

AGRICULTURE AND RURAL DEVELOPMENT

A. INTERNAL EU AGRICULTURE AND RURAL DEVELOPMENT POLICY

The European model of agriculture and rural development consists of two pillars of the Common Agricultural Policy (CAP): *agricultural market support* (first pillar) and *rural development policy* (second pillar).

The *Common Agricultural Policy (CAP)* contributes to the multifunctional dimension of the European agricultural sector aiming at, inter alia, the sustainable production of food and non-food products, safeguarding the countryside and providing environmental services, employment in rural areas and helping to reinforce the economic and social cohesion between groups and regions.

Over the past decades, focus on the second pillar has increased, although direct aid and market measures remain important. This was not only necessary from an internal policy reform perspective but also to better respond to the changing international trading environment. It is necessary to look at both of these pillars in some detail given an emerging importance of rural development in the EU.

1. Common Agricultural Policy (CAP) – an evolution

Born around 50 years ago when the founding members of the EU were emerging from a decade of food shortages, the Common Agricultural Policy (CAP) is the oldest and for a long time, the only common European policy with an exclusive Community Competence. When it was created, it focused on subsidising production of basic foodstuffs in the interests of self-sufficiency and food security. As European agriculture evolved, so did the CAP, adapting to the new environment. It gradually moved away from price and production support to a more comprehensive policy support through the single farm payment scheme, in addition to the preservation and management of natural resources.

As a result of successive CAP reforms since 1992, subsidies on quantities produced have largely been replaced by *direct payments* to farmers. These help to ensure a decent income for farmers, but are also linked to compliance with broader objectives, such as standards on food safety, plant health and animal welfare and environmental issues such as preservation of traditional rural landscapes, as well as bird and wild life. The CAP is also a financial safety net for farmers hit by natural disasters or animal diseases.

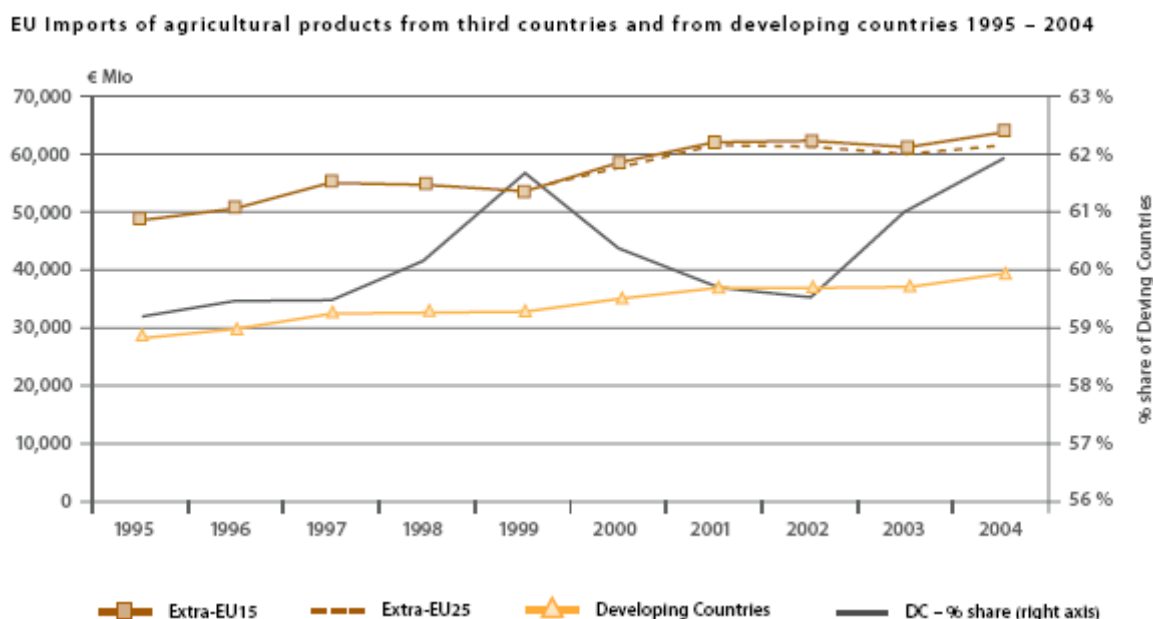
Moving towards support that does not distort trade is also in line with new world trade disciplines. Targeting support towards farmers instead of products, reduces the risk that trade will be distorted by subsidies for export of additional production.

These changes prepared the EU for the WTO 'Doha Development Round'. Alongside multilateral trade negotiations, a number of bilateral trade negotiations are ongoing, not least with the poorest and most vulnerable of the world's economies. For example, the EU is in the final stages of negotiating so-called Economic Partnership Agreements (EPAs) with the African, Caribbean and Pacific countries (ACPs). These should come into force on 1 January 2008 and provide for duty free, quota free access for all products originating from ACPs, with some limited exceptions (rice and sugar in particular).

The EU is already the world's largest importer of food and the biggest market for third world foodstuffs.²

² Europa- Overview of the European Union Activities: agriculture http://europa.eu/pol/agr/overview_en.htm

Graph A.1.a: EU imports of agricultural products from third countries and from developing



2. Rural Development as the Second Pillar of the CAP

With over 60 % of the population in the 27 Member States of the European Union (EU) living in rural areas, which cover 90 % of the territory, rural development is a vital policy area. The strengthening of EU rural development policy has therefore become an overall EU priority.

The new legal framework of rural development policy focuses more clearly on boosting growth and creating jobs in rural areas – in line with the Lisbon Strategy– and on improving sustainability - in line with the Göteborg sustainability goals.

2.1 EU strategic guidelines, National Strategy Plans – Rural development in action

The *EU strategic guidelines* identify the areas important for the realisation of Community priorities and a range of options which Member States could use in *their National Strategy Plans* and *Rural Development programmes*. National Strategy Plans translate Community guidelines into national context in the light of identified needs of the regions. Rural Development programmes implement the National Strategy Plans.

