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NAT

Experiences of rural areas with European Union's COVID-19 response measures

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It does not represent the official views of the European Committee of the Regions.

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List of acronyms

CAP	Common Agricultural Policy
CF	Cohesion Fund
CMO	Common Markets Organisation
CPR	Common Provisions Regulation
CRII	Coronavirus Response Investment Initiative
CRII+	Coronavirus Response Investment Initiative Plus
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EIB	European Investment Bank
EMFF	European Maritime and Fisheries Fund
EP	European Parliament
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
FMM	Financing, Management and Monitoring
GBER	General Block Exemption Regulation
GNI	Gross National Income
LRAs	Local and Regional Authorities
MFF	Multi-annual Financial Framework
NGEU	Next Generation EU
RDP	Rural Development Programme
REACT-EU	Recovery Assistance for Cohesion and the Territories of Europe
rescEU	European reserve of additional capacities
RRF	Recovery and Resilience Facility
SMEs	Small and medium-sized enterprises
SURE	Support to mitigate Unemployment Risks in an Emergency
TFEU	Treaty on the Functioning of the European Union

Summary

This report provides a ‘policy fitness check’ on the specific measures introduced by the European Union to alleviate the socio-economic consequences of the COVID-19 pandemic in rural areas. It analyses the use of these measures by regional authorities and identifies some of the challenges linked to their implementation on the ground.

Part 1 provides a brief overview of these measures. They include direct support measures, the relaxation of state aid rules on assistance provided by Member States, agricultural policy measures, and measures aimed at safeguarding the operation of agri-food chains. Further measures will come into effect in 2021 under the Next Generation EU (NGEU) recovery instrument.

The second part of this study provides some preliminary evidence on the uptake of these EU measures in rural areas, using both quantitative data and five brief case studies. Many Member States and regions appear to have made use of the additional flexibility provided by the EU response measures. Quantitative data on the uptake of direct support showed that 90 operational programmes using ESI funds modified their allocations to rural areas over the reference period March-November 2020. However, ESIF data also show that commitments under the EAFRD over this period decreased by some €71 million, due entirely to a reduction of national co-funding. A total of 57 RDPs was modified in the reference period. While it cannot be shown definitively that these changes were a response to COVID-19, it is likely this was an important trigger. Widespread use was also made of the temporary framework for state aid to businesses facing difficulties because of the outbreak of COVID-19. Many of the schemes notified to the Commission had a national scope. Nonetheless, since April 2020, about 40 national schemes implemented in 16 countries that explicitly targeted the agri-food sector were approved, supporting the mobilisation of over €3.5 billion.

The five regional experiences were chosen as examples of how the EU measures were adopted at the regional level for the benefit of rural areas. In general, EU measures appear to have provided a sufficient range of opportunities for regional authorities to react. There is no evidence of specific barriers limiting their uptake apart from a delay in the activation of some of the measures by the EU. For example, the COVID-19 specific measure M21 became available in July. Amendments to regional rural development programmes and the publishing of calls for applications require administrative times to be respected, and this means that actual financial support under M21 reached, or is going to reach, beneficiaries several months after the first wave of the pandemic had affected their businesses. In addition, it is evident how in crisis situations the full package of measures made

available is important rather than the administrative level activating them. What appears to be crucial is the readiness and ability of regional authorities to coordinate with national interventions and use the instruments made available to them to fill potential gaps according to the specificities of their territories. For example, in Poland, where the national government deployed a wide array of support for agricultural enterprises, the Lubelskie Region guided potential beneficiaries to the use of the national measures and then mobilised further resources from its regional operational programme to meet the regional high demand for financial instruments.

Part 3 puts forward suggestions to improve EU-level action and legislation supporting local and regional authorities in rural areas in comparable emergency situations. Emergencies are, by definition, unexpected. The EU needs to be able to respond quickly and flexibly to allocate the necessary resources to address the consequences for incomes and livelihoods. Thus, the focus is on ways to provide needed flexibility both in programme financing and implementation, as well as on the need to strengthen the resilience of agri-food supply chains in the face of future pandemic crises. The suggestions highlighted include the following:

- The EU budget's capacity to accommodate new circumstances remains too limited. The debate on introducing greater flexibility into the EU budget is long-standing, but the current pandemic underlines the need for further measures.
- An effective agricultural crisis reserve is an essential part of the tool kit for responding to any future pandemic emergency, and it needs to be properly financed on a sustainable footing.
- The successful experience with the temporary state aid framework suggests that it could be useful to extend the General Block Exemption Regulation to also cover aid to compensate for damage caused by pandemic events. By removing the need for notification, this would enable aid provided by public authorities to be immediately operational.
- The greater flexibility in implementing EU spending programmes should also be allowed in future to enable the faster drawdown of funds in a context such as a pandemic that calls for reordered priorities in response to different needs.
- The availability of NGEU funding will assist in building resilience in rural areas, particularly by helping to finance necessary adaptation and transformation towards the digital and green transitions. The investment needs of rural areas must be fully reflected in Member States' recovery plans.
- It will be important to ensure that LRAs in rural areas are able to input to the food crisis response mechanism proposed by the Commission in the Farm to Fork Strategy.

Part 1. Overview of EU measures available in rural areas to respond to the COVID-19 crisis

This part analyses the response measures put in place by the EU since March 2020 to fight the socio-economic crisis caused by the outbreak of COVID-19. The **focus** is on **measures benefitting rural areas** and concerned with **the recovery and resilience** of the **agriculture and food sectors**. These include direct support measures (discussed in section 1.1), the temporary relaxation of rules governing state aid (section 1.2), agricultural policy measures (section 1.3), and measures to safeguard the operation of agri-food supply chains (section 1.4).

1.1 Direct support measures

In April 2020, the Council agreed to an increase of €3.0 billion in the 2020 EU budget by activating the Emergency Support Instrument and reinforcing the Union Civil Protection Mechanism (rescEU). This was largely intended to fund the provision of emergency healthcare support and made available almost all the remaining money in the 2020 EU budget. The Commission also redirected EU funds in the 2020 budget to help Member States tackle the COVID-19 crisis. This included two packages, the Coronavirus Response Investment Initiative (CRII) and the Coronavirus Response Investment Initiative Plus (CRII+). These initiatives mobilised cash reserves and unspent monies in the EU structural funds and allowed greater flexibility in the spending of these funds in order to redirect resources where they were most needed. These initiatives also included limited support for farmers and fishermen.

1.1.1 ESIF measures

The first structured investment initiative (CRII) aimed at the rapid mobilisation of cash reserves from the European Structural and Investment Funds (ESIF) to fight the COVID-19 crisis. It entered into force on 1 April 2020 [Regulation (EU) 2020/460] and amended the ERDF Regulation [(EU) No 1301/2013], the Common Provisions Regulation [(EU) No 1303/2013] and the EMFF Regulation [(EU) No 508/2014]. The intent was to provide immediate liquidity to Member States' budgets by frontloading the use of the as yet unallocated €37 billion of cohesion policy funding within the 2014-2020 cohesion policy programmes, thus providing a much-needed boost to economic investments. The initiative made all coronavirus crisis-related expenditure eligible under cohesion policy rules. It also provided greater flexibility for countries to reallocate financial resources within operational programmes and to ensure that the money was spent in the areas of greatest need: the health sector, support for SMEs (in the form of working capital), and the labour market.

The CRII was soon followed by another initiative, the CRII+, which increased the flexibility in the use of existing and unspent resources, for example by allowing transfers between funds and transfers between categories of regions.[1] CRII+ also introduced an important reduction of the administrative burden for managing authorities. Member States were exempted from the need to comply with thematic concentration requirements for the remainder of the programming period (year 2020). They were also given the exceptional possibility of requesting, for cohesion policy programmes, a co-financing rate of 100% to be applied for the accounting year 2020-2021, in accordance with budget appropriations and subject to available funding. The financial flexibility foreseen by CRII+ is capped at 10% for each priority per fund and per category of regions. Finally, support to SMEs in the form of working capital was made possible through financial instruments also under the EAFRD. By specifically looking at the support made available for rural areas, the two initiatives allowed (EC, 2020):

- The use of EAFRD to financially support farmers and other rural stakeholders to compensate for temporary losses, additional costs or cash flow problems. Support can be in form of loans and guarantees of up to €200,000 at favourable conditions (e.g. low interest rates). This support does not need to be linked to investment projects (EIB, 2020).

