areas subject to environmental constraints) are co-financed by the EAGGF-Guarantee Section throughout the EU. Likewise, Leader+ projects (see separate section) are funded throughout the EU from the EAGGF-Guidance Section. For other rural development measures, the source of EU 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.

The graph on page 19 gives an overview of the structure of EU financial assistance for rural development measures.

EU financial support for rural development

The Agenda 2000 agreement not only changed the system for financing rural development measures. It also set out, in advance, the maximum amounts available for rural development spending under the EAGGF-Guarantee Section over the period 2000 to 2006 as a share of the CAP expenditure envelope established by the Berlin Summit of March 1999. This fund has an annual average ceiling of EUR 4.3 billion for rural development (including the four accompanying measures).

On 8 September 1999, the funds destined for rural development were allocated by the Commission between the Member States, on an annual basis, according to objective criteria which take account of specific needs, especially those related to the environment, employment and countryside management **(See Table 4 on page 17)**.

For rural development measures included as part of Structural Fund programming within Objective 1 regions, Member States chose what proportion of overall Structural Fund financing to use for rural development actions supported by the EAGGF-Guidance Section (compared to other measures financed by the other Structural Funds).

Overall EU funding for rural development for 2000–06 comprises over EUR 50 billion for 'mainstream' rural development programmes, with EUR 33 billion of this coming from the Guarantee section and EUR 18 billion from the Guidance Section. Another approximately EUR 2 billion is allocated to Leader+ **(See Table 1 below)**.

Table 1: EU-15: Overview of rural development programming types and Community financial support 2000–2006[4]

	Number of programmes	Co-financed by EAGGF section	EU contribution (EUR billion)
Rural development programmes	68	Guarantee	32.9
Objective 2 programmes with RD measures	20	Guarantee	
Objective 1 programmes with RD measures	69	Guidance	17.5
Leader+ programmes	73	Guidance	2.1
Total	230		52.5

[4]Table 3 shows programming types for the 10 EU Accession States in the 2004–2006 period.

Table 2: EAGGF Guarantee and Guidance planned expenditure by main measures 2000–2006 (EU-15)[5]

Rural development measures	million EUR	share
Investments in farms	4 682.0	9.5 %
Young farmers	1 824.0	3.7 %
Vocational training	344.0	0.7 %
Early retirement	1 423.0	2.9 %
Less favoured areas and areas	6 128.0	12.5 %
with environmental restrictions	13 480.0	27.5 %
Agri-environment	3 760.0	7.7 %
Investments in processing/marketing	4 807.0	9.8 %
Afforestation of agricultural land, other forestry	12 649.0	25.8 %
Adaptation and development of rural areas		
Total rural development measures*	49 097.0	100.0 %

*Not all programmed expenditure is included, for example evaluation, technical assistance (in the case of Guidance) and certain commitments relating to the previous programming period.

EU support is typically provided at a maximum rate of 75 % of total eligible costs in Objective 1 regions and 50 % in other areas[6], apart from revenue-generating investments (including agriculture and forestry holdings and businesses involved in processing and marketing agricultural products) where it is 35 % (Objective 1) and 15 % (in other regions).

1.3 Delivering rural development programmes

The Commission has approved 230 programmes containing rural development measures for the period 2000–06. These can be broadly divided into three main types:

