



European Network for
Rural Development

EU RURAL REVIEW No 20

GETTING RURAL DEVELOPMENT PROGRAMMES GOING



European Network for Rural Development

The European Network for Rural Development (ENRD) is the hub that connects rural development stakeholders throughout the European Union (EU). The ENRD contributes to the effective implementation of Member States' Rural Development Programmes (RDPs) by generating and sharing knowledge, as well as through facilitating information exchange and co-operation across rural Europe.

Each Member State has established a National Rural Network (NRN) that brings together the organisations and administrations involved in rural development. At EU level, the ENRD supports the networking of these NRNs, national administrations and European organisations.

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CONTENTS

GETTING RURAL DEVELOPMENT PROGRAMMES GOING

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Getting Rural Development Programmes going.....	2
Improving implementation of rural development policy	5
Keeping RDPs focused on their agreed outcomes	9
Simplifying RDP implementation: why and how.....	14
Boosting financial performance by reducing errors.....	20
Financial Instruments: making funding go further	30
Launching Operational Groups.....	36
Further advice and information inventory	39

LIST OF MAIN ABBREVIATIONS

CAP	Common Agricultural Policy	LEADER	Liaison Entre Actions de Développement de l'Économie Rurale
CMES	Common Monitoring and Evaluation System	LAG	Local Action Group
ECA	European Court of Auditors	NRN	National Rural Network
EIB	European Investment Bank	RBAPS	Results-based agri-environment payment schemes
EIP-AGRI	Agricultural European Innovation Partnership	RDP	Rural Development Programme
ENRD	European Network for Rural Development	SCO	Simplified Cost Option
ESIF	European Structural and Investment Funds	SWOT	Strengths, Weaknesses, Opportunities, Threats
EU	European Union	TA	Technical Assistance
EUFRAS	European forum for rural and agricultural advisory services	TG	Thematic Group
FI	Financial Instrument		



Getting Rural Development Programmes going

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More than half a billion people live in the European Union. Every one of these EU citizens can benefit from rural development policy outcomes that produce better quality food, as well as a vibrant and healthy countryside where people can live, work and visit. Member States' Rural Development Programmes (RDPs) act as a valuable source of assistance to facilitate such outcomes.

Some 118 RDPs will be operational during the 2014-2020 period and around €160 billion of public funding is expected to be spent through these programmes. With such large amounts at stake, the EU and its Member States share an interest in ensuring that the RDPs are implemented very effectively. 'Getting the RDPs going' well from their start is therefore of relevance to all EU citizens.

Design stages for the RDPs are now almost complete but the equally important phase of implementing the measures is about to start. Launching RDPs that are fit-for-purpose and reinforced with robust operational procedures is a fundamental objective of the ENRD during this initial phase of the RDPs' lifecycles. A dedicated set

of actions put in place by the ENRD is focused on such goals through on-going activities at the EU level.

A common purpose here relates to improving RDP performance. This is being achieved by providing those directly or indirectly involved in RDP implementation with knowledge and tools to address key challenges and improve programmes' potential from the outset. Findings from such work are also informing priority themes to be addressed by the ENRD in coming years.

Work to date by the ENRD on getting RDPs going includes:

- Mapping key priorities and challenges across Member States and RDPs in terms of the programmes' delivery and their performance.

- Identifying and illustrating new or promising approaches to RDP implementation that can address recognised needs and opportunities.
- Sharing experiences in delivering approaches and distilling factors for success (or failures).
- Raising awareness of practical and administrative constraints to delivery and highlighting needs for further action.

A Thematic Group (TG) established by the ENRD following the meetings of the Rural Network's Assembly and the Steering Group⁽¹⁾ has been progressing this work. It is concentrating on exchanging views and experience among those responsible for designing and delivering RDPs.

Membership of the TG includes RDP Managing Authorities, Paying Agencies, National Rural Networks, and LEADER Local Action Groups. Other key TG members comprise rural development stakeholders and their organisations who are concerned with RDP implementation ‘on the ground’.

Knowledge sharing

Coordination, co-operation and communication are three main methods deployed by the TG. Communicating the TG’s findings about how to help get RDPs going well from the start is essential for sharing the knowledge that has been collated. This edition of the *EU Rural Review* acts as part of the TG’s outreach and capacity building mandate. The publication has hence been prepared to explain:

- Opportunities for improving RDP performance.
- Concerns, constraints and bottlenecks regarding RDP implementation.
- Lessons learnt and recommendations for the future.

- RDP stakeholder roles in improving RDP performance.

A number of key topics are identified in the publication to help RDP authorities focus their attention on such opportunities, bottlenecks, lessons and involvement of stakeholders. These relate to important RDP requirements as well as success factors and implementation tools. The selected topics are not exhaustive (in terms of covering all RDP programming considerations) and have been chosen to highlight influential areas that can make a big difference in getting RDPs going well.

Some of the topics may be relatively new to some RDPs and this is another reason why the publication is designed as a reference point to share awareness about key preliminary considerations for RDP managers.

Content includes advice about keeping RDPs focused on their agreed outcomes, as well as how RDP stakeholders can help reduce programme errors through simplification of administrative systems

or improved financial management. Guidance is also provided covering the use of comparatively new RDP implementation methods. Financial Instruments, Operational Groups, and results-based payment schemes are all among these topics that are featured in this edition of the *EU Rural Review*.



Linkages exist between all topics reviewed in the following articles. These inter-related connections and main subject areas are illustrated by figure 1.

Articles in the publication deal with the topics noted in figure 1 (and also underline the relationships that exist between them). Content has purposely been designed to provide and share

practical and useful information for RDP managers and decision-makers. Such target audiences cover every Member State and every RDP. Material possessing EU added-value is therefore prioritised in order to ensure its broad significance. Particular emphasis is placed on featuring practical subjects that influence all of the RDPs' socio-economic and environmental objectives.

This publication is also time sensitive, because the articles describe issues that are important now (July 2015).

Lessons learned from the past have been blended with new thinking by pioneering RDP practitioners. Results thus build on what is already known through synthesising knowledge and expert experience about how best to improve the effectiveness of RDP implementation.

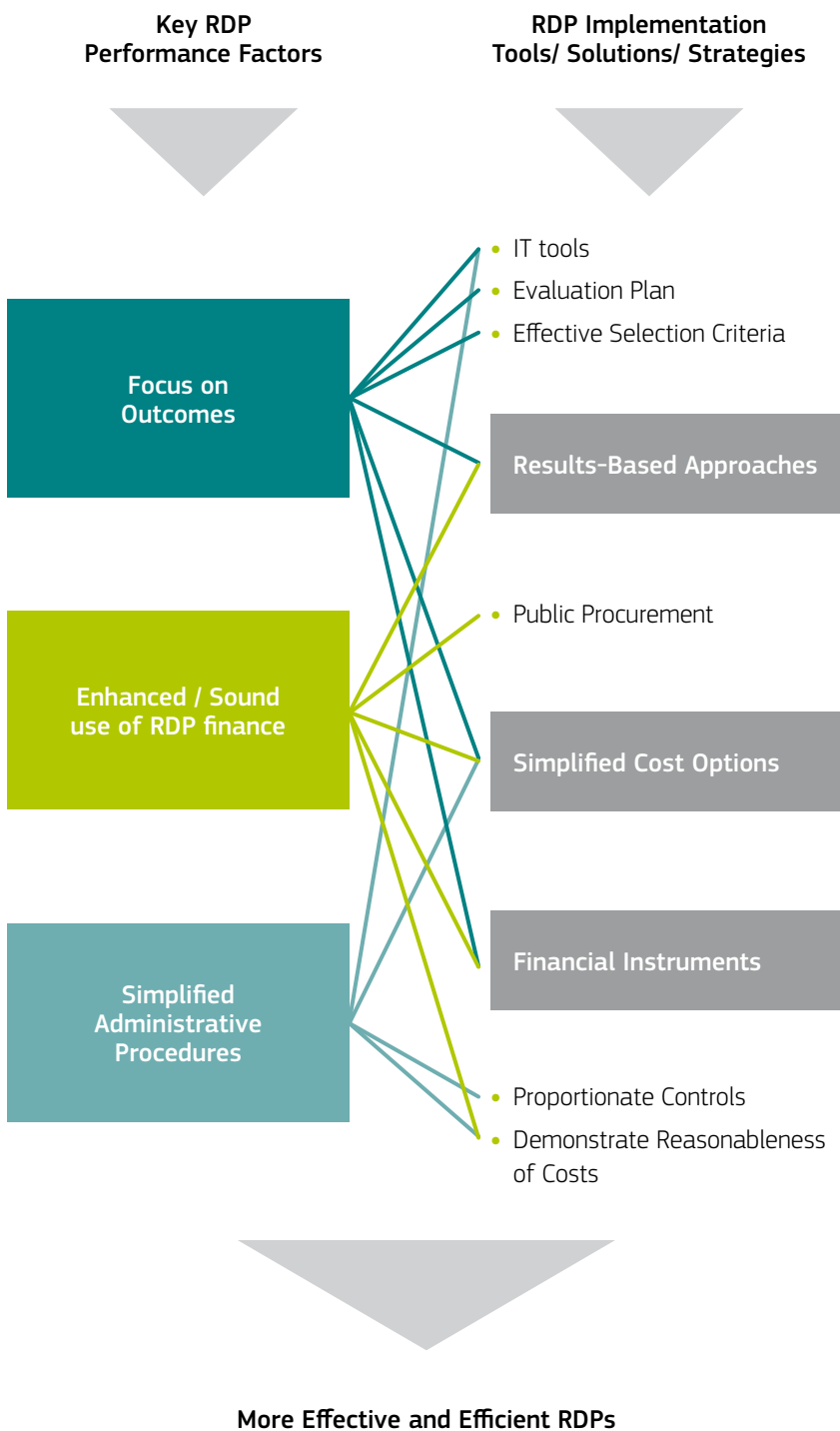
Stakeholder roles are identified throughout the publication, which in addition to the main text, also includes a range of knowledge sharing tools in the form of posters and checklists.

These can be downloaded as separate files for wider dissemination, such as via social media.

Blank versions of the guidance infographics will also be available through the ENRD website and they contain empty text boxes that allow Member States to provide their own translations of the guidance in their national language(s).

Production of this ENRD publication has highlighted the large and growing volume of good practices in RDP implementation. Taking note of these, and applying adapted versions of the good practices to their own particular circumstances, will help ensure that the 2014-2020 RDPs not only 'get going' well from their start, but also maintain such beneficial momentum for their duration.

Figure 1. Important RDP planning considerations covered by this publication





Improving implementation of rural development policy

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All EU citizens benefit from Rural Development Programme (RDP) actions and the 2014-2020 programming period involves new emphasis on improved implementation opportunities that can boost the range and reach of RDP benefits. The following overview article identifies some of the main issues that can help improve the effectiveness of RDP implementation. Other articles in this publication deal with these topics in more detail.

Rural development policy in the EU continues to evolve and reflect the wider EU strategic priorities, as well as Member States' changing circumstances. Greater emphasis is now placed on the policy creating jobs and growth as well as lessening negative impacts from climate change. Agriculture and forestry remain the primary focus for policy actions, particularly their integrated roles in providing quality food and caring for the countryside's environmental assets. At the same time, increased coordination with other EU policies is also helping RDPs to address the wider range of socio-economic issues faced by rural communities.

Such joined-up working is a cornerstone of the European Commission's

approach to increasing effectiveness of all EU policies. Coordinated, clear, and cost-efficient policy actions sit at the heart of President Juncker's Agenda for Jobs, Growth, Fairness and Democratic Change. This vision is vital for improving sustainable prosperity in Europe's countryside and the Member States' RDPs represent useful delivery tools for implementing the Commission's policy goals.

Optimising the effectiveness of RDPs is therefore a core objective for the European Commission and opportunities have been identified to help convert this political rhetoric into practical reality for rural Europe.

Simplification, a focus on outcomes, and enhanced use of RDP finance

are particularly productive options for optimising RDP effectiveness. Prioritising work in these areas has already started and RDP authorities are encouraged to regularly fine-tune their programmes during the 2014-2020 period in order to improve the overall benefits for EU citizens from RDPs.

Advice and guidance on successful techniques for improving RDP implementation has been made available to Member States. This draws on proven good practices from the full suite of European Structural and Investment Funds (ESIF), as well as lessons learnt from the previous programming periods and from audit and evaluation findings.

Outcome focused

Member States are committed to demonstrating the benefits that RDPs produce. Early work in this area involves programming the RDPs in ways that ensure the programmes stay focused on what they want to achieve, and avoid any risk of funding being used for inappropriate purposes.

Prominence is now placed on certain types of cross-cutting rural development outcomes and these also need special attention during the early programming phases to help RDPs 'get going' correctly.

Overarching principles and success factors here relate to the importance of programming for what the RDP wants to achieve. This may require RDP authorities and other stakeholders to shift out of traditional 'comfort zones' and work in different ways to achieve the desired RDP outcomes.

Sound finances

Member States' RDPs need to have sound financial management procedures in place prior to them becoming operational. Audit findings from RDPs have identified 'room for improvement' in some financial procedures and all RDPs need to take account of recommendations from the European Court of Auditors (ECA).

A recurring ECA finding⁽²⁾ is that Member State authorities do not sufficiently ensure that the costs approved for rural development grants are reasonable. Despite the availability of effective tools and procedures for doing this, the need for improving financial management in this area is still clear.

Reviewing the previous financial performance of RDPs confirms the fact that weaknesses can occur in administrative procedures as well as

through errors caused by beneficiaries. Comprehensive approaches are thus good practice since these allow RDP authorities to address weaknesses in systems, plus weaknesses in the way the systems are implemented.

Some common solutions to root causes of financial errors in RDPs have been identified by the European Commission. They include:

- Robust and transparent comparisons of different price offers.
- Representative reference costs.
- Competent evaluation committees.
- Efficient demonstration of 'reasonable costs'.
- Proper use of public procurement procedures.

Further details about these and other solutions to financial performance errors are presented in the following

MONITORING AND EVALUATION PLANNING

Planning for evaluation is happening in a new operational framework. This encourages RDP programmers to think carefully about how they can use evaluation as a tool to keep RDPs focused on outcomes. The European Evaluation Helpdesk for Rural Development explains what this means in practice for 'getting RDPs going' by highlighting that, "Programme authorities need to think ahead about how they will show that objectives of rural development Priorities and Focus Areas have been achieved."

"The European Evaluation Helpdesk for Rural Development provides specialist support to improve methods, tools, knowledge and understanding for evaluating rural development policy and RDPs. It is one of the ENRD's support units (alongside the ENRD Contact Point)."

