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IMPLEMENTATION OF THE
LEADER APPROACH FOR
RURAL DEVELOPMENT



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IMPLEMENTATION OF THE LEADER APPROACH FOR RURAL DEVELOPMENT

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REPLY OF THE COMMISSION

GLOSSARY

Added value: In the context of this audit, the benefits resulting from the Leader approach such as better identification of local needs and local solutions, more engagement on the part of local stakeholders and greater scope for innovation.

Axis 4: Rural development in the 2007–13 programming period is implemented under four axes, which are coherent groups of measures. Axis 4 is the Leader approach.

Deadweight: A situation where a subsidised project would have been wholly or partly undertaken without the grant aid.

LAG: Local action group, which is a local public–private partnership, responsible for proposing a local development strategy and selecting projects.

Leader approach: A method to achieve the objectives of the EU’s rural development policy through bottom-up implementation rather than the traditional top-down approach. ‘Leader’ is a French acronym for ‘links between rural development actions’.

Leader programme: A document prepared by a Member State and approved by the Commission to plan and implement the Leader approach. The first Leader programmes ran from 1991 to 1993 and were followed by Leader II (1994–99). This audit concerns Leader+ (2000–06) and Leader Axis 4 (2007–13), which was within the rural development programmes.

Measure: An aid scheme for implementing a policy. A measure defines the rules for the projects that can be financed.

Member State: In the context of this audit, the authorities in charge of the management of the Leader programmes. Member States designate a managing authority for this. Each region of Member States such as Germany, Spain and Italy has a separate programme and a separate managing authority.

Programming period: Multiannual framework to plan and implement EU policies such as rural development; the current period is 2007–13.

Rural development programme: A document prepared by a Member State and approved by the Commission to plan and implement the EU’s rural development policy.

Sound financial management: Fair and transparent management of the EU budget in accordance with the financial regulation and, in particular, the principles of economy, efficiency and effectiveness.

EXECUTIVE SUMMARY

I.

Leader is a method to achieve the objectives of the EU's rural development policy through bottom-up implementation rather than the traditional top-down approach. Compared with traditional methods of funding, the Leader approach involves higher costs and risks, owing to an additional layer of implementation, and giving the control of the EU budget to a multitude of local partnerships (LAGs: local action groups).

II.

The justification for Leader's additional costs and risks is the added value that should flow from the bottom-up and partnership approach — such as better identification of local needs and local solutions, more engagement on the part of local stakeholders and greater scope for innovation.

III.

The Court examined whether the Leader approach has been implemented in ways that add value, while minimising the risks to sound financial management. The Court assessed the LAGs' performance in implementing the 2000–06 Leader+ programmes, for which the final expenditure was in 2009. The Court also assessed the LAGs' Axis 4 strategies, which set out their plans for implementing the Leader approach in the 2007–13 period.

IV.

LAGs implemented the Leader approach in ways that limited the potential for added value in terms of the 'Leader features' although the Court found some examples of good practice. The bottom-up approach was limited in the LAGs that gave the majority of the grants to their own member organisations; the potential added value of a partnership was not achieved in LAGs where the decision-making was dominated by the local authorities; few LAGs could demonstrate innovation or interaction between different sectors in their strategies or projects. LAGs did not focus on achieving the objectives of their local strategies.

V.

The Court also found weaknesses in the soundness of the financial management by the LAGs. In particular, LAGs gave grants to projects without regard to efficiency. Procedures were not always transparent and did not sufficiently demonstrate that the LAGs took decisions on an objective basis, free from conflicts of interest. These weaknesses echo those observed by the Court in the Annual Report of 2000.

VI.

The Commission and Member States have not been sufficiently demanding and share some responsibility with the LAGs for limiting the potential added value of the Leader approach. They have not taken sufficient action to limit the costs and risks. Ten years on from the Court's previous audit of Leader, the same weaknesses persist.

EXECUTIVE SUMMARY

VII.

The Commission has not yet demonstrated the effectiveness or efficiency of the expenditure, the added value achieved through following the Leader approach, the extent to which the known risks have materialised or the real costs of implementation.

VIII.

In view of the persistent weaknesses, the Court recommends that the Commission and Member States clarify and enforce requirements to reduce the risk of dead-weight, ensure objective and properly documented project selection procedures, and that the partnership principle operates in practice. Robust procedures to avoid all risk of conflicts of interest are needed to comply with the financial regulation. This requires declarations of interest, non-participation in project assessment and selection, and referral of cases of potential conflict of interest to the managing authority.

IX.

For the remainder of the 2007–13 period, the Commission should ensure that Member States require the LAGs to set measurable objectives, specific to their local area, that can be achieved by the Leader programme. The Member States should require LAGs to account for achieving their local strategy objectives, for achieving added value through the Leader approach, and for the efficiency of the grant expenditure and the operating costs.

X.

Monitoring should be refocused on the added value of the Leader approach, efficiency and effectiveness, and be complemented by data from supervisory and control systems such that the Commission has sufficient, reliable and relevant data to account for the added value and sound financial management of the Leader programmes.

INTRODUCTION

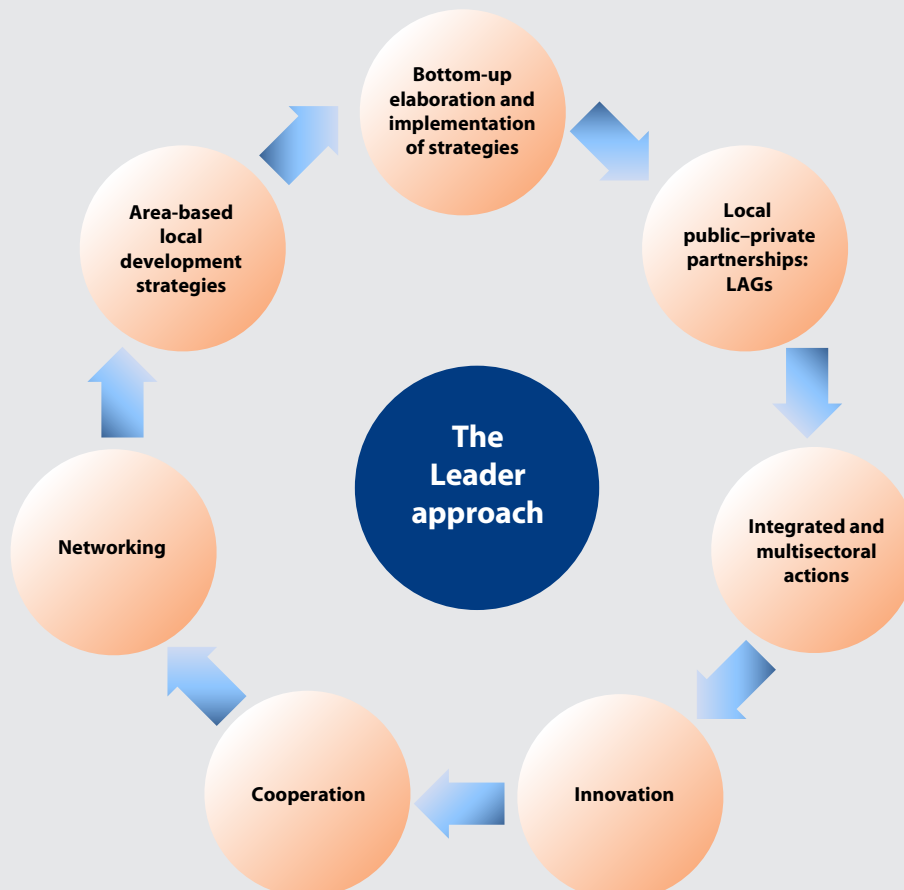
1. Leader is the EU's 'bottom-up' method for implementing rural development policy. It is characterised by seven features (see **Figure 1**). Financial support is given to 'local action groups' (commonly known as LAGs), to implement local development strategies, principally through giving grants to local projects¹ (see **Annex** for examples of the projects financed). LAGs are partnerships of public and private (or non-profit) sector members of small rural communities².

¹ The grants are co-financed by the EU and by the public authorities of the Member State concerned. In most cases, the grant is only for a proportion of the total project costs: the beneficiary also has to contribute. The LAGs' running costs are also co-financed by the EU and the national or regional authorities.

² Rural communities with up to 150 000 inhabitants.

FIGURE 1

THE SEVEN KEY FEATURES OF THE LEADER APPROACH



2. EU regulations set the policy objectives and legal framework. Member States determine national or regional programmes for implementing the Leader approach, which are approved by the Commission. The potential LAGs develop local strategies according to the national or regional requirements and apply to those authorities for funding. Member States are responsible for selecting the LAGs, paying the EU aid and national co-financing; and for the monitoring and control of implementation. LAGs are responsible for selecting the projects to be financed. In some Member States, LAGs select projects up to an annual financial allocation, with the processing of the grant applications and payment of the grants being performed by the national or regional authorities. Other Member States give LAGs responsibility for the entire process, with annual or multiannual budgets from which to pay the grants.

3. The first Leader period started in 1991 as a 'Community initiative' and was followed by Leader II (1994–99) and Leader+ (2000–06)³. Although the Leader+ period nominally ended in 2006, project implementation and expenditure could continue until mid-2009. There were 893 Leader+ LAGs in EU-15 and 281 in the new Member States. The final EU contribution to the Leader+ programme will be around 2,1 billion euro.

4. From 2007 onwards, Leader has been integrated into the rural development regulation⁴ as an alternative approach to achieve the objectives of the three 'mainstream' axes of the policy (see **Box 1**).

³ New Member States could implement a similar measure in their rural development operational programmes from 2004–06.

⁴ Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 277, 21.10.2005, p. 1).

BOX 1

THE FOUR AXES OF THE 2007–13 RURAL DEVELOPMENT POLICY

Axis 1: measures with the objective of improving the competitiveness of agriculture and forestry by supporting restructuring, development and innovation.

Axis 2: measures with the objective of improving the environment and the countryside by supporting land management.

Axis 3: measures with the objective of improving the quality of life in rural areas and encouraging diversification of economic activity.

Axis 4: use of the Leader approach to achieve the objectives of Axes 1–3.

5. The Commission approved most of the national and regional 2007–13 rural development programmes in 2007 and early 2008. By the end of 2009, Member States had selected over 2 000 Axis 4 LAGs. The planned EU spending on the Leader axis during this programming period is around 5,5 billion euro (see **Figure 2**)⁵, with national public co-financing an additional 3,4 billion euro.
6. The assumption behind the Leader approach is that there is an added value compared with traditional top-down implementation⁶. Bottom-up approaches and interaction between different sectors at local level should mobilise local potential. Local groups should be best placed to identify integrated and innovative local solutions to local problems and can be more responsive. Participation in local decision-making should generate enthusiasm and increased commitment and can thereby result in better, more sustainable, local rural development⁷. The community involvement achieved through the bottom-up approach can also lead to less tangible impacts, such as ‘capacity-building’ and ‘empowering the local population’⁸ (see **Figure 3**).

⁵ Axis 4 (Leader) represents from 5 % to 11 % of planned expenditure of the rural development programmes in the EU-15 Member States, and a minimum of 2,5 % in the new Member States’ programmes.

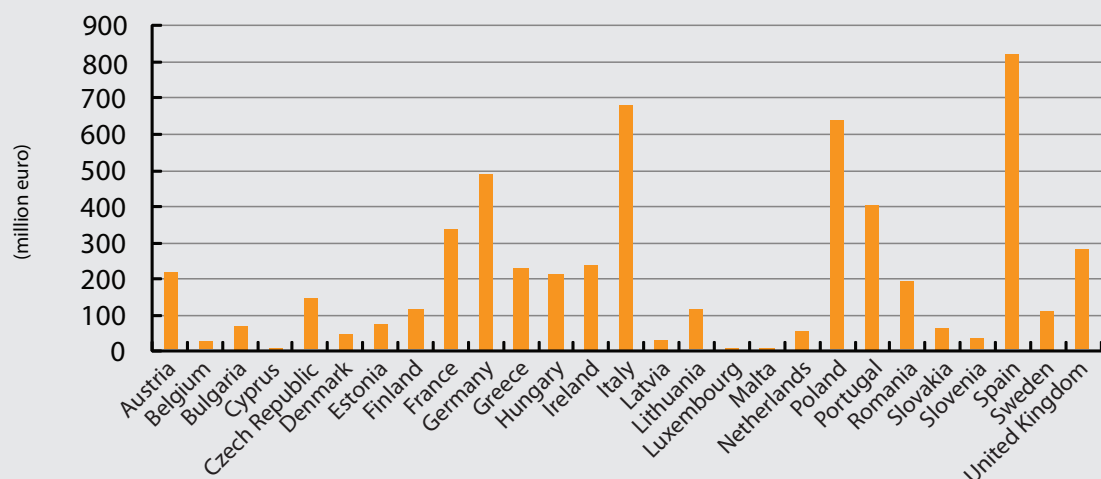
⁶ In ‘top-down’ methods, national or regional authorities define expenditure measures and project selection criteria and their staff assess project proposals and decide on the grants to award. Certain tasks of the national or regional aid schemes may be performed by the staff of local offices.

⁷ ‘The main concept behind the Leader approach is that ... development strategies are more effective and efficient if decided and implemented at local level by local actors.’ European Commission fact sheet ‘The Leader approach’.

⁸ ‘The capacity-building and empowerment of the local population achieved under Leader should be seen as generating additional value added for the rural community.’ Commission reply to the 2000 Annual Report.

FIGURE 2

EU FUNDS PROGRAMMED FOR LEADER AXIS 4 (2007–13) BY MEMBER STATE



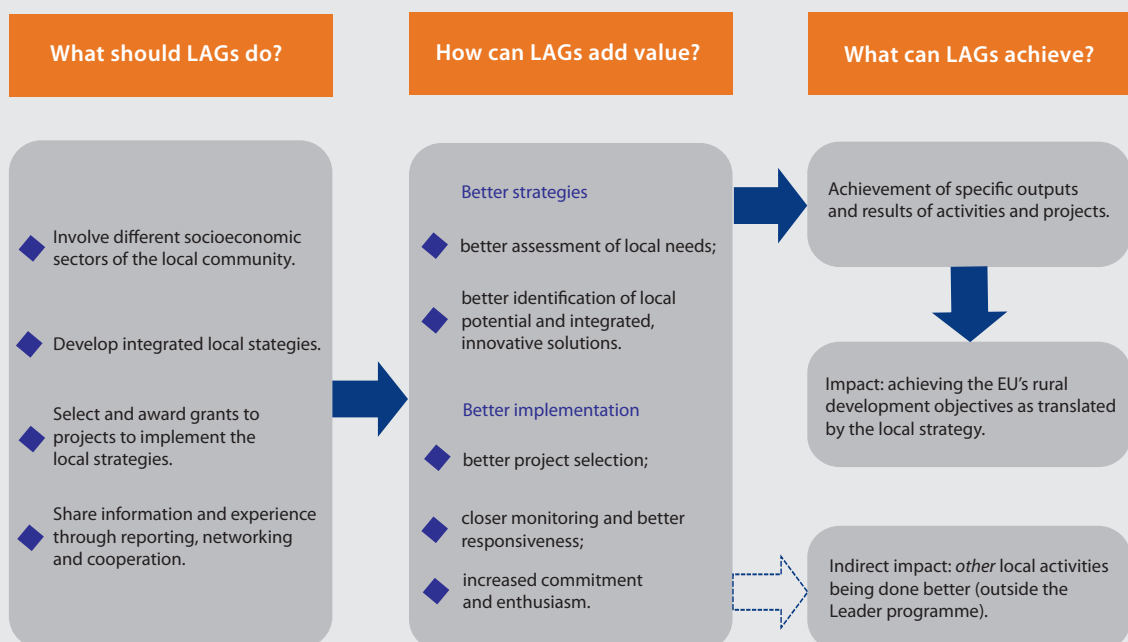
7. LAGs represent an additional implementation layer, which entails certain costs. Delegating decision-making to the local partnerships also carries risks to the sound financial management of the EU funds in terms of fairness, transparency and accountability, as well as economy, efficiency and effectiveness. When the Court last audited the Leader programme, for the Annual Report 2000⁹, some serious weaknesses in financial management by the LAGs were identified: LAGs backdating grants resulting in a risk of deadweight; lack of transparency in project selection; potential conflicts of interest; high operating costs and lengthy procedures. The Commission replied that it was aware of the risks. Its principal response was to encourage good practice and sound financial management through guidance and the exchange of information¹⁰.

⁹ Annual Report concerning the financial year 2000, paragraphs 3.96 to 3.112 (OJ C 359, 15.12.2001).

¹⁰ This point is developed further in paragraphs 72 to 77 and 104 to 106.

FIGURE 3

ROLE OF LAGS IN THE IMPLEMENTATION OF THE LEADER APPROACH



AUDIT SCOPE AND APPROACH

8. As indicated above, the Leader approach entails additional costs and risks in relation to more traditional, centralised methods of implementing the rural development policy but it also has the potential to deliver an added value through the seven Leader features. This leads to the audit question set by the Court: *Has Leader been implemented in ways that add value, while minimising the risks to sound financial management?*
9. The Court based the audit on:
- audit questionnaires completed by a random sample of 202 LAGs in 23 Member States;
 - a review of documentation for 27 of these LAGs;
 - on the spot audit and case-study examples from 13 of these LAGs and over 60 projects that were typical of the range of projects funded by the LAGs concerned (see list of projects in **Annex**);
 - audit of the managing authorities of the 11 Leader programmes concerned, which together represent over 40 % of the EU funds programmed for the 2007–13 period;
 - audit of the Commission's activities in relation to Leader.

At the time of the audit fieldwork in the first half of 2009, the LAGs had recently completed implementation of their 2000–06 Leader+ local development strategies¹¹ and had been selected by the Member States on the basis of their Axis 4 strategies, which set out their plans for implementing the Leader approach in the 2007–13 period. Except in Germany and Aragón (Spain), the LAGs had not yet started to implement their Axis 4 strategies.

¹¹ The LAGs in Poland implemented transitional Leader+ programmes, which were not comparable with the other Member States.

- 10.** The Court developed 'good practice' criteria from the legislation and from Commission documents and publications¹². The Court examined the selected LAGs' performance against these criteria during the Leader+ period and in terms of their Axis 4 strategies. The audit was conducted on the premises of the LAGs to allow a review of all relevant documentation and discussions with LAG staff and members on the context and strategy followed. The selected projects were also checked on the spot and the project promoters interviewed.

Where weaknesses or good practices were identified, the related national or regional monitoring and evaluation information, procedures and control systems were assessed to determine whether the practices were typical. The Court assessed the Commission and Member States' performance in the management, monitoring, evaluation and supervision of Leader on the basis of the national and regional programmes and operating rules as well as inspection results, implementation reports and evaluations. The audit included the Commission's assessment of Axis 4 of the 11 rural development programmes concerned and the Member States' selection of Axis 4 LAGs.

- 11.** The observations are structured according to the main responsibilities as follows:
- the LAGs' implementation of the Leader features;
 - soundness of the LAGs' financial management;
 - the Commission and Member States' management of Leader programmes;
 - the Commission and Member States' monitoring and evaluation.

¹² In particular, the Commission notice to the Member States of 14 April 2000 laying down guidelines for the Community initiative for rural development (Leader+) (OJ C 139, 18.5.2000, p. 5) and Articles 61–65 of Regulation (EC) No 1698/2005.

TABLE 1

SELECTED LAGS AND BUDGETS FOR IMPLEMENTING THEIR AXIS 4 STRATEGIES

(million euro)

LAG reference	Member State (region)	Axis 4 budget 2007–13 ¹
DE-BY	Germany (Bavaria) ²	2,6
DE-MV	Germany (Mecklenburg-Vorpommern) ²	5,4
IE	Ireland	14,6
EL	Greece	6,5
ES-A	Spain (Aragón)	7,1
ES-CM	Spain (Castilla-La Mancha)	3,9
FR (PL)	France (Pays de la Loire)	1,5
FR (LR)	France (Languedoc-Roussillon)	3,2
IT-TOS	Italy (Tuscany)	7,6
HU	Hungary	5,9
PL (WP)	Poland (Pomorskie)	4,3
PL (WŚ)	Poland (Świętokrzyskie)	2,1
PT	Portugal	6,0

¹ Including national or regional co-financing.

² Indicative allocations.