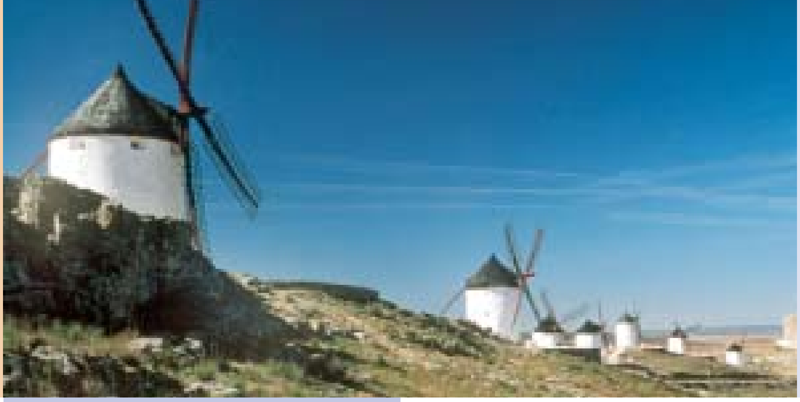
- 88 programmes co-financed by the EAGGF-Guarantee Section (including 20 under Objective 2 in France, the only Member State to take up this possibility);
- 69 Objective 1 programmes which also include rural development measures co-financed by the EAGGF-Guidance Section;
- 73 programmes under Leader+, which is also co-financed by the Guidance Section **(See Table 1 on page 8)**.

Simplification

While the implementation of the strengthened rural development policy introduced by Agenda 2000 has been widely supported by Member States and rural actors, there has been recognition in recent years by both the Commission and Member States that management of rural development policy needs to be simplified (while still ensuring the sound management of EU funds). This gains importance in the context of the recent agreement to expand the scope and coverage of rural development (see section on June 2003 CAP reforms). In response to these concerns the Commission launched three major simplification initiatives in the period 2001–03:

- reviewing Commission implementing rules for rural development[7]. The key changes aimed to make the procedure more flexible for amending Member States and regions' rural development programmes financed by the EAGGF-Guarantee Section;
- simplifying procedures for management of Structural Fund programmes, which can include rural development measures financed by the EAGGF-Guidance Section in Objective 1 regions;
- streamlining the monitoring indicators used by Member States/regions for annual reporting on implementation of rural development programming. The number of indicators was cut by some 50 %. The Commission is developing an electronic database (CAP IDIM) to assist Member States in managing and using fully this monitoring data[8].

[5] Figures do not take into account additional funding resulting from the introduction of compulsory modulation following the June 2003 CAP reforms.
[6] In exceptional cases, the level of EU co-financing can reach 80 % in countries covered by the Cohesion Fund and 85 % in ultra-peripheral regions.
[7] Commission Regulation (EC) No 445/2002 of 26 February 2002 (OJ L 74, 15.3.2002) and its amending Regulation (EC) No 963/2003 of 4 June 2003 (OJ L 138, 5.6.2003).
[8] http://europa.eu.int/comm/agriculture/rur/eval/index_en.htm



Mid-term evaluations

Agenda 2000 required Member States and regions to undertake a mid-term evaluation of their rural development programmes, to be submitted to the Commission no later than end-2003. These evaluations should be based on common guidelines and indicators for evaluating rural development measures prepared by the Commission in cooperation with the Member States. These independent evaluations will assess progress in implementation of programmes/measures at the mid-way stage in the programming cycle and make recommendations for amendments to programmes to improve performance or to respond to changing needs and priorities in the programme area. The conclusions of the 2001 Göteborg Summit commit the Commission to producing, in 2004, a mid-term synthesis report on implementation of rural development programmes, based on the mid-term evaluations done by Member States. This exercise should feed into the development of the EU's rural development policies for the post-2006 period **(see section 4)**.

2. 2003 CAP reforms and rural development

In June 2003 the Council of Ministers reached political agreement on further reform of the CAP. The relevant legal texts were adopted by the Council on 29 September 2003. For rural development the reforms are in line with the overall objectives of Agenda 2000 and amend and complete the Agenda 2000 framework in some areas. A major overall aim of these reforms is to provide better balance in support and to strengthen rural development by transferring funds from the first to the second pillar of the CAP via the introduction of an EU-wide system of modulation[9], and by expanding the scope of current rural development instruments – to promote food quality, meet demanding standards and foster animal welfare. The reformed CAP puts greater emphasis on cross-compliance[10]. Hitherto cross-compliance was voluntary for Member States and applied to environmental standards only. Cross-compliance will now be compulsory and all farmers receiving direct payments will be subject to it. A 'priority list' of 18 statutory European standards in environment, food safety, and animal health and welfare has been established. Farmers will be sanctioned for non-respect of these standards, in addition to the sanctions generally applied, through cuts in direct payments. Certain rural development instruments agreed in the reform are aimed at assisting farmers to adapt to the introduction of cross-compliance.

