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strategic guidelines for rural development (2007-2013)

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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE
COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

**Third Report on the implementation of the national strategy plans and the Community
strategic guidelines for rural development (2007-2013)**

{SWD(2015) 114 final}

FOREWORD

The present report is the third report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the implementation of the National Strategy Plans (NSP)¹ and the Community 2007-2013 strategic guidelines for rural development².

This Commission report³ is based on the analysis and review of the summary reports submitted by the Member States (MS) in 2014⁴ as well as on other available information, notably the financial and physical common monitoring indicators, and on the activities of the European Network for Rural Development.

It provides a summary of the main developments, current trends and challenges undertaken for the implementation of the NSP and the Community Strategic Guidelines.

It is important to note that the data used in this report is aggregated from the beginning of the programming period in 2007 until the end of 2013. Although 2013 corresponds to the end of the programming period, this is not the end of its implementation, which extends until the 31st of December 2015⁵. Significant numbers of operations will still be undertaken until that point, and a final overview of the programmes' achievements will not be available before the end of 2016.

¹ See Title II, Chapter II of Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

² Council decision of 20 February 2006 on Community strategic guidelines for rural development (programming period 2007-2013) (2006/144/EC).

³ See Article 14 "Commission report" of Council Regulation (EC) No 1698/2005 of 20 September 2005.

⁴ See Article 13 of Council Regulation (EC) No 1698/2005 of 20 September 2005. These summary reports set out the progress made in implementing the NSP and objectives, and the contribution to the achievement of the Community strategic guidelines.

⁵ Under the so-called N+2 rule the Member States can incur expenditure for the 2007-2013 programmes until the end of 2015.

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1. CONTEXT AND OVERVIEW

1.1 The Community's priorities for rural development for the period 2007-2013

On February 2006 the Council of the European Union adopted Strategic Guidelines for rural development for the period 2007-2013², providing three core thematic priorities:

- *Improving the competitiveness of the agricultural and forestry sector.* The European Agricultural Fund for Rural Development (EAFRD⁶) should contribute to a strong and dynamic European agrifood sector by focusing on the priorities of knowledge transfer, modernisation, innovation and quality in the food chain, and on priority sectors for investment in physical and human capital. The measures grouped in 'Axis 1' shall contribute mostly to the competitiveness objective of the Rural Development Programmes (RDPs);
- *Improving the environment and the countryside.* To protect and enhance the EU's natural resources and landscapes in rural areas, the resources devoted to this priority should contribute to three EU-level priority areas: biodiversity and the preservation and development of high nature value farming and forestry systems and traditional agricultural landscapes; water and climate change. The measures grouped in 'Axis 2' of the RDPs shall contribute mostly to the environment objective;
- *Improving the quality of life in rural areas and encouraging diversification of the rural economy.* The resources devoted to these objectives should contribute to the overarching priority of the creation of employment opportunities and conditions for growth. Interventions should in particular be used to promote capacity building, skills acquisition and organisation for local strategy development and also help to ensure that rural areas remain attractive for future generations. In promoting training, information and entrepreneurship, the particular needs of women, young people and older workers should be considered. The measures grouped in Axis 3 of the RDPs shall contribute to the wider rural development objectives together with Axis 4.

Beyond the thematic priorities, the adopted Strategic Guidelines for rural development also highlight the need for:

- *Building local capacity for employment and diversification* while contributing to the thematic priorities. This horizontal axis, also called "Leader Axis" (Axis 4) should play an important role in improving governance and mobilising the endogenous development potential of rural areas, through Local Development Strategies;
- *Ensuring consistency in programming.* Synergies between and within the axes should be maximised. Where appropriate, other EU-level strategies should be taken into account. Means to improve governance and policy delivery should be mobilised. In particular, European and national networks for rural development should be set up as a platform for exchange of best practice and expertise on all aspects of policy design, management and implementation between stakeholders;
- *Complementarity between Community instruments.* In order to foster synergy between structural, employment and rural development policies, MS should ensure complementarity and coherence between actions to be financed by different EU funds.

The Strategic Guidelines provide the framework on the basis of which MS prepared their NSP, which translate the EU priorities into national priorities, and serve as a reference for the RDPs. These RDPs implement the priorities through sets of selected measures grouped by axis (see table 1⁷ with the list of measures per axis). The programmes, either national or regional, were approved by the Commission in 2007 and 2008. Their implementation is monitored and evaluated on the basis of the Common Monitoring and Evaluation Framework (CMEF).

⁶ Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

⁷ All the tables are presented in the Commission Staff Working Paper.

1.2 Overview of the budget and operational targets

The overall EAFRD budget for the whole programming period 2007-2013 amounts to EUR 96.2 billion. To ensure a balanced strategy, the EAFRD has set minimum spending levels for each thematic axis to be applied in each RDP (10%, 25% and 10% respectively for axis 1, 2 and 3). For the Axis 4 (Leader) a minimum of 5% (2.5% for the EU-12) of the EU funding for each programme is reserved. The total available budget is higher as EAFRD resources are complemented by national public funding⁸.

