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RURAL POLICY CHALLENGES – FUTURE OF THE CAP

ABSTRACT

Rural development in the European Union has to face several challenges such as increasing international competition among agricultural markets; growing needs for rural services (multifunctional agriculture); Eastern enlargement: increase in number and area of distressed regions and growing disparities; ageing, limited Community budget; unsustainability of the Common Agricultural Policy (CAP). Furthermore, among the so-called new challenges the climate change and water management (floods and droughts) need to be dealt with both on sectoral basis and interdisciplinary, in an integrated way.

The paper intends to analyze and systematize the challenges facing the rural economy/rural development both from the point of view of sectoral and territorial approach. The question arises: is there any justification for the rural development to remain embedded in the CAP or the future is a separate autonomous common rural policy? As to the latter it is to be underlined that an updated rural development policy that is considered in a broad sense could be in line with the EU2020, too. It is aimed at analyzing and assessing adequate policy instruments and justified financial tools which could strengthen the integrated rural policy. The theory of new rural paradigm, new rural economy, the concept of multifunctional agriculture, European added value and common rural policy are applied by the author.

Key words*: common agricultural policy, new rural paradigm, European added value*

JEL classification*: Q01, Q18, Q28, Q57*

1. INTRODUCTION

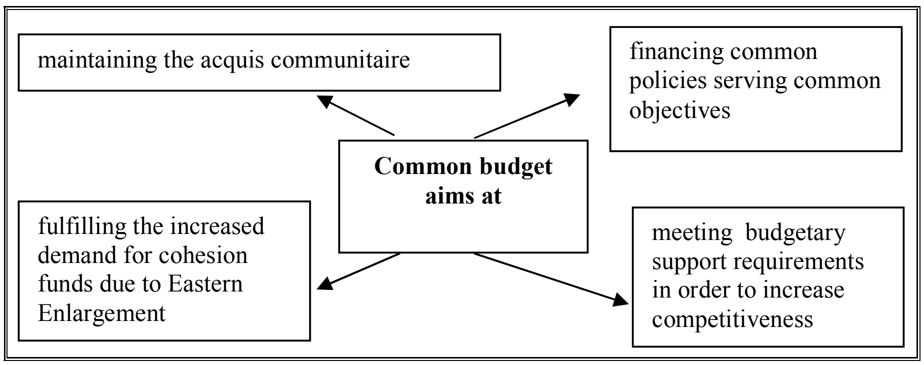
1.1. Is the financing of the CAP sustainable?

The first crucial aspect attains the definition of sustainability. Sustainable development at sectoral (here agriculture) and territorial (rural areas) level represents a priority objective of the European Union strategy, as it can be derived from many of the recent documents. Besides the environmental and social sustainability a significant aspect of the economic sustainability is considered the sustainability of the agricultural subsidization.

1.1.1. Characteristics of agricultural expenditure

Since agricultural policy expenditure mostly burdens the common budget (figure 1), the rate of agricultural expenditure is relatively high in the common budget. Hence, this rate cannot be evaluated out of context. The common budget differs from national budgets fundamentally. Its primary function is *to promote common and Community policies,* activities and objectives, i.e. it is not a miniature of national budgets, for its structure is different.

Figure 1: Target areas of common budget funding



Comparing the expenditure of certain federative countries to that of the EU, the difference in the structure of the expenditure is obvious (*see Table 1*). 99 per cent of EU common budget expenditure serves different expenditure functions than those of federative states. *The supranational system of agricultural policy in the EU has so far generated a high rate of agricultural expenditure* (though this rate is getting lower). *The rate of agricultural expenditure is, however, insignificant in the national budgets.*

While comparing the level of governmental expenditure of certain federative states with corresponding levels of the European Union the data (IMF and EC sources) shows that the common budget totaledd up to around 1 per cent of the GDP, while in national budgets of EU15 countries this rate amounted to app. 45 per cent of the GDP in 2000s.

The high rate of CAP expenditure characterises the common budget, while national budgets, which play a decisive role in centralisation, finance agricultural expenditure only to an insignificant degree.

