

European

EPG 50/98 Final

Landowners

Organisation

RURAL DEVELOPMENT IN EUROPE

INTRODUCTION

1. Over the past decade, rural development policies have become increasingly important within the EU, in terms of their political profile as well as in terms of the resources used to fund them. This has accompanied a continuing decrease in the importance of farming. Just as the Common Agricultural Policy (CAP) has developed in an organic way, through a process of regulatory sedimentation, so has rural development policy grown haphazardly, first as an offshoot of the CAP, then acquiring its own roots and policy mechanisms.
2. 'Rural development' policies in the EU are currently undertaken through a variety of EU funds and policy mechanisms. Though some of these policies have been quite successful, a lingering doubt remains that the current system is not optimal. The recent *Agenda 2000* proposals have a rural development dimension, as they propose a fairly radical overhaul and simplification of the existing Structural Fund mechanisms - which are used notably to implement rural development policies. The purpose of this paper is to try to assess what is actually meant by 'rural development' at European level and, considering the current climate of reform, and to suggest a way forward. Inevitably, the question of resources arises. It is not the ELO's view that resources from a supported agricultural should be simply switched to perpetual support to other rural industries. But we do develop a case for the pump-priming of wealth creating commercial and industrial development in the countryside and the quality jobs that they will deliver.

THE EUROPEAN RURAL ECONOMY

3. Rural areas occupy 80% of the area of the EU, though less than 20% of the EU's population lives there. It is this tension between the high geographic and environmental value of rural Europe and its low demographic weight which underlies the urban/rural debate of the past decade. The concept of 'rurality' is made more difficult to grasp by the fact that the economic situation in rural areas is far from being uniform.

What is a 'rural area'?

4. Though it is intuitively easy to understand what is meant by 'rural', a statistical / objective definition of the concept is much more difficult to come by. The generally accepted method, used both by the OECD and Eurostat rests on local population densities. At local level, the OECD approach identifies rural areas as communities with population densities below 150 inhabitants per square kilometre. At regional level, regions are then grouped into three types:
 - predominantly rural regions, where over 50% of the population lives in rural communities;

- significantly rural regions, where 15% to 50% of the population lives in rural communities;
 - predominantly urban regions, where less than 15% of the population lives in rural communities.
1. Using the OECD methodology, but adapting it to a population density threshold of 100 inhabitants per square kilometre, about 10% of the EU's population live and work in the predominantly rural areas, which are often remote rural areas, covering 47% of the EU's territory. This compares with 60% of the population living in urban areas, which represent less than 16% of the EU's area (see Table 1).
 2. Population density is variable within the rural regions of the EU, ranging from fewer than 20 inhabitants/km² in many areas of Finland and Sweden, and some areas of Scotland, central France, Spain and Greece, to more than 100 inhabitants/ km² in rural regions in Southern Germany or Italy.
 3. Population density is the criterion which is most frequently used to classify rural and urban areas. The popularity of this indicator has been confirmed by the Commission's decision to use it as one of the major criteria for classifying new Objective 2 "rural areas" (Article 4.6 of the proposed Structural Fund Regulation). This is in part because it is the indicator which is easiest to calculate, especially at a European level. At the same time, it is a far from perfect indicator as it averages out urban and non-urban population densities. Moreover, in some countries with generally high population densities, the use of a standard 'rural' population density may be misleading: though a given region may not qualify as 'rural' by European standards, it may be *relatively* rural, and suffer from the same type of problems as other more perceptibly rural areas. Similarly, excluding towns and travel-to-work areas can at times give a more accurate picture of truly rural areas. The ELO believes that it is necessary to widen the range of criteria used to classify rural areas.

The rural economy

4. In most regions, agriculture is no longer the main source of employment or income. Over the past few decades, the underlying reality for European agriculture has been one of decline. In 1960, agriculture employed 21% of the civilian employed population in the EC-12. This proportion had fallen to 9.7% by 1980, to 6.5% in 1990 and to 5.3% by 1995 for the EU-15 (see Table 2). Even in predominantly rural areas less than a quarter of total employment is in agriculture, fisheries and food, and at least every second job is in the service sector. Agriculture's share in Europe's GDP has also kept declining, from 3.2% of GDP in 1987 (EC-12) to 1.8% in 1995 (1.7% of GDP in the EU-15).
5. For all Member States, GDP per capita is lowest in predominantly rural areas and highest in urban areas. On average, GDP per capita in rural areas is 8% to 30% lower than the national average (see Table 3). However, over the last decade, a significant number of rural regions have been able to increase their GDP per capita at a higher rate than the EU rate.
6. With some notable exceptions, unemployment rates in rural regions are similar to or higher than in urban regions. The generally lower labour force participation rates in rural areas also gives rise to the suspicion that rates of hidden unemployment are also higher in these areas. That being said, over the previous decade employment opportunities for rural populations have increased and, even though these increases were on average less than national growth, a significant number of predominantly rural regions was much more successful in generating new employment opportunities than was the national economy as a whole (OECD, 1996).