"Evaluation provides the mechanism for the on-going observation of programme's performance and progress in addressing the development needs identified by their SWOT analysis. Such an approach has been introduced with the intention of helping Member States to gain more strategic RDP management information for Monitoring Committees and other rural development stakeholders".

"Contents of the RDPs' Evaluation Plans relate to time-bound reporting requirements and these act as additional incentives for RDPs to regularly check that they are indeed doing what they aim to be doing."

"A 'Common Monitoring and Evaluation System' (CMES) has been developed to measure the effectiveness, efficiency, results and impacts of the EU rural development policy. Compared to the previous programming period, the CMES now contains a reduced set of common evaluation questions and indicators, which helps to capture programmes' effects as well as the progress in achieving the objectives of EU rural development Priorities and Focus Areas."

"RDP authorities are encouraged to complement the CMES with their own programme-specific elements. This will provide them with even more relevant information on the specific results and impacts of their RDP. Only the combination of both common and programme-specific monitoring and evaluation elements will ensure that evaluation outcomes are relevant for programme stakeholders while still ensuring the comparability of information at EU level", explains the European Evaluation Helpdesk for Rural Development.

Proper implementation of the CMES will allow RDP authorities to demonstrate RDP benefits from quality projects and ensure that financial commitments linked to the different measures convert into expected RDP results and impacts.

articles. These stress the benefits from properly planning sound financial procedures during the RDP programming phases. Aims need to centre on *optimising*, rather than *maximising*, administration systems. ECA experts on RDP financial management note that this balance is “a key to successful implementation of rural development policy.”

Appropriate planning and testing of financial systems at the RDPs’ programming stage helps to avoid any retrospective need for corrective actions. Regular analysis of possible improvements to procedures provides extra benefits, as do indicators to measure the success of financial management systems (e.g. reduced error rates, increased absorption of measure funding etc.). Measurement indicators are also best introduced with baseline data during planning stages and prior to RDP operations going live.

“*It is important that we should not always be trying to spend less and we should instead always ensure that we are spending well. For example, we don’t have to force beneficiaries to buy the cheapest equipment if this is likely to require frequent expensive repairs or to be replaced after a short time. We need to get good value for money.*”

Member of the ENRD Thematic Group on Improving RDP Implementation

Simplified procedures

All Member States have now drawn up Action Plans designed to reduce RDP error rates in consultation with the European Commission. These were launched in 2013 to tackle EU level concerns about RDP spending issues.

Progress with realising the Action Plans varies and the European Commission has stressed the improvements that can be gained if all Action Plans are adopted as on-going performance management tools, instead of a one-off remedial exercise.



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Many Action Plans include proposals for simplified administration procedures and clearer rules covering cost eligibility, procurement and project implementation standards. Simplification is considered particularly pertinent for the myriad of smaller-scale funding payments that are made by RDPs. These often differentiate rural development policy expenditure from other ESIF and achieving proportional administration

therefore remains a priority goal for all RDP stakeholders.

RDP simplification forms part of a larger plan to enhance the cost-effectiveness and efficiency of the entire Common Agricultural Policy (CAP). European Commissioner for Agriculture and Rural Development, Phil Hogan, has raised the profile of previous simplification programmes⁽³⁾ and increased efficiency drives for both CAP Pillars.

CAP simplification is a top-priority for Commissioner Hogan and Member States have responded positively to his calls for simplification suggestions. These are being analysed to assess their fit with:

- The basic political decisions taken in the 2013 reform.
- The premise that simplification should not lead to a weakening of sound financial management or to any increase in errors in CAP expenditure.
- Priority should be given to those areas about which farmers and other beneficiaries are most concerned.

For rural development policy, at this stage, it is particularly important that Member States define simple and verifiable operations for rural development support, and avoid overloading programmes with unnecessary and burdensome extra conditions (‘gold-plating’).

(3) http://ec.europa.eu/agriculture/simplification/index_en.htm

Potential benefits from RDP simplification are well-known and defined⁽⁴⁾. They include less administration for all stakeholders, which can encourage greater uptake of development opportunities for rural areas. Beneficiaries may also have more flexibility from simplified procedures and error rates have been reduced through the use of simpler administrative approaches.

A challenge remains to identify, test and use systems that can help RDPs be delivered more effectively using simpler management requirements. Essential steps involve mapping and addressing potential bottlenecks from a programme's outset. This will clarify where to capitalise on using clearer rules and procedures in order to stay customer-focused.

Networking and exchange of good practices can help Member States to tackle potential problems early on and the ENRD remains active in this area. For instance, it has provided training in the use of Simplified Cost Options (SCOs) and results-based agri-environment payment schemes (RBAPS). These are promoted for their potential to reduce both errors and administrative burdens. SCOs have

been shown to completely eradicate errors for other ESIF (e.g. the European Social Fund) and more details about SCOs are explained in the following pages.

Implementation tools

Articles in this edition of the *EU Rural Review* also explain how other RDP implementation tools can be used with greater effect. These include more use of Financial Instruments (FIs) which 'make the RDP money go further' by recycling funding and increasing leverage.

Recent assessments of RDP FIs by the ECA⁽⁵⁾ notes that these 'revolving funds' offer significant opportunities but that more work needs to be done by RDPs to operate effective loan, equity, venture capital and guarantee schemes. Assistance for RDPs to do this is available through the EU's fi-compass initiative⁽⁶⁾, which includes a heavy weighting on making sure that RDP FIs reflect the real dynamics of market demand.

Support is also available to RDPs to launch and implement successful innovation projects through the EIP-AGRI's Operational Groups⁽⁷⁾. Member States are encouraged to make full

use of their potential, which extends well beyond research agendas. Their success remains dependent on proper preparatory work.

Networking knowhow

The ENRD's modernised structure and support framework is available to help all RDPs make the best possible use of all the aforementioned RDP management opportunities.

Resources in the National Rural Networks (NRNs), ENRD Contact Point, EIP-AGRI Service Point and the European Evaluation Helpdesk for Rural Development are all geared to 'getting the RDPs going well' in these areas.

Exchanging knowledge through the ENRD about good practices and new experiences in RDP management remains a powerful channel for improving the implementation of rural development policy. The following articles provide an insight into how this can happen in practice and readers are reminded of the publication's inventory of further information sources that can provide more detailed advice and guidance.



(4) http://ec.europa.eu/agriculture/analysis/external/rd-simplification/summary_en.pdf

(5) http://www.eca.europa.eu/Lists/ECADocuments/SR15_05/SR15_05_EN.pdf

(6) www.fi-compass.eu

(7) <http://ec.europa.eu/eip/agriculture/>



Keeping RDPs focused on their agreed outcomes

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An effective Rural Development Programme (RDP) is one that remains able to stay focused on its intended outcomes and demonstrate this through its performance. RDPs therefore need to be able to clearly link all their measure-level support with an agreed and strategic ‘intervention logic’.

Successive reforms of EU rural development policy have sought to improve the visibility, validity and appreciation of CAP Pillar II activities. RDP outcomes provide evidence of the policy’s significance but only when such outcomes relate directly to the programmes’ strategic priorities (which reflect EU, national, and/or regional objectives).

Weaknesses in previous RDPs were caused by inadequate controls that could not guarantee whether ground-level operations were contributing to higher-level strategy. The urgency to avoid this problem has been driving the programming of new RDPs for the 2014-2020 period. Aims behind such campaigns are to help RDP authorities establish systems that ensure all

RDP measures (and sub-measures) make positive contributions to their intended outcomes.

“Let us focus our efforts on achieving tangible results.”

Jean-Claude Juncker: President of the European Commission

Comprehensive approaches have been promoted to prevent risks of ‘cherry picking’ - whereby programming improvements target measures that are relatively easy to focus on outcomes but pay less attention to more challenging measures.

Good practice involves placing equal importance on using outcome-focused systems for the full portfolio of RDP

activities (including investment measures, area payments, LEADER, and cross-cutting priorities).

RDP stakeholders recognise the relevance of this point, as highlighted by Lena Lind from the Swedish Managing Authority who notes how, “We want to ensure that we get good value from the RDP and so we believe it is vital that the programme stays fixed on its agreed actions. We are looking at ways to do this through using more results-based systems covering area payments and it would be very useful if we could apply similar principles to the RDP’s investment measures as well.”

CLARIFYING AGRI-CLIMATE ACTION OUTCOMES

Quantifying outcomes from RDP investment projects in climate action has previously been complex. However tools do now exist that can calculate specific environmental and economic outcomes from investments in climate action at individual farm level. One such tool was validated using EU funding by the ‘AgriClimateChange’ project. It can identify a package of climate actions for any given farm, which can range from energy efficiency measures to alternative production methods.

An Action Plan is generated by the tool, which provides a detailed breakdown of climate outcomes such as quantified amounts of reduced greenhouse gas emissions, or improved carbon sequestration. The financial benefits (and costs) for each investment are also calculated by this tool, which has been welcomed by the European Commission and European Parliament as a useful opportunity for quantifying RDP contributions to the climate action cross-cutting priority. Further information about the Action Plans is at: www.agriclimatchange.eu

Concentrating on outcomes in all RDP areas can bring benefits in terms of improving development performance as well as offering opportunities for using simplified intervention systems. RDPs that have already embraced this programming philosophy are expected to reap the rewards from their efforts, which may have required shifting out

of ‘comfort zones’ in order to introduce new techniques and tools.

Proper planning and use of smart implementation tools

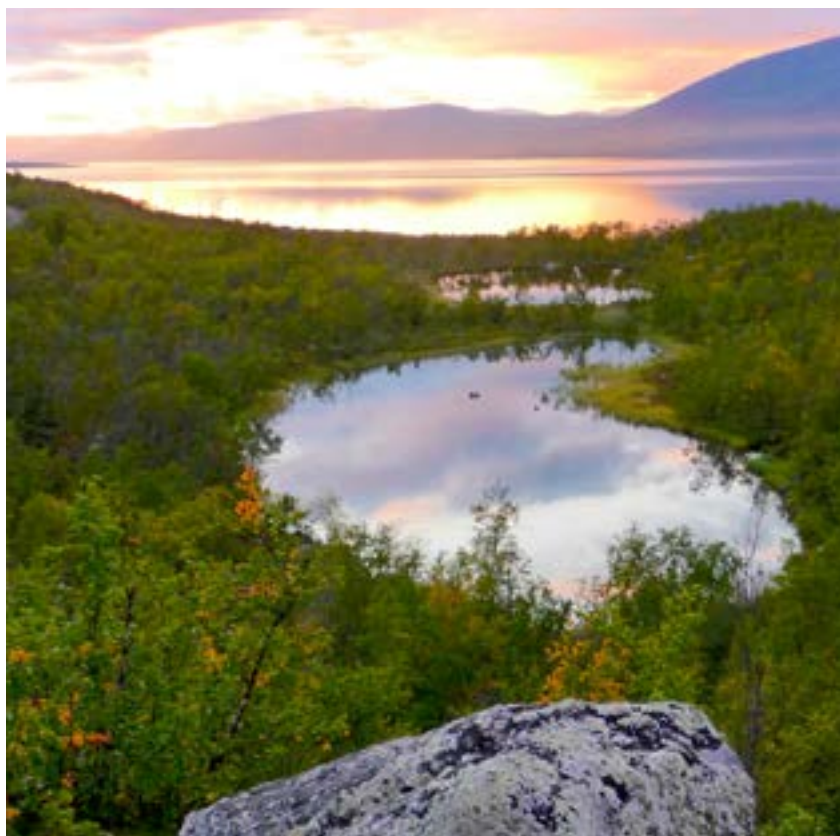
Planning should ensure that each RDP can properly determine its potential to achieve a specified type, scale, and quality of outcomes for individual

measures and sub-measures. Inadequate or poor planning will have a negative impact on the ability of RDP measures to achieve their outcomes.

Useful synergies can be gained from linking such outcome planning with preparatory work for the introduction of RDP implementation tools, such as Financial Instruments (FIs). More information about the programming of such RDP elements is presented in other parts of this publication. It spotlights detailed ex-ante evaluation requirements that help to confirm anticipated demand at the outset for certain actions and related outcomes. This advance knowhow provides the FI and RDP authorities with increased certainty that the funding will be used for its projected purpose.

Information is also provided in the publication about the use of Simplified Cost Options (SCOs). Explanations note how using unit costs, flat-rate payments, or lump sums for particular outcomes (such as numbers of trainees trained, or area of land afforested etc.) can help to guarantee the delivery of these outcomes, and reduce risks of funding being used for unintended purposes.

Wherever possible, it is most useful to set the unit cost on the ‘outcome’ (e.g. cost per kilowatt of renewable energy generated), rather than the ‘output’ (e.g. cost per square metre of renewable plant constructed).



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DO YOU KNOW THAT:
 The use of SCOs and FIs (such as revolving loan funds or equity schemes) may greatly help RDPs achieve their desired outcomes because these ‘smart’ implementation tools focus on what needs to be done, rather than how to do it.

Effective selection criteria

Outcomes-focused RDPs make use of effective selection criteria that prioritises funding only for those actions which produce the required strategic results. Eligibility rules and criteria also play important roles in reducing uncertainty by filtering out proposals that will not provide the desired results.

Selection criteria thus represent extremely effective and transparent tools for keeping RDPs focused on outcomes. Simplifying the scope of potential funding support to a limited range of actions can boost the efficiency of selection processes and reduce risks of errors.

Advantages during this process can be achieved by using communication professionals to prepare guidance materials that assure clarity about compliant funding opportunities (and eliminate ambiguity about non-eligible details). Other good practice in helping RDP stakeholders stay focused on

outputs include using electronic tools for appraising funding applications and managing reporting requirements.

These should be designed to ensure that only compatible applications

reach the RDP authorities. IT tools are also valuable devices for subsequently confirming that only the required results and data are notified and collated by the RDP authorities.



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e-LEADER IMPROVEMENTS

LEADER funding has in the past been prone to difficulties with demonstrating outcomes that have strong links to strategic rural development policy goals. Capacity issues within some Local Action Groups (LAGs) combined with the large number of smaller actions supported by LAGs gives rise to more risks of funding being allocated to projects that are not always an appropriate fit with the RDP's planned outcomes.

Electronic application processes and payment claim procedures can help redress this problem by offering LAGs a useful means for aligning all their LEADER work with the RDP's strategic priorities. Regulating the scope of project types to only those that can produce desired results (e.g. employment or cross-cutting priorities) will help local communities to think more about the way they can achieve these outcomes through the design of their development proposals.

