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EXECUTIVE SUMMARY

I. The EU Common Agricultural Policy (CAP) is up for review, as the current seven-year planning period for EU finances and policy implementation ends in 2020. In November 2017 the Commission published a Communication on the future of food and farming, which presents its thinking on the post-2020 CAP.

II. This briefing paper is our response to the Commission's Communication. In this document we analyse key trends and data relevant to agriculture and rural areas, present our views on the current CAP, and discuss criteria and key challenges for the new CAP.

III. The Communication takes into account a number of recommendations the ECA has made over several years. It sets out an ambition to deliver a new performance-based framework. However we note that some of the statistics underlying the Communication do not meet the criteria we have set out in previous reports, and that the measures supported are, on the basis of the Communication, likely to be similar to those supported in the past.

IV. A key element of the Communication is advocacy of a "new delivery model" – based on increased flexibility and subsidiarity and giving Member States more responsibility for performance. In our view, the success of the new delivery model requires:

- Measures designed on the basis of solid scientific and statistical evidence demonstrating that they will deliver desired results;
- The new "CAP strategic plans" setting relevant, ambitious and verifiable targets that are aligned with EU objectives;
- A robust performance monitoring and evaluation framework; and
- A solid accountability and audit chain providing assurance on both compliance and performance.

V. The Commission's Communication does not represent a proposal. The criteria set out in this briefing paper will inform our future review of the Commission's proposal when that is published. We envisage that the review will then lead to an opinion on the final proposal.

INTRODUCTION

Topic and purpose

1. The EU Common Agricultural Policy (CAP) is up for review, as the current seven-year planning period for EU finances and policy implementation ends in 2020. The Commission intends to present its legislative proposal for the next CAP together with an impact assessment in May 2018.
2. A key step in preparing the CAP reform for the period after 2020 came in November 2017, when the Commission published a Communication on the future of food and farming¹. When the Commission announced its intention to issue the communication, we planned a high priority task to react to it in our 2018 Work Programme. On 6 December 2017, we also received a request for such a reaction from the Commissioner responsible, Mr Hogan.
3. The Communication focuses on:
 - continuation of direct support to farmers, but with greater use of risk management tools and initiatives to increase farmers' market rewards;
 - contributing more to EU environmental and climate objectives;
 - attention to the "socio-economic fabric" of rural areas;
 - greater focus on sustainable agricultural production, health, nutrition, food waste and animal welfare;
 - better use of research, innovation and technology, and financial instruments; and
 - a new delivery model based on greater flexibility and subsidiarity – giving Member States more responsibility for performance.
4. It is not our role, as the external auditor of the European Union (EU), to design the future policy. However, drawing on our audit experience, we can offer advice to EU policymakers

¹ COM(2017) 713 final : Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – The Future of Food and Farming.

on how to improve accountability and the overall effectiveness and efficiency of the CAP. This is the purpose of this paper, which is our response to the Commission's Communication on the future of food and farming. This is not an audit report. It is a review based on publicly available information.

Approach and presentation

5. Our views expressed in this briefing paper² are based on:

- our previous work;
- reviews of external reports and consultation with external experts;
- discussions with the relevant Directorates-General of the Commission³.

6. In this briefing paper, we present:

- key data and trends relevant to the farming sector and rural areas;
- our views on the current CAP;
- conclusions, including a set of criteria for assessing the CAP legislative proposal and the resulting future policy, and key challenges for the post-2020 CAP.

KEY DATA AND TRENDS RELEVANT TO THE FARMING SECTOR AND RURAL AREAS

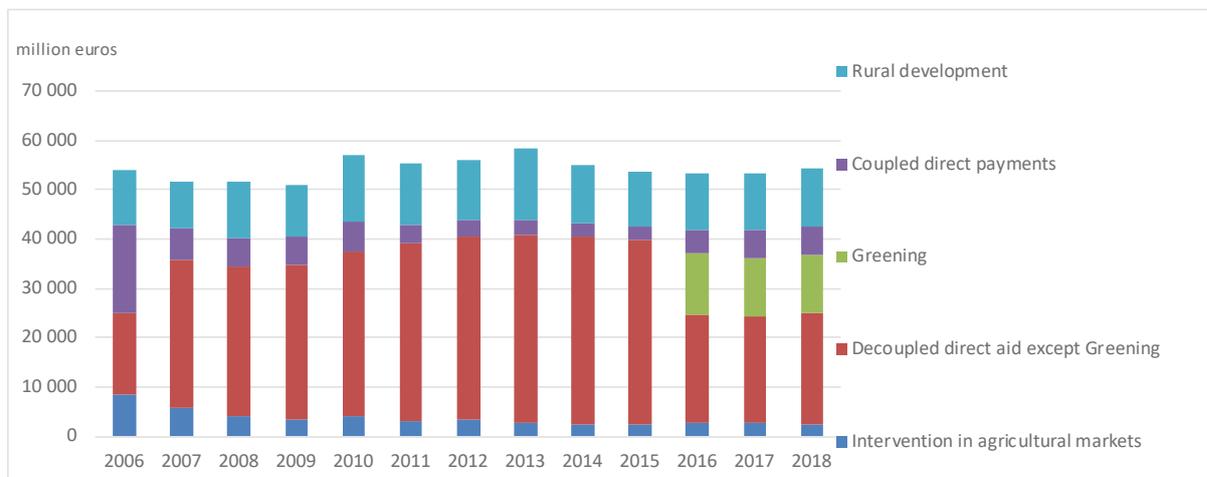
CAP spending over the last decade has been stable and focused on income support

7. Since 2006, EU budgeted spending on the CAP has averaged €54 billion per year. In nominal terms, the CAP budget has remained relatively stable (see ***Figure 1***).

² A briefing paper is a review product, not an audit product. As such, it does not involve new audit work, but is based on published audit findings, conclusions and recommendations, and other publicly available information. ***Annex I*** provides a full list of our publications referred to in this paper.

