

Mid Term Evaluation

EPLR Hessen

Entwicklungsplan für den Ländlichen Raum 2007 – 2013

Within the framework of the 7-State-Evaluation

Summary

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Mid-term evaluation of the RDP Hesse

Summary

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The mid-term evaluation of the Rural Development Plan (RDP) of the State of Hesse is part of a multi-state evaluation. The participating Federal States are Hesse, North Rhine-Westphalia, Lower Saxony and Bremen, Hamburg, Schleswig-Holstein and Mecklenburg-Western Pomerania. The evaluation was performed by the Institute of Rural Studies, the Institute of Farm Economics and the Institute of Forest Based Sector Economics at the Johann Heinrich von Thünen-Institute (vTI), and entera, a consulting company.

Overview of the Rural Development Plan for Hesse

The objectives of the Rural Development Plan for Hesse are:

- Improve the competitiveness of the agricultural and forestry sector,
- Improve the environment,
- Improve the quality of life and the development of the countryside;
- Increase the self-development potential of the regions.

The objectives of the State of Hesse are thus structurally aligned with the EAFRD, which has four axes. Three axes deal with thematic support areas. The fourth axis comprises LEADER, a methodological approach to funding.

The 2007-2013 Rural Development Plan for the State of Hesse has a budget of 725 million euros as per 31.12.2009. Of this amount, 245 million euros has been earmarked for Article 89 measures.¹ Best funded, with 44% of public funds, is Axis 2 “Improving the environment and the countryside through land management”. Axis 3 “Improving the quality of life in rural areas and encouraging diversification of economic activity” and Axis 4 “LEADER” account for 34%. Axis 1 “Improving the competitiveness of the agricultural and forestry sector” therefore accounts for about one-fifth of public funds.

The best-financed measures are Village Renewal (EAFRD code 322) and Agri-Environment Measures (EAFRD code 214), which collectively account for about 60% of public funds. The additional funds provided under the Health Check (HC) and the European Economic Recovery Plan (EERP) were earmarked for Axis 2, especially for one of the new challenges, namely biodiversity. As a consequence, additional funds were transferred to the measures Modernisation of Agricultural Holdings (EAFRD code 121) and Compensatory Allowance (EAFRD code 212).

¹ Measures which match the programme substantively, but are financed purely nationally.

The main beneficiaries of the RDP Hesse are agricultural holdings, which are earmarked for some 60% of public funds.

Around 40% of planned public funds (excluding Article 89 measures) were disbursed during the first three years of the RDP Hesse. Thus, Hesse has a relatively high implementation rate as regards the overall programme. In addition to around 195 million euros of public funds part-financed by the EU, Hesse had disbursed 91 million euros for Article 89 measures by 31.12.2009.

Results of the Measure Evaluations

Axis 1 “Improving the competitiveness of the agricultural and forestry sector”

The key measure of Axis 1 is Farm Investment Aid (EAFRD code 121) which primarily supports investments in animal husbandry. Farm Investment Aid has a large number of objectives aimed chiefly at improving the competitiveness of the agricultural sector. The average eligible volume of investment has increased significantly on the previous period, up from 188,000 euros to around 335,000 euros per beneficiary. The average subsidy level per beneficiary is about 102,000 euros.

A comparison between dairy cattle holdings supported with Farm Investment Aid in the previous period and structurally similar test holdings reveals a largely consistent trend in the success of holdings and their earnings over a number of financial years. The available data and the methodology employed fail to show a markedly positive effect exerted by the funding.

A costing comparison based on the budget figures for the investment concepts suggests that Farm Investment Aid in many cases has a substantial impact on the financing and stability of numerous holdings on account of the sheer size of the investments. Without Farm Investment Aid, 26 to 34% of the holdings would exceed the long-term debt service limit after the investments have been made. This would be particularly common in the case of very large investments (>500,000 euros) and in the case of dairy cattle and livestock farms as regards their direction of production. On the other hand, around one fifth of the funded holdings likely did not require funding, because, even without Farm Investment Aid, they exploit just less than 50% of the long-term debt service limit after the investments have been made.

