Durability of Investments

Workshop

In 2022, The European Court of Auditors (ECA) examined whether investments aiming to diversify the rural economy and improve the rural infrastructure delivered durable benefits. They found that the legal durability requirements are largely met and three recommendations were presented in a report, which this workshop aimed to address.

Event Information

Date: 14 December 2023
Location: Brussels, Belgium
Organisers: CAP Implementation Contact Point (CAPI CP, EU CAP Network) and European Commission (DG AGRI)
Participants: 59 participants from 22 Member States, including Managing Authorities, Paying Agencies, regional or local authorities, European organisations, researchers and the European Commission.
Outcomes: The Workshop on Durability of investments witnessed an exchange of experiences and best practices among Member States, on durability of public and private investments under both the 2014-22 EAFRD and under the 2023-27 CAP Strategic Plans (CSPs).
Web page: https://eu-cap-network.ec.europa.eu/events/eu-cap-network-workshop-durability-investments_en

Framing presentation

Michael Pielke, DG AGRI, Unit B.1 gave a framing presentation to provide context and background for the workshop, which included information about the ECA report, what is meant by durability, differences in EU provisions between the periods 2014-22 and 2023-27, and national efforts to ensure durability in CAP Strategic Plans (CSPs). He emphasised that durability is key to the success of investments. Although the legal requirements for durability are largely respected, there is limited evidence that measures bring long-term diversification to rural areas. The ECA's three recommendations: 1) target better spending on viable projects, 2) mitigate risks of diversion of funded assets for personal use and 3) for evaluation purposes, identify sources of information on the continued operation of EU-funded projects, informed the agenda of the workshop. These recommendations are addressed in the agenda by sharing best practices on the efficient use of selection procedures that promote durability, sharing methodologies to safeguard durability and collecting information from data sources for the evaluation of durability of investments in the current programming period. Investments must last long enough to create an impact that contributes to the EU objectives. Thus, durability itself is seen as the ability to maintain a funded operation for a period long enough to achieve the targeted EU objectives. In the 2014-22 period, Member States were obliged to conduct ex-post controls on a minimum sample of 1% of the financed operations to verify respect for the rules of durability. In the 2023-27 period, under the new delivery model, the Common Provision Regulation for ESI funds does not apply for CSP support. It is therefore up to Member States to define durability conditions themselves and tailor durability conditions to their needs.

Eva Dimovne Keresztes, DG COMP, Unit H.6 gave a presentation on the interaction between CSPs and State Aid rules for durability in rural development. The State aid rules, to the extent possible, are aligned with the Regulation (EU) 2021/2115 (CSP regulation). Based on Article 145(2) of the CSP regulation, some interventions under the CSPs falling within the scope of Article 42 TFEU (notably the production of and trade in agricultural products (products listed in Annex I TFEU)), such as the processing and marketing of agricultural products, are exempted from State aid control. Therefore, the durability conditions of State aid instruments do not apply to these interventions. However, State aid rules and procedures fully apply to rural development support falling outside the scope of Article 42 TFEU, such as processing of agricultural products into non-agricultural products, other non-agricultural activities in rural areas (basic services & village renewal and infrastructure in rural areas, diversification and renewable energy). For these CSP interventions, State aid rules and their durability requirements apply. This means, for example, that, under the Guidelines for State aid in the agricultural and forestry sectors and in rural areas (2022/C 485/01) and under the agricultural block exemption regulation (Commission regulation (EU) 2022/2472), the measure must be identical to the relevant measure provided for in the CSP. Therefore, any Member State with investments in these latter aid categories must ensure that the notified or block exempted State aid measure is identical to what is included in the CSP. In case a Member State decides to block exempt its investment measure under the General block exemption regulation (Commission Regulation (EU) No 651/2014), the durability requirement laid down in that regulation applies for the aid category concerned.

Good practice examples

Three presentations, each from a different Member State, provided good practice examples and experiences on durability of investments.