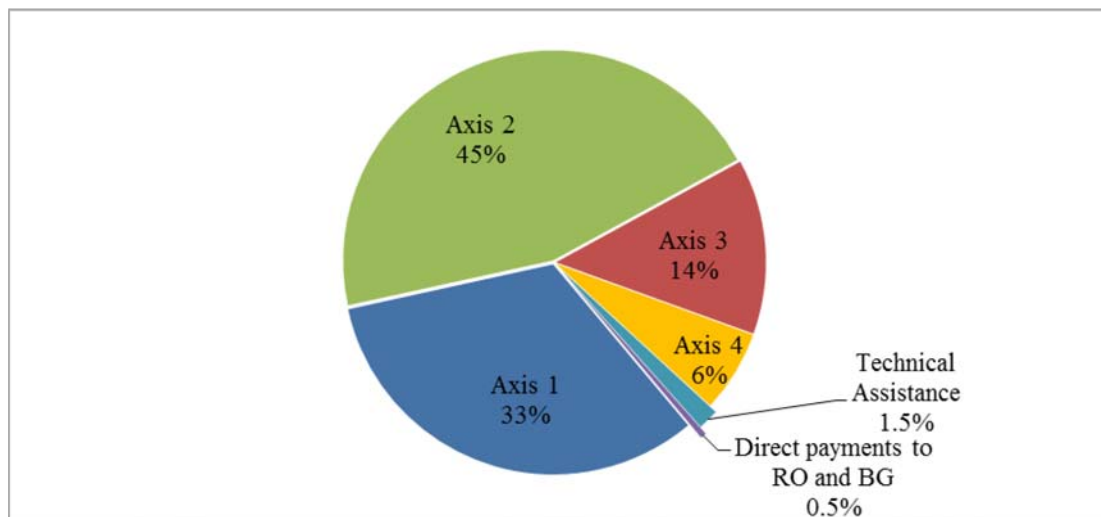


Figure 1. Relative importance of axes within the total EAFRD contribution for the 2007-2013 programming period – EU-27.

Once the programming was made at MS level, the financial breakdown between the different axes, as well as the definition of the main targets for 2013, resulted in the following, as per the above Figure 1:

- Axis 1 *'improvement of the competitiveness of the agricultural and forestry sector'* accounts for 33% of the total EAFRD. This axis is expected, by the end of the programming period, to contribute to 575 000 investment projects for the modernisation of agricultural holdings and to support 34 000 enterprises for adding value to agricultural and forestry products;
- Axis 2 *'improving the environment and the countryside'* is predominant with 45% of the total EAFRD. The planned result is to have 47 million hectares (ha) of agricultural land under agri-environment management, 55 million ha of agricultural land in less favoured and mountainous areas compensated for their handicaps and 1.3 million ha of agricultural land supported to meet NATURA 2000 requirements;
- Axis 3 *'quality of life in rural areas and diversification of the rural economy'* has a lesser share with 14% of the total EAFRD. By 2013, it is expected to contribute to develop or create 73 350 businesses in rural areas and to support 29 000 village renewal projects;
- Axis 4 *'LEADER'* is 6% of total EAFRD funding. The largest share of support for implementing local development strategies is planned to contribute to diversification and quality of life (Axis 3 type projects).

The Health Check (HC) and the European Economic Recovery Plan (EERP) resulted in additional budget amounts of EUR 4.9 billion allocated to six "challenges". The majority of the funds are concentrated in the areas of bio-diversity (31% i.e. EUR 1.5 billion) and water management (27%, EUR 1.3 billion). Dairy restructuring represents 15% of the additional budget (EUR 0.7 billion),

⁸ All financial data in the report relate to EAFRD unless explicitly expressed.

climate change measures account for 14% (EUR 0.7 billion) and renewable energy for 6% (EUR 0.3 billion). Member States have also decided to invest 35% of the European Economic Recovery Package funds in broadband infrastructure, i.e. EUR 0.3 billion of the available EUR 1 billion.

2. IMPLEMENTATION OF THE COMMUNITY'S PRIORITIES

2.1 Overview of main results

The total EAFRD expenditure realized by the EU27 MS by the end of 2013 amounted to EUR 71 billion⁹, representing 74% of the overall 2007-2013 budget of EUR 96.2 billion (the period under consideration represents 7 years out of the whole implementation period of 9 years¹⁰). The annual expenditure is globally on track after an initial slow start during the first years of the programming period 2007-2013.

The picture is far from homogeneous among the MS (Figure 2) as two MS had spending levels over 90%, while eight MS had spent less than 70%.

