

Financial Instruments of the European Union Supporting the Common Agricultural Policy in the Financial Perspective 2021-2027

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Abstract: In the Financial Perspective of 2021-2027, the European Commission has earmarked an amount of 365 billion euros for agricultural and rural development under the Common Agricultural Policy (CAP), compared to 416 billion euros in the previous Perspective. Of the planned funds in the current financial perspective, EUR 265.2 billion was allocated for direct payments (previously EUR 294.9 billion) and EUR 78.8 billion for rural development (previously EUR 95.3 billion). There was also an additional allocation of EUR 20 billion for market support and EUR 10 billion for the Horizon Europe research program. Overall, the 2021-2027 Financial Perspective budgeted funds from the EU budget at 88% compared to the previous Financial Perspective for actions at CAP. The aim of the article was the analyses of sources of financing for agriculture and rural areas in the scope of the CAP in the years 2021-2027. The research results show that the planned allocation of funds for the years 2021-2027 to support agriculture and rural areas has decreased in comparison with the previous programming period.

Keywords: common agricultural policy; agricultural funds; rural areas

JEL Classification: P3; Q14

1. Introduction

The Common Agricultural Policy comprises measures in the agricultural sector taken by the European Union (EU) to fulfil the provisions of the Treaty on the Functioning of the European Union (TFEU). The CAP was created as the first EU policy. The objectives of CAP are set out in Article 39 TFEU (ex-Article 33 TEC). The basic pillars of CAP are direct payments and rural development. The main source of funding for CAP is the European Agricultural Fund for Rural Development (EAFRD). In the Financial Perspectives 2021-2027, the mission of CAP is to support the transition to fully sustainable agriculture and the dynamic development of rural areas. Simplifications refer to the minimization of the administrative burden (European Commission, 2017). The main assumption of the simplifications are measures aimed at efficiency and the implementation of CAP objectives, rather than excessive compliance with the rules and procedures related to the management of EU funds supporting agriculture and rural areas (Kowalski, 2017). The new perspective 2021-2027 means a change in the orientation of the allocation of EU funds, i.e., an individual approach for each Member State will be apparent and a move away from a universal approach that will improve the functioning of

agriculture in the Member States. Such a change will give more freedom to the Member States to decide on how to use these funds (taking into account the objectives of the CAP), thus meeting the needs of farmers and the rural community (European Commission, 2019). As in the previous financial perspective, an important objective of co-financing will be to support the activities of individual Member States in the framework of the Knowledge and Innovation System in Agriculture (AKIS). The bulk of EAFRD funding will be used to finance activities in the areas of knowledge, innovation and digitization in agriculture and rural areas (EIP). EAFRD will also help improve the efficiency of AKIS farm advisory systems (FAS) in each Member State. In 2018, the European Commission published regulations on the CAP funding rules that will apply in the 2021-2027 financial perspective, setting out procedures to further simplify them (European Commission, 2012). The current legal regulations in the Financial Perspectives 2021-2027 show the continuation of CAP assumptions implemented in the previous Financial Perspectives 2014-2020: smart growth, as well as environmental, climate and rural development goals (Rembisz, 2012). Currently, there is a transition period for the financing of CAP and an adjustment period that ends on January 1, 2023. The normative legal acts in force so far will continue to be applied with some modifications. This period, which covers the years 2021-2022, is defined in Article 1 of Regulation (EU) 2020/2220 of the European Parliament and of the Council of 23 December 2020 laying down certain transitional provisions concerning support from the EAFRD and the European Agricultural Guarantee Fund (EAGF) (Regulation (EU) 2020/2220). This Regulation maintains, with some amendments, the legal solutions provided for in the previous financial perspective, i.e., Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development. The measures provided for in Regulation No 2020/2220 of 23 December 2020 are intended to assist farmers in setting up mutual funds from which compensation may be paid for losses caused by adverse weather conditions, the occurrence of animal or plant diseases, pest infestations or environmental incidents (Kulawik & Willoc, 2012). A characteristic feature of the regulation in question is the fact that it contains provisions on both direct payments and rural development, i.e., it regulates the financing of the first and second pillars of CAP (Rydin & Falleth, 2006).

