European Network for Rural Development

BRIEFING NOTE

"LEADER/CLLD *Financing for LEADER/CLLD: Opportunities and relevant practices*"

Workshop

November, 2013 in Brussels

Experts' reflections on LEADER financing

Funded by the European Commission

I. Background

This note has been developed to accompany the 'LEADER/CLLD Financing' workshop report held in Brussels on 12th November 2013. The document does not present any formal guidelines or position of the European Commission. It sought to further enhance the ***understanding of the needs of LEADER financing and the potential and actual tools available to further support the programming of LEADER 2014-2020.*** The document endeavours to capture the main topics of discussion during the workshop and highlight some of the actual and potential tools and mechanisms that support the simplification of financing observed during 2007-2013 period. It also encompasses elements of the presentations given at the workshop, simplification tools and ideas identified and discussed at the ENRD Conferences of 2012 and 2013 related to LEADER, and case studies of relevant practices brought forward by individual Member States. This note should not however be considered in any way exhaustive.

More information on the examples provided below can be found here[1]

II. Introduction

The size and reach of the LEADER approach has continued to grow since its inception. The transition from LEADER+ to LEADER mainstreaming through the 2000-2006 to the 2007-2013 Programme periods and the resultant changes in implementation systems and requirements created a number of new challenges when delivering the LEADER approach on territorial level. LEADER stakeholders have continued to work together to find solutions to make delivery respond to administrative demands while remaining effective.. These solutions have the potential to assist delivery during the further adaptation of the LEADER ethos to embrace Community Led Local Development (CLLD).

The financing of LEADER involves a multi-layered system with multiple stakeholders supporting the delivery of the LEADER approach. This system of financing can therefore play a significant role in enabling effective delivery of LEADER or equally has the potential to create obstacles in the application of the approach. Sharing the best practice which has been elaborated in financing the approach from preparation of local development strategies, financing the animation work of the LAG through financing individual projects will enable Managing Authorities to support more effective delivery of the LEADER approach in

[1] ENRD website, ENRD meetings: http://enrd.ec.europa.eu/en-rd-events-and-meetings/seminars-and-conferences/financing-for-leader-clld/en/financing-for-leader-clld_en.cfm

the future. These examples and the establishment of an on-going exchange around LEADER funding issues could also assist in the development of a systemic approach to funding the implementation of LEADER, one which is based on capturing the potential of the LEADER approach.

III. LEADER Context

The mainstreaming of LEADER in 2007-2013 period has created a number of challenges for LAGs attempting to deliver bottom up activity. The LEADER Subcommittee Focus Group on the Implementation of the bottom-up approach concluded that although there are major variations in the way LEADER is implemented in the Member States in the 2007-2013 programming period, its mainstreaming is broadly perceived as having created general implementation conditions which are not fully in line with the spirit of the bottom up and territorial approach of LEADER[2].

This would suggest that despite the differences in national programming similar challenges have been faced by stakeholders from all Member States, challenges which impair the effectiveness of LEADER delivery. However, where mechanisms have been developed as solutions to these challenges, they can be shared across stakeholders to support delivery throughout the next Programme period.

The main added value of LEADER is in the way in which the local actions delivered are implemented and linked together, both in and by rural communities themselves. This added value needs to be enabled through the system of financial procedures rather than thwarted by it. DG AGRI also recognises that very strict criteria can hinder innovation and limit the development of new ideas[3].

1. The financing system

LEADER financing system is a complex one. It has been suggested that there are three key elements in delivering LEADER funding which need to be the focus during all stages of the process and throughout the lifetime of the RDP; if any are missing LEADER will not be delivered as successfully as possible. These elements are:

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[2] ENRD website, LEADER Library, Focus Group on the Implementation of the bottom-up approach. *Summary of the Extended Report on the Implementation of LEADER Approach*. December 2010: http://enrd.ec.europa.eu/leader/leader/focus-groups/en/focus-group-1_en.cfm

