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WORKING DOCUMENT

on the European Court of Auditors' Special Report No 10/2017 (2016 Discharge): “EU support to young farmers should be better targeted to foster effective generational renewal”

Committee on Budgetary Control

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Audit scope, objective and approach

EU agriculture is facing a decreasing farming population. The overall number of farmers in the EU-27 has rapidly decreased in the last decade, falling from 14.5 million farmers in 2005 to 10.7 million farmers in 2013. Young farmers (up to 44 years old) fell from 3.3 million in 2005 to 2.3 million in 2013. As the reduction affected all age groups, the percentage of young farmers in the farming population remained relatively stable, slightly above 20 %. However, significant differences exist between Member States

The audit aimed to answer the following question:

"Is the EU support to young farmers well designed to contribute effectively towards improved generational renewal?"

The Court focused on the measures supporting directly young farmers in the 2007-2020 period[1].

The audit was carried out between April and October 2016 and covered four Member States that spent the highest amount on young farmers: France, Spain, Poland and Italy, namely the 2007-2013 Pillar 2 measure 112 for setting-up of young farmers and its corresponding measure 6.1 in 2014-2020, and the 2014-2020 Pillar 1 payment to young farmers. The Court assessed the intervention logic, the targeting in the implementation of the measures, and their results.

These four Member States represent 56 % of the total EU budget corresponding to the measures supporting directly young farmers in the 2007-2020 period.

In these four Member States, the Court examined the national frameworks that set the intervention logic and the main features of the measures, and the extent of coordination between such measures and national policies favouring generational renewal. To assess the implementation and results of the measures, the Court focused on seven regions that are among the ones which spent the most under the measures supporting directly young farmers:

– France (Pays de la Loire and Midi-Pyrénées);

– Spain (Andalucía);

– Poland (Warminsko-Mazurskie and Dolnoslaskie);

– Italy (Emilia-Romagna and Puglia).

The audit approach combined an audit of the control systems, mainly at Commission and Member State level, with an examination of a sample of 57 projects at final beneficiary level

[1] The total EU budget allocated specifically for the support to young farmers over the 2007-2020 period is 9.6 billion euro. It doubled from 3.2 billion euro in the 2007-2013 period, provided under the Pillar 2 setting-up measure, to 6.4 billion euro in the 2014-2020 period, mainly due to the introduction of an additional direct payment to young farmers under Pillar 1.Total public expenditure, including national co-financing by Member States of Pillar 2 setting-up measure, is 18.3 billion euro. Almost 200 000 young farmers received the EU aid for setting up in the 2007-2013 period. More than 70 % of the EU spending was provided under the Pillar 2 (EAFRD) measure for setting up of young farmers and the remaining 30 % is provided, in 2014-2020, under the Pillar 1 (EAGF) additional direct payment for young farmers.

to verify the implementation and the result of the measures. The Court also analysed relevant statistics and studies provided by Eurostat (e.g. Farm Structure Surveys), national parliaments and statistical offices, universities and young farmers' organisations at EU, national and regional level.

Studies - mid term evaluation 2007-2013

These studies indicated that there are general factors other than EU measures influencing generational renewal (e.g. the economic and social situation, the propensity of banks to provide loans, the employment possibilities in sectors other than agriculture, and the high concentration of agricultural land in relatively low number of farms). National policies favouring the exit of old farmers can also play an important role, as indicated by Germany, one of the Member States which, like Denmark, Ireland, the Netherlands and UK-Northern Ireland, chose not to implement the setting up measure under 2014-2020 Pillar 2. In fact, the 2007-2013 mid-term evaluation for Germany (Rhineland-Palatinate) showed that the measure 112 for the setting up of young farmers failed to adequately address the problem of farms lacking a suitable successor and that it was not possible to identify what impact such support had had on farmers' age structure. In addition, Germany considered that its 'Hofabgabeklausel' social security scheme, which requires farmers to relinquish their farm in order to receive their old-age pension, plays a major role in successful generational renewal in the farming sector.

Court's findings and observations

1. As regards the intervention logic:

   For Pillar 1 payment for young farmers the Court found that:

   – Intervention logic is not based on a needs assessment, its objective does not reflect the general objective of encouraging generational renewal, and Member States did not coordinate it with Pillar 2 setting-up measure or national measures;

   – In the absence of a needs assessment the aid is provided in a standardized form (annual payment per hectare), in an amount and in a timing where it is unclear which specific needs other than additional income are addressed.