- The use of EAFRD to invest in rural areas in medical facilities and small-scale infrastructure which are directly linked to the fighting of the COVID-19 outbreak and which provide support and services to the rural population. Examples include the set-up of mobile medical facilities and the adaptation of existing health centres.

- The reduction of administrative burden as changes to rural development programmes (RDPs) do not need to be reflected in changes to existing Partnership Agreements. Also, the delivery date to the EC of the annual implementation reports related to RDPs was postponed.

[1] Regulation (EU) 2020/558.

1.1.2 Direct support under the CAP

A temporary measure supported by EAFRD entered into force on 26 June 2020. It implied an amendment of the EAFRD Regulation [(EU) No 1305/2013] by inserting a new article (Article 39b) and modifying Article 49, paragraph 2, and Article 59.[2] This allowed Member States to pay a lump sum to farmers and small agri-food businesses particularly affected by the COVID-19 crisis if they could use resources not yet committed under their rural development programmes (RDPs), up to a maximum 2% of their rural development envelope. The maximum amount of support was limited to €7,000 per farmer and €50,000 per SME. This could be paid on top of the *de minimis* aid for the agricultural sector and the increased state aid ceiling but did not involve additional funds from the EU budget.

1.1.3 Temporary support to mitigate unemployment risks in an emergency

The temporary Support to mitigate Unemployment Risks in an Emergency (SURE) is a loans-based instrument to help Member States finance the sudden and severe increases of public expenditure related to maintaining employment, notably by supporting short-time work schemes and similar measures.[3] As from 1 February 2020, up to €100 billion in loans on favourable terms is available. These funds have been raised by the Commission on international capital markets on behalf of the EU backed by the EU budget and guarantees provided by Member States according to their share in the EU's GNI. SURE loans assist countries, for example, to cover the costs of wage subsidy schemes which have been important for the hospitality sector, including in rural areas. The instrument is operational until 31 December 2022.

1.1.4 Direct support to the fishery and aquaculture sectors

On 2 April 2020, a set of proposals was adopted to mitigate the socio-economic impact of the coronavirus in the fishery and aquaculture sectors.[4] This initiative introduced additional measures and provided flexibility to the rules governing expenditure under the European Maritime and Fisheries Fund (EMFF). The EMFF could grant financial compensation to fishers for the temporary cessation of their fishing activities and to aquaculture farmers for the temporary suspension or reduction of production, with up to 75% of this compensation funded by the

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[2] Regulation (EU) 2020/872.
[3] Council Regulation (EU) 2020/672.
[4] Regulation (EU) 2020/560.

EU. The ceiling for support by producer organisations to their production and marketing plans was increased from 3% up to 12% of the average annual value of the output placed on the market. Member States could grant advances of up to 100% of the financial support to producer organisations. Finally, a simplified procedure for amending operational programmes with respect to the introduction of the new measures and greater flexibility to reallocate financial resources within the operational programme of each Member State were introduced.

1.2 Temporary State Aid Framework

The Commission adopted a temporary framework for state aid measures on 19 March 2020 to support the economy during the COVID-19 outbreak. The main purpose of the temporary framework is to provide targeted support to otherwise viable companies that have faced financial difficulty as a result of the coronavirus outbreak. Among other measures, it relaxed restrictions on Member States providing national aid to farmers under the Guidelines for state aid in the agricultural and forest sectors and in rural areas (EC, 2020a). Interventions could include direct grants, repayable advances, tax and payment advantages or guarantee, loans and equity. Maximum amounts are set at up to €120,000 per undertaking, if active in the sectors of fisheries and aquaculture; €100,000 per undertaking, if active in the primary production of agricultural produce; and €800,000 per undertaking, if active in food processing and marketing.

The aid granted under the temporary framework may be cumulated with the *de minimis* support (up to €25,000 in the agriculture sector) as well as with the support granted under the ESIF (EIB, 2020). The temporary framework was initially set to expire on 31 December 2020, except for recapitalisation measures that could be granted until 30 June 2021. Various amendments were adopted, extending its scope. In October 2020, all sections of the temporary framework were prolonged for six months until 30 June 2021, and the section to enable recapitalisation support was prolonged until 30 September 2021. This amendment also introduced a new measure to enable Member States to support companies facing a decline in turnover during the eligible period of at least 30% compared to the same period of 2019 due to the coronavirus outbreak. The support will contribute to a part of the beneficiaries' fixed costs that are not covered by their revenues, up to a maximum amount of €3 million per undertaking (EC press release dated 13/10/20).

1.3 Agricultural policy measures

Agricultural policy measures include the EU's use of market support measures based on Article 222 of the Common Markets Organisation Regulation (Regulation (EU) No 1308/2013), and administrative flexibilities.

1.3.1 Private storage aid

Private storage aid was opened for various dairy products as well as beef and sheepmeat from 7 May 2020 and was closed for beef and sheepmeat on 17 July 2020.[5] This measure allows the temporary withdrawal of products from the market for a minimum of 2 to 3 months, and a maximum period of 5 to 6 months. It was the only measure that involved a direct cost to the EU budget with an allocation of €80 million.

1.3.2 Derogations from competition rules

In accordance with Article 222 of the CMO Regulation, the Commission is empowered to adopt implementing acts to the effect that Article 101(1) TFEU is not applicable to agreements and decisions of recognised producer organisations and their associations in situations of severe market imbalances, provided that such agreements and decisions do not undermine the proper functioning of the internal market, and that they strictly aim at stabilising the sector concerned. In May 2020, the Commission initiated this derogation from EU competition rules to allow operators in the milk, flowers and potato sectors to self-organise and implement market measures for a maximum period of six months. The **milk sector** could collectively plan milk production.[6] The **potato sector** could withdraw products from the market for destruction or free distribution (e.g. to food banks); transform and process potatoes for other purposes such as animal feed; arrange storage capacities; implement joint promotion measures (e.g. to increase consumption of processed potatoes products); and temporarily plan production (e.g. planning measures to reduce volumes for future plantations and adjusting existing contracts for potatoes from the 2020 campaign).[7] The **live plants and flowers sector** was also permitted to withdraw products from the market for destruction or free distribution; to jointly implement promotion measures; and to temporarily plan production.[8]

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[5] Commission Delegated Regulation (EU) 2020/591 and Commission Implementing Regulations (EU) 2020/595, (EU) 2020/596, 2020/597 and 2020/598.
[6] Commission Implementing Regulation (EU) 2020/599.
[7] Commission Implementing Regulation (EU) 2020/593.
[8] Commission Implementing Regulation (EU) 2020/594.

1.3.3 Flexibility in implementation of market support measures

The Commission allowed flexibility in the implementation of market support programmes for wine, fruits and vegetables, table olives and olive oil, apiculture and the EU's school scheme (covering milk, fruit and vegetables).[9] The flexibility aimed to limit available supply in each sector to lead to a rebalancing of markets (e.g. through crisis distillation measures in the wine sector). In addition, funding priorities in operational programmes could be re-oriented towards crisis management measures.

Under the CMO Regulation, recognised producer organisations and associations of producer organisations may implement, as part of their approved operational programmes, crisis and prevention measures in the **fruit and vegetables sector** that are intended to increase their resilience to market disturbances. However, these measures are not to comprise more than one third of the expenditure under the operational programme. This rule was suspended in 2020, in order to provide greater flexibility to producer organisations and enable them to focus the resources under the operational programmes to addressing the market disturbance caused by the COVID-19 pandemic.

Finally, to address surpluses in the **wine market** resulting from the loss of market outlets (e.g. restaurants) during lockdowns, permission was given for distillation of wine to be introduced temporarily as an eligible measure for support under the sectorial support programmes. Also, aid to crisis storage for wine was made temporarily eligible for support. As further exceptional measures, the maximum EU contribution to the measures 'restructuring and conversion of vineyards', 'green harvesting', 'harvest insurance' and 'investments' was temporarily increased, within the existing budgetary ceilings of the sectorial support programmes; and support for harvest insurance in the wine sector was extended to losses in producer incomes as a consequence of a human pandemic.