For each set of priorities, the EU strategic guidelines suggest *key actions*. Member States' national rural development strategies are based on *six Community strategic guidelines*:

1. Improving the competitiveness of the agricultural and forestry sectors
2. Improving the environment and the countryside
3. Improving the quality of life in rural areas and encouraging diversification
4. Building Local Capacity for Employment and Diversification
5. Ensuring consistency in programming
6. Complementarities between Community Instruments³

2.2 Rural Development policy 2007- 2013

The *Rural Development policy 2007-2013* focuses on three areas corresponding to the *three thematic axes* laid down in the new rural development regulation

- improving competitiveness for farming and forestry
- environment and countryside

³ DG AGRI official site, rural development policy 2007-2013: http://ec.europa.eu/agriculture/rurdev/index_en.htm

- improving quality of life and diversification of the rural economy.

A *fourth axis* called "*Leader*", based on experience with the Leader Community Initiatives, introduces opportunities for locally based bottom-up approaches to rural development.

The new programming period provides a unique opportunity to refocus support from the new rural development fund on growth, jobs and sustainability.⁴

3. Environmental integration into the CAP – State of play

Since 1992, the CAP has progressively been adapted to better serve the aims of sustainability, including environmental protection, by means of a reform process designed to move away from price and production support, to a policy of direct income aid and rural development measures.

The reforms of 1999 and 2003 were important steps in this reform process. Since then, further reforms have been implemented - reforms of the tobacco, hops, olive oil and cotton sectors in 2004, the new rural development policy adopted in 2005 and the reform of the sugar regime in 2006. The work will continue bringing sectors such as fruit and vegetables and wine in line with the rest of the reformed CAP. Furthermore, a "CAP Health Check" which will be launched towards end of 2007, will assess whether the reformed CAP is meeting its objectives as effectively and efficiently as possible – in a European Union of 27 Member States and in the foreseeable international context.

The progress achieved in integrating environmental concerns into the CAP is recognised in the recent mid-term review of the 6th Community Environment Action Programme,⁵ in which the Commission mentions agriculture as a positive example of integration: "*In the agricultural sector there have been fundamental reforms over the last 15 years that have moved towards seeing farmers as stewards of nature...*"

Today the CAP includes a series of measures that contribute to the protection of the environment and nature conservation, in line with the principles prescribed in the Council integration strategy. These measures are found in both pillars of the CAP. They can be classified into four types:

- A. Measures targeted towards other objectives (e.g. market stability, income support) with the potential of having positive secondary effects on the environment or by contributing to maintaining environmentally beneficial structures or types of farming in place (e.g. *Less Favoured Area payments*).
- B. Measures targeted towards other objectives (e.g. income) while contributing to the enforcement of mandatory environmental requirements and the polluter pays principle (e.g. *decoupled payments* in combination with *cross-compliance*).
- C. Measures targeted towards encouraging the provision of environmental services on a voluntary basis (*agri-environmental measures*).
- D. Measures targeted towards encouraging compliance with environmental legislative requirements (e.g. "*meeting standards*" measure; *Natura 2000* and *Water Framework Directive payments*).

The measures for environmental integration introduced by the 2003 CAP reform and the new rural development policy are summarised hereunder.

3.1. First pillar (agriculture: market and income policy)

The 2003 CAP reform introduced a *single farm payment*⁶, which is decoupled from production. *Decoupling* should ultimately reduce the incentive for intensive production and for using inputs beyond the carrying capacity of the environment. On the basis of Member States' decisions, it is estimated that by 2014 approximately 91 per cent of budgetary transfers, in the form of direct payments (including national envelopes and top ups) for arable crops, milk, beef and sheep, will be part of the decoupled single farm payment for the EU-27 as a whole. The rate will be higher for milk and arable crops than for beef and sheep.

With the introduction of *mandatory cross-compliance*, the full granting of direct payments is conditional on the number of statutory management requirements on the whole farm, including those stemming from the

⁴ DG AGRI official site, rural development policy 2007-2013: http://ec.europa.eu/agriculture/rurdev/index_en.htm

⁵ [COM (2007) 225 final].

⁶ See more on single farm payment and on decoupling at: <http://europa.eu/scadplus/leg/en/lvb/l11089.htm>

implementation of five environmental directives and good agricultural practices by keeping all farmland in an optimal environmental condition.

Cross-compliance establishes a direct link between agricultural support and some EU legal requirements, including in the environmental field, through the possible reductions of payments in case of infringements. These reductions are proportionate to the level of the infringements. Moreover, cross-compliance provides the baseline for a number of rural development measures under the second axis for the new programming period 2007-2013.

Modulation, which also became mandatory [for the EU15, not EU27] with the 2003 reform, makes it possible to transfer funds from the first to the second pillar. This increases the budget available for rural development measures, including those targeted to environmental objectives.

Moreover, the 2003 reform makes the establishment of *farm advisory services* mandatory for Member States. These services can help farmers respect their cross-compliance obligations and improve the environmental performance of their farms. They should have the capacity (in particular a sufficient number of qualified advisers) to offer advice across the whole country. In a number of Member States, the provision of farm advice was still regarded as insufficient or partly insufficient before the reform.

3.2. Second pillar (rural development policy)

With regard to the second pillar of the CAP, the menu of rural development measures for which Member States can draw EU funding for the period 2007-2013 has been streamlined and consolidated and the use of these measures must respond to a strategic approach. The Community strategic guidelines identify *three priority areas* for measures aimed at improving the environment and the countryside:

- (a) biodiversity and preservation and development of high nature value farming and forestry systems and traditional agricultural landscapes
- (b) water
- (c) climate change.

These are translated into national strategy plans, which in turn form the basis for the national and regional rural development programmes.

The new rural development regulation⁷ also refers to the objectives of the 6th Environment Action Programme, stating (in recital 3) that "*key issues to be addressed include biodiversity, Natura 2000 site management, the protection of water and soil, climate change mitigation including the reduction of greenhouse gas emissions, the reduction of ammonia emissions and the sustainable use of pesticides*".