³ Directorate-General for Agriculture and Rural Development, Directorate-General for Climate Action, Directorate-General for Environment, Eurostat, Directorate-General for Regional and Urban Policy, Directorate-General for Health and Food Safety.

Figure 1 – The CAP budget has been stable over several years



Source: ECA, based on EU budgets.

8. Around 72 % of the CAP budget is spent on direct payments to farmers, and so supports their incomes. These payments are generally paid per hectare of agricultural land, for the most part without a link to production, and with little decrease in support paid per hectare as farm size increases. Around 22 % is spent on rural development measures, half of which are also paid to farmers on a per hectare basis. The remainder (6 %) funds market measures.

Fewer but larger farms (and a smaller workforce) produce a constant value of outputs, leading to increased incomes per full-time person

9. According to Eurostat’s Farm Structure Survey, in 2013 there were 10.8 million farms in the EU, a 22 % decrease compared to the 13.8 million farms registered in 2007. Their average size increased by 28 % from 12.6 ha to 16.1 ha. There was a parallel decrease (by 25 %) in the agricultural workforce from 12.8 million full-time job equivalents in 2005 to 9.5 million in 2017, principally concerning non-salaried work by farm managers⁴ and their families. Thus an average farm provides work for less than one full-time person (two-thirds of the CAP beneficiaries for the smallest farms spend less than a quarter of their working

⁴ Farm manager is defined by the Eurostat as “the natural person responsible for the normal daily financial and production routines of running an agricultural holding. Per holding only one person can be identified as the farm manager. Sometimes the farm manager is also the owner of the holding, however the farm manager can also be a different person than the owner”.

time working on their land – see also **Box 1**). The value of agricultural production fluctuated but remained broadly at the same level in real terms. While the performance of different sectors varies widely, overall this resulted in a significant increase in income from farming per full-time person (see **Figure 2**).

Figure 2 – As the value of agricultural outputs was stable and the agricultural workforce decreased, the average income per full-time person increased



Source: ECA, based on European Commission data (2017 data based on estimates).

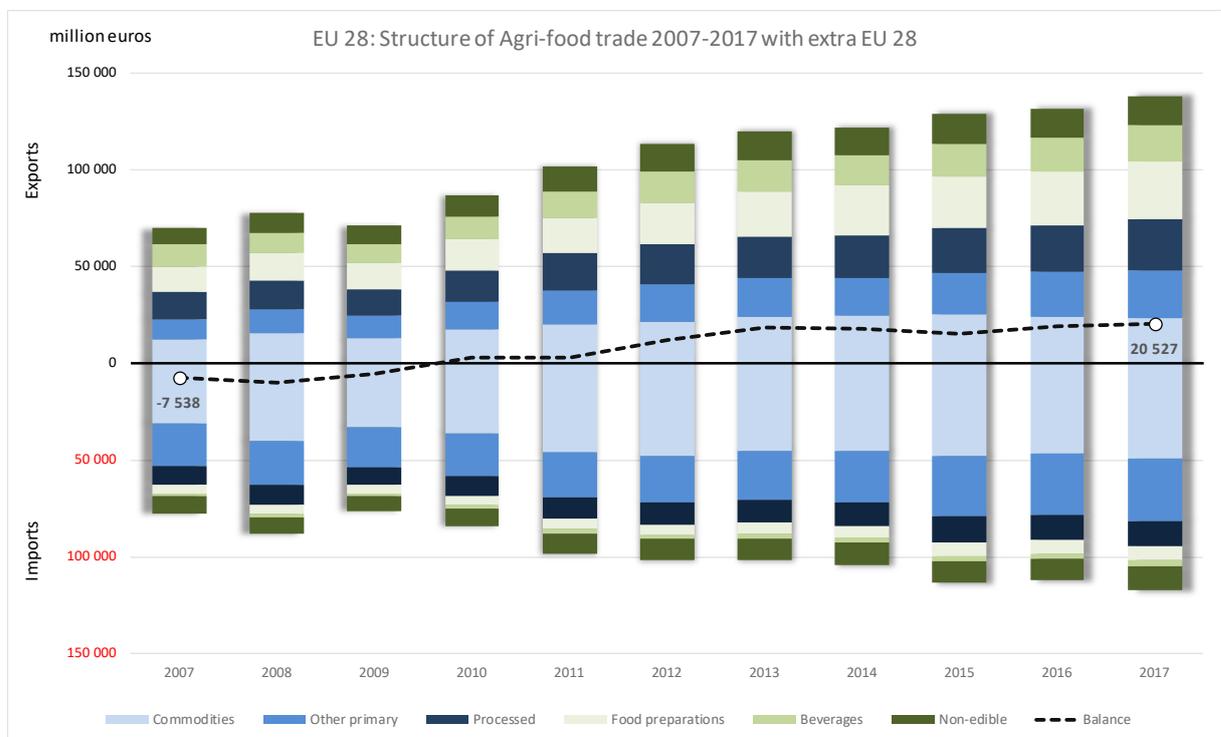
10. According to the OECD, the share of EU public support in gross farm receipts was 21 % in 2016, down from 24 % in 2007 and 33 % in 2000⁵.

⁵ OECD: Agricultural Policy Indicators 2017 – Monitoring and evaluation: Reference tables (full dataset) <http://stats.oecd.org/viewhtml.aspx?QueryId=77872&vh=0000&vf=0&l&il=&lang=en>

EU food prices have converged with world prices and the EU has become a net exporter of food

11. The EU produces more food than it consumes, and has become a net food exporter (see **Figure 3**). At the same time, EU prices have converged significantly with world food prices. This trade surplus results principally from the EU’s strong position in processed food and beverages. However, the EU remains a net importer of unprocessed farm products (labelled as “commodities” and “other primary” in **Figure 3**).

