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GUIDE FOR THE APPLICATION OF THE LEADER AXIS OF THE RURAL DEVELOPMENT PROGRAMMES 2007-2013 FUNDED BY THE EAFRD

Aims and structure of the guide

This guide has been written with the main aim to help Member States authorities to design the Leader Axis of their Rural Development programmes ("Axis 4 " designated under Articles 61 to 65 of Regulation (EC) N°1698/2005) and to start preparing for the selection of areas and groups; In this document the Commission provides a brief checklist of questions and some helpful examples that the Member States should consider in order to make a good proposal for the Leader Axis in their Programmes.

The measure "cooperation" under the Leader Axis is not covered by the present guidelines and will be the subject of specific guidelines as done under Leader II and Leader +.

This guide does not create any new legislative rules. It should be noted that, in any event, interpretation of Community law is ultimately the role of the European Court of Justice.

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Chapter I

Introduction.

Why a Leader Axis in rural development policy?

From 1991 to 2006, Leader I, Leader II and Leader+ have been conceived as a laboratory to encourage the emergence and testing of new approaches to integrated and sustainable development and to influence, complete and/or reinforce rural development policy in the Community.

The Leader initiative, after having experienced these three programming periods, has reached a level of maturity enabling Member States competent authorities and local action groups in rural areas to implement the Leader approach more widely in mainstream rural development programming.

This is why the Council Regulation N° (EC) 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) for the period 2007-2013 contains a fourth "Axis" called Leader Axis¹.

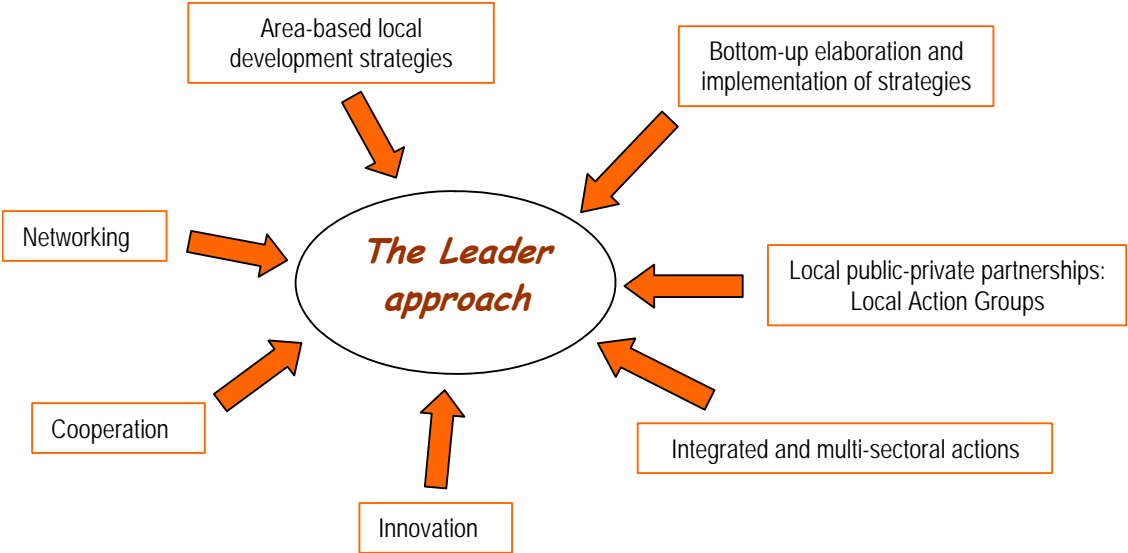
The crucial difference between Leader Axis and other Axes in this programming period of the EAFRD is not so much in the content of the actions. In fact, as we will see later, many of the actions carried out in Leader Axis will probably be similar to those implemented under the other Axes.

The main added value of Leader Axis is to be found in *the way in which these actions are implemented and linked together, both in and by, rural communities themselves.*

¹ OJ L277 of 21.10.2005

The seven key features of the Leader Method:

The seven key features of Leader



A series of suggestions is provided about how to ensure that rural areas really get the most value out of the Leader Axis in the rest of this guide.

Chapter II

Defining a strategy for rural areas using the Leader approach

To define the **context** for the Leader Axis it is suggested that the Member States address the following main questions:

What is the overall national strategy for the development of rural areas and what will be the main role of the Leader Axis in achieving this strategy?

Since the Leader approach no longer corresponds to a Community initiative it is up to the Member States to define its strategic role in rural development policy taking into account the Community strategic guidelines for rural development (Council Decision 2006/144/EC of 20 February 2006 published in OJ L 55, 25.2.2006 p 20).