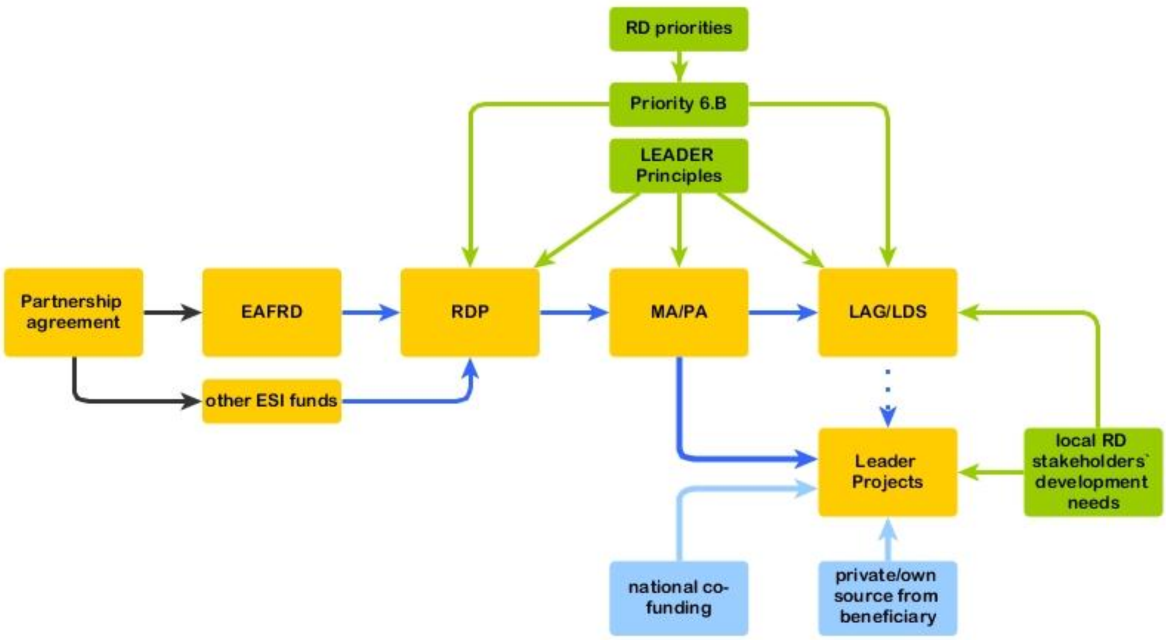
[3] DG AGRI, Guide for the Application of the LEADER Axis of the Rural Development Programmes (2007-2013)

- Shared understanding of the specific characteristics of LEADER among key stakeholders: LAGs, Managing authorities, Paying agencies
- Good communication and coordination during programming and implementation
- Creating and maintaining a supporting and enabling regulatory framework

These highlight the need for all stakeholders within the system to work effectively together, communicate and build relationships of trust which recognise that everyone is endeavouring to achieve the same common result – the successful delivery of the LEADER approach for territorial development

These stakeholders function at every point throughout the flow of funding from the EU level to the final beneficiary and by working more effectively together can bring about a simplification of the delivery system in respect to LEADER. The policy regulatory framework is defined at the European level. This framework is then adopted by individual Member States and translated in national implementation rules which sometimes lead to different working models for financing on a national level.

Chart 1: The typical 'flow' of funding for LEADER may be visualised in the following way



The availability of funds for LEADER are initially impacted upon by the overall strategic framework and budget allocation which will be reflected in the 2014-2020 period within the Partnership Agreements, their use is further clarified through and within the RDPs.

