

## Common Agricultural Policy – Pillar II

### In a nutshell

The Common Agricultural Policy (CAP) concerns the pooling of European Union resources spent on agriculture and aimed at protecting the viable production of food, the sustainable management of natural resources and a living countryside. Nearly 38% of the EU budget is spent on the CAP. Under the 2014-2020 Multiannual Financial Framework €408.31 billion is earmarked for the CAP, of which €99.6 billion is allocated to the second pillar. The second pillar of the CAP budget is financed under the European Agricultural Fund for Rural Development (EAFRD). The EAFRD is aimed at achieving the balanced territorial development of rural economies and at sustaining a farming sector that is environmentally sound as well as competitive and innovative.

### The EU's Multiannual Financial Framework (MFF) heading and policy area

Heading 2 – Sustainable Growth: Natural Resources

Common Agricultural Policy (Pillar II) – Rural Development Policy

### 2014-20 financial envelope (in current prices and as % of total MFF)

Commitments: €99.6 billion (9.2%) – second pillar after transfer between pillars

### 2016 budget (in current prices and as % of total EU budget)

Commitments: €18.676 billion (12%)

Payments: €11.746 billion (7.6%)

### 2015 budget (in current prices and as % of total EU budget)

Commitments: €18.169 billion (11.2%)

Payments: €11.166 billion (6.9%)

### Methods of implementation

Indirect implementation, by Member States' managing authorities



### In this briefing:

- The EU's role in agriculture: legal basis
- Objectives of the programme
  - Measures funded
- Assessment of programme/measures
- Other rural development-related EU programmes and measures

## The EU's role in agriculture: legal basis

The Common Agricultural Policy (CAP) pools the European Union (EU) resources that are spent on agriculture and aimed at protecting the viable production of food, the sustainable management of natural resources and a living countryside. Agricultural policies are at the meeting point of several crucial aspects of EU policy, with a direct impact –the European Commission estimates – on more than half the EU's territory and consumers.<sup>1</sup> In the EU, farmers manage more than **170 million hectares** of agricultural land.

### How rural development policy has evolved

EU rural development policy is designed to support the '**European model of agriculture**', based on a mix of small farmers, family farmers, and industrial and professional farmers – a model that ensures food safety (in a context of climate change) and promotes sustainable and balanced development across all rural areas in the EU, including those characterised by difficult production conditions.

Rural development policy covers areas as diverse as farming and forestry, land use, the management of natural resources and economic diversification of rural communities. The policy has, however, been modified over the years. In its early days, rural policy was essentially sector-based – i.e. it dealt mainly with agricultural structures and included only limited territorial aspects. [Agenda 2000](#) established it as the second pillar of the CAP and brought rural development under a single regulation to apply across the whole of the EU. Since then rural development policy has embraced agricultural restructuring as well as environmental concerns.

As a matter of fact, rural development has only recently become a genuine EU policy. It currently attracts **9.2%** of the total EU budget and is fully integrated in the new strategic framework for European structural and investment policies.

According to a European Commission [report](#) on rural development, rural areas in the EU are home to **113 million people** – nearly one quarter (**23%**) of the EU population. Predominantly rural regions represent more than half of EU territory (**52%**), while forests cover **38%** of EU territory. The distribution of the economically active population varies considerably from country to country. In the Netherlands and the United Kingdom, for instance, predominantly rural regions account for less than 10% of the economically active population. In Ireland, at the other end of the scale, predominantly rural regions account for over 70% of the economically active population.<sup>2</sup> Overall, more than 46 million jobs are associated with rural regions in the EU.<sup>3</sup>

### The CAP in the Treaties and in EU regulations

**Articles 38 to 44** of the [Treaty on the Functioning of the European Union](#) (TFEU) set out the basic rules and objectives for a common agriculture and fisheries policy. Articles 38, 39 and 40 describe the main aspects of the CAP, its goals and the organisational forms needed to tackle them. Of particular importance is Article 39b, which refers to the promotion of fair standards of living in the agricultural community. The protection of rural areas is further mentioned in Article 174 TFEU (concerning economic, social and territorial cohesion).

