

INTRODUCTION

Content of Report

This report, prepared by the Institute for European Environmental Policy (IEEP) for DG Agriculture, and supported by a team of experts and national partners, is an evaluation of the Less Favoured Areas (LFA) measure. It presents the results from a 10 month study conducted in each of the 25 Member States of the European Union between December 2005 and September 2006 to investigate the impacts of the LFA measure and seeks to make recommendations for the future development of LFA policy within the frame of the forthcoming Rural Development Regulation (1698/2005), post 2010.

It comprises 11 chapters. The first four provide a history of the measure; introduce the intervention logic; a description of the methodological approach deployed; and an introduction to the six evaluation themes and questions which frame the subsequent study. These are followed by six thematic chapters, which take an evaluation theme in turn and present the results from the data collection phase in order to answer the evaluation questions.

In addition to offering answers to each of the questions posed, the analysis is underpinned by a critical examination of the *relevance* of the measure in terms of the extent to which its objectives are pertinent to the needs, problems and issues of Less Favoured Areas in individual Member States. It considers its *effectiveness* and the extent to which the objectives pursued have been achieved. Finally, it considers the *efficiency* of its implementation, and assesses the relationship between the financial and administrative resources employed and the observed effects.

The final chapter offers a series of conclusions, which are both thematic and methodological. These relate to the individual evaluation themes and to the overarching issues of relevance, effectiveness and efficiency. From these conclusions are derived a number of recommendations relating to the ongoing collection of data and for policy reform.

Rationale for the Evaluation

The reasons for conducting an evaluation of the LFA measure at this particular juncture are multiple. In addition to legislative obligations, previous evaluations of rural development programmes have not focused exclusively on the LFA measure, but perhaps more significantly, LFA policy has been the subject of sustained criticism

over the last two decades. It is hoped that the evidence presented here will contribute to the ongoing debate surrounding the measure, either offering a counterpoint or adding weight to these arguments.

According to the implementing rules of the Financial Regulation applicable to the general budget of the European Communities (Council Regulation 1605/2002), the results of all measures which carry budgetary implications should be evaluated every six years. In 2004, public expenditure on LFA allowances amounted to €3.106 million, including €1.561 million from the European Agricultural Guidance and Guarantee Fund (EAGGF) (IEEP, 2006). The significance of the level of public expenditure on the LFA measure confers a clear obligation to evaluate whether public monies are being deployed in an efficient and effective way.

With the introduction of the Council Regulation (1257/1999) a number of changes were made to the implementation of the measure. The original eligibility criteria, reflecting a specific social objective, may be less relevant to the objectives of the new Regulation which emphasises the need for continued land use. As such, the degree of concordance between scheme objectives and eligibility criteria need to be assessed. Previous evaluations do exist, conducted as part of a general evaluation of rural development programmes, (950/1997, 1257/1999 and the mid-term evaluation of 1257/99) although they afford insufficient detail on eligibility conditions and on the differential impact of the measure across space. This evaluation will seek to explore whether the architecture of the measure, and specifically its implementing mechanisms, are sufficiently flexible to respond to changing needs and objectives over time.

The LFA measure has been the subject of sustained criticism over time. In 1980, a Court of Auditors Special Report showed that the implementation of Council Directive 75/268 had been slow in some Member States. In 1983, a report drawn up on behalf of the European Parliament Committee of Budgetary Control questioned whether all of the objectives could be achieved by a single Directive. Two decades later, and in their budget discharge of 2002, Paragraph 154, the European Parliament requested a comprehensive evaluation report. Finally, in 2003, a Court of Auditors Special Report No 4/2003 concerning 'Rural development: support for LFAs' revealed that considerable disparities exist in terms of designated areas and payment per beneficiary, as well as the effects of the policy on indicators such as farm income. Furthermore they highlight the fact that the area classified as LFA varied greatly from Member State to Member State and that between 1975 and 1998, the total area classified as LFA increased in many Member States. This led to concern over whether compensatory allowances were justified on the basis of the severity of permanent natural handicaps or were increasingly seen by Member States as a more general aid to farming in addition to other CAP support payments.

In 2005, and in an attempt to counter these criticisms, the Commission tabled proposals to replace 'Other' LFAs, (Article 19) with a new class of LFA, designated according to criteria based entirely on natural and agricultural conditions. These proposals proved politically problematic given the substantial impacts they would have had on the current geographical distribution of LFAs. They have, however, paved the way for a debate about future changes in policy with a repeal of the current

list of LFAs scheduled for 2010 under Article 93 of Regulation 1698/2005, and a review of the policy anticipated in 2008 – 2009.

History of the Measure

The challenge of supporting farming in regions with unfavourable natural conditions for agricultural production was recognised early on in the history of the CAP. While market and price support policy proved effective during the 1960s and 1970s through the establishment of Common Market Organisations for sectors such as cereals, dairy and sugar, addressing structural inequalities within the agriculture sector was more problematic. Directives to improve agricultural structures (72/159 EEC, 72/160 EEC and 72/161 EEC) were introduced in 1972 but many farms in disadvantaged regions failed to meet the eligibility criteria.