The rural development policy provides Member States with several possibilities to support environmental integration, *inter alia*:

- Support to farmers for commitments going beyond baseline standards, including cross-compliance requirements, via the agri-environment schemes
- Support to farmers for compliance with demanding, newly introduced Community standards via the measure on meeting standards
- Support to farmers and other beneficiaries for the conservation of genetic resources in agriculture⁸
- Other rural development measures, such as support for training, for the use of and for setting up farm advisory services, for non-productive investments and payments in areas with handicaps.

Member States decide which measures they wish to include in their rural development programmes according to their specific priorities, needs and situations (subsidiarity principle). To guarantee a certain balance between the economic, environmental and social objectives of the policy, a minimum allocation of funds is required for each of the 4 axes.⁹

⁷ Council Regulation (EC) No 1698/2005.

⁸ The conservation of genetic resources in agriculture is also supported under Council Regulation (EC) 870/2004, through a series of multi-beneficiary grant agreements and a total budget of EUR 10 million.

⁹ Ten per cent for axis 1 (Improving the competitiveness of the agricultural and forestry sector) and axis 3 (Quality of life in rural areas and diversification of the rural economy), 25 % for axis 2 (Improving the environment and the countryside) and 5% for axis 4 (Leader).

For the new *programming period 2007-2013*, cross-compliance provides the minimum environmental requirements that must be respected by farmers at their own cost (the "baseline" or "reference level"). Agri-environmental payments compensate farmers for the additional costs (including transaction costs) and income foregone due to commitments going beyond that level.

The rural development policy also provides possibilities for granting time-limited and digressive aid for the cost of meeting newly introduced environmental standards and for granting payments to compensate farmers for costs incurred and income foregone as a result of disadvantages in areas concerned by the implementation of the *Birds, Habitat and Water Framework Directives*¹⁰. In the case of the Birds and Habitat Directives, the disadvantages arise in the protected zones designated under these directives and the payments can be seen as a means of compensating farmers for the additional cost of operating in these zones.

By aligning farmers' obligations in the first and the second pillar, the recent reforms of the CAP have created a system consistent with societal expectations (farmers are expected to respect statutory environmental requirements derived from Community law) and the polluter-pays principle (as applied in the WTO and the OECD).

4. Organic farming

The development of organic food and farming is a well-established element of the CAP. Already in 1991 the EU introduced legally binding requirements for organic farming and food production¹¹, which helped to develop a fast growing market for organic products.

Nowadays, the area under organic agriculture represents around 4% of the total agricultural land in the EU, with a slight upward trend. This figure hides a wide variation between the countries with Austria reaching 11% (see the European Commission website¹²). A wide variety of plant and livestock products are produced and processed organically and find their way to the consumer via a number of market channels, from farmers' markets and consumer co-operatives to supermarkets, specialised shops, catering services and export companies.

In 2004, the EU set out its overall organic policy in the *European Action Plan for Organic Food and Farming*¹³. In this Action Plan, the dual role of organic production was recognised. On the one hand it delivers public goods, environmental benefits but also rural development and animal welfare. On the other hand, organic products create a specific market responding to the demand of certain consumers willing to buy products produced by using natural substances and processes, usually at a higher price.

Organic production is a prime example of sustainable development: it is an overall system of farm management and food production that combines best environmental practices, a high level of biodiversity, the preservation of natural resources, a return of nutrients from organic waste to the soil, low input and high animal welfare standards. Moreover, the products find their way to a dynamic and growing market.

The ongoing implementation of the Action Plan includes an EU-wide information campaign raising awareness among consumers and traders. Moreover, most Member States have policies in place to stimulate the development of organic agriculture, often supported by national action plans. All these measures contribute to sustainable development.

The European Action Plan for Organic Food and Farming also saw a need to improve the regulatory framework. In 2007, the Council adopted a new regulation on organic farming¹⁴, which replaces the 1991 regulation from 2009. The new Regulation is particularly relevant as it sets out a complete set of objectives, principles and basic rules for organic production, which provides for a firm legal base for the contribution of organic agriculture to sustainable development, biodiversity and animal welfare. In the second phase, the legal framework will be completed with the inclusion of detailed technical rules based on the ones in the 1991 regulation.

¹⁰ Directive 79/409/EEC on the conservation of wild birds, Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora and Directive 2000/60/EC establishing a framework for Community action in the field of water policy.

¹¹ Council Regulation (EEC) N° 2092/9 of 24 June 1991 on organic production of agricultural products and indications referring thereto on agricultural products and foodstuffs.

¹² http://ec.europa.eu/agriculture/qual/organic/index_en.htm

¹³ http://ec.europa.eu/agriculture/qual/organic/plan/index_en.htm

¹⁴ Council Regulation (EC) No 834/2007 of 28 June 2007 on organic production and labelling of organic products and repealing Regulation (EEC) No 2092/91.

For the international trade aspects of sustainable development, it is relevant that the new regulation also includes new, more permanent rules for the import of organic products, aimed at facilitating the import of organic products into the European Union, particularly from developing countries.

The Action Plan also announced efforts to further harmonise production rules for organic farming worldwide, leading to broader acceptance of organic products between trade partners. The role of *Codex Alimentarius* in this process has been underlined in the new Regulation. In addition, the EU and its Member States take active part in international efforts by FAO, UNCTAD and IFOAM to reduce the barriers to trade in organic products.

Another example of good practice is the development of East-African organic standards, as initiated by these international organisations and supported by the European Commission (EC) Development Directorate General, stimulating capacity building and co-operation in the region as well as mutual acceptance of organic products.

5. Lessons learned, good practices, trends and emerging issues

Since its introduction, the Common Agricultural Policy has developed into a comprehensive legal framework for European agriculture. Given the increasing importance accorded to the overall concept of better regulation at national as well as EU level, the EC Directorate-General for Agriculture and Rural Development has stepped up its efforts to simplify the CAP.¹⁵ This is also in line with the so-called Lisbon Strategy for growth and jobs.