7. The fact that rural employment increased despite the often substantial decline in the agricultural workforce is a sign of the dynamism of some rural regions. Indeed, some rural areas in the EU are now areas of net *in*-migration. Thus rurality in itself is not an obstacle to job creation, and is not automatically synonymous with decline .

Rurality as a liability

8. The specific handicaps which limit the economic development of rural areas are well known. These are linked both to isolation and scale.
9. In many cases, territorial dispersion and often severe demographic decline may create the risk of “economic desertification”. Longer distances mean that Small and Medium Enterprises (SMEs), which represent the majority of rural businesses, may suffer from longer delays in receiving supplies and in supplying customers. Remoteness thus adds to these businesses’ costs. Rural businesses must also in general develop a geographically wider client-base than their urban counterparts. Businesses in rural areas may also have more difficulties in finding skilled labour, as the labour pool will be narrower, and generally less skilled than in an urban area. There may also be fewer training opportunities for rural businesses both because fewer training providers will be located in rural areas and because the distances to the nearest training centre may be too great .
10. Similarly, the general provision of infrastructure may be less developed in rural than in urban areas (mains sewerage, gas, ISDN lines etc.). There is a general trend in the EU to managed utilities as private enterprises, and thus to be increasingly profit-driven. From the providers’ point of view, supplying rural locations leads to diseconomies of scale, as connection costs are vastly increased. Standard economic rationality would call either for a differentiated pricing policy to reflect the true cost of supplying further-flung areas, or for the discontinuation of supply to some areas as costs exceed revenues. This issue is currently solved by the State imposing a duty on these utilities to provide services at a uniform cost across the country (the ‘uniform service provision’). It is legitimate however to wonder how long privatised utilities will pursue this policy. In the medium or long run there will be a need for the public authorities to restate their commitment to uniform service.
11. There is a socio-economic cost associated with remoteness, as rural firms will often be more specialised, and thus more vulnerable to economic changes. Their remoteness from information and innovation centres, and the inadequate provision of business services also create a competitive disadvantage with their more urban (less remote) counterparts. For instance, financing and business advice may be difficult to access. Finally, the general trend of discontinuation of certain community services may contribute to the creation of a spiral of unattractiveness for some rural communities, as businesses and young people refuse to settle or remain there.

Rurality as an asset

12. Location in a rural area can also be an asset. For some businesses a rural location provides the ideal conditions in terms of landscape and amenity. A less mobile workforce also means that employee turnover rates may be lower in rural areas than in urban ones, bringing a welcome measure of stability for some businesses. As information technologies develop, hopes have also been raised that a rural location will prove to be less and less of a handicap (it must be noted however that these expectations have not yet really materialised).

13. Employment related to rural tourism, both on- and off-farm, is already an important source of income in many areas. Tourism helps to preserve local jobs in marginal rural areas, create new jobs and diversify employment. It also provides an opportunity for the agricultural business to diversify. In some countries (such as Germany or Austria) tourism already employs more people in predominantly rural regions than agriculture or forestry. This sector is a growing one and, as trends towards increased leisure-time continue, rural areas will - or rather should - continue to benefit.

The environment: the other rural dimension

14. The natural environment in rural areas is one of the main reasons for their increasing success as a tourist attraction. The European rural landscape has been formed largely by human intervention over the millennia, mostly through farming. Agriculture and forestry have contributed to the creation of a wide variety of landscapes rich in flora and fauna, and which are now highly valued.
15. In an apparently paradoxical situation, the increasing amenity and environmental value which is given to rural areas comes at a time when these environmental riches are under threat. The modernisation of agricultural techniques since the beginning of the century has resulted in some areas in a disruption of the jointness of production between agricultural and environmental outputs. Traditional landscapes (and their accompanying fauna and flora) are no longer always an automatic by-product of farming.
16. The dilemma currently facing the EU is thus how to reconcile agricultural efficiency with environmental conservation. In this context, it is clear that the CAP is far from being adapted to face these new challenges. The mechanisms chosen for the CAP in some cases encouraged the intensification of agricultural practices through the use of high guaranteed prices, and contributed to some of the current environmental problems.
17. Over the past few years, attempts have been made to reform the CAP to make it more environment-friendly. However, as has been argued in other papers, these attempts remain flawed because they too often rely on a regulatory approach and/or on cross-compliance (i.e. on making direct aid payments to farmers conditional on 'good' environmental behaviour), which creates an inefficient - and ultimately unsustainable - link between the environment and farming. A more positive approach would be to recognise the immense contribution which land managers make to the landscape, and to provide positive remuneration, preferably through the use of market mechanisms, to encourage them to continue maintaining and enhancing the rural environment.

RURAL DEVELOPMENT POLICY

18. The word "rural" thus encompasses a number of dimensions, economic, social, demographic and environmental. To be truly successful, any policy of rural development has to take them all equally into account. The European Commission has only slowly adopted this approach. Regrettably, the *Agenda 2000* proposals have only partly continued this process of reform towards an integrated rural development policy.