   For Pillar 2 measure for setting up of young farmers the Court found that:

   – Although it is generally based on a vague needs assessment, its objectives are partially SMART[1] and reflect the general objective of encouraging generational renewal. There is good coordination between the Pillar 2 measures for setting-up and investments. However, there is little coordination with national financial instruments, such as loans at favourable conditions to buy land;

   — The aid is provided in a form addressing directly the young farmers' needs of access to land, capital and knowledge. The amount of aid is generally linked to the needs and modulated to trigger specific actions, like introducing organic farming, water or saving initiatives, setting up in less favoured areas.

[1] Specific, measurable, achievable, relevant and timed objectives

2. As regards the targeting of the measures:

   For Pillar 1 payment to young farmers the Court found that:

   – The aid is provided in a standardized form regardless of the viability of the holdings, their location and, in most Member States, the skills and/or educational levels of beneficiaries. In case of joint control of legal holdings with other non-young farmers, the aid is sometimes provided to holdings in which young farmers could have only a minor role – in terms of decision making power.

   For Pillar 2 measure for setting up of young farmers the Court found that:

   – The aid is directed to more qualified farmers, who commit to implement a business plan guiding them in developing viable holdings and who are often encouraged through the project selection process to set up in less favoured areas. However, business plans were of variable quality and managing authorities often did not apply selection procedures to prioritise best projects. Selection criteria were introduced late in the 2007-2013 period, minimum thresholds were either too low or non-existent and the 7-years budget of the measure was used up in some Member States to fund nearly all applications submitted at the start of the programming period, implying that young farmers who set up later could not be funded.

3. As regards the results of the measures:

   For Pillar 1 payment for young farmers the Court found that:

   – The common monitoring and evaluation framework does not provide useful indicators to assess the effectiveness of this payment, as there is no result indicator for this payment and data on the income and viability of the supported holdings are not collected.

   For Pillar 2 measure for setting up of young farmers the Court found that:

   – There is little evidence that the measure has facilitated the setting up of young farmers and improved the generational renewal and the viability of the supported holdings, mainly because of the low quality of the indicators provided by the common monitoring and evaluation system. Only in Italy (Emilia-Romagna) the Court found evidence that beneficiaries of the setting up measure developed larger holdings, more productive, more profitable and employing more people than non-supported ones.

Replies of the Commission

Whilst the Commission welcomes the recommendations made by the Court, notably as regards those elements of it that clearly fall directly under the Commission's responsibilities, it stresses that it is not in a position at this stage to make specific commitments in relation to legislative proposals for the post 2020 period

Regulatory framework of the post-2020 CAP

With regard to the regulatory framework of the post-2020 CAP the European Parliament recalls that:

1. Agriculture covers nearly half of the EU's surface, gives both arable and livestock farmers a key responsibility for preserving natural resources (water, air, soil and biodiversity), implementing climate action and shaping valuable landscapes, at the same time as providing a stable, safe, affordable, sustainably produced and high-quality food supply for more than 500 million Europeans.

2. In the face of ecological and other challenges, the CAP has evolved from product support to targeting producer behaviour, and from trade-off to win-win policies, which can work within the sustainability framework, retaining both production goals and ensuring sustainable management of natural resources.

3. With huge disparities in the development of the farming sector across the EU, a major problem is the demographic challenge, requiring policies to address the shortage of young farmers which undermines its long-term sustainability.

4. Young farmers face specific difficulties in accessing finance and low turnover in the first years of business, combined with slow generational renewal difficulty in accessing agricultural land, all make it harder for young farmers to entering the sector.

5. In turn, the falling number of young people in the sector makes generational renewal more difficult and can mean the loss of valuable skills and knowledge as older, experienced people, retire. Support is needed for both retiring farmers and young successors taking over a farm (a satisfactory retirement scheme e.g. specific pension and social programmes addressed to farmers transferring their farms and seeking new homes, and then for those starting out; aid covering tax reliefs, loans, various forms of direct payments, investments and innovation incentives, and professional training).

6. The regulatory framework for EU rural development 2014-2020 stipulates that knowledge transfer and information actions should be adapted to the needs of rural actors and not only via traditional training courses, but rather be adapted to the needs of rural actors (European Commission, 2013).

7. Appropriate training is especially important for young farmers who are often better educated and committed to fostering the innovation and resource-efficiency needed to achieve the EU 2020 objectives.

8. The problems of young farmers must be addressed in connection with other socio-economic problems in rural areas to meet the aspirations of rural youth for diverse, education, health services, public transport/transport links and well rewarded employment. Overcoming the digital divide is crucial; connectivity and access to appropriate digital technology must be ensured for rural areas as a key part of good quality of rural life.