LAGs from, for example, Denmark and Scotland (UK) are shifting towards such outcomes-focused approaches through new electronic project control systems. These use online menus to simplify the application process and classify projects into outcome categories. Clear instructions are often provided to steer the beneficiaries' thinking towards designing projects that fit well with both the overall RDP's strategic objectives and an individual LAG's Local Development Strategy.

Improvements from this e-LEADER system should provide long-term benefits for all stakeholders. The new IT tools can also help Member States to meet EU targets for 2016 onwards regarding online application processes for all RDP funding. The latter will further reinforce all RDPs' ability to focus on outcomes.

Rethinking area-based payments

RDP funding for environmental outcomes is crucial in every Member State. Payments connected with supporting ecosystems are expected to comprise more than 40% of the entire EU rural development policy budget. The importance of demonstrating appropriate outcomes from such significant sums of public money is therefore evident.

Nevertheless, challenges continue to exist with providing evidence of outcomes from area payments. The European Court of Auditors (ECA) identifies a number of reasons for this⁽⁸⁾, including beneficiaries not doing what they were being paid to do. Improvements to control systems for area payments are encouraged by the ECA to better safeguard evidence for, and quality of, outcomes.

Other options to improve the situation are also being explored by different Member States. Results-based agri-environment payment schemes (RBAPS) for instance are further innovations that can be helpful for demonstrating RDP outcomes.

IMPROVING AREA-BASED ENVIRONMENTAL OUTCOMES

In a results-based agri-environment payment scheme (RBAPS) the farmer is paid for achieving a *defined environmental result* and is allowed to choose the most appropriate management to achieve that result. This is a key difference from most existing agri-environment schemes where the payment is for carrying out *defined agricultural management*.

Results-based payments can focus RDP expenditure more sharply on environmental outcomes because there is a direct link between payments and biodiversity achievements. Payments are also targeted more easily and cost-effectively, because farmers will choose land where they are confident that they can achieve the results – since that is what their payment depends on.

Where important habitats, landscapes or species of high conservation value are at risk, and their survival depends on existing farming practices being maintained, results-based support can be very effective. The farmers can continue to use their farming skills, professional judgement and local knowledge in 'producing' biodiversity as an integral part of their farming system, and the scheme can be tailored to deliver very specific biodiversity objectives.

Effective results-based schemes require very careful planning and implementation, particularly:

- Good scientific knowledge of the target habitats and species, and the skills to interpret this information.
- An environmental objective that farmers can understand and achieve with a reasonable level of certainty.

- Result indicators that are good 'proxies' for this objective. Indicators also need to be responsive to management but relatively stable over time and not unduly influenced by factors beyond the farmer's control.
- A simple and unambiguous method of measuring result indicators that farmers can understand and use to assess their own performance. Such methods also need to be suitable for Paying Agencies to use for verifying payments.

Gaining the trust, support and active involvement of the farmers and other stakeholders at the earliest possible stage helps in managing the change to results-based schemes, which is a significant step for all concerned. Testing scheme design and operation in a pilot can be useful for both staff and farmers. Ensuring that expert advice is available to farmers during the scheme also helps to build their confidence.

Experience of results-based schemes within RDPs hitherto has mostly been with species-rich meadows and pastureland, but there are wider opportunities. Some of the grassland schemes are being refined to encourage farmers to aim for habitat improvement by offering a series of more demanding indicators and higher payments linked to more ambitious objectives. There are opportunities to extend the approach to other environmental measures, including forest-environment payments and environmental (non-productive) investments.

For further information about how to introduce RBAPS, see the EU's guidance material and case studies on this increasingly prominent RDP implementation tool at: http://ec.europa.eu/environment/nature/rbaps/index_en.htm



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Evaluation's role

New approaches to the RDP evaluation framework can help Member States to integrate results-focused principles. The European Evaluation Helpdesk for Rural Development is involved in advising on how RDPs can make best use of the new evaluation opportunities to improve the 2014-2020 RDPs. "There is now more flexibility in the way that programmes are designed and this allows evaluation, better than in the past, to focus on programme result and impacts, by linking common and programme specific monitoring and evaluation elements to each RDP", explains the Evaluation Helpdesk.

"Each RDP now has an Evaluation Plan which ensures right from the beginning that the necessary elements will be in place to conduct robust evaluation activities during and after the programming period. In order to track the achievement of the policy objectives with indicators it is necessary that sufficient data and information will be available at a given time to observe RDP results and impacts."

"For this purpose, the Common Monitoring and Evaluation System (CMES) introduces a consistent set of common indicators and evaluation questions, while still leaving considerable room for manoeuvre at Member State level. Programme authorities can additionally tailor the assessment of effectiveness, efficiency, results and impacts to their RDP and introduce programme-specific indicators and evaluation questions."

"The assessment of *effectiveness* will help to explore to what extent the desired outcomes have been achieved. However, it is equally important to understand how different measures and funding mechanisms can be used to achieve the maximum outcomes (*efficiency*). This should provide valuable information also for programme managers in order to reflect on the best way of achieving the desired outcomes."

"A shift towards concentrating more on results and impacts (as opposed to outputs) will also help ensure that RDPs are able to understand the true extent of their actual development performance. Planning for this is

essential and requires preparatory action that commits programme authorities to really think carefully about what they want to achieve with their RDP and how they are going to measure its success in different Focus Areas."

"The introduced changes in the monitoring and evaluation framework provide a more robust basis to observe the real effects of RDPs in addressing the needs of rural areas. Only the measurement of RDP *net* results and impacts will allow to judge which effects are really attributable to the programme. This will help policy makers and other rural development stakeholders to better understand what actual difference the RDP makes on the ground."



Simplifying RDP implementation: why and how

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Member States and the European Commission are tasked to increase the effectiveness of Rural Development Programmes (RDPs). Each RDP is managed by an arrangement of administrative procedures. Opportunities exist to simplify these.

Simplification of RDP administrative systems can provide new benefits for all stakeholders involved in the delivery chain. These include RDP beneficiaries, RDP administrators and the people who provide the RDP funding – EU taxpayers.

“Simpler rules will make for greater competitiveness and will enhance the job-creating potential of agriculture, of rural areas and of agricultural trade.”

Phil Hogan: European Commissioner for Agriculture and Rural Development.

European Commission analysis has previously quantified positive impacts from simplified RDPs⁽⁹⁾. This study revealed significant potential for reducing ‘administrative burdens’. Most improvements were deemed possible from the larger RDP budgets

(especially those supporting agri-environment payments or farm investment projects). Various points in the administration process have been confirmed as deserving special attention for simplification.

Figure 2. Simplification Hotspots in the RDP project cycle



Such findings about RDP simplification emerged from the 2007-2013 period when approximately 1.4 million EAFRD projects were administered by 88 RDPs. Some 118 RDPs are expected to become operational by the end of 2015 and this implies an increased administrative workload for the Member States and European Commission. Hence, RDP simplification still remains a necessary consideration.

Simplification tips:

- Restrict supporting document requirements to concisely focused information.
- Apply less burdensome reimbursement options, such as standard unit costs, flat-rate payments, and lump sums.

- Develop guidance tools (produced by professional communicators) that cover all measures and that cover all measures, have a wide reach and are evaluated regularly.
- Use intelligent e-Government tools that memorise and automatically pre-populate data forms as well as prevent inclusion of incorrect or surplus information.
- Coordinate and streamline procedures between different RDP authorities in 'one-stop-shop' facilities (including timing and information requirements for funding calls and claims at regional, national and EU level).

Proportionality principle

Improving knowhow about ways to reduce complexity and increase simplicity within RDP administrations is a high priority for all RDP stakeholders at this early phase of the programmes' life cycle. Useful principles to apply during the RDPs' inception process include firstly identifying the RDP measures and sub-measures that are expected to present the most challenges or inefficiencies. These should be mapped and addressed according to the scale of potential bottlenecks, as well as the potential positive impacts from simplification improvements.

Other important advice from experienced RDP administrators concerns the principle of '*optimising*' rather than '*maximising*' controls. A degree of risk analysis is required here to help define a well-optimised set of RDP controls, but rewards remain worthwhile from balancing the need to properly manage public money with the need to properly develop rural Europe.

PROPORTIONALITY IN PRACTICE

Avoiding over-administration by designing administrative systems that are proportionate in scale to their risk is a good practice approach promoted for all RDPs to follow.

An example of this is used in the UK by Scotland's RDP, which applies a 'light' system for smaller amounts of funding through a 'two-tiered grant assessment process'. It was introduced in the RDP's land-based schemes and forms part of wider improvements to RDP application and approval processes.

'Level one' of the two-tier process is used for applications up to a value of £75,000 (circa €100 000 equivalent), which will be assessed and approved locally in the region where the farm is located. 'Level two' is applied for applications above £75,000, which will be considered nationally by a panel of experts from government departments and appropriate agencies, with stakeholder input.

The intention of this 'light' methodology is to enable smaller grants to be approved faster.

Members of the ENRD Thematic Group on improving RDP implementation have reinforced the relevance of Paying Agencies and Managing Authorities adopting customer-oriented principles.

Sharing knowledge about such simplified approaches helps to spread appreciation of their benefits, and many possibilities are in place to help RDP authorities learn from each other about

simplification. For instance, the ENRD as well as national and bi-lateral networks of RDP stakeholders are all useful exchange forums where productive peer-learning can take place.

Peer-learning will continue to be particularly useful for organisations implementing new programmes and/or new approaches. Technical Assistance offers options for peer-learning between RDP authorities.

PEER LEARNING IN PRACTICE

Examples already exist of successful outcomes from transnational exchange on RDP simplification. For instance, France learned from Germany about how to provide more flexibility for farmers participating in agri-environment schemes. This involved using results-based approaches to simplify delivery systems for livestock herders.

Cécile Bayeul from the North Vosges Nature Park recalls how, "We were interested in finding ways to increase the effectiveness of agri-environment actions conserving the park's species-rich grasslands. Our advisors informed us about results-based approaches that had been successful in Germany and so we sought local authority funding to help us set up a pilot-scheme based on a 'Flowering Meadow' competition. This used lessons learned from Germany such as simple-to-use guidance about selecting indicators and involving farmers in the results monitoring. We can now use a special 'Flowering Meadow' measure in the RDP to help us continue this beneficial results-based approach."

See the previous article for related material about results-based agri-environment payment schemes (RBAPS).

Clearer rules

An important aspect of simplification, where more knowledge transfer can help improve good practice, is in the design of clearer RDP rules and procedures. Easier-to-follow rules and unequivocal procedures help provide beneficiaries and administrators with more stability and confidence.

Cutting ambiguity will translate into more efficient operations for everyone and this needs to be done in a transparent manner that still achieves a realistic balance between trust and control.

RDP stakeholders in the Czech Republic are benefitting from an example of this approach, which has introduced improved rules and procedures for defining eligible costs for specified agricultural investments. Tereza Hášová from the State Agricultural Intervention Fund explains the rationale behind these simplification improvements to the Czech Republic's RDP saying, "We have established a list of eligible expenses for agricultural technology that is divided into categories. Before this list of agricultural machinery, we only had a database with limits for construction prices and a few types of machinery."

"Our new list currently has 16 categories covering around 300 to 350 individual expenditure items. It is planned that the list will be expanded in the upcoming period. The list is public, nowadays as an attachment to [RDP] Rules, and in the future it is planned that it will be online."

"This list was established mainly to overcome and limit the risk of over-charging tenders. Also since the ceiling is strictly set, we might overcome gold-plating if the beneficiary wishes to buy extra un-necessary supplements to the purchased machinery – like a GPS system or air-conditioning for a harvester, these supplements won't be financed by the EU, but by the beneficiary."

"From the administrative perspective, this system, with ceilings and limits, eases the administrative burden for the control of reasonableness of prices. It is no longer necessary to inspect individual machinery and evaluate whether the price for its purchase was reasonable. From the other perspective, for the beneficiary this list could serve as a guide of prices of technology. The beneficiary will know exactly how much will be reimbursed and therefore overcomes potential financial corrections in cases where some machinery would be over-priced."

PREVENTING 'GOLD PLATING'

RDP simplification processes should seek out and halt so-called 'gold plating' bad practices. These threats to efficiency introduce excessive or disproportionate bureaucracy. Gold plating also refers to embellishment of RDP-funded actions by non-essential features or refinements (e.g. using a higher-than-necessary quality or specification).

Gold plating can occur when different organisations add new layers of complexity (under the pretext of adapting the rules to specific contexts). One of the key early roles for rural networks in the 2014-2020 period may be to help overcome this simply by bringing the parties around the same table to confront the implementation issues that each causes the other.



SIMPLIFIED COST OPTIONS

One of the main reasons for RDP simplification is to help improve the ability of everyone involved to 'achieve economy'. This Performance Audit term refers to ensuring that RDP operations fund activities that are cost-effective in terms of achieving their outcomes through sound financial procedures.

Simplified Cost Options (SCOs) offer useful opportunities for RDPs to achieve economy and have been widely promoted for this purpose by the 2014-2020 regulatory framework.

SCOs set agreed prices for specified actions (like those mentioned in the Czech Republic case above). This avoids the need for beneficiaries to provide detailed evidence of expenditure and thus eases administrative burdens. SCOs also provide important benefits by reducing risks of errors and increasing the ability of RDPs to focus on confirming outcomes.

Dedicated guidance explaining the use of SCOs⁽¹⁰⁾ has been prepared for all European Structural and Investment Funds (ESIF). It describes the three main types of SCOs that RDPs can use:

- **Standard unit costs:** the grant amount is calculated on the basis of a unit cost defined in advance. For example, a land-owner is awarded a grant to establish a new wildlife-friendly hedge using native tree species. A standard unit cost per metre of hedge can be calculated by the Managing and Paying Authority, which is published in advance. If for instance the standard unit cost was €50, and the land-owner creates a 100 metre hedge, the grant paid will be €5000 (€50 x 100), regardless of the actual costs incurred by

the land-owner in purchasing the plants and establishing the hedge.

- **Flat-rate financing:** the grant amount is determined for specific categories of eligible costs by applying a percentage to other categories of eligible costs. For example, a farmer is awarded a grant to construct a new cattle shed at a cost of €100 000. A flat-rate for architects' and surveyors' fees can be calculated by the Managing and Paying Authority, which is published in advance. If for instance the flat-rate fee was 10%, the farmer will receive, on top of the grant for the construction itself, a grant of €10 000 for architects' and surveyors' costs, whatever the actual fees paid.
- **Lump sums:** a fixed amount of grant is paid on completion of specific activities/outputs or results. For example, a municipality is awarded a grant for organising an event. A lump sum can be calculated by the Managing and Paying Authority, which is published in advance. If for instance the lump sum for such events is €10 000, the municipality will receive that amount, independently of the actual costs it incurs, provided it meets the grant conditions, like targets for the number of people attending or the duration of the event. Lump sums of up to €100 000 are possible.