[9] Mechanism by which EU farm spending is transferred from market-related support payments to rural development policy measures (from Pillar 1 to Pillar 2 of the EAGGF).

[10] Refers to the linking of direct payments to farmers to their respect of environmental and other requirements set at EU and national level.

2.1 The lead up to the 2003 reforms

As with Agenda 2000 a period of consultation, evaluation and debate preceded presentation of the Commission's legal proposals for CAP reform. This exercise underlined the need for the CAP (via the second pillar) to target support on promoting food quality, high standards of environmental and animal welfare management on farm – rather than on promoting production – in response to growing public concern on such points since the adoption of Agenda 2000. The rural development reforms take the form of an amendment to the rural development regulation, with the main aim of introducing a new series of measures into the rural development 'menu' (increasing the number of measures from 22 to 26) with effect already in 2003.

2.2 Expanding the scope of rural development instruments

The strengthened rural development policy agreed in June 2003 continues to support the priorities set under Agenda 2000. But it also provides specific new elements of support. The changes are all targeted primarily at helping farmers to respond to new challenges. It will be for Member States and regions to decide if they wish to take up these measures within their rural development programmes. The key new elements are as follows[11].

Food quality measures

Two new measures are introduced under this heading:

First, incentive payments will be available for farmers who participate voluntarily in EU or national schemes designed to improve the quality of agricultural products and production processes, and which give assurances to consumers on these issues. The following EU quality schemes are eligible for support:

- protection of geographical indications and designations of origin for agricultural products and foodstuffs[12];
- certificates of specific character for agricultural products and foodstuffs[13];
- organic production of agricultural products and indications referring to these[14];
- quality wine produced in specified regions[15].

In addition, Member States may offer aid for other national food quality schemes recognised within their programmes if they respect a set of EU criteria. Participating farmers may receive annual payments for up to five years and up to a maximum of EUR 3 000 per holding per year.

Second, support will be possible for producer groups for activities intended to inform consumers about, and promote, the products produced under quality schemes recognised under the first measure above, at up to 70 % of eligible project costs.

Meeting standards

Again, two new measures are introduced:

First, temporary and degressive (i.e. reducing over time) support will be payable to help farmers adapt to the introduction of demanding EU standards, not yet included in national legislation, concerning the environment, public, animal and plant health, animal welfare and occupational safety. Aid will be payable on a flat-rate basis, and degressive for a maximum period of five years. Aid will be subject to a ceiling of EUR 10 000 per holding in any year.

Second, support will be possible for farmers under the second pillar, to help with the costs of using farm advisory services to assess the performance of their farm business against the new cross-compliance standards being introduced. Farmers may benefit from public support of up to a maximum of 80 % of the cost of such services, subject to a ceiling of EUR 1 500.

Animal welfare

The scope of the agri-environment measure will be widened to introduce the possibility of support to farmers who maintain high standards of animal welfare. Respect for statutory animal welfare standards will have to be met at farmers' own cost, but the EU will provide support to farmers who enter into voluntary commitments of at least five years to meet standards which go beyond good animal husbandry practice. Such support will be paid annually in relation to the additional costs involved and income foregone, up to a limit of EUR 500 per livestock unit/year.

Support for young farmers

Existing support measures for young farmers will be reinforced including an increased setting up aid of maximum EUR 30 000 (increased from EUR 25 000) where the young farmer uses farm advisory services linked to their setting up, as well as higher aid intensity for investments made by young farmers of 50 % and 60 % in less favoured areas (increased from 45 % and 55 % respectively).

