

## CHAPTER IX

## Local financing and management

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## CHAPTER IX

**European Commission Notices to the Member States****LEADER+**

ref. 2000/C139/05

Commission Notice to the Member States of 14 April 2000 laying down guidelines for the Community Initiative for rural development (LEADER+)

**LEADER II dossiers****Innovation notebooks**

No. 4: Assessing the added value of the LEADER approach (1999)

No. 9: Local financing in rural areas (2000)

**Observatory dossiers**

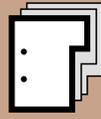
No. 3: Mainstreaming LEADER in future rural policies (1999)

**LEADER Magazine**

No. 16: Special LEADER Symposium "Towards a new Community Initiative for rural development: 800 leaders give their views" (Winter 1997-1998)

No. 24: Unifying theme(s), integrated territorial development (on LEADER-FIDI, see p. 21)

## CHAPTER IX



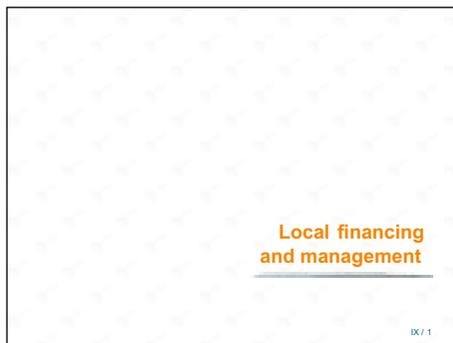
### Examples

#### **“Innovative actions” factsheets**

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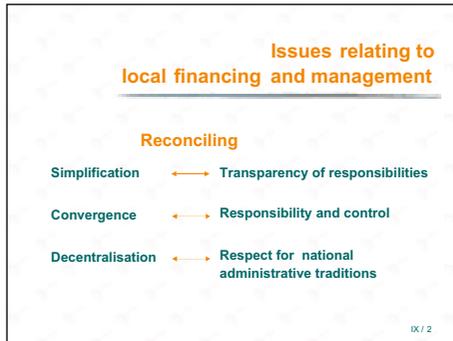
Management as close as possible to the grass roots is an essential lever available to LEADER groups for their activities in the area. This applies not only to decision-making concerning funding to be allocated to the projects but sometimes also the direct management of such funding.

The **first part** of this chapter (slides 2, 3 and 4) deals with the principle of subsidiarity and decentralised financing and management procedures.

The **second part** of the chapter (slides 5 to 9) deals with the problem of access to local development finance. Indeed, problems of access to funding can severely hamper the creation of new activities and the emergence of projects, especially small-scale ones.

In this second part we show that a range of funding tools is available to LEADER groups, especially as, in addition to grants, Community regulations authorise the European Structural Funds to be used for financial engineering.





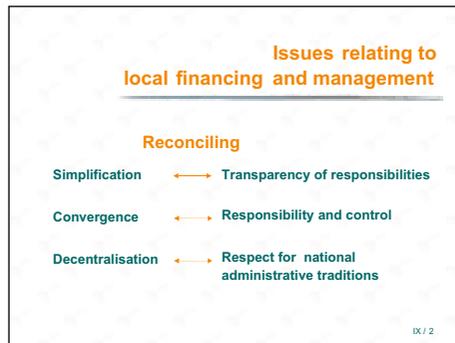
**Access to funding** is a key issue for local development. The ability to grant funding and/or help to source it is one of the levers available to LEADER groups for managing their programme.

Decentralised decision-making in funding allocation and management is in keeping with the LEADER approach and, in practice, LAGs are often responsible for taking and executing funding decisions.

In this respect, a local capacity for decision-making forms part of the LAG's development **strategy**. Coordinating "animation", management and funding is an integral part of the duties of the local action group.



V/3-8



This calls for a number of issues to be fully understood:

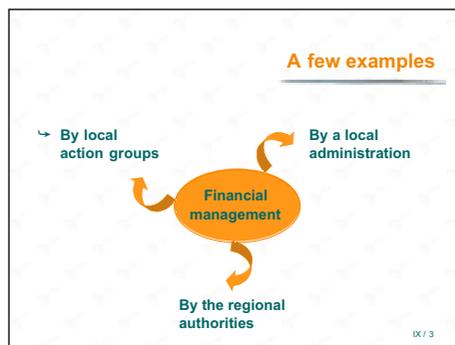
1. **Reconciling simplification with transparency** – This means **simplifying** support mechanisms, whilst at the same time ensuring **transparency** and clarity in the **assignment of responsibilities** for managing public funds.
2. **Reconciling convergence with responsibility and control** – LEADER groups are sometimes torn between a rationale of **convergence** with the beneficiaries and a rationale of **responsibility** and **control** over funding, which comes within the remit of public administrations or appointed organisations. Such powers demand independence from the beneficiaries.
3. **Reconciling decentralisation with respect for national administrative traditions** – Since the principle of subsidiarity applies in this matter, the degree of “decentralisation” depends on the **administrative traditions** of each European Union Member State or region.