In these strategic guidelines the overall strategic priorities specific to the Leader Axis is to build local capacity for employment and diversification:.

*"The resources devoted to the axis 4 (Leader) should contribute to the priorities of axes 1 and 2, and in particular of axis 3, but also play an important role in the horizontal priority of improving governance and mobilising the endogenous development potential of rural areas. Support under the axis 4 offers the possibility, in the context of a community-led local development strategy building on local needs and strengths, to combine all three objectives — competitiveness, environment and quality of life/diversification. Integrated approaches involving farmers, foresters and other rural actors can safeguard and enhance the local natural and cultural heritage, raise environmental awareness, and stimulate investments in and promotion of specialty products, tourism and renewable resources for energy."*²

Providing an overall vision for the Leader Axis is probably one of the most important steps in the design of a credible strategy. However, it is also one of the most complex and politically sensitive phases. This vision should bring together key stakeholders behind the programme - so it is highly advisable to involve them from the beginning in the elaboration of the programme.

This vision should lay down some broad principles about the role that the Leader approach can play in rural areas in the next programming period.

It is worth distinguishing between at least three main roles that Leader Axis can play: that of stimulating endogenous *local development*, that of increasing the organisational capacity of rural communities *governance* and that of breaking the vicious circle of decline still present in many rural areas by encouraging *innovation*. The importance given to these three aspects by each Member States affects both the strategy and the management of the Leader Axis.

² Point 3.4 of Council Decision of 20 February 2006, 2006/144/EC.

The Leader Axis as a tool for endogenous local development

One of the main advantages of bottom-up approaches is that they can mobilise more local resources for the development process. This happens both because local actors have a better knowledge of the resource opportunities available and because they have a greater sense of ownership and commitment to the projects.

Experience has shown that the bottom-up approach should not be considered as competing or opposed to top-down approaches from national and/or regional authorities, but rather as combining and interacting with them, in order to achieve better overall results.

The Leader Axis as a governance tool for building the organisational capacity of rural community

Leader local action groups have played a major role in bringing together all the public, private and civil organisations operating in a given territory and progressively creating the methods and knowledge of working together for common goals.

Leader has also forged a sense of local identity which goes *beyond* narrow village boundaries. The boundaries for many local government services have subsequently been reorganised to fit the territories built by the LEADER partnerships.

One aim of Leader Axis is to increase the organisational capacity of rural communities (reinforcement of the local management and project development capacity) . This tends to imply a fairly broad coverage of rural communities. (This is why certain countries will cover nearly all rural areas with Leader partnerships) It also means developing trust, long term structures, experience and expertise. This has a major impact on the importance given to the measure "acquisition of skills" and to the selection processes for the local action groups.

The Leader Axis as a tool for stimulating innovation

Leader can play a valuable role in stimulating new and innovative approaches to the development of rural areas. Such innovation is encouraged by allowing LAGs wide margins of freedom and flexibility in making decisions about the actions they want to support. This has a major impact on the design of the eligibility rules in the programmes.

The emergence of new project ideas might be stimulated when the LAG is not strictly bound by a fixed menu of measures.

Innovation needs to be understood in a wide sense. Innovation is not necessarily defined in terms of hi tech novelties. It is simply seen as finding new solutions to an areas needs. In this sense every area, no matter, how undeveloped can benefit from an innovation strategy adapted to its most pressing problems. Innovation may mean the introduction of a new product, a new process or a new organisation or a new market. This common definition of innovation is valid for rural as well as urban areas.

However, several rural areas, because of their low density and relatively poor level of human and physical resources, have weaker linkages with research and development centres and may find it difficult to produce radical innovations although this would be possible.

Innovation in rural areas may imply the transfer and adaptation of innovations developed elsewhere, the modernisation of traditional forms of know-how, or finding new solutions to persistent rural problems which other policy interventions have not been able to solve in a satisfactory and sustainable way. This can provide new responses to the specific problems of rural areas.

If the Leader Axis is used primarily as a tool for stimulating innovation it will probably be better to be more rigorous in the selection criteria and to focus on projects which stimulate transferable outputs rather than long term structures. Cooperation with other territories included in the local development strategy will certainly facilitate the transfer and adaptation of innovations developed elsewhere.