Figure 3 – EU has become a net exporter of food



Source: Comext – facts and figures.

The average age of farm managers has increased, and the land data are inconsistent

12. In 2010, for every 100 farm managers above 55, there were 14 farm managers below 35. In 2013 this value decreased to 10.8 farm managers below 35. The average age of EU

farmers increased from 49.2 to 51.4 years over the period 2004 to 2013⁶. This is in line with wider demographic trends. We note that the smallest farms are most often those of older farmers⁷.

13. Data is inconsistent as regards the total area of land used for agriculture. According to the Farm Structure Survey, the total area of land used for agriculture has remained relatively stable over the decades. A similar picture emerges from the Commission data on the areas declared for CAP direct payments. However, a different trend (an 11.5 % decrease in the agricultural land declared) emerged from the Commission data underlying permanent grassland ratio reporting (see SR 21/2017). Crop statistics show a 4 % decline from 186.6 million hectares in 2006 to 178.8 million hectares in 2015. More significant changes affect land allocation between different types of agricultural production⁸.

Insufficient progress on environmental care and climate action

14. Environmental concerns related to farming revolve around four main issues⁹:

- (i) Biodiversity: The conservation status of agricultural habitats is favourable in 11 % of cases in the period 2007-2012, compared to less than 5 % in the period 2001-2006. Since 1990, populations of common farmland birds have decreased by 30 %, and of grassland butterflies by almost 50 %.

⁶ The average age of principal operator in the US has increased even more during the same period (https://ec.europa.eu/agriculture/sites/agriculture/files/rural-area-economics/briefs/pdf/015_en.pdf).

⁷ CAP context indicator C.23 (https://ec.europa.eu/agriculture/cap-indicators/context/2017_en); https://ec.europa.eu/agriculture/sites/agriculture/files/rural-area-economics/briefs/pdf/09_en.pdf

⁸ Eurostat's Farm Structure Survey (<http://ec.europa.eu/eurostat/web/agriculture/farm-structure>) and crop statistics (<http://ec.europa.eu/eurostat/web/agriculture/data/database>).

⁹ CAP context indicators C.35, C.40, C.41, C.45 (https://ec.europa.eu/agriculture/cap-indicators/context/2017_en); JRC (2012) State of Soil in Europe (http://eusoils.jrc.ec.europa.eu/ESDB_Archive/eusoils_docs/other/EUR25186.pdf); EEA (2015) State of the Nature in the EU (<https://www.eea.europa.eu/publications/state-of-nature-in-the-eu>); DG AGRI, Facts and figures on EU agriculture and the CAP (https://ec.europa.eu/agriculture/statistics/facts-and-figures_en).

- (ii) Water quality: There is a persistent nitrogen surplus on EU farmland, averaging 50 kg nitrogen/ha. Since 1993, levels of nitrates have decreased in rivers, but not in groundwater. Nitrate concentrations are still high in some areas, leading to pollution in many lakes and rivers, mainly in regions with intensive agriculture.
- (iii) Air: Ammonia is an important air pollutant. Farming generates almost 95 % of ammonia emissions in Europe. While emissions have decreased by 23 % since 1990, they started to increase again in 2012.
- (iv) Soil: Around 45 % of mineral soils in the EU have low or very low organic carbon content (0-2 %) and 45 % have a medium content (2-6 %). Soil trends are difficult to establish due to data gaps, but declining levels of organic carbon content contribute to declining soil fertility, and increased risks of desertification.

15. The main concern regarding climate change is greenhouse gas emissions. Greenhouse gas emissions from agriculture accounted for 11 % of EU emissions in 2015. These emissions decreased by 20 % between 1990 and 2013, but started to rise again in 2014. Net removals from land use, land use change and forestry offset around 7 % of all EU greenhouse gas emissions in 2015.

16. At the same time, agriculture is uniquely vulnerable to climate change, which is one factor contributing to the stagnation of wheat yields in parts of Europe, despite continued progress in crop breeding. Agriculture accounts for more than 50 % of freshwater use in Europe. Climate change has led to an increase in irrigation¹⁰.

Economic differences between rural and other areas have become less significant

17. According to Eurostat, in 2016 around 19.1 %¹¹ of people in the EU lived in rural areas, compared to 19.7 % in 2007. In 2013, GDP per capita in rural areas was 73 % that of the

¹⁰ EEA (2017). Climate change, impacts and vulnerability in Europe 2016. An indicator-based report. EEA Report No 1/2017.

¹¹ Eurostat distinguishes three types of regions: “predominantly rural”, “intermediate” and “predominantly urban”, and recommends presenting data for the three groups separately, a

economy as a whole, up from 70 % in 2008. The EU average employment rate for rural areas is the same as for other areas, although rates differ between Member States. The poverty rate declined in rural areas from 31.4 % in 2007 to 25.4 % in 2016.

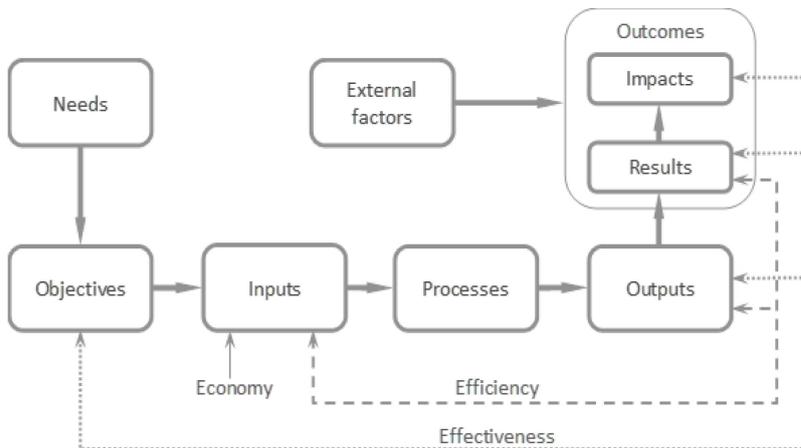
18. The economy of rural areas – like that of towns and cities – is dominated by the industrial and service sectors. Together (according to Eurostat), these represent 96 % of the gross value added generated in rural areas. Agriculture, forestry and fishery represents 4 % of the gross value added generated in rural areas, compared to 1.5 % in the whole economy. This share has been stable over the last five years.