Depending on the case, a number of parameters are involved when selecting a management system: the form of intervention chosen by the Member State in agreement with the European Commission (“operational programme” or “global grant”), the size of the financial allocation, national or regional regulations for public co-financing and the type of structure (public, private, mixed) hosting the local action group.



M01

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In all LEADER areas, the decision to grant funding (selection of projects to be financed, amounts of funding allocated, etc.) is primarily the responsibility of the local action group. By contrast, various funding management formulas are in operation throughout the European Union:

- > Financial management **directly by the LAGs**, subject to a bank guarantee or insurance – This system predominates in Portugal, Ireland and most regions of Spain. According to this scenario, the principle of global grants and *ex post facto* control arrangements applies and the LAGs have relative autonomy, provided that they respect the conditions of eligibility for the three Structural Funds. Several LEADER groups have applied decentralisation right down to micro-local level, at least for part of their activities.
- > Financial management **by a local administration** – This is the system that predominates in Finland and in the Italian province of Bolzano.
- > Financial management **by the regional or national authorities** – This is the system chosen by Belgium, France, Sweden, Denmark, numerous German Länder and England.



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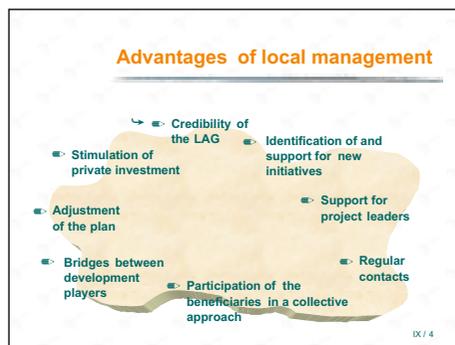
M01



It is neither feasible nor desirable to make an overall judgement of the relative worth of these different formulas, since the important thing is to find the best balance, on the one hand, between effectiveness, flexibility and the decision-making autonomy of the groups and, on the other, rigour in managing public funds.

In general, national or regional administrations have seen this form of decentralisation as a positive factor. Indeed, where it is well managed, public support as close as possible to the community has proved effective in encouraging initiatives and creating the right conditions for private investment.

However, the systems implemented have not always been as flexible and speedy as hoped. In many cases they have been made complicated and given rise to administrative complexities that conflict with local needs. Such difficulties have sometimes undermined the smooth operation of the Initiative.



By taking responsibility for funding management and decision-making, the LAG reinforces its ability to achieve the following objectives:

- > to establish the LAG's credibility as an agent of local development;
- > to identify and support new initiatives;
- > to support project leaders and trust in their ideas – LEADER supports many small-scale projects during their initial phase by financing feasibility studies, supporting the “from idea to project” process and making intangible investments (studies, training) that other programmes do not fund;
- > to monitor projects together with the beneficiary by means of regular direct contacts;
- > to encourage the beneficiary/project leader's commitment to participate in other more collective local approaches (consultation, joint learning and projects, exchanging experiences, etc.);
- > to create links and build **bridges** between local development players;
- > to adjust the local development plan to any new needs that may arise;
- > to stimulate **private investment** in local projects.



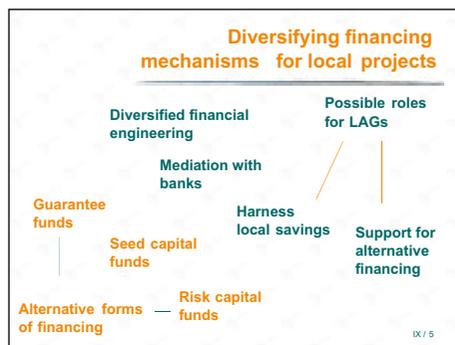
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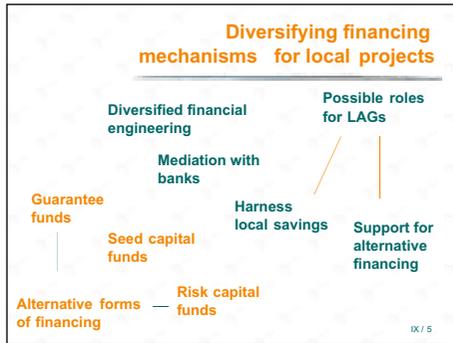
M14



**Grants** are the most common form of financing in LEADER. This is public funding for an individual or collective interest project. Such grants, co-financed by the European funds and national public funds, cover a variable portion of a project's financial requirements, depending on the type of project and the type of area. The remainder of the finance comes from the project leader.

