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CAP Reform Proposals for Small and Semi-Subsistence Farms

This article reviews the extent to which the reforms to the Common Agricultural Policy (CAP) appear to address the challenges and potential of small and semi-subsistence farms (SSFs) in the EU. The assessment is made by reference to the analysis presented by other articles in this Eurochoices issue, concerning the potential values and significance of these farms for European agriculture and rural development (see Davidova and Bailey); and their relative 'invisibility' in respect of current CAP policy (see Thomson). It considers each Pillar of the policy separately, then the overall package. Evidence upon which the appraisal is based comes from the review of relevant, recent literature as well as evaluation and debate on the proposed reforms by various stakeholders and experts, as covered in the electronic media and interviews conducted specifically for the European Parliament study.

Pillar I and market management – limited value?

In general terms, Pillar I offers only limited support to small and semi-subsistence farms, but the reforms offer slightly increased scope for such targeting, if Member States (MSs) so choose.

Direct payments after 2014 represent a continuation of the current system of farm income support which, because it is area-based, gives more aid to larger producers, and largely excludes very small producers, either due to official minimum area/labour thresholds upon eligibility, or to perceived transaction costs and risks which discourage them from claiming (e.g. becoming liable for taxation). The approach means that small farmers are likely to receive a disproportionately small share, and absolute amount, of pillar 1 funding. .

Convergence of direct payments will do little to increase returns for eligible SSFs and small farms, because the agreed pace of adjustment is very limited, i.e. closure by 2019 of one-third of the gap between each MS' current level and 90 per cent of the EU average. However, the 'redistributive' payment, by which any MS may decide to top-slice its Pillar I area payment budget and redistribute this as a higher-rate payment on the first hectares of each claim, could potentially prove more valuable to small and SSFs. Matthews'(2013) illustrative simulations for Ireland (with 6 per cent small farms) suggest that farms under 5 ha would receive about 21 per cent more under such a scheme than without the redistribution; but the difference would be less in MSs with larger shares of very small holdings, as limited funding would be spread among more beneficiaries.

The new Small Farmers Scheme offers beneficiaries a fixed, lump-sum payment, potentially covering the full period of the Framework (7 years). This aid - a fixed rate per year on an eligible area of up to 3 ha, or up to 15 per cent of the national average payment per beneficiary, and between €500 and €1000 (minimum €200 for Cyprus and Malta), would replace all other Pillar I payments, and participants will be exempt from greening and cross-compliance. The European Commission's (EC) impact assessment in November 2011 concluded that this 'could offer significant benefits of increased incomes and greater simplicity for the smallest farms in return for very modest costs' (i.e. reduced returns) to larger farms. The largest predicted beneficiary income impacts were for Bulgaria (13.6 per cent increase), Cyprus (10.2 per cent), Hungary (4.7 per cent) and Romania (2.7 per cent).

Other targeting options may have relevance. Area payments for farmers in areas under natural constraint (ANC), up to 5 per cent of the national financial ceiling, could enhance small-farm support in marginal regions where SSF are significant. The Romanian Government, and farmers' unions in Greece, see payments to young farmers as valuable for small and SSF farms. Several MSs with significant shares of small and SSF holdings have stated intentions to transfer funds between Pillars to increase direct payments at the expense of Rural Development Programme (RDP) funding. Whether this is optimal for small farms depends upon local circumstances and initial Pillar II allocations but, given the points discussed here, seems unlikely significantly to increase SSF targeting.

Under the market management package, little seems likely to have a notable impact upon small farms. However, the planned loss of vineyard planting rights, affecting at least 12 MSs (old and new) has been cited as leading to the possible abandonment of small farms in countries such as Italy.

Pillar II – greater potential?

The legal framework for the European Agricultural Fund for Rural Development (EAFRD) beyond 2013 contains several important changes from the current one, increasing its potential for targeted application to small and SSFs. Based on evidence from research and case studies concerning the needs and generally low uptake of RD measures among these farms, often because of the higher than normal transaction costs to financial benefits ratio of engaging in policy,

'good practice' in rural development policy could include:

1. more specially *tailored packages of measures*, with eligibility criteria designed to attract such farms;

2. *increased emphasis and support for capacity-building, training, advice, co-operation and empowerment* in order to increase the ability of these types of farm household to articulate their needs, develop their aspirations and engage more with RD goals and funds;

3. *design features seeking to lower transaction costs of participation, such as dedicated and devolved small-scale grant mechanisms* which adopt simplified or streamlined processes appropriate to the lower financial risk from small-scale expenditures; also, potentially, *enhanced access to micro-credit, which evidence suggests is a frequent issue for these farms.*

The rural development policy for 2014-2020 is therefore assessed by reference to these three points.