OBSERVATIONS

THE LAGS' IMPLEMENTATION OF THE LEADER FEATURES TO ACHIEVE ADDED VALUE

LAGS HAVE IMPLEMENTED THE LEADER APPROACH IN WAYS THAT LIMIT THE POTENTIAL FOR ADDED VALUE IN TERMS OF THE 'LEADER FEATURES', ALTHOUGH THE COURT FOUND EXAMPLES OF GOOD PRACTICE

BOTTOM-UP APPROACH

12. The bottom-up approach aims to encourage participation in the local rural development by involving the local community, economic and social interest groups and representatives of public and private institutions. The local community should be involved in identifying the most relevant local strategy and implementing the activities (projects) needed to achieve the local strategy objectives.

All LAGs obtained a degree of local community involvement but some LAGs gave most of the Leader+ grants to their own members' organisations

13. LAGs informed the local community on the possibilities for project grants by various means: at public meetings and events, by leaflets and publications, the LAGs' Internet sites, and through the LAGs' members. In this way, the LAGs not only responded to existing demand for grants but also potentially encouraged other local actors to consider new investments or other projects. The LAG in Tuscany (Italy), for example, had an information point in the local chamber of commerce. The Leader programmes were also publicised through local press coverage and by plaques displayed at the site of projects. In Hungary, the LAG heightened the awareness of Leader by signs at the entrance to each village.



Picture 1: Hungary — Signs announcing that the village participated in the Leader programme

¹³ In Greece, the national rules prevented such assistance from the moment that a formal call for project proposals was published. The project promoters interviewed each paid consultants between 1 200 and 3 500 euro to prepare their grant applications.

14. All LAGs also had local offices, where staff assisted project promoters in preparing their grant applications¹³. This ‘free consultancy service’ was an important factor in encouraging grant applications as inexperienced promoters of small projects, in particular, may otherwise have been dissuaded by the lengthy and complex procedures (see paragraph 70).
15. While many projects were straightforward grants for investments, studies or events, some LAGs were also proactive in working with local actors to discuss and develop more strategic projects from the first ideas. In Mecklenburg-Vorpommern (Germany), for example, the LAG established working groups, called ‘innovation teams’ to guide and support promoters of the more complex projects. The LAG in Ireland employed ‘development officers’, whose job was to actively search for and develop project ideas that would help achieve the strategy objectives (see **Box 2**).

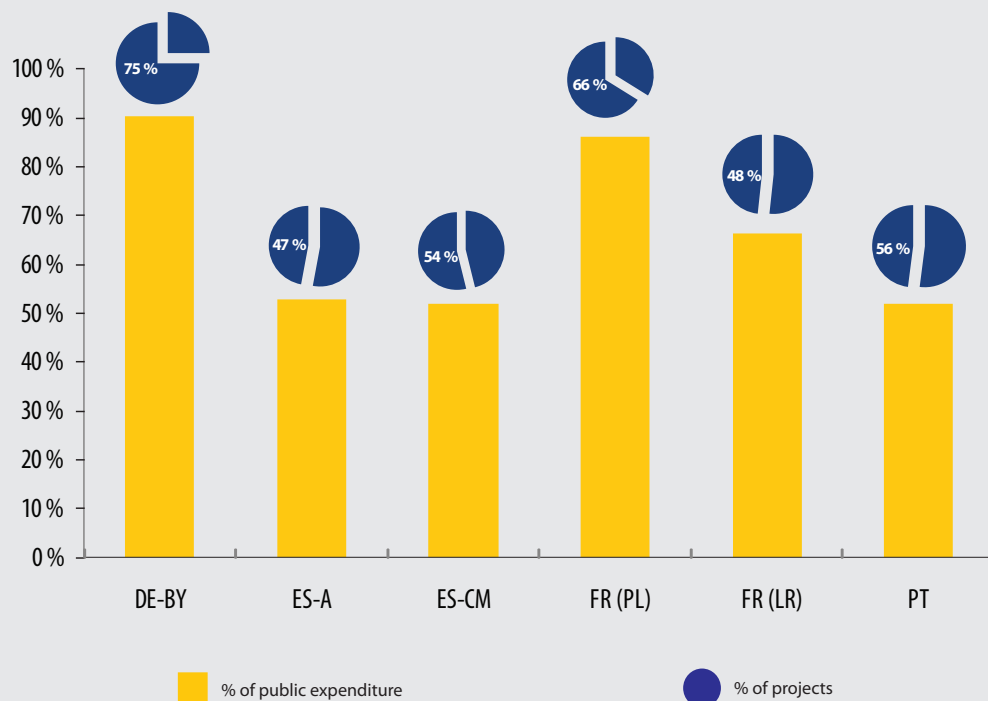
BOX 2

ROLE OF PROJECT DEVELOPMENT OFFICERS IN THE LAG IN IRELAND

Development officers were responsible for analysing, identifying and developing, stimulating and promoting activities and initiatives. The ‘food sector’ officer, for example, was responsible for developing and marketing the regional brand for local food products; development of alternative agriculture initiatives, etc. The officer maintained an active blog; organised and attended meetings and events; and encouraged and assisted the development of projects by food-sector professionals.

16. All of the audited LAGs awarded grants to projects promoted by their own member organisations. The Leader+ programme implemented by the LAG in Bavaria (Germany) involved just 12 different project promoters, of which six were directly connected with the LAG. In six of the 11 Leader+ LAGs, such grants represented from 50 % to over 90 % of the total (see **Figure 4**). This reduced the grants available for the wider community, limiting their possibilities to become involved through running projects.

FIGURE 4

GRANTS AWARDED TO LAGS AND THEIR MEMBER ORGANISATIONS¹

¹ Including organisations in which LAG members had a direct interest. The data for Aragón exclude grants to individual small businesses where the promoter was a member of the LAG. The LAG's membership policy encourages community involvement, so does not limit possibilities for participation (see paragraph 19).

- 17.** All LAGs involved the local community in developing the Axis 4 strategies, to varying degrees. The LAGs in France (Languedoc-Roussillon) and Bavaria organised thematic workshops in a participatory process to identify the local area's strengths, weaknesses, opportunities and threats (SWOT) and to debate the strategy. All LAGs held public meetings to explain the Leader programme and receive ideas for projects but in Tuscany, Ireland, Portugal and Castilla-La Mancha (Spain), it was not evident how, or if, the consultation had influenced the LAGs' SWOT analysis or the determination of local strategy objectives. The consultation served primarily to stimulate and assess the level of demand for the different measures and to collect project proposals.

¹⁴ Article 62 of Regulation (EC) No 1698/2005: LAGs should represent partners from the various locally based socioeconomic sectors in the territory concerned. At the decision-making level the economic and social partners, as well as representatives of the civil society, such as farmers, rural women, young people and their associations, must make up at least 50 % of the local partnership.

LOCAL PUBLIC-PRIVATE PARTNERSHIPS

- 18.** One of the key features of the Leader approach is that decisions should be made not by public authorities but by a wider local partnership, where the local government is included but does not have a majority vote¹⁴. Involvement of the community can be enhanced by allowing all interested local parties to participate in the LAG and by ensuring that all the key local actors are represented.

LAGs did not always achieve an effective public–private partnership

19. The LAGs in Poland and Aragón were associations with open membership policies whereby any interested local resident or organisation was encouraged to join. The LAG in Aragón, for example, had around 500 members (see **Table 2**). By contrast, the LAG in Greece had a smaller, invited membership, potentially excluding other local organisations and residents that could have brought additional input to the partnership (see **Box 3**).

TABLE 2

MEMBERSHIP OF THE LEADER+ LAGs

DE-BY	DE-MV	IE	EL	ES-A	ES-CM	FR (PL)	FR (LR)	IT-TOS	HU	PT
<i>Number of LAG members</i>										
20	13	16	15	484	46	78	49	15	41	22
<i>of which, members of the decision-making committee</i>										
11	13	16	7	16	20	20	22	13	21	7

BOX 3

COMPOSITION OF THE LAG IN GREECE

The Leader+ LAG had an invited membership with a small number of local actors represented and a structure that may allow the public sector to influence the decision-making. It was organised as a company with 15 shareholders and the local municipalities held 97 % of the share capital. The Board, which consisted of nine representatives of the main municipalities (in most cases the mayors), selected a committee to decide on project applications. This committee consisted of representatives of three of the municipalities and four other organisations: the chamber of commerce, an association of organic farmers, a women's association and a research organisation.

20. Membership of all the audited LAGs included different sectors and groups, commonly representatives of the local authorities, tourism and farming sectors and small business. All LAGs included female members in the decision-making committees. Young people are a key target group of the EU's rural development policy and their involvement in the decision-making process can ensure that their needs and opportunities are properly considered and that appropriate solutions are implemented. Only seven of the 13 Axis 4 LAGs had youth representation in their membership (and on the decision-making committee only in the LAGs in Spain and Hungary). Other LAGs stated that there were no youth organisations in their area, but had not taken any specific action to involve young people in the LAG.
21. In all the LAGs, the decision-making committee had no more than 50 % public-sector members, as required by the regulation. Only the LAGs in France had internal rules requiring a 'double quorum' whereby the 'private' sector members should represent at least 50 % of the votes in each decision-making meeting (although this rule was not always followed).
22. The Court identified a number of other cases where the Leader principles were not strictly followed. In France (Languedoc–Roussillon), the chair of the Leader+ decision-making committee held the casting vote, effectively giving the public sector a majority. The 'private' membership of the committee of the LAG in France (Pays de la Loire) was largely composed of associations created by the local public authorities (see **Box 4**). This committee proposed projects to the *Syndicat* of local authorities, which took the final decision on project grants.

BOX 4

MEMBERSHIP OF THE LAG IN FRANCE (PAYS DE LA LOIRE)

The LAG undertook an internal evaluation, which reported that 'the composition of the decision-making committee raises the problem of the representivity of the ensemble of local actors. The private partners are almost all from the associations of the *'Pays'* (a grouping of local *communes*). Each of these associations is presided by an elected member (of the *communes*). Even though these associations have a deep knowledge of the problems facing the local area, ... it would have been useful to integrate local business managers or associations that were not connected to the *Pays*. Moreover, neither the Chamber of Commerce and Industry or the Chamber of Trade was represented; only the Chamber of Agriculture had a representative on the decision-making committee.'

- 23.** On occasions, the LAG in Portugal took decisions on just a few votes from the local councils alone (see **Box 5**)¹⁵. In such cases, the potential added value of a partnership in decision-making was not being achieved.

¹⁵ The LAG in Bavaria also approved project proposals with few members present (see **Box 14**).

AREA-BASED LOCAL DEVELOPMENT STRATEGIES

- 24.** In the area-based approach, LAGs should define and implement a development strategy on the basis of their area's own particular situation, strengths and weaknesses. To achieve the full potential of this, LAGs should translate their specific needs and opportunities into local objectives and implement their strategies with a focus on achieving those objectives.
- 25.** The LAGs' objectives should define precisely the local outcomes that they plan to achieve with their strategies, thus providing a clear framework and guidance for the day-to-day management of the programmes and a basis for performance management and accountability.

BOX 5

LAG IN PORTUGAL: PARTICIPATION IN VOTING

The LAG's decision-making committee consisted of representatives of the three municipalities (who rotated the functions of President, Vice-President and Treasurer), a cultural association, an association of small businesses, an association of local industry and an agricultural association.

The Court's auditors examined the minutes of the eight meetings at which the selected projects were approved. In three of the meetings, there were equal numbers of members from the municipalities and from other backgrounds. At the other five meetings, the three municipalities were in the majority. On two occasions, the LAG selected projects on the votes of the three municipalities alone.

LAGs did not have a strong focus on achieving local (area-based) strategy objectives

- 26.** The LAGs' Leader+ local strategy objectives were not specific, measurable and achievable within a set time frame. Most were so general that they could apply to any rural area (see example in **Box 6**). Objectives such as '*to combat the rural exodus and the abandonment of traditional agriculture*' (LAG in Portugal) could have been measurable, but were not so in practice as there were no baselines establishing the initial situation or targets showing the situation to be achieved. Objectives were expressed in open-ended terms. An example is '*to promote the identity of the area by improving and promoting local services and products*' (LAG in Greece), which describes what the LAG intends to do, not a situation it aims to achieve.
- 27.** The LAGs did not show a strong focus on achieving objectives. In France (Languedoc-Roussillon), for example, the Leader+ strategy's central objective was to use new technologies to improve the competitiveness of the rural area. When the possibility of obtaining co-financing from a national programme for tourism projects arose, the LAG added a new expenditure measure to finance facilities such as a mountain-biking centre.

BOX 6

LAG IN MECKLENBURG-VORPOMMERN: EXAMPLE OF LOCAL STRATEGY OBJECTIVES

Four objectives were set:

- (1) improving the attractiveness of the area;
- (2) networking of the tourism regions;
- (3) new services and employment activities;
- (4) improvement of the regional economic structure through being open and encouraging new opportunities to create jobs.

Each of these was followed by a section headed 'objective/strategy', which described the situation and what the LAG intended to do, in general terms, such as 'to support initiatives to qualify and train women and young people'. There were no specific statements about what was expected to be achieved through implementing the strategy. No baselines or targets were set for the strategy objectives.

28. Local strategy objectives were not a determining factor in project selection (see **Box 7**). As an example, the LAG in Portugal planned to finance tourism facilities 'linked to the strong territorial themes' of the strategy: the confluence of the local culture and the rivers. The LAG awarded a grant to a go-kart centre for the purchase of additional karts and timing equipment, with no obvious territorial theme.

BOX 7

LAG IN PORTUGAL: PROJECT TO PURCHASE ROAD SIGNS

One of the LAG's objectives was the study, development and promotion of themed tourist routes. The LAG used the budget for the corresponding measure to award a grant to the municipality to purchase road signs, including traffic instructions such as 'Stop!' signs, and to mark out white lines in the centre of local roads and in car parks. Some of the road signs indicated the directions to individual tourist attractions, but the project did not create any themed tourist routes as such.



- 29.** The LAGs in Greece, Tuscany, and Spain¹⁶ implemented their strategies in terms of 'measures' defined by the Member State to classify similar projects for budgetary management and reporting purposes. For example, the LAG in Greece had measures such as 'investment support for entrepreneurs'. This was subdivided into 'rural tourism projects', 'modern technology projects', etc. Each of these was further classified into 'actions' such as 'provision of tourist accommodation'. This facilitates monitoring and control of the LAGs' activities, but also carries a risk that LAGs implement the expenditure measures (by assessing and selecting projects according to their eligibility) without regard to the local strategy objectives.
- 30.** The LAGs advertised for project proposals that met the eligibility conditions for a given measure, rather than advertising for projects that would achieve a specific objective of the local strategy. The LAGs assessed the 'compliance' or 'coherence' of the project proposal with the strategy but, as the objectives were so broad, it was practically impossible to eliminate an eligible project unless the measure was oversubscribed. Even when output targets had been met, LAGs continued to award grants¹⁷.
- 31.** Monitoring and reporting further reinforced the measure-focus: LAGs monitored, analysed and reported the projects implemented in relation to each expenditure measure, but did not collect data on or assess whether the local strategy objectives were met.
- 32.** The LAG in Ireland, for example, published a review of its achievements at the end of the Leader+ programme. This review contained a section entitled 'what we promised', which listed the strategy objectives. The following section was 'what we delivered', which described the projects implemented. These were grouped by measure, such as 'training projects'. There was no identification of what was done — or what was achieved — in relation to the strategy objectives. The LAGs in France and Germany, which were not required to follow national or regional measures, also reported in terms of the projects implemented but not the objectives achieved¹⁸.

¹⁶ This also applies, to a lesser extent, in Ireland.

¹⁷ For example, following a call for proposals for tourist accommodation projects, the LAG in Greece approved grants for projects that exceeded the target number of new tourist rooms by 20%. The LAG made a further call for tourist accommodation project proposals in view of the high demand.

¹⁸ A partial exception is the LAG in Bavaria, which organised a workshop to consider whether the Leader+ strategy objectives were met.

33. At the time of the audit, most LAGs had not yet established their project selection criteria or monitoring and evaluation systems for the 2007–13 programming period but from the information available, LAGs have not planned significant changes. The LAGs' Axis 4 strategies also lack specific local objectives and all but one of the Member States impose the use of common measures (see paragraph 84).

INNOVATIVE AND MULTISECTORAL APPROACHES

34. Leader is intended to be an innovative approach. LAGs should design and implement their strategies in a way to mobilise and deliver local rural development through innovative responses to old and new rural problems. LAGs can add value by doing something different to other programmes or the activities of the local authorities. Projects that are within the normal activities of local authorities, or are eligible for other programmes should therefore only be financed by Leader programmes in exceptional circumstances, duly justified in terms of a specific strategic need.
35. Another distinguishing feature is that the Leader approach should include the *multisectoral* design and implementation of the strategy, based on interaction between actors and projects of different sectors of the local economy.

LAGs could provide little evidence of innovation or interaction between sectors in their strategies or projects. LAGs financed projects that were little different to those of other EU programmes or that corresponded to the normal activities of local authorities

36. Interaction between actors of different sectors occurred within the LAG partnership, as described in paragraphs 18 to 23, but not to a significant extent in the LAGs' strategies or projects. Some LAGs could demonstrate examples of interaction, such as in Ireland where the strategy brought together producers, retailers and the tourism sector in the marketing of local products. However, most LAGs awarded grants to independent projects supporting promoters in their normal activities (see *Annex*).

- 37.** In Leader+, most LAGs had explicit criteria to assess project proposals for innovation or pilot character (see **Table 3**)¹⁹. Despite these criteria, LAGs approved projects that did not show strongly innovative characteristics. In Greece, for example, the grant application forms described innovative or pilot characteristics of the planned investments in restaurants, guesthouses, metal works, wineries, etc. but these characteristics did not exist in practice (see **Box 8**).
- 38.** In Tuscany, the LAG called for project proposals for the measure 'support to enterprises for process and product innovation'. The LAG received a proposal by an apple producer for a project that consisted mainly of purchasing standard fruit crates, which the LAG classified as an 'innovative investment for reducing production costs and facilitating harvesting and packaging' on the basis that it was 'innovative for the company itself'. This classification gave the project 7 out of a maximum 10 points for innovation. The LAG in Hungary assessed project proposals for 'innovation and novelty' and awarded the maximum points to all six of the projects examined. One project was for a guesthouse to upgrade its facilities — including purchasing bicycles for the guests to use, which represented a new facility in the local area. This was not the case for the project to prepare plans for paving a dirt road to the promoter's vineyards; or for the project to reinforce the walls of a parsonage because of subsidence.

¹⁹ The LAGs' assessment of project proposals is considered in paragraph 58.

TABLE 3

SELECTION OF INNOVATIVE PROJECTS

DE-BY	DE-MV	IE	EL	ES-A	ES-CM	FR (PL)	FR (LR)	IT-TOS	HU	PT
<i>The LAGs had explicit criteria to assess project for innovation or pilot project character</i>										
No	No	Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes
<i>Weighting of the 'innovation' criterion in the overall assessment (%)</i>										
n.a. ¹	n.a. ¹	n.a. ¹	13	7	4	n.a. ¹	n.a. ¹	10–19	8	10

¹ The LAGs in France and Germany did not document any assessment of projects against selection criteria. The LAG in Ireland did so but did not allocate points.

39. The Court observed in the 2000 Annual Report that LAGs gave grants to projects that could have been financed under other programmes. The Commission replied ‘... it may be appropriate to finance under Leader certain individual projects that when viewed in isolation should be eligible under the mainstream programmes, where these projects are an essential element for the realisation of a particular local action group’s innovative development programme’.
40. Most grants were for small projects, thereby distinguishing Leader from other EU funding programmes. The LAG in Ireland, for example gave grants ranging from under 1 000 to a maximum of 65 000 euro. However, eight of the 11 Leader+ LAGs financed projects with a total cost of 200 000 euro or more (see list of projects in **Annex**). Investments in wineries, olive oil mills, village renewal projects, etc. would have been eligible for other EU funding programmes. In these cases, the LAGs could show that the projects were *coherent* with their strategy, but given the lack of specific local objectives (see paragraph 26), LAGs could not show that the projects were *essential*.

BOX 8

‘PILOT CHARACTER’ OF PROJECTS APPROVED BY THE LAG IN GREECE

In all of the six private-sector projects audited, the application forms justified the pilot nature of the proposal in terms of networking activities. The forms were all completed by consultants. However, the project promoters interviewed had not participated in any such activities. The promoter of the metal workshop project, for example, did not know of the local small enterprises network and was unaware that his project proposal involved participation.