What should be meant by 'rural development'?

19. It is clear that the specific problems of rural areas (and their strengths) are extremely varied. The following taxonomy attempts to group the different objectives of rural development policies under three headings: jobs, people and environment.

Jobs

20. Rural development policies have to address the issue of **jobs**. This means providing the **conditions for businesses** to start up and develop by ensuring first of all that levels of **infrastructure provision** (roads, water, electricity, gas, telecommunications) are adequate. Thus the development of businesses in rural areas should not be stymied through lack of access to suitable roads, and/or connections to utilities. A corollary to this is that the **planning system** must accommodate economic development. This is not to mean that uncontrolled development should take place, rather that cost-benefit analyses must weigh carefully environmental and socio-economic aspects.

21. It also means that proactive measures have to be adopted to reduce these areas' **training** and **innovation** handicap. Finally, the difficulties which rural businesses encounter in finding **financing** will also have to be addressed.

22. If employment opportunities are not created in rural communities, the prospects of many rural areas will be bleak, as the continuing decline of agriculture creates a spare labour capacity which, if not gainfully employed *in situ* will either move to other locations, or will suffer from **economic deprivation** (i.e. poverty). Again, rural development policy clearly needs to be conducted within the framework of a national strategy.

23. A related issue, is the **regulatory burden which constrains many SMEs**. The smaller scale of SMEs as well as their frequently tighter operating margins mean that regulations which larger companies will integrate fairly easily will affect them disproportionately. There is a case to be made for regulation to take into account these effects of scale. This is not exclusively a rural issue; however, as businesses in rural areas are mostly SMEs, often at the smaller end of the scale, they are disproportionately affected by such measures.

People

24. The social dimension of rural development policies is crucial. Rural communities have been hit not only by the decline in employment levels, but also by declining levels of **community service provision**. Healthy rural communities need a minimum level of service provision if they are to remain viable. At a most basic level, this covers services such as **schools, healthcare, public transport** and **shops**, which must all be fairly accessible if the community is not to enter a spiral of decline (for instance, if there are no schools near-by, young families will not settle, and the community will die, or become a retirement area). **Adequate housing provision, especially for those on lower incomes**, is also essential to preserve integrated rural communities.

25. Without such measures it may be that, ultimately, only those who are rich enough to afford it will be able to live in rural areas, while the poorer sections of the population are forced into towns. This is surely not an acceptable option.

26. Whereas such 'desertification' is a very real threat in more remote rural areas, accessible rural areas are under another threat, which is of becoming dormitory/commuting zones.

Agriculture and the environment

27. The **rural environment** constitutes a tremendous asset for rural areas. Its maintenance however is often dependent on the continuation or resumption of **traditional agricultural practices (including forestry)**. At the same time, for instance, in many less favoured areas farming is becoming less and less profitable by the year. As life in these rural communities become decreasingly attractive (for the reasons mentioned earlier) existing farmers are increasingly unlikely to have a successor (a problem which is acutely felt in Wales or in the French mountain areas). This raises the prospect, all other things being equal, of seeing these areas either abandoned by farming, or being 'ranched'. The latter may be an economically profitable way of farming, but is unlikely to yield a comparable level of environmental benefits as current practices.
28. The quest for **alternative forms of land use and farming**, respectful of the environment, is therefore an integral part of any rural development policy. This covers activities such as the development of **alternative crops**, such as **coppice biomass**, or **crops for pharmaceuticals, plastics and fibres**. It could also mean encouraging **alternative methods of food production**, such as **organic farming**, or '**uneconomic**' **low intensity farming systems**. In some areas, the reversal to **forestry** could be envisaged. It is possible to conceive of some forms of land use whose primary purpose would be leisure or environmental. For instance, in some marginal areas where agricultural activity is essential to the maintenance of certain landscapes or ecosystems, it could be envisaged that land managers would be paid for managing the land to a certain standard. Such a measure would constitute an extension of some existing agri-environmental schemes.

29. Box 1 summarises the various objectives for rural development policy.

Box 1: objectives for rural development policy

Jobs	<p><i>Objective:</i> <i>enable businesses to start-up and develop</i> <i>provide alternative sustainable employment opportunities</i></p>
	<ul style="list-style-type: none"> • Infrastructure <i>roads, water, sewerage, electricity, gas, telecommunications</i> • Sympathetic planning: <i>economic development is encouraged, and balanced with the need to protect the environment</i> • Training • Innovation • Financing • Simplification of regulation on SMEs
People	<p><i>Objective:</i> <i>Rural communities must remain viable communities</i></p> <ul style="list-style-type: none"> • Community service provision <i>schools, healthcare, public transport, shops</i> • Housing <i>especially affordable housing</i>
Agriculture and the environment	<p><i>Objective: the preservation / enhancement of the environmental value of rural areas rests on continued land management</i></p> <ul style="list-style-type: none"> • Environmental management through agriculture and forestry • Alternative forms of land use <i>coppice biomass, crops for pharmaceuticals, plastics or fibres forestry</i> <i>environmental / leisure land management</i> • Alternative forms of farming <i>organic farming, low intensity farming</i>