In certain cases, especially for small-scale projects and sometimes also the most innovative projects, the project leader(s) do(es) not have sufficient financial resources or guarantees. Without the sometimes trifling amount of funding they need, there is a risk that such projects may never get off the ground. This applies particularly to small-scale projects promoted by one or two people, cultural or community projects of little interest to banks and projects led by women or vulnerable people for whom self-employment would represent a new start.

While special forms of financing for such projects or target groups do exist, they have been little used by LAGs up to now. These alternative forms of funding are authorised under European programmes provided they apply financial engineering methods that comply with European regulations.



For the few LAGs that have experimented with alternative forms of funding, this has generally taken the form of creating **guarantee funds**, usually to cover some of the financial risk associated with the project; **seed capital funds** to help create the working capital of the future enterprise; and **risk capital funds** for taking equity holdings in the companies created.

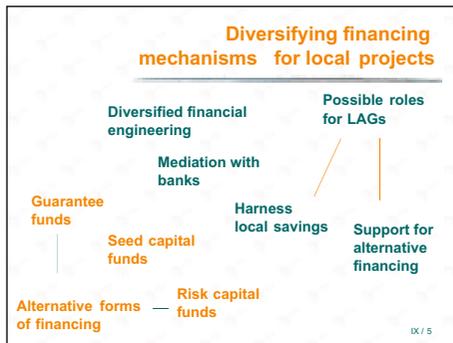
However, regardless of the formula used, funding for local development has an ethical requirement:

- > to empower the beneficiaries, thus ensuring that their project contributes to the local dynamic;
- > to involve credit institutions so as to ensure that they continue to be geared to local needs in spite of the lure of external financial markets;
- > to endeavour to spread public funds more widely, by providing loans rather than grants wherever possible.



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Pragmatically speaking, a number of support systems are available to **LAGs**:

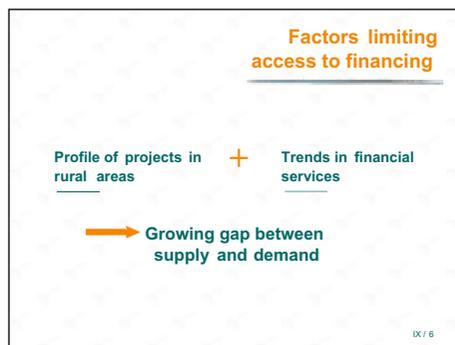
- > Diversifying **financial engineering**, for example by using LEADER funds to set up financial products adapted to suit projects, such as guarantee funds, etc.
- > Acting as **mediator** between credit institutions and leaders of small-scale projects in order to facilitate their access to bank credit; arousing the interest of banks by involving them in the partnership and in risk-taking.
- > Harnessing **local savings**.
- > Encouraging or participating in **alternative financing systems** ("ethical" banks, loans on trust, etc.).



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The growing gap between local needs and bank finance is liable to undermine some projects, especially the most innovative or those led by vulnerable groups. This gap is the result of a tendency towards concentration for financial markets and of cuts in the number of rural bank branches.

Funding difficulties stem from many different causes:

- > **Profile of projects in rural areas** – Small-scale project leaders; scattered project leaders (geographical dispersion and small, little-known sectors of activity); risky projects (uncertainty about the project's viability).
- > **Current trends in financial services:**
  - integrating banking by merging geographical areas has resulted in decision-making being centralised in the towns, increasingly remote from rural economies;
  - the vast networks of rural branches are generally seen as useful for capturing the large mass of rural savings but are not equipped to finance projects: fewer and fewer rural savings are invested in rural areas (often less than 25%).



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There are three possible means of bridging the gap between funding supply and demand and helping to match the two:

### Acting on the demand side

What the Tarn des Montagnes LEADER group (Midi-Pyrénées, France) refers to in its strategy as “**trawling for projects**” consists of organising, over a short period, usually lasting three months, intensive local “animation” to identify all existing initiatives or potential projects, give them overall coherence and, above all, provide each with customised technical support. All of the identified projects are considered, whatever their type and size. Their feasibility is ascertained and, if the results are favourable, a support process is immediately instigated.



M02



### Acting on the supply side

Several means are available:

- > numerous LEADER groups have included financial institutions in their partnership;
- > following the example of the “Aragonese Rural Development Network” (Spain), some LAGs have formed a network for collectively negotiating better credit terms from the banks.

It is also hoped that the introduction of ethical criteria into funding provision will help to match supply to demand more effectively. These may be ethical criteria imposed by commercial banks for part of their funding or else alternative ethical financing systems.