Furthermore, the grant application described the project as being consistent with the LAG’s local strategy as it concerned traditional wrought iron products that helped preserve the traditions and character of local buildings. In practice, the applicant’s business almost entirely consisted of modern designs in aluminium.

41. Furthermore, the potential for added value of the Leader approach is reduced if it merely acts as an additional funding source for normal local government activities. While mandatory tasks, such as education, were, in principle, excluded, all of the LAGs awarded grants for projects promoted by the local authorities, with the exception of the LAG in Ireland (see **Box 9** and the list of projects in **Annex**). Some of these projects had already been completed before the application for a Leader grant (see **Box 10**, for example), in which case the grants served only to supplement the local authorities' budgets.

BOX 9

EXAMPLES OF LEADER+ GRANTS TO LOCAL AUTHORITIES

LAG in Castilla-La Mancha: One of the municipalities that was a member of the LAG promoted a project for enclosing a children's playground. The project consisted of constructing a rustic-style brick wall topped with a metal fence at a cost of 36 000 euro (of which 26 500 Leader grant from the EU, and 500 euro from the national and regional authorities).

LAG in Greece: One of the municipalities that was a member of the LAG promoted a project for renewing the drainage and resurfacing of the town-centre streets and pavements. The Leader+ funding (211 000 euro) covered the costs for a small area. The municipality obtained national financing for a total amount of 1,4 million euro to complete the project for the remaining streets.

BOX 10

EXAMPLES OF GRANTS TO COMPLETED PROJECTS

LAG in Tuscany: Project 'services to the citizen and the local territory'. The LAG published a call for project proposals in May 2004 and decided at its meeting of 12 July 2004 to award a grant of 121 470 euro to a consortium of municipalities (which was a member of the LAG's decision-making committee). The grant agreement was dated 20 September 2004. The project, which concerned a 24-hour public veterinary service and information and licensing for hunting, fishing and mushroom picking, had started in February 2001, with the final invoice dated 5 July 2004.

LAG in France (Pays de la Loire): A group of *communes* (of which the president was a member of the LAG), undertook a project for the computerisation and networking of library records. The paying agency's inspection report states 'at the date the project application was made ... the IT equipment was almost complete, the cataloguing had been done and the staff were being trained in using the software. ... At the date the LAG selected the project, there remained an invoice of 91,20 euro to be paid'.

- 42.** At the time of the audit, implementation of Axis 4 had not started in most of the audited LAGs. However, the strategies contain few specific commitments to innovation or to obtaining interaction between the sectors.

NETWORKING AND COOPERATION PROJECTS

- 43.** Networking involves the exchange of experience and aims to transfer good practice, disseminate innovation and build on lessons learned. Cooperation projects — where two or more LAGs participate — can further add value through critical mass and complementarity, making it possible to achieve outcomes that a LAG could not achieve alone.

LAGs did not all fully participate in networking and cooperation projects

- 44.** All LAGs at least participated in meetings with other LAGs in the regional or national networks, although these meetings largely concerned organisational issues. The LAG in Ireland was particularly active in attending seminars, visiting and receiving LAGs from other Member States. The LAGs in Mecklenburg-Vorpommern, Ireland and Portugal contributed good-practice examples of projects to EU publications and databases.
- 45.** All LAGs participated in cooperation projects, with the exception of the LAG in Hungary. LAGs in France, Tuscany and Greece encountered organisational difficulties, particularly regarding different procedures applied under different regional or national Leader programmes. Some of the activities financed related to visits, exchanges and conferences rather than the joint implementation of a project. The LAG in Castilla-La Mancha used the cooperation projects' budget to pay its subscription to the regional network of LAGs and to develop a document management system in preparation for the 2007–13 period. Such expenses should have been financed from the LAGs' running costs' budgets.

- 46.** Except in Castilla-La Mancha, Hungary and Portugal, the LAGs' Axis 4 strategies gave details of planned cooperation projects. There were few specific details for planned networking activities.

SOUNDNESS OF THE LAGS' FINANCIAL MANAGEMENT

LAGS DID NOT HAVE DUE REGARD TO THE NEED FOR EFFICIENCY OR FAIR AND TRANSPARENT PROCEDURES

EFFICIENCY OF THE GRANT EXPENDITURE

- 47.** LAGs spend the EU budget by awarding grants to projects. Consequently, they should ensure that the grants represent the most efficient use of the public funding²⁰.

LAGs did not seek to maximise the efficiency of the grant expenditure

- 48.** One of the risks to the efficiency of any grant programme is that the promoter may have undertaken the project anyway, without the grant, which results in 'deadweight': the grant does not achieve an additional effect. LAGs should be better placed than 'top-down' programme managers to assess the risk of deadweight because of their local knowledge and contacts with the promoter in preparing the grant application.
- 49.** A strong indication of deadweight is if the promoter has already started a project before the LAG decides whether to award a grant or not. Except in Germany, all LAGs awarded grants to such projects. Either the project promoters concerned were prepared to undertake the project without the grant aid (which indicates deadweight), or they had been promised a grant in advance of the project assessment and decision procedures.

²⁰ It is a requirement of the financial regulation that the EU budget is used in accordance with the principle of efficiency, defined as the best relationship between resources employed and results achieved.

50. Only the LAG in Ireland had procedures to assess project proposals for the risk of deadweight (although even there, documentation of the checks made was inadequate). Other LAGs treated the start date of the project as a simple question of eligibility.
51. Each Member State applied different eligibility rules. In Greece, Ireland, Spain and Hungary, projects were eligible from the date of grant application. In Portugal, projects could commence 90 days before the application. In France and Tuscany, the rules only required that the project should not be *finished* at the date of grant application²¹. The LAGs considered that this condition was met as long as the project promoter had not paid the final invoice of the project costs, even if the project was physically complete (see **Box 10**).
52. Furthermore, the LAGs in France and Tuscany openly favoured projects that were already completed, as the grants could be approved and paid within a short period, without the risk of delays (see **Box 11**). In this way, the LAGs could avoid 'decommitments': the procedure in which some Member States cancelled the unspent balance of LAGs' budgets at the year-end.

²¹ Except for grants to businesses, which are governed by the EU's state aid rules.

BOX 11

EXAMPLES OF LAGS FAVOURING COMPLETED PROJECTS

LAG in Tuscany: The LAG's call for proposals for the 'renovation and improvement of villages' set the project selection criteria, with a maximum of 30 points available. One criterion was for the 'readiness' of the project, with a maximum of 12 points to be awarded if the promoter could complete the final project payments within 30 days of submitting the project proposal.

LAG in France (Languedoc-Roussillon): A university association (which was a member of the LAG) undertook a project to renovate and open to the public an old arboretum, for which the final expenses were incurred in August 2008. The LAG selected the project on 16 September 2008 and signed the grant agreement on 1 October. The minutes of the LAG meeting explain that, in order to use up the remaining Leader+ budget, it was necessary to select already-completed projects so that the grants could be paid out before the end of October.

- 53.** A further risk to efficiency is that promoters may not seek to implement the projects at the lowest costs consistent with the necessary quality. This risk is increased when the grant represents a high proportion of the project costs (some LAGs awarded grants at 80 % or even 100 % of project costs²²). A risk also exists that invoices may be artificially inflated. Only the LAGs in Ireland, Greece and Tuscany had satisfactory procedures to assess the reasonableness of project costs for public- and private-sector projects.
- 54.** The most efficient grant would be the minimum amount necessary to make a project viable and ensure that the desired outcomes are achieved. However, many LAGs gave all projects the same percentage grant (up to the maximum amount eligible) regardless of the likely profitability of the project or availability of other financing²³.
- 55.** The LAG in France (Pays de la Loire) increased the grant rates at the end of the Leader+ period to ensure that it fully spent its budget. This resulted, for example, in a local authority that had applied for a grant of 12 000 euro for the computerisation and networking of library records being awarded a grant of over 25 000 euro for the same project.

FAIR AND TRANSPARENT PROCEDURES

- 56.** LAGs commit public funds when selecting projects, but are not democratically accountable. Consequently, there is a need for a high degree of transparency and for LAGs to be able to demonstrate that they have consistently followed proper procedures.

Procedures did not sufficiently mitigate the specific risks that stem from the delegation of decision-making to the LAGs

- 57.** Only the LAGs in Mecklenburg-Vorpommern and France (Pays de la Loire) published minutes of project selection meetings on their websites. However, most LAGs published lists or details of some or all projects implemented by the end of the programme.

²² Including the national co-financing.

²³ This has the benefit of simplicity and transparency, but will not necessarily lead to the most efficient use of the EU budget.

- 58.** The LAGs in Germany and France did not have any formal documented project assessment procedures. Minutes of the decision-making committees gave brief résumés of what was discussed in some cases, but did not consistently show the factors that were taken into account. The LAGs in Greece, Portugal, Spain, Hungary and Tuscany assessed projects in a comparative way by scoring project proposals against standard project selection criteria, which represents good practice, but the basis for the scores was not documented in most cases, and there were apparent inconsistencies (see **Box 12**). No LAGs documented the project assessments and selection process sufficiently to allow the soundness of the decisions to be reviewed.
- 59.** Given the local nature of LAGs, one of the greatest risks for efficiency, the added value of the Leader programmes and for the reputation of the EU is that of a conflict of interests, whereby a project promoter may influence the project selection decision in their favour. The risk is heightened in LAGs that do not have transparent, objective and well-documented procedures, as illustrated above.

²⁴ Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the financial regulation applicable to the general budget of the European Communities (OJ L 248, 16.9.2002, p. 1), Article 52:

1. All financial actors and any other person involved in budget implementation, management, audit or control shall be prohibited from taking any action which may bring their own interests into conflict with those of the Communities. Should such a case arise, the person in question must refrain from such actions and refer the matter to the competent authority.
2. There is a conflict of interests where the impartial and objective exercise of the functions of a financial actor or other person, as referred to in paragraph 1, is compromised for reasons involving family, emotional life, political or national affinity, economic interest or any other shared interest with the beneficiary.

BOX 12

ASSESSMENT OF THE EMPLOYMENT EFFECT OF PROJECTS BY THE LAG IN PORTUGAL

The LAG gave a score to each project proposal but had no documentation of its assessment of selection criteria such as 'maintenance and creation of employment'. Consequently, it was unable to explain the apparent inconsistencies. For example, the project proposal 'investments in a honey packaging plant' involved creating two new jobs. The LAG awarded the proposal five points for the employment criterion.

Two further proposals (both promoted by LAG member organisations) were also awarded five points: 'purchase of camcorder and projector for a cultural association', which claimed to contribute to maintaining one existing job; and the municipal road signs project (see **Box 7**), which did not involve the creation or maintenance of employment.

60. The risk occurs most directly when the project promoter is a member of the LAG's decision-making body. Also in small LAGs, a LAG member has the opportunity to influence the decision even without participating in the voting. The Greek authorities prohibited LAGs awarding grants to LAG staff or members, to surrogate natural or legal entities or to spouses and first degree relatives. None of the other LAGs had such rules. The rule in Greece did not apply to LAG members in their capacity as representatives of public or non-profit organisations, although grants awarded in such cases were limited to 25 % of the LAGs' budget.
61. All of the audited LAGs gave grants to their own member organisations (see paragraphs 24 to 33). These grants were not treated as exceptions. LAGs had different internal rules for their decision-making committees (see **Box 13**). These fall short of the requirements of the EU financial regulation²⁴. In particular, the rules in some LAGs concerned only members directly promoting a project and required only abstention from the vote.

BOX 13

ASSESSMENT OF LAGS' PROCEDURES TO AVOID CONFLICTS OF INTEREST (LEADER+)

Background























Members of the decision-making committee should not award grants in situations where they have a 'shared interest' with the project promoter in the terms of Article 52(2) of the financial regulation.


A shared interest is likely to exist in particular with projects promoted by members of the LAG management structure or decision-making committee, as the LAG's assessment of the project proposal may be influenced (even unconsciously) by the relationship with the project promoter. This applies whether the LAG member is promoting the project in a personal capacity or representing a public or private organisation.

Criteria

1. If a member of the LAG's assessment or selection decision-making committee has any professional or personal relation with the project promoter, or any professional or personal interest in the project, they should make a written declaration explaining the nature of the relationship/interest, which should form part of the project file. Any shared interest should be declared, including family, emotional, political and economic interests, as per the financial regulation.
2. The member concerned should not participate in any way in the assessment or selection process, and should not be present during discussion of the project proposal. This should be documented in the minutes.
3. Where there is a shared interest, LAGs should refer the matter to the managing authority in accordance with the financial regulation.

BOX 13

LAG	Declaration of interests and non-participation in vote	Referral to managing authority	Comments
DE-BY			The operating rules provided that LAG members with an interest in a project should not participate in the discussion or vote and that this should be documented. Meeting minutes did not always show who was present and who voted. The managing authority considers that the rules do not apply to representatives of public-sector organisations that are promoting projects.
DE-MV			The LAG's rules provided that LAG members with an interest in a project should not participate in the discussion or vote. There was no documentation of such non-participation in the meeting minutes.
IE			The LAG's rules required members to absent themselves from the meeting during the discussion of project proposals in which they had an interest, or if they had participated in the prior assessment of the projects. The LAG also maintained a register of members' interests and the members were subject to a rotation policy. National rules required decisions concerning projects in which a LAG member or staff had any interest to be notified to the managing authority before formal approval of the project. Note: the operation of this procedure was not checked in this audit.
EL			Members of the LAG's decision-making committee or management structure and their first degree relatives could not promote Leader projects in a personal or business capacity. However, this did not apply to LAG members representing non-profit organisations, and these members were permitted to participate in the vote.
ES-A			The LAG's rules provided that LAG members with a direct or indirect interest in a project should not participate in the discussion or vote. Note: the operation of this procedure was not checked in this audit.
ES-CM			The LAG's rules provided that LAG members with an interest in a project should not participate in the discussion or vote, but this only applied to personal or economic interests. Meeting minutes did not show the representatives of the local authorities abstaining from votes on their projects.
FR (PL)			The LAG's rules required a member directly promoting a project to abstain, but not to leave the room. The minutes of the decision-making committee meetings show that the promoter participated in the discussions and on occasions that the voting was unanimous, without any mention of the promoter abstaining. The rules did not apply to members with an interest in a project that they were not promoting themselves.
FR (LR)			The LAG did not have any formal rules. Minutes show occasions on which a project promoter took part in discussions and the voting.
IT-TOS			The LAG did not have formal rules despite a managing authority requirement that they should.
HU			The rules applied only to LAG members with a <i>personal</i> interest in a project proposal, who were required to declare the interest before the meeting and not participate in the discussion or vote.
PT			LAG members with an interest in a project proposal were required to abstain from the vote, but did not have to leave the room and could participate in the discussion. Meeting minutes did not always show the representatives of the local authorities abstaining from votes on their projects.

Findings:  Criterion met Criterion not met Criterion not tested

- 62.** Documentation of the voting was inadequate in five of the 11 Leader+ LAGs, as the minutes of the decision-making committees did not always show who was present and who voted (see **Box 13**). In Bavaria, Tuscany and the LAGs in France, the minutes show occasions on which the project promoter participated in the discussion of the project and in the voting (see **Box 14**).
- 63.** The examples described in this report show projects that were only loosely related to the strategy objectives, projects that had already been completed and projects that subsidised normal local government activities. Most of these projects were promoted by the LAGs' own member organisations (see **Boxes 7, 9, 10, 11, 12 and 14**). The weaknesses observed highlight the risk that the LAG members may have directly or indirectly influenced the decisions in a way that resulted in an ineffective or inefficient use of the EU budget.

BOX 14

LAG IN BAVARIA: NON-RESPECT OF VOTING RULES

The project to construct a swimming lake was included in the LAG's strategy with a Leader contribution of 150 000 euro.



The actual Leader contribution was 1,03 million euro: almost 50 % of the LAG's total budget. Although the LAG's rules of procedure required a quorum of six members to take decisions, documentation showed that only four voted when approving the project. The names of the people present were not recorded except for the chairman of the LAG, who was the mayor of the town promoting the project. According to the Bavarian Leader+ operating rules, LAG members were not allowed to discuss and vote on projects in which they had an interest and this abstention had to be documented. In response to the Court's observation, the Bavarian authorities replied that they consider the mayor's participation acceptable as he did not have a *personal* interest in the project.

OPERATIONAL EFFICIENCY

- 64.** LAGs incur running costs: staff salaries, offices, travel, publicity, etc. In the interests of efficiency, these should be limited and kept within the budgets approved by the managing authorities. Having local staff in local offices dealing with a small number of projects should also permit LAGs to be more responsive than would be possible in a nationally or regionally-managed programme. This should result in more rapid processing of grant applications and payments and less need for bureaucratic procedures.

The administrative requirements at local level have resulted in significant operating costs, voluminous paperwork and delays

- 65.** The non-project costs incurred by the audited LAGs vary from 12 % to 32 % of the publicly-funded expenditure in Leader+. The costs budgeted by the LAGs for the 2007–13 programming period range from 6 % to 28 % (see **Figures 5** and **6**).
- 66.** The data above includes LAG costs for ‘animating the territory’ (stimulating local interest)²⁵. LAGs generally classed the work done by their staff in encouraging project proposals as animation. Some LAGs also considered the time spent assisting project promoters to make their grant applications, and time spent monitoring and reporting on project implementation as animation. Several LAGs did not distinguish animation costs from administrative and management costs and the others made an arbitrary apportionment of staff time.
- 67.** Most LAGs nominally remained within their Leader+ running costs’ budgets although, due to low levels of implementation in LAGs such as Hungary, this represented a higher percentage of total expenditure than originally planned. The LAG in Ireland exhausted its running costs’ budget and used its animation budget and additional funding from the managing authority to cover the costs. The LAG in Castilla-La Mancha used the co-operation budget for running costs (see paragraphs 43 to 46). Other LAGs had to use their own funds.

²⁵ Defined in the regulation as studies of the local area, information and promotional events, etc.

