

# Addressing the challenges and limitations arising from the LAG legal structure and access to finances - Malta

## 1. What type of organisations are/were involved in the design?

The Managing Authority, Paying Agency, Local Action Group, a commercial bank and other government departments have been working together to find solutions to a number of challenges that had a direct impact on the operation of the LAGs, especially during the start-up phase.

## 2. Why was the tool/mechanism put in place?

The first problem identified concerned the legal structure of the Local Action Group and which structure the LAG had to adopt. The decision was based upon the limitations existent within the national rules. Another problem encountered during the start-up phase was the lack of knowledge/awareness by potential interested public and private stakeholders of what a LAG consisted of, its role and functions.

Other problems were associated with the co-financing element related to Measure 431 and actions designed under Measure 41 in which the LAG would be a direct beneficiary. This challenge was addressed through the support from a co-financing fund which was set up on a national level for local councils and NGOs. Another solution which facilitated the operations of the LAG was the membership fee which the LAG started to charge to its public members.

## 3. Describe briefly how it is carried out in practice

Securing the upfront payment for Measure 431 – the Managing Authority (MA) and the Paying Agency (PA) provided assurance to the bank that all payments would be scrutinised by them and instructions for payments would only be issued upon confirmation that all claims for payments made by the LAG were eligible as per contract signed with the PA. In practice the LAG presents claims for payments to the MA, which scrutinises the invoices and claims presented and upon confirmation that all expenses are eligible, notification to issue payments is sent by the MA to the bank. The bank prepares the relevant bank drafts and effects the payments. The LAG then collects the receipts and copies of bank payment details and presents a claim for payment to the PA which then reimburses 80% of each invoice in the LAG's administration account.

Measure 41 (LAG's own actions) - discussions took place between the bank, PA and MA for an increase in the overdraft facility secured by an amended guarantee and by the presence of the contract with the PA. The LAG presents the invoice of the contracted tenderer to the PA which upon verification, issues instructions for payment (bank to pay contractor). The LAG delivers receipts to PA which again deposits the 80% of the amount paid to the contractor in the LAGs account. Payment of interest on the LAGs overdraft balance is made using the LAGs membership fees since bank charges and interest are considered as ineligible expenses.

## 4. What is the main effect of the described tool/model/practice in relation to financing LEADER and on which level is this effect achieved?

The system of paying Measure 431 costs allowed the bank to issue a bank guarantee to the Local Action Group and thus the paying agency was then in a position to provide the upfront payment. This was a huge step which allowed the LAG to employ its staff and start its operations within the region.

The process also highlighted the importance of opening two distinct accounts – an administration account for Measure 431 and an operational account for Measure 41, and setting down the financial modus operandi for both Measures.

## 5. What have been the conditions needed or put in place to design, implement the practice?

There was no regulatory requirement in principle as agreement was reached between all parties on the basis of mutual trust. The bank was the Paying Agency banker thus they had an assurance on the mitigation of risks, whilst the other Ministries had a direct interest because of the involvement of local councils in the LAG structure. All agreements were formalised, with all parties signing and agreeing to the process. Subsequently the manual of procedures was also updated to reflect this arrangement.

## 6. What are the lessons learnt and relevance for LEADER 2014-2020?

It is recognised there is a need to reduce the bureaucratic procedures and paperwork involved in all this process. The LAG is now a better recognised authority than it was in its initial start-up phase and thus it is easier for it to discuss funding issues with bank, government departments and its members in order to secure faster and additional financing.

## 7. Contact details for further information

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