It is often noted that too much is spent on the Common Agricultural Policy from the common budget. In 2003, CAP expenditure from the common budget amounted to 0.4 per cent of the GDP of countries of the EU15.

This makes one wonder what level of agricultural expenditure would not be considered 'too much' – perhaps 0.2 or 0.3 per cent of the GDP? According to this logic, most probably 0 per cent support paid from the common budget would represent the ideal level.

Table 1: Expenditure of federal governments by chief function
(percentage of the total federative expenditure)

	Security	Education	Health	Social security and welfare	Debt service	Other functions
Australia	7.0	7.6	14.8	35.5	6.1	29.0
Canada	5.6	2.3	1.4	44.6	15.1	31.0
Germany	3.9	0.5	18.9	50.0	7.1	19.5
Switzerland	4.6	2.4	19.6	49.1	3.5	20.7
USA	15.4	1.8	20.5	28.2	12.6	21.5
EU15	0.0	1.0	0.0	0.0	–	99.0

Source: El Agraa (2004)

The rate of agricultural expenditure differs country by country and it is not uniform - not even as regards the group of old and the group of new Member States (see table 2) The rate of agricultural expenditure calculated as percentage of total EU expenditure – analysing the EU-15 - reached the highest value in France (74% - 81%) and Denmark (75% - 84%) and the lowest value besides Luxemburg (3% - 4%) in Belgium (15% - 24%) and Portugal (25% - 35%) over the period 2000-2007. In the new Member States there is a different situation as the period taken into account is shorter it runs from 2004 to 2007. The highest percentages have been measured in Lithuania (37% - 50%), Hungary (36% - 61%), Poland (40% - 56%) and Slovakia (35% - 57%). But not even the highest numbers approached the highest ones of France and Denmark.

The amount of agricultural expenditure and its rate calculated as percentage of the total expenditure originating in the EU budget is only one side of the coin. From the point of view of the common budget the revenue side or rather the net contribution country by country has to be focused on, too.

If the net contribution (net contribution = total own resources - total expenditure, and total own resources = traditional own resources (75%) = (agricultural duties + sugar levies + customs duties) - amounts (25%) related as TOR collection costs) of the member states are compared it is to be stated that the net contributors are France (0,16% in 2007) Denmark (0,33% in 2007), Germany (0,38% in 2007), Italy (0,18% in 2007), Austria (0,23% in 2007), Netherlands (0,77% in 2007), Sweden (0,37% in 2007), and UK (0,30% in 2007).

Among these MSs the highest rate of net contribution as percentage of their GNI can be measured in Sweden and Germany. But France (0,66% – 0,54% in 2000-2007) and Denmark (0,78% – 0,47% in 2000-2007) are those countries which get the highest agricultural support compared to their GNI (the shares have been declining since 2004). At the same time all of the new MSs are net beneficiaries of the system and the rate of net contribution as percentage of the GNI has been increasing since 2004. As regards the year 2007 the highest rate was calculated for Lithuania (1,77 %) and Poland (1,06%).

Table 2: Rate of agricultural expenditure as percentage of total EU expenditure by certain MSs

	2000	2001	2002	2003	2004	2005	2006	2007
EU-15								
DE	64%	61%	63%	60%	56%	57%	58%	55%
EL	50%	50%	65%	65%	57%	59%	52%	43%
FR	75%	80%	81%	79%	74%	74%	75%	74%
IT	56%	68%	75%	56%	54%	57%	55%	51%
NL	66%	68%	72%	69%	60%	61%	56%	61%
AT	79%	76%	71%	73%	72%	70%	71%	70%
PT	31%	33%	29%	25%	26%	32%	35%	32%
UK	53%	69%	60%	66%	57%	49%	53%	56%
EU12								
BG								0%
LT					37%	50%	49%	46%
HU					36%	61%	52%	39%
PL					42%	56%	48%	40%
RO								1%
SK					57%	51%	53%	35%

Note: total expenditure = expenditure of each MSs - (earmarked, other, non-EU)