The legal basis for the second pillar of the 2014-2020 CAP includes the following EU regulations: [Regulation \(EU\) No 1303/2013](#) on the European structural and investment funds, including the European Agricultural Fund for Rural Development (EAFRD); [Regulation \(EU\) No 1305/2013](#), which sets out the rules for EAFRD support; and

[Regulation \(EU\) No 1306/2013](#), which covers horizontal matters (such as the financing, management and monitoring of the CAP).

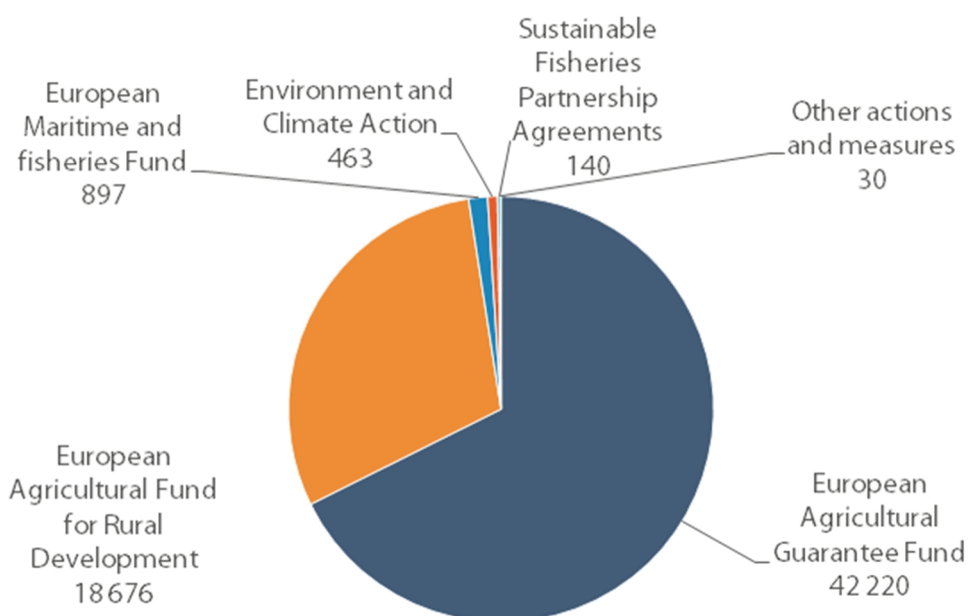
### EU financial support for rural development

At present, nearly 38% of the EU budget is spent on the CAP. The 2014-2020 [Multiannual Financial Framework](#) allocates €408.31 billion to the CAP, of which €99.6 billion has been earmarked for the second pillar (9.2% of the total EU budget).

The total CAP budget was initially distributed between the two CAP pillars as follows: **€312.74** billion for Pillar I (direct payments to farmers and market measures, under the European Agricultural Guarantee Fund – EAGF) and **€95.58** billion for Pillar II, under the EAFRD.

Under Heading 2, Sustainable Growth: Natural Resources, Pillar II totals €18.676 billion in 2016.

**Figure 1 – Heading 2: Sustainable Growth – Natural Resources**  
(adopted EU budget for 2016, in € million)



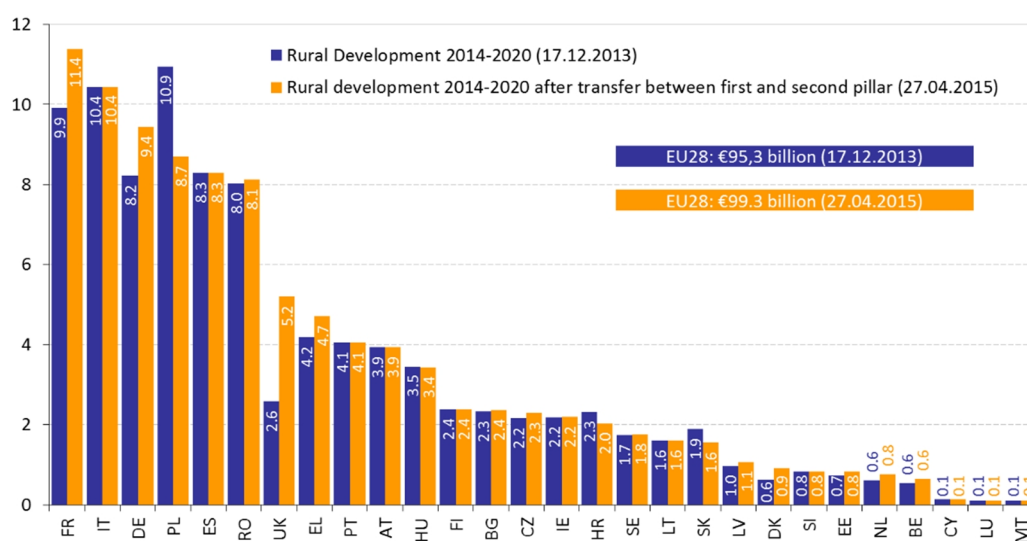
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Data source: European Commission, DG Budget.