Analyses of holdings cannot serve to determine whether Farm Investment Aid-funded farm growth leads to greater sectoral competitiveness. Such an assessment is possible on the basis of sectoral studies, which are scheduled as a part of the ongoing evaluation.

The funding objectives of Farm Investment Aid (improve competitiveness, preserve as many farms as possible, promote cooperation, innovation) should be made more specific so that they can be operationalized during project selection. In this regard, clear and

achievable objectives should be drawn up and a deadline for the cessation of the funding measure be defined to avoid permanent funding.

In the short term, given the very low cost of capital in the market currently, the scope for reducing capital funding should be exploited. The guarantee scheme additionally offered in Hesse can guarantee the financing of fundamentally profitable investments where collateral is lacking.

In the long term, the subsidy should be limited to the creation or preservation of public goods which the farms cannot provide society with to a sufficient degree in the present market conditions.

Further investment support for individual agricultural holdings is provided to holdings engaged in processing and marketing (EAFRD code 123). This funding is aimed particularly at regional value-adding chains and quality products. Adding more value offers the numerous smaller holdings a chance to prevail in the market and to increase their competitiveness. Demand so far has been lower than expected. The actors concerned say the main reasons are inadequate communications between the various stages in the value chain, the design of the quality concepts and the need to tap further sales potential for local products.

Capital subsidies which distort competition in the area of processing and marketing support should cease. A guarantee scheme could guarantee the financing of fundamentally profitable investments where collateral is lacking. Expansion of communications and network processes across all stages is essential for the establishment of regional value-adding chains.

The Infrastructure Measures of EAFRD Code 125 are long established. The construction of forest tracks helps to make forests navigable all year round and therefore facilitates the use of timber. The lowering of skidding costs helps to boost the competitiveness of holdings. Support has been provided for some 123 investment projects in land consolidation. The consolidation processes extend over an area of 72,800 ha, in which there are nearly 1,800 agricultural holdings. Apart from the impact on agricultural structures, which are reflected, *inter alia*, by an increase in land parcels or a shortening of the farm-field distance, land consolidation uses area management to meet the goals of nature conservation, and countryside stewardship and water development. A separation of agricultural and non-agricultural traffic is important, especially given the narrow hamlets in many villages in Hesse. *Land consolidation processes should be continued to the extent necessary; funding is essential for implementing the infrastructure and water conservation plan and the supporting countryside management plan.*

Axis 2 “Improving the environment and the countryside through land management”

The objective of the Compensatory Allowance (EAFRD Code 212) is to maintain land use in naturally disadvantaged areas. The funding is intended to compensate the income disadvantage of holdings in disadvantaged areas relative to holdings in non-disadvantaged areas. The Compensatory Allowance in disadvantaged areas has been available in Hesse for over 30 years; every year, it funds about 330,000 ha, some 68% of it being grassland. Approximately 12,700 holdings receive the Compensatory Allowance, with the average grant being 2,500 euros. Thus, the income disadvantage, compared to the average of supported holdings outside the disadvantaged area, can be compensated on average by only one fifth. The Compensatory Allowance has little environmental impact because the conditions imposed do not exceed the cross-compliance requirements.

Full-scale land management in the disadvantaged area is not generally imperilled. At the same time, the undifferentiated design of the Compensatory Allowance fails to provide a solution for local problems of land abandonment. It is therefore recommended that the Compensatory Allowance should in the future focus more on specific natural disadvantages and be more differentiated.