FIGURE 5

NON-PROJECT COSTS AS A PERCENTAGE OF LEADER+ PUBLIC EXPENDITURE (INCLUDING ANIMATION)

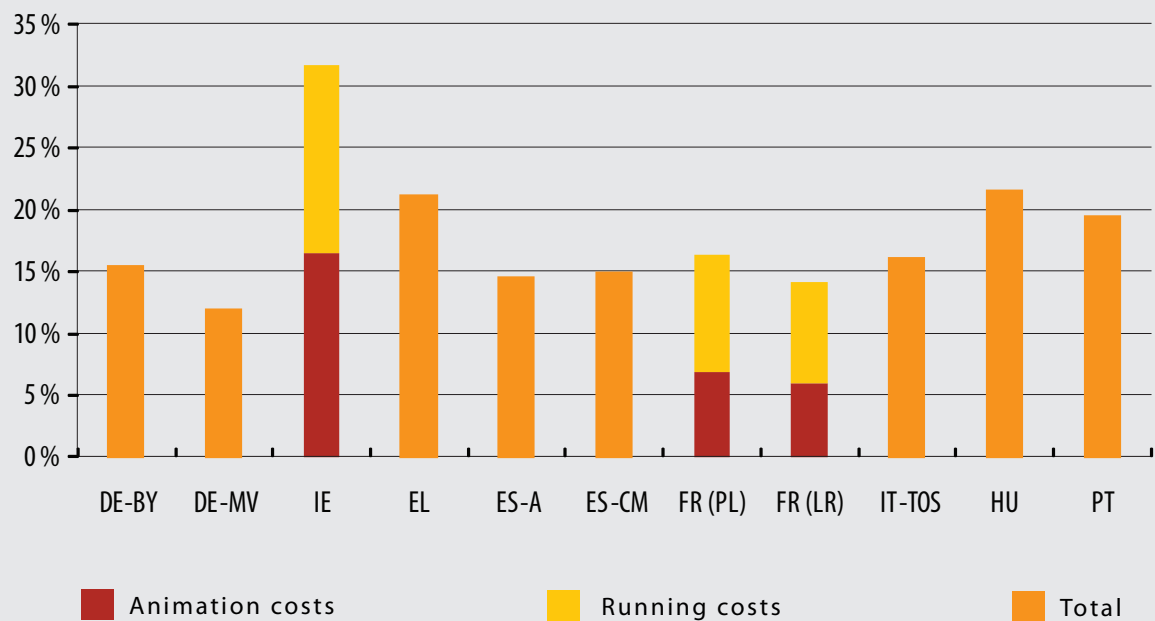
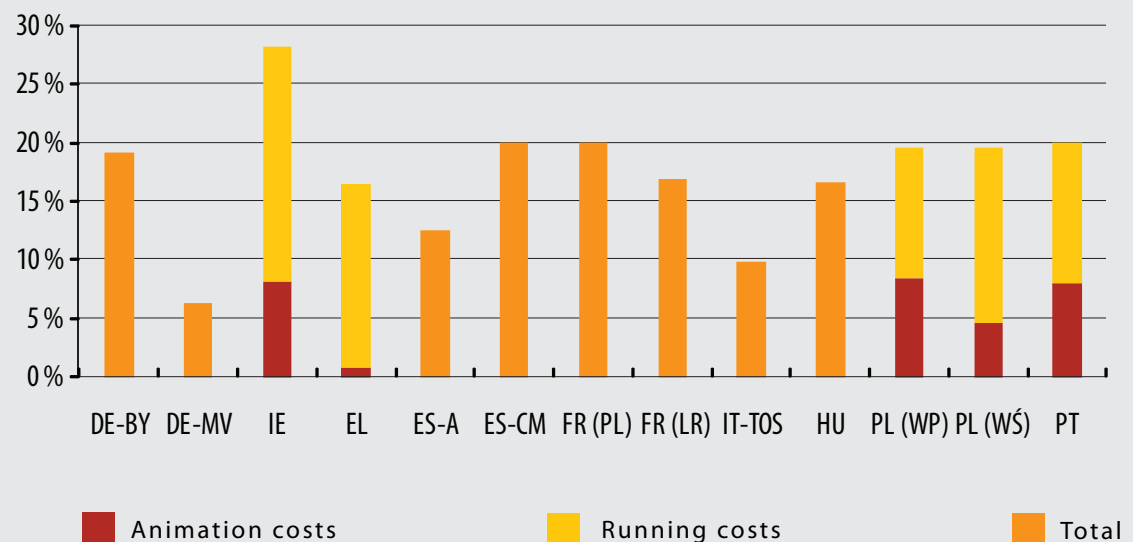


FIGURE 6

NON-PROJECT COSTS (INCLUDING ANIMATION) AS A PERCENTAGE OF LAGS' AXIS 4 BUDGETS



- 68.** Operating costs do not necessarily represent ineffective expenditure. For example, the LAG in Ireland had high costs for animation because it employed 2,5 full-time equivalent project development staff, who were very active in stimulating the local rural development (see paragraph 15).
- 69.** In addition to the above issues, the data cannot be used to compare efficiency between different programmes due to the different responsibilities of the LAGs in processing project grant applications and payments. In Hungary, the LAG had no formal role in the process once it forwarded the list of proposed projects to the managing authority, which was responsible for the checks on eligibility, the grant decision, grant agreement and all stages of monitoring project implementation, reporting and payment. By contrast, the LAG in Ireland was responsible for the whole process from developing the project to checking implementation and making the grant payments.
- 70.** In practice, implementation of Leader+ was overly bureaucratic: most LAGs required long and detailed grant application forms with multiple annexes and supporting documents even for the smallest projects (see **Box 15**), although it should be noted that the procedures were almost all defined by the Member State authorities, not the LAGs. LAG staff assisted promoters with the administrative process, but even with this help, a survey of project promoters by the LAG in France (Languedoc-Roussillon) found that 47 % considered the process of applying for a grant to be 'relatively difficult'.
- 71.** Data available on the time taken for approval of grant applications and payments was not complete or consistent, but shows that most LAGs took several months to process the files²⁶. In contrast, on occasions the LAG in Ireland received and processed the payment request and made a payment to the promoter on the same day. Delays in Hungary were caused by incomplete or inaccurate applications for project approval and for payments, indicating that the procedures may have been overly complex for an aid scheme targeted at small-scale local projects.

²⁶ In some Member States the national and regional authorities are responsible for these processes, which also contributes to the time taken.

BOX 15

EXAMPLES OF OVERLY BUREAUCRATIC PROCEDURES

LAG in Greece: Potential promoters had to complete an application of around 22 pages and submit 15 supporting documents including proof of age, proof that military service had been completed, proof that he was not a civil servant, proof that he was not retired on ill-health grounds, etc. Incomplete applications were rejected. The guide for promoters for the payment request amounted to 32 pages.

LAG in Hungary: The application for the parsonage project amounted to 60 pages for a grant of around 4 500 euro. Another project application contained 126 pages for a grant of around 5 400 euro.



The LAG took seven months to process and submit the project applications to the regional paying agency for checking and approval. The total period from application to signature of the contract for the six project files examined was between 11 and 16 months.

THE COMMISSION AND MEMBER STATES' MANAGEMENT OF THE LEADER PROGRAMMES

THE COMMISSION AND MEMBER STATES WERE NOT SUFFICIENTLY DEMANDING AND SHARE SOME RESPONSIBILITY WITH THE LAGS FOR LIMITING THE POTENTIAL ADDED VALUE OF THE LEADER APPROACH. THEY HAVE NOT TAKEN SUFFICIENT ACTION TO LIMIT THE COSTS AND RISKS

COMMISSION AND MEMBER STATES' REQUIREMENTS FOR LEADER+

72. The added value of the Leader approach is not obtained by the Commission or the Member States — but through the activities of the LAGs. Similarly, the primary responsibility for sound financial management lies with the LAGs, as they take the decisions on spending the EU budget. The Commission and Member States can give guidance to the LAGs and should ensure that the legislation, operating rules and management systems set the minimum standards required; create the right incentives for the LAGs to add value and achieve sound financial management; and avoid obstacles and disincentives.

Member States did not set or enforce effective minimum requirements for sound financial management and the Leader approach, despite the Commission's encouragement

73. The risks to sound financial management described in this report are well known — not least from the Court's Annual Report 2000, which noted similar weaknesses: LAGs backdating grants resulting in a risk of deadweight; lack of transparency in project selection; potential conflicts of interest; high operating costs and lengthy procedures.

74. At the time, the Commission replied to the Court's observations that it 'encouraged the use of open and transparent procedures'; 'encouraged LAGs to grant a level of aid appropriate to the circumstances of each project'; had 'raised the question of payment delays with the Member States'; 'invited' Member States to limit Leader+ operating costs to 15 % of the LAGs' total budget; and that the Structural Funds' implementing regulation introduced limits that should avoid grants being awarded to projects that were completed before the grant application was made.
75. The Commission established a Leader+ Observatory with a contact point, which organised and promoted seminars, produced publications and maintained databases. These activities aimed at sharing best practice between the LAGs and supporting the managing authorities and the national or regional networks.
76. The legislation set few requirements at EU level for Leader+ other than the general eligibility conditions, reporting and control systems that applied to all Structural Fund expenditure. Member States (or regions) developed their own arrangements and operating rules, which the Commission approved at the start of the Leader+ period.
77. Each Member State set different requirements for the LAGs to follow (see **Box 16**). For example, the Irish authorities required LAGs to assess project proposals for deadweight and displacement, but other managing authorities did not. Where the Member State did not set requirements, or where they did not properly supervise and enforce them, the LAGs' performance was lax, as shown in paragraphs 12 to 71. With few exceptions, the LAGs did little more than follow the procedures established by the Member States: LAGs did not achieve the full advantages of the Leader approach or self-regulate to achieve sound financial management of their own accord.

- 78.** Member State rules effectively condoned poor financial management in allowing grants to be made to projects that commenced before the LAG had decided on the grant application. The rules did not *oblige* LAGs to give grants retrospectively, but they gave the message that it was acceptable to do so.
- 79.** A particular weakness in all Member States' implementation of Leader was that they did not hold LAGs accountable for achieving the objectives of their local strategies. They approved the LAG's Leader+ strategies with general, open-ended objectives and did not require LAGs to monitor, assess or report on the achievement of their strategy objectives, or did not enforce such requirements.

BOX 16**EXAMPLES OF DIFFERENT IMPLEMENTATION REQUIREMENTS**

Tuscany introduced requirements for the key local actors to be represented in the LAG.

Ireland set rules to ensure a fair and transparent process to nominate and decide on the LAG membership.

The French rules required LAGs to have a 'double quorum' in the decision-making committee to ensure that there was an active partnership.

Managing authorities in Greece, Hungary and Tuscany required LAGs to score each project against a common set of objective criteria.

In Greece, the managing authority imposed a limit of 25 % of the grants awarded to LAGs' own member organisations, thereby requiring the LAG to involve the wider local community in implementing the strategy.

In Ireland, the operating rules specified that 'if projects qualify for aid under other schemes and programmes, they should as a general rule be regarded as ineligible for aid under Leader'.

COMMISSION AND MEMBER STATES' REQUIREMENTS FOR AXIS 4

- 80.** The Commission and Member States should have learned the lessons from previous Leader programming periods to ensure that the appropriate guidance and requirements were in place for the 2007–13 period.

The major change for the 2007–13 period is that Member States mostly require LAGs to implement mainstream rural development programme measures

- 81.** For the 2007–13 programming period, the legal framework is established by the rural development regulations. As in Leader+, there are few legal requirements specific to Leader. The regulations limit LAG running costs, but at 20 % this is higher than in Leader+ and can be circumvented by classifying costs as animation, which is not limited. The change from the Structural Fund to the rural development regulations introduces a requirement to check the reasonableness of project costs.
- 82.** The Commission issued guidance to the Member States for the preparation of Axis 4 and effectively approved the national or regional Leader programmes in approving the rural development programmes. Since then, the Commission has continued to give support, in particular through the European Rural Development Network.
- 83.** Member States had not finalised their operating rules at the time of the audit²⁷, so these could not be assessed. From the information available, the weaknesses identified in this report are likely to persist.

²⁷ With the exception of the managing authorities in Germany and Aragón.

- 84.** The lack of focus on achieving local strategy objectives is likely to be exacerbated in the 2007–13 programming period as, contrary to the Commission’s guidance²⁸, all the managing authorities audited (with the exception of Bavaria) now require LAGs to follow a common set of measures defined in the rural development programmes.
- 85.** Some Member States further restricted the scope of Leader programmes to specific measures, most commonly those of Axis 3²⁹. This severely limited the LAGs’ ability to propose local strategies for the key objectives of Axes 1 and 2 of the rural development programmes related to the competitiveness and the environmental impacts of agriculture and forestry (see **Box 17**).
- 86.** As each measure defines the types of projects and beneficiaries eligible, the possibilities for LAGs to develop innovative and multisectoral solutions specific to the local area are reduced. The nature of the projects to be implemented is similar for all LAGs in each Member State and is also similar to the mainstream, as in most cases, the rural development programme measures are primarily implemented by traditional top-down approaches.

²⁸ The Axis 4 implementation guidelines issued by the Commission state that it is important that operations not corresponding to the rural development programme measures can be supported in order to maintain the innovative nature of Leader.

²⁹ The LAGs in Ireland, Portugal and Poland were limited to implementing the measures of Axis 3 (plus a ‘small projects’ measure in Poland). The LAGs in Greece could additionally implement one measure from Axis 1. The LAGs in Aragón and Tuscany could implement two Axis 1 measures. LAGs in Castilla-La Mancha and Hungary could implement all RDP measures.

BOX 17

LAG IN PORTUGAL: THE MEASURES LIMITED THE LAG’S ABILITY TO ADDRESS THE NEEDS OF THE LOCAL AGRICULTURAL SECTORS

The LAG’s strategy set the objective of combating the rural exodus and the abandonment of traditional farming but could only use the measures of Axis 3 of the rural development programme to achieve this. This restricted the possibilities to develop local solutions to improve the competitiveness of the olive and wine sectors, despite their importance for the local rural economy. Environmental measures to tackle biodiversity and climate change issues in the local agricultural sector were excluded from the scope of Leader programmes, as were forestry measures.

SELECTION OF LAGs TO IMPLEMENT LEADER IN THE 2007–13 PERIOD

- 87.** To ensure that Leader is likely to be effective and achieve added value, Member States should only select LAGs that are competent and have high-quality strategies.

Member States selected LAGs with weak strategies

- 88.** In all the Member States audited, the process of selecting LAGs was only weakly, or not at all competitive, despite the requirement of the regulation that it should be so.
- 89.** Most managing authorities assessed and scored the proposed LAG strategies against relevant criteria and selected all LAGs that achieved a minimum score (typically of 50 %) ³⁰. All managing authorities in the sample accepted every LAG that submitted a valid application (with a handful of exceptions where there were two applications for the same area). By definition, the LAGs with low scores were well below what the managing authorities considered to be the possible level of competence and quality of strategy that LAGs could achieve. In one of the French regions, for example, the managing authority selected LAGs even though their application was assessed as being of insufficient quality (see **Box 18**).

³⁰ The exception was Tuscany, which did not allocate scores.

BOX 18

SELECTION OF LAGs BY THE MANAGING AUTHORITY IN FRANCE

According to the terms of the call for applications, the selection committee would select between 10 and 12 LAGs, each with an average financial allocation of 1,5 million euro. Eighteen applications were received, of which the managing authority classed two as good quality, eight as intermediate quality and eight as insufficient quality. All 18 LAGs were selected and the average financial allocation reduced in consequence to 1,1 million euro.

90. In particular, the audit found that LAGs had poorly developed Axis 4 strategies, with non-specific objectives, a lack of clear intervention logic, and poor or non-existent provision for monitoring and evaluation. Following the assessment of the LAG strategies, few Member States required improvements to the weaknesses identified. As a consequence, LAGs have been awarded substantial sums from the EU budget to implement weak strategies for a seven-year period.

COMMISSION APPROVAL OF THE 2007–13 RURAL DEVELOPMENT PROGRAMMES

91. The key point at which the Commission could determine how Member States implemented Axis 4 was with the approval of the national and regional rural development programmes. The Commission should ensure that programmes establish the conditions necessary and safeguard against the known risks to the added value of the Leader approach.

The Commission was undemanding in approving the rural development programmes

92. Rural development programmes are high-level documents, of which Axis 4 is a small part. Most contained few concrete details about how the Leader approach would be implemented. Member States developed many of the arrangements for Leader only after the programmes had been approved.

93. The Commission was undemanding in approving the rural development programmes, which led to the situation described in paragraphs 80 to 90. The Commission accepted programmes that did not provide for competitive selection of LAGs (despite the requirement in the regulation); that restricted LAGs to implementing nationally-defined measures (despite the Commission's guidance that LAGs should not follow a fixed set of measures); that had no specific plans for achieving innovation or interaction between sectors (despite instructions for the Commission assessments that innovation should be a priority); nor for monitoring and evaluation (despite the Leader+ mid-term evaluation conclusions that these have to be built into programmes from the outset). The Commission did not assess key elements for the added value of the Leader approach, such as Member State requirements for the composition and openness of LAGs.

THE COMMISSION AND MEMBER STATES' MONITORING AND EVALUATION

THE COMMISSION AND MEMBER STATES CANNOT DEMONSTRATE THE ADDED VALUE ACHIEVED FROM IMPLEMENTING THE LEADER APPROACH AND HAVE NOT YET EVALUATED THE ADDITIONAL COSTS AND RISKS INVOLVED

MONITORING AND EVALUATION OF THE EFFECTIVENESS OF THE LEADER APPROACH

94. The Commission and Member States should use the management systems, the checks on LAGs, monitoring indicators and annual reports to monitor the implementation, results and impacts of the Leader programmes. This should be done not only to be able to take timely corrective action, but also to provide sufficient, reliable and relevant evidence for evaluations and to give assurance on the effectiveness and added value of the Leader approach.

The LAGs, Member States and Commission monitored the implementation of Leader programmes

- 95.** There was extensive activity in monitoring the implementation of Leader+ programmes. LAGs and managing authorities recorded details of the grants awarded and payments made project by project. Managing authorities required the LAGs to prepare annual implementation reports describing the LAGs' activities and compiled data for monitoring indicators. These mainly concerned the numbers of projects and amounts of grants classified according to type of beneficiary and field of expenditure. Managing authorities submitted annual implementation reports to the Commission.
- 96.** All managing authorities produced a 'mid-term' evaluation of Leader+ in 2003 with an update in 2005. The Commission engaged a contractor to make a synthesis report.

...but there is little evidence on the effectiveness of Leader programmes in achieving rural development objectives or the added value of the Leader approach

- 97.** Despite all this activity, as LAGs did not assess or report on achievement of the local strategy objectives, there is an absence of evidence on the results and rural development impacts of the Leader expenditure. No information is available on whether (or to what extent) the Leader programmes have reduced the rural exodus from the areas concerned; increased opportunities for young people; diversified the rural economies, etc.
- 98.** One partial exception concerned the jobs created or safeguarded by the Leader projects, which the Commission encouraged Member States to monitor for all Structural Fund programmes. However, the Court found the definitions used to be inconsistent and the data — which in most cases was not checked by the managing authorities — was not reliable or credible.

99. The 2003 evaluations were before most LAGs had started implementing the Leader programmes and the updates were made before significant expenditure had been incurred. Many evaluation questions were not answered, or relied on the opinions of those who benefited from the programme.
100. The absence (or unreliability) of data makes it difficult to establish the effectiveness of the Leader programmes in delivering rural development outcomes, either in absolute terms, or in relation to the effectiveness of other delivery methods (notably, the mainstream programmes).
101. The potential added value of the Leader approach is not solely in the results and impacts of the physical outputs (the projects implemented with the Leader grants). The community involvement achieved through the bottom-up approach can also lead to less tangible impacts, such as 'capacity-building' and 'empowering the local population'. The strategic guidelines for Axis 4 consider that Leader should 'play an important role in the horizontal priority of improving governance'.
102. The potential for the Leader approach to achieve such impacts is indicated by examples in the contact point's best-practice publications, the evaluations and various studies. However, there has been no systematic monitoring or reporting of the LAGs' achievements in these areas, so the examples remain isolated cases. In the absence of reliable and relevant evidence, evaluations have not been able to demonstrate the frequency and extent of such impacts.

MONITORING AND EVALUATION OF THE COSTS AND RISKS

103. The monitoring and evaluation should also provide reliable evidence and assessments of the costs and risks of the Leader approach.

The Commission and Member States have not monitored or evaluated the additional costs and risks involved

- 104.** In respect to the weaknesses identified in the Court's 2000 Annual Report, the Commission replied that most corresponded to risks that are inherent in a decentralised programme such as Leader and that 'the Commission and Member States are aware of these risks when monitoring the programmes and checking that their implementation follows the principle of sound financial management'.
- 105.** The Commission checks compliance with the regulations and can propose financial corrections. Checks made during the Leader+ period included the programmes of Portugal and France in 2005. The Commission services found that there were no formal project selection criteria; that conflict of interest procedures were inadequate and LAGs took decisions without a 'double quorum'; and that LAGs did not have procedures to check the reasonableness of proposed project costs. The Commission services made recommendations to the Member States concerned but did not consider it appropriate to propose financial corrections³¹. The Commission services also checked the compliance of retrospective grants and grant rates with the regulations, but did not raise the questions of deadweight or efficiency.
- 106.** While the Commission's checks confirmed the risks identified in the Annual Report 2000 (and in this audit), they do not form a basis for establishing the extent and impact of those risks in the Member States concerned or EU-wide³².
- 107.** Member States' inspections of the LAG operations (which covered at least 5 % of the expenditure in Leader+) provided an opportunity to check and report on the incidence of the risks to sound financial management. However, with a few exceptions in certain Member States, they have not covered the fairness and transparency of the LAGs' project selection procedures, soundness and documentation of the assessment of project proposals, voting records, or the correct operation of conflict of interest policies.

³¹ The effectiveness of such recommendations is brought into question by the results of the Court's observations in these Member States, which show that the weaknesses continued to exist in 2009.

³² It should be noted that this is not an objective of the Commission's checks.

- 108.** Member States have not used their management systems or the LAGs' annual implementation reports to monitor the fairness and transparency of the LAGs' decision-making process, the proportion of grants awarded to LAGs' members, the efficiency of the grants awarded or the efficiency of the LAGs' processes and operating costs. In France, the managing authority monitored LAGs' activities through observing LAG meetings but apparently condoned practices such as LAG members presenting their own projects, making retrospective grants to projects and raising grant rates to spend up the budget (see paragraph 55, for example).
- 109.** Where individual LAGs have questioned project promoters, the information available indicates that deadweight is an important risk³³. The EU-level evaluations gave no information on deadweight or the extent of retrospective grants³⁴.
- 110.** Similarly, for the fairness and transparency of LAG procedures, the evaluations indicate that problems exist with the objectivity of project selection, for example, but provide no information on the extent or impact of such weaknesses (see **Box 19**).