SCOs can be introduced by RDP modifications at any time during the programme life cycle. Flexibility also exists that allows RDPs to state in their initial documentation that SCOs will be used for certain measures. At this

stage the costs per unit, flat-rate, or lump sum do not need to be specified and it is possible to vary the SCOs at each call for each measure or sub-measure⁽¹¹⁾.

“Investments in simplification at the beginning of an RDP period can create clearer outcomes and sound financial management over the longer term.”

DG Agriculture & Rural Development.

SCO circumstances

EU guidance on SCOs (mentioned above) includes an Annex indicating all the RDP measures where SCOs are relevant. As a general rule, SCOs are useful in situations where:

- RDPs aim to focus more on outputs and results instead of inputs.
- Real costs are difficult to verify and to demonstrate (e.g. many small items to verify with little or no singular impact on the expected output of the operations, or if the eligible cost calculations require complex apportionments, etc.).
- Reliable data are available to define the cost per unit, flat-rate, and/or lump sum.
- There is a risk that accounting documents are not properly retained (e.g. by small farms or NGOs).
- The operations belong to a standard framework.
- SCO methods already exist for similar types of operations.

There are SCOs that do not need to perform any calculation in order to be implemented. Different possibilities are available in the Common Provisions Regulation⁽¹²⁾,

(10) http://ec.europa.eu/regional_policy/sources/theffunds/fin_inst/pdf/simpl_cost_en.pdf

(11) This rule is RDP-specific and does not apply to other ESI Funds.

(12) <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R1303>

including for the use of an existing SCO scheme at national or European level, or ready-to-use flat-rates for indirect costs.

When SCOs need to be carefully calculated up-front, it is important to ensure that they achieve economy. Points to note include the fact that SCO calculations made up-front may be resource-intensive and in some cases it is very difficult to obtain the evidence up front that would satisfy auditors. Nevertheless, a Managing Authority must be able to justify its choices when deciding a certain amount. It has to be indicated which information was taken into account, what was the period covered, and what other sources of information were consulted.

Managing Authorities and Paying Agencies should therefore work closely together to agree fair, equitable and verifiable calculations when opting for this possibility. In this case, rules require the adequacy and accuracy of SCO calculations to be certified independently. All SCOs also have to be compatible with national and State Aid rules. A step-by-step chart illustrating the main stages involved in establishing SCOs for RDPs is presented overleaf.

Technical Assistance budgets can be used during such steps to establish an effective set of SCO procedures - including the updating of SCOs through adoption of systems based on 'market prices'. These are considered to achieve better economy than the

use of 'supplier prices', which can be more prone to manipulation.

Examples of RDP support applying market prices include⁽¹³⁾:

- A system in Italy for village renewal projects that uses prices from a regional construction pricelist as a ceiling. Such prices are updated annually and contain average market prices calculated from public procurement data.
- Polish beneficiaries have used a database of reference prices for goods and services that is updated continually using market research by the national authorities.
- France's SimCoGuide uses market prices for agricultural equipment that are updated annually by an independent organisation.

Simplification's success

Measuring the success of their simplification measures is something that all RDP authorities should prioritise during programming. It is important to know what difference the simplification is making, and to whom. Without such knowledge it is impossible to demonstrate the worth of any simplification action.

A basic set of performance indicators therefore needs to be set from the outset to measure successes from RDP simplification. This good practice approach applies to both EU and Member State levels. It should be over-and-above normal monitoring and reporting duties for the RDP authorities. As with all other aspects of RDP evaluation, it needs to be

recognised as an equally essential management tool. It should not in any way be deemed as a bureaucratic burden.

Baseline data will be required and possible indicators might include: reduced error rates linked directly to the simplification actions; improved beneficiary uptake/absorption of measures following simplification; reduced numbers of registered complaints concerning gold plating; etc.

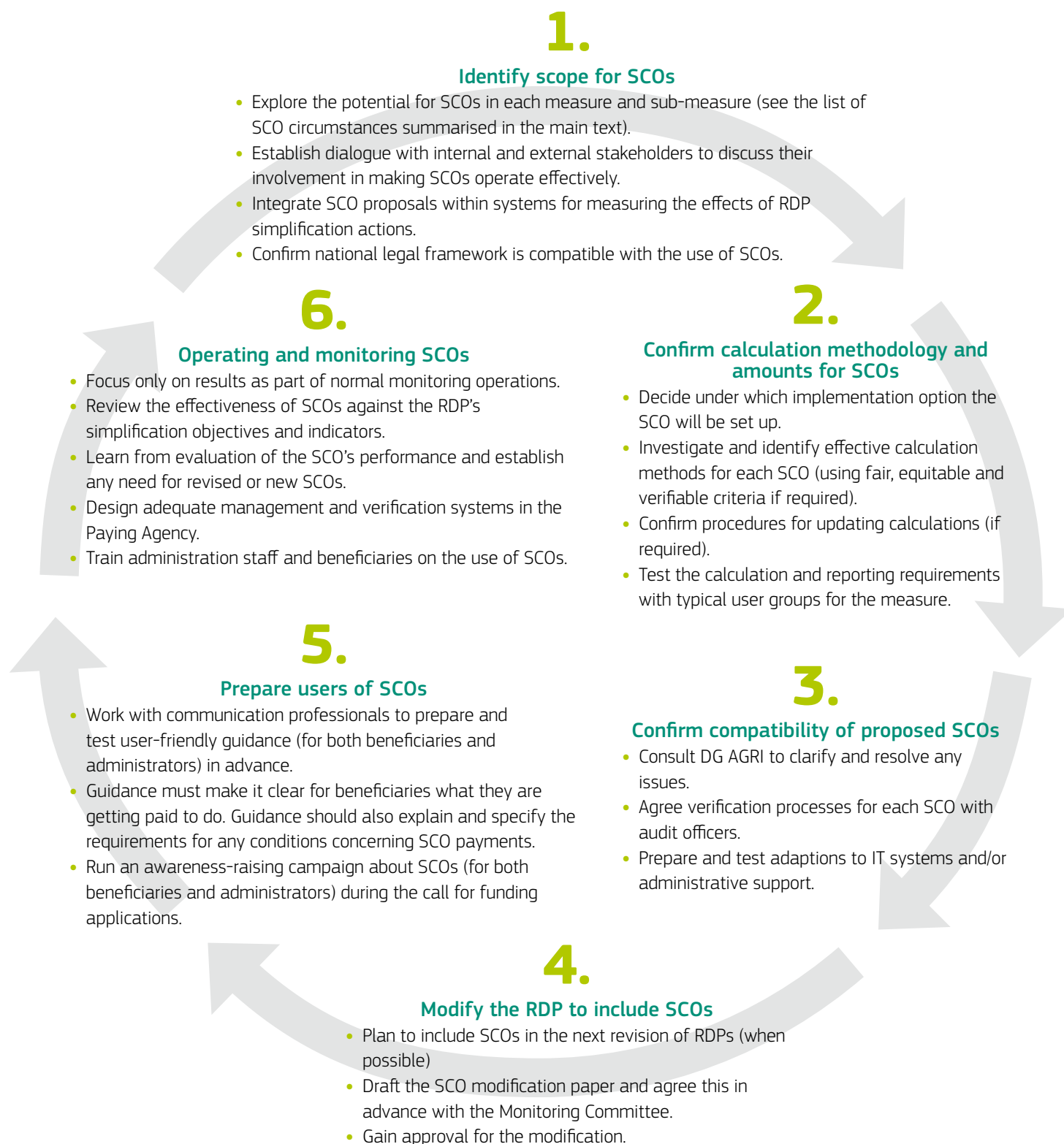
The final choice of performance indicators for any simplification action should reflect the RDP's specific circumstances. It is always also good practice to involve users of the simplification system in the choice of indicators - because this helps the

users to feel more 'ownership' of the monitoring procedures, which in turn can lead to more effective use of the indicators.

“Benefits from our simplification of the Dutch agri-environment scheme include improved nature conservation results, less administration for the Paying Agency and more flexibility for farmers.”

Jan Gerrit Deelen, Ministry of Economic Affairs, The Netherlands

STEP-BY-STEP CHART OF THE MAIN STAGES INVOLVED IN ESTABLISHING SCOs FOR RDPs ⁽¹⁴⁾



(14) In order to aid dissemination of this good practice, a blank version of the diagram's graphic file will be available from the ENRD website. This file includes empty text boxes that allow you to add your own translations of the text.



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Boosting financial performance by reducing errors

Financial performance underpins the integrity of any rural development project, programme, or policy. Sound financial management systems can guarantee the quality of outcomes from such rural development activity, but poor financial controls can damage its overall credibility with stakeholders.

Recent reviews of Rural Development Programmes (RDPs) by the European Court of Auditors (ECA)⁽¹⁵⁾ highlighted a mix of good practices in RDP management, but also numerous financial errors. These errors involved issues with procedures as well as problems in the way controls are carried out. When combined at EU level they represented a high and persistent error rate overall.

RDP authorities therefore acknowledge that error rates affect everyone, and that everyone (RDP beneficiaries as well as RDP administrations) can be vigilant in protecting the long-term integrity of EU rural development funding. This includes ensuring that drives to reduce error rates do not lead to increased complexity or ‘gold plating’⁽¹⁶⁾.

“When RDP Managing Authorities and Paying Agencies work closely together through coordinated actions and mutual understanding this can greatly reduce the risk of errors arising.”

*DG Agriculture & Rural Development
audit unit*

A toolkit of both ‘carrot’ and ‘stick’ options are available to help RDPs achieve sound financial performance (the former being preferential to the latter). New powers at EU level may now suspend reimbursements and these conditions can be passed onto RDP beneficiaries.

Preventative actions also exist that are thankfully able to help avert remedial consequences, and many of these mitigation actions are summarised in

‘early warning’ checklists presented in the following pages.

Checks on the lists cover the main sources of errors and range from advice about ‘achieving economy’ through to controlling ‘reasonableness of costs’ and public procurement procedures.

Other error checks relate to using clearer rules and procedures for facilitating financial performance. The materials synthesise guidance from European Commission and ECA sources involved in reducing root causes of RDP errors.

(15) “Can the Commission and Member States show that the EU budget allocated to the rural development policy is well spent?” [http://www.eca.europa.eu/en/Pages/BrowsePublications.aspx?k=CMEF&ty=Special%20Report&y=&top=Special report no 23/2014: Errors in rural development spending: what are the causes, and how are they being addressed?](http://www.eca.europa.eu/en/Pages/BrowsePublications.aspx?k=CMEF&ty=Special%20Report&y=&top=Special%20Report%20no%2023/2014%20Errors%20in%20rural%20development%20spending%20what%20are%20the%20causes%20and%20how%20are%20they%20being%20addressed%3F) <http://www.eca.europa.eu/en/Pages/DocItem.aspx?did=31291>

(16) See the previous article for a definition of gold plating.

**COMMON RDP PAYMENT ERRORS IDENTIFIED BY THE ECA
(FROM A RANDOM SAMPLE OF 461 RDP PAYMENTS BETWEEN 2011 AND 2013)**

“Area-related aid generated almost a third of the error rate [in the sample], the main cause being non-compliance with farming commitments. There are three explanations for this situation: low incentives for farmers to comply, a low control rate for commitments and a low sanction rate for non-compliance. On the other hand, compensatory payments for less-favoured areas, with similar characteristics as the measure supporting the setting-up of young farmers, are less affected by error.”

“Unintentional breaches of eligibility criteria by public and private beneficiaries accounted for a quarter of the error rate [in the sample]. Suspected intentional infringements by private beneficiaries contributed to another eighth of the error rate [in the sample]. The Court found that the measure supporting the processing of agricultural products was the

most prone to error, while the measure supporting the initial setting up of young farmers was not affected by eligibility errors.”

“Non-compliance with public procurement rules contributed to one eighth of the error rate [in the sample]. The main infringements were unjustified direct award without a competitive procedure, misapplication of selection and award criteria or lack of equal treatment of tenderers. Lack of knowledge in applying procurement rules and the preference for working with certain suppliers are the main explanations for these situations.”

Extract from the ECA Special Report No. 23 (2014): Errors in rural development spending: what are the causes, and how are they being addressed?⁽¹⁷⁾

Learning from audit

Many of the financial performance actions described in the following checklists were gleaned from audit processes. RDP authorities can gain a great deal of vital new management knowledge from such independent analysis of their programmes during audit.

West Cork Development Partnership (WCDP) is a LEADER Local Action Group (LAG) that appreciates the value of audit as a useful learning tool. Ian Dempsey is the Chief Executive of WCDP and he recalls how, “Following an audit from the ECA we realised the

benefit of enhancing our team with a member of staff who is specialised in financial management systems. We have also trained a dedicated member of staff to cover public procurement matters and this skill-set is another essential component of our operations.”

“We believe in the importance of continuous improvement and these new resources have helped us to operate sound financial systems that serve both project beneficiaries and our colleagues from the national authorities. In addition, we have introduced a dedicated ‘customer

relations management’ (CRM) tool that further improves the efficiency and effectiveness of our financial management. This is a database package which centralises all the information that we and our customers need to manage for our development work.”

Everything from meeting minutes during project preparation to photographs from project monitoring visits can be linked within the CRM database. Among many other useful functions, this type of tool can collate progress reports and match financial expenditure against results. It can also be used to identify geographical areas with clusters of opportunity or the contrary - gaps in uptake.

“Our customer relations management tool [for LEADER] prevents risks of information being lost and also helps to avoid duplication of effort. We gain a much more systematic approach to financial controls and it can be used remotely which is useful for staff carrying out field work with development projects.”

West Cork Development Partnership,
Ireland.



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(17) http://www.eca.europa.eu/Lists/ECADocuments/SR14_23/SR14_23_EN.pdf

Referring to other useful lessons learned from audit process, Mr Dempsey highlights the importance of sharing audit findings. “In Ireland, a document was produced that summarised outcomes and recommendations from different rural development audits. This was good because before we only ever saw our own audit reports, so it was useful to see other experiences and ideas that we could learn from.”

Managing Authorities, Paying Agencies and/or National Rural Networks throughout the EU can take note of this worthwhile Irish experience and organise their own ‘learning from audit’ capacity building programmes for RDP stakeholders. Other important issues can be covered by involving auditors in

joint workshops and capacity building with Managing Authorities and Paying Agencies early on in the programming stage.