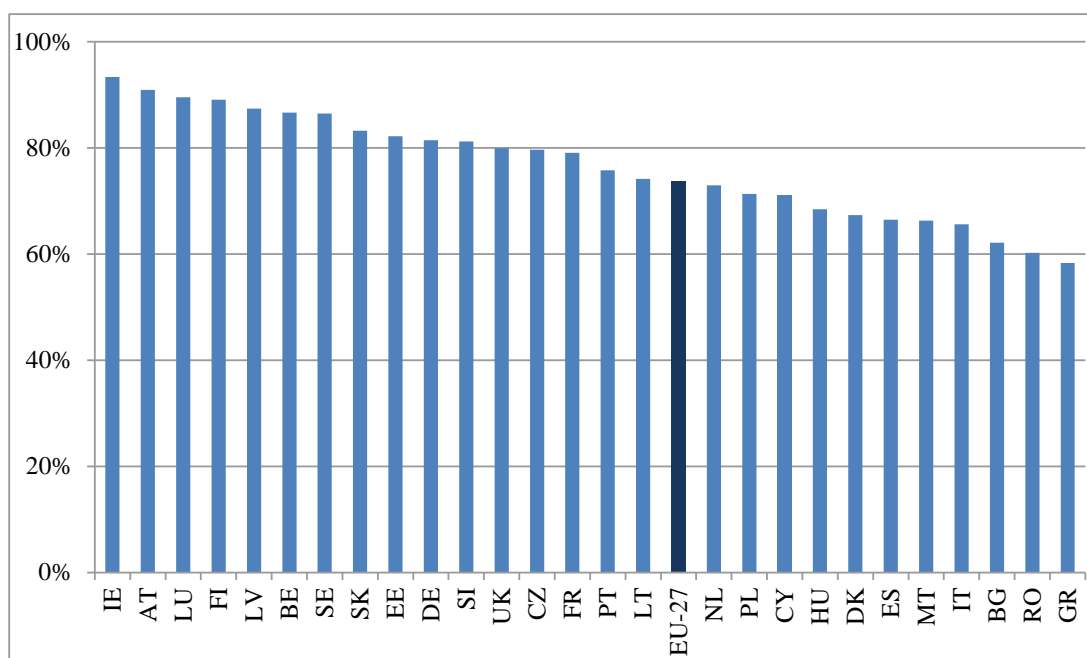


Figure 2. Overall EAFRD budget expenditure by the end of 2013 compared to the overall 2007-2013 allocation.

Axis 1 implementation (68%) is broadly in line with the spending target for 2007-2013, by reason of a significant number of investment projects approved to be concluded.

Axis 2 has the highest execution ratio (86%) with an even balance between Member States values. This high execution ratio can be explained by the differences in delivery mechanisms between the investment measures of Axis 1 and 3 and the most significant Axis 2 measures.

⁹ Payments to MS related to 2007, 2008, 2009, 2010, 2011, 2012 and 2013 calendar year. They cannot be compared to the Financial Reports of the Commission to the European Parliament and the Council on the implementation of EAFRD which are based on financial year.

¹⁰ 2007-2013 EAFRD payments can be made 2 years after the last commitments (2013), thus until the end of 2015.

Axis 3 shows a notable increase comparing to the end of 2011 (60% to be compared to 31% reached by the end of 2011) when a significant delay in the implementation of the measures was reported¹¹. However there is variability among Member States and some of them are still delayed in meeting their targets.

Axis 4 has an implementation rate of 46%, a value heavily influenced by delays in the implementation of local strategies and LAG in different Member States. There is a significant non-uniformity between the Member States in the implementation of the Leader.