Rural Development Policy is now a critical pillar of the Common Agricultural Policy. The new European Agricultural Fund for Rural Development, which is the single source of funding under the EU's future rural development policy for the period 2007-2013, is a key instrument in achieving the targets under this pillar. Rural development measures now cover a wide variety of themes from investments in agricultural holdings, to training, agri-tourism, agri-environmental and renovation and development of villages. The *Leader+* community initiative encourages the implementation of integrated, high quality and original strategies for sustainable development; with a strong focus on partnership and networks of exchanges and of experiences. Experience has shown that integrated approaches involving all rural actors, whether they are farmers, foresters or local enterprises, can contribute enormously to a region's ability to derive sustainable benefit from its natural and cultural heritage. This is also important for tourism and environmental awareness, especially in terms of renewable energy and efforts being made to tackle climate change.

6. Case studies of successful EU agriculture and rural development practices

6.1. Case Study: Leader +

1. *Problem or issue addressed*: lack of locally based bottom-up approaches, local involvement/community based approaches in rural development

2. *Name of the programme*: Liaison Entre Actions de Développement de l'Économie Rurale' (Leader +)

3. *Timeframe*: 2000-2006

4. *Status*: Completed

5. *Main objectives*: Support territorially (locally) based, integrated and participative rural development policy based on bottom-up approaches in the following priority themes:

- Making the best use of natural and cultural resources, including enhancing the value of sites of Community interest selected under Natura 2000
- Improving the quality of life in rural areas
- Adding value to local products, in particular by facilitating access to markets for small production units via collective actions
- The use of new know-how and new technologies to make products and services in rural areas more competitive.

6. *Lead institution*: European Commission

7. *Other implementation arrangements and stakeholders involved* (public, private, NGOs, CBOs, international support): Financial assistance granted to groups of partners known as "local action groups" (LAGs)

8. *The results achieved* (if possible, please address the social, economic and environmental impacts of the programme): see text below

¹⁵ Euractiv, report with Commissioner Mr Franz Fischler, 2003:
<http://www.euractiv.com/en/cap/cap-main-policy-challenges-2004-2010/article-117280>

9. *The relationship of the programme to internationally agreed goals and targets:*

It seeks to encourage the implementation of integrated, high-quality, original strategies for sustainable development (Point 8 of Commission Notice of 14 April 2000)

10. *Link:* http://ec.europa.eu/agriculture/rur/leaderplus/faq_en.htm#37

Leader + case study description:

Leader+ is one of four initiatives financed by EU structural funds and is designed to help rural actors consider the long-term potential of their local region.

Encouraging the implementation of integrated, high-quality and original strategies for sustainable development, it has a strong focus on partnership and networks of exchange of experience. A total of EUR 5 046.5 million for the period 2000-2006 has been spent around three actions, including technical assistance, of which EUR 2 105.1 million is funded by the EAGGF Guidance section and the remainder by public and private contributions:

LEADER + ACTIONS 2000 -2006	million EUR	Share (%)
Action 1: Support for integrated territorial rural development strategies of a pilot nature based on a bottom-up approach	4.377,6	86,75
Action 2: Support for cooperation between rural territories (interterritorial and transnational cooperation)	504,8	10,00
Action 3: Networking of all rural areas	68,7	1,36
Technical assistance	95,4	1,89
Total	5.046,5	100

Leader +:

- aims to find innovative and integrated or multi-sector solutions to rural problems;
- has a territorial/place based approach, with an emphasis on sub-regions;
- requires local partners – public and private actors (so-called Local Action Groups-LAGs).

The four themes identified in Leader + are:

- New technologies and know-how for the competitiveness of products and areas
- Quality of Life in Rural Areas
- Adding Value to Local Products
- Making the best use of natural and cultural resources.

6.2. Case Study: European Action Plan for Organic Food and Farming

1. *Issue addressed:* Formulation of an overall policy to ensure the ongoing development of the organic sector in the EU and to facilitate imports of organic products from developing countries

2. *Name of the programme:* European Action Plan for Organic Food and Farming (EAP)

3. *Timeframe:* launched in June 2004

4. *Status:* ongoing implementation of 21 policy actions

5. *Main objectives:* to set out policy measures to provide the conditions that allow the organic sector to develop and thereby make the most of its market potential; to facilitate imports of organic produce from developing countries

6. *Lead institution:* European Commission

7. *Other implementation arrangements and stakeholders involved:* public online consultation and hearing, stakeholder group, Member States, other EU institutions (Parliament, Council).

8. *Main results achieved:* significant progress achieved on most actions, first phase of regulatory reform finalised.

9. *The relationship of the programme to internationally agreed goals and targets:* directly linked to the conclusions of the 2002 Johannesburg World Summit on Sustainable Development supporting market-based

initiatives for the creation and expansion of domestic and international markets for environmentally friendly goods, including organic products.

10. *Link:* http://ec.europa.eu/agriculture/qual/organic/plan/index_en.htm

European Action Plan for Organic Food and Farming case study description:

The EAP provides for an overall strategic vision for the contribution of organic farming to the development of sustainable agriculture and food production. It puts forward a list of 21 concrete policy measures to be implemented, such as improving information about organic farming for consumers and traders, streamlining public support via rural development, improving production standards, strengthening the control system and research. It is based on extensive consultations with Member States and stakeholders including an online consultation and meetings with Member States and stakeholder groups.

Examples of policy measures in the EAP (and their state of play in 2007):

- EU-wide consumer information campaign (2007-2009)
- Making full use of rural development programmes to support organic farming (2007-2013)
- Development of new technologies suitable for organic production (ongoing research funded by EU and Member States)
- Defining legally binding objectives, principles and basic rules for organic production, thereby making its public service explicit and raising consumer confidence (first phase of new regulatory framework finalised in 2007, applies from 2009)
- Improving and completing the technical standards (ongoing)
- Making import provisions more efficient (ongoing)
- Stepping up efforts for worldwide harmonisation of production and control requirements in co-operation with international organisations (ongoing).