Despite the obvious benefits from audit processes, ‘learning from audit’ is not always as popular as it could be. Hence good practice in financial performance can be encouraged across the EU by improving working relations between auditors and those being audited.

Reflecting on the adversarial ‘Us and Them’ situations that can sometimes arise and act as an impediment to improved financial performance, Mr Dempsey considers that confidence in the value of audit can be improved by ensuring that everyone is treated equally. He also underscores the need

to be proactive in finding ways of developing more positive and mutually beneficial ties along the audit chain. “It is important that the inspection units remain independent and it sounds obvious to say that everyone should strive to work together better, because it can be very noticeable when this does not happen in practice.”

ECA auditors who have recently reviewed the Member States’ systems to ensure that RDP costs are reasonable agree with this point and welcome moves to improve sharing of understanding about the value of audit. This is especially important for the ECA’s ‘Performance Audit’ activity that has been at the heart of the recent RDP audits.

DEMYSTIFYING AUDIT DIFFERENCES

Financial Audits present objective opinion about the integrity and reliability of financial information for a project or programme. These check if the financial data has been recorded properly and supported adequately. They also review financial statements about past performance to check their completeness, reliability, fairness, and accuracy.

Compliance Audits focus on checks to ensure compliance with the appropriate rules, such as legislation, regulations,

contractual and regulatory requirements, code of conducts, internal policies and procedures etc.

Performance Audits (also known as Operational Audits) analyse how well a project or organisation has achieved its intended outcomes. Such audits may assess the efficiency and effectiveness of projects or programmes. Performance indicators are often used to help confirm, quantify, and qualify specific achievements.



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Performance Audit does not intend to search out individual problems from specific RDPs in order to highlight them as bad practice that should be disciplined. In fact it is the opposite and it would be very useful if everyone involved could view audit as actually being advantageous. For example, recent RDP audits centred on identifying ways to help Member States improve the performance of RDPs. This approach involves looking mainly for good practices that are easily transferable to other RDPs.

In their Special Report 22/ 2015 (“Achieving economy: keeping the costs of EU-financed rural development project grants under control”), the auditors have identified a number of good practices. These are highlighted in the report and it would be fruitful in the auditors’ view if RDP authorities could appreciate this point more, e.g. by better sharing information arising from the ECA’s audit findings.

More sharing of the positive learning experiences from audit (and less emphasis on unease about potential penalties from audit) will help all RDP stakeholders to improve their systems, and thus avoid errors. This is relevant for sharing the learning from each level of audit including regional, national and European. “If more RDPs decision-makers see that the audit process is useful for them then less people will need to worry about it”, the ECA comment.

Audit attitudes

Cultural issues can influence the shift in attitude that is required. Reducing the emphasis that exists in some Member States on only presenting audit as an ‘enforcement’ tool will contribute to a much more useful approach for everyone in the long term.

“When an audit is focused on helping authorities responsible for RDPs to be more effective it can help facilitate

a continuous (not just one-off) improvement in performance,” say the ECA auditors. At the moment, the auditors still see a high level of errors in rural development policy, however they believe that these errors can be resolved.

Planning is crucial and the programmes with less errors will be those that establish sound procedures from the start, e.g. by keeping performance centred only on clear targets, and in adopting checks that clearly demonstrate reasonableness of costs. The ECA audit reports provide RDPs with options on how to do this.

Using public procurement properly is an area that needs special attention

and therefore RDPs should have access to high-quality advice in public procurement. RDP managers need to take care not to assume that costs will be ‘reasonable’ because a public procurement procedure has been used. The same applies to Simplified Cost Options as errors can still occur when either of these procedures is applied.

RDP authorities therefore need to remain alert to risk areas that are prone to errors.

Improved appreciation of the lessons learned from performance audits will help ensure that RDPs get started well on sound foundations from the very beginning.

GOOD PRACTICE ‘DOS AND DON’TS’ FOR RDP PUBLIC PROCUREMENT⁽¹⁸⁾

Planning stage

Do spend sufficient time planning to ensure accurate costing and minimise risks of unexpected project modifications.	Don’t launch a procurement process without adequate planning, approval and control systems.
Do publish a sufficiently detailed Contract Notice for any contract with a total value above the legal thresholds.	Don’t start procurement without proper advertising and don’t artificially split a project’s costs.

Award stage

Do apply transparent and consistent award procedures.	Don’t modify evaluation criteria after the opening of tenders.
Do check if any Conflict of Interest declarations need to be signed .	Don’t allow anyone with a potential or actual Conflict of Interest be involved in preparing or evaluating a tender.

(18) Source: Adapted from European Commission advice.



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Tackling errors

Public-procurement procedures are a common component of the Member States' Action Plans for reducing RDP error rates. Every Member State has prepared an Action Plan, which is being implemented and can be continuously updated each six months to optimise its ongoing relevance. DG Agriculture & Rural Development underline the usefulness of keeping the Action Plan activities focused on identified needs. These should be informed and updated by feedback from regular reviews of financial performance during the entire programming period.

Other new measures complementing the Action Plans (and coordinated across all RDPs) include regulatory requirements for extended inspections from now onwards by the Certifying Bodies that work with Paying Agencies. These will help identify and resolve errors earlier on. The ability of Paying Agencies to detect and tackle errors has also been strengthened by a series of 'anti-fraud and anti-irregularity' seminars⁽¹⁹⁾.

Organised by DG Agriculture & Rural Development, these outreach events have spread knowhow in all Member States about the prevalence of RDP fraud and other serious irregularities. More than 3300 staff from Paying Agencies, Managing Authorities, other ministries, police services, and internal audit teams were networked so far by the strategic initiative.

DG Agriculture & Rural Development observe the outreach method's success in encouraging, "a more open exchange between Paying Agencies than what was the case in the past". This good practice in peer networking and co-operation could readily be replicated for other topics and stakeholders that help keep RDPs 'going well'.

Recent ENRD workshops on reducing RDP error rates further complement guidance from DG Agriculture & Rural Development's for Member States. These training sessions raised awareness on sensitive topics related to RDP implementation and error rate reduction. Issues involved with Simplified Cost Options, public

procurement, reasonableness of costs and result-based agri-environment payments were discussed during the workshops.

More transferable good practice in networking between RDP administrations occurs online through the aptly named 'Learning Network' for EU Paying Agencies and Coordinating Bodies⁽²⁰⁾. This is a free-to-join and very useful community-of-practice that is actively involved in informal dialogue (not representing Member State positions). Topics discussed by the network include RDP simplification options and its membership takes in a mix of different RDP administrations. They co-operate online as well as through meetings and conferences.

JOINT WORKING BETWEEN RDP MANAGING AUTHORITIES AND PAYING AGENCIES

RDP Paying Agencies and Managing Authorities are required (by Art 62[1] of the Rural Development Regulation) to jointly confirm the verifiability and controllability of RDP measures. This assessment should be continuously monitored and updated.

Scope exists here to share good practices between RDPs and relevant examples have already started to be networked⁽²¹⁾. In Italy for instance a system covering the Verifiability and controllability of measures (VCM) was created within the National Agricultural Information System (SIAN). This VCM resulted from joint planning between the Ministry of Agriculture, RDP Managing Authorities, and Paying Agencies.

VCM outcomes aim to facilitate fast interactions between all Managing Authorities and all Paying Agencies through an integrated approach. This increases the efficiency and verifiability of the eligibility criteria, commitments and other obligations provided for each RDP measure. Computerised management and standardised administrative flows were used during the ex-ante evaluation stages and can continue

to be used throughout on-going evaluation of measures, which will help identify potential risks and monitor RDP error rates.

Explaining this VCM to RDP managers at the EU's Rural Development Committee, Alessia Fuzio from Italy's Agricultural Payments Agency (AGEA) noted that, "In concrete terms, VCM is a tool that allows you to enter all the information on the measures, types of operations and operations and to evaluate, ex ante and on-going, the verifiability and controllability and keep under control the error rate."

German experiences from Saxony (also presented to the EU's Rural Development Committee) provide other useful insights into co-operation between a Paying Agency and Management Authority for analysis on verifiability and controllability of RDP measures. Collaboration included a joint analysis action plan to reduce the error rate as well as improvements for agri-environment management, such as a graduated system for penalties and reductions.

Sustaining performance

This review of factors affecting RDP financial performance confirms the existence of many good practices and positive attitudes towards reducing error rates. It can provide RDP authorities with confidence that

their efforts are not happening in isolation and that their peers possess knowledge they can use to move forward.

Experiences and ideas in this EU Rural Review therefore highlight the potential for sharing much more good

practice in financial performance, and all RDP stakeholders (especially Monitoring Committee members, Managing Authorities, and Paying Agencies) should be devoted to encouraging knowledge transfers that sustain sound financial management of RDPs.



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(21) During the EU's Rural Development Committee/ 11th Agricultural Funds Committee on October 14th 2014.

EARLY WARNING CHECK LIST

CLEARER RULES AND PROCEDURES*

Based on a synthesis of guidance from European Commission and ECA sources⁽²²⁾ involved in reducing root causes of RDP errors.

*In order to aid dissemination of this good practice, a blank version of the diagram's graphic file can be downloaded from the ENRD website. This file includes empty text boxes that allow you to add your own translations of the text.

Problem	Solution
Administrative mandate	
Checks on financial management systems are made too late to properly detect problems occurring/escalating.	<input type="checkbox"/> Produce and use 'early warning' checking systems to prevent potential revisions, delays, increased costs and possible non-payments.
Institutional mind-sets hinder programme effectiveness.	<input type="checkbox"/> Use professional experts to introduce cost-efficient customer-oriented principles and procedures throughout the programme's operations and authorities. Include training on these principles as part of staff induction procedures and document all information in order to retain 'institutional memory'.
Payment processing systems do not include adequate checks on beneficiaries' claims.	<input type="checkbox"/> Provide training using professional communicators for administration staff on required procedures for documenting the checking of sensitive issues that may be highly error-prone.
Administrative procedure is not recorded well enough to demonstrate that all checks have been made.	<input type="checkbox"/> Produce a common template and ensure it is used across all measures by all staff to document the checks (include scope for staff to explain any discretionary decisions or comments).
Error checks only cover a sample of RDP measures.	<input type="checkbox"/> Expand controls to cover increased numbers of RDP measures.
Measure scope is too broad leading to difficulties in assessing the comparative value and quality of similar funding proposals.	<input type="checkbox"/> Apply a more focused scope of measures to improve benchmarking of funding proposals.
Eligibility criteria for RDP measures are too broad.	<input type="checkbox"/> Use limited eligibility criteria for measures. Ensure eligibility conditions focus funding commitments only on projects that clearly contribute to the strategic objectives of the measure and RDP.
Payment conditions are made overly complex or stringent.	<input type="checkbox"/> Avoid imposing conditions that add unnecessary complexity to the system e.g. requiring beneficiaries to commit to actions that are: <ul style="list-style-type: none"> • Not specifically linked to the measure's objective (such as socio-economic results from environmental payments or vice versa); or • Difficult over the long term to verify (such as quantifiable stocking densities or reductions in agri-chemical use). Scrutinise all measures periodically to check their verifiability and controllability.
Guidance and good practices in sound financial management are not sufficient and/or not available in advance for administrators and beneficiaries.	<input type="checkbox"/> Design, implement, and regularly evaluate a dedicated communication plan promoting sound financial management. Ensure this covers consistent messages and technical information for both administration staff and beneficiaries. Work with communication experts to design guidance / good practice advice materials in advance that are fit-for-purpose and easy-to-understand by the target audience(s). Test all guidance materials with the target group(s) before publishing the information and explore new techniques (e.g. video testimonials/peer-learning).
Skill gaps exist in financial management skills among administrators and/or beneficiaries.	<input type="checkbox"/> Provide capacity building training using professional communicators and consider compulsory training for: <ul style="list-style-type: none"> • Eligibility of farm or forest area. • Eligible expenditure under investment measures. • Understanding of commitments under area-related contracts. • Public procurement rules and obligations for beneficiaries. • Payment claims handling for beneficiaries. Document all capacity building information in order to retain 'institutional memory'.
Other bottlenecks inhibit mainstreaming of sound financial management.	<input type="checkbox"/> Promote best practices from RDP peers and other EU Funds to increase confidence. Use 'road-show' approaches and other outreach methods to provide training directly in more remote and isolated rural areas. Document all capacity building information in order to retain 'institutional memory'.

(22) ECA Special Report No 12/2013 "Can the Commission and Member States show that the EU budget allocated to the rural development policy is well spent?"
 ECA Special report no 23/2014: Errors in rural development spending: what are the causes, and how are they being addressed?
 Commission Staff Working Document on the assessment of root causes of errors in the implementation of rural development policy and corrective actions

The system for reducing funding payments in cases of non-compliance with commitments is not proportionate.



Publish rules stating how the system of reducing payments for non-compliance penalties will be assessed as proportionate to the gravity of the infringement.
Apply the rules consistently and transparently documenting all decisions and their rationale.

Administrative systems do not take full advantage of modern IT opportunities.



Use proven or 'off-the-shelf' IT systems that can be easily adapted and tested for:

- Electronic applications with updated and supportive information for beneficiaries.
- Electronic data exchange among authorities involved in implementation.
- Text message reminders of deadlines for beneficiaries for time-bound commitments.
- Checking the reasonableness of costs and prices.

Lack of exchange of information between authorities involved in implementing a RDP measure.



Map and document issues that require coordination and co-operation between measure-level stakeholders. Provide training using professional communicators and consider compulsory training for issues that may be highly prone to errors e.g.

- Exchange of information and data among authorities involved in implementation, (notably for organic farming and natural parks).
- Procedures to process payments to beneficiaries.
- Systems for checking the reasonableness of costs and prices.
- Public procurement rules.
- Improving checks and controls.
- Payment claims handling.

Beneficiary

Beneficiaries do not do what was intended e.g.

- Weather conditions did not allow the beneficiary to implement the commitment.
- The beneficiary forgot to fulfil a commitment that had to be implemented at a specific moment in time.
- The beneficiary deliberately failed to comply with the commitment so that they could benefit from more advantageous agricultural prices.
- Failure to keep the documentation required under the commitments (e.g. logbook on the agricultural practices applied)
- The number of livestock on a farm exceeded the minimum livestock density condition.
- Etc.