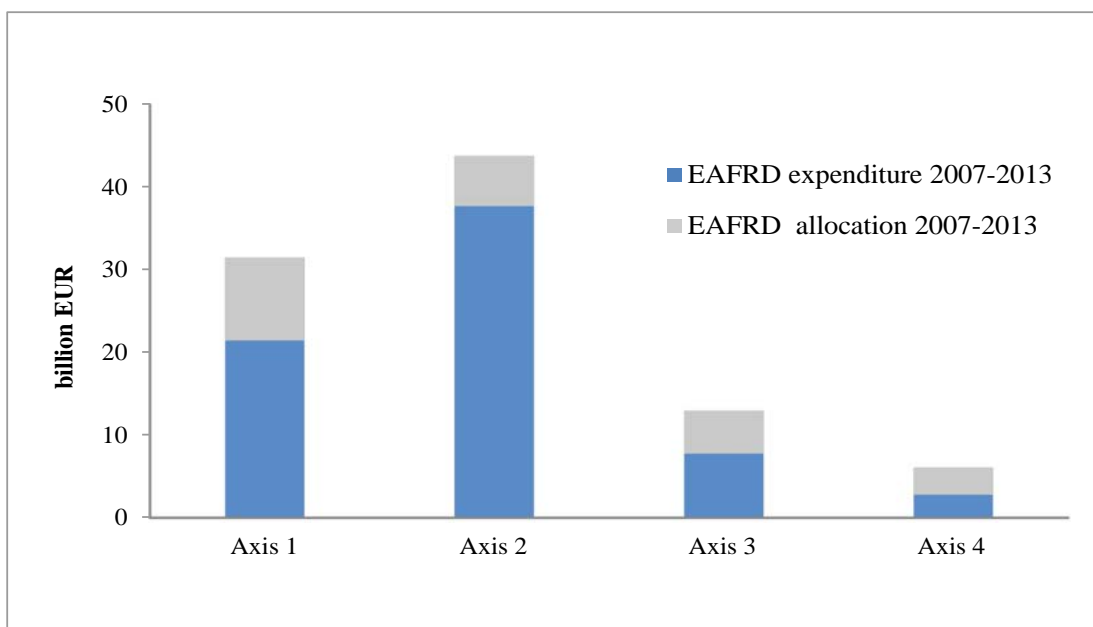


Figure 3. EAFRD budget expenditure by the end of 2013 compared to the overall 2007-2013 allocation by Axis.

Focusing specifically on the implementation rate of the Health Check (HC) and the European Economic Recovery Plan (EERP), EUR 3.3 billion were spent by the end of 2013 out of the overall EUR 4.95 billion programmed (74%), confirming a positive trend, reported in 2012, after an expected modest start in 2010. As for the uptake by challenges, climate change, biodiversity and dairy sector challenges have the highest uptakes with respectively 100%, 94% and 85% whereas broadband, water management and renewable energy, with respectively 31%, 28% and 21%, are lagging behind. The higher uptake of the biodiversity and climate change challenges is explained by the fact that these challenges have been predominantly tackled through Axis 2 measures.

¹¹ Second Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the implementation of the national strategy plans and the Community strategic guidelines for rural development (2007-2013).

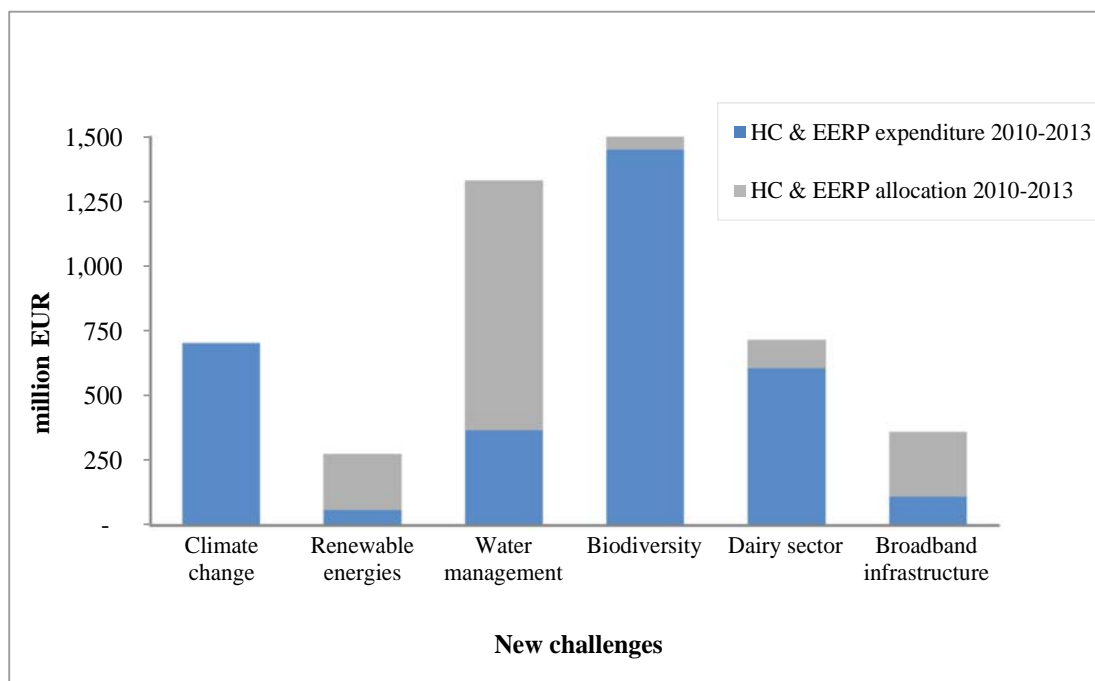


Figure 4. Overall HC and EERP budget expenditure (EAFRD) by the end of 2013 compared to the overall 2007-2013 allocation by "new challenges" (data from CMEF 2013).