The gradual recognition that rural development is a multi-dimensional concept

34. Until the mid-1980s agricultural policy was in effect the only rural policy in the EU even though, as was discussed earlier, it was not the major employer or the major contributor to the economy of rural areas. Thus rural development initiatives - where they existed - were rather considered as an extension of agricultural policy. Examples of such initiatives include the modernisation of agricultural holdings (Dir 159/72), the

encouragement to cease agricultural activity (Dir 160/72), or more sectoral measures such as support to farming in less-favoured areas (Dir 268/75)

35. The Commission's document *The future of rural society* (COM 88(371) final) is one of the earliest documents by the Commission to discuss rural development, and more especially to set it up as a policy distinct from the CAP. The declining share of agriculture and forestry in rural employment led the Commission to recognise that there was a need for a continued drive to diversify the economy of rural areas. It proposed among other things that support schemes to agriculture should be diversified away from conventional agricultural output and towards alternative enterprises such as forestry, the environment, energy (biomass). It also focused on the importance of regional policy and on the need to stimulate SMEs, notably by disseminating new technology and strengthening their financial infrastructure (venture capital, for instance, seldom ventures as far as rural SMEs).
36. The reform of the Structural Funds took place in this context, with the aim partly to remedy these weaknesses, and generally to facilitate the economic development of regions lagging behind, as well as to provide assistance to less-favoured sections of society (the young, the unemployed, women...). Thus rural development policy is part of a much wider set of EU policies. The current delivery mechanisms for rural development policies is detailed in Appendix A.
37. At a practical level, the Structural Funds have financed projects such as the equipment and development of business parks in rural areas, the restoration of archaeological features, the establishment of cottage industries, the development of leisure enterprises and training centres.
38. Objective 5b programmes ("assisting the development of rural areas") and in particular the Leader Initiative have cultivated the 'bottom-up' approach, which relies on local participants defining their needs and setting up a programme and raising some funding before applying for EU co-financing.
39. Generally, there is little doubt that the Structural Funds have contributed to supporting the rural economy, and helping it to diversify away from agriculture. The Commission estimates that, over the period 1989-1999 as a whole, more than 500,000 jobs will be created or preserved in Objective 5b areas as a result of Community programmes (European Commission, 1996b).
40. However, there have been complaints from a number of Member States that these procedures are proving cumbersome and are too often managed from the top down, the Leader Initiative being the notable exception (but on a very small budget). Moreover, many Member States and organisations involved in rural development are unhappy about the 'designation' approach used by the Commission. This creates 'boundary effects' as businesses and communities which are in all other respects similar but fall on either side of a designation boundary will receive very different levels of support for their rural development initiatives. This has led to calls for the adoption of a horizontal approach, which could be eventually tempered by varying levels of co-financing. A horizontal implementation of rural development policies is further justified if one considers that, in many rural areas, there is less an acute crisis than a gradual erosion of the economic and social potential of a community which may not be identified until very late in the day.
41. Finally, it is important to remember that the sums involved remain small. If one considers that the sum of EAGGF Guidance expenditure under the Structural Funds (including in Objective 1 areas) and non-EAGGF expenditure under Objective 5b constitutes a rough proxy for the amounts spent in rural areas on rural/agricultural

economic development initiatives, this totals to ECU 26 bn, or 16% of the total Structural Fund 1994-99 budget (see Table 5). The Leader allocation for 1994-1999 amounts to ECU 1.7 bn

THE WAY FORWARD?

42. The continued reform of the CAP, and the prospect of a continued reduction in CAP expenditure create an acute need for a review of the way in which rural development policy is currently conducted. From the previous pages, it appears that there is nothing clearly 'wrong' with the current system. Rather, its efficiency could be improved.
43. One of the major drawbacks of the current approach is that, though the Structural Funds explicitly fund programmes of diversification away from agriculture, they are to some extent conducted *independently* from agricultural policy. This is ironic, as the Structural Funds aim to provide integrated development programmes. If one considers that the *Agenda 2000* proposals aim to restrict eligibility to the Structural Funds, and that Objective 5b regions will doubtless feel the brunt of this restructuring while their problems will remain¹, the need for a review of the aims and means of rural development policy becomes more perceptible.
44. This paper is based on the premise that continued, fairly radical, reform of the CAP is desirable and unavoidable. The pressures of enlargement to the Eastern European countries and the requirements which will be imposed at the next Round of world trade talks mean that further liberalisation of the CAP will take place. The question then becomes one of deciding whether or not this liberalisation will take place in the best possible conditions, enabling farming households and the rural economy to adjust smoothly to new market conditions with minimal disruption to rural communities and the rural environment. Even though, as was discussed above, the importance of agriculture and forestry in the EU's economy has been steadily declining, its importance in terms of land use has not. This is why agricultural reform should be inseparable from wider rural development policies: sustainable alternative uses have to be found both for the land and for the people who farm it.
45. The ELO has for the past few years been calling for such a long-term, strategic, integrated approach to rural development. Similar calls have also been made at the level of European institutions.