Provide capacity building training for beneficiaries using professional communicators and consider compulsory training for:

- Eligibility of farm or forest area using definitions agreed for the programme.
- Eligible expenditure under investment measures.
- Understanding of commitments under area-related contracts.
- Public procurement rules and obligations.
- Payment claims handling.

Promote best practices from beneficiary peers to increase confidence.
Publish rules stating how the system of reducing payments for non-compliance penalties will be assessed (as proportionate to the gravity of the infringement).
Apply the rules consistently and transparently documenting all decisions and their rationale.

Beneficiaries provide incorrect declarations and make errors in filling in payment claims, e.g.

- Claiming for ineligible costs and payments.
- Failing to comply with rules related to VAT eligibility.
- Items in payment claims differ from those found during on-the-spot checks.
- Documents are missing to prove expenditure in claims for reimbursement.
- Beneficiaries fail to meet the deadline to implement their investment project.
- Costs are claimed more than once.
- Results are claimed more than once.



Provide training using professional communicators and consider compulsory training for:

- Payment declaration: eligibility of areas.
- Eligible expenditure under investment measures.
- Understanding of commitments under area-related contracts.
- Public procurement rules and obligations for beneficiaries.
- Payment claims handling for beneficiaries.

Publish rules stating how the system of reducing payments for non-compliance penalties will be assessed (as proportionate to the gravity of the infringement).
Apply the rules consistently and transparently documenting all decisions and their rationale.

EARLY WARNING CHECK LIST

ACHIEVING ECONOMY*

*In order to aid dissemination of this good practice, a blank version of the diagram's graphic file can be downloaded from the ENRD website. This file includes empty text boxes that allow you to add your own translations of the text.

Problem	Solution
Reasonableness of Costs	
Administrative mandate	
Inadequate analysis of the risks: grant payments may be too high if paid out for unnecessary costs or based on uncompetitive prices.	<input type="checkbox"/> Proposed costs should be adequately evaluated using consistent and transparent systems to ensure that specifications are reasonable. Standard calculations and comparison to benchmarks can quickly identify applications that may be over-specified.
Checks and controls are the same for all aid rates – but beneficiaries have less incentive to ensure value-for-money when they have less of their own money in a project.	<input type="checkbox"/> Design proportionate requirements and/or checks where aid rates are higher.
Checks and controls are the same for small, medium and large project budgets – but the risk of larger scale errors is greater for more expensive projects.	<input type="checkbox"/> Design higher requirements and/or checks for high-cost projects.
Control systems focus on the price of items or work in a funding application with much less attention to whether the items/work are needed/reasonable.	<input type="checkbox"/> Set the standard at the lowest price to meet the required objective. If a beneficiary needs additional requirements then this must be fully justified, checked, validated and documented. Clear rules and criteria are needed to support this e.g. if a percentage variation from reference prices is automatically accepted, ensure that the percentage used can be justified in relation to real market prices.
Standard reference costs contain weaknesses and represent over-payment risk e.g. <ul style="list-style-type: none"> Prices are based on calculations that may not be representative of market prices. Prices indicate the most expensive models. Database is not detailed enough and/or not regularly updated (to reflect decreasing prices e.g. for solar panels). 	<input type="checkbox"/> Where feasible, set maximum costs or use Simplified Cost Options and periodically check that they do not exceed market prices. Use real market prices as reference prices for equipment and machinery rather than suppliers' list prices or theoretical calculations. Prices should not be set too high in order to take account of them having a long shelf-life (during which prices could fall as well as rise). Market research can be used to get independent comparative price information for individual projects. RDP management should programme regular reviews of unit/reference costs (ideally at least once annually) and ensure they reflect any large regional differences. Deploy an early warning system to identify and implement adequate checks for high risk claims – especially those involving purchases from abroad or second-hand goods.
Systems cannot objectively compare offers received from different suppliers to establish market prices.	<input type="checkbox"/> Safeguards are needed to guard against manipulation and fraud. Transparent procedures must be used to deter, prevent, detect and correct any manipulation of the process to favour a particular supplier. If only one offer is received or if the offers received are not comparable, use alternative methods to check that the prices are reasonable. Clear rules, explicit declarations and on-the-spot checks on samples of payments can deter the concealment of discounts, rebates or other advantages given by the supplier that lower the real cost. Follow the European Commission's guidance to prevent and detect fraud. (http://ec.europa.eu/anti_fraud/index_en.htm).
Reference prices are made available to beneficiaries. This risks these prices becoming used as a standard price by beneficiaries and thus inhibits competitive tendering / cost reasonableness.	<input type="checkbox"/> Lists of reference costs should remain internal reference tools and be revised regularly.

Project modifications after grant approval may act as 'loopholes' to allow new or additional costs to be reimbursed for which the reasonableness had not been checked. Material changes should not lead to unreasonable prices at payment phase.



Use an 'early warning' system to identify projects that have changed and instigate checks to control the reasonableness of any new or additional costs following project changes.

Require a clear breakdown of costs both in the grant application and payment claim. Specify costs in the grant agreement at the same level of detail at which they were checked during the approval process.

Set clear rules and procedures to check that the costs of material changes from the approved project costs are reasonable and that any savings are not used for 'gold-plating'.

Evaluation committee weaknesses exist such as:

- The members of the evaluation committee do not have sufficient experience in the related field.
- Discretionary decisions are unjustifiably inconsistent.
- Their work is not correctly documented.



Expert opinions can give good assurance that specifications are reasonable, provided that the experts are sufficiently knowledgeable, independent, consistent and properly recorded.

Beneficiary

Over-specification at application stage: Quantity and quality of items proposed for funding may be more than is actually needed.



Simple actions

- Restrict grants to the costs of a standard specification where there are many similar projects or common types of expenditure.

Complex actions

- Check that the project really needs all the things that it says it needs.
- Check that the prices for all items are reasonable.
- Make standard calculations and compare against benchmarks to quickly identify applications that are over-specified.
- Evaluate if costs are reasonable against cost-effectiveness or value-for-money criteria.
- Document assessments of whether specifications are reasonable and the basis for this, whether comparison with other projects, technical evaluation or common-sense judgement.
- If grants are not based on the lowest valid offer, establish clear criteria for assessing whether the cost of the higher offers are reasonable (document the evaluation decisions for the extra costs involved).
- Use independent expert opinions for assurance that specifications are reasonable, particularly where projects present risks because of their size, technical complexity or lack of comparative information.

Public procurement procedures are used wrongly, such as:

- Using new procedures (post 2016) for projects approved under previous conditions (pre-2016).
- Tender procedures that do not comply with national laws e.g. insufficient documentation on the selection of contractors/ equal treatment among bidders, etc.
- Using the wrong procedures for specific project types (e.g. applying Service contract rules to Works contracts etc.).
- Using wrong rules for the project threshold (e.g. unnecessarily complex rules for simpler projects).



Provide capacity training for both beneficiaries and administrators using professional communicators and consider compulsory training for procurement personnel tailored from European Commission guidance http://ec.europa.eu/internal_market/publicprocurement/index_en.htm

Publish rules stating how the system of reducing payments for non-compliance penalties will be assessed (as proportionate to the gravity of the infringement).

Apply the rules consistently and transparently documenting all decisions and their rationale.





Financial Instruments: making funding go further

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EU rural development funding provides significant benefits for EU citizens and even more benefits are possible by using Financial Instruments (FIs) to recycle funding and thereby make the money go further.

Rural Development Programmes (RDPs) can use a combination of grants and FIs to support projects and schemes. Grants distribute funds that do not need to be repaid by beneficiaries. FIs provide RDP funding for investments that are repaid by beneficiaries through loans and micro-finance, guarantees, equity, interest rate subsidies, or other risk-bearing instruments.

These so-called 'revolving' RDP funding tools are useful for improving beneficiaries' access to rural development finance. A farmer for example can use a combination of grant, loan, and bank guarantee from their RDP. Together, this package of RDP support would cover a much larger proportion of the costs involved in realising development projects. RDP FIs can now also cover working

capital and this further increases their potential usefulness.

Furthermore, rural businesses may prefer the fact that the revolving funds do not use retrospective repayments for projects and capital is provided 'up-front' at the start of a project. Applications for the money in FIs can normally be made all year round and not restricted to call periods.

Project developers benefit from these conditions which mean funding decisions can be made quicker and this makes FIs an attractive source of RDP support for commercial ventures, such as those in the agri-food, forestry, rural tourism, high-tech and other business sectors.

Market intervention

RDP-funded FIs cannot use public funds to undermine private sector

financial institutions, and RDPs can only intervene in cases of demonstrated market failure or service gaps. These RDP interventions can actually be beneficial for private sector financial institutions because, by following the success of RDP instruments, the private lenders see that demand exists for particular services that they too could provide profitably.

In such cases, the indirect RDP outcomes from FIs may hold the potential to encourage regional financial markets to function better through more favourable conditions. Synergy like this can make an entire rural economy more competitive and cohesive.

From an efficiency perspective, FIs also tend to involve less bureaucracy for

funding applicants than grants. This is because each business using a FI will claim its funds from, and report to, an intermediary Fund (but not directly to the RDP). Intermediary Funds can be run within a Managing Authority or Ministry of Finance, as well as by

external entities such as specialised agricultural banks or development organisations.

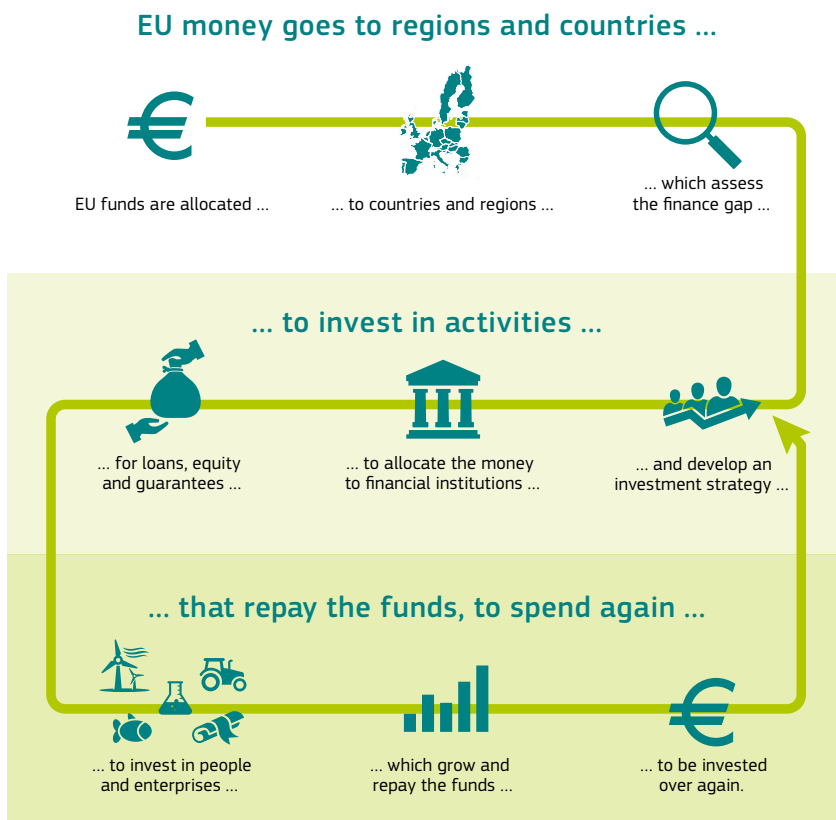
For these reasons, Member States are being encouraged by the European Commission to double the volume

of RDP funding that is allocated to FIs during 2014-2020 than was for the previous programming period. However, gaps in experience, capacity and confidence among some RDP authorities may still inhibit the uptake of opportunities offered by FIs.

KEY OBSERVATIONS BY THE EUROPEAN COURT OF AUDITORS CONCERNING SUCCESSFUL USE OF FINANCIAL INSTRUMENTS IN RDPs INCLUDE⁽²³⁾:

- Use ex-ante assessments and technical expertise to avoid risks of over-capitalisation (see the box below on essential ex-ante requirements for RDP FIs).
- Establish leverage and revolving effects as key performance indicators.
- Implement the new legal provisions in such a way as to ensure the greatest level of flexibility, for instance by establishing a single FI (e.g. providing both loans and guarantees) that is capable of addressing the development needs of the target sector(s).
- Pay particular attention to potential risks of deadweight or displacement effects when assessing applications for funding by applying appropriate indicators. Where such risks apply, RDP support from a FI could become the preferred option.
- Examine how grants and FIs can be combined to provide the best value for money, by optimising leverage/ revolving effects.
- Set aside a certain share of the available EAFRD budget for FIs and make these instruments more attractive than grants in clearly defined circumstances.

How do Financial Instruments work?



Financial advice

Fortunately, a great deal of new assistance is available to support RDP stakeholders with their plans to establish successful FIs. For example, lessons from previous RDP ‘Financial Engineering’ experiences have been learned and addressed in the current EU regulations governing rural development policy. These contain comprehensive programming information⁽²⁴⁾ to help RDPs get FIs going.

Specialised and wide-reaching support is also now available for RDP authorities through the EU’s new fi-compass initiative (www.fi-compass.eu), which draws on decades of EU funding experiences with revolving instruments by the European Commission and European Investment Bank (EIB). Their collective expertise provides RDP authorities with free access to a significant knowledge base about good practices in planning, running, and controlling FIs.

© fi-compass

(23) http://www.eca.europa.eu/Lists/ECADocuments/SR15_05/SR15_05_EN.pdf

(24) See Title IV of Regulation (EU) No 1303/2013: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32013R1303>

Importantly, fi-compass has dedicated assistance for rural development purposes. This includes factsheets, step-by-step guides, handbooks, and off-the-shelf models for different RDP FIs. A useful programme of capacity building events and training sessions about RDP revolving funds are also organised by fi-compass. These take place in every Member State and details about the raft of on-going fi-compass events can be found on their website.

The new range of support to help RDPs use FIs should help change attitudes by showing Member States and Regions that revolving funds can be quite feasibly used by every RDP.

RDP Technical Assistance (TA) budgets are able to fund the groundwork required for getting a FI going. This is useful because many RDP managers do not yet have specialist skills in using these types of funding tools.

ADVANTAGES OF FINANCIAL INSTRUMENTS FOR RDP AUTHORITIES INCLUDE:

- Greater access to a wider spectrum of financial tools for policy delivery.
- Improved private sector involvement, expertise and financing for policy delivery.
- Leveraging resources, leading to increased impact of RDPs.
- Efficiency and effectiveness due to revolving characteristics of funds, which stay in the programme area for future use for similar objectives.
- Better beneficiary commitment to project quality because investments must be repaid.
- Simplified administration requirements for funding beneficiaries, reducing error risks.
- Improved RDP targeting because ex-ante evaluations confirm needs from specific target groups for loans, guarantees, equity, etc.