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[11] This is not an exhaustive list of all rural development reforms agreed in June 2003.
[12] Council Regulation (EC) No 2081/92 of 14 July 1992 (OJ L 208, 24.7.1992).
[13] Council Regulation (EC) No 2082/92 of 14 July 1992 (OJ L 208, 24.7.1992).
[14] Council Regulation (EC) No 2092/91 of 24 June 1991 (OJ L 198, 22.7.1991).
[15] Council Regulation (EC) No 1493/1999 on the common organisation of the market in wine (Title VI) of 17 May 1999 (OJ L 179, 14.7.1999).

Support for the implementation of Natura 2000

Aid in areas with specific environmental restrictions will now be targeted at requirements resulting from the Birds and Habitats Directives (Natura 2000). This change is coupled with the possibility to offer higher aid levels in justified cases. Aid levels can start from EUR 500 per hectare, reducing to EUR 200 per hectare over five years, reflecting the higher initial costs which can be associated with adjustment of farming practice to designation of land under Natura 2 000 and, in justified cases, can continue at above EUR 200/hectare on a longer term basis. Areas eligible are no longer restricted to a maximum 10 % of the area of the Member State concerned.

Support for forestry

The scope of the existing support measures for forestry is widened to permit investment support in State-owned forests for ecological and social reasons.

Increased Community co-financing rate for agri-environment and animal welfare

In order to reinforce the application of agri-environment and animal welfare actions, EU co-financing for this measure will be increased to a maximum of 85 % in Objective 1 regions, and 60 % in other areas (increased from a previous fixed co-financing rate of 75 % and 50 %).

Less favoured areas

There is a new provision for payment of compensatory allowances in LFAs at an increased maximum of EUR 250/hectare (on average at Member State level) – increased from EUR 200. This possibility applies for cases justified by objective circumstances only.

2.3 Reinforcing financing for rural development policy

The need to strengthen EU financial support for rural development has been an important element in CAP reform discussions over recent years. In the June 2003 reform it was agreed to introduce a new system of compulsory modulation (i.e. switching of funds from production to rural development), which Member States may use to finance the introduction of the new rural development measures agreed in the CAP reform or to reinforce existing measures. Under compulsory modulation farms receiving over EUR 5 000 a year in direct payments will have those payments reduced (modulated) by 3 % in 2005, 4 % in 2006 and 5 % from 2007 onwards. Additional funds will thereby become available under the second pillar from 2006 onwards. When the modulation rate reaches 5 % it will result in additional EU rural development funds of EUR 1.2 billion per year.

There has also been agreement on the distribution of these new modulation receipts between Member States for use in their rural development programmes financed by the EAGGF-Guarantee Section. The first percentage point (i.e. 20 % of modulation money generated in a particular Member State when the modulation rate is at 5 %) will be allocated to that Member State. Remaining amounts will be re-distributed among Member States according to objective criteria:

- agricultural area;
- agricultural employment;
- GDP per capita in purchasing power.

However, every Member State will receive back at least 80 % of the modulation funds generated from its farmers.

3. Member State involvement in rural development policy

It is important to note that rural development policy, while established under a framework agreed at EU level, is there to respond to national and regional needs. Member States play the major role in setting the parameters – financial and other – of rural development programmes to apply on their territory, and are responsible for their management.

3.1 Subsidiarity

EU rural development policy sets out a menu of measures that may be used by Member States. One of these is compulsory (agri-environment measures). It is Member States that draw up their rural development programmes and are responsible for their implementation. The Commission and Member States cooperate in ensuring the monitoring of the implementation of rural development policy and the sound use and control of EU funds. Rural development is thus not directed centrally from Brussels. Given the diversity of rural areas, and hence the problems to resolve, subsidiarity has become the keyword in rural development. Each Member State or region has to choose the mix of policies which best suits it and develop them in line with EU rural development legislation to ensure common minimum standards and approaches.