Source: own calculation based on European Commission data

Also another aspect of analysis - averaging the rate of agricultural expenditure (EU-15: 2000-2007 and EU-12: 2004-2007) compared to the total expenditure, the total own resources and the GNI – indicates how big the differences among countries are

While analysing (cautiously) the average rate of agricultural expenditure compared to the GNI the highest values can be calculated for Greece, Italy – net beneficiaries in the old MSs, and Latvia and Lithuania - net beneficiaries in the new MSs. The rate of the national agricultural expenditure compared to the GNI is generally higher in the new member states than in the old ones. (The reason is explained later on.) Of course the averages don't show e.g. the trends. That is why it is worth analysing each member states also year by year. (Table 3)

Table 3: EU and national expenditures for agriculture as percentage of GNI (%)

	2000		2001		2002		2003		2004		2005		2006		2007	
	N	**EU**	**N**	**EU**	**N**	**EU**	**N**	**EU**	**N**	**EU**	**N**	**EU**	**N**	**EU**	**N**	**EU**
EU15																
BE	0,16	**0,39**	0,15	**0,36**	0,15	**0,35**	0,15	**0,37**	0,09	**0,37**	0,09	**0,34**	0,10	**0,30**	0,04	**0,25**
DK	0,18	**0,78**	0,13	**0,64**	0,14	**0,67**	0,14	**0,65**	0,14	**0,62**	0,07	**0,58**	0,06	**0,52**	0,05	**0,47**
DE	0,09	**0,32**	0,08	**0,30**	0,09	**0,35**	0,09	**0,30**	0,09	**0,29**	0,22	**0,31**	0,17	**0,30**	0,08	**0,28**
EL	0,18	**1.99**	0,19	**1,97**	0,18	**1,94**	0,12	**1,87**	0,07	**1,80**	0,04	**1,68**	0,10	**1,70**	0,07	**1,61**
ES	0,14	**0,93**	0,12	**1,02**	0,11	**0,94**	0,10	**0,95**	0,09	**0,87**	0,04	**0,82**	0,09	**0,79**	0,07	**0,64**
FR	0,24	**0,63**	0,23	**0,62**	0,23	**0,64**	0,22	**0,66**	0,14	**0,57**	0,16	**0,58**	0,13	**0,56**	0,13	**0,54**
IE	0,51	**1,92**	0,56	**1,61**	0,49	**1,62**	0,44	**1,66**	0,44	**1,46**	0,42	**1,33**	0,31	**1,16**	0,28	**1,10**
IT	0,08	**0,51**	0,09	**0,47**	0,09	**0,48**	0,09	**0,45**	0,08	**0,40**	0,04	**0,43**	0,08	**0,41**	0,05	**0,38**
NL	0,30	**0,35**	0,22	**0,25**	0,22	**0,24**	0,21	**0,28**	0,16	**0,25**	0,12	**0,25**	0,08	**0,23**	0,14	**0,20**
AT	0,47	**0,54**	0,43	**0,50**	0,43	**0,51**	0,41	**0,51**	0,39	**0,50**	0,31	**0,52**	0,29	**0,51**	0,07	**0,42**
PT	0,30	**0,83**	0,27	**0,76**	0,28	**0,83**	0,26	**0,88**	0,25	**0,81**	0,01	**0,84**	0,01	**0,85**	0,01	**0,79**
FI	1,06	**0,72**	1,17	**0,60**	1,09	**0,61**	1,11	**0,63**	1,08	**0,59**	1,30	**0,60**	1,11	**0,51**	0,76	**0,53**
SE	0,18	**0,32**	0,14	**0,32**	0,16	**0,32**	0,15	**0,32**	0,11	**0,30**	0,11	**0,33**	0,14	**0,30**	0,05	**0,32**
UK	0,08	**0,27**	0,07	**0,25**	0,07	**0,22**	0,06	**0,25**	0,05	**0,23**	0,05	**0,23**	0,05	**0,23**	0,03	**0,21**
EU12																
BG															1,27	**0,0**
CZ									0,20	**0,25**	0,15	**0,54**	0,15	**0,55**	0,14	**0,60**
EE									0,29	**0,65**	0,32	**0,89**	0,34	**0,90**	0,16	**0,75**
LV									0,24	**1,13**	0,35	**1,33**	1,24	**1,25**	0,32	**0,78**
LT									0,55	**1,02**	0,46	**1,64**	0,32	**1,70**	0,46	**1,77**
HU									0,41	**0,33**	0,67	**0,98**	0,57	**1,15**	0,31	**1,02**
PL									0,46	**0,59**	0,40	**0,95**	0,41	**0,97**	0,20	**1,06**
RO															0,94	**0,01**
SL									0,43	**0,34**	0,27	**0,48**	0,36	**0,51**	0,22	**0,54**
SK									0,02	**0,50**	0,02	**0,82**	0,06	**0,86**	0,05	**0,71**