FI experts with experience of lending for development purposes⁽²⁵⁾ can be contracted to explore, design, and even help implement a RDP FI (running costs however are normally covered by standard fees charged during the lending process).

Using a specialist contractor can be particularly useful during negotiations between RDP authorities and financial bodies that might be involved as commercial partners in a FI. Contracting external advisors here will help RDPs

to ‘speak the same language’ as bankers, venture capitalists, and equity investors etc. RDP authorities can learn a lot from specialists, and TA contracts could include knowledge transfer or institutional capacity building in this field for both Managing Authorities and Paying Agencies.



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(25) These include the EIB Group’s services that can be used by RDP authorities to carry out ex-ante studies or other preparatory and management actions.

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Delivery mechanisms

A valuable skill that RDP authorities will learn and develop relates to the selection of delivery mechanisms for revolving funds. Holding Funds for instance at national level (such as those used by Slovakia⁽²⁶⁾ and other countries) are useful ‘umbrella’

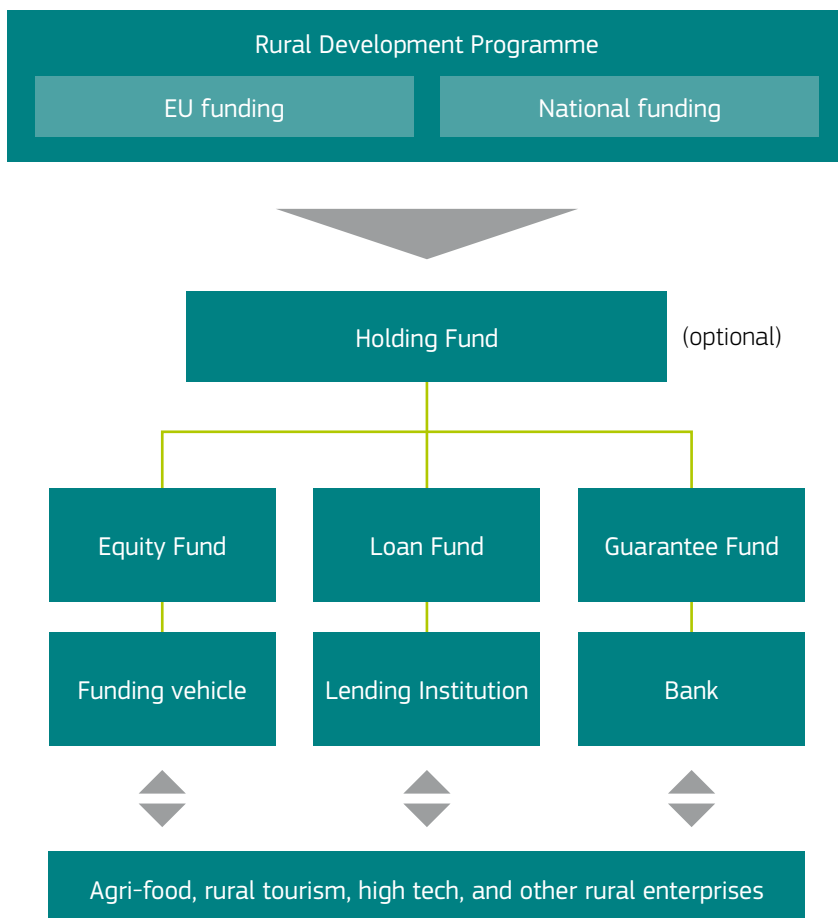
structures for channelling coordinated packages of financial support. Efficiency gains result from centralised management and expertise, which can also ensure the implementation of streamlined development support strategies that avoid funding overlaps or duplication of effort.

Choice of commercial partners for Holding Funds (and FIs in general) is critical to their overall effectiveness. EIB Vice President, Wilhelm Molteres, echoes this advice stressing, “It is important to have a professional counterpart that knows the sector well.”

Good practice for RDP authorities thus involves working with financial institutions that have reliable knowledge and understanding about rural (particularly agricultural) business cash-flows. Partners who understand the influence of relevant legislation, like environmental protection or food safety standards, are also advantageous.

EIB advice about choosing the ideal lending partner for RDPs recommends using “one that won’t run away from an unknown risk and that knows that working capital extends over a 12-month period and that businesses may only receive income a few times each year e.g. after harvest time.”

Figure 3. Flow of funds from Financial Instruments to RDP beneficiaries



(26) <http://www.fi-compass.eu/sites/all/themes/ficompass/files/Martin%20Polonyi.pdf>

ESSENTIAL EX-ANTE REQUIREMENTS FOR RDP FIs INVOLVE⁽²⁷⁾:

- Analysis of market failures, suboptimal investment situations, and investment needs for policy areas and thematic objectives or investment priorities. This demand analysis must use proven good practice methodologies.
- Assessment of the FI's added value compared with other forms of public intervention addressing the same market, as well as possible State Aid implications, the proportionality of the planned intervention, and measures to minimise market distortion.
- Estimates of expected leverage effect⁽²⁸⁾ (additional public and private resources to be potentially raised - down to the level of the final recipient), including as appropriate an assessment of the need for, and level of, preferential remuneration to attract co-finance from private investors and/or a description of the mechanisms which will be used to establish the need for, and extent of, such preferential remuneration, such as a competitive or appropriately independent assessment process.
- Consideration of lessons learnt from similar instruments and ex-ante assessments carried out by the Member State or other countries in the past, and how such lessons will be applied in the future.
- Details for the proposed investment strategy, including an examination of options for implementation arrangements, financial products to be offered, final recipients targeted and any options for combinations with grant support as appropriate.
- Specification of the expected results and how the FI will contribute to the relevant priority's objectives and indicator targets.
- Provisions for the ex-ante assessment to be reviewed and updated as required if the Managing Authority considers that the ex-ante assessment may no longer accurately represent the market conditions existing at the time of implementation.

Effective Ex-antes

Ex-ante analysis of each RDP FI should confirm the suitability of its intended partners. Much advisory work on ex-ante requirements for RDP FIs has been carried out and this is available from fi-compass. A summary of the main content for ex-antes is presented in the following box. It highlights the importance of starting from a well-informed position and making only evidence-based decisions about how best to use FIs.

Detailed ex-ante requirements (available from fi-compass) will

influence the size of each individual FI and better economies of scale may result from larger overall FI budgets. This can also apply to FIs implementing micro-finance support.

Precision programming

Timing for the introduction of FIs is an important issue that RDP authorities have to consider. Most advantages are gained by including reference to FIs in the first validated version of an RDP. This allows the Managing Authority to gain from higher intervention rates (+10%) that are available for FIs, because these higher rates can

be approved at the start in an RDP's financing decision.

It will be possible to modify RDPs and accommodate new FIs later on that still adopt the higher intervention rates. However, integrating and balancing these higher intervention rates at a later date will have an impact on intervention rates for other measures. Furthermore, introducing FIs after the programme is launched will normally need to be done as part of 'Strategic Amendment'. Only three of these are possible during the programme period and they may



(27) Adapted from fi-compass guidance on ex-ante preparations

http://www.fi-compass.eu/sites/all/themes/ficompass/files/fi-compass_Ex_ante_quick_reference_guide_2015_final.pdf

(28) Diagrams explaining how to calculate leverage examples of different FI types (Loans, Equity, Guarantee) are in Annex II of the ECA Special Report No 2/2012 — Financial instruments for SMEs co-financed by the European Regional Development Fund

http://www.eca.europa.eu/Lists/ECADocuments/SR12_02/SR12_02_EN.PDF



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need to be reserved for making more comprehensive tactical changes to RDPs (compared to simply adding technical adjustments).

Including FI calculations in the scope of the original RDP's financing decision therefore offers the flexibility to introduce FIs when they are ready (e.g. following a positive ex-ante analysis and agreed confirmation of full implementation strategy).

Other timing considerations for FIs relate to the new payment framework that controls RDP revolving funds. Reimbursements now need to reflect performance and transfers will only be phased. RDP financial planners have to take account of this expenditure profile matter and ex-ante work should provide the required data.

More advice and guidance about these FI decision-making factors is available for RDP stakeholders from the Luxembourg-based fi-compass. This includes information about the possibilities for FIs to cover more than one RDP⁽²⁹⁾, as well as the very

useful European Court of Auditors' recommendations⁽³⁰⁾ describing how RDPs can improve their use of FIs during the 2014-2020 period.

Evaluation advantages

Reporting on RDP evaluations will begin in 2017 when Member States will, for the first time, include major evaluation findings on the progress in achieving RDP results in their Annual Implementation Reports. Outcome data from beneficiaries is not likely to have started emerging in sufficient numbers by then to enable an accurate evaluation of the effects of FIs. Hence, a considerable proportion of the evaluations reported in 2017 could be used to assess the success of RDP implementation processes – including the use of FIs as delivery mechanisms.

This could be a useful opportunity to plan evaluations that explore the advantages and disadvantages of using combinations of grants and FIs in different circumstances. "Findings from this analysis will be useful for assessing outcomes,

such as RDP influence on business competitiveness," observes the European Evaluation Helpdesk for Rural Development (because FIs should not normally involve risks of 'dead weight' support).

Comparing effects of different funding tools should also identify possible improvements to the overall cost-effectiveness of RDP operations and pave the way to assess their impact in the evaluations reported in 2019 and at the ex-post stage. The relatively early timing of the evaluations reported in 2017 will be particularly useful and allow improvements to be introduced sooner, thereby helping the RDPs' FI toolkits to create more and better benefits for EU citizens over a longer term.

(29) http://ec.europa.eu/regional_policy/sources/tender/doc/propositions/2015_16_bgt_001/qa_guide.pdf

(30) http://www.eca.europa.eu/Lists/ECADocuments/SR15_05/SR15_05_EN.pdf



Launching Operational Groups

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The agricultural European Innovation Partnership (EIP-AGRI)⁽³¹⁾ works to foster competitive and sustainable farming and forestry. EIP-AGRI Operational Groups are the key entities for implementing the EIP under rural development and hence it is useful to understand the scope that exists for expanding Operational Groups' potential.

“Achieving more and better from less” is a main motto for EIP-AGRI. On the EIP-AGRI website, a considerable amount of useful guidance⁽³²⁾ can be found explaining how Operational Groups can help rural Europe to achieve more and better from less. The guidance was prepared in close liaison with Member States and has been promoted widely.

Although EIP Operational Groups are a novel approach in the rural development period 2014-2020, a very substantial amount of commitment from Member States will be devoted to supporting the setting up of Operational Groups and the funding of their projects. A variety of approaches

are emerging, from small and focused Operational Groups to broader somewhat bigger Operational Groups, and a wide range of themes will be covered. A flexible approach is indeed what was intended and mentioned in the EIP guidelines: “The EIP aims at a flexible and open system for the creation of a multiplicity of Operational Groups”.

An important point for the attention of Rural Development Programme (RDP) authorities' is that Operational Groups can be launched to cover a very wide spectrum of rural development actions. Bridging gaps between research and practice is just one of these areas and many other

opportunities for Operational Groups exist across the EIP-AGRI remit.

Financing innovation

A useful supply of RDP funding will help launch Operational Groups. Measures supporting co-operation, investment, demonstration and advisory services, as well as budgets for National Rural Networks and Technical Assistance are all ideal for supporting Operational Group projects and EIP networking⁽³³⁾.

Higher-than-usual support rates from EU and national sources apply for innovation. The co-operation measure for example (Article 35) contains special support of up to 100% for setting up groups. The same rate can be applied in an

(31) <https://ec.europa.eu/eip/agriculture/en/content/EIPAGRIabout>

(32) <https://ec.europa.eu/eip/agriculture/en/content/eip-agri-brochure-operational-groups-turning-your-idea-innovation> (and) <https://ec.europa.eu/eip/agriculture/en/content/eip-agri-seminar-launching-operational-groups-and-eip-networking-rural-development>

(33) Guidance is available from the EIP-AGRI Service Point about the steps that Managing Authorities have to go through in order to design and launch calls and select projects that meet their needs

operation to fund a project that is carried out by an Operational Group.

RDP stakeholders should be aware that these two types of funding (for starting-up the co-operation on the one hand and for the Operational Group project work on the other hand) are different and they do not need to be programmed under one RDP support operation. Separating the start-up funding provides more flexibility that can encourage more interest in Operational Groups, and will result into better-planned projects that generate higher-quality outcomes.

“Using the setting-up funding first should result in Operational Groups beginning their projects with a well developed view on the state-of-the-art and how to bring added value by doing the project”, remark DG Agriculture & Rural Development. “It will also give the groups a sound foundation to work from, which reduces the risk of errors arising. This is because the studies, animation, partner search work and preparation of the co-operation agreement which are eligible for funding during setting-up will put the groups in the best possible position to begin their project activity.”