The Commission's approach to an integrated rural policy

46. The Commission's 1995 *Agricultural Strategy Paper* (CSE(95)607) assessed the various options for the CAP. Its option three (which was the preferred one) proposed developing the 1992 (MacSharry) approach. In this framework, the improved competitiveness of EU agriculture could only be achieved if at the same time the EU undertook an integrated rural policy. This would have involved a tidying up of the current set of rural policy instruments, i.e. the Structural Funds, the CAP and agri-environment.

¹ Under the *Agenda 2000* proposals, Objective 1 would remain, though the GDP criterion will be more strictly applied. A new Objective will be created for regions suffering from structural problems including areas affected by change in the industrial, service or fisheries sectors, **declining rural areas** or urban areas in difficulty. It will thus include the old Objectives 2, 5a and 5b. In defining this Objective, the Commission emphasises the importance of unemployment and degree of social exclusion as criteria for identifying these areas. This tends to indicate that the selection criteria will have an urban bias.

“Over time, the different measures and programmes have partly developed in parallel, and partly they overlap with each other. It therefore makes sense to review the present arrangements, and to adapt and amplify them where necessary with a view to achieving a strengthened and mutually consistent body of measures which allows the mobilisation of a maximum of synergies and leads progressively to an integrated rural policy” (p.23)

47. The multifunctional role of agriculture and farmers was recognised, and the importance of maintaining a “critical level of occupation and functioning of rural areas” was stressed.
48. These positions were reiterated at the European Conference on Rural Development which took place in Cork in November 1996. At the end of the conference, the “Cork declaration - a living countryside” called for an integrated approach to rural development.

“Rural development policy must be multi-disciplinary in concept, and multi-sectoral in application, with a clear territorial dimension. It must apply to all rural areas in the Union, respecting the concentration principle through the differentiation of co-financing for those areas which are more in need. It must be based on an integrated approach, encompassing within the same legal and policy framework: agricultural adjustment and development, economic diversification - notably small and medium scale industries and rural services - the management of natural resources, the enhancement of environmental function, and the promotion of culture, tourism and recreation.”

49. It would thus seem that a clear unanimity had emerged on the need for a radical overhaul of the interlinkage between agricultural policy, rural development and other social and economic policies. Unfortunately, these suggestions have only partly been taken up by *Agenda 2000*, which, instead simplifies the Structural Funds by subsuming the rural development Objective within a wider Objective 2. This could be seen as a process of integration, inasmuch as rural areas would be treated as other areas (urban, industrial) in transition. However, as was discussed earlier, the likely effect of such a move will be to reduce considerably EU expenditure in rural areas. Moreover *Agenda 2000* does not address satisfactorily the issue of the co-ordination of agricultural policy and rural development policies, in part because the agricultural - and especially the environmental - content of the proposals is not innovative. There is some prospect that the management of rural policy will be more integrated in that *Agenda 2000* does call for a reorganisation of the existing rural policy instruments, and for “horizontal and decentralised implementation”.

The future of rural development: the ELO's proposals

50. In its 1995 paper *A rural policy for Europe* the ELO argued that the continued prosperity of the rural economy was dependent on co-ordinating three policies: agricultural, environmental, and economic. The challenge for the future is to ensure the economic development of rural areas, while protecting and enhancing their natural resources (and ideally harnessing them as an asset/source of revenue).
51. These proposals are based on the observations which have already been made in this paper, that alternative forms of land use will have to be found in the medium run, and that mechanisms must be set up to facilitate the establishment and growth of rural SMEs. Sustainability is at the heart of these proposals. Thus public policy is required to provide enabling mechanisms - for instance through pump-priming financing, or by ensuring uniform service provision - rather than to supply aid without end. Some might argue that the uniform service provision already constitutes a

subsidy to the more remote areas. That argument would be valid. At the same time, questioning the validity of such a measure amounts to questioning the principle of equality of all the citizens of a nation, an issue which belongs to another debate.

52. Integration also means co-ordination of funding measures. Consequently, an effective European rural policy (ERP) can best be conducted if all rural expenditure is concentrated in one fund. This would bring together agricultural expenditure both under the EAGGF Guidance and Guarantee funds, as well as ERDF and ESF monies. The ELO thus proposed the establishment of a Rural Development Fund.
53. These proposals are based on the premise that, in the long-run, the maintenance of current levels of agricultural expenditure is unsustainable, both because of international pressures and domestic ones, as the general public/taxpayer queries the 'value-for-money' of the subsidy system. The early implementation of an ERP would enable all parties involved, from rural communities, to the Member States to anticipate and manage change, rather than being overwhelmed by it.