Source: own calculation based on European Commission data

Comparing the rate of agricultural expenditure as percentage of the GDP for EU-15 and EU-10 in the period 2001-2007 and 2004-2007 it is obvious that there is falling trend in the group of old MSs and a growing trend in the group of the new MSs as regards the rate of agricultural expenditure paid from the common budget as percentage of the GDP. (Table 4)

Table 4: Rate of agricultural expenditure (as percentage of the GDP) – EU-25

EU-25	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
1 common budget				0,46[1]	0,48[1]	0,47[1,2]	0,47[1,2]
2 national budget				0,13	0,15	0,14	0,09
total (1+2)				0,59	0,63	0,61	0,52

Note: 1. EAGGF Guarantee and Guidance expenditure, 2. Total agricultural expenditure (Policy area 0.5)

Source: own calculation based on European Commission data

In the case of the EU-12 the rate of agricultural expenditure as percentage of the GDP is higher as the GDP itself is lower and the contribution of the agriculture to the GDP is higher. The rate of the agricultural expenditure financed from the common budget is even growing until 2013 due to the phasing in of the direct payments. Besides, the high rate of the national agricultural expenditure can be explained through the top up that is also part of the phasing in system.

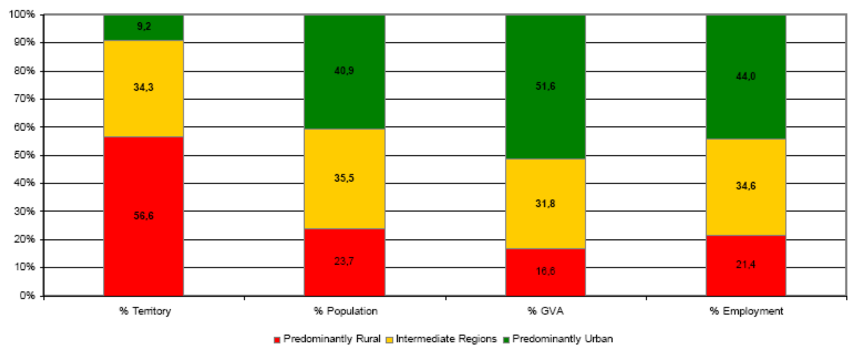
While dividing the agricultural expenditure financed from the common budget into Guarantee and Guidance expenditure and analysing both categories the falling trend for the old members and the growing trend for the new members becomes obvious for the period 2002-2006.

The year 2007 (and the years afterwards) has to be studied a bit differently as in the new financial perspective (2007-2013) Guarantee expenditure does not cover the accompanying measures any longer. (Pillar 1 and Pillar 2 measures and their financing are completely separated). (see table 5) The trends are, however, the same also for the period 2007-2013. It means that the net beneficiary position of the NMSs – as regards the CAP - keeps strengthening until 2013.

It has to be stressed that despite the negative direction of the trend in the old MSs Community agricultural support is expected to remain a decisive factor not only in the NMSs but also in the old ones as regards the financing of the sector.