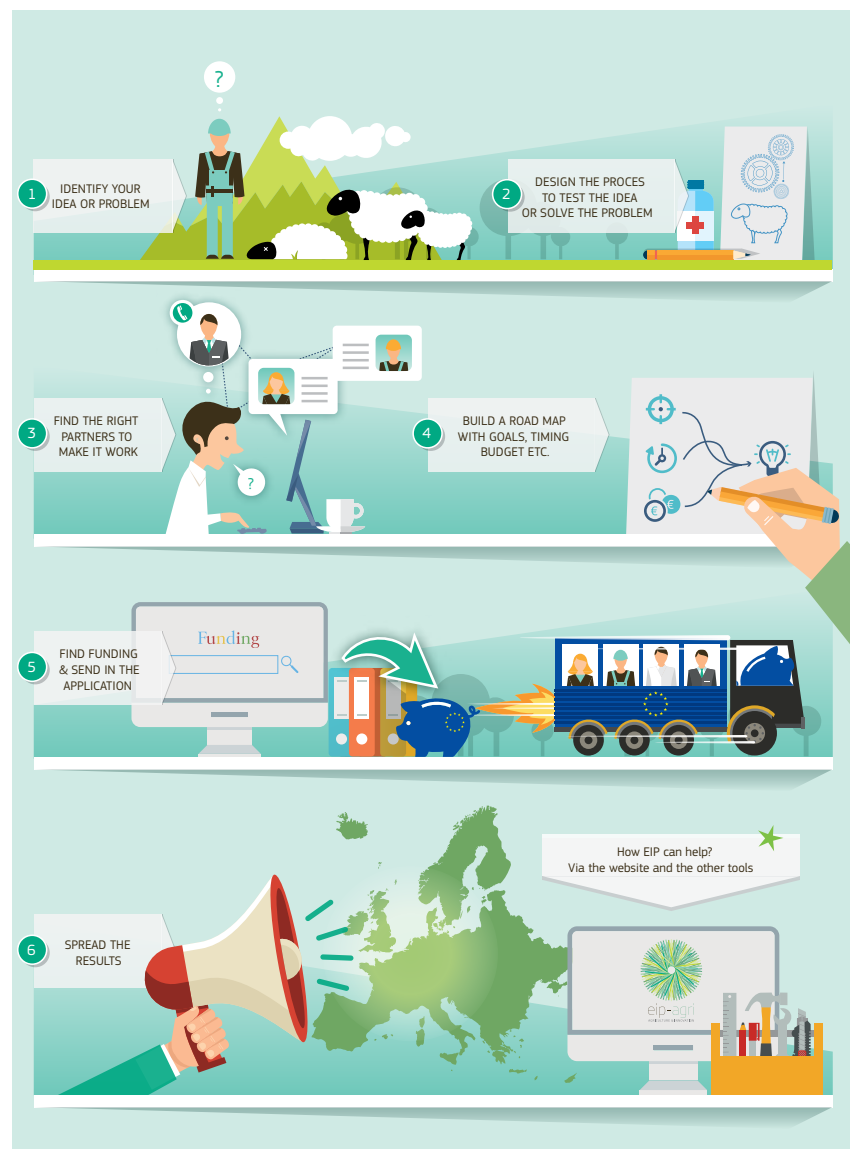
“In this way, they will be able to start with the ideal targeted mix of actors who can bring in the specific knowledge needed for the aim of the project (practical, organisational, scientific knowledge, etc.) and this can help to get the results widely implemented (e.g. using multipliers, facilitators etc.).”

“Setting-up tasks will include preparing a plan for dissemination of their results. Communication planning is absolutely vital since these groups are using public funding and are meant to produce public knowledge that is made freely available to all.”

OPERATIONAL GROUP PROJECTS CAN BE LAUNCHED WITH ONE OR MORE OF THE FOLLOWING OBJECTIVES⁽³⁴⁾:

- Promote a resource-efficient, economically viable, productive, competitive, low-emission, climate-friendly and resilient agricultural and forestry sector, working towards agro-ecological production systems and working in harmony with the essential natural resources on which farming and forestry depend.
- Help deliver a steady and sustainable supply of food, feed and biomaterials, including existing and new types.
- Improve processes to preserve the environment, adapt to climate change and mitigate it.
- Build bridges between cutting-edge research knowledge and technology and farmers, forest managers, rural communities, businesses, NGOs, and advisory services.

Figure 5. How to build an Operational Group



© EIP-AGRI Service Point

(34) See Article 55 from the rural development regulation <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32013R1305&from=EN>

Innovation brokers

Another key consideration for RDPs to clarify is the difference between ‘innovation support’ and ‘innovation brokerage’. Innovation support is a broad term covering various tasks that can support innovation, such as collective work by thematic groups, think tanks, promotion etc. before or after the projects become operational. Innovation support can include ‘innovation brokering’. Innovation brokering is the process focusing on the formation of a group and development of the partner’s project idea(s) into a clear work plan.

“These are both important aspects of the innovation process. While ‘innovation support’ has a more general and broader focus, ‘innovation brokering’ is really supporting a specific individual group to be set up with a potential successful project,” says DG Agriculture & Rural Development.

“Organisations like farm advisory services are able to act as good innovation brokers or innovation support services because they are well networked and well positioned to bring the right people together. Because of their daily contact with clients, they can easily capture grass-root innovative ideas from practice and help indicate where interest and needs are highest, so to prepare a project with high added value.”

“With an advisor as partner in the Operational Group project, broad practical knowledge and application potential can come in. The advisor can give a view on the various farm situations they encounter with their clients. Knowing such conditions will help guide the Operational Group to the best solution to be developed, which is particularly important for increasing the application potential for the project results.”

“Advisors can also act as ‘multipliers’ for bringing the Operational Groups’ experiences to a broader group of farmers during the actual project period. They can involve other farmers for instance in farm visits, discussion groups or demonstration events. Of course, advisors also often already have their own established dissemination channels that can be used to disseminate the results after the project is finished.”

One of the new tasks of the National Rural Networks in the 2014-2020 period will be to network advisory services and innovation support services and unleash all this potential.

Tom Kelly is Chairman of the European forum for rural and agricultural advisory services (EUFRAS) and President at Teagasc in Ireland. He agrees that advisors are well placed as innovation brokers stating that, “Farm advisers are very close to the

action when it comes to supporting innovation at farm level. They have a strong relationship built on trust which enables them to act as brokers bringing together farmers and other actors who can help each other.”

“Many advisers are ideally positioned to set up and join groups dealing with technical, financial, social, environmental or market-related issues and problems.”

Tom Kelly, EUFRAS Chairman

“The way that each RDP is implemented can encourage the adviser to take a facilitation role in the set up and operation of groups. Also from within EUFRAS, examples and ideas for Operational Groups will help individual advisers (public and private and their organisations) to take this opportunity to help their clients,” concludes Mr Kelly.

See the EIP-AGRI web pages for more information about launching Operational Groups:
<https://ec.europa.eu/eip/agriculture>



Further advice and information inventory

Please note these links are for English language pages and further searches (particularly using the websites of the EU Institutions) may provide other language versions of the information.

FOCUS ON OUTCOMES

- Special Report No 12/2013 “Can the Commission and Member States show that the EU budget allocated to the rural development policy is well spent?” http://www.eca.europa.eu/Lists/ECADocuments/SR13_12/SR13_12_EN.pdf
- Special report no 23/2014: Errors in rural development spending: what are the causes, and how are they being addressed? <http://www.eca.europa.eu/en/Pages/DocItem.aspx?did=31291>
- Special Report No 05/2015 “Are Financial Instruments a successful and promising tool in the rural development area?” http://www.eca.europa.eu/Lists/ECADocuments/SR15_05/SR15_05_EN.pdf
- Results-based agri-environment payment schemes (handbook and examples): http://ec.europa.eu/environment/nature/rbaps/index_en.htm

SIMPLIFICATION

- Simplification of the CAP: http://ec.europa.eu/agriculture/simplification/index_en.htm
- Study on administrative burden reduction associated with the implementation of certain Rural Development measures (July 2011): http://ec.europa.eu/agriculture/analysis/external/rd-simplification/summary_en.pdf
- Special Report No 12/2013 “Can the Commission and Member States show that the EU budget allocated to the rural development policy is well spent?” http://www.eca.europa.eu/Lists/ECADocuments/SR13_12/SR13_12_EN.pdf
- Special report no 23/2014: Errors in rural development spending: what are the causes, and how are they being addressed? <http://www.eca.europa.eu/en/Pages/DocItem.aspx?did=31291>
- State Aid rules for agriculture and forestry and in rural areas: http://ec.europa.eu/agriculture/stateaid/index_en.htm
- EU guidance on Simplified Cost Options http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/simpl_cost_en.pdf

REDUCING ERRORS

- Commission Staff Working Document on the assessment of root causes of errors in the implementation of rural development policy and corrective actions: http://www.europarl.europa.eu/RegData/docs_autres_institutions/commission_europeenne/swd/2013/0244/COM_SWD%282013%290244_EN.pdf
- Protection of the European Union’s financial interests - Fight against Fraud Annual Report 2013: http://ec.europa.eu/anti_fraud/documents/reports-commission/2013/2_statistical_evaluation_of_irregularities_reported_part1_en.pdf
- Special Report No 12/2013 “Can the Commission and Member States show that the EU budget allocated to the rural development policy is well spent?” http://www.eca.europa.eu/Lists/ECADocuments/SR13_12/SR13_12_EN.pdf
- Special report no 23/2014: Errors in rural development spending: what are the causes, and how are they being addressed? <http://www.eca.europa.eu/en/Pages/DocItem.aspx?did=31291>
- Special Report No 05/2015 “Are Financial Instruments a successful and promising tool in the rural development area?” http://www.eca.europa.eu/Lists/ECADocuments/SR15_05/SR15_05_EN.pdf
- State Aid rules for agriculture and forestry and in rural areas: http://ec.europa.eu/agriculture/stateaid/index_en.htm
- European Organisation of Supreme Audit Institutions (EUROSAI): <http://www.eurosa.org/en/about-us/about-eurosa/index.html>
- DG AGRI’s anti-fraud policy: http://ec.europa.eu/agriculture/cap-funding/anti-fraud/index_en.htm

- EU guidance on Simplified Cost Options
http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/simpl_cost_en.pdf
- EU guidance on public procurement: http://europa.eu/youreurope/business/public-tenders/rules-procedures/index_en.htm and http://ec.europa.eu/internal_market/publicprocurement/index_en.htm
- Rules for contracting authorities/entities: http://ec.europa.eu/growth/single-market/public-procurement/index_en.htm

FINANCIAL INSTRUMENTS

- Financial instruments in ESIF programmes 2014-2020 - A short reference guide for Managing Authorities
http://ec.europa.eu/regional_policy/en/information/publications/guides/2014/financial-instruments-in-esif-programmes-2014-2020-a-short-reference-guide-for-managing-authorities
- Special Report No 05/2015 "Are Financial Instruments a successful and promising tool in the rural development area?"
http://www.eca.europa.eu/Lists/ECADocuments/SR15_05/SR15_05_EN.pdf
- EAFRD programming information for Financial Instruments: Title IV of Regulation (EU) No 1303/2013:
<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32013R1303>
- Reference guide for Managing Authorities on Financial Instruments in ESI Fund programmes:
http://ec.europa.eu/regional_policy/thefunds/fin_inst/pdf/fi_esif_2014_2020.pdf
- Ex-ante assessment methodology for Financial Instruments:
http://ec.europa.eu/regional_policy/thefunds/fin_inst/index_en.cfm
- Ex-ante assessment methodologies for Financial Instruments – Training for Managing authorities – June 2014:
http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/ex_ante_training.pdf
- Ex-ante assessment methodology for Financial Instruments aimed at enhancing the competitiveness of SMEs, including agriculture, microcredit and fisheries http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/ex_ante_vol3.pdf
- Fi-compass advisory services on Financial Instruments under the ESI Funds: <http://www.fi-compass.eu>
- Financial Instruments in 2014-20: learning from 2007-13 and adapting to the new environment: http://fi-compass.eu/sites/default/files/publications/Financial%20instruments%20in%202014_20_learning_from_2007-13%20wishlade_and%20michie_0.pdf
- Diagrams explaining how to calculate leverage examples of different Financial Instruments types (Loans, Equity, Guarantee) are in Annex II of the ECA Special Report No 2/2012 — Financial Instruments for SMEs co-financed by the European Regional Development Fund: http://www.eca.europa.eu/Lists/ECADocuments/SR12_02/SR12_02_EN.PDF
- Multi-region assistance for the assessment of the potential use of Financial Instruments supported by ESI Funds:
http://ec.europa.eu/regional_policy/sources/tender/doc/propositions/2015_16_bgt_001/qa_guide.pdf
- State Aid rules for agriculture and forestry and in rural areas: http://ec.europa.eu/agriculture/stateaid/index_en.htm

OPERATIONAL GROUPS

- EIP-AGRI homepage: <http://ec.europa.eu/eip/agriculture/>
- EIP-AGRI Brochure on Operational Groups: Turning your idea into innovation:
<https://ec.europa.eu/eip/agriculture/en/content/eip-agri-brochure-operational-groups-turning-your-idea-innovation>
- EIP-AGRI seminar on launching Operational Groups: <https://ec.europa.eu/eip/agriculture/en/content/eip-agri-seminar-launching-operational-groups-and-eip-networking-rural-development>

GENERAL RDP IMPLEMENTATION

- EU rural development policy: http://ec.europa.eu/agriculture/rural-development-2014-2020/index_en.htm
- RDP legislation including Implementing and Delegated Acts:
http://ec.europa.eu/agriculture/rural-development-2014-2020/legislation/index_en.htm
- ENRD structures: <https://enrd.ec.europa.eu/en/general-info/whos-who>

ENRD PUBLICATIONS

Keep up to date with all the latest news, views and developments in European rural development by reading the various ENRD publications.

These are available on the Publications section of <http://enrd.ec.europa.eu> or you can subscribe by emailing subscribe@enrd.eu.

For further information write to info@enrd.eu.

EU RURAL REVIEW

The EU Rural Review is the ENRD's principal thematic publication. It presents the latest knowledge and understanding of a particular topic relevant to rural development in Europe. Themes range from rural entrepreneurship and food quality to climate change and social inclusion. It is published twice a year in six EU languages (EN; FR; DE; ES; IT; PL).

No.19 – Improving stakeholder involvement



No.18 – Organic Farming



No.17 – Family Farming



EAFRD PROJECTS BROCHURE

The ENRD publishes brochures presenting good and interesting examples of EAFRD-funded projects. Each edition highlights successful project examples around a particular rural development theme. The brochures aim to showcase the achievements of the EAFRD and inspire further projects. They are published in six EU languages (EN; FR; DE; ES; IT; PL).

RURAL CONNECTIONS

Rural Connections is the European Rural Development Magazine. Produced by the ENRD, Rural Connections presents individual and organisational perspectives on important rural development issues, as well as stories and profiles of rural development projects and stakeholders. The magazine also updates readers on the rural development news they may have missed from across Europe.

NEWSLETTER

All the latest rural development news from Europe - delivered straight to your inbox once a month! The ENRD Newsletter provides quick bite-sized summaries of emerging issues, hot topics, news and events about rural development in Europe.

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by contacting the Europe Direct service (http://europa.eu/europedirect/index_en.htm) or
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(* The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

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ENRD online

ENRD Website

Visit the ENRD website <http://enrd.ec.europa.eu> for all you need to know about the ENRD and rural development in Europe. Find the latest news and updates on rural development policy and programmes and access specific tools including:

- **Rural Development Gateway 2014-2020** — understand what is new in the 2014-2020 rural development programming period.

- **RDP Projects Database** — find interesting examples of good rural development projects funded by the EAFRD.
- **LEADER Gateway** — a one-stop-shop of tools and information on the LEADER local development method.
- **Communicating Rural Development Gateway** — get inspired with this database of good communication practices.

ENRD Social media

Find the right social media channel for you:

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Watch videos on rural development projects and thematic issues on the **EURural YouTube** channel.



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Join the **ENRD LinkedIn group** for debates, exchange and discussion around rural development policy and implementation issues.



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