Yiannos Mavrommatis, Department of Agriculture, Rural Development and Environment, Cyprus, provided **examples** of how Cyprus approaches durability both in agricultural (on-farm) investments and in public off-farm investments. For on-farm investments, it is important to establish the right policy mixture for long-term viability and growth, and the Managing Authorities (MAs) are responsible for a design that allows this. The MA of Cyprus is responsible for setting a framework that will attract high quality projects and beneficiaries with a strong vision. Cyprus has a high support rate for young farmers and a focus on competitive sectors. For off-farm investments, Cyprus saw a high success rate of health centres in remote areas, whereas small museums were less successful. Overall, Cyprus achieves a high proportion of successfully durable projects by ensuring that proposals address real needs.

Julian Gschnell, Federal Ministry of Agriculture, Forestry, Regions and Water Management, Austria, gave an **overview** of durability requirements for investments in Austria and gave insights into how Austria achieved a high durability result for investments in touristic accommodation projects, as noted in the ECA report. The main differences in Austria's durability requirements between programming periods 2014-22 EAFRD and 2023-27 CSP include that: measures in the 2023-27 period include non-productive investments, and the retention obligation can be extended to up to 10 years for specific measures. Austria has adopted a holistic funding strategy, where the investment measure is not a singular funding measure on its own but supported by other measures, e.g. advisory services and training. Austria's eligibility rules have high quality standards – business plans are required and selection criteria are based on a SWOT analysis. 98% of Austrian agri-tourism projects are still offering accommodation after more than 5 years to the above approach, while also acknowledging other factors, in particular Austria's popularity as a tourist destination.

Dan Nica, Agency for the Financing of Rural Investments, Romania **presented** how Romania carries out ex-post controls of funded projects. The Paying Agency of Romania conducts controls on a minimum of 1% total grant value paid annually, but usually achieves controls on 3% total value paid annually, and on at least two projects per region. There are strict rules for EU financing. It is therefore important to maintain the eligibility and selection criteria. If the activity is discontinued, if there is no fulfilment of objectives or if there is non-maintenance of eligibility or selection criteria, actions may be taken such as extending the monitoring period or conducting further checks. When problems are identified, this type of action is usually put in place with the aim of ensuring correction. In the case of demonstrable non-compliance, funds are recovered. Factors associated with risk of non-compliance include legal statute irregularities, total value, time since last ex-post control, previous irregularities and multiple projects in the same area.

Interactive session

Participants were split into three breakout groups, each of which commenced with sharing MS examples of best practices for better durability of investments. The interactive session aimed to capture past and present experiences and identify insights for improving durability through discussing 1) key elements of durability, 2) eligibility conditions and selection procedures, and 3) how to achieve better durability results.

Key conclusions from the interactive session included:

- Functioning advisory services are important as an underpinning factor for the success of funded projects, as is training support.
- Flexibility is needed both at the EU and national level to react to changing circumstances (e.g. increasing prices, COVID pandemic, the Ukrainian war, climate change), especially for diversification projects.
- Transparency between beneficiaries and funding bodies about shortcomings helps to mitigate project failure and to build capacity and confidence.
- Business plans remain a good way to assess project viability and checking the financial stability of projects is essential for risk assessment. Simplification of business plans should be considered in MS.
- Eligibility criteria and selection procedures are not a 'one size fits all' and each MS may have different methods for these. Selection criteria carefully tailored to individual different project types is likely to increase long term success.
- The is little or no evidence that higher grant rates are associated with better durability and some rationale for the application of lower rates in certain circumstances, in order to increase beneficiary 'ownership' and reduce investment distortion.
- The use of financial instruments is a good option in some MS, sometimes in tandem with grant funding.
- To reduce the risk that EU-funded assets are diverted for personal use, MS can ensure the selection of sound projects using factors such as past profit data, educational levels of managers and/or employees, and learn from successful projects from the previous programming period.
- Voluntary surveys for projects after the funding period ends could be a way of collecting additional information about successes.