OUR REVIEW

19. We structured our review around the ECA programme logic model (see ***Figure 4***), which sets out how public intervention can achieve economy, efficiency and effectiveness. The points raised in each section serve as examples of problems which we have identified in the past and which should be considered when designing the post-2020 CAP.

practice which we followed in our paper. The claim, made in the Communication, that 55 % of EU population live in rural areas, results from merging “predominantly rural” regions with “intermediate” regions. “Intermediate” regions could just as well be grouped together with “predominantly urban” regions, leading to a conflicting claim that 80 % of EU population live in urban regions.

Figure 4 – Programme Logic Model



Source: ECA, Performance Audit Manual.

CAP needs

What the Commission's Communication says on needs:

- There is a gap between agricultural income and income in other parts of the economy.
- Agricultural income is highly volatile.
- There is a risk of land being abandoned in areas with natural constraints.
- The distribution of direct payments is insufficiently balanced.
- A well-functioning internal market needs to be preserved.
- There is not enough investment into farm restructuring, modernisation, innovation, diversification and the uptake of new technologies.
- Adequate response is needed to climate change and constraints on natural resources.
- Account should be taken of structural problems and the 'youth drain' affecting rural areas.
- Societal concerns, including health, food safety, food waste, animal welfare need to be addressed.

Insufficient information to identify needs

20. Better information is required to justify the need for several CAP measures¹². This is the case, in particular, for income support through direct payments, which currently consume more than 70 % of the CAP budget. Article 39 of the Treaty stipulates that the objective of the CAP is “to increase agricultural productivity (...) **thus** to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture” (see **Annex II**). The word “thus” links the two CAP objectives. Farmers’ earnings, and the living standard of their families were addressed initially through higher prices borne by consumers. This gradually moved to direct income support funded by taxpayers. Even if the Treaty objective of ensuring a fair standard of living of the agricultural community is considered in isolation, there is not enough data to support the claim that farm households, taken as a whole, need significant support to achieve a fair standard of living.

21. The Commission argues that there is a considerable gap between what farmers gain for their work on the farm and what average wages and salaries are in the economy as a whole. However, the data presented by the Commission¹³ is affected by two significant limitations: (i) income sources outside farming are not included (see **Box 1**) and (ii) the averages mask a great variability of the income situation ¹⁴.

¹² Matthews, A. (2017), “Appendix 1: Why further reform?” (pp. 29–30) in Buckwell, A. et al. 2017. CAP - Thinking Out of the Box: Further modernisation of the CAP – why, what and how? RISE Foundation, Brussels.

¹³ Figure 6 of the Communication on the Future of Food and Farming.

¹⁴ DG AGRI, Facts and figures on EU agriculture and the CAP (https://ec.europa.eu/agriculture/statistics/facts-and-figures_en).

Box 1 - Income sources other than farming

According to Eurostat, the share of farm managers with gainful activities outside farming is around 30 % and is likely to be higher for their spouses and other household members. DG AGRI has previously published data¹⁵ indicating that more than 60 % of farm managers on farms of less than 5 ha spend less than 25 % of their time on their holdings and that around 80 % spend less than half their working lives on their holding. Only when farm size exceeds 20 ha do full-time managers outnumber those who spend less than 50 % of their working time on their holding. Many CAP beneficiaries also receive pensions. The figures presented by the Commission exclude sources of income outside farming. According to a European Parliament study on farm household incomes¹⁶: “There is currently no EU statistical system that is capable of providing information on the living standards of the agricultural community”. We have called repeatedly for this data to be produced to inform policy aimed at ensuring a fair standard of living of the agricultural community. Data on farm household incomes from all sources are available for some Member States and suggests that such households are not necessarily worse off than other households.

22. Farm incomes are higher (also per labour unit) for bigger farms¹⁷. In calculating the income gap between farming and the economy as a whole, the Commission includes all 10.8 million EU agricultural holdings, including 7.2 million with less than 5 hectares, and 6 million with annual standard output below €4 000¹⁸. The long tail of these very small farms, which often face inherent profitability challenges, distorts the picture. The income situation of medium size farms between 5 and 250 hectares, which, according to the Commission, receive 72 % of EU direct support, is better.

¹⁵ https://ec.europa.eu/agriculture/sites/agriculture/files/rural-area-economics/briefs/pdf/09_en.pdf

¹⁶ Hill, B. & Dylan Bradley, B. (2015) Comparison of farmers' income in the EU Member States. Report prepared for the European Parliament

¹⁷ This correlation is stronger if size is expressed in terms of output values. Physical size is a worse indicator of income levels because many of the less profitable, extensive farms are large, while many profitable, intensive farms, especially in the meat and vegetable sectors, are relatively small in terms of hectares.

¹⁸ These two categories of smallest farms (by physical and by economic size) largely overlap.

23. In addition to addressing the standard of living for the agricultural community, the Commission argues that direct payments ensure there is agricultural activity in all parts of the Union including in areas with natural constraints (which also receive income payments under Rural Development Policy) with various economic, environmental and social associated benefits, including the delivery of public goods. The validity of these arguments depends on the solidity of the data supporting them.