³³ For example, a survey of project promoters by the LAG in France (Pays de la Loire) found that 71 % would have undertaken the project without the Leader grant.

³⁴ The Commission has asked the contractor for the Leader+ final evaluation to assess the incidence of deadweight, but there was no monitoring or data collection during the Leader+ period for this.

BOX 19

EXTRACT FROM THE SYNTHESIS OF THE LEADER+ MID-TERM EVALUATION REPORTS

'Unbalanced partnership or unbalanced power relations in the LAG can lead to an inappropriate set of projects selected, often at the advantage of the institution belonging to the public sector. The composition of LAGs is often unbalanced and the institutional sector dominates.'

'The information in the [evaluation] reports and in the case studies has tended to concentrate on issues such as bureaucracy, relationships between managing authorities and LAGs, financing, and insufficient autonomy at LAG level. More fundamental management issues such as structures, management systems, planning and control at LAG level were not highlighted in the reports. Responses to the question also do not refer at all to the role of the [decision-making committees] in programme management.'

- 111.** As already indicated in paragraphs 64 to 71, information on Leader operating costs was not comparable, not reliable and above all not complete as many functions were performed by the managing authorities in some Member States. The evaluations reported on the 'excessive bureaucracy' of Leader+³⁵ but have not assessed the costs. Consequently, the efficiency of the Leader approach cannot be determined.

MONITORING AND EVALUATION IN THE 2007–13 PERIOD

- 112.** The Commission and Member States should learn the lessons from the three previous Leader programming periods to ensure that efficient and effective monitoring and evaluation of the Leader approach is in place for the 2007–13 period.

Implementation of Axis 4 has started without key elements of the monitoring and evaluation systems being in place

- 113.** The Leader+ mid-term evaluation synthesis report strongly recommended that monitoring and evaluation systems should be improved and needed to be in place from the start of the 2007–13 programming period³⁶. The Commission established a Common Monitoring and Evaluation Framework (CMEF) for the rural development programmes. This set some specific evaluation questions on Leader added value, improvement in governance and effectiveness, but reduced the monitoring indicators specific to Leader to the number of LAGs and the population in Leader areas, which the Commission considers as the baseline indicator for measuring the governance objective. The CMEF allowed the managing authorities to develop additional indicators, but none of the audited managing authorities did so for Leader. Moreover, none of the audited LAGs or managing authorities had made arrangements for collecting and reporting information relative to the costs, risks, effectiveness and added value of the Leader approach.

³⁵ Leader+ evaluation synthesis: 'the mid-term evaluation reports repeatedly list:

(i) excessive bureaucracy;
(ii) difficult relationships between managing and other involved authorities on one side and LAGs and project promoters on the other;
(iii) problems with raising co-funding; (iv) delays in financing; and (v) insufficient autonomy of the LAG. The consequence of these deficiencies has been a loss of management efficiency. Excessive bureaucracy leading to delays in financing projects is viewed as the main management issue that hinders impact and in fact detracts from some of the other attractive design features of Leader+.

³⁶ '[In Leader+,] programme evaluation was not integrated at the design stage and essential evaluation features e.g. baseline data, were not sufficiently considered'. Recommendation: 'The accompaniment of local action groups with a mix of external evaluation and assisted self-evaluation should be designed and put down in the programme.'

- 114.** At the end of 2009, the Commission, through the European Evaluation Network for Rural Development, established a thematic working group on Leader to consider the difficulties encountered by the Member States, including concern that CMEF indicators and economic measurement will not adequately capture Leader effects; considerable methodological challenges owing to the local scale of Leader; major methodological challenges in evaluating governance, participation and capacity in rural communities and problems to provide hard statistics for evaluating the Leader benefits. In mid-2010 the group issued a draft working paper on capturing the impacts of Leader. However, the work of this group comes too late for the mid-term evaluations (which have to be completed in 2010) and the possibilities for evaluation of Axis 4 will be limited as the relevant information is not being collected or reported at LAG level (see paragraph 113).

CONCLUSIONS AND RECOMMENDATIONS

LAGS HAVE IMPLEMENTED THE LEADER APPROACH IN WAYS THAT LIMIT THE POTENTIAL FOR ADDED VALUE IN TERMS OF THE 'LEADER FEATURES', ALTHOUGH THE COURT FOUND EXAMPLES OF GOOD PRACTICE

- 115.** The LAGs audited implemented around 1 000 projects in the Leader+ period that were of benefit to the local businesses and communities concerned. But Leader is about more than this: it should achieve added value compared with traditional programmes through following a specific approach. To the extent that the key features of the Leader approach are not fully followed, the potential added value of the approach cannot be achieved.
- 116.** The bottom-up approach was limited in the LAGs that gave the majority of the grants to their own member organisations; the potential added value of a partnership was not achieved in LAGs where the decision-making was dominated by the local authorities; few LAGs could demonstrate innovation or interaction between different sectors in their strategies or projects. Yet there were some examples of LAGs that really involved the local community and of initiating successful local projects through their 'animation' activities.
- 117.** Local strategies should be at the heart of the Leader approach, giving the partnerships their *raison d'être* and promising an added value through local solutions tailored to achieve the local rural development objectives. In practice, the strategies were almost irrelevant and served as little more than an application to the managing authority for funding. None of the LAGs monitored or reported on their performance in achieving their strategy objectives.

LAGS DID NOT HAVE DUE REGARD TO THE NEED FOR FAIR AND TRANSPARENT PROCEDURES OR EFFICIENCY

- 118.** LAGs have not taken sufficiently seriously the need for transparency, for documentation of the project assessment and selection decisions and for procedures to avoid all risks of direct or indirect conflict of interest. This not only increases the risks that grant decisions will be made without due regard to efficiency, it also creates a reputational risk for the EU. The practices observed in some LAGs, such as grant decisions being made by a handful of people and to their own organisations, are likely to be to the detriment of local governance rather than enhance it.
- 119.** LAGs have not taken account of efficiency, particularly in awarding grants for projects that were already under way, or even completed, before the grant decision was made. In some cases, their objective appears to have been to spend the maximum amount possible, rather than to achieve the maximum results possible.
- 120.** The costs of implementing Leader are substantial, due to the additional implementation layer: up to a third of the LAG's budget in addition to the managing authorities and paying agencies' costs of processing, monitoring and control. Inflexible procedures — even for very small projects — and delays limited efficiency, although, to a large degree, these resulted from the Member States' requirements.

THE COMMISSION AND MEMBER STATES WERE NOT SUFFICIENTLY DEMANDING AND SHARE SOME RESPONSIBILITY WITH THE LAGS FOR LIMITING THE POTENTIAL ADDED VALUE OF THE LEADER APPROACH. THEY HAVE NOT TAKEN SUFFICIENT ACTION TO LIMIT THE COSTS AND RISKS

- 121.** The LAGs bear the main responsibility for achieving the Leader added value and sound financial management, but the risks are well known. The Commission and Member States share responsibility for supervising the LAGs' performance and ensuring that they follow the Leader approach and consistently achieve the highest standards of sound financial management. Poor performance in these respects should not be tolerated, even in the Member States implementing Leader for the first time, as the lessons of the previous programming periods should have been learned.
- 122.** However, 10 years after the Court's previous audit of Leader, the same serious weaknesses persist. The Commission responded to the observations in the Court's 2000 Annual Report with '*encouragement*', guidance and recommendations to the Member States. This has not proved effective.

RECOMMENDATION 1

In view of the persistent weaknesses, the **Commission** should ensure that the legislation provides sufficient clarity on the standards required in the specific case of Leader. A few simple requirements at EU level may replace the need for divergent operating rules at programme level, simplify procedures, improve consistency and provide clear control standards in the following areas:

- (a) exclusion of projects started before a grant decision has been made, to eliminate a major risk of inefficiency (deadweight);
- (b) LAGs' selection of projects to be based on documented assessments that demonstrate the soundness and fairness of the decision in terms of consistent and relevant criteria;
- (c) rules to ensure that the partnerships are not dominated by the local authorities at project selection meetings.

In addition, **Member States** should ensure that effective procedures are in place concerning the weaknesses identified in this report, and that the correct operation of these procedures is supervised.

- 123.** In particular, the Commission and Member States have tolerated the situation where LAGs do not have effective procedures to avoid conflicts of interest. The weaknesses observed highlight the risk that the LAG members may have directly or indirectly influenced the decisions in a way that resulted in an ineffective or inefficient use of the EU budget.

RECOMMENDATION 2

The financial regulation prohibits any action that may result in a conflict of interests. In view of this, the **Commission** and **Member States** should ensure that effective safeguards are in place, and check that they operate correctly. Members of the LAG's project assessment or decision-making committees with any personal, political, professional or business interest in a project proposal should make a written declaration of the interest. They should be absent from any discussion, assessment or decision on the project and the matter should be referred to the managing authority in accordance with the financial regulation.

124. Fundamental to Leader is the bottom-up identification of local solutions to local problems, yet all but one of the managing authorities audited have imposed a *de facto* top-down system for the 2007–13 period. These managing authorities require LAGs to implement the common rural development programme measures, contrary to the Commission’s guidance. This may make Leader easier to control, but limits the scope for innovative *local* strategies and hence limits the potential added value that justifies the Leader approach³⁷.

³⁷ The importance of this is underlined by the definition of the Leader approach given in the Commission’s fact sheet as ‘a method of mobilising and delivering rural development in local communities, rather than a fixed set of measures to be implemented’.

RECOMMENDATION 3

The **Commission** should review with the **Member States** whether the existing measures constrain the LAGs’ ability to design and implement innovative, multisectoral, local strategies to achieve the objectives of Axes 1–3 of the rural development policy. **Member States** should amend their rules as necessary to allow LAGs to develop local solutions that do not correspond to the rural development programme measures.

125. In shared management it is not the Commission’s role to approve all details of national and regional implementing arrangements, but before having approved the 2007–13 programmes the Commission should have ensured that key elements to the success of Leader (see below) were in place. Member States selected LAGs with weak strategies. As a result, the EU budget is being implemented in the 2007–13 period in a way that is less efficient, less effective and with less potential added value than could have been achieved.

RECOMMENDATION 4

The **Commission** should ensure that **Member States** review the LAGs' 2007–13 strategies and require the LAGs to set measurable objectives, specific to their local area, that can be achieved by the Leader programme in the remainder of the period. The **Member States** should then require LAGs to account for achieving their local strategy objectives, for achieving added value through the Leader approach, and for the efficiency of the grant expenditure and the operating costs.

Member States should further consider whether this increased accountability for sound financial management would allow the existing management, supervision and control systems to be streamlined, with less need for checking compliance with eligibility conditions for measures.

RECOMMENDATION 5

In view of its responsibility to ensure the sound financial management of the EU budget, the **Commission** should check future programmes in sufficient detail for the specific elements that are fundamental to the added value, effectiveness and efficiency of Leader.

Member States should ensure in future that LAGs correct any weaknesses identified in the selection process such that LAGs have strategies and implementation plans of the highest standard.

THE COMMISSION AND MEMBER STATES CANNOT DEMONSTRATE THE ADDED VALUE ACHIEVED FROM IMPLEMENTING THE LEADER APPROACH AND HAVE NOT EVALUATED THE ADDITIONAL COSTS AND RISKS INVOLVED

- 126.** The EU budget contributed over 2 billion euro to Leader+ and has programmed over 5 billion for the 2007–13 period. The Commission has not yet demonstrated the effectiveness or efficiency of the expenditure, the added value achieved through following the Leader approach, the extent to which the known risks have materialised or the real costs of implementation. Member States have not collected and validated the necessary information, so there is an insufficient evidence-base for evaluation. This audit has shown that the added value and sound financial management of Leader cannot be taken for granted.

RECOMMENDATION 6

The **Commission** should take urgent steps to ensure that it can account for the added value and sound financial management of Leader.

Monitoring should be directed towards indicators of the added value of the Leader approach, efficiency and effectiveness, rather than implementation. The data should be verified at source, at least on a sample basis. Given the scale and nature of Leader and the difficulties encountered thus far in obtaining relevant, comparable and reliable data, the **Commission** should consider more efficient and effective approaches, such as monitoring statistically-valid samples of LAGs in detail, through indicators, inspections and structured case studies with proper data verification by an independent evaluator.

The **Commission** should coordinate the **Member States** to ensure that the supervisory and control systems provide assurance on the fairness and transparency of procedures; comparable data on the costs; and complement the monitoring of effectiveness and efficiency.

This Report was adopted by Chamber I, headed by Mr Michel CRETIN, Member of the Court of Auditors, in Luxembourg at its meeting of 21 July 2010.

For the Court of Auditors



Vítor Manuel da SILVA CALDEIRA
President

LIST OF PROJECTS REVIEWED¹

(euro)

Project description	Type of promoter	Total eligible cost	Leader grant ²
DE-BY			
Construction of a swimming lake	Local public sector	2 063 969	1 031 984
Acquisition of a railway locomotive	Private sector	396 403	74 325
Acquisition of equipment for harvesting and processing fruit	Association	30 293	3 787
DE-MV			
Restoration of church including tourism facilities	Church authorities	165 016	111 386
Development of concept for a technical museum	Association	131 498	88 106
Residential care home for demential patients	Association	1 063 000	154 000
Consultancy study: coordination of passenger boat trips	Local public sector	11 265	5 914
IE			
Public lighting for village lay-by	Association	6 959	3 476
Feasibility study and website for town development project	Association	17 969	14 375
Meat processing equipment	Private sector	34 485	14 250
Construction of riverside path	Association	40 937	31 377
EL			
Construction and equipping of a tavern	Private sector	414 712	228 091
Re-paving of streets in town centre	Local public sector	210 942	210 942
Construction and equipping of a distillery	Private sector	254 154	127 077
Construction and equipping of a restaurant	Private sector	367 421	202 081
Construction and equipping of a winery	Private sector	387 480	193 740
Construction and equipping of a guesthouse	Private sector	334 436	181 799
Construction of new premises for a metal workshop	Private sector	202 087	111 147

¹ The Court selected projects that were typical of the range of projects financed by each LAG in terms of type of promoter, nature of the project (investments, studies, events, etc.) and size of the project in financial terms. Preference was given to projects completed between 2006 and 2008.

² EU-funded element, except in Ireland, Greece and Hungary, where the amount includes the national co-financing.

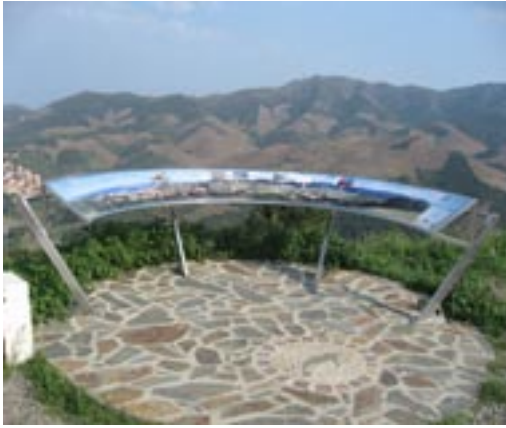
(euro)

Project description	Type of promoter	Total eligible cost	Leader grant ²
ES-A			
Purchase of equipment for kindergartens (I)	Association	29 910	14 955
Purchase of equipment for kindergartens (II)	Association	39 000	19 500
Fitting out of water treatment plant	Private sector	369 000	30 050
Restoration of houses for rural tourism	Private sector	222 597	30 051
Fitting out of water information centre	LAG	180 000	60 000
Construction of an underground hotel	Private sector	277 187	30 051
Purchase of equipment for an ecological bakery	Private sector	189 599	25 596
ES-CM			
Olive oil processing equipment	Private sector	78 993	28 437
Construction of a rural hotel	Private sector	617 026	98 130
Renovation of a village square	Local public sector	30 450	8 583
Rehabilitation of municipal play area	Local public sector	36 096	26 532
Enlargement of food processing factory	Private sector	409 179	69 050
Information panels at tourist sites	LAG	254 847	150 254
Construction of rural tourism accommodation	Private sector	245 061	40 012
FR (PL)			
Contemporary music event	Association	59 994	21 997
Theatre management and staff salary costs	Local public sector	219 272	91 950
Development of distance learning agricultural course	Association	16 070	7 794
Computerisation and networking of library records	Local public sector	50 312	25 156
Improvement of Internet site for cultural association	Association	4 097	3 277
Modernisation of an IT system of a local company	Private sector	51 227	7 684
FR (LR)			
Local administration IT system	Local public sector	80 830	40 415
Restoration of a historical building	Local public sector	393 803	129 360
'Wine and sea' tourist itinerary	Local public sector	162 014	81 007
Restoration and opening to public of an arboretum	University	33 626	14 757
Study on vacant properties and creation of a database	Association	12 507	5 865
Public Internet access facilities	Local public sector	327 900	120 431
Construction of mountain biking circuits and equipment for hire centre	Local public sector	107 281	32 845

(euro)

Project description	Type of promoter	Total eligible cost	Leader grant ²
IT-TOS			
Purchase of a loom	Private sector	120 000	18 000
Sanitisation equipment for food processing company	Private sector	90 000	13 500
Re-paving of village streets	Local public sector	293 438	33 609
Purchase of fruit crates and upgrade of irrigation system	Private sector	30 970	4 646
Purchase of a tractor	Private sector	37 000	13 218
Purchase of woodworking machinery	Private sector	63 000	9 450
Travelling photograph exhibition ³	LAG	101 894	30 670
Services to the citizen (veterinary service and information) ³	Local public sector	243 000	52 232
HU			
Community craft workshop	Local public sector	10 514	7 980
Renovation of wine cellar	Private sector	20 962	9 433
Construction works to reinforce a parsonage building	Church authorities	6 009	4 506
Guest house facilities (outdoor jacuzzi, bicycles and storage shed, etc.)	Private sector	2 760	2 361
Ski trips and equipment for school pupils	Local public sector	10 507	7 880
Plans for paving a dirt road servicing vineyards	Private sector	2 960	2 516
PT			
Purchase of projection equipment	Association	7 000	5 250
Purchase of equipment for olive oil processing	Private sector	199 500	69 825
Purchase of equipment for honey processing and marketing	Private sector	39 600	13 860
Modernisation of wine cellar ³	Private sector	100 000	35 000
Purchase of additional karting equipment	Private sector	24 922	8 723
Road signs	Local public sector	92 048	69 036
Establishment of shop for rural produce	LAG	136 067	102 050

³ Review of file documents only.



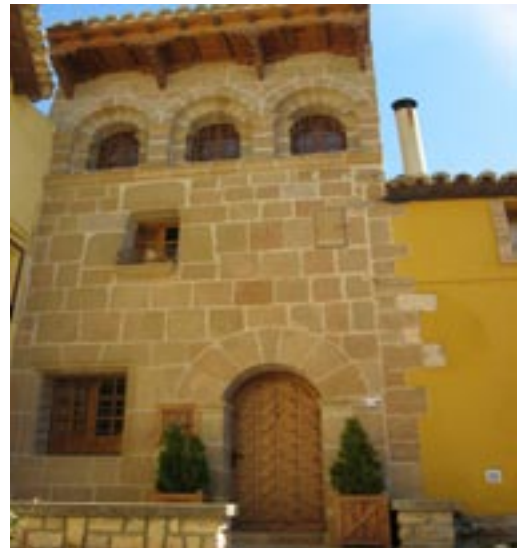
Picture 2: France (Languedoc-Roussillon) — 'Wine and sea' tourist itinerary



Picture 3: Germany (Mecklenburg-Vorpommern) — Restoration of church including tourism facilities



Picture 4: Italy (Tuscany) — Purchase of fruit crates



Picture 5: Spain (Aragón) — Restoration of houses for rural tourism



Picture 6: France (Languedoc-Roussillon) — Public Internet access facilities



Picture 7: Greece — Construction and equipping of a distillery



Picture 8: Portugal — Purchase of additional karting equipment



Picture 9: Greece — Construction and equipping of a tavern

REPLY OF THE COMMISSION

EXECUTIVE SUMMARY

I.

The Leader method is a policy tool for actively involving and engaging local actors in the development of their community thanks to its distinctive 'bottom-up' approach.

Leader is a major asset in reinforcing civil society in rural areas. There are now more than 2 000 local action groups (LAGs) which are putting local development strategies to work with EU rural development funding.

Leader is an integral part of the rural development policy 2007–13.

The Commission does not share the Court's assessment that LAGs represent an additional layer. Rural development policy is implemented in shared management between the Commission and the Member States, respecting the principle of subsidiarity. The implementation of Leader is complemented by a specific mandatory feature, which is that a significant part of management tasks is transferred to the local level.