The question arises: what justifies the financing (either at Community or national level) of the agriculture at all. “Between 2000 and 2009, its share in the overall economy diminished by 1.4 percentage points in terms of employment and by 0.7 percentage points in terms of value-added.” (EC, 2010b: 13) Rather than its contribution to the GDP or share in employment, the social and economic role of EU agriculture becomes apparent if one considers the *rate of agricultural land and forest*. This rate exceeds 80 per cent in most EU member states, i.e. *most of the land in Europe is utilized by agriculture.*

Figure 2: Importance of rural areas (% territory, population, GVA and employment) 2007



Source: EC, 2010b

Table 5: Rate of agricultural expenditure and Guidance expenditure compared to the GDP of certain Member States (%)

	Rate of Guarantee expenditure compared to the GDP of MSs (%) (1)					Rate of Guidance expenditure compared to the GDP of MSs (%) (2)				
	2002	2004	2005	2006	2007	2002	2004	2005	2006	2007
DK	0,66	0,62	0,59	0,53	0,48	0,00	0,00	0,00	0,00	0,00
DE	0,32	0,27	0,29	0,28	0,23	0,02	0,02	0,02	0,02	0,04
IE	1,31	1,23	1,12	0,99	0,69	0,02	0,01	0,01	0,01	0,22
EL	1,67	1,50	1,39	1,43	1,18	0,26	0,27	0,26	0,23	0,39
ES	0,81	0,75	0,71	0,68	0,56	0,11	0,10	0,10	0,09	0,06
FR	0,63	0,57	0,58	0,56	0,49	0,00	0,00	0,00	0,00	0,05
LV		0,88	1,06	1,00	0,28		0,21	0,25	0,21	0,56
LU	0,15	0,14	0,15	0,13	0,10	0,00	0,00	0,00	0,00	0,04
HU		0,22	0,81	0,92	0,47		0,08	0,11	0,15	0,47
NL	0,24	0,26	0,25	0,23	0,20	0,00	0,00	0,00	0,00	0,00
PL		0,43	0,75	0,75	0,39		0,13	0,16	0,18	0,61
PT	0,56	0,57	0,60	0,61	0,43	0,26	0,23	0,22	0,21	0,32
SL		0,32	0,45	0,47	0,14		0,02	0,02	0,03	0,37
SK		0,36	0,01	0,66	0,29		0,12	0,00	0,17	0,39
FI	0,58	0,57	0,57	0,49	0,33	0,02	0,02	0,02	0,02	0,20
UK	0,22	0,23	0,23	0,22	0,19	0,00	0,00	0,00	0,00	0,01

Note: (1) 2002-2006: EAGGF Guarantee expenditure compared to the GDP, 2007: share of market expenditure (direct payments + export refund + intervention+ other) compared to the GDP (2) 2002-2006:

EAGGF Guidance expenditure compared to the GDP; 2007: share of rural development support compared to the GDP Source: own calculation based on DG Budget and Eurostat data

"Approximately 91% of the agricultural area is located in rural areas (i.e. predominantly rural and intermediate regions), therefore most of the agricultural activity takes place in rural areas*."(EC, 2010b:32)(Figure 2)* (The importance of this statement is clarified in Section 2.) These areas, including forests, are *significant farmed landscape,* continuously maintained through economic activity. Maintaining the landscape, preventing erosion, planting the land, eliminating allergenic and other weeds, complying with various environmental regulations, and preserving the cultural heritage in the rural areas are *all positive externalities contributing to the provision of public goods*.

1.1.2. How to promote the provision of public goods?

The multifunctional factors result in economic policy action, if *there is no private market for certain welfare increasing or decreasing joint outputs*. If there is a need for political action in such cases for the internalisation of externalities, the characteristics of the affected activity will have an impact on planning and the application of the corrective measures.

As a basic principle, the non-product outputs of agriculture should meet the needs of the society as regards their quantity, composition and quality. According to certain OECD countries (including the EU member states) the decrease in support linked to production (coupled payments) and the liberalisation of trade will decrease positive joint non-product output of the agriculture that has no market through the reduction of production. *In case of the joint production of private and public goods* efficiency will require that private goods are produced, used and traded governed by market mechanisms. In addition, *for the production of public goods required by the society targeted and decoupled economic policy measures are necessary.* The eventual goal is to establish principles of good policy practice "that permit the achievement of multiple food and non-food objectives in the most cost-effective manner, taking into account the direct and indirect costs of international spill-over effects." (OECD, 2001d p. 10)

At the same time *the calculation of economic costs of such agricultural externalities is rather difficult.* Such costs may vary depending on the different conditions. It is also difficult to calculate the value of natural resources. Research on preferences related to environmental goods may bring interesting results. (Through for example the examination of a hypothetical market, the intention to pay of those questioned for multifunctional services.)