Lack of clarity on EU value added

24. Making EU value added a core objective is one of Commission's proposals for all future EU policies¹⁹. EU value added is usually understood as additional results delivered by EU action that could not have been achieved by uncoordinated action at national, regional or local level. However, there is no commonly accepted definition for this concept. Agreeing on and applying such a definition would benefit public debate and decision-making on future EU spending.

Responding to long-term trends

25. Under the current arrangements the proposal for the next multiannual financial framework (and for all major policy areas, including the CAP) is made two years before its start and payments for multiannual programmes (such as those under Pillar 2 of the CAP) continue for the first three years of the following multiannual financial framework. This means that policy decisions will cover payments made up to 12 years later. Account therefore needs to be taken of long-term developments with which the policy will interact.

The CAP's impact on fairness and the single market

26. Due to their link to farm area, the largest share of direct payments go to the largest farms (with around 80 % of the support received by 20 % of beneficiaries). Various redistributive mechanisms used so far (e.g. capping and redistributive payments) have had a limited effect. The move to converge rates per hectare, both between and (in the case of the basic payment scheme) within Member States can increase payments to some larger farms.

¹⁹ Reflection Paper on the Future of EU Finances, COM(2017) 358 of 28 June 2017 .

Some Member States applying the basic payment scheme have also used the option to preserve high support levels resulting from past levels of subsidy. Payment levels between Member States can therefore vary significantly. Payments per hectare can range from below €100 to over €1 000.

CAP Objectives

What the Commission's Communication says on objectives:

- The three CAP objectives are:
 - to foster a “smart and resilient” agricultural sector;
 - to bolster environmental care and climate action and to contribute to the environmental and climate objectives of the EU;
 - to strengthen the socio-economic fabric of rural areas.
- Need for consistency with commitments under the Paris Agreement on climate, agreed by the Conference of the Parties within the United Nations Framework Convention on Climate Change and Sustainable Development Goals.
- Fair contribution to EU 2030 Climate and Energy targets.
- The Commission would assess and approve CAP strategic plans and so maximise the CAP's contribution to EU priorities and objectives and Member States' climate and energy targets.
- The CAP should lead a transition towards a more sustainable agriculture.

27. The Communication's post-2020 CAP interpretation of Treaty objectives is broadly in line with the CAP objectives for the current period (see [***Annex II***](#)).

Insufficient clarity and specificity of objectives

28. Some CAP measures have unclear objectives. For example, the objective of the greening measure introduced with the last CAP reform – to enhance the CAP's environmental

performance – lacked specific targets for the measure’s contribution to the environment and climate. Objectives should be quantified where possible, not just for outputs, but also results and impacts²⁰.

Need for consistency with other EU objectives

29. EU policies cover many different issues, areas and sectors. The CAP’s objectives should be consistent with those of other policies (including cohesion, climate action and environmental protection). Where relevant, the CAPs contribution to achieving other EU objectives should be defined. This also concerns EU objectives in the form of binding international commitments²¹.

30. Different EU policy areas have overlapping objectives regarding, for example, territorial balance/cohesion, social inclusion and reduction of poverty. Improving the CAP’s complementarity with other EU policies would be a positive development. For example, we found little evidence that the aims of complementarity and synergy between the ESI funds were put into practice in the partnership agreements (introduced for 2014-2020) and in the rural development programmes.

CAP inputs

What the Commission’s Communication says on inputs:

- In order not to pre-empt the outcome of the ongoing broader debate about the future of EU finances, the Communication does not address the size of the post-2020 CAP budget.
- The Communication does not provide a clear link between future inputs and the assessment of performance.

²⁰ World Bank (2017) “Thinking CAP: Supporting Agricultural Jobs and Incomes in the EU”.

²¹ For example under the 21st Conference of Parties (COP21), the UN Sustainable Development Goals (SDGs) and the World Trade Organisation (WTO).

The allocation of funds is not sufficiently based on needs or expected EU value added

31. CAP funds are allocated to Member States in the form of national 'envelopes', which are not determined on the basis of Member States' needs nor commitments to deliver specific results. Instead, Member States then have to come up with measures to spend the pre-defined 'envelopes'. This method poses risks to the performance orientation of spending.

32. We noted that rural development programmes often do not provide convincing justification for the allocation of funds between measures and objectives. Funding may be allocated where it is likely to be fully spent, rather than where it addresses key needs and produces results. This reflects a spending rather than a performance culture.

33. Co-financing rates do not, in general, reflect differences between different measures' potential to deliver EU value added. Refocussing EU funds on measures with the highest EU value added would improve the sound financial management of the policy.

34. The OECD²² defines performance budgeting as "budgeting that links the funds allocated to measurable results". The Commission did not accept our recent recommendation to apply the concept of a performance budget which links each increment in resources to an increment in outputs or other results, to the funding of cohesion policy interventions for the post-2020 period where appropriate. While arguing that the EU budget is a 'performance budget' with the possibility to take performance information into account during the budgetary process, the Commission stated in its replies that it did not consider the approach of explicitly linking resources allocated to outputs or results feasible or applicable for the EU budget.

²² OECD: Policy Brief March 2008, Performance Budgeting: A Users' guide.²³ OECD: Evaluation of Agricultural Policy Reforms in the European Union: The Common Agricultural Policy 2014-20.

CAP processes

What the Commission's Communication says on processes:

- CAP strategic plans will cover interventions in both pillar 1 and 2, ensuring policy consistency across the future CAP and with other policies.
- The planning process should be simpler than current rural development programming.
- Detailed eligibility rules and prescriptive measures at EU level should be eliminated.
- Direct payments will fulfil their mission more effectively and efficiently if they are simplified and better targeted.
- The granting of income support to farmers will be conditional upon their implementing environmental and climate practices which will become the baseline for more ambitious voluntary practices.
- More use of innovative financial instruments.
- The CAP will improve its complementarity with other EU policies for rural areas.