Synergies between and within the axes and overall consistency have been taken into consideration during the programming process (reliance of the RDP on strengths and weaknesses analysis of the situation, ex-ante evaluation of the RDP...). These have been pursued throughout the whole programming period via, notably, the Monitoring (Monitoring Committees...), the Evaluations and the activities of the National Rural Networks (NRNs) and the European Network for Rural Development (ENRD) (joint analyses or exchange of information and practices between RDP managers and stakeholders...).

During the first years of the implementing period, mechanisms ensuring complementarity between EAFRD and EU Structural Funds were settled. They take the form of demarcation lines and/or co-ordination mechanisms such as inter-ministerial body.

2.2. Implementation by axis and measures

Axis 1 - Improving the competitiveness of the agricultural and forestry sector

The total EAFRD Axis 1 expenditure registered for the 2007-2013 period amounts to 68% of its 2007-2013 overall allocation (EU27 average).

The main results for this objective, at the end of 2013, are:

- 2 430 000 participants who successfully completed a training related to agriculture and/or forestry (88% of the 2013 estimated target for the period);
- 136 000 holdings introducing new products and/or new techniques (54% of the target);
- 80 EUR billions of total volume of investments (80% of the target¹²) made for the main Axis 1 investment measures for an EAFRD contribution of EUR 17 billion (EUR 28 billion of total public expenditure (EAFRD + MS counterpart)).

¹² Total investment includes private and public expenditure for the following investment measures (112; 121; 122; 123; 125; 126).

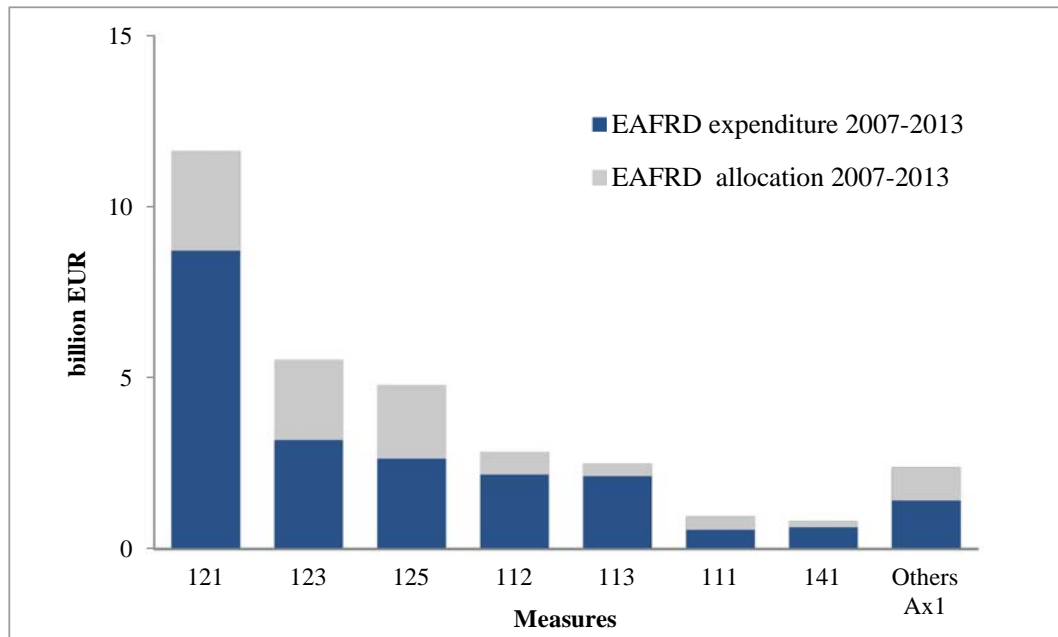


Figure 5. EAFRD budget expenditure by the end of 2013 compared to the overall 2007-2013 allocation, within Axis 1 by measure.

Measure 121 (Modernisation of agricultural holdings) is the biggest Axis 1 measure in terms of EAFRD budget allocation (EUR 11.6 billion). The payment uptake of this measure is 75% of its total budget with 379 000 modernisation projects already completed (66% of the target). The total volume of investment realized exceeds EUR 39 billion and is expected to reach EUR 49 billion by the end of the programming period 2007-2013. Its positive uptake demonstrates the high interest of farmers for investments as confirmed by the increase of the budget along the programming period.

Measures 123 (Adding value to agricultural and forestry products) has an uptake of 58% with 22 885 holdings supported, out of the 34 029 target. Total volume of investment amounts to EUR 17.4 billion (71% of the target).

Measure 125 (Infrastructure related to the development and adaptation of agriculture and forestry) has a financial execution rate of 55% by the end of 2013. The EUR 2.6 billion EAFRD expenditure made so far has led to a total investment of EUR 7.2 billion (public + private). The number of operation supported is more than 43 500 (99% of the target) with an average investment of some EUR 160 000, a value lower than expected and in line with the lower expenditure uptake (55%).

Measure 112 (Setting up of young farmers) present an uptake level of 77%, the EAFRD expenditure is more than EUR 2.1 billion and the number of young farmers supported is nearly 145 000.