The current CAP, which was reformed in 2013, provides for **inter-pillar flexibility** (Article 14 of Regulation (EU) No 1307/2013). This means that Member States have been able to transfer funds between pillars, up to 15% of the original amounts. Some 18 countries have decided to use this option to strengthen support for rural development. The net transfer from Pillar I to Pillar II over the 2014-2020 period amounts to around €4 billion, thus increasing the rural development envelope to **€99.6 billion**.

Figure 2 illustrates Member State allocations before and after transfers and application of capping (the possibility for Member States to limit the amount of basic payments that farmers receive and transfer the amount thus saved to the rural development envelope).

**Figure 2 – Breakdown by Member State of EU support for rural development 2014-2020, after inter-pillar transfer and reduction of payments (in € billion, current prices)**



Source: Regulation (EU) No 1305/2013 as amended by Commission Delegated Regulation (EU) No 2015/791.

## Objectives of the programme

The EU's rural areas are characterised by their great diversity. Despite including some of the EU's wealthiest regions, many of these areas, particularly in remote or depopulated parts of Europe, face significant socio-economic problems: low income levels, unemployment, depopulation and an aging population, a lack of services and infrastructure, and a lack of opportunities for women and young people, to name but a few. The role of EU rural development policy is in particular to help rural areas rise to those [challenges](#). In this regard, it shares many objectives with other European Structural and Investment (ESI) Funds.

According to Article 3 of Regulation (EU) No 1305/2013, the **mission** of the rural development fund (EAFRD) is to contribute to the Europe 2020 [strategy](#) for smart, sustainable and inclusive growth 'by promoting sustainable rural development throughout the Union in a manner that complements the other instruments of the CAP, the cohesion policy and the common fisheries policy'. Article 4 states that EU rural development policy has three overarching strategic objectives: fostering the competitiveness of agriculture; ensuring the sustainable management of natural resources, and climate action; and achieving balanced territorial development of rural economies and communities including the creation and maintenance of employment.

These objectives are translated into six EU priorities for rural development:

1. [Fostering knowledge transfer](#) and innovation in agriculture, forestry and rural areas
2. [Enhancing farm viability](#) and competitiveness of all types of agriculture, and promoting innovative farm technologies and the sustainable management of forests
3. [Promoting food chain organisation](#), animal welfare and risk management in agriculture
4. [Restoring, preserving and enhancing ecosystems](#) related to agriculture and forestry
5. [Promoting resource efficiency](#) and supporting the shift toward a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors
6. [Promoting social inclusion](#), poverty reduction and economic development in rural areas

Each EU priority, in turn, is broken down into two or more sub-areas for targeted intervention, also called focus areas (Article 5 of Regulation (EU) No 1305/2013). Priorities and focus areas provide the basis for programming and implementing EAFRD support for EU rural areas. The first priority 'Fostering knowledge transfer' is considered to be a cross-cutting objective for EAFRD support.

## Measures funded

### Planned intervention within rural development programming

EU rural development policy is implemented on the basis of national or regional multi-annual **rural development programmes** (RDP) designed and managed by EU Member States or regions and approved by the European Commission. Each programme constitutes a specific strategy that has to meet the needs of the country/region concerned while respecting EU priorities for rural development. Member States must draw up their RDPs on the basis of at least four of the six above-mentioned EU priorities. For each of the 18 focus areas, they have to set quantified targets and indicate the measures they will use to reach them (from a menu of 20 measures listed in Regulation (EU) No 1305/2013).