Further measures were later introduced to give greater flexibility to producer groups in the wine and fruits and vegetables sectors in meeting administrative requirements and in making changes to their operational programmes.[10]

1.3.4 Other measures

Two other agricultural policy measures are worth highlighting. To increase the cash flow of farmers, the Commission adopted higher advances of payments for

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[9] Commission Delegated Regulation (EU) 2020/592.
[10] Commission Delegated Regulation (EU) 2020/884.

them. This increased the advances of direct payments (from 50% to 70%) and rural development payments (from 75% to 85%). As an additional flexibility, Member States could pay farmers before finalising all on-the-spot checks. To minimise physical contact between farmers and the inspectors carrying out on-the-farm checks, the required number of checks to be carried out was reduced (EC press release dated 16/04/20). In those Member States which avail themselves of this possibility, farmers will start receiving these advances from 16 October 2020.

The Commission also introduced some simplification of administrative and bureaucratic procedures. Examples of greater flexibility in payments included delaying the date for farmers to apply for direct payments in 2020, derogations from some rules on checks for direct payments and simplifying the use of financing instruments in RDPs. Also, increasing numbers of people are turning to food banks and other sources of food assistance as unemployment bites. In order to address these needs, the EU reacted by increasing the funding available to the European Fund for Aid to the Most Deprived in 2020, 2021 and 2022.[11]

1.4 Safeguarding the operation of agri-food supply chains

EU agri-food sector logistics were disrupted by the initial measures taken by EU countries either affected by the spread of COVID-19 in their territory, or seeking to limit its spread from nearby countries. These measures included the reintroduction of border checks or closure of the national borders (with temporary suspension of the Schengen rules on free movement). One of the earliest measures taken by the Commission in response to the lockdown in various Member States was to issue guidance on 23 March on opening ‘green lane’ border crossings to all freight vehicles, whatever goods they were carrying (EC, 2020). These enabled goods and transport workers to cross borders as needed and without delay to ensure the continued functioning of EU supply chains. A week later, on 30 March, the Commission issued further guidelines identifying workers in critical occupations, including health and food workers, for whom continued free movement was deemed essential (EC, 2020b). Finally, in July 2020, the Commission published guidelines to ensure the protection of seasonal workers in the agricultural sector in the context of COVID-19 (EC, 2020c).

Although not part of the measures to be reviewed in this study, recommendations to improve EU-level action and legislation to support LRAs in comparable emergency situations should take account of the dramatic agreement to create a new recovery instrument financed by borrowing, the Next Generation EU

[11] Regulation (EU) 2020/559.

(NGEU), in response to the socio-economic consequences of the pandemic. The relevant elements of this agreement are presented in Box 1.

Box 1. Key elements of the NGEU which are relevant for agriculture

While the European Council conclusions in July 2020 that agreed upon this instrument stressed that the powers given to the Commission to borrow are limited in size, duration and scope, the NGEU illustrates the ability of the EU to innovate when faced with a challenge on the scale of this pandemic. The package as agreed upon by the European Parliament and the EU Member States on 10 November 2020 includes provision for grants of €390 billion and loans of €360 billion (constant 2018 prices). The overall objective is to rebuild a post-COVID-19 Europe that would be greener, more digital, more resilient, and better fit for the current and forthcoming challenges. Key elements of the NGEU are:

- **The Recovery and Resilience Facility (RRF)**. This is the largest element and the centrepiece of the NGEU recovery instrument (EC, 2020d). It will support investments and reforms that will have a lasting, positive impact on the economy and society. The measures should address challenges identified in the context of the European Semester, facilitate the green and digital transitions and strengthen the growth potential, job creation and economic and social resilience of the Member State (EC webpage on RRF). Member States will draw up recovery and resilience plans as part of their National Reform Programmes under the European Semester to access grants and loans. The Commission has identified several flagship investment and reform projects that it encourages Member States to propose (EC Questions & Answers dated 17/09/20).

- **The REACT-EU initiative**. The Recovery Assistance for Cohesion and the Territories of Europe continues and extends the two earlier proposals, the CRII and the CRII+, to deliver crisis response and repair measures through Cohesion Policy spending. REACT-EU takes the form of targeted amendments to the CPR Regulation EU (No) 1303/2013 (EC, 2020e). The EU institutions reached a provisional agreement on this instrument on 18 November 2020 (EP press release dated 18/11/20). It will provide €47.5 billion over the next two years through the EU structural funds, with €37.5 billion allocated for 2021 and €10 billion for 2022. Operations covered by the agreement should be eligible as from 1 February 2020. EU countries will be allowed to use these additional resources until the end of 2023, beyond the original Commission proposal of 2022.

- **Additional CAP rural development funding.** Similar to REACT-EU for the structural and cohesion funds, the NGEU agreement includes a €7.5 billion (constant 2018 prices) reinforcement for the EAFRD to support rural areas in making the necessary structural changes in line with the European Green Deal and achieving the ambitious targets in line with the new Biodiversity and Farm to Fork strategies. The Commission had already front-loaded rural development spending allocated in the MFF for the 2021-2027 period to 2021 as a direct response to the COVID-19 pandemic. It therefore proposed that the NGEU top-up would be delayed and released in the years 2022-2024. In their negotiations on the CAP Transitional Regulation, the Council and Parliament agreed to speed up delivery of this additional €8 billion so that around 30% would be released in 2021 and the remaining 70% in 2022 (EP, 2019).

Sources: EC, 2020f; EC, 2020g.

Part 2. Uptake of EU measures to deliver responses in rural areas

This part aims at collecting evidence on the uptake in rural areas of the EU measures discussed in Part 1. This reality check on the use of policy measures is quantified with respect to some direct support measures and state aid (section 2.1). It is then complemented by the qualitative description of five experiences at the regional level (section 2.2).

2.1 Quantitative assessment of EU measures' uptake based on ESIF data

2.1.1 Uptake of direct support measures

The comparison of ESIF data over the period March-November 2020 provides information on the uptake of increasing flexibility in the use of cohesion funds and of EAFRD.[12,13] Evidence shows that:

- Ninety (90) operational programmes were modified in their allocations to rural areas over the reference period. Out of these, 16 were at the national level and **74 at the regional level**. Thus, regions took advantage of the flexibilities introduced by CRII and CRII+.

- However, EU funds allocated to rural areas decreased, overall, by some €254 million, from €33.6 billion in March 2020 to €33.4 billion in November 2020. The decrease was driven by reduction of ERDF (-€111 million) and ESF commitments (-€292 million). Commitments under the CF increased by €149 million.

At the regional level, most important changes of funds allocated to operational programmes occurred in Poland and Spain. In particular, data show that:

- Several (14) Polish regions made small adjustments to their programmes but four regions substantially varied their commitments. Pomorskie,

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[12] The data source is the Open Data Portal for the ESIF. Datasets were downloaded on 11 March 2020 and 18 November 2020. According to the categorisation system, rural areas are 'thinly populated' areas or a LAU2 level definition based on the population density of grid cells (below 300 people per km^2).

[13] The quantitative analysis assumes that changes over the reference period March-November 2020 were made in response to the flexibilities offered.

Podkarpackie and Zachodniomorskie reduced their allocations for rural areas (a cumulated reduction of almost €200 million) while Lubelskie increased it by €168 million (under the ERDF).

- The majority of French regions left their allocations for rural areas unchanged or modified them by limited amounts.

- Few (i.e. four) German regions made changes.

- The majority (10) of Spanish regions reduced their ESIF allocations for rural areas. The most important reduction is by Castilla-La Mancha (-€128 million under the ERDF).

- Czechia, Portugal, Greece and Italy are the only countries with a positive balance in terms of funds allocated to rural areas further to the granted flexibility to transfer amounts between funds, priorities and category of regions. While the first three countries channelled these additional funds mainly through national programmes, Italy shows a positive net balance due to a net increase of €56 million under the ERDF of the Sicily Region.

ESIF data also show that commitments under the EAFRD over the period March-November 2020 decreased by some €71 million. This is due to the reduction of national co-funding, as EU funding increased by almost €19 million.

A total of 57 RDPs were modified in the reference period; however, for 17 of these programmes changes in allocations were minor (i.e. below €1 million). Of the remaining 40 RDPs, 11 are national and **29 are regional** (10 in Italy, 8 in France, 7 in Spain, and 2 each in Germany and Portugal). The highest reduction is found in the RDP of the Andalucía Region, Spain (- €17 million), the highest increase in the RDP of the Bayern Region (+ €31 million).