The Hesse Integrated Agri-Environment Programme (HIAP) (EAFRD Code 214) merged the two former programmes of Contractual Nature Conservation and Extensification Measures in 2007. The majority of available AEMs pursue several resource conservation goals. The total supported area in 2009 was 115,590 ha (including legacy obligations). This represents 15% of agricultural land in Hesse. Organic farming, at 60,000 hectares, constitutes the largest sub-measure by area, followed by grassland extensification on individual sites, at about 34,000 ha. There is little take-up of the sub-measures of “Cover Crops During Wintertime” and “Flowering and Conservation Headlands” which were introduced for the first time in 2008. The Regional Agri-Environment Concepts (RAC) represent a new steering model, which is still being built up. These are intended to increase the involvement of local actors.

Almost all Agri-Environment Measures have moderate to very positive biodiversity impacts. Admittedly, reliable impact assessments are currently unavailable for grassland measures, and so the assessments are based on literature references. At about 34%, a substantial share of Agri-Environment Measures falls within the scope of Natura 2000. Consequently, Natura 2000 reaches about one-third of agricultural land. Agri-Environment Measures with positive impacts on water quality have been implemented on around 8% of agricultural land. This is primarily land given over to organic farming. The contribution to the reduction in the nitrogen balance is 1.3 to 2.6 kg/ha (based on estimates for individual measures), which corresponds to an average of 5% of excess nitrogen from agriculture (N-balance baseline 2006). In addition, a reduction is occurring in substance inputs into surface waters via erosion and runoff.

The Regional Agri-Environment Concepts are useful, but need a comprehensive pooling and coordination function. That in turn means that appropriate personnel capacity needs to be installed at the top administration level.

Compared to the last funding period, the area of grassland covered by biodiversity measures has declined. A check needs to be made to establish whether this is expedient.

Impact checks need to be established to facilitate sound pronouncements regarding the assessment of impact on species and habitats. For the normal countryside, a state-specific field-bird index needs to be developed.

The impact of organic farming on biodiversity could be improved by new modules. That would afford a way of extending the reach into utilized agricultural areas outside protected areas.

The HIAP-implemented alignment with the objectives of the Water Framework Directive is useful, but adjustments are needed to the eligibility requirements of individual sub-measures as a means of increasing their acceptance. In addition, the creation of permanent conservation headlands should be tied to the same land-strip area as cover crops during wintertime, and pilot projects should be tried out as necessary to reduce nutrient balances. To facilitate checking of the impacts, the EAFRD measures should be integrated into the impact monitoring regime of the WFD.

As part of Forestry Funding Aid for Non-Productive Investments (EAFRD code 227) in Hesse, Natural Forest Management along with the sub-measures of Forest Conversion, Precommercial Thinning, Ameliorative Liming and Forest Preservation should be funded. With the exception of Precommercial Thinning, all measures are being implemented as planned. All sub-measures help to conserve ecologically sustainable forest systems by stabilising the stands.

Continuation of most sub-measures is recommended. Farm objectives predominate in Precommercial Thinning, with no sign of a contribution to public goods. As an Axis 2 measure, Precommercial Thinning is therefore unsuitable in its current form.

Axis 3 “Improving the quality of life in rural areas and encouraging diversification of economic activity” and Axis 4 LEADER

Hesse has tied the implementation of the Axis 3 measures to regional development concepts, with the exception of Village Renewal (EAFRD code 322) and Diversification (sub-measure 311 C). Throughout virtually 20 LEADER and five HELER regions (EAFRD regions in Hesse), development concepts were drawn up and the necessary organisational structures and participation committees established. Private-sector actors somewhat outnumber public-sector actors in the regional structures. The thematic focal points are development of tourism, settlement and rural development and cultural promotion. Project implementation in the period under review was slow, a fact which was due only in part to the decision-making process in the regional forums. The framework conditions of funding (restructuring of paying agency, temporary approval and disbursement stop) have hampered the implementation of projects.

Village Renewal in Hesse is based on the participation of the population. The focus of implementation is on investments in buildings especially worthy of preservation. The geographical focus is on the northern part of Hesse. About two-thirds of the beneficiaries are private bodies, particularly private persons. Village Renewal is focused on the design and development of village centres. The main impacts relate to improvements in the quality of life of the rural population.