3.2 Programming

To ensure correct preparation before rural development programmes are launched, programming starts with each Member State presenting plans. Current programmes cover a seven-year period from January 2000 to end-December 2006. Programmes are established at the most appropriate geographical area. As far as possible, rural development measures in one area must be integrated in a single plan. Plans must contain: a quantified description of the current situation; the strategy proposed and the priorities chosen; estimates of the expected results; a budget indicating the national and EU resources assigned to each priority; designation of competent authorities and responsible organisations; steps taken to ensure effective implementation; results of consultations and the designation of associated authorities and organisations, together with socioeconomic partners. The Commission then assesses the proposed plans to determine whether they are consistent with the rural development regulation. On the basis of the plans, it then approves rural development programming documents within six months of the plans being presented.

Member States/regions have the possibility to amend their programmes to changing circumstances or if EU legal provisions change. This will for example be the case following the 2003 CAP reforms where Member States/regions that wish to take up the new rural development measures will need to amend their programmes to do so, with Commission approval.

4. Looking forward: rural development policy post-2006

Current rural development policy runs until end 2006. There will be a debate at EU level over what budget the EU will have available for the next financial period (the 'Financial Perspectives'), what policies to prioritise, and also over how rural development can contribute to the EU's cohesion strategy. It is clear that EU agricultural and rural policies have an important role to play in the EU's economic and social cohesion policy[16].

Financial parameters – Pillars 1 and 2

Strict budgetary ceilings for future CAP expenditure were laid down by EU leaders at the European Council in Brussels in October 2002. Overall expenditure in nominal terms for market-related expenditure and direct payments for each year in the period 2007–2013 shall be kept below the 2006 figure (increased by 1 % per year). However, this ceiling does not apply to rural development spending – it applies to market-related expenditure only. Indeed, the European Council recalled the importance of less favoured areas and the multifunctional nature of agriculture, confirming the significance of the second pillar.

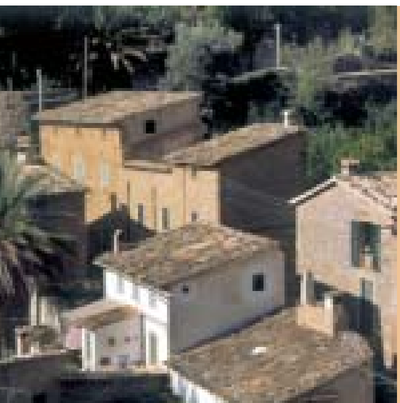
[16] Designed to strengthen the unity of Member States' economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the least favoured areas, including rural areas.

Future issues

Rural areas still face a diverse range of challenges from, *inter alia*, loss of population, lack of facilities and social services, pressures from ongoing agricultural restructuring and environmental concerns. Other rural areas are facing a more recent series of challenges such as population influx from urban conurbations, and how to balance the diverse interests of pressure for development of previously agricultural land, while maintaining the rural communities and landscapes which are often key factors attracting people to rural areas. The European Commission's 1999 guidelines for Structural Fund programmes in 2000–2006 emphasised as priorities:

- strengthening the agriculture sector;
- improving the competitiveness of rural areas;
- maintaining the environment and Europe's rural heritage.

The Commission is due to bring forward ideas for the future of EU cohesion strategy by the end of 2003. At the same time discussions over the Financial Perspectives for the period 2007–2013 are being initiated. Decisions on the future of rural development and other spending post-2006 are planned to be taken in 2005, sufficiently in advance of the next programming period. Issues to be considered include: how to accommodate the new Member States; how to maintain a balance in spending between Objective 1 regions and other regions requiring assistance via rural development measures. In 2000–06, 56 % of total EU spending on rural development (from both Guarantee and Guidance Sections) is targeted on Objective 1 regions for mainstream programmes in the EU-15. Under the enlargement agreement more than 95 % of transitional rural development funds are going to Objective 1 regions in the new Member States. It is expected that about two-thirds of EAGGF spending from 2004 onwards will concentrate on Objective 1 regions in the EU of 25 Member States. Reducing emphasis on the first pillar and strengthening the second pillar of CAP spending should also contribute to more cohesion.