Table 1. EAFRD funds allocated to M21 in regional RDPs, focus area 'farm performance', in €

	Farm performance	
	National	EU
Andalucía (ES)	6.550.000	19.650.000
Asturias (ES)	5.320.755	6.000.000
Canarias (ES)	375	2.125.000
Navarra (ES)	1.191.630	53.537
Guadeloupe (FR)	600	3.400.000
Guyane (FR)	352.941	2.000.000
Mayotte (FR)	233.333	700
Abruzzo (IT)	4.986.442	4.602.870
Campania (IT)	2.370.000	3.630.000
Emilia-Romagna (IT)	170.641	129.361
Friuli-Venezia Giulia (IT)	1.662.631	1.260.419
Liguria (IT)	3.531.249	2.661.752
Lombardia (IT)	11.330.496	8.589.504
Marche (IT)	3.697.200	2.802.800
Piemonte (IT)	5.486.076	4.158.924
Sardegna (IT)	1.040.000	960
Toscana (IT)	9.890.524	7.497.880
Valle d'Aosta (IT)	176.328	133.672
Veneto (IT)	13.082.928	9.918.000
Total	71.074.150	78.615.379
Tot EU + national	149.689.529	

In July, it became possible to add a new measure (M21) in the RDPs under the EAFRD to provide '*Exceptional temporary relief to farmers and SMEs active in processing, marketing and/or development of agricultural products particularly affected by the COVID-19 crisis (art 39b)*'.

Table 1 reports the **amounts allocated by regions to M21** under the focus area of 'farm performance'.[14] Overall relief to the agriculture and food sectors channelled through M21 totalled some €838 million, out of which only €174 million through regional RDPs.

In summary:

- There is evidence that **a good number of regions may have benefitted from the greater flexibility granted by the EC in the use of ESIF funds** (ERDF, ESF and CF). However, this flexibility **resulted in lower commitment appropriations for rural areas**.

- **Only one third of the regional RDPs has been modified** and the new COVID-19 measure (M21) was allocated, overall, a modest amount by regions.

- At the EU level, **overall commitments under the EAFRD decreased**.

Finally, under the SURE instrument, the Council has approved at the end of November 2020, a total of €87.9 billion to support 17 Member States, plus a financial support of €2.5 billion to Ireland which is pending final approval (EU budget information [website](#)). This instrument provides support to public finances by means of cheaper funding for schemes implemented by Member States since 1 February 2020 to protect employment and support businesses through the

[14] 'Farm performance' was the most used focus area. A second and third focus areas ('diversification, SMEs and job creation' and 'competitiveness of producers') were allocated only about €26 million by regions.

pandemic. The effect of these national schemes in rural areas has undoubtedly been significant, but no breakdown of these impacts is as yet available.

2.1.2 Uptake of the temporary state aid framework

The temporary framework for state aid allows the provision of exceptional and temporary public support to all sectors[15] and undertakings facing economic difficulties because of the outbreak of COVID-19. There is evidence of ample use of this instrument by Member States. There are 40 national schemes explicitly targeting the agri-food sector since April 2020.[16] They are implemented in 16 countries and indicate the mobilisation of over €3.5 billion. Most of these schemes provide direct grants to beneficiaries to compensate for losses, stabilise incomes and/or support liquidity. A lower number of schemes provide guarantee for loans or interest free loans. Table 2 describes **the few schemes with a regional scope that explicitly target the agri-food sector**.

Table 2. Approved support schemes to the economy of the primary sector further to the COVID-19 outbreak, regional level, Apr-Nov 2020

Scheme	€ million
SA.58649, Sep 2020 – **Wallonia** region (Belgium): direct grants to agricultural producers/stockers active in the potatoes sector. Approx. 501-1,000 beneficiaries.	10.4
SA.58014, Jul 2020 – **Flanders** (Belgium): direct grants to potato growers and ornamental plant growers. Approx. 1,450 beneficiaries.	35.0
SA.57056, Apr 2020 – **Brussels Capital** region (Belgium): direct grants to companies active in the primary production of agricultural products and in aquaculture for the food sector. Approx. 50-100 beneficiaries.	0.2
SA.57349, May 2020 – Plan for the socio-economic emergency in the **Campania** region (Italy). Direct grants to the undertakings of the agricultural sector, the fishery and aquaculture sector, the buffalo livestock sector and the floriculture sector. Approx. 1,000 beneficiaries.	70.0
SA.57005, Apr 2020 – **Friuli Venezia Giulia** region (Italy): support to undertakings of all sizes in the sectors of agriculture, forestry and fishery. Aid is granted in the form of subsidised interest rates for loans, interest free loans and direct grants. Approx. 500 - 1,000 beneficiaries.	50.0

The temporary framework appears to have facilitated a response to the COVID-19 crisis in the agri-food sector but there are disparities among countries on the uptake of the framework and on the sums of aid concerned.

[15] The financial sector is usually excluded.

[16] However, other countries may have supported the agri-food sector through general aid schemes This is the case, for example, of France which had approved in June a scheme of €30 billion for the provision of subordinated loans to undertakings of all sectors, including primary production companies in agriculture, fisheries and aquaculture.

2.1.3 Uptake of private storage aid (agricultural policy measures)

Overall, the use of the private storage aid has been limited. By early November 2020, the cumulative volume of contracts concluded amounted to 18,300 tons for skimmed milk powder, 65,019 tons for butter, 43,669 tons for cheese, 1,959 tons for beef, and 15 tons for sheepmeat (EC-DG AGRI, 2020). Still, there is evidence of activation of this aid at the regional level (see the case of Flanders below).

2.2 Examples of rural areas' experiences in implementing EU measures

2.2.1 State aid, private storage aid and market measures in Flanders, Belgium

The Flemish government has made use of several EU measures to support its primary sector during the COVID-19 crisis. Under the **temporary framework for state aid**, Flanders set up a €35 million scheme, allocating €10 million to potato growers and €25 million to ornamental plant growers. The scheme is expected to benefit some 650 beneficiaries in the potato sector and 800 in the floricultural sector. It takes the form of direct grants and is addressed to micro, small and medium-sized enterprises active in the two concerned sectors. For potato growers, compensation is up to a maximum of €50 per ton and is paid starting from the 101th ton of the stock and up to 500 tons. For ornamental plant growers, compensation is due for decreases in turnover of at least 30% and 50%, depending on the type of plant. Other eligibility conditions apply (Flanders website).

Further to the adoption by the EC of the **private storage aid measure**, the Flemish government started soliciting applications from processors from 7 May 2020. The measure allows for the temporary market withdrawal of dairy (skimmed milk powder, butter and cheese) and meat (beef, goat and mutton) products (Flanders website). The regional government also informed potential interested parties of the opportunities brought in by the **temporary derogation from EU competition rules** which was granted by the EC to the milk, floriculture, and potatoes sectors. This allows the undertaking of voluntary agreements between farmers/organisations/industries for sector-specific measures such as, in the dairy sector, the temporary planning of milk production (Flanders website).

According to trade indicators, the Flemish agri-business sector reacted fairly well to the COVID-19 crisis: '*In the first seven months of 2020, Flemish exports of* *agricultural products decreased by 2% compared to the same period in 2019. Imports remained virtually constant.*' (Platteau, 2020). This is a good result compared to the total Flemish exports which decreased by 14% over the same period (Platteau, 2020). However, these relatively good figures are influenced by the fact that the agri-business sector's performance in the first quarter of the year was good. The case of potatoes is exemplary in this sense. The crisis in this sector was unpredictable and happened for the very first time in the history of this industry. In mid-March, prices of potatoes dropped suddenly from €135 to €15 per tonne (Agripress, press release dated 30/04/20). Flanders was not alone in supporting this sector. Wallonia and the Netherlands also used state aid to support potatoes growers and stockers with similar schemes.