Axis 2 - Improving the environment and the countryside

The total EAFRD Axis 2 expenditure for the period 2007-2013 represents 86% of its overall allocation.

The main results achieved for this objective at the end of 2013 are notably:

- 46.9 million hectares under land management contributing to enhancing the environment (biodiversity, water quality, soil and addressing climate change) which represent 27% of the

total EU Utilized Agricultural Areas (UAA)¹³. It includes 7.6 million hectares to support organic farming;

- 1.5 million hectares to support specific land management in NATURA 2000 areas or through the Water Framework Directive;
- 340 000 hectares supported for afforestation in both agricultural and non agricultural areas.

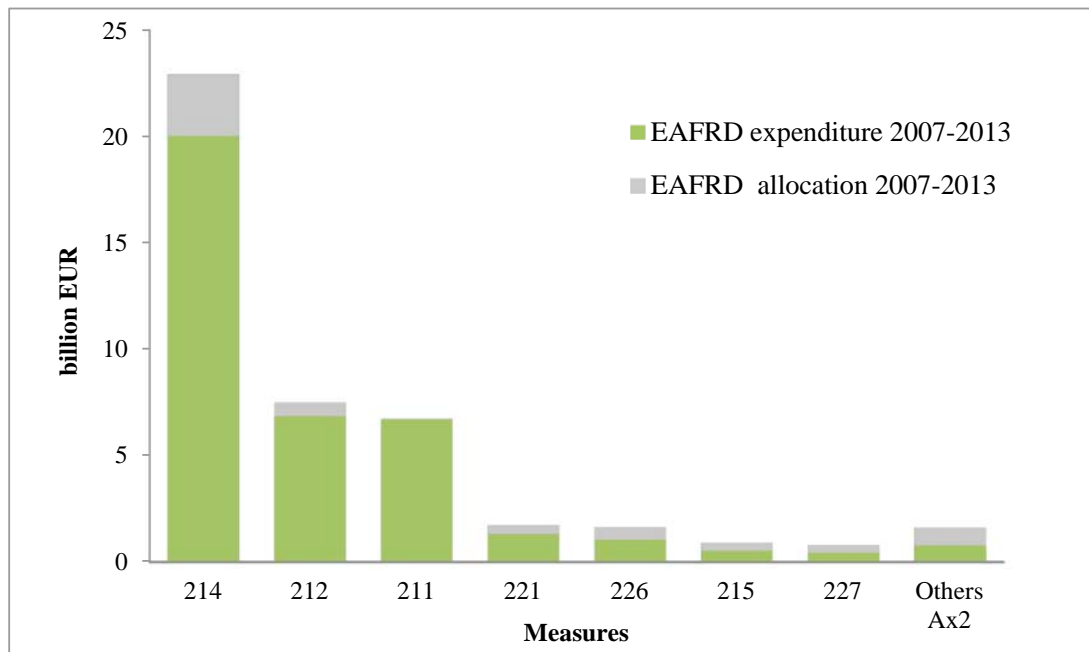


Figure 6. EAFRD budget expenditure by the end of 2013 compared to the overall 2007-2013 allocation, within Axis 2 by measure.

The three biggest measures in terms of budget allocation are also those with the highest uptake among Axis 2 measures: 211 (Natural handicap payments to farmers in mountain areas, with an uptake of 100%), 212 (Payments to farmers in areas with handicaps other than mountain areas, with an uptake of 91%) and 214 (Agri-environment payments, with an uptake of 87%).

For Measure 214, EAFRD expenditure is more than EUR 20 billion. Agri-environmental payments involved over 1.5 million of holdings for a total area supported of 46.9 million hectares. There is no uniformity in the implementation of the different operations among the European RDPs, however overall execution rates confirm the leadership of agri-environmental payments within the environmental measures. Measure 214 plays a leading role also in the achievement of the CAP Health Check objectives on biodiversity and climate change.

Measures 211 and 212 together support over 55 million hectares in less favoured and mountainous areas to compensate for their natural handicaps. Their financial uptake level is close to 100%.

Measure 221 (First afforestation of agricultural land) plays also a role in Axis 2 budget, notably in continuing the commitments from the previous programming periods. In a majority of RDPs, its overall budget was decreased since the beginning of the programming period. However the measure shows an uptake level of 77% and involves more than 271 000 hectares of afforested land. Measure 226 (Restoring forestry potential and introducing prevention actions) and Measure 227 (Non productive investments) are the other most relevant measures supporting the forest sector in terms of budget allocation. Both measures together supported over EUR 3 billion of investment in European forests.

¹³ UAA from 2010 FSS (Eurostat, update from November 2014).

Axis 3 - Improving the quality of life in rural areas and encouraging diversification of the rural economy

The total EAFRD Axis 3 expenditure for the period 2007-2013 represents 60% of its overall allocation.