Not much is known about the actual value and costs of such public goods. Yet we know that these are not free goods; the positive externalities generated as tied output have additional costs. (Eliminating these would result in less cost.)

1.1.3. To what extent community financing can be justified?

There are several factors which justify the community level intervention. Theoretical frameworks ensure the possibility of financing agriculture at EU-level.

According to the *fiscal federalism* theory (Pelkmans, 2001, Baldwin–Wyplosz, 2004, El Agraa, 2004) centralised (or Community level in this case) financing may be justified in case of significant, positive and negative *cross-border externalities* and spill-over effects (The bottom line of the "decentralization theorem" that centralization is welfare superior when spill-overs are sufficiently high was proved e.g. by Koethenbuerger, 2007.

"Given the present budget structure, several authors like Tabellini (2003) or the Sapir commission (Sapir, 2004) have demanded a higher involvement of the EU in those policies which can be expected to create a European added value. This would imply a shifting of resources from the distributive spending to public goods in areas like international affairs, immigration or security policy (external aid, border controls), as well as R&D and innovation policies, hence areas, where economies of scale or positive external effects prevail." (Osterloh et al, 2008)

It definitely implies a shifting but as agricultural policies are also able to create *European added value.* EU financing in the agricultural sector cannot be totally eliminated. Agriculture does have such expenditure objectives for which spending by a supranational structure are more efficient than national expenditures. Let's name the environmental objectives. "Given the enormous priority of the environment for the future, it is rather unfortunate to see it having such little relevance. Because of the cross-border nature of pollution, environmental actions quintessentially need to be solved at the multinational level. Even admitting that convergence policies and R&D have some environmental aspects and that much of the EU's action is regulatory, spending on the environment is surprisingly low. Given the challenges posed by climate change and the need for adaptive and mitigating practices, there are reasons for substantial budgetary allocation in this area." (CEPS Tasks Force Report, 2007) Let's mention the income support objective as well. Direct payments –as income support tool - could create a value added if low-income farmers benefited and the policy ensured that farming stays in areas where it is socially desirable. In economic terms the desired value added of the impact and the society's willingness to pay to preserve the benefits of agriculture, especially in areas in decline is in line with the cost of the policy. (Núñez Ferrer, J. – Kaditi, E. A., 2007)

Taking into account these considerations and the criticism European added value and the quality of the CAP have to be, however, increased significantly. In this regard the aspects to be improved are the following: 1. Targeting, 2. Widening the scope of intervention to non-farm activities, 3. Evaluation quality; Direct payments should be: 1. restructured and aligned further to their objectives; (There is a need for tightening eligibility criteria to ensure that funds are allocated where needed.), 2. based on a cost-based analysis; 3. targeted – thus freeing resources which could be used first of all for holistic rural development actions; Rural development support (payments for rural areas, food safety, food quality standard and environmental protection): 1. should be aimed at generating endogenous growth, generating economic development on a 'territorial' basis;2. should be carefully devised and targeted. 3. The eligibility rules for these supports should be refined. (Núñez Ferrer, J. – Kaditi, E. A., 2007)

Provision of public goods supposes public finance: either from the common or from the national budget or both of them. Among others it is to mention, that a relatively large share of environmentally sensitive areas is of international importance. Protection of these areas cannot be exclusive liability of member states. It is a common interest to have the landscape in less developed countries and regions meet the requirements of the European model. *Provision of European public goods under common frames can provide compensation for uneven distribution of costs.* Also Gros (2008) suggests, that "one guiding principle for the EU budget: expenditure at the EU level is appropriate mainly to safeguard a *European public good*. Over time, the EU budget structure should reflect this simple principle." But if we continue to quote him we cannot agree fully with his statement, namely: "There is no justification for spending a major part of the EU's scarce resources over decades on a declining industry such as agriculture." As European agriculture is in position to provide EU-wide public goods - *multifunctional elements serve in deed significant cross-border externalities* – financing at EU level is justified. The question – to what extent, however, remains (as mentioned earlier).