Box 2. A 'corona survey' among Flemish farmers

The survey was carried out online at the end of April-beginning of May 2020 by ILVO, the regional Research Institute for Agriculture, Fisheries and Food. It received 674 replies which highlight, among other results, that: (i) agricultural production and supply were not disrupted during the COVID-19 crisis, notwithstanding some problems in finding sufficient workforce; (ii) farmers are generally dissatisfied with regard to their financial situation due to a combination of lower sale prices, reduced sales, and increased price of production goods/material; (iii) short chains seem able to buffer the negative financial side-effects of the pandemic but the most resilient profile seems to be that of a large seller that equally depends on short- and long-chain sales; (iv) a low share of respondents was actually benefitting from the measures put in place by the regional government at the time of the survey (these include the handicap premium, the compensation premium, a guarantee scheme through the Flemish Agricultural Investment Fund to access operating and refinancing funds – this measure is a *de minimis* aid –, and efforts to mobilise enough working force for the agricultural sector).

Sources: landbouwleven.be; Flanders website.

2.2.2 Amendment of the RDP and higher flexibility for agricultural producers in the Veneto region, Italy

On 30 June 2020, the Regional Council of Veneto Region approved the proposal to **amend the regional RDP in order to introduce the new measure M21** for the provision of a temporary and exceptional support to the farmers most affected by the COVID-19 crisis. According to the given ceiling of 2% of the financial envelope of the 2014-2020 programme, the measure was allocated €23 million. This allocation is meant to provide compensation to the most affected farms and agricultural sectors. The latter were to be identified according to objective criteria and market analysis.

The Regional Council approved the change of the regional RDP on 14 July 2020. The call related to the new measure was approved and launched on 1 September 2020. Expected beneficiaries are 8,700 farmers and agricultural production cooperatives of the region. Support is in the form of lump sums. Maximum ceilings of support vary depending on the concerned sectors: €2,000 for specific livestock farms, dairy farms, and vegetable farms; €4,000 for growers in the floriculture sector, and for agritourism farms, social farms and didactic farms; and €7,000 for farms located in a COVID-19 cluster area, the Municipality of Vò Euganeo. Applications to the call were to be submitted by 19 October 2020. Check of compliance and ranking of eligible applications by the Regional Agency for Payments (Avepa) is due to be completed after 60 days from the closure of the call. Funds are expected to be released by the end of December 2020. On 10 November, the Region announced that the amounts concerned by the received applications were below the total allocation of €23 million and as a consequence the ceilings of lump sums could be incremented by 25%, still within the maximum amount of €7,000 (Veneto Region press release dated 4/09/20).

Beside the introduction of M21, the Veneto Region took the opportunity to make **other amendments to its regional RDP** which were not directly linked to the COVID-19 crisis, namely: new allocation for natural disasters of a biotic type and increased allocations for training, organic agriculture, and Local Action Groups (Veneto Region press release dated 17/07/20).

Among the other EU measures implemented by the Veneto Region is the **relaxation of administrative requirements** for several categories of producers and under diverse programmes. Deadlines were extended for requirements under the wine CMO investment programme and the aid programme for the beekeeping sector. Under the CMO operational programs for fruit and vegetables, the obligation to allocate at least 3% of the funds to promotion and marketing activities was waived. With regard to the regional RDP, implementation deadlines were extended for some interventions and so was the timeline to submit payment requests. In addition, for training and information activities which were suspended because of the COVID-19, the obligation to respect a minimum number of participants in activities was waived (Veneto Region communication n° 417 dated 19/03/20).[17]

According to an impact analysis carried out by the Regional Agency of Veneto for Innovation in Agriculture, the region reacted relatively well to the first wave of COVID-19. The analysis compares the inactive and suspended enterprises recorded in the first two quarters of 2020 with those recorded in the first two quarters of 2019. The Veneto region shows a relatively low increase of inactive/suspended enterprises, including in the agricultural sector. The analysis

[17] OECD reports that relaxation of administrative requirements, such as extension of deadlines for applications and/or simplification of procedures, for RDPs and other regional programmes supporting the agricultural sector was applied in eleven Italian regions up to April 2020 (OECD, 2020).

underlines that the impact of the lockdown measures was much worse on other sectors (e.g. services, catering and accommodation) than on agriculture (Veneto Agricoltura press release dated 20/08/20).

Box 3. Examples of local responses to the disruption of agri-food supply chains

A small-scale investigation on the operations of five farms, in the **regions of Abruzzo and Molise, Italy**, highlights that several food supply chains were disrupted by the COVID-19 pandemic and that concurrently awareness on food quality and origin increased among consumers. Because of this, although the five farms recorded a production decrease, their loss was compensated by increased sales through short food supply chains and local markets. In the opening of these new market opportunities, networking and aggregation among farmers and actors of the agri-food supply chains played an important role and created synergies and cooperation across the territory, including with the non-profit sector. Another finding relates to the fact that concerned farms reacted positively to the new type of demand and specific requests of consumers, including through the acquisition of new management skills (modified from Mastronardi, Cavallo and Romagnoli, 2020).

The **Assembly of French Departments** has collected a series of initiatives which highlight the support provided by local authorities in keeping operational food supply chains at the times of COVID-19. Examples from some 40 departments show the important role that short agri-food supply chains and local producers and products had throughout France during the pandemic.

2.2.3 Agricultural policy measures and direct support in Andalucía, Spain

In Spain, the wine sector was importantly affected by the pandemic. Supply and demand of this commodity were disrupted because of the closure of the hospitality and tourism sectors during the lockdown, and of logistic problems in its distribution. Sales of wine dropped significantly in the first quarter of 2020. As a consequence, the Spanish government welcomed the EU intervention decided by the Commission for the sector and adopted, in early September 2020, a package of extraordinary measures valued at some €90 million (Spanish government press release dated 6/09/20).

Further to the adoption of Royal Decree 557/2020, Spanish regions had to decide whether to implement the measures. The Andalucía Region took up all the three measures foreseen in the package, namely **aid for private wine storage in cases of crisis, aid for green grape harvesting for winemaking, and aid for crisis distillation**, and arranged the calls for applications accordingly (Andalucía Region's website). Deadlines for submission of aid requests were set in the month of June 2020. Additional time was granted for submitting documentation and request for payments. Aid is financed through the EAGF. The three calls were open to citizens, businesses, associations and organisations. The aid for private wine storage in cases of crisis is set at €0.027 per hectolitre and per day of stored wine. With regard to the aid for green grape harvesting for winemaking, it is calculated to compensate for the direct costs of destruction and for the loss of income. In fact, green harvesting is intended as the total elimination of the still immature grapes, thus it obtains no yield. The aid for crisis distillation is €0.4 per litre of distilled wine for wines with Protected Designation of Origin and €0.3 per litre for the other wines. Supplements may be paid according to the distance between the place of origin of the wine and the distillery.

In addition to the above measures, the Andalucía Region allocated the **highest amount** (about €26 million) across European regions **under the newly introduced measure 21** (M21) of the regional RDP. The Region has set these funds to support the following sectors: cut flowers and ornamental plants, beef for meat, fighting bulls, sheep and goats and Iberian pork. Aid ceiling is €7,000 per farmer. It will be financed through the EAFRD (75%) as well as State (7.5%) and regional funds (17.5%). Deadline for application was 13 October, then extended to 12 November 2020 (Andalucía Region website). According to a recent press release of the regional government, Andalucía is in favour of replicating M21 in the next year (Government of Andalucía press release dated 1/12/20).

Also in the agricultural sector, Andalusia also **took advantage of the flexibility granted** at the EU level on seasonal workers as well as on that of the national government which allowed the hiring of unemployed people for agricultural works and the extension of working permits for foreigners (Euractiv press release dated 8/04/20).

The Region also **took up the flexibility granted to the rules governing expenditure under the EMFF** to subsidise aquaculture production companies (both marine and continental) which are affected by the COVID-19 crisis in terms of reduction of sales (i.e. at least 20% compared to previous years) (Junta de Andalucía, 2020). The measure has been allocated a budget of €1.5 million and the call for applications was open up to 24 November 2020.

Finally, in September 2020, the Region had approved by the EC the **review of its cohesion policy operational programmes**, as allowed by the flexibility granted by the CRII and CRII+.

The Andalucía Region is an example of very active reaction to the challenges brought by the pandemic to the agriculture and fisheries sector. The regional government recently approved the ‘Strategic Plan to improve the competitiveness of the agricultural, livestock, fishing and agro-industrial sector and rural development of Andalusia 2019-22’, with a financial envelope of almost €1.7 billion. This plan tackles innovation, modernisation and alignment of the development of the agri-food sector to the green revolution of the region (Government of Andalucía press release dated 1/12/20).