2. Methodology

The empirical material on the planned amounts of allocation of funds from the EU budget to the CAP, which was used for the study, concerned 27 EU Member States. The analysis used data published by the European Commission in the current Multiannual Financial Framework (MFF) for two consecutive programming periods, i.e., 2014-2020 and 2021-2027.

The purpose of this article is to analyze the directions of changes and sources of funding for the CAP, broken down by payments under the first and second pillars for agricultural and rural support in the financial perspective 2021-2027, compared to the previous programming period 2014-2020, to the CAP budget and new legal regulations covering payments under the first and second pillars of the CAP, i.e., area payments and rural development programs. The analysis of the sources and principles of funding of CAP was based on EU budget data

published by the European Commission. The provisions of the European Parliament and Council Regulations governing the principles of CAP operation were also analyzed, and the simplifications in the management of EU funds applicable in the Financial Perspectives 2021-2027 were identified. The research tested the research hypothesis, which assumes that:

H1: In the Financial Perspectives 2021-2027, the planned allocation of EAFRD funds for the implementation of the first and second pillar assumptions of CAP related to agriculture and rural areas has decreased for most EU Member States.

The article is structured as follows. The first section explains the essence of the problem in the light of the law and literature (in relation to the CAP assumptions) and presents the research assumptions. The next section presents the research results illustrating the EU financial resources to support CAP agricultural and rural measures in individual EU Member States.

3. Results

The CAP assumptions in the Financial Perspectives 2021-2027 set out the principles of shared management between the European Commission and the Member States, taking into account the greater possibilities of Member States to shape national CAP strategic plans. These rules also apply to the financial instruments supporting agriculture (Massot, 2020). The main task of the new CAP model is to continue the previous assumptions of CAP based on two pillars, i.e., modernized and simplified policy, especially in terms of better public finance management and a reduction of bureaucracy for beneficiaries (Niewiadomska, 2018). The European Commission has set the following objectives and challenges for the CAP for the period 2021-2027, summarized in nine points, reflecting the economic, environmental and social importance of agricultural policy to ensure, among other things, adequate agricultural income and the strengthening of food security, i.e. (1), market orientation and improving competitiveness, including a greater focus on research, technology and digitalization (2), improving the position of farmers in the value chain (3), promoting climate change mitigation and adaptation, and sustainable energy production (4), promoting sustainable development and the efficient management of natural resources such as water, soil and air (5), contributing to biodiversity conservation, improving ecosystem services and protecting habitats and landscapes (6), attracting young farmers and facilitating economic development in rural areas (7), promoting employment, growth, social inclusion, and local development in rural areas, including the bioeconomy and sustainable forestry (8), improving the response of EU agriculture to societal food and health needs, including safe, nutritious, and sustainable food, and animal welfare (9). The listed CAP objectives provide guidance to Member States and beneficiaries in planning and using EAFRD funds to support agriculture and rural areas (World Wildlife Fund, 2017).

The 2021-2027 model CAP departs from the detailed EU-level specifications and delegates more powers to the Member States within the framework of the subsidiary distribution of competences. In this way, Member States will be able to better take into account local conditions and needs against a background of specific CAP strategic plans, which they will have to solve independently on the basis of the objectives and principles set out in the

regulation (Nosecka & Pawlak, 2014). The main objective of CAP in the Financial Perspectives 2021-2027 will be to support a smart, resilient and diversified agricultural sector, while ensuring food security. Supporting activities in agriculture in the field of technological development, digitalization and artificial intelligence (AI) will be of particular importance.

In the next financial perspectives, spending from the EU budget was a priority for the CAP set out in the Multiannual Financial Framework (MFF) and was an important item (Niewiadomska, 2019). A comparative analysis of the implementation of the EU budget showed that the share of spending on agriculture systematically decreased. In the previous financial perspective 2014-2020, the payment ceiling was 37.8%, and in the Multiannual Financial Framework 2021-2027 it reached the lowest level of 28.5% of the total EU budget (Regulation (EU) 2020/2093). The planned allocation for CAP for 2021-2027 is EUR 365 billion, compared to EUR 416 billion in the previous period. The amount for direct payments was set at EUR 265.2 billion, previously EUR 294.9 billion, and for rural development EUR 78.8 billion, previously EUR 95.3 billion. In addition, an amount of EUR 20 billion was earmarked for market support and EUR 10 billion for the Horizon Europe research program. The total amount of the planned allocation from the EU budget under EAFRD in the financial perspective 2021-2027 was set at 88% compared to the previous financial perspective.