A budget

54. This Section draws a quick sketch of how the proposed Rural Development Fund would operate. The proposed budget, at first, could consist of the existing EAGGF Guarantee funds (i.e. CAP support expenditure) as well as of rural development funds (EAGGF Guidance, as well as ERDF and ESF). At the current level of funding, this would amount to approximately ECU 44.5 bn per annum². In a first phase, total funding would remain constant, though the break-down of expenditure would shift progressively: whereas the agriculture budget at present constitutes the bulk of expenditure, the share of agricultural payments would decrease, in line with reducing price support, but the funds released would be transferred to the rural policy objectives outlined in Box 1.
55. In time, it could be envisaged that **part of these payments could be phased out**, as some of the expenditure would in effect be used for pump-priming / capital investment. Examples of such expenditure include payments for organic farming: in the long-run, an organic enterprise is profit-making, transitional support is needed however to tide agricultural businesses through the conversion phase, when volumes of output are reduced, but do not yet qualify as organic. Similarly, some infrastructure expenditure would be one-off: installation of sewerage works, ISDN lines, roads...
56. **Environmental land management payments** would belong to that category of expenditure which **cannot be reduced** (or at least not as long as there is a public demand for such outputs). This is because the proposed rural policy would establish a market for land managers' environment output, based on a contractual, voluntary approach

A distribution mechanism

57. As was mentioned earlier, these funds would be managed by an integrated Rural Development Fund. The mechanisms which are currently used to allocate Structural Fund monies could easily be adapted to the new Fund.

² EAGGF Guarantee: ECU 40 bn ECU
EAGGF Guidance: ECU 3.6 bn ECU
ERDF + ESF: ECU 0.7 bn ECU
LEADER: ECU 0.3 bn ECU

58. In the light of the success of the LEADER initiative, allocation of the rural development funds could be made on a more participatory basis. This would mean encouraging local communities to define their needs and apply for funding. However, the bottom-up approach should not be used across the board as some projects, such as infrastructure projects, have wider geographic implications, and require some level of top-down management.

Qualifying projects

59. These would consist of projects whose primary purpose satisfies at least one of the objectives listed in Box 1. Depending on the specific characteristics of each region, a different priority could be placed on each of the three major objectives of "jobs", "people", "agriculture and the environment". Any project application however would have to include an analysis of the impacts on the other objectives, and only projects with a positive impact would be supported.

60. The ELO considers that these outline proposals could form the basis for a strong European rural development policy, by creating an integrated instrument for the economic, social and environmental development of European rural areas.

Table 1: Rural population

	Population in Rural communities*	population by type of regions		
		predominantly rural	significantly rural	predominantly urbanised
% of national population				
Belgium	4.9	3.4	4.9	91.7
Denmark	32.4	39.6	31.3	29.1
Germany	12.0	5.4	25.2	69.3
Greece	30.8	28.1	28.3	43.6
Spain	24.4	12.7	41.5	45.8
France	23.7	10.5	56.5	32.9
Ireland	43.1	46.6	15.1	38.3
Italy	14.1	4.1	27.1	68.8
Luxembourg	19.3	NA	100.0	NA
Netherlands	3.1	0.0	6.7	93.3
Austria	34.6	30.2	28.9	41.1
Portugal	21.2	18.1	22.8	59.1
Finland	50.6	58.9	41.1	0.0
Sweden	66.8	63.2	17.7	19.1
United Kingdom	8.7	1.0	18.7	80.3
EU-15	17.5	9.7	29.8	60.5
% of EU 15 area	80.9%	47.0%	37.4%	15.6%

* Population of local communities with population density below 100 inhabitants/km²

Source: European Commission (1997)

Table 2: Employment in agriculture (in % of total civilian employment)

	1960	1970	1980	1990	1995
Belgium	8.7	4.8	3.0	2.7	2.5
Denmark	18.2	11.5	8.1	5.7	5.0
Germany	13.8	8.6	5.6	3.7	3.3
Greece	57.1	40.8	30.3	23.9	20.4
Spain	42.3	29.5	19.2	11.8	9.2
France	22.5	13.5	8.7	5.6	4.6
Ireland	37.3	27.1	18.3	15.0	11.4
Italy	32.6	20.2	14.3	8.8	7.5
Luxembourg	16.6	9.4	5.4	3.3	2.7
Netherlands	9.8	6.3	4.9	4.6	4.0
Portugal	43.9	28.6	28.6	18.0	
UK	4.8	3.2	2.6	2.2	2.3
Austria		18.7	10.6	7.9	7.3
Finland		24.4	13.5	8.4	7.7
Sweden		8.1	5.1	3.4	3.1

Source: European Commission: *Agricultural situation in the Community, various issues*