2.2.4 Use of unspent cohesion funds for the implementation of a regional 'Korona Action Plan' in North Ostrobothnia, Finland

In Finland, the structural funds' operational programme for Sustainable Growth and Jobs has a national scope but its implementation is at the regional level. In October 2020, the national government distributed about €100 million to the regions, and in particular to the ELY Centres (i.e. offices of the central government located at the territorial level) and the regional councils, to be used for the implementation of recovery interventions after the effects of COVID-19 (Council of Oulu region website). This amount derived from the **unspent sums under the ESF and the ERDF** in the Finnish operational programme, in line with the flexibility rules decided by the Commission.

In order to receive these unspent allocations, regions had to prepare regional recovery plans for the period 2020-2021. North Ostrobothnia developed a **regional 'Korona Action Plan 2020-2021'** and received slightly more than €8.3 million from the reallocation of funds, out of which €1.2 are for the Regional Council to support the sustainable growth and vitality of the region (through the so-called 'AKKE' programme) in line with the regional Korona Action Plan, and €2.1 million are for business support. The remaining €5 million are managed by the regional ELY Centre.

Support for rural business financing is also provided under the RDP, and the RDP remains the source of support for the measures foreseen for rural enterprises in the regional Korona Action Plan 2020-2021. In fact, the plan has a full section dedicated to the recovery of rural enterprises. Some of the most important measures identified in this section include: development of broadband connection and remote services; availability of local food and promotion of short food supply chains; promotion of food export; improvement of access to rural jobs; support to tourism activities; acceleration of the transition to circular and bio-economy; promotion of small-scale energy, bio-gas production from farm manure and biomass, efficient use of water, emission reduction, etc.

In the region, rural development funds were planned to be fully spent by the end of the programming period. Because of the transitional period agreed upon for the CAP, the region **arranged the re-use of unspent money under the RDP** (some €0.7 million) for the last period of 2020 and is expecting to receive additional €1 million to keep rural development activities running smoothly in the next year (regional ELY Centre blog dated 18/09/20).

Apart from the above measures, during the pandemic ELY Centres also arranged **temporary support to the agriculture and fishery sectors** through the state budget. So far, the EC has approved three state aid schemes for Finland, one each for the provision of direct grants to undertakings active in primary agricultural production (approx. 3,000 beneficiaries expected) and fishery and aquaculture (approx. 500-700 beneficiaries expected); and one loan guarantee scheme (issuance of guarantees for existing and new working capital loans) to support maritime SMEs and large enterprises.

Box 4. Analysis of the impact of COVID-19 on rural enterprises in North Ostrobothnia

Regional rural enterprises were affected by the drop of demand. This was particularly true for companies working in the service and tourism sectors, or in sectors related to catering. Another problem was the disruption of long supply chains and the interruption of production processes which relied on the availability of supplies, equipment, parts and spare parts. Difficulties were also faced by rural businesses involved in international markets. In terms of labour, availability of seasonal workforce was a problem for horticultural producers, nurseries, vegetable and potato farms, and to some extent also for livestock farms. The fur economy which was already suffering from a declining demand and global overproduction was further weakened by the impossibility of holding auctions.

Source: North Ostrobothnia Korona Action Plan 2020-2021.

2.2.5 Reprogramming of the Regional Operational Programme of Lubelskie, Poland

On 21 October 2020, the EC, through Commission Implementing Decision C(2020)7378, approved the modification of the 2014-2020 Regional Operational Programme of Lubelskie (Polish government website). The **revised version of the regional programme** reflects the flexibility granted by the EU to re-allocate funds among thematic objectives and investment priorities and to use unspent amounts.

The programme introduces a series of interventions which are aimed at mitigating the negative effects of the pandemic. Examples of these interventions funded through ERDF/ESF are: solving liquidity problems of micro and small enterprises through the financing of their working capital; maintaining business continuity during and after the COVID-19 crisis by co-financing the costs of salaries and social security contributions; increasing the availability of health services especially for people at risk of poverty and of social exclusion, including in rural areas (progress will be measured in terms of the number of new places providing health services); temporarily strengthening the health security of those people whose health and lives are threatened by the pandemic; and reducing the allocation made for an existing loan scheme to transfer resources to a measure which provides for the granting of non-returnable funds for the starting of business activities (Lubelskie Region, 2020).

In fact, even before the re-programming of its operational programme, the Region put **a lot of emphasis on the activation of financial instruments**. This was done within the framework of the anti-crisis package set up at the national level by the Polish government and by means of regional initiatives.

Under the national package, businesses in agriculture were provided a variety of forms of support (here is the list of supportive initiatives available). In addition, in July 2020, the Region launched a call for the support of self-employed, micro and small enterprises which had their turnover affected by the COVID-19 pandemic. Aid was in the form of subsidies to cover working capital or to maintain financial liquidity (Polish Government press release dated 2/07/20). In August, the Bank Gospodarstwa Krajowego (the Fund of Funds Manager in the regional operational programme of Lubelskie) announced the availability of a new financial instrument, a liquidity loan at zero interest rate for SMEs, meant to complement the region’s anti-crisis package (BGK press release dated 3/08/20). Applications to this support exceeded the available funds and the call had to be suspended (Fundacja press release dated 5/11/20).

The Region also implemented **administrative flexibility** for the beneficiaries of funds under the regional operational programme, allowing the extension of deadlines for submitting payment applications, the extension of the duration of projects, the possibility of making changes to the project in order to adapt to the new circumstances, the extension of the repayment period of loans, the possibility of lowering interest rates on loans, and the extension of the deadline of the calls for applications (Lubelskie region website).

Part 3. Recommendations to improve EU-level action and legislation supporting LRAs in comparable emergency situations

3.1 Lessons to be drawn from the responses of LRAs

Direct support

The key lesson under this heading is that the EU budget alone does not have the fiscal capacity to provide significant additional financial support in a pandemic emergency. This is due to the legal structure of the EU budget where expenditure must be financed on an annual basis by own resources which are subject to a pre-determined ceiling, and where borrowing to finance emergency expenditure, as can be undertaken by national governments, is not permitted. It also reflects the structure of MFFs, that which are designed to provide greater predictability to the EU budget by setting maximum ceilings for commitment and payment appropriations for the budget as a whole, and also for individual headings within the budget. **These constraints limit the ability of the EU budget to provide direct support in the context of a pandemic emergency**.

In responding to the COVID-19 pandemic in 2020, funding remaining in the flexibility instruments was directed in the first instance to support healthcare responses, leaving nothing in the budget to finance subsequent socio-economic responses. However, a total of up to €80 million was found within the EAGF sub-ceiling to fund market support measures for agricultural producers.

Instead, the EU enabled support by national governments, in two ways. First, it created a new instrument, SURE, to provide up to €100 billion in loans to countries, backed by guarantees provided by Member States. Farmers, food processing companies and other rural enterprises such as those in the hospitality sector have benefitted from these schemes that ensure that workers receive an income and businesses keep their staff. Second, it relaxed the conditions and thresholds for Member States to provide state aid to affected businesses. The latter was most significant, in that it enabled billions of euro in support to farmers and fishers during the pandemic.

Implementation flexibility in structural and cohesion funds

The distinguishing feature of CRII and CRII+ was that they did not make new EU financial resources available, but provided much-needed flexibility to use existing, unspent resources and to redirect them. The quantitative analysis in Part

2 shows that these flexibilities were widely used by Member States and regions. At the regional level, there are good examples of re-allocations specifically targeted to overcome the challenges posed by the pandemic (North Ostrobothnia and Lubelskie cases).

However, it appears that the ability to increase the EU co-financing rate had the **perverse effect of reducing overall transfers to rural areas, because it allowed a reduction in national co-financing**. This demonstrates the tension between the ambition to provide increased support to help regions cope with the effects of the pandemic, and the practical steps needed to enable Member States to draw down this support.

Agricultural policy measures

As for the structural and cohesion funds, greater flexibility was given to use uncommitted EAFRD funds to address COVID-19 related liquidity problems for farmers and SMEs in rural areas. The experience of the Veneto Region showed that this ceiling was sufficient to fund the aid measure it introduced, as the applications received did not fully exhaust the financial envelope. The Veneto region was one of the hardest hit during the first wave of the pandemic and therefore it may represent a good benchmark of actual needs. The active involvement of the Andalucía Region in the support measures within the wine sector introduced by the Spanish government using the flexibility given to adjust the wine operational programme funded by the EAGF, is a further indication that these measures had a positive effect.

