LEADER/CLLD Financing: opportunities and practices

12 November 2013

Workshop Summary Report
I. Introduction

Participants and objectives

“Building a bridge among decision makers on different management levels for LEADER is a MUST”

“Are we focusing on receipts or results?”

“There should be some risk tolerance in the system”

“When auditing we often see a lack of necessary checklists”

“The basic principles of sound financial management are economy, efficacy, efficiency”

“How can we ask volunteers to go through a full procurement process?”

“It is great to have a technical discussion of great importance for LEADER on EU level”

These were some of the many questions and comments speakers and participants raised during the LEADER/CLLD workshop that gathered together more than 150 practitioners from Managing Authorities (MA), Paying Agencies (PA), Local Action Group (LAG) managers and experts. This workshop was part of the series of ENRD activities for the preparation of the programming period 2014-2020, with enhanced focus on implementation issues. It aimed at:

- Identifying the elements of effective funding mechanisms for LEADER/CLLD and how these can be integrated into the relevant policy delivery mechanisms
- Outlining specific challenges in relation to the funding of LEADER/CLLD
- Exchanging and discussing possible practices and solutions

Main topics

While session I focused on what type of financial support can be channelled by EAFRD and session II on the procedures and factors that can impact financing for the functioning of LAGs, session III looked at the requirements and the conditions to provide finance effectively on the project level.

Practices presented at the workshop aimed to demonstrate how financial resources could reach project implementers in order to create opportunities to finance projects at the community level in a faster, safer and in an easier way.
The main topics presented during the workshop included:

1. **General framework**
   - Overview of financial aspects and regulatory framework for LEADER programming and implementation;
   - Overview of the Simplified Cost Options in ESF;
   - LEADER financing: The auditors’ perspective.

2. **Building effective national financing systems supporting LAGs and project implementers**
   - How to put in place smart systems to support effective financing for LEADER;
   - Possible approaches to tackle the need for upfront funding;
   - Simplified cost options – a tool to simplify project financing on national level.

3. **Financing project implementation within CLLD/LEADER: practices and tools**
   - Umbrella projects as a tool to simplify administration for both project implementers and managing authorities;
   - The role of the LAGs as resource animators. Innovative resourcing solutions;
   - The Crowd funding and crowd equity funding concepts.

II. **Summary of main discussion points and exchanges**

1. **General aspects and framework for financing LEADER**

Relevant case studies and presentations can be accessed through the following links:

- [Overview LEADER financing framework](#)
- [Overview financing LAGs](#)
- [Overview financing projects](#)
- [Auditors’ perspective on LEADER financing](#)

**Main discussion points**

- **LEADER principles are at the core** of the financing system supporting LEADER implementation. The financing of LEADER needs to be in function of the application of the principles of the approach. Member States (MS) apply and interpret some elements of the EU regulations differently which leads to different models of financing, different systems of controls and ultimately different results.

- **The EU regulative framework** in 2014-2020 addresses current challenges with some remaining. The framework provides among others the opportunity to fund local development and LAGs from different funds, to increase the funding for animation of the local territory stakeholders by LAGs and to develop simplified cost options for financing. However, some challenges still remain such as the one related to access to advance
payments and timely reimbursements. Representatives of LAGs expressed that there should be focused efforts to reduce the time from selection of projects to payment.

- **Auditing and controls from the EU auditing perspective.** Observations from current period have shown that in some MS the quality and the quantity of checks has not been sufficient, or the guidance provided to LAGs has not been sufficiently detailed with regard to the contents of checks required.

  **Risk tolerance in the LEADER financing and accountability system.** LAG representatives predominantly expressed the view that the financing and control system for LEADER should be more risk-tolerant to allow for innovation and to support community action that further foster resource mobilizations.

- **LEADER/CLLD implementation challenges for Partnership Agreement.** The particular complexity of LEADER/CLLD should be explained and discussed in details in the Partnership Agreement. The Managing Authority and the Paying Agency should take into account what implementation systems should be in place to support the territorial approach and what capacity is needed on all levels to support delivery. In some MS involving different funds in a multi-funding approach for territorial development may improve results at the local level, while in others it may lead to further challenges for delivery.

- **The importance of small projects for LEADER.** The support for small-scale projects is important and LAGs' representatives shared their view that their minimum financing levels regulated on national level for financial aid to beneficiaries of LDS projects should not be raised in order to continuously target and involve as many rural actors as possible.

- **Public procurement and controls are challenging for small projects implementers.** It was expressed that public procurement procedures can be extremely burdening to small community projects, and in the case of community voluntary projects and groups the necessity to go through with public procurement processes could be a barrier to implementation. The representative of the EC addressed the issue by highlighting that the basic principles of the EU Directives for sound financial management are economy, efficacy, efficiency and a tool to ensure those is the public procurement process.