Drawing on the experience of national policy in a number of Member States, notably in France and the United Kingdom, a measure aimed specifically at more disadvantaged areas was developed. This was Council Directive 75/268 EEC of 28 April 1975 on ‘mountain and hill farming in certain less favoured areas’ which established the legal framework for the payment of aid from EAGGF and national funds in LFAs.

The ultimate goal of Council Directive 75/268, and the subsequent legislation¹, has been to assist the continuation of farming in certain, specified less favoured areas, disadvantaged by permanent natural handicaps. The continuation of farming was considered important for two reasons: to maintain a minimum population level in the areas concerned, and to conserve the countryside. More recently, a more explicit link has been made to environmental protection.

In the measure’s first phase, from 1975, the reasons for areas being considered less favoured had three origins. These broad categories capture the main bundles of handicap factors causing a specific threat to the continuation of farming which are, in turn, reflected in three types of LFA:

- 1) Mountain areas;
- 2) LFAs in danger of depopulation and where conservation of the countryside is necessary;
- 3) Areas affected by specific handicaps.

1) Mountain areas

A mountain location was seen to confer three kinds of disadvantage: the high altitude (minimum 600 - 800m, COM (74) 2222) causes difficult climatic conditions by

¹ Notably Council Regulation (EEC) 797/85; Council Regulation (EC) 950/97 on ‘improving the efficiency of agricultural structures’; Council Regulation (EC) 1257/1999 on ‘support for rural development from the EAGGF and amending and repealing certain Regulations’, and the relevant implementing measures.

shortening the growing season; steep slopes (at a lower altitude; minimum 20 %, COM (74) 2222) limit the use of machinery or require expensive special equipment; or a combination of both factors yields a similar type of handicap. In 1995, a northern location (north of the 62nd parallel) was added to reflect a similar type of handicap following Scandinavian accession.

2) Less favoured areas in danger of depopulation and in need of conservation of the countryside

These areas were defined with reference both to farm production conditions or performance, and to the rural community. Indicators of low levels of farm productivity included the presence of infertile land not suitable for cultivation, land with a limited potential and mainly suitable for extensive livestock farming, and farm income levels below the national or regional average. The viability of the rural community was captured with an indicator of a low or dwindling population predominantly dependent on agricultural activity. According to this logic, a decline in the agricultural population would threaten the viability of the area concerned and its continued habitation.

3) Areas affected by specific handicaps

These regions suffer from certain specific handicaps which include unfavourable production conditions of the soil, extra-ordinary saline content of the soil in coastal areas or small islands, unfavourable water condition of the land, production constraints caused by legal measures on the protection of the landscape, coastline or environment, and the high overseas transport costs incurred by farmers on islands. The total coverage of these areas was subject to a maximum percentage of the agricultural land area.

The original and subsequent Directives established eligibility criteria and the structuring and modulation of payments. The system of payment was based on the principle of compensation for disadvantage, subject to ceilings imposed at Community level. As such, payments were mainly compensatory allowances, with headage payments for cattle, sheep and goats, and area payments for other production types. Considerable discretion regarding payment rates was afforded to Member States with enhanced investment aid permissible in some situations. The basic underlying principle of LFA support remains the same today although various policy revisions have been undertaken to the classification and eligibility criteria and to payment systems over time, to reflect a changing set of priorities, objectives and circumstances.

4) Areas subject to environmental restrictions

With the introduction of Council Regulation 1257/1999, a fourth category of handicap was identified in areas with environmental restrictions (Article 16). The maximum total coverage of these areas along with areas with specific handicaps was set at 10 % of the agricultural area of the Member State (Article 21).

The goals of the LFA measure under Council Regulation 1257/99 are subdivided into two categories. The objectives of the aid for Less Favoured Areas under Articles 18,

19 and 20 serve to ensure continued agricultural land use and, thereby, to contribute to the maintenance of a viable rural community, maintenance of the countryside, and maintenance and promotion of environmentally sustainable farming systems. The objective of the aid for areas with environmental restrictions is to ensure that environmental requirements are being met and to safeguard farming in these regions. All payments are made on a per hectare basis, a significant departure from the previous system of headage payments, and compliance with nationally defined Good Farming Practice standards is a prerequisite for the aid.

The regions selected and classified as less favoured have been eligible to receive special benefits. The most important of these has been the annual compensatory allowance for farmers and aid for livestock farms. Farmers in these areas have also benefited from other measures of less importance at various stages in the implementation of the scheme, including investment aid for joint investment, higher rate of farm investment aid, higher ewe premiums and relief from co-responsibility levies in mountain regions.