6.3. Case Study: Genetic and Ecosystem biodiversity

1. *Problem or issue addressed:* lack of sufficient landscape and biodiversity protection in the areas where farms are located

2. *Name of the programme:* Genetic and ecosystem biodiversity programme

3. *Timeframe:* 1994 - 2023

4. *Status:* ongoing

5. *Main objectives:* conserving and restoring natural spaces and the agricultural landscape and to create an environment favourable to the survival and reproduction of wild flora and fauna on land withdrawn from production

6. *Lead institution:* European Commission

7. *Other implementation arrangements and stakeholders involved* (public, private, NGOs, CBOs, international support, etc.): great stakeholder consultations, local participation

8. *The results achieved* (if possible, please address the social, economic and environmental impacts of the programme): see text below

9. *The relationship of the programme to internationally agreed goals and targets:* Biodiversity protection (links to goals of the Biodiversity Protocol)

10. *Link:* http://ec.europa.eu/agriculture/publi/rurdev/success_en.pdf

Genetic and ecosystem biodiversity case study description:

(Emilia-Romagna Region) – Italy

This project is aimed at conserving and restoring natural spaces and the agricultural landscape and to create an environment favourable to the survival and reproduction of wild flora and fauna on land withdrawn from production.

The scheme was launched in 1994/5 and is still actively being managed with an expected end date of 2022/23. It is a key element of the Emilia-Romagna regional agri-environmental programme and is part of the rural development programme.

Its aim is to protect the landscape and biodiversity of the areas where farms are located, by conserving and restoring the natural spaces and the agricultural landscape by ceasing arable production for environmental reasons.

There are two key actions that are being utilised:

- the first key action covers the conservation and restoration of certain typical features of the agri-ecosystem. The general rule is that pesticides and fertiliser cannot be used. The creation of wetlands with gently sloping banks and small semi-submerged islands is also part of the programme. The water depth must be suitable for the local species. No fishing rights are given. Hedges and copses are planted in line with rules on permitted species and there must be indigenous flora. The area must cover at least 5% of the UAA of the farm undertaking the action.
- The second key action is that when arable production ceases, it must be for a minimum of 20 years so as to create :
 1. Habitats for wild fauna and flora
 2. Various structured natural environments protected
 3. Reduced pesticide and herbicide use
 4. Reduction in chemical and organic fertiliser
 5. Grazing animals
 6. Areas for aquaculture
 7. Marketing of the products from the area.

Output/results:

Implementation of the actions has led to the rapid recovery and development of lowland biodiversity. Some of the species have been absent for decades. Now a complex network of biotopes has been reconstituted, covering some 3000ha on more than 100 farms.

The measures have been monitored and evaluated and changes have been made to the actions based on the findings. For example priority for funding has been given to farmers in environmentally sensitive areas, regional parks, Natura 2000 sites, protection zones.

6.4. Case Study: Capacity building for small and medium sized enterprises

1. *Problem or issue addressed:* lack of coherent, pragmatic and horizontal framework for SMEs
2. *Name of the programme:* Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions of 10 November 2005, entitled "Implementing the community Lisbon programme - Modern SME policy for growth and employment" COM (2005) 551 final
3. *Timeframe:* 2005 -
4. *Status:* ongoing
5. *Main objectives:* please see text below
6. *Lead institution:* European Commission
7. *Other implementation arrangements and stakeholders involved* (public, private, NGOs, CBOs, international support, etc.): various stakeholder consultations, SME participation
8. *The results achieved* (if possible, please address the social, economic and environmental impacts of the programme): see text below
9. The relationship of the programme to internationally agreed goals and targets: small and medium enterprises development –as a tool for sustainable development
10. *Link:* http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexplus!prod!DocNumber&lg=en&type_doc=COMfinal&and_doc=2005&nu_doc=551

Capacity building for small and medium sized enterprises case study description:

By definition all Small and Medium Enterprises (SMEs) s have fewer than 250 employees. Whether micro-enterprises or family SMEs, they make a major contribution to growth and job creation in the European Union (EU). The new policy on small and medium-sized enterprises (SMEs) creates a more coherent, pragmatic and horizontal framework for these enterprises: promoting entrepreneurship and developing an environment favourable to SMEs allow them to become more competitive.

In order to unlock the growth potential of SMEs as a whole, policies and action to support them need to reflect the diversity of SMEs from start-ups, to rapidly growing "gazelles", to those active in vast, local or regional markets...

The success of this new policy will depend on the effective involvement of all SME stakeholders, national, regional and European, public and private.

Specific action is proposed in five key areas:

- Promoting entrepreneurship and skills. Promoting entrepreneurship, reducing the burden of risk linked to setting up and running a business, eliminating the negative effects linked to business failure and providing support for the successful transfer of businesses are all elements that contribute to better exploitation of Europe's entrepreneurial potential. Special attention will be paid to promoting entrepreneurial skills, reducing the skills gaps and providing support to particular categories of entrepreneurs (women, young people, old people and people from ethnic minorities).
- Improving SMEs' access to markets. Better access to tenders on the public market, greater participation in the standardisation process, increased awareness of intellectual property rights and support for inter-enterprise cooperation, particularly in border regions, will help SMEs to take full advantage of the opportunities provided by the internal market. SME access to international markets will also be facilitated.
- Cutting red tape. It is vital to simplify the regulatory and administrative constraints weighing on SMEs. The principle of giving priority to small enterprises ("Think Small First") will be integrated across all EU policies. The interests of SMEs will systematically be taken into consideration when assessing the impact of Community legislation and when preparing forthcoming legislation. Derogations for SMEs can be developed for this purpose. Special attention will be given to the rules concerning state aid, SME involvement in Community programmes, value-added tax (VAT) and at national level, direct taxation.
- Improving SMEs' growth potential. Improving SMEs' access to finance, research, innovation and information and communication technologies (ICT) will contribute directly to unlocking their potential for growth. Financial support initially provided at Community level by the Multiannual Programme for Enterprises and Entrepreneurship (2001-2006), is being increased by the Competitiveness and Innovation Framework Programme (CIP) (2007-2013). It is also vital to strengthen SMEs' capacities for research and innovation, as continued innovation is essential for the sustainable development of SMEs. SME involvement in the 7th Research Framework Programme will thus be facilitated.
- Strengthening dialogue and consultation with SME stakeholders. Enterprises, in particular SMEs and the European Institutions suffer from a lack of communication with each other. More systematic cooperation and consultation with stakeholders is an essential guideline of the new SME policy. When policies are being developed, SMEs will be consulted by the EC SME Envoy or the "SME Panel", a new quick-and-easy mechanism for consultation via the Euro Info Centres network. In addition, as of the end of 2005, the "European Enterprise Awards" will reward measures that proved to be effective in promoting entrepreneurship and thus contributed to the exchange of best practices.