The main results achieved for this objective at the end of 2013 are:

- Axis 3 contributed to creating jobs (75,000) in a context of growing unemployment in rural areas¹⁴;
- 21 EUR billion of total volume of investments (private and public) made with an EAFRD contribution of EUR 7 billion (EUR 10 billion of total public (EAFRD + MS public contribution))¹⁵.
- 135 000 operations to support development of non agricultural activities in the rural areas, including business creation and new tourism activities¹⁶.

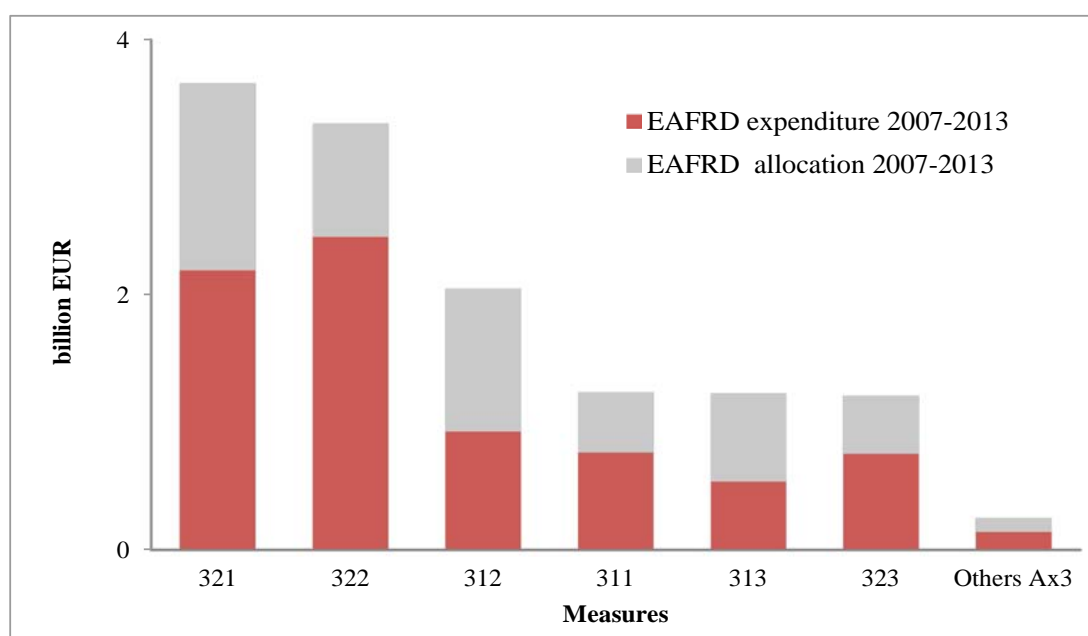


Figure 7. EAFRD budget expenditure by the end of 2013 compared to the overall 2007-2013 allocation, within Axis 3 by measure.

The biggest measure of Axis 3 in terms of total allocations is 321 (Basic services for the economy and rural population) with a financial uptake of 60% and more than 50 000 projects completed. Its total volume of investment realized by the end of 2013 is around EUR 5.3 billion for an EAFRD contribution of EUR 2.3 billion.

However, in terms of execution, the most advanced measure of Axis 3 is 322 (Village renewal and development), with an uptake level of 73% corresponding to EUR 6.8 billion of total volume of investment to support renewal activities (for a EAFRD contribution of EUR 2.5 billion) across almost 40 000 villages.

¹⁴ Unemployment globally increased from 7.1% in 2007 to 10.3% in 2013 in the thinly populated rural areas and from 7% in 2007 to 10.2% in 2013 in intermediate areas (source: Eurostat).

¹⁵ Considering following investment measures (311, 313, 321, 322, and 323).

¹⁶ Considering measures 311, 312 and 313.

On the contrary, measure 312 (Business creation and development) execution rate remains quite low (45%) even if the number of micro-enterprises supported (over 61 000) is quite close to the target (84%).

Finally, measure 311 (Diversification into non-agricultural activities) implementation level is in line with Axis 3 (62%). The total volume of investment is more than EUR 4.2 billion for a number of beneficiaries of 35 000.

Axis 4 - Building local capacity for employment and diversification

The total EAFRD Axis 4 expenditure for the period 2007-2013 represents 46% of its overall allocation.

The main result achieved for this objective at the end of 2013 is:

- Nearly 139 000 projects financed by 2 402 LAGs.

