**SPECIAL REPORT 5/2010**

# IMPLEMENTATION OT THE LEADER APPROACH FOR RURAL DEVELOPMENT

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***What is the report about?***

Leader is a method to achieve the objectives of the EU's rural development policy through bottom-up implementation rather than the traditional top-down approach. Compared with traditional methods of funding, the Leader approach involves higher costs and risks, owing to an additional layer of implementation, and giving the control of the EU budget to a multitude of local partnerships (LAGs: local action groups).

The justification for Leader's additional costs and risks is the added value that should flow from the bottom-up and partnership approach - such as better identification of local needs and local solutions, more engagement on the part of local stakeholders and greater scope for innovation.

The Court examined whether the Leader approach has been implemented in ways that add value, while minimising the risks to sound financial management.

***What did the Court conclude?***

*This report highlights three main conclusions*

***The first one is that: LAGs have implemented the Leader approach in ways that limit the potential for added-value in terms of the 'Leader features', although the Court found examples of good practice***

The LAGs audited implemented around 1 000 projects in the Leader+ period that were of benefit to the local businesses and communities concerned. But Leader is about more than this: it should achieve added value compared with traditional programs through following a specific approach. To the extent that the key features of the Leader approach are not fully followed, the potential added value of the approach cannot be achieved.

The bottom-up approach was limited in the LAGs that gave the majority of the grants to their own member organizations; the potential added value of a partnership was not achieved in LAGs where the decision-making was dominated by the local authorities; few LAGs could demonstrate innovation or interaction between different sectors in their strategies or projects. Yet there were some examples of LAGs that really involved the local community and of initiating successful local projects through their 'animation' activities.

Local strategies should be at the heart of the Leader approach, giving the partnerships their *raison d'être* and promising an added value through local solutions tailored to achieve the local rural development objectives. In practice, the strategies were almost irrelevant and served as little more than an application to the managing authority for funding. None of the LAGs monitored or reported on their performance in achieving their strategy objectives.

***The second one is that LAGs did not have due regard to the need for fair and transparent procedures or efficiency***

LAGs have not taken sufficiently seriously the need for transparency, for documentation of the project assessment and selection decisions and for procedures to avoid all risks of direct or indirect conflict of interest. This not only increases the risks that grant decisions will be made without due regard to efficiency, it also creates a reputational risk for the EU. The practices observed in some LAGs, such as grant decisions being made by a handful of people and to their own organizations, are likely to be to the detriment of local governance rather than enhance it.

LAGs have not taken account of efficiency, particularly in awarding grants for projects that were already underway, or even completed, before the grant decision was made. In some cases, their objective appears to have been to spend the maximum amount possible, rather than to achieve the maximum results possible.

The costs of implementing Leader are substantial, due to the additional implementation layer: up to a third of the LAG's budget in addition to the managing authorities and paying agencies' costs of processing, monitoring and control. Inflexible procedures - even for very small projects - and delays limited efficiency, although, to a large degree, these resulted from the Member States' requirements.

***The third one is that, both the Commission and Member States were not sufficiently demanding and share some responsibility with the LAGs for limiting the potential added value of the Leader approach. They have not taken sufficient action to limit the costs and risks***

The LAGs bear the main responsibility for achieving the Leader added value and sound financial management, but the risks are well known. The Commission and Member States share responsibility for supervising the LAGs' performance and ensuring that they follow the Leader approach and consistently achieve the highest standards of sound financial management. Poor performance in these respects should not be tolerated, even in the Member States implementing Leader for the first time, as the lessons of the previous programming periods should have been learned.

However, ten years after the Court's previous audit of Leader, the same serious weaknesses persist. The Commission responded to the observations in the Court's 2000 Annual Report with '*encouragement*', guidance and recommendations to the Member States. This has not proved effective.

***So how does the Court think the system can be improved?***

***The Court, in this report makes 6 recommendations to improve the situation***

***Recommendation 1***

In view of the persistent weaknesses, the **Commission** should ensure that the legislation provides sufficient clarity on the standards required in the specific case of Leader. A few simple requirements at EU level may replace the need for divergent operating rules at programme level, simplify procedures, improve consistency and provide clear control standards in the following areas:

(a) Exclusion of projects started before a grant decision has been made, to eliminate a major risk of inefficiency (deadweight).

(b) LAGs' selection of projects to be based on documented assessments that demonstrate the soundness and fairness of the decision in terms of consistent and relevant criteria.

(c) Rules to ensure that the partnerships are not dominated by the local authorities at project selection meetings.

In addition, **Member States** should ensure that effective procedures are in place concerning the weaknesses identified in this report, and that the correct operation of these procedures is supervised.