M53, M43



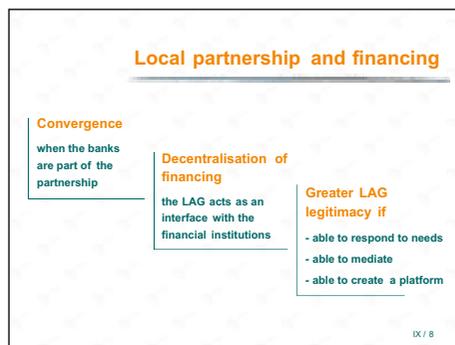
### Bridging the gaps

Creating special structures to supply the “missing links” by, for example, introducing:

- > information and communication functions (informing savers about local investment opportunities);
- > funding to complement commercial provision, to act as a lever for funding projects in their initial stages where the trust of backers has not yet been secured;
- > mechanisms for responding to the requirements of funding providers, which funding applicants could not honour previously. This notably applies to guarantee funds to partially guarantee bank loans for project leaders;
- > grouping funding applicants together to secure better collective terms.



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Apart from forging closer links with project leaders by decentralising financing, LEADER groups have been able to influence rural banks locally and to act as an interface between financial institutions and funding applicants.

In some rural areas, the local partnership formula intrinsic to LEADER has helped to create a privileged relationship with financial institutions. Some LAGs, particularly in Spain, have included representatives from the banking sector in their partnerships, with whom they have been able to negotiate deals. This type of alliance is generally favourable to project leaders.

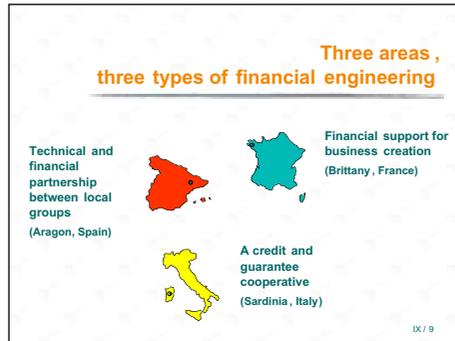
This sort of financial autonomy reinforces the local **partnership** and the **legitimacy of the LAG**

- > by developing a flexible capacity to respond to needs;
- > by creating a local capability for negotiation;
- > by providing a platform that includes local financial institutions.



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V/21



### “GALCOB initiative”: financial support for business creation (Brittany, France)

The association “GALCOB initiative”, created by the **Centre-Ouest Bretagne LEADER** group, has been granting loans to local project leaders since 1993. These are loans on trust with no guarantee or interest, for sums ranging from EUR 3,000 to 15,000, reimbursable over five years. These terms are made possible by the combined action of public entities and private individuals and institutions, through a system of financing and mentoring.

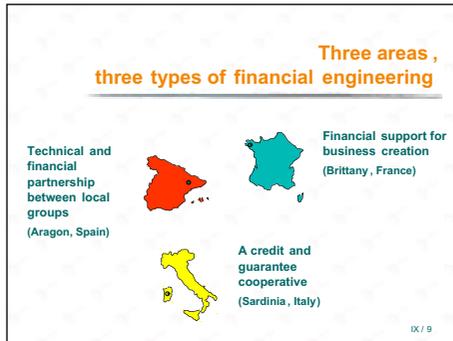
### “LEADERFIDI”: fund for collective guarantees and supporting loans on trust (Sardinia, Italy)

LEADERFIDI was created in 1996 at the initiative of the **Anglona Monte Acuto** group to back local SMEs and new initiatives. In Sardinia, money is expensive and would-be borrowers are unable to provide the required guarantees. Since 1998, a finance cooperative has been responsible for managing the funds. Supported by a number of different public structures, it now has 100 members.



S23

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### RADR: technical and financial partnership between local action groups (Aragon, Spain)

In 1996, 13 LEADER groups from Aragon set up the “Aragonese Rural Development Network” to develop cooperation among themselves and to collectively negotiate with both public administrations and banking institutions. The network has concluded an agreement with Aragon’s leading regional bank and has secured special credit facilities from the bank, as well as funding to launch projects involving several LAGs.



M53

Looking ahead

- Autonomy acquired/desired for financial management?
- Should cooperation be improved between the local group and administrations? Where?
- Should responsibilities be better divided among the different levels?
- Effectiveness of management and financial procedures in LEADER?
- Explore alternative financing systems: for whom? How?

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## Part I

What is the local partnership's current degree of autonomy in funding decision-making and management?

When is cooperation with the relevant public administrations compulsory?

1. Setting up the LAG?
2. Putting together project examination guidelines?
3. Managing funds?
4. Links with other programmes?
5. Information and communication?
6. Search for co-finance?
7. Transnational cooperation?

Can the method of dividing responsibilities between the national/regional administration and the local action group be improved or can other ways be explored?

Do LEADER management procedures appear effective and satisfactory compared with other programmes?

## Part II

Should alternative funding or financial engineering formulas be explored? To satisfy which needs?