9. Flexibility and better targeting in policy design and delivery is necessary, without adding complexity. In addition, smart procedural tools must be developed to reduce the administrative burden on beneficiaries and national and regional administrations whose

capacity and effectiveness, with that of community-based groups, must be enhanced. This may through the provision of technical assistance, training, cooperation and networking.

The European Parliament therefore reminds the Commission that rural and agricultural policies must complement each other as well as interacting with wider national and regional strategies. In this way, the Common Agriculture Policy, can become more result-oriented when interlinked strongly with Rural Development Policy.

Draftsman's recommendations for possible inclusion in the annual discharge report

The European Parliament therefore recommends that:

1. On the existing policies of the CAP:

   – a comprehensive evaluation is needed of all tools/measures which can be combined to help young farmers, to focus on comparability across the EU, consistency or inconsistency in result indicators, and obstacles to setting up for young farmers which can be addressed in the future revision of the CAP;

   – objectives should be better defined in terms of generational renewal, with possibly a quantified target, and information to be gathered on levels of success in generational renewal and the factors which contribute or hinder it.

2. For the post-2020 CAP, legislation should be framed such that the Commission indicate (or require Member States to indicate, in line with the shared management provisions) clear intervention logic for the policy instruments addressing generational renewal in agriculture. The intervention logic should include:

   – a sound assessment of young farmers’ needs which investigates the underlying reasons why young people willing to become farmers face barriers in their setting up process and the degree of diffusion of such barriers across geographical areas, agricultural sectors or other specific holdings’ characteristics;

   – an assessment of which needs could be addressed by EU policy instruments and which needs can be or are already better addressed by Member States’ policies as well as an analysis of which forms of support (e.g. direct payments, lump sum, financial instruments) are best suited to match the identified needs;

   – awareness-raising measures of possible types of assistance for earlier transfer of a farm to a successor with accompanying advisory services/measures like a satisfactory retirement scheme based on national/regional income/revenues in the agricultural, food and forestry sector;

   – notwithstanding the long period of planning transfers of agricultural holdings, ensure a definition of SMART objectives, making explicit and quantifiable the expected results of the policy instruments in terms of expected generational renewal rate and contribution to the viability of the supported holdings; in particular it should be clear if the policy instruments should aim at supporting as many young farmers as possible or target specific type of young farmers (e.g. the most educated, those setting up in less favoured areas, those introducing energy or water savings technologies in the holdings, those increasing the profitability or productivity of the holdings, those employing more people).

3. When implementing the post-2020 CAP measures, the Member States improve the targeting of the measures by:

   – applying criteria to ensure the selection of the most cost-effective projects, such as projects delivering the highest increase in sustainable productivity or viability of the supported holdings, or the highest increase in employment in the areas with highest unemployment or in less favoured areas with lowest generational renewal;

   – applying clear criteria for assessing how young farmers can be supported in case of joint control of legal holdings (e.g. by defining what percentage of voting rights or shares the beneficiary should have or indicating a period during which a shift in balance of the shares takes place, what minimum percentage of her/his revenues should come from his activity in the supported holding) to direct the aid towards young farmers making farming in the supported holdings their main activity;

   – applying sufficiently high minimum thresholds of points that projects should reach and adequately split the budget of the measures to provide equal availability of funds to young farmers setting up during the entire duration of the programming period;

   – improve the use of business plans as a tool to assess both the need for public funding by assessing – at application stage – the likely viability of the holdings without the aid and – at the end of the projects – the impact of the aid on the viability of the holding or on other clearly specified objectives (e.g. employment, introduction of energy or water savings technologies).

4. Legislation for post-2020 CAP measures, should ensure that the Commission and the Member States (in line with the shared management provisions) improve the monitoring and evaluation system. In particular:

   – the Commission should define output, result and impact indicators allowing to assess the progress, effectiveness and efficiency of the policy tools against objectives, by drawing on best practices, such as useful indicators developed by Member States in their monitoring systems;

   – the Member States should regularly collect actual data on the structural and financial characteristics of the supported holdings (e.g. revenues, income, number of employees, innovations introduced, farmers' educational levels) allowing assessing the efficiency and effectiveness of the measures in achieving the desired policy objectives;

   – the Commission and the Member States should require evaluations to provide useful information on the achievements of the projects and measures based on actual data on the evolution of the structural and financial characteristics of the supported holdings, by drawing on best practices (e.g. benchmarking, counter-factual analyses, surveys) such as those identified in this audit (see box 5 of the ECA special report the case of Emilia Romagna paragraph 75);

– ensuring that young farmers have ready access to advice and tools that help to react efficiently and effectively against threats of market disturbances or market saturations as well as price volatility. Thus competiveness and market orientation could be enhanced, crisis-related fluctuations in producers' income could be reduced.