The cut in the planned allocation for CAP was viewed negatively by the European Social and Economic Committee. The reduction in the planned allocation of EAFRD funds is approximately 25% compared to 2018 prices. The changes in the planned allocation of funds for the implementation of the objectives of CAP in the financial perspective 2021-2027 did not simultaneously mean an equal reduction in the amounts allocated to each Member State. Other factors were also taken into account when allocating these funds, e.g., historical conditions and the past use of funds. In the vast majority of countries, the planned allocations for agriculture and rural areas were reduced compared to the previous perspective. There were also examples of increased allocations. The increase in funding affected four EU countries, namely Croatia (23.1%) and the Baltic countries, including Estonia (7.2%), Latvia (13.2%) and Lithuania (5.6%) (Figure 1).

In the Financial Perspective 2021-2027, EAFRD funds are used as follows: Direct payments and rural development grants and other grants for industrial producers, which are market instruments. The European Commission has decided that CAP will continue to be based on two pillars, with the first pillar comprising area payments and market instruments, and the second pillar being used to support rural development (Regulation (EU) 1307/2013). There are still differences in the types of interventions and how the European Commission disburses funds to Member States. As in the previous perspective, the first pillar of CAP is financed from EU funds under annual financial frameworks. Payments under the second pillar of CAP are planned and transferred taking into account the multi-annual program, which defines the co-financing of each intervention.