The **drawback** of such measures is that **they principally benefited Member States with low absorption of EAFRD or operational programme funds** at the beginning of 2020. In the case of EAFRD, for example, ESIF data show that those Member States which had successfully spent the bulk of their funds (e.g. Ireland, Finland, Sweden and Latvia) were not in a position to make use of this flexibility and made no change to their allocations to EAFRD over the period March-November 2020.

A striking feature of the Commission’s response was its refusal, supported by Member State agriculture ministers, to make use of the agricultural crisis reserve on the grounds that support from the reserve would effectively be funded by farmers themselves. Ultimately, the market support measures that were activated by the Commission (private storage aids) were directed towards commodities where the initial negative market shock proved to be not as severe as in other sectors. As a result, the uptake of these aids was limited.

Safeguarding protection of agri-food supply chain

Facilitation of the movement of seasonal workers and of agricultural goods across borders were the two direct measures taken at the EU level to avoid the disruption of agri-food supply chains. Evidence of uptake at the regional level is provided in the Andalucía case. Experiences at the territorial level summarised in boxes throughout Part 2 indicate that disruption of supply chains often triggered the strengthening of shorter supply chains but there is mixed evidence on whether shorter supply chains are more resilient to shocks than longer supply chains. This seems to be the case in several French departments, while in North Ostrobothnia, where distances count, supply chains were disrupted, seasonal workers were difficult to find and interaction with international market outlets was constrained.

In terms of farmers' response, mixed evidence also prevails. In Flanders, several of the farmers interviewed did not benefit from the support measures made available by the regional government. A reflection could be that beside the uptake of measures by regional and local authorities, it would be interesting to investigate the capacity and willingness of farmers to take up the measures which are made available to them. In addition, Flemish farmers were more affected by the changes in prices and quantity of sales, i.e. the marketing conditions, than by the disruption of the supply chain. Instead, the five farms analysed in the Italian example increased their sales, adapted to modified local market conditions and were willing to invest even more in their capacity strengthening in order to benefit from the new opportunities. According to some experts' opinion, similar opportunities are arising for Polish farmers operating on local markets with quality products (LAN press release dated 30/04/20).

3.2 Strengthening the resilience of rural areas

3.2.1 Greater flexibility in the EU budget to respond to future pandemics

Emergencies are, by definition, unexpected. The EU needs to be able to respond quickly and flexibly to allocate the necessary resources to address the consequences for incomes and livelihoods. This can be problematic in the context of pre-decided maximum ceilings for spending under different headings set out in the MFF. Finding the right balance between predictability and flexibility when establishing the MFF has been the subject of continuing debate.

In practice, there has been recourse to several flexibility tools in the previous and current MFFs, for example, creation of special contingency reserves, the possibilities of using unallocated margins and of reallocating resources between different MFF headings and budgetary years, mid-term revisions, the use of Special Instruments outside the MFF to react to unforeseen circumstances, and the built-in flexibility in EU spending programmes. Despite these possibilities, **there is a consensus that the EU budget's capacity to accommodate new circumstances remains too limited** (Rubio, 2017).

EU budgetary flexibility instruments fall into two main categories: flexibility instruments allowing the maximum use of margins, and special flexibility instruments allowing the financing of specified expenditure outside the MFF headings. In the current MFF, the flexibility instruments maximising the use of margins between headings and across years include the Global Margin for Payments, the Global Margin for Commitments, and the Contingency Margin. These instruments are **all budgetary neutral**, meaning that they do not increase the overall need for commitments and payments over the entire financial period (Sapala, 2020). In the next MFF, they will be replaced by a Single Margin Instrument (SMI) with essentially the same provisions. Of the special flexibility instruments, only the Flexibility Instrument is relevant as the other three Special instruments outside the MFF – the Emergency Aid Reserve, the European Union Solidarity Fund, and the European Globalisation Adjustment Fund – can only be used for the specific goals for which they have been designed.

In practice, the proposed flexibility provisions in the EU budget for the MFF period 2021-2027 make little change compared to the current rules. **Further measures to increase the flexibility of the EU budget need to be explored. As an example, the utility of the Single Margin Instrument would be improved if the requirement that amounts mobilised over and above the respective annual ceilings must be offset against the corresponding margin for current or future years was eliminated. Another option would be increasing the permitted maximum size of the Flexibility Instrument.**

3.2.2 A more effective agricultural crisis reserve

Under the Commission's June 2018 draft CAP proposal (Art. 14 of the draft FMM Regulation), the current 'reserve for crises' would be replaced by a new 'agricultural reserve' established in the EAGF to provide support for the agricultural sector for the purposes of safety net measures, market management or stabilisation, or in the event of crises. The reserve would amount to at least €400 million in current prices at the beginning of each year, funded initially by carrying over the total unused amount of the crisis reserve available at the end of year 2020 to the year 2021. If the reserve needs to be replenished, this would be done as part of the normal budgetary process in the relevant year.

The European Parliament in its negotiating mandate for the trilogues on the CAP seeks to further strengthen the agricultural reserve. It calls for an initial grant of €400 million to be made available in 2021, funded in addition to the EAGF and EAFRD budgets. It proposes that the reserve could be increased through the annual budgetary procedure, either by allocating additional revenue or by using margins available under the EAGF sub-ceiling, up to €1.5 billion. The Parliament's position would also create greater automaticity in activation of the crisis reserve by providing that it would be made available to farmers in the event of a sharp decline in agricultural income beyond a threshold per sector predefined by the Commission (EP, 2020).

Making provision within the EAGF sub-ceiling for a crisis reserve effectively sterilises funds that otherwise could be used for other types of CAP expenditure. In this sense, farmers will come to pay for the crisis reserve, regardless of whether it is an annual instrument as at present, or a multi-annual one as is proposed for the future CAP.

In the trilogue negotiations with the Council on the CAP Transition Regulation, the Parliament repeated its call to finance the agricultural **crisis reserve from outside the CAP budget**. The adopted Regulation does not include changes to its current functioning. However, the Parliament insisted, in its non-binding political statement attached to the legislative text, that proposals for a more effective, well-funded and cumulative crisis reserve should be revisited once the future EU long-term budget is agreed upon (EP, press release dated 30/06/20). **An effective agricultural crisis reserve is clearly an essential part of the tool kit to respond to any future pandemic emergency, and it needs to be properly financed on a sustainable footing.**

3.2.3 Quicker access to state aid

The small size of the EU budget in relation to public expenditure as a whole, together with the difficulty of mobilising additional funds outside of the MFF, meant that **a key element in the EU response to the COVID-19 crisis was to enable national responses**. This was done through flexibility in competition and in particular state aid rules. Flexibility in state aid rules played a pivotal role in defining public authorities' leeway to support companies and households and thus their ability to cushion the impact of the current pandemic.

Respondents to a survey undertaken by the CoR network of Regional Hubs had a generally favourable view of the temporary framework for state aid and agreed that it facilitated an appropriate response to the challenges posed by COVID-19 (CoR, 2020). The majority of the hubs agreed that the temporary framework enabled support measures at short notice and without complications to companies that had experienced liquidity bottlenecks and payment difficulties as a result of the pandemic. They also noted that the temporary framework gave public authorities the possibility of choosing between a wide range of interventions and allowed for more rapid intervention to support the economy and businesses.

To avoid the need to introduce temporary legislation in future, **the scope of General Block Exemption Regulation (EU) No 651/2014 (GBER) could be expanded by including in Article 1, in addition to aid to compensate the damage caused by natural disasters, also aid to compensate the damage caused by pandemic events.** State aid provided under the conditions of this Regulation is exempt from the notification requirement, thus enabling aid provided by public authorities to be immediately operational, while ensuring the legality of aid through the reporting requirements provided for in this Regulation.

There is always a trade-off between making it easier for public authorities to grant state aid and the risk of competition distortions within the EU. In particular, there is a danger of large disparities between Member States in the light of differing fiscal capacities to grant state aid. The advantage of a temporary framework is that its application is limited in time. A similar ‘sunset clause’ should also be included if the scope of the GBER were to be extended to facilitate the granting of state aid to address damage caused by a pandemic.