Evaluation perspective

Costas Apostolopoulos, Evaluation Helpdesk, EU CAP Network, presented an evaluation perspective on the durability of investments. He provided some recommendations for future evaluations, and perspectives on the main drivers of durability, based on examples of evaluation studies undertaken in Sweden and Poland. In Sweden, a study aimed to assess *actual* durability, i.e. the continuation of net effects generated by the intervention that is already evident, and found that supported farms present some increase in performance in terms of productivity and turnover growth. In Poland, a study aimed to assess *prospective* durability, i.e. the potential that a financed project will continue to operate and generate net effects into the future and found a high probability that the investments will be maintained in the long term. However, there were significant differences between farm types and types of investments. Data sources for these studies include economic and physical size, location, type and financial status of the farms, education and age of farm managers and/or employees, and RDP support paid. The main recommendations for future evaluations, coming from the two presented examples, are 1) effects need time to emerge, 2) to interpret results carefully and 3) that other CAP interventions matter. Finally, the main drivers of durability that emerged from the studies were: 1) Efficiency - selection criteria are key, and individual and farm characteristics matter most, 2) Effectiveness - for farms to achieve high performance levels as soon as possible, which reduces implementation time, 3) Coherence - complementarity with other CAP interventions must be ensured, and 4) Flexibility - to allow Member States to tailor responses to external factors.

Panel discussion

Tom Jones (European Rural Community Alliance), Viktor Nagy (Managing Authority, Hungary,) Paola Azzopardi, (Paying Agency, Malta) and **Poul Hoffmann, (DG AGRI, Unit B.1)** provided their perspectives on the most relevant examples heard in the interactive sessions, the most critical elements to make investments durable and how these elements can be included in the CSPs in the future.

When asked for the most important points from the interactive session, panel members agreed that showing flexibility and empathy towards projects is important, even towards unsuccessful projects. Eligibility and selection criteria play an important role in ensuring that the best projects are chosen. Business plans are a good tool for projects to plan and prepare for the future. It is important to keep in mind that different MS may have different support rates - Sweden for example found that a decreased support rate incentivised farmers to do better. Different support rates may lead to different results.

When asked which examples or ideas from MS they would take back to their home countries to implement, panel members agreed that examples of unsuccessful projects should be a learning experience for MS. Allowing beneficiaries to submit claims about changes to projects helps to ensure successful outcomes of a project. Business plans should also be realistic, and MS should be careful to not push beneficiaries to set targets too high. The social dimension of projects was stressed by panel members as a key element of durability, and more focus should be put on the transgenerational issue.

The most important elements to make investments durable, according to the panel members, are: 1) the applicant should be supported during the entire process with training or technical assistance, 2) the design of the eligibility and selection criteria must reflect previous experience and be a smart design based on context, and 3) build confidence and capacity among project holders and encourage people to access support.

Finally, panel members were asked how implementation of CSPs can be improved in the future. Panel members suggested that both the business plans and qualifications of applicants should be checked to reduce the risk of failed projects and prevent misuse. Project checks need to be robust and beneficiaries should have enough information about what is expected of them throughout the process. Risk of failure must be managed and innocent mistakes differentiated from fraudulent behaviour. It may be difficult to amend durability requirements in the CSPs at this stage. However, it is still important to keep communication with beneficiaries open if challenges to project performance occur due to unexpected external events. Overall, actions to improve durability are being taken in some MS but not all and MS are not necessarily aware of best practices and measures that are working better in other MS. Therefore, exchanges of experiences on durability requirements such as this workshop are very important and panel participants suggested more networking between MAs to inform each other of changes and improvements in their implementation.

Concluding remarks

Michael Pielke, DG AGRI, Unit B.1 concluded the workshop by echoing the point that requirements for durability of investments are important for interventions to meet their objectives but are a complex topic. Requirements will be different for different types of projects and no one-size-fits-all solution exists. Selection criteria are important to ensure durability, as well as the entire project cycle, including initial planning, eligibility criteria, business plans, implementation. It is important to keep a holistic approach in durability of investments, and to keep in mind that effects sometimes can only be seen at later stages, which is why the positive impacts of investments may prove to be elusive. MAs should also take into account what is a proportionate level of administrative burden. There may be a need for administrations to help beneficiaries perform their investment projects in periods of special volatility. Providing flexibility in grant decisions may help project holders to cope with external factors that can affect project viability, but it is important to understand the tipping point between flexibility and when a project is not viable. Before allowing flexibilities, MAs should ask: do we still reach the objectives with the intervention? Another question is: can grants to investments be too generous if you wish to increase durability? Can loans be a better method of support to ensure that projects remain viable? The feedback of beneficiaries may be used to help improve implementation of interventions going forward. Finally, a lesson learnt from this workshop was that accompanying CAP measures, such as training and advisory services, may be needed to ensure successful projects.

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