2. **Possibilities and practices to simplify the delivery and financing of LEADER**

Relevant case studies and presentations can be accessed through the following links:

- *Simplified cost options, overview from ESF*
- *Simplified cost options, examples from ESF in Germany*
- *Application of SCO from ESF in Germany – case studies*
- *LEADER Umbrella projects - case study, Sweden*
- *LEADER Small projects - case study, Poland*

**Main discussion points**

The main approaches discussed to simplify and make financing more effective included umbrella projects and simplified cost options (SCO)
There is existing SCO experience within the ESF and their experience can be useful for other funds. ESF used SCO already in the current programming period and this tool has been positively assessed by the European Court of Auditors (provided that it is used properly).

**Different option of SCO suit different needs.** The main type of SCO include i) Standard scale of unit costs; ii) Lump sum iii) Flat rate financing. In order to apply the SCO efficiently, MS need to invest in analysis and in planning at the programming stage to define which options are relevant for their needs and how to apply them.

**SCOs are an effective tool** if used in the right way. SCO is an effective tool when a) real costs are difficult to verify, b) there is a high error rate, c) there is a high risk of retention of documents, d) focus on outputs and results is needed, e) you need reliable data on financial and quantitative implementation, f) operations are standardized.

**Pre-planning SCO application is important.** There should be an ex-ante evaluation before introducing the simplified cost options. Careful preplanning is needed when SCO is applied. Both the managing authority and the project implementer need to plan and prepare well in advance.

**SCO guidance is needed.** Managing authorities requested to receive a specific guidance or a toolkit on simplified cost options. Questions on how often adopted benchmarks need to be revisited would need to be part of such guidance. DG EMPL is developing guidance note and delegated acts on SCO from an ESF perspective.

**SCOs are a promising tool to alleviate the process of financing LEADER.** LAGs representative appreciated the introduction of the SCO use in ESF and expressed hope that it will be considered as well in LEADER at national level.

**SCO suits the needs of Paying Agencies.** Some representatives of PAs expressed the opinion that SCO may be a real tool in simplifying and making the process faster for all since the model on checking every real invoice for many small expenses is resource and time consuming for the PAs.

**Umbrella projects (UP) are a powerful way to mobilize participation into the LEADER work** - 70% of the Swedish LAGs use this approach, having supported 416 sub-projects in the last 7 years. An umbrella-project (UP) consists of a number of sub-projects that contribute to an overall objective and strategy. Decision on the approval of a sub-project is made by a decision making body (that should always include a LAG representative) and a project plan is approved for each sub-project. A project plan at the UP level is drawn, which clearly indicates how the budget is distributed and who is in charge of the sub-projects’ implementation. UPs can greatly contribute to the overall strategy of the LAGs as they can be set up with a very specific thematic focus (UPs were drawn up around issues of bioenergy, small-scale food productions, young culture, and innovation). They allow for quicker decision on small projects and simpler administrative procedures (e.g. the person in charge with the UP is also the one that submit payments requests). Eventually, payments to the final beneficiaries are faster since no final decision from the central authority is needed.
3. **Upfront funding and advance payments for LAGs and project implementers**

Relevant case studies and presentations can be accessed through the following links:

- **Possible approaches to tackle the need for upfront funding, Malta**
- **Access to public finance for LAGs- case study, France**
- **LAGs as animators of commercial and alternative funding - case study, Ireland**
- **Addressing the challenges and limitations arising from the LAG legal personality and finances - case study, Malta**

**Main discussion points**

- One of the main issues for financing LAGs remain **liquidity** (i.e. having enough funds at different times of programme implementation) and possibility to cover expenses that are not recognised from EAFRD. There is a need for alternative and coping mechanisms that allow for advance payments to be available to LAGs.
- In some Member States the cost to secure **bank guarantees** is very high (e.g. in Greece)
- In most cases the municipalities become **the guarantor for LAGs** to access EAFRD advance payments. In some cases this can lead to a bigger informal influence from the municipal administration and authority, beyond the balance foreseen by the LEADER approach for public/private interests.
- **Membership fees** for local partnership members have been used as a tool to support expenses and activities which are not funded through the EAFRD.
- The **advance payments mechanism** is possible only if national regulations allow it.