In particular, the Commission and Member States have tolerated the situation where LAGs do not have effective procedures to avoid conflicts of interest. The weaknesses observed highlight the risk that the LAG members may have directly or indirectly influenced the decisions in a way that resulted in an ineffective or inefficient use of the EU budget.

***Recommendation 2***

The Financial Regulation prohibits any action that may result in a conflict of interests. In view of this, the **Commission and Member States** should ensure that effective safeguards are in place, and check that they operate correctly. Members of the LAG's project assessment or decision-making committees with any personal, political, professional or business interest in a project proposal should make a written declaration of the interest. They should be absent from any discussion, assessment or decision on the project and the matter should be referred to the Managing Authority in accordance with the Financial Regulation.

Fundamental to Leader is the bottom-up identification of local solutions to local problems, yet all but one of the Managing Authorities audited have imposed a *de facto* top-down system for the 2007-2013 period. These Managing Authorities require LAGs to implement the common rural development program measures, contrary to the Commission's guidance. This may make Leader easier to control, but limits the scope for innovative *local* strategies and hence limits the potential added value that justifies the Leader approach[1].

***Recommendation 3***

The **Commission** should review with the **Member States** whether the existing measures constrain the LAGs' ability to design and implement innovative, multi-sectoral, *local* strategies to achieve the objectives of Axes 1-3 of the rural development policy. Member States should amend their rules as necessary to allow LAGs to develop local solutions that do not correspond to the rural development programme measures.

1. In shared management it is not the Commission's role to approve all details of national and regional implementing arrangements, but before having approved the 2007-2013 programs the Commission should have ensured that key elements to the success of Leader (see below) were in place. Member States selected LAGs with weak strategies. As a result, the EU budget is being implemented in the 2007-2013 period in a way that is less efficient, less effective and with less potential added value than could have been achieved.

***Recommendation 4***

**The Commission** should ensure that **Member States** review the LAGs' 2007-2013 strategies and require the LAGs to set measurable objectives, specific to their local area, that can be achieved by the Leader programme in the remainder of the period. The Member States should then require LAGs to account for achieving their local strategy objectives, for achieving added value through the Leader approach, and for the efficiency of the grant expenditure and the operating costs.

**Member States** should further consider whether this increased accountability for sound financial management would allow the existing management, supervision and control systems to be streamlined, with less need for checking compliance with eligibility conditions for measures.

***Recommendation 5***

In view of its responsibility to ensure the sound financial management of the EU budget, the **Commission** should check future programmes in sufficient detail for the specific elements that are fundamental to the added value, effectiveness and efficiency of Leader.

**Member States** should ensure in future that LAGs correct any weaknesses identified in the selection process such that LAGs have strategies and implementation plans of the highest standard.

***The Commission and Member States cannot demonstrate the added value achieved from implementing the Leader approach and have not evaluated the additional costs and risks involved***

2. The EU budget contributed over 2 billion euro to Leader+ and has programmed over 5 billion for the 2007-2013 period. The Commission has not yet demonstrated the effectiveness or efficiency of the expenditure, the added value achieved through following the Leader approach, the extent to which the known risks have materialised or the real costs of implementation. Member States have not collected and validated the necessary information, so there is an insufficient evidence-base for evaluation. This audit has shown that the added value and sound financial management of Leader cannot be taken for granted.

***Recommendation 6***

The **Commission** should take urgent steps to ensure that it can account for the added value and sound financial management of Leader.

Monitoring should be directed towards indicators of the added value of the Leader approach, efficiency and effectiveness, rather than implementation. The data should be verified at source, at least on a sample basis. Given the scale and nature of Leader and the difficulties encountered thus far in obtaining relevant, comparable and reliable data, the Commission should consider more efficient and effective approaches, such as monitoring statistically-valid samples of LAGs in detail, through indicators, inspections and structured case studies with proper data verification by an independent evaluator.

**The Commission** should coordinate the **Member States** to ensure that the supervisory and control systems provide assurance on the fairness and transparency of procedures; comparable data on the costs; and complement the monitoring of effectiveness and efficiency.

***What's the major message you want to give?***

However, ten years after the Court's previous audit of Leader, the same serious weaknesses persist. The Commission responded to the observations in the Court's 2000 Annual Report with '*encouragement*', guidance and recommendations to the Member States. This has not proved effective.

Due the gravity of the audit findings, notably conflict of interest, dead weight, sound financial management weaknesses, poor quality of numerous project financed and low level of implementation of the programs, both the Commission, and Member State should review with critical eyes Leader program and push forward the implementation of the Court Special Report 5/2010 'recommendations.