2. Regulatory framework 2014-2020 related to financing

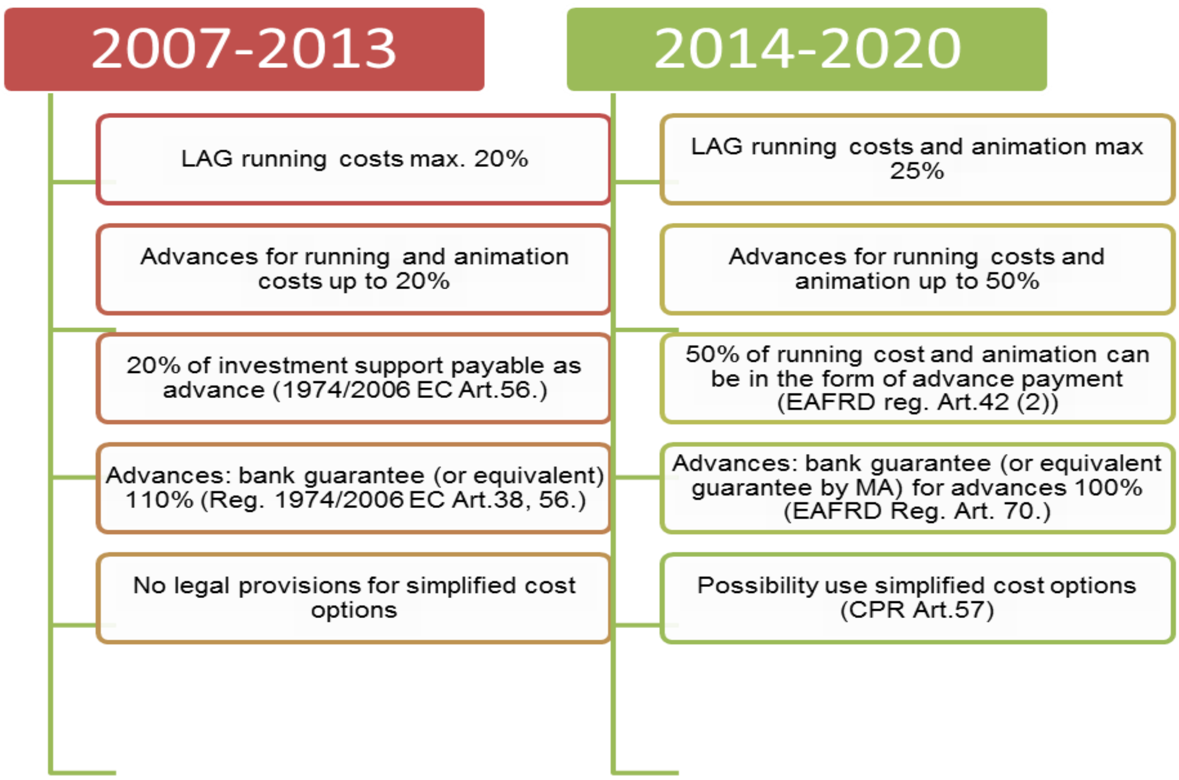
The new regulatory framework's Partnership Agreements require the Member States to describe their strategic choices for integrated territorial development, including developing an overall vision for Community Led Local Development (CLLD).

> ***"LEADER is a specific methodology unlike any other and so it requires specific funding approaches."***

This outlines the results wanted, identifies the objectives and priorities that can best be dealt with locally, and the resources and scope of the four Funds for the most appropriate combination to achieve these aims.

The EU Regulations for 2014-2020 include changes and additions that are beneficial for the implementation of LEADER (Chart 2). The co-financing rates have been increased to support the funding of more innovative, complex and community projects. A range of simplified cost options for EAFRD have been introduced.

Chart 2: Main changes within the EU Regulative framework related to LEADER financing



3. Tools and mechanisms for simplification of LEADER financing

The experience of LEADER stakeholders and the feedback received during the ENRD conferences for 2012 and 2013 has suggested that the key financial challenges experienced within the process of delivering an effective LEADER Programme are primarily felt in terms of LAG running costs, animation and whilst developing, approving and delivering projects.

> ***"Financing works when all stakeholders in the system are working together and communicating actively."***
> **Representatives of the DG AGRI**

The challenges and some of the possible or actual solutions introduced in member states are described below.

VI. Key stages in the system affecting LAGs

1. Understanding and defining animation within a LAG

The regulations for the new Programme period have identified a maximum allowable 25% of LAG budget spend on management, administration and animation. This will enable many LAGs who have previously been unable to deliver animation activity to develop this area of work. Understanding of what animation is as a capacity building tool, how it can support local development and the role it can play in increasing the effectiveness of LDS delivery may vary between LAGs – and indeed *Member States - and inhibit universal utilisation of this opportunity. The LAGs with smaller budgets* may also struggle to allocate sufficient resources from the 25% ceiling to support an effective animation role.

A shared understanding of what an animation role constitutes could help Member States and LAGs to understand to what extent animation needs to be considered when planning MS specific LEADER delivery rules and preparing LAG financial plans. Awareness-raising amongst LAGs would help to develop understanding of the importance of animation and the long term benefits such work can achieve in relation to the effective delivery of an LDS.