There are also threats arising from eliminating EU level financing. *The cancellation of financing the Common Agricultural Policy through the common budget or its radical reduction* aims at *improving the position of net contributors* rather than at a parallel increase of cohesion expenditure and involves the *possibility of decreasing the cohesion expenditure and also the common budget.*

2. RURAL DEVELOPMENT IS EMBEDDED OR EMBEDDING?

2.1. Paradigm change – shift from agricultural policy to integrated rural policy

There has been a *loss of legitimacy of the Common Agricultural Policy (CAP) and there has been a need for integrating economic competitiveness with society's other demands.* Besides, the perfect coherence among needs, objectives, mechanisms and effects of the CAP exists no longer. *"The CAP came to be a victim of its own success" (increase in regional disparities, growing environmental degradation, deterioration of the landscape, loss of quality in food production). It follows from this that there is a need for a new European agricultural model balancing between competitiveness and cohesion, between modernity and solidarity, between society and territories, and reinforced by adequate political, legal tools, efficient support measures ("switching in farm spending from production aids to support for the broader economy"). (Huylenbroeck, Durand, 2003)*

It was emphasised already during the first half of the decade by among others Sotte, F. that *the EU should focus on rurality not only from the agricultural point of view but also in a more complex approach.* Although the results of the Mid-Term Review and the Salzburg Conference had already shown the right direction there was still a lot to be done regarding an integrated rural policy. The sectoral character and the redistributive role of the CAP were still too determining. Professor Sotte stated that the policy had to move into the direction of Common Agricultural and Rural Policy for Europe (CARPE). The "second pillar" (RD) had to gain more in importance and should have been financed to a larger extent by the Community budget. (Sotte, 2004) Recently, the situation described by Sotte has already changed a lot e.g. due to essential rules governing rural development policy (RD policy) for the period 2007 to 2013and the objectives of the Health Check.

2.2. Integrated rural policy

During the past one and half – two decades there were several occasions when the emphasis could have been put on territorial instead of agriculture-centred sectoral approach. (see the details Bryden, 2001).

By now the *sectoral and not sector-specific approaches have been integrated* to certain extent. *The territorial based rural development ensuring sustainable development of rural areas has become focused on instead of the agricultural policy aiming at food self sufficiency and income parity. The enhancement of competitiveness: the exploitation of competitive advantages of local peculiarities and the promotion of production of rural public goods has become top priority. That is: a paradigm change occurred.*

In these days the defensive governmental attitude – tackling the economic decline – as regards the development of rural areas is not typical any longer but the utilization of new possibilities are concentrated on to a great extent. Also the European Commission shares the standpoint according to which the *approaches going beyond the frameworks of agriculture based on partnership, plus being multisectoral and territorial, need to be spurred*. As the most important issue the following question arises: How is it possible to adjust the basically sector-specific strategies to the development requirements of rural areas that are principally bound to the use of the local resources?

It has to be stressed that *although the new territory based approach is already backed up by theory but the new approach of the rural development hasn't been associated with a significant reallocation of the resources.* The "tailor-made" rural policy for the different communities and regions requires on the one hand higher coherence among sectoral policies and on the other hand the common use of the knowledge of different state and private stakeholders. *The traditional hierarchy of public administration is most likely not suitable for the implementation of these integrated policies. Therefore first of all the exact role of administrative units need to be analysed and a framework need to be proposed for maximising their contribution to rural development.*

While studying the new approach the issue of the regulation has to be taken into account as well. Regulation relating to rural areas is changing both at national and international level. There are three main factors that have a significant impact on the development of rural policy formation: focus on nice places and locations, urging need for the reform of the agricultural policy and, decentralization. Based on these factors several OECD countries have started to develop a multifunctional, local (place/

territorial based) approach in order to exploit the development potential of rural areas. Two principles are characteristic of the new rural paradigm (see table 8, OECD, 2006).