All measures are **co-financed** by the EAFRD. Co-financing rates depend on the type of rural area for which support is intended, as well as on the measures themselves. Member States must devote at least 30% of their EAFRD allocation on measures related to the environment and the fight against climate change.

Measures apply to all rural actors (farmers, forest managers, local associations, rural entrepreneurs) and support a wide range of activities, from fostering innovation and the knowledge base in rural areas, to facilitating generational renewal in the agriculture sector, reducing nitrous oxide and methane emissions from agriculture or supporting farm risk management. In December 2015, the European Commission approved the last of the **118 rural development programmes** submitted.

In comparison with the previous period, programming has been made more flexible to better address needs and opportunities in rural areas, and the programmes are more results-oriented.

### Rural development as part of a wider EU strategy for growth

In the 2014-2020 programming period, EU rural development policy is built into the new [EU Common Strategic Framework](#), ensuring a more strategic and complementary use of all European structural and investment ([ESI](#)) funds and reflecting the [Europe 2020 strategy](#) for smart, sustainable and inclusive growth, by means of 11 common [thematic objectives](#). Action funded by the EAFRD can thus be better coordinated with action funded by the four other ESI funds.<sup>4</sup> All five funds are covered by a common set of rules, under the [Common Provisions Regulation](#) (CPR).

### Notable aspects of EU rural development policy in the 2014-2020 period

Member States and regions have the possibility to design thematic **sub-programmes** in order to grant special support for policy areas such as small farms, young farmers, mountain areas, women in rural areas, climate change mitigation and adaptation, biodiversity and short supply chains.

The [LEADER](#) (links between the rural economy and development actions) approach is an area-based, bottom-up method of delivering support to local communities that design and implement local development strategies themselves. It is a compulsory feature of all

Member State RDPs, and at least 5% of EAFRD national envelopes must be devoted to LEADER measures.

The EAFRD also supports knowledge transfer and innovation via the European Innovation Partnership for agricultural productivity and sustainability ([EIP-Agri](#)). Other new features include the possibility to use [financial instruments](#), ex-ante conditionalities (commitments or obligations that must be fulfilled by Member States before programme adoption) and the performance reserve: an amount equal to 6% of a Member State's rural development envelope that is set aside to reward good programme performance.

### **Overview of Member States' planned rural development investments**

In total, around **€161 billion** of total public funding (EAFRD and national funding) will be spent on rural development for the period 2014-2020. The analysis by the Commission of all 118 RDPs provides a picture of the way funding has been distributed between priorities and measures and of the expected [achievements](#).

The measures that have attracted the most funding are 'Investments in physical assets' (22.6% of total public expenditure), 'Agri-environment-climate' (16.8%), and 'Areas facing natural or specific constraints' (16.3%).

Examples of key expected achievements:

- Total investment in agricultural physical assets: €16.78 billion
- Total investment in non-agricultural activities: €4.74 billion
- 14% of rural population benefiting from new or improved ICT services or infrastructure
- Total investment for energy efficiency in agriculture and food processing: €2.8 billion
- Total investment in renewable energy production: €2.71 billion
- 175 407 young farmers supported
- 10 million hectares of organic farming supported
- 1 366 390 farmers benefiting from advisory services

### **Assessment of programme/measures**

The CAP for 2014-2020 includes a monitoring and evaluation [framework](#) designed to provide administrations with information on the implementation of the policy, its results and its impacts. For the first time, this framework covers both pillars of the CAP.<sup>5</sup> Evaluations within Pillar II are conducted by/on behalf of the Member States and then synthesised by the Commission services. Starting from 2016 and until 2024, Member States will submit an annual implementation report on the implementation of their rural development programmes for the previous year.

In a 2013 special [report](#), the European Court of Auditors came to the general conclusion that the Commission and Member States had not sufficiently demonstrated the extent to which rural development objectives had been achieved during the 2007-2013 period and that there was 'a lack of assurance' that the EU budget had been 'spent well'. More specifically, the Court found that the objectives set by the RDPs lacked clarity and that there was insufficient information on the results achieved. Furthermore, more use should have been made of the monitoring and evaluation information to improve the efficiency of rural development spending.