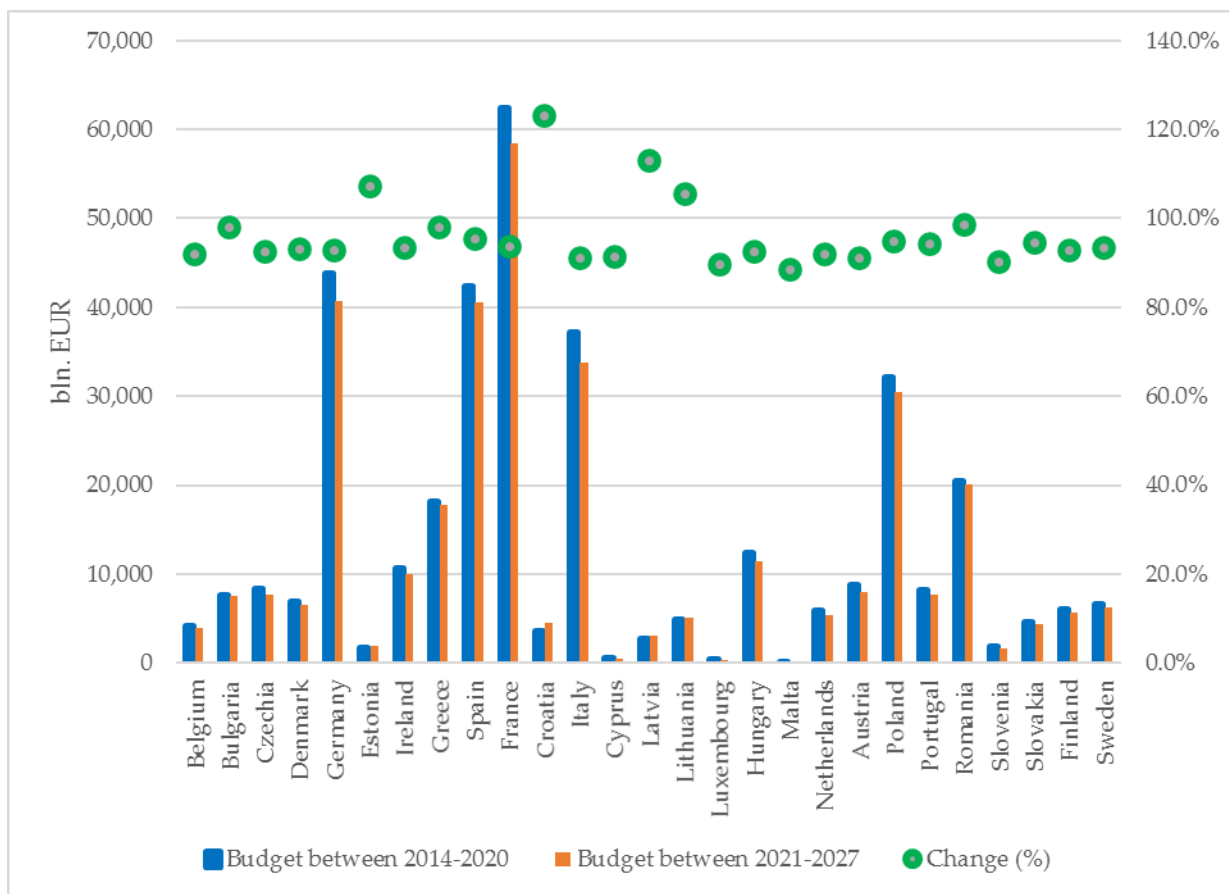


Figure 1. Overall CAP budget in the scope of the multiannual financial framework for 2021-2027 compared to 2014-2020 (in billion euros) with changes in % (Regulation (EU) 2020/2220)

In the current as well as in the previous perspective, the principle of additionality applies, i.e., the co-financing of projects under the second pillar is provided by the EU and the budget of the Member State. In the financial perspective 2021-2027, despite minor changes in this policy, the names of the funds remain unchanged, i.e., for the first pillar of the CAP – the European Agricultural Guarantee Fund (EAGF) and for the second pillar of the CAP – the European Agricultural Fund for Rural Development (EAFRD).

In the financial perspective under discussion, direct payments are one of the main instruments of the implementation of CAP, the aim of which was to support and stabilize agricultural incomes, reduce production costs and maintain production in disadvantaged areas. Direct payments directly support producers in adaptation processes, including market and environmental policies. The purpose of the payments is to stabilize farmer income by reducing the volatility of prices and production. One of the negative phenomena is the concentration of payments, where 80% of these payments go to 20% of farmers (European Commission, 2010).

A comparative analysis of the planned allocation for area payments in relation to each payment period shows that a higher allocation is planned for 10 Member States. The largest increase in planned allocation compared to the previous programming period was recorded in Latvia (29.3%), Estonia (23.4%) and Lithuania (16.1%). The smallest amounts of area payments were planned for Portugal (4.8%) and Greece (2.1%) (Figure 2). The biggest decrease in the

planned allocation in the financial perspective 2021-2027 in comparison with the previous programming period concerned Holland (by 7.2%), Belgium (by 6.9%), Italy (by 6.5%) and Cyprus (by 6.1%). The amounts of planned allocations for area payments should be related to the data published by Eurostat on the evolution of the number of agricultural holdings and agricultural areas in all EU Member States. In the period 2010-2019, the number of agricultural holdings in the EU decreased from 12.0 million to 9.8 million (19.0%) and the agricultural area decreased from 188.1 million ha to 181.5 million ha (3.5%). This problem requires a separate analysis and a presentation of its results in scientific works.