With regard to its costs, the activities developed by the LAGs in the framework of their budget for running costs and animation are linked to the horizontal priority of promoting capacity-building of local actors and helping potential project promoters.

As regards the implementation of the Leader approach in the current programming period, the Commission has taken a comprehensive set of actions aimed at further encouraging good practice and sound financial management.

REPLY OF THE COMMISSION

II.

The creation of local capacity leads to increased local development activity, pooling local resources, networking allowing mutual learning and an integrated approach to address complex economic and social issues. This plays an important role in the horizontal rural development priority of improving governance.

IV.

LAG members are important actors of the development of a rural territory. The bottom-up approach characteristic of Leader should be applied in a way that local organisations or individuals who are members of a LAG can play an important role.

LAGs are encouraged to present innovative local development strategies but innovation is one LAG selection criterion among others. A local development strategy cannot deal with innovative approaches only.

With regard to integrated projects, most local strategies cover several measures and are applied to several sectors or intervention areas. There are examples of good practice with programmes introducing an integrated approach. The European Network for Rural Development (ENRD) will promote these good practices.

V.

Member States have to ensure that there is no conflict of interest under the shared management approach. Decision-making procedures and selection criteria to be applied by the LAGs are not part of the programme but part of the local implementation assessed by the managing authority when the LAG is selected. Member States can also apply common rules for all LAGs established at national level.

The Commission notably but not only in its audits pays attention to the project selection process, transparency, conflict of interest, etc. The Commission executed audits on 37 out of 73 Leader+ programmes for the programming period 2000–06; 13 programmes were audited more than once.

VI.

For the current programming period 2007–13, the necessary legal provisions have been included in the EAFRD¹ regulation and its implementing rules².

Furthermore, the Commission has provided guidance to Member States in the phase of programme design and approval through the 'Guide on the application of the Leader axis'. This included specific advice on the potential added value of Leader, i.e. coverage of all axes, innovation, integrated and territorial approach.

In addition, the Commission requested a strategic approach towards Leader under the national strategic plans. At the same time, Member States were allowed to make different choices as regards the scope of application of the Leader method in response to the specific existing experience at LAG level and to the needs identified in their analyses.

¹ European Agricultural Fund for Rural Development.

² Council Regulation (EC) No 1698/2005 of 20 September 2005 on the support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 277, 21.10.2005, p. 1), and Commission Regulation (EC) No 1974/2006 of 15 December 2006 laying down detailed rules for the application of Council Regulation (EC) No 1698/2005 of 20 September 2005 on the support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 368, 23.12.2006, p. 15).

REPLY OF THE COMMISSION

The Commission contributes on an on-going basis to better procedures for the management and control systems in the Member States through the provision of advice and guidance, as well as through recommendations stemming from its audits and where appropriate by applying financial corrections.

VII.

The *ex-post* evaluation of Leader+, which is under way and will produce its final report towards the end of 2010, is considering the issues of effectiveness and efficiency of Leader expenditure. It is normal practice to assess the effectiveness and efficiency of policy instruments on an *ex-post* basis. This evaluation forms part of the standard policy evaluation cycle and its timing has been marked by the fact that Leader+ was still active until June 2009 as regards 40 programmes.

The Commission (Thematic Working Group of the European Evaluation Network for Rural Development) has recently issued a final draft guidance document on the evaluation of the impact of Leader³.

VIII.

The implementation of procedures to avoid the risk of conflict of interest, in compliance with the financial regulation applicable to the general budget of the European Union, is the responsibility of Member States.

³ Capturing impacts of Leader and of measures to improve quality of life in rural areas, Draft Working Paper 4, 21 June 2010, European Evaluation Network for Rural Development.

The Commission will consider revising the 'Guide on the application of the Leader axis' with regard to project selection to further clarify the need for sound procedures respecting key principles such as transparency, equal treatment, use of objective selection criteria or decision reporting.

IX.

The Commission ensures that objectives set at programme level shall be supported by indicators that Member States will obtain at LAG level in order to produce aggregated data at the level of the Leader axis.

Objectives on the level of the local strategies should be established in line with SMART (specific, measurable, achievable, time) criteria to the extent possible.

X.

The Common Monitoring and Evaluation Framework (CMEF)⁴ is focusing on the Leader added value, notably in relation to its impact. The impact of Leader is however more difficult to measure since it mainly relates to local capacity-building (social capital) and is driven by the local development process. Member States shall ensure that the appropriate monitoring information is available.

⁴ The Common Monitoring and Evaluation Framework (CMEF) provides a single framework for monitoring and evaluation of all rural development interventions for the programming period 2007–13. The CMEF establishes means for improving programme performance, ensuring the accountability of programmes and allowing an assessment on the achievement of established objectives.

REPLY OF THE COMMISSION

There are specific CMEF evaluation questions for Leader on the improvement of governance, the mobilisation of endogenous development potential, multisectoral approaches and cooperation, and the contribution to the priorities of other axes.

INTRODUCTION

6. The creation of local capacity leads to increased local development activity, pooling local resources, networking allowing mutual learning and an integrated approach to address complex economic and social issues. This plays an important role in the horizontal rural development priority of improving governance⁵.

⁵ Fourth priority of the Community strategic guidelines for the programming period 2007 to 2013 as set out in Council Decision 2006/144/EC of 20 February 2006.

7. The Commission considers that the LAGs do not represent an additional layer. Rural development policy is implemented in shared management between the Commission and the Member States, respecting the principle of subsidiarity. The implementation of Leader is complemented by a specific mandatory feature, which is that a significant part of management tasks is transferred to the local level. This should not necessarily mean a duplication of tasks.

With regard to the costs, the activities developed by the LAGs in the framework of their budget for running costs and animation contribute to the horizontal priority of promoting capacity-building of local actors and helping potential project promoters. They go far beyond the scope of what national or regional authorities offer in top-down grant schemes.

As regards the implementation of the Leader approach in the current programming period, the Commission has taken a comprehensive set of actions aimed at further encouraging good practice and sound financial management:

- the essential principles of the Leader approach have been laid down in the relevant legal framework;
- it has provided guidance in the phase of programme design and approval through the 'Guide on the application of the Leader axis';

REPLY OF THE COMMISSION

- it has established 'focus groups' within the Leader sub-committee of the European Network for Rural Development (ENRD) with a mandate to examine implementation issues. The ENRD continues with the exchange of achievements, experience and know-how between the actors involved in the implementation of the Leader approach as it was already a priority of Leader II and Leader+ (then with its European Leader II and Leader+ Observatories).

AUDIT SCOPE AND APPROACH

8. Please see the Commission reply to paragraph 7.

9. In 2009 most Leader+ local strategies had been closed and implementation of the 2007–13 local strategies had not started yet, with generally low activity.

OBSERVATIONS

Joint reply 13–15 and Box 2:

The Commission welcomes the Court's acknowledgement of LAGs' good practices in promoting local community involvement and participation.

16.

The process-oriented Leader approach entails the design and implementation of a strategy involving the local community at large.

LAG member organisations are representative and active locally based organisations of the rural territory. The Commission notice on Leader+⁶, which was the reference document for the national and regional Leader+ programmes, states in its point 12: 'Local action groups must consist of a balanced and representative selection of partners drawn from the different socioeconomic sectors in the territory concerned'. The partners consist of a mix of public entities and partners representing the civil society. These partners are also the main authors of the strategies and do in most cases represent a large part of the population of the territory. It is therefore normal that a proportion of projects are originating from these member organisations. LAG members can play an important role for the implementation of the local development strategy. In addition, it should be stressed that the effective involvement of other actors of the territory in the implementation of the local strategy strongly depends on the local context. For example, in the current period in Greece LAG members can be beneficiaries and implement projects up to 30 % of the public expenditure of the local strategy. Given the wide diversity of LAG membership, it would be difficult to impose at EU level a specific proportion of projects to be promoted by other actors. Member States should ensure that the wider community can participate.

⁶ Commission notice to the Member States of 14 April 2000 laying down guidelines for the Community initiative for rural development (Leader+).

REPLY OF THE COMMISSION

19.

The Commission agrees with the Court that an open membership policy is desirable and will consider this for the design of the post-2013 policy.

Box 3

The composition of the Greek LAG audited by the Court complies with the existing EU regulatory framework. The selection of the projects falls under the responsibility of a special decision-making committee, where 50 % of the partners are private.

20.

The synthesis of the Leader+ mid-term evaluation indicates that continuous involvement of young people in decision-making bodies is very rare. This may be due to locally based youth organisations which are not well structured or even frequent in rural areas.

Joint reply 21–22:

During the negotiations leading to the approval of the rural development programmes (RDPs) for the 2007–13 period, the Commission examined that the principle of a minimum of 50 % representatives of the civil society in the partnership was included, as required by Article 62.1(b) of Regulation (EC) No 1698/2005. This requirement applies to the decision-making level.

Still, the Commission will consider revising existing guidance in order to avoid any misinterpretation.

Box 4

See Commission reply to paragraphs 21–22.

23.

See Commission reply to paragraphs 21–22.

Box 5

See Commission reply to paragraphs 21–22.

25.

The necessary degree of precision should be defined by the Member State, which can adapt it to the specific context of a given territory.

26.

Local development strategy objectives should be established in line with SMART criteria (specific, measurable, achievable, transferable) to the extent possible.

Rural development funding supports both assistance and training activities delivered by the programme authorities through the sub-measure ‘acquiring skills’ or by the national rural networks.

Certain scenarios are long-term trends that cannot be confined within the time-frame of seven-year local development strategies, such as for example ‘rural exodus and abandonment of traditional agriculture’ referred to by the Court.

Box 6

See Commission reply to paragraph 26.

REPLY OF THE COMMISSION

27.

The Commission does not necessarily share the Court's conclusion that the mountain-biking centre did not contribute to the objective of competitiveness of the area as set out in the local development strategy.

28.

The Commission agrees with the Court to the extent that the totality of projects have to serve the local strategy objectives. However, the extent to which the referred project fitted into the wider territorial strategy had to be determined at local level by the LAG. Projects can also add value to a territorial theme through contributing to an overall objective of the strategy.

Box 7

The Commission shares the view that Leader should not support the activities of local authorities deriving from statutory requirements. However, projects implemented by municipalities should be eligible under Leader if they are part of a wider regional concept and contribute to the objectives of the local development strategy.

29.

The implementation of a strategy in terms of 'measures' does not necessarily imply that projects cannot be assessed and selected with regard to the local strategy objectives. Programmes can foresee a general structure for the local strategies that ensures the respect of both types of criteria, as it is for example the case in Spain.

30.

Calls for proposals and the actual selection of projects have to be done on the local level, by the LAG, ensuring coherence between the eligibility conditions and the objectives of the strategy.

31.

In Leader+ monitoring and evaluation of the local development strategy was recommended by the Leader+ guidelines on evaluation. Furthermore, LAG-level evaluation activities were eligible for co-financing.

32.

A 'review of the achievements' as a means of communicating with the public cannot be assimilated to a full evaluation of the local strategy.

The implementation of projects is the immediate result of a LAG's activities. Measuring their impact is often difficult, since many of them are linked to the development process (capacity-building, etc.).

33.

The implementation of the Leader axis had hardly started at the time of the audit in most of the Member States visited by the Court.

With regard to the referred 'lack of specific local objectives', please see the Commission reply to paragraph 26. In relation to the 'imposition of the use of common measures' by Member States, please see the Commission reply to paragraph 84.

REPLY OF THE COMMISSION

34.

Innovation is a feature of the Leader axis (Article 61(e) of Regulation (EC) No 1698/2005), but is not mandatory at LAG level (Article 62.1(a) of Regulation (EC) No 1698/2005). LAGs are encouraged to present innovative local development strategies but innovation is one LAG selection criterion among others. Innovation is therefore not necessarily present in all project supported.

Local development strategies cover a broad range of development goals to be achieved through a given set of projects. Some projects that cannot be considered innovative may nonetheless be necessary for the strategy and funded by Leader. The local actors managing the strategy need a minimum degree of flexibility regarding funding opportunities.

36.

LAGs should ensure the co-existence, synergy and complementarity of projects in the area.

While the local strategy should indeed be integrated and foresee interaction between sectors, individual projects may not be so.

37.

In Leader+ LAGs were encouraged to present innovative local development strategies but innovation was one selection criterion among others.

Innovation cannot be assessed in absolute terms. Innovative is what is new for the territory concerned or if the method is implemented for the first time.

38.

Please see the Commission reply to paragraph 37.

The Commission underlines two points:

- the innovative character of a project cannot be excluded just because it concerns the purchase of standard products. This may be innovative for the given sector or imply process innovation in the marketing systems;
- the two projects in Hungary where the Court seems to have doubts as regards their 'novelty' have to be assessed in their specific local context.

However, under shared management, the Commission is not responsible for the choice of projects to be financed.

40.

The fact that individual projects funded under Leader would also be eligible for other EU funding does not put into question the legality and regularity of the support under Leader. Furthermore, it is up to the LAG to decide in a local context if a project adds value to the implementation of the strategy. Not all projects have to contribute to the objectives of the strategy with the same weight, as some of them might add value to a concrete territorial theme by contributing to a larger overall objective.

REPLY OF THE COMMISSION

41.

The Commission shares the Court's view that in principle Leader should not support normal local government activities. However, certain projects of municipalities are legitimate parts of a local development strategy, the municipalities being a fundamental partner in the local development process. Should these municipal projects be part of the local development strategy or at least correspond to the goals of this strategy, then there is no reason to assume that the added value of the Leader approach is reduced.

In the area of quality of life and rural heritage (both priorities of Leader+ and Axis 3) local authorities are the most common promoters. Furthermore, in some Member States such as Spain, municipalities are of such small dimension that they appear as the ideal promoter of local projects, often due to the absence of suitable private promoters.

The Commission shares the Court's view that projects should not have been completed before the application for the Leader grant. Please see the Commission replies to boxes 9 and 10.

Box 9

Please see Commission reply to paragraph 41.

Infrastructure projects carried out by municipalities are not per se part of their mandatory tasks.

If this type of village renewal activity is included in the local strategy and there is participation of the inhabitants in the development of the project, there is no reason to exclude such projects from Leader funding.

Box 10

LAG in Tuscany. The Commission will examine in depth the question of the start of project eligibility taking into account the need for a harmonised approach across Community funding under shared management.

As for Tuscany, the situation under Leader+ was the following: The preparation of the Leader+ programme involved extensive consultation of the local partners. Moreover, some of the territories covered by Leader had already participated in the previous Community initiatives. Following the approval of the programme, the LAGs could experience a legitimate expectation that their projects would have been eligible for support, once all the procedural steps necessary to implement the programme were completed.

In this specific case, no calls for projects were available to the LAGs for quite a long period in which the implementation of strategies should have already started. In order to ensure the effective implementation of their local strategies LAGs had to agree on the start of non-commercial projects of public authorities, when these were important for the implementation of the local strategies, at a moment when they were not able to get a decision on a grant. Otherwise, support for important actions from the local development strategies would have been interrupted for at least three years. These projects did of course respect the selection criteria of the local strategies and had to comply with the relevant EU provisions.

REPLY OF THE COMMISSION

LAG in France (Pays de la Loire). The Commission will examine in depth the question of the start of project eligibility taking into account the need for a harmonised approach across Community funding under shared management.

42.

Innovation is a feature of the axis, but not mandatory at LAG level. The Monitoring Committee of the rural development programme (RDP) determines the weight of each LAG selection criterion, including innovation, after the RDP approval (Article 78(a) of Regulation (EC) No 1698/2005). LAGs are encouraged to present innovative local development strategies but innovation is one LAG selection criterion among others.

The Commission has drawn Member States' attention to potential problems with the implementation of innovative projects via the Focus Group of the Leader sub-committee of the European Network for Rural development (ENRD). The Focus Group tries to give guidance on how to ensure that innovation can take place.

45.

Leader+ Observatory monitoring showed that 83 % of Leader+ LAGs were involved in inter-territorial cooperation and 68 % in transnational cooperation.

Participation to networking activities and cooperation projects is typically more common among the most experienced LAGs. New LAGs are more focused on the local implementation of their local development strategy. Overall maturity of the programme is also a factor facilitating networking and cooperation.

Implementing a cooperation project is more complex than a normal local project (finding a cooperation partner, establishing a cooperation agreement, each LAG having to obtain the grant from its own programme, etc.). This requires a technical support from the programme authorities, which was/is unfortunately not always present to a reasonable extent in all programmes.

In Leader+ activities related to visits, exchanges and conferences could be financed under the action 'cooperation'. Visits to another LAG are a preliminary step to develop a cooperation project. The subsequent elaboration of a joint action, which implies reaching an agreement, is not always achieved. Some Member States gave specific funding for preparatory actions.

46.

Networking is the element of the Leader approach which is rather steered by the national and European networks. The individual LAG might therefore not be able to include specific details about planned networking activities in its strategy.

48.

In the Commission's view, the most relevant criterion to determine if a project should be funded by Leader is the extent that it contributes to the objectives of the local development strategy.

As regards deadweight, see also reply to paragraph 109.

REPLY OF THE COMMISSION

Joint reply to paragraphs 49–52:

The Commission will examine in depth the question of the start of eligibility of projects taking into account the need for a harmonised approach across Community funding under shared management.

Box 11

See Commission reply to paragraph 49.

53.

In the 2007–13 programming period it is mandatory to check the reasonableness of project costs (Article 26(2)(d) of Regulation (EC) No 1975/2006).

54.

Taking into account the wide variety of Leader projects, it might be difficult to judge a priori factors like the degree of profitability and at the same time to ensure that the desired outcomes are achieved.

56.

The public authorities represented in the LAG (municipalities), and which represent up to 50 % of the LAG members, are themselves democratically accountable. In addition, LAGs in certain Member States are recognised as public bodies (e.g. in France).

Furthermore, for the current programming period according to Article 62.2 of Regulation (EC) No 1698/2005, there is an obligation for LAGs to have the capacity to administer public funds.

The Commission agrees that there is a need for a high degree of transparency and the subsequent need for LAGs to be able to demonstrate that they have consistently followed proper procedures.

However, in the vast majority of Member States, rules on internal procedures for decision transparency, avoiding conflicts of interest or appeal were adopted. The Focus Group on the ‘bottom-up approach’ of the Leader sub-committee of the European Network for Rural Development has been gathering different types of such procedures in a draft report that will soon be made available to the public.

Joint reply to paragraphs 57–58:

The Commission will consider revising the ‘Guide on the application of the Leader axis’ in the sense of further clarifying the respect of basic principles on project selection (transparency, equal treatment, use of objective selection criteria, decision reporting) on the basis of the good practices collected.

59.

See Commission reply to paragraph 56.

60.

See Commission replies to paragraphs 16 and 56.

Appropriate procedures are necessary to avoid real cases of conflicts of interest. The Commission will consider providing further guidance on rules for conflicts of interest in the ‘Guide on the application of the Leader axis’.

REPLY OF THE COMMISSION

61.

See Commission reply to paragraph 60.

LAG members are representative and active locally based organisations of the rural territory. It is therefore normal that a proportion of projects are originating from these organisations. Excluding these projects would constitute a major obstacle for the successful implementation of the local development strategy.

However, Member States do have to ensure that there is no conflict of interest.

Box 13

The Commission agrees on the principle that members of the decision making committee should not take part in the decision-making in situations where they have a 'shared interest' with the project promoter.

See also Commission reply to paragraph 60.

Box 14

The Commission agrees with the Court that there should be clear rules on conflict of interests, which should be followed as regards the decision to fund a project.

63.

Leader+ has been implemented in 15 Member States and a Leader+ type measure in six additional Member States. The implementation models used in the Member States vary significantly.

The quality of a strategy (targeting, priorities, monitoring and evaluation) can as such not avoid situations of conflicts of interest. The Commission already replied under the previous points (56 to 61) as regards the necessity of rules on conflicts of interest at LAG level as part of the implementation mechanism of the strategy.

64.

On average, running costs are limited and represent 15 % of the public support to the local development strategy. This is below the upper limit of 20 % laid down in Article 38 of Regulation (EC) No 1974/2006.

The existence of local staff in local offices does not necessarily lead to a more rapid assessment of projects. Moreover, the presence of local staff does not make administrative procedures obsolete; they are still needed for sound financial management.

65.

Local programme delivery aims to improve implementation (e.g. better targeting of support, assistance to the beneficiaries). The proximity of LAGs assisting and informing the potential beneficiary accelerates the preparation of applications.