The Court considered that, for the 2014-2020 programming period, the Commission and Member States should put more emphasis on the effectiveness and efficiency of



expenditure when designing and programming measures and subsequently when selecting the operations to be financed. The Court therefore made a number of recommendations related to necessary improvements to the 2014-2020 common monitoring and evaluation framework, to the design of rural development programmes (so that they can provide a better foundation for sound financial management), to their implementation, and to reporting by Member States and the Commission on the results achieved with the EU budget.

In November 2015, the Commission published a [synthesis](#) of ex ante evaluations of rural development programmes 2014-2020, as required by Article 79 of Regulation (EU) 1305/2013. Member States' rural development programmes have to be submitted to an ex ante evaluation in the early stages of their development, so as to insure that they are in line with the needs of the Member State concerned and with EU priorities. The aim is also to assess the consistency of the RDPs with the measures funded under the first pillar by the EAGF, with interventions supported under other national or regional funds and with other ESI fund programmes. The ex ante evaluation should constitute a solid foundation for monitoring and evaluating RDP achievements. The synthesis commissioned by the Commission formulates a list of recommendations on a number of aspects of RDP design, such as the need to improve capacity building and exchanges between management authorities and other actors involved; to improve presentation of the internal coherence of RDPs and to clarify the links between expected outputs and results; to strengthen the links between farming practice and research; and to closely monitor the implementation of Measure 4 'Investment in physical assets', as it is the most popular type of RDP intervention.

### Other rural development-related EU programmes and measures

Because of the cross-cutting nature of the CAP, various other EU funding programmes deal with similar fields. In a general way, relevant EU funds providing support include the following: the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund. These are collectively known as the **European Structural and Investment (ESI) funds**. Many of the programmes funded through the ESI funds apply to rural areas. Take, for instance, the broadband coverage of rural areas. With the [Europe 2020](#) strategy, EU commitments to be achieved by 2020 include full national coverage by broadband above 30 Mbps and 50% of the EU subscribed to broadband above 100 Mbps. Rural areas are also recipients of the funds distributed through the [European Fund for Strategic Investment](#), which is the main pillar of the Investment Plan for Europe.

Additional programmes include aspects of interest to rural areas, such as the Fund for [European Aid to the Most Deprived](#) (FEAD), which supports EU countries' actions to provide those most deprived with material assistance, such as food, clothing and other essential items for personal use; the research and innovation framework programme [Horizon 2020](#) (including research funds on food security, sustainable agriculture and the [bioeconomy](#)); [European territorial cooperation](#) (with a budget accounting for **2.74%** of the total 2014-2020 allocation for cohesion policy, the programme includes among its objectives the connection between rural and urban areas, as well as the accessibility of rural areas and environmental protection).

This briefing is part of the 'How the EU budget is spent' series and complements the briefing on [CAP Pillar I](#) (direct payments and market measures).

## Endnotes

- <sup>1</sup> See European Commission, [SEC\(2011\) 1152 final/2 - Impact Assessment 'Common Agricultural Policy Towards 2020'](#), 2011
- <sup>2</sup> See Eurostat, Regional Yearbook [2013](#), 2013.
- <sup>3</sup> On the role of EU's CAP in creating rural jobs see [The role of the EU's Common Agricultural Policy in creating rural jobs](#), European Parliament, Directorate-General for Internal Policies, Policy Department B, 2016.
- <sup>4</sup> European Regional Development Fund (ERDF), Cohesion Fund, European Social Fund (ESF) and European Maritime and Fisheries Fund (EMFF).
- <sup>5</sup> The monitoring and evaluation framework for the CAP 2014-2020 is set out in three EU regulations: Regulation (EU) No 1306/2013 (the horizontal regulation) covers both pillars; Regulation (EU) No 1303/2013 (the common provisions regulation) defines common monitoring and evaluation elements for the ESI funds; and Regulation (EU) No 1305/2013 (the rural development regulation) deals specifically with rural development programmes.

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