> ***"The system needs to be risk tolerant to encourage innovation and support LEADER principles."***
> **Representatives of LAGs**

2. Liquidity of LAGs

The timeframe within which LAGs incur expenditure on their management and administration budgets and are then reimbursed can and is in many cases be lengthy. This can result in LAGs needing to minimise their costs and so limits their ability to deliver some of the added value activity of LEADER such as animation. Where LAGs have a municipality or other organisation acting as an accountable body, hosting LAG staff and covering the M&A costs they may provide advance payment support to the LAG. However, the lack of availability of advance payments outside of the accountable body can prevent those LAGs who wish to, from establishing themselves as independent organisations with autonomy and their own governance structures. This issue of liquidity of LAGs is further exacerbated if a LAGs role includes project approval and making payments to projects.

The possibility to provide advance payments for LAGs and beneficiaries has been included in the EU regulations. However, to make use of this facility it also has to be made available in the MS` RDP. The use of advance payments requires securing a bank guarantee and may provide up to 50% of the public aid related to either the running costs or investment. Whether non-profit projects, particularly community led activities, are able to secure such a guarantee and therefore access advance payment is unclear.

Relevant example

Additional financial support - Denmark: The local municipality contributes to the LAG secretariats by providing an annual amount of money. This is not given as a loan or co-financing, rather as additional financial support. These funds can also finance projects however only in cases where the LAG itself is the project holder. In addition to this the LAG can also ask the municipality for a loan or credit and repay the loan when the state and/or EU fund support has been paid.

V. Key stages in the system affecting projects

1. Aid intensity and access to beneficiaries to implement the LDS

> ***"Have the capacity to share and sell your vision, and have patience and belief in your values."***
> **LAG Manager**

The nature of the LEADER Programme means both LDSs and the projects they support are highly diverse, multifunctional and innovative. In many cases the more creative a project application becomes the more difficult it can be to ensure it fits within the appropriate regulation. This can result in a lack of encouragement of innovation to ensure the minimisation of financial risk. These types of projects may also require higher aid intensity as securing match funding can be problematic when multi-functionality and innovation are considered to carry too high a risk.

Relevant example

Complementarity rules - Germany (regions): In the Rheinland Pfalz region specific complementarity rules have been developed in order to enable more complex projects to access a mix of EU funding sources. The Schelswig- Holstein region has developed specific guidelines for innovation measures to encourage and enable projects to think creatively and 'pilot' new ideas and approaches.

2. Project application process and tools

Through their animation role LAGs have the potential to encourage applications from groups, businesses and organisations which have not developed, applied for or delivered an EU supported activity previously. The process of applying, particularly the evidence based required may sometimes seem overwhelming to these types of groups and enterprises.

> ***"As a LAG it is vital to explore all the resource opportunities for projects and Programming."***
> **LAG Manager**

The development of a single application form for all available funds and proportionality of the evidence required would significantly simplify the process for new and novice applicants.

3. Supporting projects with little or no cash flow

Many of the non-profit, community and social enterprise beneficiaries have little or no access to funds to enable them to manage cash flow successfully. This can become a major challenge for those seeking funding support as the timeframe between accruing the debt and receiving a claim payment can be many months. These projects are generally also the least able to access financial support from established lenders. Being able to access funds to support cash flow is vital for these types of projects to progress.

Relevant examples

Cash flowing LAGs – Denmark: The municipality has an account of about €100 000 available for the LAG. The decision of whether to provide a loan is taken for each project on an individual basis, with the LAG making a recommendation to the municipality about each loan. The total amount loaned cannot exceed €100 000 and the project must be finished before the funds can be used for another project. The loan is only available for non-profit making projects and not for individual entrepreneurs or enterprises. The LAG manager cannot attend meetings where the loan request is presented to the municipality in order to avoid any unintentional bias. This loan system in not however widely used in Denmark.

Crowd equity – Sweden: The process of crowd funding enables individuals to work collectively and pool their combined resources to support an individual project. These systems are generally Internet based and provide a platform for a project to raise awareness of their proposed activities and develop broader support. Projects can provide equity in return for the investment however often the crowd funders receive products, services or exclusive access to the project, in much the same way as a sponsorship package.

4. Ensuring proportionality of contracting and administration

The nature of the contract and level of administration required for beneficiaries is not reliant on the size or complexity of their projects. This can leave small community projects requiring the same level of evidential reporting as large, commercial or infrastructural works. Committing to and collecting this evidence base can be challenging for smaller projects as the cost of administering the grant may become as expensive as the total funding received.