Table 3: GDP (1994)

	breakdown by type of regions		
	Predominantly rural	significantly rural	predominantly urbanised
	Country average = 100		
Belgium	79.5	85.9	101.7
Denmark	92.5	73.4	117.4
Germany	75.4	81.7	120.3
Greece	87.2	96.8	110.9
Spain	79.9	94.0	111.1
France	80.2	88.2	119.5
Ireland	90.7	107.2	-
Italy	68.9	94.5	102.5
Luxembourg	-	100.0	-
Netherlands	NR	81.1	101.5
Austria	74.4	91.0	143.6
Portugal	79.4	85.9	126
Finland	87.6	117.3	NR
Sweden	91.1	102.4	126.7
United Kingdom	83.3	94.3	101.6
EU-15	80.4	88.4	109.6

Source: European Commission (1997)

Table 4: Breakdown of structural assistance 1994-1999 by Objective and by country (in ECU million at 1994 prices) (not including the Cohesion Fund)

	Obj. 1	Obj. 2	Obj. 3 & 4	Obj. 5a	Obj. 5b	Obj. 6	CI ¹	Total
Belgium	730	342	465	195	77	-	287	2 096
Denmark	-	119	301	267	54	-	102	843
Germany	13 640	1 566	1 942	1 143	1 227	-	2 206	21 724
Greece	13 980	-	-	-	-	-	1 151	15 131
Spain	26 300	2 416	1 843	446	664	-	2 774	34 443
France	2 190	3 774	3 203	1 933	2 238	-	1 601	14 938
Ireland	5 620	-	-	-	-	-	483	6 103
Italy	14 860	1 463	1 715	814	901	-	1 893	21 646
Luxembourg	-	15	23	40	6	-	20	104
Netherlands	150	650	1 079	165	150	-	421	2 615
Austria	162	99	387	380	403	-	143	1 574
Portugal	13 980	-	-	-	-	-	1 058	15 038
Finland ²	-	179	336	347	190	450	150	1 652
Sweden ²	-	157	509	204	135	247	125	1 377
UK	2 360	4 581	3 377	450	817	-	1 570	13 155
Total³	93 972	15 360	15 180	6 916	6 862	697	14 051	153 038

¹ Community Initiatives

² The allocations for the new Member States cover the period 1995-1999

³ Including the amounts not broken down by country

Source: European Commission (1996): *Europe at the service of regional development*

Table 5: Analysis of interventions by objective and source of funding - EU 15 (1994-99)

	Total Structural Funds	ERDF	ESF	EAGGF	FIFG/ Cohesion Fund
Objective 1	93970	56427	22051	13708	1784
Objective 2 (94-96)	6975	5372	1603		
Objective 2 (97-99)	8377	6447	1930		
Objective 3 & 4	15182		15182		
Objective 5a Agric	5252			5252	
Objective 5a Fish	884				884
Objective 5b	6859	2953	1041	2865	
Objective 6	698	289	167	234	8
Total 1	138198	71488	41975	22059	2676
Cohesion Fund	14454				14454
Community Initiatives	14021				
GENERAL TOTAL	166672	71488	41975	22059	17130

source: European Commission 1997b

ELO POLICY GROUP

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Any comments or queries on this submission should be addressed to the Secretary-General of the ELO at the address below

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The existing delivery mechanisms for rural development policies

The Structural Funds

The vast bulk of the Community's structural measures are financed by the Structural Funds. These are, briefly the following.

The **European Regional Development Fund (ERDF)**, which was set up in 1975, aims at strengthening economic potential in the assisted regions.. Assistance from the ERDF is limited to the most disadvantaged regions and concentrates primarily on productive investment, infrastructure and the development of small businesses. The resources of the ERDF represent 45% of total Community structural intervention in the current programming period 1994-99. Spain, Italy, Greece, Portugal and Germany (Eastern Länder) are the largest beneficiaries.

The **European Social Fund (ESF)** was established by the Treaty of Rome. Since the 1988 reform, it has had the objective of combating long-term unemployment and improving the employability of young people and, since 1993, of promoting adaptation to industrial change. It contributes to the financing of vocational training and employment support measures. The ESF accounts for 30% of Community intervention in the current period. Spain and Germany are the largest beneficiaries.

The **Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF-Guidance)** was established in 1962 as part of the Common Agricultural Policy (CAP). It is intended to promote structural adjustment in agriculture, which has been increasingly undertaken in the context of the overall reform of the CAP, through measures to modernise production and develop rural areas. The Fund accounts for 15.4% of Community funds in the current period.

The **Financial Instrument for Fisheries Guidance (FIFG)** was established in 1994 to replace a number of separate financial instruments. IT assists the adjustment of the fisheries sector.

The objectives of the Structural Funds

In terms of funding available, the resource of the Structural Funds and the Cohesion Fund for 1994-1999 amount to ECU 167 billion at 1994 prices. This corresponds roughly to one-third of the EU budget³, and amounts to nearly 0.5% of the EU's annual GDP. This puts into better perspective the financial efforts undertaken by the EU on these matters.

Acting together, the Structural Funds are today focused on a number of development Objectives, which they part-finance with Member States.