The next programming period may address concerns about the current complexity of having two financial and delivery systems for rural development, using both EAGGF Guarantee and Guidance Sections. A separate financial and management structure for rural development may be considered. This could improve the efficiency of implementing EU rural development policy and simplify Member States' national and regional administration requirements.

Salzburg conference

As part of its preparation process for the development of rural development policy post-2006 the Commission is consulting with stakeholders. A major event in this process is the holding of an EU Conference on Rural Development in Salzburg, Austria from 12–14 November 2003.

5. Leader

Leader+ is one of four ‘Community Initiatives’ financed by EU structural funds and designed to help rural actors improve the long-term potential of their local region. It is aimed at encouraging the implementation of integrated, high-quality and original strategies for sustainable development. It has a strong focus on partnership and networks of exchange of experience. EUR 5 046.5 million for the period 2000–2006 will be spent, of which EUR 2 105.1 million is funded by the EAGGF-Guidance section and the remainder by public and private contributions.

Leader is now in its third generation. Leader I marked the beginning of a new approach (in 1991) to rural development policy, which is territorially based, integrated and participative. Leader II (from 1994) saw the Leader I approach put to more widespread use, with an emphasis on the innovative aspects of projects. Leader+, covering the period 2000 to 2006, continues its role as a laboratory for the emergence and testing of new approaches to integrated and sustainable development that will influence, complete and/or reinforce EU rural development policy. A distinctive feature of Leader is the implementation of integrated development programmes for local rural areas, drawn up and implemented by broad-based local partnerships, called Local Action Groups (LAGs).

The priority themes for LAGs strategies under Leader+ laid down by the Commission[17/18] are:

- making the best use of natural and cultural resources, including enhancing the value of sites (selected by 34 % of the total number of LAGs);
- improving the quality of life in rural areas (26 %);
- adding value to local products, in particular by facilitating access to markets for small production units via collective actions (19 %);
- the use of new know-how and new technologies to make products and services in rural areas more competitive (11 %).

The remaining LAGs have selected more than one priority theme.

Leader in many ways epitomises the EU's approach to rural development policy as it involves:

- a broad policy framework, strategic aims, common rules and financing established at EU level by the Member States and the European Commission;
- a bottom-up approach with rural stakeholders designing rural development measures, at local level, that best suit their requirements;
- regional and national selection and approval processes for LAGs.

The LAGs are selected under an open procedure based on the criteria laid down in the programmes. The number of LAGs selected by Member States (by end-July 2003) was 808. National networks have been set up so far in 10 out of 15 Member States to disseminate information from national level to the LAGs and to act as a forum for information exchange on experience and know-how. They also deliver assistance for local and transnational cooperation. Leader+ will continue to operate until end-2006. Member States and regions are required to present a mid-term evaluation of their Leader+ programmes by the end of 2003.

6. Rural development and enlargement

When it drew up its Financial Perspectives for 2000–2006 (under Agenda 2000), the EU was concerned about the situation in the candidate countries, especially those from central and eastern Europe. This resulted in the creation of two pre-accession funds, ISPA[19] and Sapard[20], and the setting-up of a EUR 40 billion reserve for anticipated Structural Fund expenditure following accession. Sapard enables the EU to assist the restructuring of the farm and rural sectors of the candidate countries in central and eastern Europe in the run-up to accession. Its main objectives 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;
- help implement the EU's *acquis communautaire* (body of existing legislation) in relation to the CAP and related policies.

Malta and Cyprus were not eligible for Sapard, but instead have had access to specific pre-accession funds to help them prepare to implement the *acquis*. Through these provisions assistance has been provided to their administrations to prepare rural development programmes.

From 1 May 2004 the so-called 'Accession States' will become full members of the EU. The new Member States will be Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. From this date onwards, these countries will cease to be eligible for Sapard funding. Sapard will however continue to operate in Bulgaria and Romania for the remainder of the programming period.