Relevant examples

Umbrella projects – Sweden: The LAG becomes the applicant for an umbrella or small grants scheme, ring-fencing a proportion of their projects budgets for applications on a specific theme and below a certain level. The LAG is then able to distribute the funding using its own tailored application, claiming and monitoring system to make grants accessible for smaller projects.

Simplified cost options – European Social Fund: The development of a simplified costs option, including standard scales of unit costing, lump sums and flat rate financing have been developed and implemented within the ESF. This has minimised the clerical burden on both administrations and beneficiaries, ensured a more timely payment of claims and minimised the Programme claim error rate. The methods used for calculation have to be fair, equitable and verifiable and established through the ex-ante evaluation or based on those used by other schemes. Standard scales require setting a universal cost for activity e.g. 1 hour of training = 7 euro, with the project paid for the number of hours delivered. Lump sums work on a similar basis but are only paid if the project delivers 100% of its anticipated outputs. Flat rate financing enables the application of a percentage to direct and indirect costs such as staff salaries. It is appropriate to consider the use of simplified cost options when:

> ***"We need to turn the Programme round from focusing on receipts to creating results."***
> **Representative of a delivery body of ESF**

- Real costs are difficult to verify
- There is a high error rate
- There is a risk of documents not being retained
- The Programme wants to focus on outputs and

results
- Reliable data on financial and quantitative implementation is available
- Operations are standardised
- Projects are not 100% procured.

Most importantly, this approach should only be used when the stakeholders are sufficiently prepared, understand the procedures and have a robust evidence base in place.

5. Multiple administrative layers

Many administrative systems have multiple layers resulting in the same documentation being assessed and recorded by a number of individuals at each stage. Equally if there are any errors within submitted paperwork the delays then felt by the beneficiaries in receiving payment can be lengthy. The development of communication and the building of trust between these layers can shorten the administrative timeframe significantly.

Relevant examples

Shared IT systems – Estonia, Finland and Portugal: Operational, shared IT systems for the joint management of project information have been established for managing all aspects of beneficiaries' projects. These systems have been designed for use by the Paying Agencies, Managing Authorities and LAGs and enable all stakeholders to access and view project and claiming information whenever required. This process has worked so effectively in Portugal that all claims made prior to the 14th of the month are paid by the end of the same month.

> ***"This provides a management tool for the RDP with efficiency gains for information and data."***
> ***Representative of a Paying Agency***

Claim checking – Wallonia: A dedicated 'Interface' team has been established which works with the LAGs to ensure all claim information is in place prior to it being submitted for payment.

Learning from best practice – Hungary: A best practice study has been completed of administrative experience in other Member States delivering the Programme. This has made recommendations on how to work more simply during the 2014-2020 Programme period.

6. Ensure consistent rules for Transnational Cooperation (TNC) applications

Developing a TNC project, working across different languages and cultures can be a challenging yet worthwhile process. These projects increase the added value of the LEADER Programme and underpin an important aspect of the LEADER ethos. There is a great diversity of application processes and timetables amongst Member States which can increase the challenge of developing and approving TNC applications. LAGs may also need to allocate resources to TNC project management in order to effectively manage the different procedures in different MSs which can make the TNC approval and implementation process uncertain.

Potential solution: Develop consistency across Member States to enable TNC applications to be submitted at a time which is appropriate for the project and other partners involved.

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 can impede the effective delivery of LDSs. The nature of the LEADER approach requires tailored financial systems and communication among all stakeholders.

Decisions related to financing intensity, allocations, planning, reporting and controls made at each level of the RDP programming and delivery in relation to LEADER supported activities has an impact on the effectiveness and added value of the LEADER approach and the LAGs ability to deliver. How much, how easy and how quickly public funds can move through the system from the EU level to LAGs or LEADER beneficiaries is a fundamental issue affecting the targeted results of the Local development strategies.

This briefing note and accompanying case studies have explored some tools and mechanisms that have been developed and are in use in EU MS. Not all of these will be appropriate for every challenge in each context; however, they do provide useful, transferable solutions which could be readily adopted by individual Member States. These solutions are all focused on simplifying the burden of administration, enabling LAGs to deliver a successful LDS utilising all aspects of the LEADER approach.

Several of these solutions have also looked beyond the LEADER to explore resource opportunities which individual LAGs could pursue. The unifying element of all the tools discussed 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.