Objective 1: promote the development and structural adjustment of the regions whose development is lagging behind;

Objective 2: converting the regions, frontier regions or parts of regions (including employment areas and urban communities) seriously affected by industrial decline;

Objective 3: the reduction of long-term unemployment and the socio-economic integration of excluded groups;

Objective 4: preventive measures to combat unemployment associated with industrial change;

Objective 5: with a view to the reform of the CAP:

- a) speeding up the adjustment of agricultural structures
- b) promoting the development of rural areas;

³ The preliminary draft budget for 1997 was of ECU 83 bn.

Objective 6: development of sparsely populated regions (applies to Finland and Sweden).

Clearly the geographic remit of most of these Objectives also covers rural areas, though the Community's regional policy for rural areas really comes essentially under Objective 1 and Objective 5b, and only Objective 5 has an exclusively rural focus. To qualify as an **Objective 1** area, per capita GDP in the region must be less than 75% of the Community average. This designation covers countries and areas with a strong rural dimension (Spain, Portugal, Greece, Southern Italy, Ireland and Northern Ireland, the Scottish Highlands and Islands). Almost 27% of the Community's population live in Objective 1 regions. Objective 1 accounts for 70% of the Structural Fund resources.

The **Objective 5b** designation covers a further 8% of the Union's population. It focuses on the economic diversification of vulnerable rural areas. These, generally, have a low level of socio-economic development (assessed on the basis of per capita GDP) and meet two of the following main criteria: a high level of agricultural employment, a low level of agricultural income, and low population density and/or a significant depopulation trend. Objective 5b accounts for 5% of total Structural Fund funding, a comparatively modest amount when set against the sums earmarked for other Objectives.

In addition to the six Objectives, 9% of the Structural Funds are reserved for Community Initiatives. These are decided by the Commission in partnership with the Member States. They aim to strengthen European cohesion by promoting innovative projects. The **LEADER** initiative focuses more specifically on local development projects in a rural environment. This Initiative applies only to Objective 1, 2 and 5b areas as well as their neighbouring areas.

Priorities of the Structural Funds in rural areas

Objective 1

Specific assistance for rural development in these regions encompasses a wide range of measures, including the diversification and adjustment of agricultural production, the promotion of local quality labels, village renovation, conservation of the rural heritage and investment in tourism, irrigation, financial engineering for businesses in the processing and marketing sectors.

Objective 5b

Eligible areas are divided into three categories, each with specific development priorities:

"Fragile" areas: per capita GDP under 80% of the EU average, population decline and demographic ageing, population density under 27 inhabitants/km², extreme isolation or remoteness, often attractive but vulnerable environment. In these areas the aim is first to improve transport and telecommunications infrastructure and to encourage SMEs to take up new activities, provide suitable public services, and boost tourism.

"Intermediate areas": per capita GDP between 80% and 100% of the EU average, density of 60 to 70 inhabitants/km², geographical isolation, but continuing importance of agriculture in a bleak economic context. In these areas, the Structural Funds aim to modernise the economic fabric by development services for SMEs and supporting project promoters, and by improving the quality of life (transport, retailing, cultural activities, etc.) both to attract new activities and new residents to the area.

"Urbanised rural areas": quite high GDP, heavy commuting, frequently high proportion of non-agricultural activity in the economy and environment frequently under threat. In these areas, the aim is to support local development initiatives which promote networking among villages and small urban centres, the development of small industrial and craft estates and the adjustment of local services to new lifestyles, making these areas less vulnerable to competition from large cities.

It is clear however that the reality of the - limited - amounts of funds allocated to Objective 5b projects means that further guidelines have had to be established to channel funds. In practice, most of the Objective 5b projects focus on the following priorities (the general funding mechanism is detailed in Box 2):

basic infrastructure required for economic development;
economic diversification (away from agriculture) and job creation;
natural resources and environmental protection;
regeneration of small towns;
training.

How do the Structural Funds work?

Finance from the Structural Funds is not usually used for individual projects proposed or selected by the Commission but is rather allocated to development programmes, each of which has its own budget. These programmes represent the culmination of a process to which all the partners concerned have contributed (the Member States, the regions, other bodies and the Commission). The programmes originate in two ways:

- Programmes initiated at national level are drawn up on the basis of regional development plans or single programming documents (SPDs) submitted by the Member States. The development plans are the subject of negotiations with the Commission which leads to Community support frameworks (CSFs) and then to programmes requiring subsequent adoption while SPDs contain proposals for programmes from the outset and so become operational as soon as they have been adopted by the Commission. Both the CSFs and the SPDs include priority measures and the amount of assistance to be provided.
- Community Initiative programmes are drawn up on the basis of guidelines set out by the Commission itself. Following consultations, the Commission adopts guidelines for each Initiative. On this basis, the Commission adopts the programmes proposed by the Member State.

In most cases, the Structural Funds can meet only part of the total costs of projects:

- up to 85% in the remotest regions and certain Greek islands;
- up to 80% in the Objective 1 regions of Spain, Portugal, Greece and Ireland;
- up to 75% in the other Objective 1 regions;
- up to 50% for Objectives 2, 3, 4 and 5b.

Source: European Commission 1995 and 1996a

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