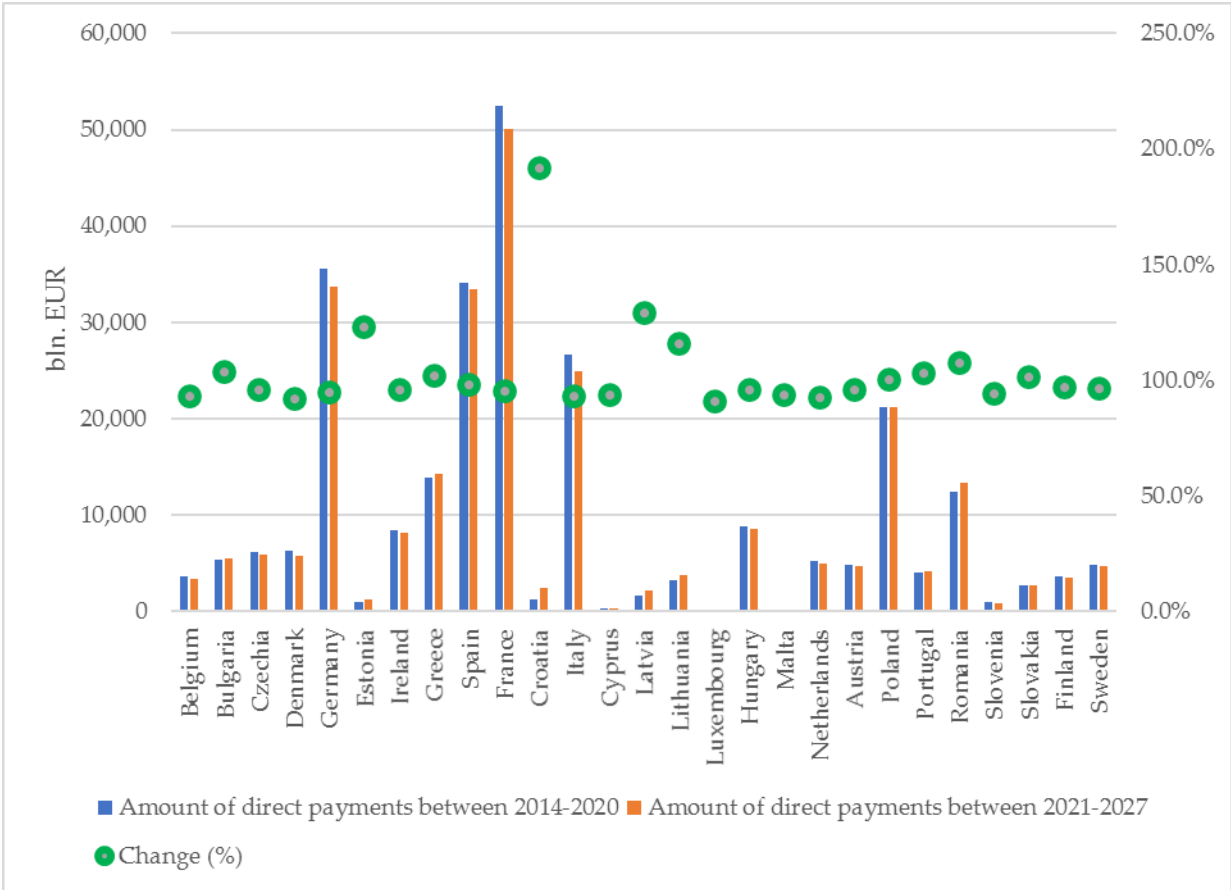


Figure 2. Amounts of direct payments for 2021-2027 compared to 2014-2020 (in billions of EUR) and the amount of payments per 1 ha of agricultural land (in EUR), with an indication of changes in % (Regulation (EU) 2020/2220)

In the 2021-2027 financial perspective, rural development programs (RDPs) are no longer prepared and implemented by individual Member States, as was the case in previous financial perspectives. Instead of the RDPs, national strategic CAP plans are prepared. The strategic CAP plans, which represent a new way of managing EU financial instruments, cover direct payments as well as rural development support, sectoral support and the common organization of agricultural markets. The strategic plans have been developed by individual Member States and take into account country-specific factors, such as a SWOT analysis, a comprehensive needs assessment, a financial plan, a description of management and coordination structures, an ex-ante assessment of conditionalities, etc. The strategic plans of each Member State are designed to achieve the objectives of CAP, i.e., to achieve the

expected results, accelerate modernization and improve the economic, social, environmental and climate balance (Surowiec, 2020). The rules of CAP programming, established by the Regulation of the European Parliament and of the Council No. 2020/2220, mean that each Member State has more possibilities to choose instruments and tools for the implementation of the national strategic plan CAP (Walenia, 2019). The basis for the design of the strategic plans within rural development is the introduction of new concepts for the strategic plans, i.e., the type of intervention, instead of the previously used concepts, such as thematic axes, priorities, measures or sub-measures. In the European Commission regulation, eight types of interventions were distinguished in the strategic planning of CAP in agriculture, which are related to the priorities of the current RDP 2014-2020 (Table 1).

Table 1. Comparison of types of interventions under the strategic plans of CAP 2021-2027 in relation to the priorities specified in RDP 2014-2020 (Regulation (EU) 2020/2220)

RDP Priorities 2014-2020	Types of interventions 2021-2027
Supporting knowledge transfer and innovation in agriculture and rural areas.	Environmental, climate, and other management commitments.
Increasing the viability of farms and the competitiveness of all types of agriculture in all regions, and promoting innovative agricultural technologies and sustainable forest management	Natural or other area-specific constraints.
Supporting the organization of the food supply chain, including the processing and marketing of agricultural products, promoting animal welfare and risk management in agriculture	Adverse area-specific conditions resulting from certain mandatory requirements
Restoring, protecting and enhancing ecosystems in agriculture and forestry	investments
Supporting resource efficiency and the transition to a low-carbon and climate-resilient economy in agriculture, food and forestry	Starting a business by young farmers and setting up rural businesses
Supporting social inclusion, poverty reduction and economic development in rural areas	Risk management tools
	Cooperation
	Knowledge sharing and informing