4. **IT shared management tools in support of effective financing. Volunteer contributions.**

Relevant case studies and presentations can be accessed through the following links:

- **LEADER tailored rules and procedures facilitating the financing of LEADER, Estonia**
- **E-ARIB, E-services and document management system for LEADER- case study, Estonia**
- **How to put in place smart systems to support effective financing for LEADER, Portugal**
- **Single IT system for validating EAFRD and EFF payment claims- case study, Portugal**
Main discussion points

- **Paper reporting versus electronic reporting.** Several models of electronic management and reporting were presented demonstrating that effectiveness of the system for financing and accountability of the process of approval and reimbursement can be enhanced. A discussion point was raised from the perspective of the auditors, namely that such system could potentially compromise the verifiability of reporting documents.

- **Receipts based model versus output based model.** Practitioners from national and community level argued that current systems of reporting (i.e. reporting based on real cost regardless of its type and level) drives the system of administration and management to focus less on targeted and achieved outputs. An argument was made for the need for rethinking of the reporting and auditing system related to LEADER projects on community level so that control systems allow for spreading risks of community level projects to other levels (LAG, regional and national)

- **Mobilizations and reporting on voluntary work.** Voluntary work is very important to reunite the community, and presents potentially a great resource leverage created through the LEADER approach. It is rather the small projects that need and use the option of voluntary work. However, it is often difficult to make voluntary work an eligible cost item due to the management, financing and reporting framework. The requirements to prepare, plan, notify and report strictly on volunteers’ involvement have been a disincentive for volunteer work mobilization.

5. **Mobilizing community resources to support financing of projects**

Relevant case studies and presentations can be accessed through the following links:

- [LAGs as animators of commercial and alternative funding- case study, Ireland](#)
- [Releasing Innovative Resourcing Solutions To Realize Challenging Objectives, Ireland](#)
- [Crowd funding as a possible funding model for LAGs and projects- case study, Sweden](#)

Main discussion points

- **LAGs have the role to animate and mobilize additional resources.** In order for projects to be implemented financing needs to be sourced at local level, and the roles of the LAGs to support resourcing is as important as the one to decide and administer the financial support from EAFRD.

- **Success factors with respect to building the LAG’s financial-and resource capacities include:**
  - building a peer-led support network where membership fees could underpin the sustainability of the network;
- establishment of regional Corporate Social Responsibility groups involving big local companies which are willing to support targeted investments for development in the area;

- **The crowd funding and crowd equity funding concepts** could be a key tool for local resource mobilization and support and financing to local projects. At today’s stage of development crowd funding appears similar to a system of ‘donations with the intervention of a broker’ and a number of examples are already available (www.crowdequity.com). But the real interest in this tool relies in its future possible evolution. This experience, could open up new possibilities also for financing and investments in the LAGs themselves as structures from the community stakeholders.

- **Private investment as possible co-funding to EAFRD.** Doubts were expressed with respect to the possibility of mobilizing crowd capital (i.e. private funding) towards LAGs. However, the crowd equity system is recognized to function as leverage for private investments. The questions whether through this system, public funding can be replaced by private investments – completely or just for some types of investments - remains open, as well as the opportunity for using crowd funding with bigger investments. Resources are needed to establish a crowd funding mechanism. Experiences running in Sweden provide already some experience. In one of them 37 people are involved to build a joint resource base. The use of Internet platforms were also reported to be a crucial tool for ensuring the cost-effectiveness of the whole system. It was highlighted that rural banks can be potentially very interested in the crowd funding model; it was suggested that it would be useful to look at those entities that have already means and resources in place (e.g. for developing costly web platforms) as a starting point for establishing such mechanisms in rural areas.

### III. Some conclusions

- The complexity of the financial systems in place at local, regional, national and European level, differing interpretations of the regulations, coupled with the diversity of Member States and their approaches to LEADER affect the delivery and financing of LEADER. Certain models of defining eligibility, planning and reporting systems on national level can really support or really impede the effective financing of LAGs and LDS beneficiaries. MS should constantly improve and look for simpler solutions in implementation. How much, how efficiently and how quickly public funds can move through the system from the EU level to LAGs or LEADER beneficiaries is a function in many case of the decision and tools applied and management, administrative systems put in place on national level.

- There are financing models in different MS on national and local level which provide useful, transferable solutions to be reviewed, tailored and adopted by other Member States.
Several of these solutions have also looked beyond the LEADER Programme to explore resource opportunities which individual LAGs could pursue to become more comprehensive and creative in its approach to local development.

The unifying element of all the tools discussed in the workshop has been one of communication and the development of positive working relationships. LEADER stakeholders working together, communicating, increasing understanding of the role each plays and the associated requirements, sharing best practice, building trust and developing a combined focus on the final beneficiary will be a significant step forward in the achievement of a successful programme.