LAGs' tasks do not correspond to additional or duplicated tasks but to delegated tasks, which are not carried out at programme level (control, project selection and payment in certain rural development programmes). Costs of controls related to on-the-spot checks can be lower when performed by local entities.

There is insufficient evidence of additional delays resulting from the Leader method. There are different Leader implementation models in the EU involving additional tasks beyond the basic project selection task (project approval and/or payment of claims in 39 programmes in the current period). LAGs with financial and administrative autonomy have in general shorter procedures.

See also Commission reply to paragraph 64.

REPLY OF THE COMMISSION

66.

In Leader+ there was no obligation to distinguish animation from administrative costs. In the current period this differentiation has to be done. There is a definition of animation and acquisition of skills in the 'Guide on the application of the Leader axis' which will be further clarified.

67.

The observations in paragraph 67 should be seen in the light of the positive example on operating costs mentioned in paragraph 68.

Hungarian LAGs operating under the Leader+ type measure 2004–06 were more focused on capacity-building, the Leader approach being new in this country.

69.

Member States decide on the concrete responsibilities of LAGs according to the principle of subsidiarity, adapting them to their administrative system and practice. There are different Leader implementation models in the EU involving additional tasks for LAGs beyond the basic project selection task (project approval and/or payment of claims in 39 programmes in the current programming period).

70.

See Commission replies to paragraph 64 and to the subsequent subheading.

The Commission is aware of cases where the application requirements set by the Member States do not correspond to a reasonable ratio between the size of a project and the need for accountability. Member States have already raised the issue in the current programming period and together with the Commission are jointly looking for appropriate solutions to these cases.

The Commission is also supporting the exchange of good practices in this respect, notably in the framework of the Leader sub-committee of the European Network for Rural Development.

However, the Commission and the Member States have to ensure the sound management of programme implementation, which leads inevitably to a certain level of administrative burden at LAG level.

Box 15

LAG in Hungary. During Leader+ (Leader+ type measure) the implementation of the Leader approach was completely new in Hungary.

REPLY OF THE COMMISSION

71.

See Commission replies to paragraphs 64 to 70.

Apart from the decision of Member States on the concrete responsibilities of LAGs, the processing of files by a LAG has to be seen in the light of the capacity-building process. The more possibilities the Member States offer to the LAGs in terms of training, the easier the interaction with the authorities will get.

The Commission and Member States were not sufficiently demanding and share some responsibility with the LAGs for limiting the potential added value of the Leader approach. They have not taken sufficient action to limit the costs and risks

For the current programming period 2007–13, the necessary legal provisions have been included in the EAFRD⁷ regulation and its implementing rules.

⁷ European Agricultural Fund for Rural Development.

Furthermore, the Commission has provided guidance to Member States in the phase of programme design and approval through the 'Guide on the application of the Leader axis'. This included specific advice on the potential added value of Leader, i.e. coverage of all axes, innovation, integrated and territorial approach.

In addition, the Commission requested a strategic approach towards Leader under the national strategic plans. At the same time, Member States were allowed to make different choices as regards the scope of application of the Leader method in response to the specific existing experience at LAG level and to the needs identified in their analyses.

The Commission contributes on an ongoing basis to better procedures for the management and control systems in the Member States through the provision of advice and guidance, as well as through recommendations stemming from its audits and where appropriate by applying financial corrections.

The Commission will continue to take the necessary initiatives to improve the implementation of the Leader method in the light of all elements proving this need.

See also Commission replies to paragraph 7 and to the heading before paragraph 65.

REPLY OF THE COMMISSION

72.

The added value of Leader is strongly influenced by the programme authorities whose main responsibility is to define rules adapted to the Leader approach, to train LAGs to acquire the necessary skills and to encourage them to use all the Leader potential.

The Leader axis requires in particular specific eligibility rules to allow support to innovative, integrated and territorial projects.

The Commission and the Member States (managing authority and LAG level) are in the current period undertaking a significant review to better define the role of the LAGs, the role of capacity-building, the eligibility criteria and a more clear repartition of the tasks between the managing authorities and the LAGs. This process is carried out in a constructive and cooperative way in the framework of the European Network for Rural Development (focus groups of the Leader sub-committee).

A number of programme authorities have already proposed substantial amendments to the design of the Leader axis in their rural development programmes (through RDP modifications). These include improvements to the deficiencies observed by the Court in the rural development programmes audited.

73.

The sound financial management for Leader as a whole is a key principle to be observed. The Commission executed audits on 37 out of 73 Leader+ programmes for the programming period 2000–06. The Commission is auditing Leader+ and Leader measures in the framework of its overall audit programme, taking into account their specific risks, making recommendations where necessary and applying financial corrections in justified cases.

The context in which Leader was and is being implemented has evolved since 2000 not the least due to the different design of the implementation throughout the different funding periods. This in turn implies that many Member States have had to adapt their administrative structure for the implementation of Leader.

The Commission will continue to take the necessary initiatives to improve the implementation of the Leader method in the light of all elements proving this need.

REPLY OF THE COMMISSION

76.

On 14 April 2000, the Commission, acting in accordance with Article 21(1) of Regulation (EC) No 1260/1999, laid down the guidelines describing in detail the aims, scope and method of implementation for the Leader+ rural development initiative. These guidelines were used as reference documents for the approval of the programmes.

77.

The fact that a Member State has not set requirements for some specific aspects does not automatically lead to a lax performance of the LAG. There are LAGs who set these requirements at the level of the local strategy implementation, ensuring a good performance without a high degree of control from the managing authorities.

The Commission will give more guidance in order to address the risks referred to by the Court.

78.

See Commission reply to paragraph 49.

79.

The Commission agrees with the Court that efforts have to be done on the quality of the local development strategies.

The monitoring and assessment of the achievement of LAGs' strategies is a sensitive point in some Member States. The root might be found in the distinctiveness of Leader compared to traditional implementation methods.

The Commission will give more specific guidance to Member States on how to better monitor, assess and improve the LAGs' strategies and their respective achievements.

80.

The preparation of a new funding period had to start while the take-up of the implementation of the Leader+ programmes and Leader+ type measure was still not very advanced in many Member States.

In addition to this, the experience of mainstreaming an innovative Community initiative was completely new for the Commission and the Member States. The mainstreaming of Leader is a process that reduces the Commission's influence on the programme content and where at programme management level a specific experimental local approach has to co-exist with standard common rules.

The Commission is attentively accompanying the debate in this respect through its participation in the monitoring committees, the Rural Development Committee and through the European Network for Rural Development (ENRD). One of the main tasks of the ENRD in this respect is to learn the lessons from the mainstreaming, identifying the obstacles and good practice.

81.

As regards running costs an upper limit of 20 % of the public support to the local development strategy has been included in the legislation for the current programming period, based on the lessons learned from the past periods and taking into account the different Leader implementation models.

REPLY OF THE COMMISSION

Eligible costs are defined in Articles 59 and 63(c) of Regulation (EC) No 1698/2005. In addition, Point 5.3.4.3 of Annex II of Regulation (EC) No 1974/2006 foresees that rural development programmes must provide an indicative estimate of expenditure which will be used for running costs, skills acquisition and animation, allowing a financial monitoring of these costs.

Running costs are linked to the basic administration and the financial management of the programme and should be clearly separated from animation and acquisition of skills activities. According to the 'Guide on the application of the Leader axis' animation requires additional resources and communication skills distinct from those needed for the financial and administrative functions.

For the current period, and despite the 20 % ceiling, on average only 15 % of the public support for local development strategies has been programmed for running costs.

The Commission will consider further clarifying the exact demarcation between running costs and animation costs and giving additional guidance on the application of the principle of reasonableness through an update of the 'Guide on the application of the Leader axis'.

82.

The European Network for Rural Development (ENRD) is a driving force for the efficient implementation of the rural development policy and to enhance the overall performance of the Leader axis. The Commission believes that the network is the most appropriate tool to achieve progress through analysis, exchange of information, identification of good practices and evaluation supporting activities (Article 67 of Regulation (EC) No 1698/2005).

83.

The Commission is carrying out continuous work with the Member States namely through the European Network for Rural Development (see Commission replies to paragraphs 72 and 80). Where appropriate, it will undertake additional initiatives in order to further improve the implementation of Leader.

84.

Articles 63(a) and 64 of Regulation (EC) No 1698/2005 state that the support granted under the Leader axis should be for the implementation of local development strategies with a view to achieving the objectives of one or more of the three other axes. Article 64 offers the possibility to use the eligibility criteria of the pre-defined measures on the scope of eligible projects, but it was not intended to limit the application to the pre-defined measures. The restriction to mainstream measures in certain rural development programmes represents in fact a potential limitation of the possibilities offered by Leader for innovative and integrated projects.

REPLY OF THE COMMISSION

Since late 2009 several Member States seek to amend their programmes to improve the effective implementation of the Leader method by allowing more flexibility thanks to the introduction of integrated or special measures. To a considerable extent, this is a consequence of the discussions animated by the Commission in the framework of the Leader sub-committee of the European Network for Rural Development.

It should also be underlined that eligibility of operations outside the measures is applied in other Member States.

The Commission will consider adjusting the legal framework for the current period if needed or reviewing the 'Guide on the application of the Leader axis' to improve guidance to the Member States as regards funding of (innovative) projects outside the measure catalogue.

85.

Member States were allowed to make different choices as regards the scope of application of the Leader method in response to the specific existing experience at LAG level and to the needs identified in their analyses.

The mainstreaming approach opens Leader to all axes. Member States can choose to limit Leader to Axis 3. However, the scope of Axis 3 is very wide. It covers both quality of life and the whole rural economy outside the agricultural and forestry activities. In addition, measures related to the objectives of Axes 1 and 2 are not always necessary to achieve the objectives of the local strategy.

Leader is available as a tool for the three axes in the majority of the rural development programmes. Only 21 programmes out of 90 confine themselves to the implementation of Axis 3.

Box 17

Though it is true that the possibilities to improve the competitiveness of the olive and wine sectors could be potentially restricted, it is possible via Axis 3 to support for example the diversification of non-agricultural activities linked to these sectors as well as to give support for the creation and development of micro-enterprises. Some environmental activities are eligible within the measures of Axis 3.

See also Commission reply to paragraph 85.

86.

Programme modifications are possible in order to better take into account the needs of Leader.

See also Commission replies to paragraphs 84 and 85.

REPLY OF THE COMMISSION

88.

A competitive selection procedure is supported by the presence of qualitative selection criteria in addition to the minimal eligibility/exclusion criteria in Member States' programmes. Qualitative selection criteria on the homogeneity and content of strategies allow a comparative assessment between the applications without being exclusive and allowing a broad range of groups to be selected. The Commission in the context of the programme approval checked the list of objective selection criteria including the presence of qualitative selection criteria.

89.

LAGs have to meet the minimum requirements set out in Article 62.1(a) of Regulation (EC) No 1698/2005 as regards the content of the local development strategy. On top of these minimum requirements, priority is given to several Leader features (e.g. relevance of the strategy towards the area, quality of partnership, innovation), which should also ensure a certain quality level.

Box 18

In France, LAGs are selected by a regional selection committee, chaired by the Prefect and the Regional President. Their decisions are based on the analysis of an expert committee. In some cases the quality of some LAGs' propositions are firstly qualified as insufficient, but after specific guidance and support, they are improved and finally accepted. This process is fully in line with the horizontal rural development priority of improving governance⁸ and the encouragement by the Commission to Member States to local partnership capacity, animation and promoting skills acquisition, which can help mobilise local potential, which is part of the Community strategic guidelines.

90.

The detailed selection procedure is defined at national level in line with the subsidiarity principle. The Member State has to decide, after having received proposals, on the need to require the improvement of the strategies. In certain Member States/regions the selection was organised in two rounds to allow new LAGs a longer time period to prepare the strategy or those rejected in the first round to present an improved local development strategy (e.g. Slovakia; DE-Bavaria).

⁸ Fourth priority of the Community strategy guidelines for the programming period 2007 to 2013 as set out in Council Decision 2006/144/EC of 20 February 2006: 'The resources devoted to Axis 4 (Leader) should (...) also play an important role in the horizontal priority of improving governance and mobilising the endogenous development potential of rural areas.'

REPLY OF THE COMMISSION

The value of the local development strategy is to be assessed in the concrete local context of a specific rural area.

In addition, the Commission will assess the possibilities to improve the existing strategies in the light of the shared management concept and Member States' responsibilities.

91.

The activities under the Leader axis have been approved by the Commission on the basis of the legal requirements as stipulated by Regulation (EC) No 1698/2005 and of the Community strategic guidelines defining the Community priorities for rural development policy.

In the context of the programme approval the Commission has examined the key elements foreseen in Annex 2 of Regulation (EC) No 1974/2006⁹. However, other additional management elements of Leader had to be defined by the managing authorities after the programme approval.

⁹ Regulation (EC) No 1974/2006 establishes clear obligations to be respected by the Commission for the approval of rural development programmes:

- procedure and timetable for selecting the local action groups, including objective selection criteria and planned indicative number of local action groups and planned percentage of rural territories covered by local development strategies;
- justification for selection of areas whose population falls outside the limits set out in Article 37(3) of Regulation (EC) No 1974/2006;
- procedure for the selection of operations by the local action groups,
- description of the financial circuits applicable for local action groups;
- inter-territorial and transnational cooperation;
- procedure, timetable and objective criteria to select inter-territorial and transnational cooperation projects;
- running the local action group, acquiring skills and animating the territory;
- limit to apply on the share of the local action group budget for running the local action groups;
- indicative estimate of expenditure under Article 59(a) to (d) of Regulation (EC) No 1698/2005 which will be used for skills acquisition and animation for the Leader axis.

92.

Beyond the legal requirements mentioned in paragraph 91, the Commission also attached importance to additional qualitative criteria.

However, in a system of shared management, the application of such criteria is a responsibility of the programme authorities at Member State level.

REPLY OF THE COMMISSION

93.

The Commission does not share the Court's assessment. The activities under the Leader axis have been approved by the Commission on the basis of the legal requirements as stipulated by Regulation (EC) No 1698/2005 and of the Community strategic guidelines defining the Community priorities for rural development policy. In doing so, the Commission examined the key elements foreseen in Annex 2 of Regulation (EC) No 1974/2006. See also the Commission reply to paragraph 91.

The Commission has evidence that some Member States have or are improving their rural development programmes to enhance the effective implementation of the Leader method by allowing more flexibility thanks to the introduction of integrated or special measures. To a considerable extent, this is a consequence of the discussions within the European Network for Rural Development and the Leader focus groups created on the 'bottom-up approach' and 'innovation'.

For example, France proposed in June 2010 a new sub-measure for Leader to integrate projects that did not fall under the existing measure.

Requirements concerning the composition and openness of LAGs, beyond what is imposed in Article 62.1(b) of Regulation (EC) No 1698/2005, have to be left to the Member States given the diversity of LAG legal or supporting structures.

The Commission and Member States cannot demonstrate the added value achieved from implementing the Leader approach and have not yet evaluated the additional costs and risks involved

Leader was an innovative approach for which limited evaluation tools existed originally. Over time the methods used have evolved, partly due to the Commission's activities, and they continue to do so. Certainly further improvement is possible, and the Commission is currently finalising a working paper¹⁰ on assessing the impacts of Leader, but previous evaluations have highlighted the contribution and identified impacts of Leader. An *ex-post* evaluation of Leader+ is currently being undertaken by an external contractor.

Evaluation of the additional costs is included in the scope of programme evaluations; evaluation looks at the results and impacts of programmes — by assessing *inter alia* their efficiency (best relationship between resources employed and results achieved). The ability of evaluators to do this in respect of Leader has been continually developing as innovative methodologies are developed.

See also Commission reply to paragraph 6.

¹⁰ Capturing impacts of Leader and of measures to improve quality of life in rural areas, Draft Working Paper 4, 21 June 2010, European Evaluation Network for Rural Development.

REPLY OF THE COMMISSION

94.

The Commission agrees with this approach, which is already being implemented. For the 2007–13 period Leader is mainstreamed, therefore Leader activities are included in the annual progress reports (APRs), and the monitoring indicators include the output of activities implemented through Leader. The evaluation system in place for rural development programmes also covers Leader. The possibility to complement the Common Monitoring and Evaluation Framework by indicators at national level is under consideration.

96.

One of the key findings of the mid-term evaluation was that it was too early a stage in the programming process to identify impacts resulting from Leader. Many LAGs had just started to implement their strategies.

An *ex-post* evaluation of Leader+ is now being undertaken by an external contractor. This will assess the impacts achieved over the whole programming period. The final report should be available before the end of 2010.

... but there is little evidence on the effectiveness of Leader programmes in achieving rural development objectives or the added value of the Leader approach

As mentioned above, when the Leader+ mid-term evaluation was carried out, many individual LAG programmes were at a very early stage of implementation. This evaluation concentrated therefore on the establishment of Leader+, selection of LAGs, etc. The ongoing *ex-post* evaluation is expected to provide information on the effectiveness of Leader+ in relation to objectives and on the added value of the Leader approach.

97.

The difficulty to obtain sufficient data under Leader II was taken into account in the elaboration of the Leader+ monitoring data.

As for the current period, the basic information is being provided through the Common Monitoring and Evaluation Framework (CMEF). Furthermore, an *ex-post* evaluation of Leader+ is currently ongoing (see reply to paragraph 96).

In addition, the Commission has recently finalised a final draft working paper with guidance to Member States and evaluators on how to specifically improve the assessment of the impact of Leader in rural areas.

REPLY OF THE COMMISSION

98.

Monitoring and evaluation of socio-economic policies has been continuously evolving since the establishment of the Structural Funds. A significant step forward for the 2007–13 rural development policy was the establishment of the Common Monitoring and Evaluation Framework (CMEF), which for the first time created a consistent framework to be used by all Member States. For the 2007–13 period, Leader has been mainstreamed, i.e. is no longer implemented through separate programmes, but is an obligatory component of the rural development programmes (RDPs), incorporated as the fourth axis of all programmes. It is therefore subject to the same implementation rules, and monitoring and evaluation system, as all other EU-funded rural development activities. The first results of the implementation of the CMEF can be seen in the annual progress reports (APRs), and the first information relating to impact of the programmes will be provided with the mid-term reports due to be submitted to the Commission by 31 December 2010.

99.

The mid-term evaluations for Leader+ were carried out at a stage in the programme life cycle where it was too early in many cases to identify economic impact. This evaluation concentrated therefore on the establishment of Leader+, selection of LAGs, etc. The currently ongoing *ex-post* evaluation of Leader+ is expected to provide more information on the aggregate impact of the programme throughout its lifetime.

100.

The evidence, whilst not exhaustive, should not be considered as insufficient.

The mid-term evaluation reports for Leader+ do not indicate that the method itself is not effective, but that factors linked to the way it is implemented influence the final success or failure of the local programme. Where the method was implemented effectively, positive impacts have been identified. Again, it must be remembered that Leader, as an innovative approach to unlock local potential, would naturally have successes and failures in implementation, and that the value of the approach lies not only in measuring the successes, but in taking account of the reasons for failures in the future.

102.

See Commission replies to paragraphs 97, 99 and 100.

103.

Monitoring and evaluation should take into account the costs of implementation and management, and assess the **overall** success or failure of the LAG strategy. Leader would have successes and failures at project implementation level. It would be impossible to identify and support the 'high-flying' innovative projects if only low-risk projects were supported; therefore a certain proportion of failed projects is inevitable, and not an indication of systematic failure. Success or failure should therefore be judged at LAG strategy level.

These issues are referred to at various points in the evaluations (see Commission replies to paragraphs 94 to 102).

REPLY OF THE COMMISSION

105.

The Commission executed audits on 37 out of 73 Leader+ programmes for the programming period 2000–06; 13 programmes have been audited more than once.

With regard to Leader+ France, after the 2005 audit a follow-up audit was executed in 2006. The issues that had been addressed during the 2005 audit and to which the Court refers have indeed not been followed up by a financial correction since there were no direct indications of financial loss to the fund. A financial correction, however, is under way for this programme due to control deficiencies as regards implementation of Article 4 (administrative and on-the-spot checks) and Article 9 (paying authority checks) of Regulation (EC) No 438/2001.