Strategic Focus	Territorial implications	Implications for selection of partnerships
Endogenous local development	Broad territorial and/or population coverage. Focus on areas of greatest need	Prioritise local needs and the quality of the strategy to deal with it.
Governance	Broad territorial and/or population coverage. Cover as many areas as possible	Prioritise experience, quality of partnership, balanced representation, institution building.
Innovation	Narrow territorial and /or population coverage.	Prioritise innovatory capacity and ability to transfer ideas. Select the best.

(Source: Guide for the application of Axis 4 of the EFF³)

Other potential functions of the Leader Axis

In preparing their national strategies plans, Member States must ensure consistency in accordance with Article 2(1) of Regulation (EC) No 1974/2006. Moreover, as provided in the Community strategic guidelines. "Member States should ensure that synergies between and within the axes are maximized and potential contradictions avoided. Where appropriate, they may develop integrated approaches."⁴

³ Working Document of Directorate General for Fisheries and Maritime Affairs – European Commission 29 May 2006

⁴ Point 3.5 of Council Decision of 20 February 2006, 2006/144/EC.

The Leader approach is a tool to implement integrated schemes combining different economic sectors to develop a global approach in rural development, organising a coalition of rural actors and coordinating various support measures to create synergies between Axis 1, 2 and 3 (e.g. to promote quality food products in relation to tourism development). The horizontal Leader approach also enables objectives aimed at diversification, environment and quality of life to be brought together.

Leader is a tool that allows the development of an area-based approach at micro-regional level which takes the diversity of rural areas into account. The real advantage of a Leader approach lies in its greater ability to encompass the complexity of the territorial system, i.e. in view of rural infrastructures, common goods, local heritage, organisational, capacity, knowledge transfer, cultural enhancement etc.

The Leader approach is also a tool for solving local conflict between divergent interests in rural development (e.g. tourism development in environmental protected areas, farm or forestry competitiveness compatible with nature and water protection).

Chapter III

Designing the content of Leader Axis in the programme: Planning and resources

In parallel with the process of working out what *needs* to be done, described in the last chapter, Member States have to decide what *can* be done with available resources. This means answering a series of questions which are presented below.

To which thematic Axis should the Leader Axis be implemented?

The Leader Axis is a horizontal, methodological Axis, which will have to be implemented in one or more of the three thematic axes. In terms of content, choices will thus have to be made were the Leader method can be best applied.

One pragmatic approach would be to take into account past successful experience with Leader local development strategies using their scope of intervention and the result of evaluation. Later it will be always possible to modify the indicative financial table of the program indicating the share of Leader axis funding between the 3 axes (see extract of table below annexed to the Commission Regulation (EC) N°1974/2006 laying down detailed rules for the application of Council Regulation (EC) N° 1698/2005). The distribution key of Local development strategies towards the 3 axes (4.1) applies also to cooperation (4.21) and running costs, skills acquisition and animation. (4.31)

4.1 Local development strategies:
• 411.Competitiveness
• 412.Environment/land management
• 413.Quality of life/diversification
4.21 Cooperation:
4.31 Running costs, skills acquisition, animation

The evaluation study "Methods for and success of mainstreaming Leader innovations and approach into rural development programmes" ⁵ commissioned by DG Agriculture and rural development defined the concepts of "strategic vertical/top down mainstreaming" and of "mainstreaming on demand"

The current process is a "strategic top down mainstreaming" since it started from the Community level before being translated into national priorities in national strategy plans. It is then implemented at local level. "Mainstreaming on demand" means that mainstreaming can also be induced from bottom-up, through political statements/declarations made by local and regional stakeholders, who convey a demand of local people and institutions (e.g. municipalities): mainstreaming on demand occurs after first, successful experiences with Leader-like approaches, which should be intensified in the view of local stakeholders.

A real bottom up approach followed by certain Member States to prepare their next programming period is to apply the model of "mainstreaming on demand", it means leaving

⁵ Final report by ÖIR – Managementdienste GmbH
Vienna, 19 April 2004

the possibility to apply the Leader method to the three Axes and to let the LAGs define the scope of their local development strategies.

A more top down approach would mean to exclude in the programme one or two axes.

Should innovation be included in the programme?

Innovation is not mandatory at LAG level but must be included in the programme as an operational objective of the Axis; the "implementation of innovative approaches" is an element of the Leader approach as defined in Article 61 of Regulation (EC) N°1698/2005.

Innovation has to be included as a strategic theme (see Fiche 3 on Innovation in rural development strategies annexed to the Guidance Template "Establishing the National Strategy Plan"), possibly integrated ex-ante in the "integrated local development strategies" or be given a priority in the selection of the local development strategy..