Planning of Village Renewal processes will no longer take place only at local level in the future, but will be integrated into larger geographical areas.

To ensure smooth funding procedures, continuity of administrative structures and transparency of funding conditions are required. This includes improved flow of information between the various levels.

Substantively, the regions can avail of a wide range of funding. However, the regions themselves have identified funding gaps. Therefore, the State of Hesse should look at funding projects outside the range of measures provided, if they meet the objectives of the Rural Development Plan.

Results of the Programme Evaluation

Programme impacts

At the programme level, key themes for further analysis were drawn up for six spheres of action. For income and employment effects, a model-based analysis has been commissioned. An input-output model has identified economic employment effects of around 1,200 jobs, representing 0.04 % of the workforce in Hesse. The growth in gross value added is 220 million euros. In the structurally weaker sectors, the increase in gross added value and the workforce is higher, but not as high as might be expected from the inflow of funds. The model assumes that a great deal of demand is dissipated into the cities via the links between the regions. The economic effects shown here are in line with those identified in other analyses, such as the effects of the 2009/2010 economic programmes. However, no conclusions of a steering nature can be made in respect of a programme with structural impacts. For biodiversity and water conservation, the results match those obtained so far for the Agri-Environment Measures. Although further beneficial and deleterious measures were identified, their effects could not be quantified. In the next few years, Hesse will produce its own module reports on the key themes of “Dynamics in the Agricultural Sector” and “Quality of Life”. As for climate change, the Agri-Environment Measures, Forestry Measures and Bio-Energy Measures are having an impact. Overall, the measures are estimated to have reduced greenhouse gas emissions for 2009 by 63 gigagrams CO₂ equivalents. This represents a reduction contribution of 0.15 %. The impact of the RDP on renewable energies is negligible because the Renewable Energies Act sets a much stronger tone.

It is recommended that funding of renewable energies via EAFRD be dispensed with entirely in the future since, in this highly subsidised sector in Germany, the incentives of the Renewable Energies Act and other Federal programmes have already set a very dynamic development in motion. At best, need for funding is deemed to lie in the area of support measures, such as the realisation of pilot projects.

Programme implementation

At programme level, the focus of the evaluation activities for the mid-term evaluation lay on matters of implementation. In particular, the compatibility of European and Hessian objectives and instruments for the implementation of the Rural Development Programme were analysed. In the canon for programme implementation, reliability of the use of funds takes clear precedence over the objectives of simplification, targeted use of funds and governance. The legal framework is therefore of less benefit to the needs of rural development, but rather is highly aligned with a strong commitment to maintenance of the unqualified declaration of assurance by the European Court of Auditors. As a result, the creation of paying-agency compliance leads to strong standardization pressure which poses an obstacle to small and very specific or diverse funding measures and LEADER, and tends to promote more “traditional mainstream activities”. The problems of the

complex EU regulations are exacerbated in Hesse by significant changes in the implementation structures. Although programme creation and implementation were conceived with continuity in mind, there were a number of circumstances which led to considerable uncertainty, especially in the relations of the Ministry, funding bank and approval authorities (district councils). In part, the training phase with the corresponding training costs lasts until the third or fourth year of implementation. This has proved to be a major set-back in the implementation of the Axis 3 measures and LEADER.

The approaches adopted in the current funding period to increase the autonomy of the regions should be expanded.

To encourage activation funding, it is necessary to dissipate the culture of distrust within European service departments which currently dominates the implementation provisions. This essentially includes a need to modify the checking and sanction mechanisms and to abolish the 3% deviation clause for EAFRD investment.

At State level, outsourcing the paying agency function and transferring responsibilities to the municipal level should boost the steering function at ministerial level. This is the only way to ensure that the intended funding objectives are met.

Especially, EU funding programmes require continuity of structures and responsibilities, the applied data processing methods, and personnel because of their complexity. Any changes to organisational structures should reflect this.