The new integrated approach of the rural policy can be experienced both outside and inside the EU. The number of initiatives is increasing. Also the policy-makers are interested in the local rural development policies to a growing extent. *It has to be stressed that the negative effects of the new challenges definitely require global and in the case of the EU: Community measures i.e. framework numbers, framework measures, coordination defined at the top decision making level (top-down), but at the same time in the case of the lack of bottom-up approach and local level initiatives the complete failure cannot be avoided.*

Table 8: New Rural Paradigm

	Old approach	New approach
Objectives	Equalisation, farm income, farm competitiveness	Competitiveness of rural areas, valorisation of local assets, exploitation of unused resources
Key target sector	Agriculture	Various sectors of rural economies (ex. rural tourism, manufacturing, ICT industry, etc.)
Main tools	Subsidies	Investments
Key actors	National governments, farmers	All levels of government (supra-national, national, regional and local), various local stakeholders (public, private, NGOs)

Source: OECD, 2006

For the time being, there are just a few research documentation by means of which it could be described what are the factors determining successful or unsuccessful policies. This is partly due to the fact that it is difficult to evaluate the results of policies concerning several sectors at the same time. The main problem is hidden in the determination of indicators that are able to describe reliably the impacts of certain policies also in those cases in which the cause-effect relationship cannot be discovered or the effects are to be detected only in the medium or long run, (and the integrated RD programs are rather in the initial phase.) *There is an other problem originating from the difficulty in reconciling different analysis methods.*

In spite of the assessment difficulties and beside ambiguous results the peculiarities of the "new rural economy" or the competitive rural areas might be considered a solid starting point while developing local RD policies: improvement of accessibility, approachability through communication and supporting infrastructure (entrepreneurial networks); enhancement of the competitiveness of rural entrepreneurship, improvement in entrepreneurial and management skills and knowledge through product innovation, innovative marketing, e-commerce and e-business (tourism could be a leading sector); fascinating rural environment, maintenance of high quality of living through promotion of the production of public goods; promotion of innovation (market niches, new products, new processes and innovative marketing) potential knowledge-based bio-farms; human resource development; improvement in government, governance, furthermore *good adaptability and fast adaptation ability under circumstances caused by new challenges.*

A draft of changes in CAP proposed by the authors

The European Union is not able to maintain CAP in its current form any more: radical reform is unavoidable. The Health Check might have helped to reach a healthier CAP, but the changes were not enough to overcome the difficulties. The future CAP meeting abovementioned criteria – such as providing European added value – could contain the following new elements with their new contents.

There should be a switch from direct payments to a flat rate payment based on public goods and fully decoupled plus complementary subsidies on regional base that is considered indeed to be targeted support for the provision of public goods. (Community financing is proposed but in the last resort co-financing is possible, the share of national contribution has to be, however, agreed upon.)

Another tool with co-financing should be aimed at promoting and strengthening the viability of rural economy and society. It would serve on the one hand structural adjustment - in the framework of which EU contribution in poorer countries is higher and in richer member states the national share of support is greater – and new integrated risk and crisis management. On the other hand its objective would be the developing, strengthening of rural communities (improvement in the quality of rural life, support for local communities, maintenance of landscape are of higher importance).

This concept in line with the Commission's communication (EC, 2010a) contributes to the promotion of viable food production, sustainable management of natural resources and climate action and also balanced territorial development. *The vision – as a paradigm shift – proposes and describes rather a Common Rural Policy than a Common Agricultural Policy. (Figure 2)*

Figure 2: Common Rural Policy?

VISION: Common Rural Policy (?)			
Incentives for provision of rural public goods		***Strengthening the viability of rural economy and society***	
Flat-rate subsidies based on public goods	**Complementary subsidies on regional base** (targeted support for the provision of public goods)	**Improvement of competitiveness of agriculture, forestry, aquaculture** Structural adjustment Risk and crisis management	**Economic/ Social Strengthening of rural communities**

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