[17] Commission notice of 14 April 2000 (OJ C 139, 18.5.2000).
[18] Situation at end-July 2003.
[19] Council Regulation (EC) No 1267/1999 of 21 June 1999 (OJ L 161, 26.6.1999).
[20] Council Regulation (EC) No 1268/1999 of 21 June 1999 (OJ L 161, 26.6.1999).

The Act of Accession (Annex II, Chapter 6) defines, for the period 2004–06, a special rural development regime for new Member States. This regime is mainly based on a new Temporary Rural Development Instrument (TRDI), funded by the EAGGF-Guarantee section, but operating using differentiated appropriations (as is already the case for Sapard and the Structural Funds). The TRDI will finance the four accompanying measures (agri-environment, early retirement, afforestation and compensatory payments for LFAs and areas subject to environmental constraints), plus some additional rural development measures which have been introduced specifically to address the particular challenges facing the new Member States (establishment of producer groups, support for semi-subsistence farms undergoing restructuring, complements to direct payments, technical assistance). The Accession States will also benefit from a Leader-type measure to be funded by the EAGGF-Guidance Section.

All other non-accompanying measures that already form part of EU rural development policy are also available for the Accession States, with some additions such as the possibility to fund the provision of advice to farmers. Except for the agri-environment measure, which is mandatory, any of these measures may form part of the rural development programming documents at the choice of the new Member States.

In the Objective 1 regions (covering most of the territory of the Accession States) there will be two types of programming:

- rural development programmes funded by the TRDI (EAGGF-Guarantee Section);
- rural development measures integrated in the Objective 1 programming funded by EAGGF-Guidance Section.

The broad timetable for new Member States to integrate into EU rural development policy is:

- informal submission of programmes and informal negotiations before end-2003;
- programmes may be officially submitted from 1 January 2004 (as eligibility for expenditure may start from this date) and formal negotiations;
- formal Commission approval as soon as possible after 1 May 2004 (i.e. after the new Member States have formally acceded to the EU).

For the new Member States there will be 10 rural development programmes (funded from EAGGF-Guarantee Section) and nine Objective 1 programmes including rural development measures (the exception is Cyprus – not an Objective 1 region – where all rural development measures will be financed through the TRDI) covering the period 2004–06. Approximately EUR 5.8 billion (at 1999 prices) are available for the TRDI **(see Table 3).**

Table 3: EU-10 Accession States: Overview of rural development programming types and Community financial support 2004–2006

	Number of programmes	EAGGF section	EU contribution (EUR billion)
Rural development programmes	10	Guarantee	5.8
Objective 1 programmes with RD measures	9	Guidance*	2.0
Total	19		7.8

*estimate

Table 4: Allocation EAGGF Guarantee for rural development[21]

EU-15 2000–2006			EU-10 2004–2006		
	million EUR	share		million EUR	share
Austria	3 207.9	9.7 %	Cyprus	74.9	1.3 %
Belgium	379.2	1.2 %	Czech Republic	542.9	9.4 %
Denmark	348.9	1.1 %	Estonia	150.5	2.6 %
Finland	2 199.3	6.7 %	Hungary	602.5	10.5 %
France	5 763.6	17.5 %	Latvia	328.1	5.7 %
Germany	5 308.6	16.1 %	Lithuania	489.5	8.5 %
Greece	993.5	3.0 %	Malta	26.8	0.5 %
Ireland	2 388.9	7.3 %	Poland	2 867.0	49.8 %
Italy	4 512.3	13.7 %	Slovakia	397.2	6.9 %
Luxembourg	91.0	0.3 %	Slovenia	281.6	4.9 %
Netherlands	417.1	1.3 %			
Portugal	1 516.7	4.6 %			
Spain	3 480.9	10.6 %			
Sweden	1 130.0	3.4 %			
United Kingdom	1 167.9	3.5 %			
Total	32 905.9	100.0 %	Total	5 761.0	100.0 %

[21] Table 3 shows programming types for the 10 EU Accession States in the 2004–2006 period.