The agriculture and forestry sector as well as rural areas have their own framework for exempting state aid from the notification requirement (i.e. the Agriculture Block Exemption Regulation Commission Regulation (EU) No 702/2014 and the agriculture *de minimis* Regulation No 1408/2013). The temporary framework also permitted state aid to producers of primary agricultural products as well as those active in the fisheries and aquaculture sectors facing a sudden shortage or unavailability of liquidity up to certain thresholds. For agricultural producers, to limit potential distortions in competition, it was provided that aid cannot vary according to the price received by the farmer and should not provide an incentive to production. **This is an important safeguard to minimise potential distortions of competition in the single EU agricultural market, and should be maintained as a feature of national aids in any future pandemic situation.**

A further measure to help farmers cope with pandemic and other crisis situations has been proposed in the CAP Transition Regulation. This would alleviate the effects of income volatility by encouraging farmers to make savings in good years to cope with bad years**. It would exempt national tax measures whereby the income tax base applied to farmers is calculated on the basis of a multiannual period**. National authorities would be able to calculate farmers’ due tax based on their multiannual income and even temporarily exclude from taxation money saved by farmers for bad years.

3.2.4 Flexibility in new spending programmes

Another way in which EU-level action supporting LRAs particularly in rural areas might be improved in future comparable emergency situations is through greater flexibility in the administration of EU spending programmes to facilitate the take-up of measures and their effectiveness in strengthening the recovery and resilience of rural areas. **The lower absorption rate of some Member States means there is a risk that they may not be able to make use of additional funds**. Of relevance here are various financial limits and other implementation rules that may hinder or even prevent public authorities from using the allocated resources in a pandemic situation.

In the context of a future pandemic with different socio-economic effects and needs, provision may need to be made to provide a temporary exemption from the distribution of spending priorities under the new operational programmes to be submitted for 2021-2027 funding.

Spending under NGEU programmes is also subject to spending priorities, although because of the temporary nature of these programmes and their specific role in assisting recovery from the current pandemic, there would be less justification to make changes to these priorities. Promoting social, economic and territorial cohesion, fostering employment creation and mitigating the social impacts of the crisis and promoting sustainable and inclusive growth are explicitly in the scope and objectives of the proposal for the Recovery and Resilience Facility. This is therefore an opportunity to invest in rural areas through a long-term vision stimulating urgently needed economic growth, progress towards environmental objectives and digital transition. Member States are required to submit recovery and resilience plans by 30 April 2021 and are provided with the necessary guidelines.

There should be a mechanism in place to engage policy dialogues within Member States among all the relevant stakeholders (including, but not limited to, regional authorities, the business community and civil society). For LRAs in particular, it is essential that their investment needs, including for rural areas, are fully reflected in Member States' recovery plans.

Considerable implementation flexibility has been built into the REACT-EU programme reinforcing the EU Cohesion Policy. To allow for a smooth and quick mobilisation of investments, ex-ante conditionalities, thematic concentration requirements and performance framework do not apply to REACT-EU. Member

States will have total flexibility in deciding the share of the resources for the European Regional Development Fund, the European Social Fund – including the Youth Employment Initiative - and the Fund for European Aid to the Most Deprived. Resources can also be allocated to existing cross-border cooperation programmes under the European Territorial Cooperation goal. There will be no pre-determined breakdown by category of regions to direct the resources to where they are most needed. There is the possibility of EU co-financing of investments up to 100%.

Member States need to ensure a balanced support between the needs of the areas most affected by the impact of the COVID-19 pandemic and the need to maintain focus on less developed regions (EU press release dated 18/11/20). Under the proposal, the deadline for commitments is extended by two years, to 2022. There will be very significant administrative demands on both Member States and the Commission arising from the need to both negotiate amendments to existing operational programmes or propose new ones to make use of REACT-EU funds, while also negotiating programmes for the period 2021-2027. Given these administrative demands and the delay in agreeing the 2021-2027 MFF and the NGEU, the extension of the commitment period for a further year to 2023 is fully justified. **In addition, it would be desirable to provide for an ex-post evaluation of the additional REACT-EU funding, so that the Commission can learn lessons for future crises** (ECA, 2020).

In the provisional agreement reinforcing EAFRD spending under NGEU resources, at least 37% of the recovery funding is reserved for organic farmers, the environment, climate-related actions, and animal welfare. At least 55% of the fund will support young farmers' start-ups and on-farm investments that contribute to a resilient, sustainable, and digital recovery. The agreement specifies that the share of recovery funding that EU countries spend on environmentally beneficial practices should not be lower than the percentage of the EU rural development envelope they currently spend to this end. The EU will finance up to 100% of eligible measures. EU countries will not have to contribute any additional money from their national budgets. Investments made by farmers and food processors that contribute to a sustainable and digital economic recovery can be supported up to a level of 75% of incurred costs. There is also an increase in the ceiling for the business start-up aid from the EAFRD for young farmers from €70.000 to €100.000 (EP press release dated 10/11/20).

An additional amendment to the Commission's proposal for the CPR for 2021-2027 would provide mechanisms that can be quickly invoked should further shocks strike the EU in the coming years (EC, 2020h). It temporarily enables the Commission, following a decision of the Council, to react faster by using implementing decisions to take action. This proposal is not restricted to a potential worsening of the COVID-19 situation nor to public health emergencies in general. It would apply to any situation recognised by the Council to be a crisis. It also clarifies the conditions for the transfer of allocations between funds.

These proposals seem beneficial for LRAs because of the way they will reduce the administrative burden in responding to socio-economic needs created by future pandemics.

3.3 Strengthening the resilience of agri-food supply chains

Especially in the very early stages of the COVID-19 pandemic, there was considerable concern that the pandemic itself as well as the measures taken to control it could disrupt agri-food supply chains. The impact of border closures on access to food and raw materials from other countries, as well as the potential loss of workers in both primary agriculture and processing plants due to restrictions on labour mobility, were among the identified weaknesses. As noted earlier, the Commission moved at a very early stage to successfully address these weaknesses. However, future pandemics seem increasingly likely, and this has focused attention on the vulnerabilities of agri-food supply chains and how to strengthen their resilience.

The measures previously discussed in this section would improve the response of the system in the short run. But it is also important to think about medium-term adaptation and longer-term transformation to minimise exposure to risks and shocks. NGEU funding is specifically intended for this purpose. The reinforced funding for the EAFRD will support rural areas in making the structural changes necessary in line with the European Green Deal to help deliver both the digital and the green transitions. This funding will help them to achieve the ambitious climate and environmental targets in the new Biodiversity and Farm to Fork strategies which are themselves steps towards greater resilience.

NGEU funding will be relevant mainly to primary agriculture in rural areas. Perceived vulnerabilities along the food chain will also need to be addressed. Among the options proposed is greater support for local food production and shorter supply chains as a way of increasing resilience. But the perception that longer and more complex supply chains are necessarily more vulnerable to shocks is not necessarily well-founded. Local food systems are equally likely to be hit by shocks that put food supplies at risk. The initial COVID-19 shock to the food system was the loss of restaurant sales due to lockdown restrictions. This did not discriminate between locally-produced or globally-sourced food. Even if more globalised food systems have additional sources of vulnerability (e.g. border closures), they also have greater connectivity and access to information to cope with these vulnerabilities.

There is a need to invest in strengthening the resilience of agri-food supply chains, both local and global. From a resilience perspective, emphasising diversity in suppliers and customers and creating buffers and reserves and redundancy in supply chains would seem to be promising avenues, but they can also be costly actions for individual businesses.

In the Farm to Fork Strategy, the Commission has proposed to step up its coordination of a common European response to crises affecting food systems to ensure food security and safety, reinforce public health and mitigate their socio-economic impact in the EU. Specifically, drawing on the lessons learned during the COVID-19 pandemic, the Commission proposes to assess the resilience of the food system and to develop a contingency plan to ensure food supply and food security in times of crisis. **The plan will set up a food crisis response mechanism coordinated by the Commission and involving Member States. It will be comprised of various sectors (agriculture, fisheries, food safety, workforce, health and transport issues) depending on the nature of the crisis. It will be important to ensure that LRAs in rural areas are also able to input to this mechanism.**

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