6.5. Case Study: Environment and SMEs

1. *Problem or issue addressed:* difficulties of small and medium enterprises to comply with environmental measures
2. *Name of the programme:* "European Compliance Assistance Programme: Environment and SMEs"
3. *Timeframe:* 2006 -
4. *Status:* ongoing
5. *Main objectives:* to make it easier for SMEs to comply with their obligations and improve their environmental performances
6. *Lead institution:* European Commission
7. *Other implementation arrangements and stakeholders involved* (public, private, NGOs, CBOs, international support, etc.): SME participation
8. *The results achieved* (if possible, please address the social, economic and environmental impacts of the programme): see text below
9. The relationship of the programme to internationally agreed goals and targets: small and medium enterprises development –as a tool for sustainable development
10. *Link:* http://ec.europa.eu/environment/sme/programme/programme_en.htm#

Environment and SMEs case study description:

Small and medium-sized enterprises (SMEs) traditionally find it harder to comply with environmental legislation than their larger counterparts. In general, the smaller the company, the more difficult it is.

Although there is a cost implication in compliance, companies that do take action can benefit from lower energy bills and greater efficiency in their operations.

The European Commission understands the pressures faced by small businesses and is taking action to help them. It has proposed an Environmental Compliance Assistance Programme to make it easier for SMEs to comply with their obligations and improve their environmental performances.

There are a number of areas where action is being taken:

- Minimising the administrative burden on companies
- Helping SMEs integrate environmental concerns into their businesses
- Supporting regional and national networks
- Building up local know-how
- Improving communication

B. AGRICULTURE AND RURAL DEVELOPMENT IN THE DEVELOPMENT POLICY OF THE EUROPEAN UNION

1. Fighting Rural Poverty

In accordance with Article 177 of the EC Treaty, the Community policy in the sphere of development cooperation foster:

- The sustainable economic and social progression of developing countries and in particular the most disadvantaged among them
- The smooth and gradual integration of developing countries into the world economy
- The campaign against poverty in developing countries.

Whilst the Treaty provides for the legal basis, the recently [2006] adopted European Consensus on Development, sets the general policy framework at EU level. The European Commission has substantially overhauled its development policy to re-centre it around the objective of poverty eradication in the context of sustainable development, in line with the international agenda with particular attention on the Millennium Development Goals [MDGs].

Agriculture and rural development are key policy areas that contribute to poverty alleviation, in particular by raising incomes, improving food security and increasing rural service levels through sustainable development at the national, regional and global level.

2. Rural poverty and rural development in developing countries

In 1999, the European Commission substantially overhauled its development policy to re-centre it around the objective of poverty reduction. From this overall policy framework, several sector policies have been reviewed. Among those, the rural development policy was reviewed in 2002. This exercise, carried out jointly by the EC with Member States, led to the finalisation of a Communication¹⁶, which signalled the increasing attention being paid by European development co-operation to rural areas and the complex set of issues which determine rural livelihoods.

Rural poverty is identified in the Communication as a multi-dimensional problem that includes low incomes, inequalities in access to productive assets, low health education and nutrition status, natural resource degradation, vulnerability to risk and weak political power. Strategies for rural poverty reduction must therefore address all of these problems and take account of the diversity of rural areas and population groups, as well as the changing context of rural poverty.

¹⁶ COM (2002)429 final of 25/7/02 "Fighting Rural Poverty: The EC policy and approach to rural *development and sustainable natural resource management in developing countries*"

In contrast to past practice, the Communication called for a mainstream approach to rural development. The aim is to work within the existing framework of policies, institutions and programmes and to incorporate rural poverty reduction, food security and sustainable natural resource management objectives.

The Communication identified six policy areas that needed to be addressed:

- (i) supporting economic policies to enable broad-based growth
- (ii) ensuring more equitable access to productive assets, markets and services
- (iii) investing in human capital
- (iv) promoting more sustainable natural resources management
- (v) managing risks and providing safety nets
- (vi) building effective, accountable, decentralised and participatory institutions.

3. Food Security- fighting hunger, new EU strategy

The *EC Food Security Thematic Programme* of May 2007 is a key action instrument in fighting hunger and maintaining visibility in food security.¹⁷

The Thematic Programme aims to advance the food security agenda with a view to contributing to the MDG1 on Hunger. The Programme's specific objective is to improve the impact of the EC Food Security policy by:

- i) supporting the delivery of international public goods, contributing directly to food security and the financing of global programmes
- ii) addressing food insecurity in countries or regions where governments are either not in place or not in control of parts of a country, or where no country strategic framework is operational
- iii) promoting innovative policies and strategies in the field of food security.

The Strategic priorities for the delivery of international public goods focus mainly on *research*, notably in *agriculture* and *technological innovation*.