Table 5: Maximum amounts for different rural development measures (Rural development regulation – post-2003 CAP reform)

Article in Regulation	Measure	Payment (EUR)	References
8(2)	Setting-up aid	25 000*	
12(1)	Early retirement	15 000** 150 000 3 500 35 000	per transferor and year total amount per transferor per worker and year total amount per worker
15(3)	Minimum compensatory allowance Maximum compensatory allowance Maximum average compensatory allowance	25*** 200 250	per hectare of areas used for agriculture per hectare of areas used for agriculture per hectare of areas used for agriculture
16	Maximum payment Initial maximum payment	200 500	per hectare per hectare
21c	Maximum payment	10 000	per holding
21d	Farm advisory services	1 500	per advisory service
24(2)	Annual crops Specialised perennial crops Other land uses Local breeds in danger of being lost to farming Animal welfare	600 900 450 200**** 500	per hectare per hectare per hectare per livestock unit per livestock unit
24c	Maximum payment	3 000	per holding
31(4)	Maximum annual premium to cover loss of income from afforestation - for farmers of associations thereof - for any other private-law person	725 185	per hectare per hectare
32(2)	Minimum payment Maximum payment	40 120	per hectare per hectare

* This amount can be increased to a maximum of EUR 30 000 for young farmers who are using farm advisory services linked to the setting-up of their activity during a period of three years after setting-up.

** Subject to the total maximum per transferor, the maximum annual payments may be increased up to twofold taking account of the economic structure of holdings in territories and the objective of speeding up the adjustment of the agricultural structures.

*** This amount may be reduced to take account of the particular geographical situation or economic structure of holdings in certain territories and in order to avoid overcompensation and in accordance with the second indent of Article 15(1).

**** This amount may be increased in exceptional cases taking account of specific requirements of certain breeds, which should be justified in the rural developments plans.

Table 6: Maximum amounts for the specific rural development measures for new Member States

Article in Regulation 1257/1999[22]	Measure	Payment (EUR)	References
Art. 33b	Support for semi-subsistence farms undergoing restructuring (Maximum payment)	1 000[23]	Per farm/per year
Art. 33d	Producer groups (Maximum eligible amount)	100 000 100 000 80 000 60 000 50 000	For the first year For the second year For the third year For the fourth year For the fifth year

[22] Based on the Act of Accession.
[23] In the case of Poland the maximum eligible amount shall not exceed EUR 1 250.

Community funding rural development

(TRDI) EAGGF Guarantee

Throughout the EU

I. Four accompanying measures:
- Early retirement
- Less favoured areas
- Agri-environment and animal welfare
- Afforestation agricultural land

II. CAP reform measures:
- Meeting standards – temporary support
- Meeting standards – support advisory services
- Food quality – incentive scheme
- Food quality – promotion

III. Semi-subsistence farming support (nMS)

IV. Complements to direct payments (nMS)

V. Two Sapard-specific measures (nMS):
- Setting up of producer groups
- Technical assistance

Outside Objective 1

EAGGF Guidance

Only Objective 1

- Investment in agricultural holdings
- Young farmers
- Training
- Other forestry
- Processing and marketing
- Adaptation and development of rural areas (Article 33)

Inside/Outside Objective 1

- Leader+ (programmes/measures)

7. For further information

Websites

European Commission Agriculture Directorate-General: rural development
http://europa.eu.int/comm/agriculture/rur/index_en.htm

European Commission Agriculture Directorate-General: rural development (monitoring and evaluation)
http://europa.eu.int/comm/agriculture/rur/eval/index_en.htm

European Commission Agriculture Directorate-General: CAP reform
http://europa.eu.int/comm/agriculture/mtr/index_en.htm

European Commission Agriculture Directorate-General: Leader+
http://europa.eu.int/comm/agriculture/rur/leaderplus/index_en.htm

European Commission Agriculture Directorate-General: enlargement
http://europa.eu.int/comm/agriculture/external/enlarge/index_en.htm

European Commission Regional Policy Directorate-General:
http://europa.eu.int/comm/regional_policy/index_en.htm

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