Table 1.1 Timeline showing the development of the LFA measure from 1975

Year	Legislation	Audits and Reports	Other
1975	<p>Council Directive 75/268/EEC of 28 April 1975 on mountain and hill farming and farming in certain less favoured areas (OJ L 128, 19.5.1975) (first proposed in 1973)</p> <p>Series of separate Directives listing all LFAs designated in individual Member States (e.g. Directive 84/169 (OJ L82 26.3.84) for the UK)</p>		
1980	<p>Council Directive 80/666 (OJ L180 14.7.80) amending Council Directive 75/268/EEC</p>	<p>Court of Auditors Special Report on the application of Council Directive 75/268/EEC on mountain and hill farming and farming in certain less-favoured areas (OJ C 358/1 31.12.80)</p>	
1982	<p>Council Directive 82/786 (OJ L237 24.11.82) amending Council Directive 75/268/EEC</p>		
1983		<p>Report drawn up on behalf of the Committee of Budgetary Control on the application of Council Directive 75/268/EEC on mountain and hill farming and farming in certain less-favoured areas (European Parliament Working Document)</p>	
1985	<p>Council Regulation (EEC) No 797/85 of 12.3.1985 on improving the efficiency of agricultural structures (OJ L 93, 30.3.1985)</p>		
1987	<p>Reform of the Structural Funds (Objective 1)</p>		
1989	<p>Council Directive 3808/89 (OJ L371 20.12.89) amending Council Directive 75/268/EEC</p>		

Year	Legislation	Audits and Reports	Other
1991		Annual Report concerning the financial year 1990 together with the institution's replies, Court of Auditors (OJ C 324, 13.12.1991)	
1993			Commission Review of LFA classifications
1997	Council Regulation (EC) No 950/97 of 20 May 1997 (OJ L 142 2.6.1997) (Supersedes 75/268/EEC)		Working Document 'Rural Developments' DG AGRI
1998			Description of LFAs Conducted by Commission (VI7675/98)
1999	Council Regulation (EC) No 1257/1999 of 17 May 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and amending and repealing certain Regulations. (OJ L 160/80 26.6.1999)	Interim Evaluation of Rural Development Programmes (Objective 5a and 5b), 1.11.99, Commission Document	MS Mid-term evaluations and annual reports of the Rural Development Programmes for 2000-2006
2003		Court of Auditors Special Report No 4/2003 concerning rural development: Support for less favoured areas, together with the Commission's replies	
2004	Proposal for a Council Regulation on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (COM (2004) 490 17.7.2004)		
2005			Commission non-paper 'Methodology for the redefinition of 'intermediate' Less Favoured Areas', February 2005

A Changing Emphasis in the Measure's Objectives and Implementation

Over time, the emphasis of the measure's objectives has changed. This has taken place against the backdrop of a broader paradigmatic shift in agriculture, captured in the concept of the productivist to post-productivist transition (Ilbery & Bowler, 1998; Wilson, 2001; Evans *et al.*, 2002). This transition describes a shift in the rationale for investment of public monies in agriculture in recognition of the multifunctional goods farming provides. Rather than supporting production within a 'productivist' logic, public subsidies are increasingly linked to the provision of environmental and landscape goods and services, within the frame of a 'post-productivist' logic. This changing rationale is manifest in Council Regulation 1257/1999. A new environmental category was introduced; the promotion of sustainable farming systems was integrated into the scheme's objectives and eligibility criteria through compliance with Good Farming Practice; and perhaps most significantly, all payments were to be made on a per hectare basis and not on the basis of livestock units.

These changes reflect a shift away from primarily production and income based considerations to a recognition of the value of positional public goods, including the quality of environment and landscape, and the value of rural structures, amenities and employment. The logic underpinning 'post-productivism' is captured in the concept of 'joint production'. Appropriate forms of agriculture produce social, cultural and environmental by-products. As such, those areas where generally low-intensive and traditional forms of agriculture are practiced are considered to be valuable to society, irrespective of what is produced there, as long as the farming systems underpinning the production of public goods remain viable and are maintained. The rationale for support, therefore, is based on the fact that agriculture is regarded as an effective, and arguably the most efficient, provider of public goods.

Second, there has been a gradual increase in the flexibility offered to Member States in the implementation of the scheme. In Council Regulation 797/85, the responsibility for fixing the levels of compensation, according to the severity of the handicaps, was left to Member States, as was the definition of the types of production to be covered by the aid scheme. In Council Regulation 1257/1999, the ability to modify LFA boundaries was passed to the Member States. The change to area payments reinforced the fact that agricultural land use continues to be the basis of the aid, even though certain types of production ceased to be favoured. Continued agricultural land use was expected to contribute to the maintenance of viable rural communities, a broader view compared to previous definitions, which were directed at maintaining a minimum population level.

Changes to the measure can also be seen to reflect the need to be responsive to the diversity of situations across the European territory. As observed upon Scandinavian accession in 1995, a strictly defined and centrally managed scheme was not sufficiently supple to respond to the wide variations in natural and structural disadvantages in an enlarged Union, extending from highly arid parts of the Mediterranean, to areas north of the Polar Circle. Greater flexibility in the present day LFA measure affords a mechanism through which common goals can be met on the basis of social, land use and environmental needs which better reflect the specific demands of each particular region. That said, considerable coordinated effort and common eligibility considerations are necessary so that the payment schemes are

reasonably consistent, true to common principles, avoid distortions in competition and provide an efficient mechanism for meeting the objectives.