Tailored packages of measures

The former four-axis structure, and minimum spending thresholds per axis, are removed in favour of a structure focused around six strategic goals. The scope and purpose of existing measures is retained but consolidated into fewer, more flexible instruments, and MSs may use whichever measures they choose to deliver against strategic goals (i.e. no pre-determined link between measures and goals). This more flexible framework, if followed through in implementation, increases opportunities to combine instruments at a local level in order to tailor them more closely to the particular needs and potentials of small and SSF.

There is explicit provision for RDPs to contain focused 'sub-programmes', tackling specific themes which may qualify for higher co-funding rates. 'Small farms' is amongst the list of suggested themes, signifying a belief at EU level that these may be in need of special treatment, in some way, but enabling Member States to choose whether or not to make use of this provision.

However, both these moves may be countered by other considerations. Firstly, the emerging approach to sub-measure and 'focus area' definition (evident in RDP preparation guidance from the EC) appears once more to link specific measures to particular goals in a uniform way, thus constraining local-level determination. Secondly, sub-programme design is dis-incentivised because each sub-programme is required to have its own plan, budget, measures, targets and indicators for each sub-measure, to be separately tracked, monitored and reported to the EC. Discussion with relevant officials within Managing Authorities (MAs) suggested that the additional bureaucracy implied by these requirements may well be sufficient to discourage use of this option.

A new measure for collaboration (Article 36 in the Regulation) significantly increases the types of collective planning and delivery that can be assisted: for example, partnerships between farmers, local authorities and environmental experts to manage agri-environment-climate actions; and partnerships to develop local strategies or improve knowledge exchange. This measure has potential to build social capital and increase access in situations where small and SSFs are currently excluded from RDP funds.

Finally, a reinvigorated approach to LEADER reinstates its pre-2007 relative independence from the wider architecture, requires a minimum 5 per cent of the budget in all RDPs and promotes funding from other EU funds. There are also new measures to promote other LEADER-type delivery approaches. These changes could enable Local Action Groups to develop a clear focus upon small and SSFs, wherever they are an important feature of the local area.

Capacity-building, training and advice

The new EAFRD has a strategic objective directly linked to this need, which can be used to help increase the skills and knowledge of small and SSF holders and farm households. Knowledge transfer and networking can also be important in developing specialist supply chains, which may offer greater returns to small producers.

Small-scale accessible and devolved grant schemes, and access to credit

All the main priorities of the new EAFRD have potential to be pursued by small and SSFs. What is essential, however, is appropriate delivery considering the specific needs of these types of farm as discussed by Davidova and Bailey (for example, facilitating applications for collaboration in physical investments, where individual businesses are too small to finance these alone). This depends upon creative and enthusiastic engagement by MAs in understanding the challenges or potential opportunities of small and SSFs.

The new regulation says relatively little about delivery. It requires MSs to define responsible bodies for each delivery function and describe the management and control structures that will be used. Without more guidance, there remains a risk that path-dependency, the audit culture, and innate conservatism will act to reduce innovation on the ground in responding better to small farms' situation (see the article in this issue by Falkowski et al, for further reflections).

There is a current requirement for all MAs to consider the scope for simplification in the planning and implementation of RDPs. In this context, applying the principle of proportionality, the EC could require MAs to consider and adopt fast-track implementation processes for smaller beneficiaries, including small and SSFs.

Other supporting actions are possible. The European Network for Rural Development (ENTD) could help to build capacity among stakeholders representing small and SSFs, by promoting a continuing theme of small farms within its portfolio of working groups and exchange opportunities. Further research on rural development needs and development options for small and SSFs could be undertaken, as part of this.