In order to address food insecurity in exceptional situations of instability and state fragility for instance, in the transition from crises, strategic priorities will focus on improving the implementation of the "*Linking Relief Rehabilitation and Development*" (LRRD) tools through:

- i) better strategies,
- ii) a more timely phasing in and phasing out of assistance across the different LRRD phases and
- iii) better identification of partners and better timing of responses.

4. Food Security information systems

Conclusions of EC policy reflections on Food Security at continental and regional seminars held in Africa, Asia and Latin America in the past, have showed that the main challenges to be addressed by food security programmes are:

- i) to improve the strategic dialogue with developing partners
- ii) to make better use and exploit all information derived from food security information systems and Early Warnings and other tools
- iii) to strengthen dissemination of best food practices from one region to others.

The increasing number of food crises, particularly in Africa, shows that prevention and response mechanisms need to be improved in order to address the determinants and the dynamic nature of food insecurity, both at national and regional levels. In particular, the analysis of short, medium and long-term needs and response mechanisms need to be strengthened. Further efforts are also required to harmonise donor and government approaches, considering the number and diversity of aid measures in the field of food security information and early warning systems at different geographical levels.

¹⁷ The EC has traditionally been a lead player and a key donor in the field of Food Security, having allocated 4.86 b€ through the Food Security budget line alone since 1996.

Within the *Multi Annual Indicative Programme on food security 2007-2010*, a global programme “linking information and decision-making to improve food security response strategy” aims to strengthen the weak link between the production of food security information and appropriate response strategies.

The Programme will build extensively on the achievements of past and ongoing programmes in the area of food security analysis and assessment. In particular, it builds on long term EC funding in the field in partnership, among others, with the FAO as the leading international agency. Specific partnership opportunities with WFP are also evident through ongoing collaborations. The involvement of international NGOs, including Oxfam GB, Save the Children US and UK and CARE International, is a recognised comparative advantage of the initiative.

5. Lessons learned and good practices

5.1. The 2006 Assessment of EC rural development interventions: lessons learned

In 2005, the Commission undertook a thematic evaluation of its cooperation programmes in the rural development area in the period 1995-2005. This comprised a desk analysis and a field phase which entailed visits to 32 projects in seven countries (Morocco, Cameroon, Cambodia, Mozambique, Madagascar, Uganda and Bolivia). At the end of 2006, an overall assessment of EC support for rural and agricultural development was delivered.

The conclusions of the evaluation can be summarised as follows:

- The EC strategy as defined in the 2002 Communication provides a coherent framework which integrates all the concepts of poverty reduction, food security, agriculture and rural development. However, it shall further define the specific nature of these concepts and how they interact.
- In relation to the impact of aid, rural and agricultural development aid has had positive impacts (better access to social services and means of production), but these impacts have been limited in some cases (integrated rural development programmes), vulnerable (instability of market prices) or barely visible (research).
- Although sustained efforts in the agricultural sector are widely recognised for their potentially positive impact on poverty reduction, the sector in itself has rarely benefited from coherent sector policies seconded by clear operational strategies. Although the EC has kept up its presence in the sector (mostly by acting on specific productivity related issues), the results of its interventions, in terms of labour productivity, have not lived up to expectations.
- The general food situation has improved in the countries visited.
- Despite its growing importance in EC development policy, the issue of environmental protection and sustainable management of natural resources are hardly mentioned in Country Strategy Papers. In contrast, management of natural resources often forms part of rural development programmes. There is little information on the impact of these measures, but, given specific geographical targeting, this impact is limited.
- As regards programmable financial instruments, the flexibility of Stabex and the food security budget lines have been a success.
- Since project/programme approaches are still widely used in rural and agricultural development (their effectiveness constantly improved through the adoption of participatory approaches and designs aimed at strengthening national organisations and institutions), it is appropriate to question their relevance and effectiveness in terms of general poverty reduction (related to the difficulties to scaling up successful interventions).

5.2. The 2006 Assessment of EC rural development interventions: best practices

The EC has played a major role in building up the capacities of civil society organisations, as a driver of development in rural and agricultural areas.

The EC often plays an active role in donor coordination, where progress has been made but is limited more often than not to an exchange of information.

The CAP and trade policy have been made more consistent with development policy.

The CAP reform and the change in trade policies have created opportunities for developing countries. Substantial efforts are being made in policy coherence.

6. Trends and emerging issues

Community assistance in the field of rural development, agriculture and food security is increasing substantially. Preliminary figures indicate that financial resources allocated to rural development, agriculture and food security under the 10th EDF, have increased to about 12.5% of the national-level EDF envelopes (from about 9.5% under the 9th EDF). In volume terms, this implies an increase from less than €700 million (9th EDF) to about €1,15 billion (10th EDF), or an increase of nearly 64%.¹⁸ In addition, the new thematic instrument in support to food security (€925 million for the period 2007-2010) has a strong focus on rural development and on Africa, recognising that food insecurity overwhelmingly prevails in the rural areas of that continent.

It should also be noted that the EC is now increasingly favouring the use of Programme Based Approaches (through Sector Policy Support Programmes and using Sector Budget Support) to support the implementation of national (sub) sector policies and strategies.

Agriculture and Rural development are also indirectly supported through financing of infrastructure, particularly feeder and connecting roads, telecommunications, water supply, markets, storage facilities and electrification and other energy initiatives.

Moreover, support to trade facilitation, including certification and SPS, to private sector development and institutional capacity building all bring benefits to agricultural development. Last but not least, the general budget also provides support to agriculture by (i) creating conditions for an enabling macro-economic environment and (ii) allowing for an increase in national level spending for agriculture and rural development. This should make it easier for African countries, for instance, to meet their target of 10% budget allocation to agriculture and rural development by 2008 (Maputo Declaration, July 2003).

7. Case studies of successful EU agriculture practices

7.1. Case Study: : 6TH MICROPROJECTS PROGRAMME in Ghana – 9 ACP GH 11

1. Problem or issue addressed:

The project addresses the issue of low living standards of the rural and peri-urban poor in 79 target districts through the promotion and equitable provision, utilisation and sustainability of basic socio-economic infrastructure and the strengthening of structures and processes of the ongoing decentralisation.