The types of interventions listed in the strategic plans for 2021-2027 from CAP are more general and universal in nature, and their number has been reduced to eight. In the previous perspective, no less than 69 measures and submeasures were mentioned in the implemented rural development program. In the strategic plans of CAP, a special place is occupied by the measures resulting from environmental, climate and management commitments, which were listed as priority objectives in the cited Regulation No. 2020/2220. The issues related to natural constraints and unfavorable operating conditions in rural areas are of great importance in the strategic plans of CAP as well as in the planned allocation of funds. In the 2021-2027 Financial Perspectives, based on an assessment of its needs, each country will be able to indicate, in the strategic plan, the types of interventions it considers most important for the implementation of the specific objectives of CAP. This can be interpreted to mean that not all intervention types specified in the cited regulation will be mandatorily implemented by a given Member State (Rembisz, 2012). A comparative analysis of the planned allocation of support amounts for individual types of rural development interventions in 2021-2027

and in the previous period 2014-2020 showed that a lower allocation was planned for all Member States. In 2021-2027, the planned co-financing of activities in individual Member States for rural development represents approximately 84-86% of the allocation from the previous programming period (Figure 3).

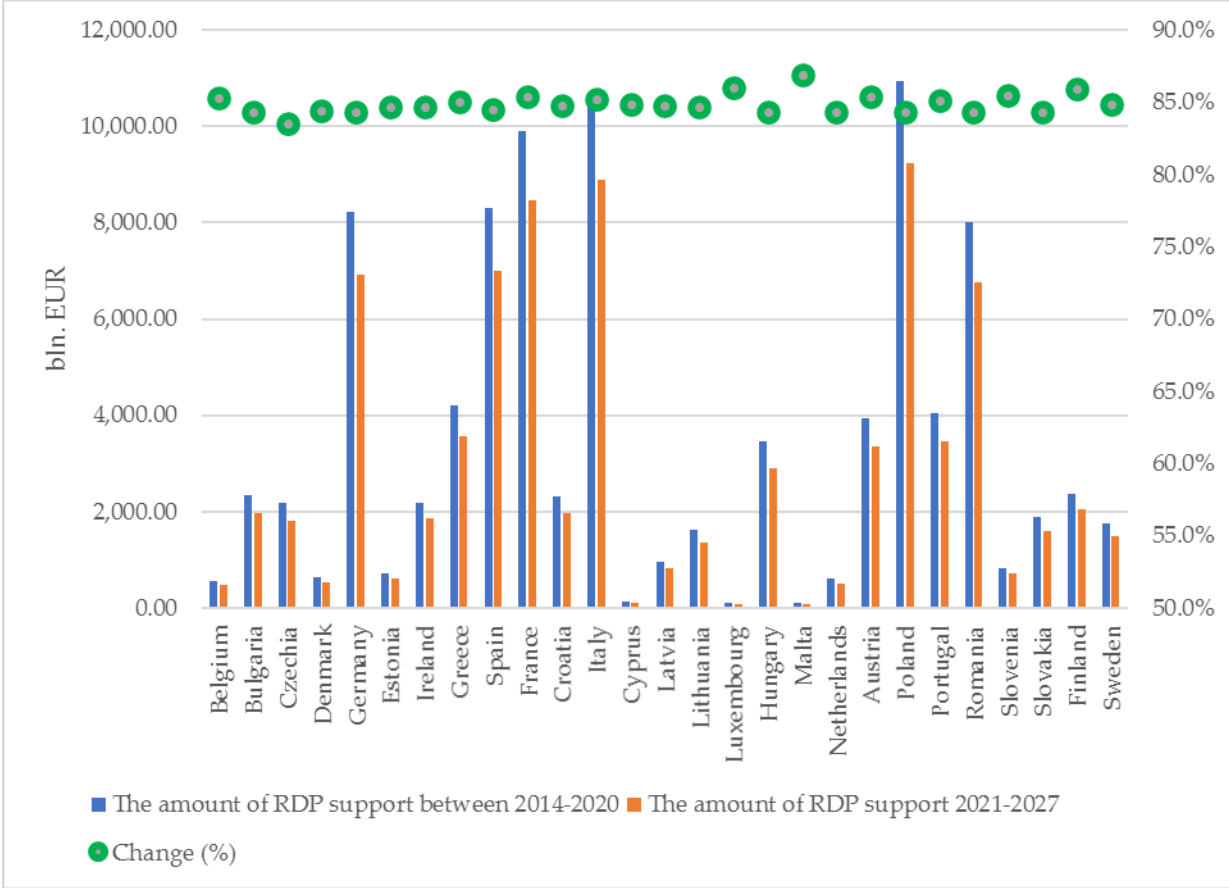


Figure 3. Amounts of direct payments for 2021-2027 compared to 2014-2020 (in billions of EUR) and the amount of payments per 1 ha of agricultural land (in EUR), with an indication of changes in % (Regulation (EU) 2020/2220)

In concluding EU law, it is noted that the European Commission shares responsibilities in the area of management of EU funds with EU Member States. The principle of shared management also applies to EU funds allocated to agriculture at CAP in the Financial Perspective 2021-2027, which sets common objectives and priorities for action. In the citation of the Regulation of the European Parliament and of the Council (EU) No. 2020/2220, the European Commission has defined the objectives of CAP, the types of interventions and the results. Each Member State is responsible for achieving the objectives for agriculture and rural areas set in the strategic agenda CAP. According to the Regulation of the European Parliament and of the Council (EU) No 2020/2220, the Member State is also responsible for the proper use of the financial instruments of CAP, it is accountable for the way the objectives and the agreed final results are achieved. In the following financial perspectives, EAFRD funds were used according to the principle of shared management between the Member States and the European Commission. In the 2014-2020 financial perspective, the EAFRD's share in the co-financing of projects was