Assessing the overall package

Ultimately, the value of the new CAP in respect of its treatment of small and SSFs depends upon society's views about the current value and future development of these farms. Considerable variation between territories means no standard package is likely to suit all situations. Nonetheless, some remarks can be made concerning the key axes of variation as discussed by Davidova and Bailey. Pillar I, as currently envisaged, cannot satisfactorily address the problems of 'disappearing' or 'continuing' SSFs. 'Disappearing' SSFs may benefit from retirement-type schemes (in Pillar II) but these are limited in duration, and, by requiring the transfer of land to neighbouring holdings, they remove the mainstay of SSF households. Pillar II should be important for transforming and continuing small and SSFs, as it offers flexibility and a range of objectives that are relevant to the needs and opportunities of these types of farm. However, evidence from Thomson (this journal) highlights the generally lower use by small and SSFs of Pillar II aids, compared to larger farms. Barriers to access are as much related to indirect obstacles (e.g. lack of awareness, low capacity, poor education, low access to capital or credit), as to direct obstacles such as minimum size thresholds. Both direct and indirect barriers can be reduced through careful design and implementation.

The following developments would improve the relevance of the new CAP for small and SSFs.

1. Swifter convergence would favour many countries with large numbers of SSFs.
2. ‘Front-loading’ payments with a higher rate on the first few hectares of each claim would help to address higher transaction costs of small claimants.
3. The Small Farmers Scheme should be adopted in all countries where these farms clearly deliver social, economic and environmental benefits to society.
4. Coupled support might be used for particular SSFs, e.g. sheep farming by very small graziers who do not own land.
5. Specialised provision of a ‘Farm Advisory Service for small and SSFs’ should be required, wherever relevant.
6. If small and/or SSFs are nationally or regionally significant in economic, environmental or social terms, MAs could be required to demonstrate how the RDP takes account of their needs, including targeted sub-programmes where appropriate.
7. Approaches targeting small farms should qualify for additional technical assistance, not exceeding say 4 per cent of the EAFRD budget for the RDP, and could be implemented one year later than 1 January 2015, without financial penalty.
8. Delivery processes for aid targeting small and SSFs should be designed to reduce transaction costs, increase simplification and enhance beneficiary access.

The European Commission and/or ENRD should produce detailed guidance on how best to deliver RDPs or sub-programmes targeted at small and SSFs. This could advise:

- Using facilitators or trusted intermediaries to raise awareness among small farms about what action can be supported, to hold promotional events and to encourage collaboration.
- Providing a ‘starter fund’ offering very small grants to people or groups with promising ideas to enable them to plan projects and initiatives professionally.
- Developing a tailored ‘scheme’ in which selected EAFRD measures are compiled into a simple menu, using standard costs to pre-determine payment rates (as already used for agri-environment aids).
- Designing training and advice in partnership with small and SSFs.
- Applying lower-than-usual eligibility thresholds for beneficiaries of targeted support, and defining an upper threshold of aid per beneficiary per year, below which a lower-than-usual level of controls or conditions applies.
- Ensuring adequate provision for financial engineering to increase appropriate access to investment aids;
- In MSs where the ‘disappearance’ path is supported by all stakeholders (including small and SSFs), enabling Small Farmers Scheme beneficiaries to qualify for additional help for early retirement and/or restructuring measures in Pillar II.

Further reading

Matthews, A. (2013). *Implications of the new redistributive payment*. In: *CAPreform.eu blog*.

European Commission (2011) Impact assessment, *Common Agricultural Policy towards 2020, Commission Staff Working Paper. Available at:* http://ec.europa.eu/agriculture/policy-perspectives/impact-assessment/cap-towards-2020/report/full-text_en.pdf

EU FP7 The Rural Development Impacts project (RuDI, 2010), available at: www.rudi-europe.net, includes specific analysis of policy design and delivery challenges in RDPs in all 27 MSs.

Summary

Assessing the 'new' CAP after 2013 reveals some positive developments encouraging MAs to recognize the particular characteristics of small and SSFs, in designing and implementing appropriate policy options. Because Pillar I aid is unavoidably linked to scale and many small farms cannot or do not claim it, the financial impact of Pillar I on small and SSFs will remain modest. Nevertheless, more options exist for increasing this impact through explicit or implicit tailoring, where Member States so choose. The Small Farmers Scheme, in particular, offers benefits by reducing transaction costs.

For Pillar II, the new framework offers more scope for funding tailored to the specific needs of small and SSF farms, but there is no guarantee that this will translate into more cost-effective Rural Development Programmes, and concern that such developments may be disincentivised by other aspects of the approach. Stronger guidance from the European Commission, as well as support from the European Network for Rural Development, could help Managing Authorities to consider the needs of these farms more fully in Rural Development Programme design.

In sum, the 'new' CAP offers greater potential to support and enhance the value of Europe's small and SSFs than its predecessor. Ultimately, much depends upon choices made at national or regional levels, given the considerable range of options now available.