2. Name of the Programme: 6TH MICROPROJECTS PROGRAMME – 9 ACP GH 11

3. Timeframe: June 2005 – June 2011

4. Status: Ongoing

5. Main objectives:

The overall objective is to sustainably improve the living standards of the rural and peri-urban poor in Ghana. The project purpose is to promote equitable provision, utilisation and sustainability of basic socioeconomic infrastructure through strengthening structures and processes of the ongoing decentralisation of central government.

6. Lead institution:

Responsibility for programme implementation is vested in a Tripartite Committee made up of representatives of the EC Head of Delegation and the National Authorising Officer, with the Micro-project Management Unit (MPMU) being secretariat.

7. Other implementation arrangements and stakeholders involved:

The MPMU above has a staff of 33 and six regional offices. There is a steering committee made up of representatives from technical line ministries and civil society providing policy support.

8. Results achieved:

- Allocation of funds to beneficiary districts according to poverty incidence map based on Ghana Living Standards Survey 4 and population housing map 2000 completed
- Staff trained in participatory methods of project selection
- Operational manual for income-generating micro-projects completed

¹⁸ These are tentative figures and do not yet include a number of important countries (like Nigeria); neither have the incentive tranches been taken into account.

- Negotiations with the National Board of Small-Scale Industries ongoing for supervision of the implementation of the income-generating projects
 - 1st phase of physical implementation of micro-projects ongoing which covers the constructions of 566 micro-projects in 79 districts
 - Annual and quarterly reports sent on time
 - Audit consultants contracted to perform audits in the districts.
9. *The relationship of the programme to internationally agreed goals and targets:*
- The projects supports the Government's Ghana Poverty Reduction Strategy (GPRS I) 2003-2005 and will continue to support the new Growth and Poverty Reduction Strategy (GPRS II) 2006-2009
 - The Programme is in line with the Cotonou Agreement and the EU Consensus on Development, which specifically indicate the need for including Non State Actors as a full partner in all stages of the development process.
 - It also supports a number of the Millennium Development Goals.

7.2. Case Study: Ethiopia's productive safety net programme

1. *Problem or issue addressed:* The Productive Safety Net Program (PSNP) is a multi-donor funded program designed to address short-term consumption gaps of chronically food insecure households through the provision of multi-year and predictable resources. Able-bodied households access the program resources through their participation in public works, while the labor poor get free assistance.

2. *Name of the programme:* Productive Safety Net Program (PSNP)

3. *Timeframe:* 2005-2007

4. *Status:* on-going

5. *Main objectives:*

- At least 75% of program participants report no distress sales of assets to meet food needs;
- At least 75% of households in program areas report satisfaction with/benefit from infrastructure developed.

6. *Lead institutions:* World Bank, European Commission, DFID, Irish Aid, USAID

7. *Other implementation arrangements and stakeholders involved:*

The PSNP is a multi-donor financed program. Its resources include both cash and food. The World Bank, DFID, The European Union and Irish Aid contribute cash while USAID is the principal food donor. WFP also mobilizes food from USAID and other donors. CIDA is the other major donor, which is expected to contribute cash to the program as of the current year, while in the last two years it contributed food through WFP.

8. *The results achieved:* The public works have allowed the building of community assets, such as access roads, water supply and irrigation schemes, soil and water conservation works. The assets being built contribute directly or indirectly to the attainment of food security. Several actions were undertaken in 2005 and more are being implemented during the current year.

9. *The relationship of the programme to internationally agreed goals and targets:* The PSNP is part of a larger Food Security Program designed to address the problem of food insecurity in the country through different interventions. The Food Security Program has a component of asset protection and asset-building and the two interventions are linked. The PSNP focuses on asset protection, while the other components focus on asset building and resources allocated for asset-building are made available to PSNP beneficiaries on a priority basis.

10. *Links:* www.odi.org.uk/plag/projects/psnp_ethiopia.html

www.odi.org.uk/plag/resources/reports/psnp_targeting.pdf

7.3. Case Study: "Promoting rural development amongst farmers in Cameroon"

1. *Problem or issue addressed:* poverty in rural areas

2. *Name of the programme:* "Promoting rural development amongst farmers in Cameroon"

3. *Timeframe:* 2000- 2004

4. *Status:* completed

5. *Main objectives:* improve the living conditions of farmers in Cameroon, promote sustainable farming

6. *Lead institution:* European Commission

7. *Other implementation arrangements and stakeholders involved:* local farmers, wide stakeholder consultation

8. *The results achieved* (if possible, please address the social, economic and environmental impacts of the programme): see text below

9. *The relationship of the programme to internationally agreed goals and targets:*

"Promoting rural development amongst farmers in Cameroon" case study description:

Poverty in Cameroon's rural areas is widespread. After liberalisation of the coffee and cocoa industries in the 1990s, development programmes were put in place to assist local producers of coffee, cocoa, bananas and oil palm. The programmes aim to improve production methods, so that products are more competitive in the market place.

Farmers from three small towns in central Cameroon, with a population of around 225,000 people, set-up 'Centres of Rural Development' with a project funded by the European Commission. The centres are establishing economic foundations that should continue to enhance farmer's livelihoods and those of their families, even after the project has finished.

These farmers, previously reliant on a single crop for income, have diversified their activities and now manage their own sustainable businesses with the support of the local economic organisations. €6 million has been attributed to the assistance between April 2000 and October 2004.

The initial economic benefits of working together encouraged farmers to join the co-operatives, ensuring the sustainability of the project. The success of the project is largely down to the fact that local communities have, for the first time, been able to take responsibility for developing their own infrastructures. The simplicity of the rural development centres and the co-operative groups and their economic benefits, has generated considerable interest from other communities in the country to adopt similar schemes.¹⁹

¹⁹ http://ec.europa.eu/europeaid/promotion/casestudies/article_1837_en.htm