Better and quicker information needed to design cost-effective CAP instruments

35. CAP instruments are not always designed on the basis of solid evidence. This is partly due to the perennial problem of the EU policy cycle, where planning for a new programming period takes place before adequate, relevant data are available as regards spending and results from previous periods. A lack of sufficient data (on a variety of issues, such as biodiversity and soil, demand for knowledge and advice, or farm households' living standards) and the consequently imprecise identification of actual needs (see [***paragraphs 20-23***](#)) lead to poor targeting of support. The Commission has recently launched spending reviews but we have not yet seen the methodology.

36. Some CAP measures are subject to deadweight or displacement effects. For certain eligible activities, where this risk is particularly high, financial instruments could be considered as an option.

37. The EU decided to fund climate-related action by incorporating, or “mainstreaming”, climate action within different EU funding instruments, including the CAP. However, we found that, in the areas of agriculture and rural development, there has been no significant shift towards climate action and not all potential opportunities for financing climate-related action have been fully explored.

Achieving consistency between the CAP and other EU policies and between different CAP instruments

38. The CAP sometimes sends conflicting signals by supporting measures with incompatible impacts. For example, the OECD argues²³ that the potential impact of greening was largely offset by the impact of voluntary coupled support. Certain trade-offs are not clearly identified. For example income support becomes capitalised in land prices, increasing barriers to entry for younger farmers. Extra support is paid to younger farmers, with a significant deadweight effect, and a further impact on land values.

39. Currently, environmental and climate objectives are mainstreamed into the CAP through greening and cross-compliance. However, greening obligations are generally undemanding and only apply to a minority of beneficiaries. While cross-compliance requirements apply to most CAP beneficiaries, the entitlement to CAP support does not depend on following them, and penalties for non-compliance for individual farmers, expressed as a percentage, tend to be low, although through broad application their impact can be significant. We recommended to make access to any direct payments conditional upon meeting a set of basic environmental and climate requirements encompassing the current cross-compliance and greening rules.

²³ OECD: Evaluation of Agricultural Policy Reforms in the European Union: The Common Agricultural Policy 2014-20.

40. Better coordination with policy instruments outside the CAP is also needed. There is an overlap in scope between the projects funded from the European Agricultural Fund for Rural Development (CAP pillar 2) and those funded from other European Structural and Investment funds, mainly the European Regional Development Fund. For example investments in renewable energy can be supported by the EAFRD and several other funds.

Simplification needed, but not at the cost of effectiveness

41. One example of counter-productive complexity is rural development programmes, which often are several hundred pages long and provide prescriptive details of certain aspects of implementation, while remaining unspecific on the expected results. Another example is the overlapping requirements of greening, the agri-environment-climate measure and, to a lesser extent, cross compliance. However, a certain degree of complexity may be needed for policy to be effective and efficient.

Sufficient time must be allowed to roll out the next CAP reform

42. We have previously recommended that Commission should avoid overlaps of eligibility periods, aligning as far as possible the eligibility with the programme period and align the multiannual financial framework with the EU's strategy periods. Implementation of current rural development programmes started late, partly due to complex rules, and the time needed for the Commission to review and approve the voluminous programming documents.

CAP outputs, outcomes and external actors

What the Commission's Communication says on outputs, outcomes and external factors²⁴:

- Member States should pursue realistic and adequate targets.
- The assurance process would need to be adapted to the requirements of a results-driven policy design including the development and application of solid and measurable indicators and of credible performance monitoring and reporting.

Need for an effective performance system linking outputs, results, impacts and objectives

43. The Commission currently has a complex and diverse performance reporting framework with numerous indicators. We have recommended reducing the number of indicators so as to focus on those that best measure performance of the EU budget.

44. The indicators often do not provide information that is relevant for assessing policy results and impacts. The 'result indicators' which the Commission uses often do not measure results, but rather outputs (or, in some cases, inputs), and lack a clear link to EU objectives²⁵.

45. For the previous programming period (2007-13) we concluded that the Commission and Member States had not sufficiently shown what had been achieved in relation to the rural development policy objectives. We found that the objectives were not sufficiently clear and that despite support from the Commission, Member States had not produced reliable, consistent and relevant enough monitoring and evaluation information to show the results achieved in relation to the objectives set.

²⁴ In our Performance Audit Manual we define outputs as what is produced or accomplished with the resources allocated to an intervention. Outcomes are the changes arising from the implementation of an intervention and normally related to the objectives of this intervention. Outcomes encompass results. i.e. immediate changes that arise for direct addressees at the end of their participation in an intervention" and impacts. i.e. longer-term socio-economic consequences that can be observed after a certain period after the completion of an intervention, which may affect either direct addressees of the intervention or indirect addressees falling outside the boundary of the intervention.

²⁵ World Bank (2017) "Thinking CAP: Supporting Agricultural Jobs and Incomes in the EU".

46. The introduction of the current Common Monitoring and Evaluation System was a step forward but information on policy performance remains incomplete and sometimes unreliable. In 2016, the Commission's Internal Audit Service identified serious weaknesses in the objectives set, indicators used and data collected, and noted that this may impair DG Agriculture and Rural Development's ability to monitor, evaluate and report on the performance of the 2014-2020 CAP. We also reported that the Commission's performance documents do not always assess the quality of the data used²⁶.

Link between money paid and achievement of agreed performance targets

47. The consequences of underperformance to Member States are currently limited²⁷. The performance reserve provides little incentive for a better result orientation since its evaluation is mostly based on spending and outputs. However, we noted that appropriate conditionality and a longer monitoring period increase the likelihood of projects being useful.

Policy should be monitored and – when necessary – adjusted

48. For the 2014-2020 period we recommended that the Commission and the Member States should collect timely, relevant and reliable data that provide useful information on the achievements of the projects and measures financed. This information should allow conclusions to be drawn on the efficiency and effectiveness of the funds spent, identify the measures and types of projects delivering the greatest contribution to the EU objectives and provide a sound basis for improving the management of the measures.