As regards the audit in Portugal, the Commission made some recommendations in its letter of findings in 2005 for improvement of the control system as regards the issues 'conflict of interest and 'reasonableness of proposed project costs'. The Portuguese authorities were recommended to ensure that specific provisions be introduced in the LAG's procedural rules concerning possible conflict of interests. The Member State replied as regards the conflict of interest issue: 'The new instructions issued in June 2006 already provide that anyone having a personal interest in a case must abstain from voting. As regards applications involving third parties, who are not part of the decisional unit but members of the LAG, it is not deemed necessary to apply this rule since the decisional unit is considered to be independent and consists of several members.' As regards reasonableness of costs the following was recommended: 'Based on the principles of sound financial management (as provided for in Article 38(1) of Regulation (EC) No 1260/99), it is recommended that several offers (e.g. three) be requested (e.g. above a certain amount of expenditure) and/or that prices declared be compared with standard reference prices, which should be documented.' The Member State replied as follows: 'Concerning

the offers, it should be borne in mind that the LAGs as a rule request more than one offer, but have not always taken care in producing evidence of these comparisons. However, the instructions for the projects of the LAGs themselves already require that the general rules for public tendering for small amounts are complied with and that for amounts above 200 000 euro national law DL 197/1999 (stipulating the rules for public procurement of services) is respected. However, these instructions to the LAGs will be reinforced.' On the basis of the Member State reply the Commission concluded that there was no immediate risk for the fund and decided not to apply a financial correction.

107.

The Commission acknowledges that in some cases the documentation of the checks was weak. However, weak documentation does not imply automatically that no checks have been executed.

REPLY OF THE COMMISSION

108.

The Commission will consider revising the 'Guide on the application of the Leader axis' so as to provide further guidance on good practice in these respects in the future.

109.

The ongoing ex-post evaluation of Leader+ is addressing deadweight. This is an issue best assessed *ex-post* on the basis of surveys and comparative analysis, and is not dependent on monitoring data collected during the period (see Court footnote 34).

In respect of Court footnote 33, the fact that a project might have gone ahead in the absence of Leader funding does not imply that it would necessarily have been equally successful without the benefit of the advice and support provided through the Leader process.

Still, it is in practice quite often very difficult to predict if the project could have been realised without support. This may be dependent on specific characteristics inherent to the project. A reasonable ratio between the risk of deadweight and the specificities of a project would need to be found.

110.

Following the identification of some specific problems (not systematic) related to transparency, the Leader II final evaluation report (p. 246) recommended increased training and clearer guidelines for LAGs on this issue.

Box 19

First extract. The actual balance of power within the LAG is determined by the local and regional cultural and institutional context.

The risk that LAGs may be dominated by the institutional sector is considered in Article 62(1)b of Regulation (EC) No 1698/2005 which requires that at least 50 % of the local partnership must be composed of economic and social partners, civil society, etc.

This condition is a major achievement, having in mind the importance of public matching funding in the implementation of Leader.

Second extract. The mid-term evaluations for Leader+ were carried out at a stage in the programme life cycle where it was too early in many cases to assess the management issues mentioned by the Court. Mid-term evaluation reports are likely to concentrate on issues arising during the early stages of implementation, so it is perhaps not surprising that issues such as bureaucracy and the level of autonomy, and their impact on effective implementation emerge strongly in these reports. The currently ongoing *ex-post* evaluation of Leader+ is expected to provide more information on the more fundamental management issues.

At the same time one of the focus groups of the European Network for Rural Development (ENRD) Leader sub-committee is discussing the role of the decision-making committees in programme management and other issues linked to the implementation of the bottom-up approach in the current programming period. The outcomes will also be discussed with the Member States in the Rural Development Committee (RDC) in order to reach the desired impact for the implementation of the Leader approach.

REPLY OF THE COMMISSION

111.

Please see replies and comments to paragraphs 64–71.

The *ex-post* evaluation of Leader+ will assess the efficiency and effectiveness of the various implementation systems used by Member States (which inter alia place different burdens on LAGs, and will therefore affect the operating costs). The 'excessive bureaucracy' referred to in the synthesis of the mid-term evaluations refers to the programme management systems imposed by the programme authorities which in some cases went considerably beyond the intrinsic requirements of the Leader method.

112.

Lessons from the previous evaluations of Leader contribute to the needs of current programmes. The current monitoring indicators correspond to an adaptation of the previous indicators and are based on the hierarchy of objectives that helps to analyse and communicate programme objectives and shows how local interventions should contribute to the global strategic objectives.

113.

The Leader+ mid-term evaluation synthesis report proposed establishing an EU-wide set of common indicators, substantially reducing the number of evaluation questions, providing guidance on methods for monitoring the indicators, and establishing the evaluation framework through a consultative working group. All of these recommendations were followed in the establishment of the Common Monitoring and Evaluation Framework (CMEF).

The CMEF was finalised and presented to the Member States' delegations in the Rural Development Committee in December 2006 well in advance of the approval of programmes so that Member States could prepare the setting up of appropriate structures in advance.

Explicit comprehensive guidelines on how to establish and use the CMEF system have been provided to the Member States. Furthermore, there is a permanent dialogue with them to improve the CMEF. This is in particular followed up in the European Evaluation Network for Rural Development which includes Member States' experts and which is supported by a helpdesk working permanently on evaluation-related issues.

The baseline indicator for Leader is the share of population covered by the LAG to measure the governance objective (local capacity to elaborate and implement local development strategies) as laid down by the Community strategic guidelines.

Other CMEF Leader indicators are limited in line with the approach taken of simplifying the monitoring system compared to Leader+ and including Leader in the overall approach. The Leader+ monitoring indicators were numerous compared to those applying to the Leader axis, but were on the other hand not related to the overall EU policy objectives for the 2000–06 period.

In general, impacts are assessed through the evaluation process.

For the governance objective, monitoring indicators can provide a useful input, but are not sufficient to evaluate this objective. That is one of the reasons why a guidance paper on capturing the impacts of Leader¹¹ has been developed. It refers to governance inter alia on pp. 26–29 and 49–50 including proposed impact indicators.

The effectiveness and added value of the Leader approach are assessed through evaluation. The LAGs' direct running costs that are covered by Leader public funding are known and collected.

¹¹ See footnote 3 of the Commission replies.

REPLY OF THE COMMISSION

CONCLUSIONS AND RECOMMENDATIONS

114.

The Commission expects that the concept chosen for the current period, as explained in its reply to the previous paragraph 113, brings a better assessment of the Leader approach. Furthermore, the Thematic Working Group of the European Evaluation Network for Rural Development can give additional guidance.

In this sense, the Commission has recently finalised a final draft working paper on assessing the impacts of Leader in rural areas¹². The first draft of the working paper was provided to the Member States in April 2010, when work on the mid-term evaluations was at an early stage. It provides details of suggested methods and data sources for assessing each of the indicators related to the evaluation questions and these do not rely on CMEF monitoring data, but use other evaluative methods, e.g. triangulation, surveys, case studies, focus groups, multiplier analysis, derived data sets, etc. This guidance document will give the opportunity for adjustments in the monitoring and evaluation process.

However, there are limits to the collecting requirements of LAGs. The differences between strategies do not allow the collection of the same information in all LAGs, as the implementation of a local strategy is process-driven. Individual evaluation has to be limited in order to respect the relation between costs and efficiency of the evaluation process itself.

¹² See footnote 3 of the Commission replies.

115.

The Commission agrees that all the features of the Leader approach should be implemented to the largest possible extent in order to maximise the development effect on the territory, but recalls that the core element of the Leader approach are not the individual projects taken out of the local context, but the implementation of an entire local development strategy.

As the Court mentions in its definition of the added value of the Leader approach, this includes a better identification of local needs and solutions, more engagement on the part of stakeholders and greater scope for innovation. Moreover, it includes the creation of local capacity, which leads to increased local development activity, pooling local resources, networking allowing mutual learning and an integrated approach to address complex economic and social issues. The capacity-building process is a key element in the implementation of Leader.

REPLY OF THE COMMISSION

116.

LAG member organisations are representative and active locally based organisations of the rural territory. The Commission notice on Leader+¹³, which was the reference document for the national and regional Leader+ programmes, states in its point 12: 'Local action groups must consist of a balanced and representative selection of partners drawn from the different socioeconomic sectors in the territory concerned'. The partners consist of a mix of public entities and partners representing the civil society. These partners are also the main authors of the strategies and do in most cases represent a large part of the population of the territory. It is therefore normal that a proportion of projects are originating from these member organisations. LAG members can play an important role for the implementation of the local development strategy.

With regard to the composition of the partnership, during the negotiations leading to the approval of the rural development programmes (RDs) for the 2007–13 period, the Commission examined that the principle of a minimum of 50 % representatives of the civil society in the partnership was included, as required by Article 62.1(b) of Regulation (EC) No 1698/2005. This requirement applies to the decision-making level.

Still, the Commission will consider revising existing guidance in order to avoid any misinterpretation.

In addition to this, the Commission will consider encouraging a more open membership policy at LAG level for the design of the post-2013 policy.

¹³ Commission notice to the Member States of 14 April 2000 laying down guidelines for the Community initiative for rural development (Leader+).

In relation to innovation or interaction between different sectors, LAGs are encouraged to present innovative local development strategies but innovation is one LAG selection criterion among others. Innovation is therefore not necessarily present in all projects supported. It is moreover not realistic that most of the Leader projects should be innovative.

In the Commission's view, individual projects can be financed through Leader in as far as they contribute to the achievement of the objectives of the local development strategy. See also Commission replies to paragraphs 16, 21 to 22 and 34 to 38.

117.

The central role of local development strategies to implement the Leader axis is reflected in the creation of a specific measure 'implementation of local development strategies'. Under Leader+ this was also the case with its 'Action 1: Support for integrated territorial development strategies of a pilot nature based on a bottom-up approach'.

Leader is implemented through local development strategies supported by appropriate measures. Member States are responsible both for the quality of the selected local development strategies and for ensuring the respect of the implementation requirements, inter alia the evaluation and monitoring of strategies.

The success of the strategy depends on the value of individual accepted projects. LAGs are key actors in ensuring the quality of projects selected on the basis of objective criteria related to the overall aims of the strategy.

Member States must take the necessary measures to ensure the application of the basic principles of the Leader approach and the achievement of local development strategy objectives.

REPLY OF THE COMMISSION

118.

The Commission agrees that there is a need for a high degree of transparency and the subsequent need for LAGs to be able to demonstrate that they have consistently followed proper procedures.

The Commission will consider revising the 'Guide on the application of the Leader axis' in the sense of further clarifying the respect of basic principles on project selection (transparency, equal treatment, use of objective selection criteria, decision reporting) on the basis of the good practices collected.

LAG members are representative and active locally based organisations of the rural territory. It is therefore normal that a proportion of projects are originating from these organisations. Excluding these projects would constitute a major obstacle for the successful implementation of the local development strategy.

However Member States have to ensure that there is no conflict of interest.

See also Commission replies to paragraphs 56 to 61, and to 117.

119.

The Commission will examine in depth the question of the start of eligibility of projects taking into account the need for a harmonised approach across Community funding under shared management.

Taking into account the wide variety of Leader projects, it might be difficult to judge a priori factors like the degree of profitability and at the same time to ensure that the desired outcomes are achieved.

120.

The Commission does not consider that the costs of implementing Leader are necessarily substantial.

Rural development policy is implemented in shared management between the Commission and the Member States, respecting the principle of subsidiarity. The implementation of Leader is complemented by a specific mandatory feature, which is that a significant part of management tasks is transferred to the local level.

LAGs' tasks do not correspond to additional or duplicated tasks but to delegated tasks, which are not carried out at programme level (control, project selection and payment in certain rural development programmes).

On average, running costs are limited and represent 15 % of the public support to the local development strategy. This is below the upper limit of 20 % laid down in Article 38 of Regulation (EC) No 1974/2006.

There is insufficient evidence of additional delays resulting from the Leader method. There are different Leader implementation models in the EU involving additional tasks beyond the basic project selection task (project approval and/or payment of claims in 39 programmes in the current period). LAGs with financial and administrative autonomy have in general shorter procedures.

See also Commission replies to paragraphs 7, and 64 to 71.

REPLY OF THE COMMISSION

121.

The Commission, as regards the implementation of the Leader approach in the current programming period, has taken a comprehensive set of actions aimed at further encouraging good practice and sound financial management:

- The essential principles of the Leader approach have been laid down in the relevant legal framework.
- It has provided guidance in the phase of programme design and approval through the 'Guide on the application of the Leader axis'.
- It has established 'focus groups' within the Leader sub-committee of the European Network for Rural Development (ENRD) with a mandate to examine implementation issues. The ENRD continues with the exchange of achievements' experience and know-how between all actors involved in the implementation of the Leader approach, as it was already a priority of Leader II and Leader+ (then with its European Leader II and Leader+ Observatories).

The Commission and the Member States (managing authority and LAG level) are in the current period undertaking a significant review to better define the role of the LAGs, the role of capacity-building, the eligibility criteria and a more clear repartition of the tasks between the managing authorities and the LAGs. This process is carried out in a constructive and cooperative way in the framework of the European Network for Rural Development (focus groups of the Leader sub-committee).

Furthermore, the Commission executed audits on 37 out of 73 Leader+ programmes for the programming period 2000–06. The Commission is auditing Leader+ and Leader measures in the framework of its overall audit programme, taking into account their specific risks, making recommendations where necessary and applying financial corrections in justified cases.

The context in which Leader was and is being implemented has evolved since 2000 not the least due to the different design of the implementation throughout the different funding periods. This in turn implies that many Member States have had to adapt their administrative structure for the implementation of Leader.

The Commission will continue to take the necessary initiatives to improve the implementation of the Leader method in the light of all elements proving this need.

Leader requires an administrative capacity within the authorities to deal with the specificity of the method. Member States that joined the EU after 2004 could not benefit from the three programming periods of the Community initiative. The Commission is aware of this lack of experience: TAIEX (a pre-accession technical assistance tool) training seminars on the Leader method were organised for these countries with less experience. The action of the European Network for Rural Development will also contribute to exchange experience on the necessary administrative practice to implement Leader.

See also Commission replies to paragraphs 72, 73, 91 and 113.

REPLY OF THE COMMISSION

122.

The Commission does observe improvements in the implementation of Leader in many Member States and cannot therefore share the Court's conclusion.

Moreover, the Commission is convinced that the efforts undertaken in the current programming period jointly with the Member States to work on problems and solutions will significantly contribute to enhance further the overall implementation of the Leader approach.

Recommendation 1

- (a) The Commission will examine in depth the question of the start of eligibility of projects taking into account the need for a harmonised approach across Community funding under shared management.
- (b) The Commission will give additional guidance in this respect in an update of the 'Guide on the application of the Leader axis' still for the current programming period.
- (c) Rules do already exist in the current legal framework. Article 62.1(b) of Regulation (EC) No 1698/2005 stipulates that at the decision-making level representatives of the civil society must make up at least 50 % of the local partnership.

However, the Commission acknowledges that the enumeration of the principles could be more specific. The Commission will consider revising existing guidance to further clarify the compulsory application of the 'double quorum' rule that shall apply to the LAG composition and at decision-making level.

123.

Member States have to ensure that there is no conflict of interest under the shared management approach. Decision-making procedures and selection criteria to be applied by the LAGs are not part of the programme but part of the local implementation assessed by the managing authority when the LAG is selected. Member States can also apply common rules for all LAGs established at national level.

Recommendation 2

The Commission agrees with the Court that, as regards the decision-taking process, there should be clear rules on conflict of interests, which should be strictly followed.

Article 61.1(b) of Regulation (EC) No 1698/2005 foresees that at the decision-making level the economic and social partners, as well as other representatives of the civil society must make up at least 50 % of the partnership.

The Commission will also promote good practices through the 'Guide on the application of the Leader axis' and will ask Member States to ensure and check effective safeguards.

REPLY OF THE COMMISSION

124.

The 'administrative mainstreaming' of the Leader approach has been investigated by the Leader sub-committee of the European Network for Rural Development (ENRD). Preliminary reports of focus groups, including recommendations, were presented on 20 May 2010.

Concrete good practice and recommendations could be disseminated to the Member States through an update of the 'Guide on the application of the Leader axis'.

Recommendation 3

Modifications of rural development programmes (RDPs) in order to improve the implementation of local strategies are always possible.

Furthermore, the 'Guide on the application of the Leader axis' can be reviewed to improve guidance to the Member States as regards funding of (innovative) projects outside the measure catalogue.

Since late 2009 several Member States seek to amend their programmes to improve the effective implementation of the Leader method by allowing more flexibility mainly through the introduction of integrated or special measures. To a considerable extent, this is a consequence of the discussions animated by the Commission in the framework of the Leader sub-committee of the European Network for Rural Development.

125.

The activities under the Leader axis have been approved by the Commission based on the legal requirements as stipulated by Regulation (EC) No 1698/2005 and of the Community strategic guidelines defining the Community priorities for rural development policy.

In the context of the programme approval the Commission has examined key elements foreseen in Annex 2 of Regulation (EC) No 1974/2006. However, other additional management elements of Leader had to be defined by the managing authorities after the programme approval. See reply to paragraph 91.

The detailed selection procedure of local development strategies is defined at Member State level in line with the subsidiarity principle. LAGs have to meet the minimum requirements set out in Article 62.1(a) of Regulation (EC) No 1698/2005 as regards the content of the local development strategy.

Furthermore, a local development strategy should be approved by Member States in the local context of the specific rural area.

Recommendation 4

The mid-term evaluation reports due at the end of 2010 will include recommendations for rural development programme modifications to align programme content with objectives. The Commission will take this opportunity to discuss Axis 4 implementation with the Member States and in particular the possibility to improve the quality of local development strategies and their implementation through inter alia better LAG level monitoring and evaluation.

The collection and dissemination of good practice on monitoring at LAG level through the European Network for Rural Development (ENRD) and on evaluation in the context of the European Evaluation Network for Rural Development is envisaged in particular.

Recommendation 5

In the context of the programme approval for the current programming period under shared management, the Commission has examined the key elements foreseen in Annex 2 of Regulation (EC) No 1974/2006. However, other additional management elements of Leader have to be defined by the managing authorities after the programme approval in line with the subsidiarity principle.

126.

The mid-term evaluation of Leader+ took place at an early stage in LAG strategy implementation. However, the *ex-post* evaluation of Leader+, which is under way and will produce its final report towards the end of 2010, is considering the issues of effectiveness and efficiency of expenditure, etc. It is normal that the effectiveness and efficiency of policy instruments are assessed on an *ex-post* basis. This evaluation forms part of the standard policy evaluation cycle.

The relevant information contained in the Leader+ *ex-post* evaluation will provide the basis for the Commission's further work on the Leader approach.

Limitations inherent to local development have to be considered in view of identifying and disseminating appropriate simple rules and procedures mitigating possible risks and ensuring reliable financial management.

Recommendation 6

There is a permanent dialogue with Member States to improve the implementation of the Leader approach through the Leader sub-committee of the European Network for Rural Development (ENRD). The Commission is also in dialogue with the Member States as regards the improvement of the Common Monitoring and Evaluation Framework, including the monitoring indicators for Leader. The Commission has recently finalised a final draft working paper on assessing the impacts of Leader in rural areas.

The differences between strategies do not allow the collection of the same information in all LAGs, as the implementation of a local strategy is process-driven. Individual evaluation has to be limited in order to respect the relation between costs and efficiency of the evaluation process itself.

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LEADER IS AN APPROACH FOR IMPLEMENTING THE EU'S RURAL DEVELOPMENT POLICY THROUGH LOCAL ACTION GROUPS (LAGS). THIS INVOLVES SPECIFIC COSTS AND RISKS BUT PROMISES AN ADDED VALUE FROM FOLLOWING A BOTTOM-UP AND PARTNERSHIP APPROACH. IN THIS REPORT THE COURT FINDS THAT LAGS IMPLEMENTED THE LEADER APPROACH IN WAYS THAT LIMITED THE POTENTIAL FOR ADDED VALUE AND GAVE GRANTS TO PROJECTS WITHOUT DUE REGARD TO EFFICIENCY. PROCEDURES WERE NOT ALWAYS TRANSPARENT AND DID NOT SUFFICIENTLY DEMONSTRATE THAT THE LAGS TOOK DECISIONS ON AN OBJECTIVE BASIS, FREE FROM CONFLICTS OF INTEREST. THE COMMISSION HAS NOT YET DEMONSTRATED THE EFFECTIVENESS OR EFFICIENCY OF THE EXPENDITURE, THE ADDED VALUE ACHIEVED THROUGH FOLLOWING THE LEADER APPROACH, THE EXTENT TO WHICH THE KNOWN RISKS HAVE MATERIALISED OR THE REAL COSTS OF IMPLEMENTATION.



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