63.6%, which required the greater involvement of Member States. During the implementation of the CAP in the period 2021-2027, the share of expenditure from the budgets of Member States increases, i.e., the conditions for the participation of the countries worsen in that the maximum EAFRD contribution will be 43.0% of eligible public expenditure. The minimum EAFRD share may be reduced up to 20%. The main principle in the area of financial management is that Member States shall compensate beneficiaries only for the costs and income foregone resulting from commitments made and transaction costs. For any type of intervention, Member States shall only grant payments for commitments that do not exceed legal management requirements and GAEC standards. No compensation is granted for measures that go beyond the minimum requirements for the use of fertilizers, plant protection products and animal welfare, or for measures that go beyond the conditions for the maintenance of agricultural land (Walenia, 2019).

4. Conclusions

In the Financial Perspective 2021-2027, the amount of funds from the EU budget for the implementation of the objectives of CAP in the field of sustainable agricultural and rural development has decreased compared to the previous programming period. The planned allocation for the current programming period was set at 88% compared to the previous financial perspective. The reduction in the allocation affected both EU funds allocated to support measures under the 1st and 2nd pillars of CAP. A positive phenomenon was the change in the CAP funding rules aimed at simplification and an individual approach for each Member State. Under the new funding rules for the CAP, the European Commission has given more powers to Member States under shared management in order to distribute responsibilities in line with the subsidiarity principle. This change will allow Member States to take greater account of local conditions and needs when linking to CAP strategic plans. However, the basic tasks of CAP, which are to promote sustainable agricultural development and rural development, have not changed much. The guiding principle of CAP for the period 2021-2027 is to give more powers to Member States to define interventions related to the general and specific objectives of CAP in documents prepared by Member States. Financial instruments supporting rural development will focus more on taking into account local conditions and needs as defined by the strategic objectives of the Member State. An unfavorable phenomenon for the implementation of the assumptions of CAP is the reduction of the EAFRD contribution from 63.6% to 43.0%, which is related to an increase in co-financing by Member States. The principle of subsidiarity enshrined in EU law allows Member States to freely allocate funds for selected types of interventions within the framework of a developed strategic plan. In the case of direct payments, it was proposed to introduce lump sum payments for smaller farms (restrictive payments), and the principle of degressivity was introduced, which aims to reduce the amount of direct payments in relation to farms receiving large amounts (from 60 to 100 thousand euros).

Conflict of interest: none

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