²⁶ COM(2017) 497 final – IAS 2016 Annual Report.

²⁷ OECD: Budgeting and performance in the European Union: A review by the OECD in the context of EU budget focused on results.

Accountability for the CAP

What the Commission's Communication says on accountability:

The assurance process would need to be adapted to the requirements of a results-driven policy design including the development and application of solid and measurable indicators and of credible performance monitoring and reporting.

49. Our Landscape Review on EU accountability and public audit arrangements identified six key elements for a strong accountability, transparency and audit chain:

- clear definition of roles and responsibilities;
- management assurance about the achievement of policy objectives and the use of funds;
- full democratic oversight;
- feedback loops to allow for corrective action/improvements;
- a strong mandate for independent external audit to verify accounts, compliance and performance;
- implementation and follow-up of audit recommendations.

CRITERIA AND IMPLICATIONS FOR ASSESSING FUTURE POLICY

50. We welcome the Commission's ambition to move towards a performance based delivery model. If well implemented, such a model may improve the CAP's efficiency and effectiveness. On the basis of our review, we formulate a set of criteria for assessing the future CAP (per stage of the programme logic model) and highlight some of the key challenges ahead.

Assessing CAP needs

CRITERIA:

- 1.1. Needs are identified on the basis of solid evidence.
- 1.2. Value added in addressing these needs at EU level is demonstrated.
- 1.3. CAP proposals take account of long-term trends.
- 1.4. CAP proposals are clear about their distributional impacts.

51. To ensure the success of the next CAP, a key challenge will be to identify the needs to be addressed using relevant and reliable data. The decision on which needs to address should be based on an assessment of potential EU value added.

52. Since some CAP payments will continue until 12 years after the policy proposals have been presented, these proposals will need to take account of long-term trends. Lastly, a functioning agricultural single market is an important achievement of the CAP. Therefore, and for the sake of equity, CAP proposals should spell out their distributional effects.

Assessing CAP objectives

CRITERIA

- 2.1. EU CAP objectives are clearly defined and reflect the needs identified and the long-term vision for the CAP.
- 2.2. EU CAP objectives are translated into quantified targets at the level of impacts and results.
- 2.3. EU CAP objectives are consistent with other general and sectoral EU policy objectives and international commitments²⁸.

53. Defining the specific results and impacts expected of the policy will become an even bigger challenge in the future, in the context of a performance-based delivery model. The EU

²⁸ For example under Conference of the Parties 21, Sustainable Development Goals and the World Trade Organisation.

will only be able to achieve its objectives, if the Member States, in their strategic plans, commit to sufficiently ambitious and relevant performance targets.

Assessing CAP inputs

CRITERIA:

- 3.1. Funds are allocated on the basis of a needs assessment and expected results.
- 3.2. Funds are spent where they can achieve significant EU value added.

54. A key challenge is to couple a performance-based delivery model with performance budgeting, with funding reflecting identified needs and expected results. There should be a clear requirement to apply these principles in delivering the CAP strategic plans.

55. The Communication does not address co-financing. At present co-financing exists for pillar 2. The new delivery model would combine the two pillars under one strategic plan. The existence or not of co-financing has a strong influence on the balance of incentives operating in the implementation of the CAP. The new delivery model cannot be assessed without clarity on the mechanisms for co-financing. EU co-financing rates should reflect the EU value added of the different types and areas of intervention.

Assessing CAP processes

CRITERIA:

- 4.1. Policy is implemented by means of cost-effective instruments based on solid evidence.
- 4.2. There is consistency between the CAP and other EU policies and between different CAP instruments.
- 4.3. Implementation rules are simple and do not compromise cost-effectiveness.
- 4.4. Adequate arrangements are proposed for the transition to the new delivery model.

56. The Communication advocates continuing direct payments to farmers and many of the objectives it mentions are already addressed by existing measures. It is therefore likely that the measures that Member States will roll out after 2020 will be similar to current measures.

57. The clarity and wider quality of CAP strategic plans will be the key to the success of the post-2020 CAP. The cost-effectiveness of instruments that Member States will select and/or design will need to be demonstrated in these plans, on the basis of solid evidence, including scientific sources and stock taking of existing measures. CAP strategic plans will have to set out how different CAP instruments will complement each other and how they will be coordinated with other policies affecting rural areas.

58. The Commission and Member States should aim to simplify rules, focussing on what is essential for performance.

59. There will be a continued need for some basic rules at EU level. If direct payments are retained, basic requirements will need to be defined in EU law. EU rules should ensure fairness and a level-playing field (including rules on state aid and WTO requirements).

60. It is also crucial to allow sufficient time and to put adequate arrangements in place for the transition to the new delivery model.

Assessing CAP outputs, outcomes and external factors

CRITERIA:

5.1. An effective performance system links between the objectives of the policy and its outputs, results and impacts.

5.2. There is a clear link between money paid from the EU budget and the achievement of agreed performance targets.

5.3. Policy performance and relevant external factors are monitored and the policy is adjusted when necessary.

61. A key challenge for the performance-based delivery mechanism for the post-2020 CAP is ensuring that the EU pays for outputs which are relevant to EU objectives and have been delivered. The link between Member State performance targets to EU objectives should be demonstrated in CAP strategic plans. Assurance about the actual achievement of outputs and results should stem from two sources:

- solid management and control systems underlying management performance reporting, which makes greater use of modern technologies for real-time checks.
- independent external audit.

62. If the post-2020 CAP is to be a performance-based policy, there should be a clear link between the results achieved and the financial support received. Such arrangements could be applied both to the relation between the Commission and Member States and, where feasible, to the relation between Member States and individual farms or projects.

63. In order to ensure sound financial management, the Commission and Member States need timely information as to whether measures achieve policy objectives in an efficient way. This information should be used to adjust policy and spending when necessary.