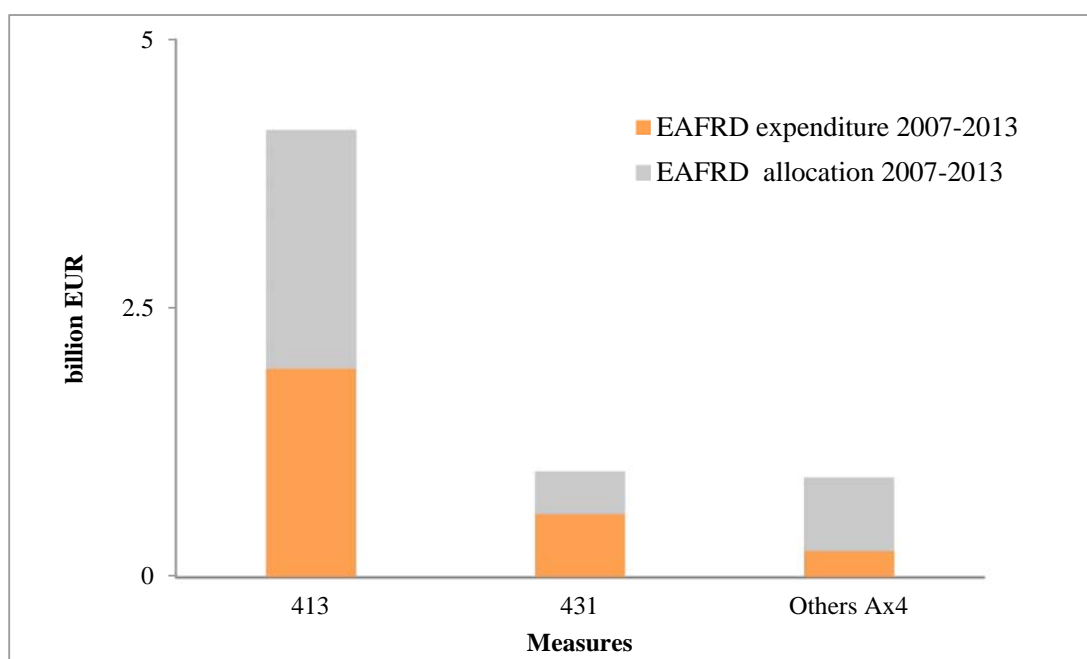


Figure 8. EAFRD budget expenditure by the end of 2013 compared to the overall 2007-2013 allocation, within Axis 4 by measure¹⁷.

At the end of 2013, the total number of LAGs was 2 402¹⁸. This number has doubled in comparison with Leader+ and half of the territories are implementing the Leader approach for the first time.

Due to the fact that the LAG selection process was completed relatively late, many of the selected LAGs have started with delays to implement projects linked to their local development strategy. This explains the relatively low EAFRD axis 4 financial uptake which represents 46% of the overall allocation for this axis but a substantial increase in the latest quarterly expenditure has been taking place.

¹⁷ 413 corresponds to Axis 3 type LEADER operations and 431 to running and animation of Local Action Groups
¹⁸ According ENRD survey (June 2014).

Specific difficulties have been pointed out by some MS. The mainstreaming of Leader has notably modified the approach implying significant administrative adaptations (administrative reorganization, training of staff).

3. OUTLOOK

The overall financial uptake is globally on track, despite some unfavourable conditions such as the economic situation. The execution rate reached by the end of 2013 and the overall achievement of the output indicators confirm that the main difficulties of implementation reported in the previous reports have been largely overcome.

However, lower uptake persists in some Member States particularly in relation to Axis 3 and Axis 4 implementation. For these two axes, available data underline variability among MS particularly in LEADER execution. Its overall good implementation clearly demonstrates the workability of LEADER, but the low levels of execution reported in some RDPs point out a disparity among the rural areas of the Union. In this context a significant role can be provided by networking through the European Network for Rural Development.

For the individual programmes, many corrective modifications have been made based on the difficulties encountered in the first years of implementation, taking into account the recommendations from the mid-term evaluations and incorporating additional funds addressing new challenges (Health Check) and the economic crisis (European Economy Recovery Package). Most of the changes observed were budget shift between measures, adaptation of the targeted beneficiaries and/or the eligibility criteria. The main reasons for the budget changes observed were modifications of the strategic priorities, low absorption rates as well as reactions to overcome unforeseen problems due to wider policy, economic or legislative contexts.

The monitoring system on rural development policy provides a picture of the main outputs and results for the CAP second pillar. More specifically, in Axis 1, around 2.4 million of farmers were successfully trained and more than EUR 80 billion of total investment were mobilized in 637 thousands of projects. In axis 2, measures targeting environmental issues were implemented on 47 million hectares. In axis 3 more than 50 000 projects of basic services for the economy and rural population are completed and 62 000 micro-enterprises were supported or created. Finally, 140 000 LEADER projects (Axis 4) have been supported so far.

This picture will be completed by the ex post evaluation which will assess the overall impacts of the Rural Development Policy. Managing Authorities will submit to the Commission the RDP ex post evaluations for each individual RDP by the end of 2016 and this exercise will be followed by synthesis at EU level.