Ensuring accountability

CRITERIA:

6.1. There is a strong accountability and audit chain.

64. The nature of the change in role of Member States and the Commission is not made clear in the Communication and will need to be clarified in the legislative proposal. While the document talks of a larger role for Member States, it gives the Commission a key role in approval of Member States' CAP strategic plans "with a view to maximising the contribution of the CAP towards the EU priorities and objectives, and the achievement of Member States' climate and energy targets".

65. The introduction of a new delivery model should build on the stronger elements of the current governance structures, including control systems (such as the LPIS).

66. Assurance on the performance of EU action will become central in the new delivery model. In order to ensure sound financial management, assurance will be needed not only on the effectiveness, but also on the efficiency and economy of EU spending. At the same time, the legality and regularity of EU spending should be ensured.

ANNEX I – LIST OF ECA PUBLICATIONS SUPPORTING THIS BRIEFING PAPER

Annual Reports

Annual Report of the Court of Auditors on the implementation of the budget concerning the financial year 2016

Annual Report of the Court of Auditors on the implementation of the budget concerning the financial year 2015

Annual Report of the Court of Auditors on the implementation of the budget concerning the financial year 2014

Special Reports

No 10/2018: Basic Payment Scheme for farmers – operationally on track, but limited impact on simplification, targeting and the convergence of aid levels

No 05/2018: Renewable energy for sustainable rural development: significant potential synergies, but mostly unrealised

No 21/2017: Greening: a more complex income support scheme, not yet environmentally effective

No 16/2017: Rural Development Programming: less complexity and more focus on results needed

No 15/2017: Ex ante conditionalities and performance reserve in Cohesion: innovative but not yet effective instruments

No 10/2017: EU support to young farmers should be better targeted to foster effective generational renewal

No 2/2017: The Commission's negotiation of 2014-2020 Partnership Agreements and programmes in Cohesion: spending more targeted on Europe 2020 priorities, but increasingly complex arrangements to measure performance

No 36/2016: An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes

No 34/2016: Combating Food Waste: an opportunity for the EU to improve the resource-efficiency of the food supply chain

No 31/2016: Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short

No 26/2016: Making cross-compliance more effective and achieving simplification remains challenging

No 19/2016: Implementing the EU budget through financial instruments – lessons to be learnt from the 2007-2013 programme period

No 03/2016: Combating eutrophication in the Baltic Sea: further and more effective action needed

No 1/2016: Is the Commission's system for performance measurement in relation to farmers' incomes well designed and based on sound data?

No 25/2015: EU support for rural infrastructure: potential to achieve significantly greater value for money

No 23/2015: Water quality in the Danube river basin: progress in implementing the water framework directive but still some way to go

No 20/2015: The cost-effectiveness of EU Rural Development support for non-productive investments in agriculture

No 12/2015: The EU priority of promoting a knowledge-based rural economy has been affected by poor management of knowledge-transfer and advisory measures

No 5/2015: Are financial instruments a successful and promising tool in the rural development area?

No 23/2014: Errors in rural development spending: what are the causes, and how are they being addressed?

No 4/2014: Integration of EU water policy objectives with the CAP: a partial success

No 12/2013: Can the Commission and Member States show that the EU budget allocated to the rural development policy is well spent?

No 10/2013: Common Agricultural Policy: Is the specific support provided under Article 68 of Council Regulation (EC) No 73/2009 well designed and implemented?

No 8/2013: Support for the Improvement of the economic value of forests from the European Agricultural Fund for Rural Development

No 6/2013: Have the Member States and the Commission achieved value for money with the measures for diversifying the rural economy?

No 1/2013: Has the EU support to the food-processing industry been effective and efficient in adding value to agricultural products?

No 8/2012: Targeting of aid for the modernisation of agricultural holdings

No 7/2011: Is agri-environment support well designed and managed?

Other documents

Briefing Paper: Future of EU finances: reforming how the EU budget operates (2018)

Landscape Review: EU action on energy and climate action (2017)

Briefing Paper: EU Budget: time to reform? A briefing paper on the mid-term review of the Multiannual Financial Framework 2014-2020 (2016)

Landscape review: Making the best use of EU money: a landscape review of the risks to the financial management of the EU budget (2014)

Landscape review: Gaps, overlaps and challenges: a landscape review of EU accountability and public audit arrangements (2014)

ANNEX II – TREATY CAP OBJECTIVES

CAP Treaty objectives (Art. 39 TFEU):

- to increase **agricultural productivity** by promoting **technical progress** and by ensuring the **rational development of agricultural production** and the **optimum utilisation of the factors of production**, in particular **labour**;
- thus to ensure a **fair standard of living for the agricultural community**, in particular by **increasing the individual earnings of persons engaged in agriculture**;
- to **stabilise markets**;
- to assure the **availability of supplies**;
- to ensure that supplies reach consumers at **reasonable prices**

Relevant horizontal objectives of the Treaty:

- promoting a high level of employment (Article 9),
- environmental protection to promote sustainable development (Article 11),
- consumer protection (Article 12) and animal welfare requirements (Article 13),
- public health (Article 168(1)), and
- economic, social and territorial cohesion (Articles 174 to 178).

CAP objectives for 2014-2020 (Art. 110 (2) of R1306/2013):

- viable food production, with a focus on agricultural income, agricultural productivity and price stability;
- sustainable management of natural resources and climate action, with a focus on greenhouse gas emissions, biodiversity, soil and water; and
- balanced territorial development, with a focus on rural employment, growth and poverty in rural areas

CAP objectives for the post-2020 reform (from the Commission's communication on the future of food and farming):

- to foster a smart and resilient agricultural sector;
- to bolster environmental care and climate action and to contribute to the environmental and climate objectives of the EU;
- to strengthening the socio-economic fabric of rural areas.



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