What is likely to be the number of areas participating to the Leader Axis?

The programme must provide inter alia "the indicative number of LAGs and the planned percentage of rural territories covered by local development strategies."⁶

According to Article 37 of Regulation (EC) No 1974/2006, Member States or regions may opt to cover either their whole territory or part of it by adapting accordingly the criteria for selecting the local action groups and the areas they represent.

If the objective of the Member State is to cover only a part of its rural territory it means a stronger competition between LAGs since any rural local partnership must have the possibility to submit a local development strategy. Selection criteria might for instance include socio-economic criteria to give a preference to disadvantaged areas or give a strong priority to qualitative criteria related to the strategy and the organisation of the Local action group (see Article 37(1) of Regulation (EC) No 1974/2006).

In the case where the Leader approach is expected to be implemented in the whole territory of the programme selection will take place mainly on the basis of administrative/eligibility criteria (Article 62 of Regulation (EC) N°1698/2005). As to selection criteria, see also Article 37(4) of Regulation (EC) No 1974/2006.

As said before if one of the main strategic aim of the Leader Axis is to improve the governance of rural policy its implementation will imply a broader coverage of rural communities compared to the previous programming period. A way to measure the improvement in local governance could be that Member States indicate in their programme the increase in geographical and population coverage and in the expected number of selected local action groups compared to the previous programming period.

How will rural communities be prepared for implementing local development strategies?

⁶ Point 5.3.4.1. of Annex II of Regulation (EC) No 1974/2006.

Even where there is locally already some experience in Leader, it is important to ensure that the local action group is well prepared for its role.

One of the first tasks of the national rural network funded under technical assistance⁷, will be to prepare training programmes for local action groups in the process of formation⁸. It is recommended that national rural networks should be in place soon after the adoption of the programmes although the deadline for this is the 31 December 2008 in accordance with Article 41(4) of Regulation (EC) No 1974/2006. If the network is only established at the end of 2008, the sub-measure "acquiring skills" under Article 63 c) of Council Regulation (EC) No 1698/2005 will preferably be used from the start of the programming period to help local groups to organise themselves and prepare the local development plan using a short period (e.g. 6 months to 1 year). Eligible operations are according to Article 59 of Council Regulation (EC) No 1698/2005:

- (1) At national level through training bodies as beneficiaries :
 - the training of staff involved in the preparation and implementation of a local development strategy;
 - promotional events and the training of leaders;
- (2) At local level through the local communities, local development agencies, local partners associated through agreement or already established LAGs as beneficiaries :
 - studies of the area concerned including the analysis of a potential local strategy;
 - measures to provide information about the area and the local development strategy;

In Member States having established Leader+ National Network Units technical assistance can be provided by these structures to the LAGs for the preparation of the new local development strategies (e.g. Netherlands); this can be done before the new rural development network unit is in place.

At LAG level it is important to ensure that there is a smooth transition from the capacity building to the implementing phase and that enough time is left for the latter. This is why as a general rule calls for proposals for the selection of rural areas for the implementation of local development strategies have to be organised within two years after the approval of the programmes.⁹

It should be mentioned that acquisition of skills according to Article 63c) of Council Regulation (EC) No 1698/2005 should be also available during the implementation phase of local development strategies for training actions on issues like LAG management, self evaluation, monitoring etc..... It is recommended that exchange of experience between LAGs

⁷ See Article 66(3) Regulation (EC) No 1698/2005.

⁸ See Article 68(2)(b) Regulation (EC) No 1698/2005.

⁹ See Article 37(2) Regulation (EC) No 1974/2006.

on the respective local development strategies, not eligible under cooperation where there is a requirement to have a joint action, should be eligible under acquisition of skills.

In summary, Member States should explain to the existing and potential LAGs how they plan to help the areas in preparing and implementing their development strategy (national network, seminars through other training bodies using the acquisition of skills, local capacity building, elaboration of the necessary financial and administrative documentation ...)

What will be the duration of implementation of local development strategies?

The duration left for the implementation of the local development strategies depends mainly on the calendar of the LAG selection procedure; National or regional programmes must indicate the timetable for selecting the local action groups.

Article 37(2) of Regulation (EC) No 1974/2006 provides that calls for proposals for the selection of rural areas for the implementation of local development strategies shall be organised no later than two years after the approval of the programmes. However, Member States or regions may organise additional calls for proposals, especially where Leader is open to new areas, in which case longer time limits may be needed.

It is therefore possible to organise one call or have two waves of projects at the beginning of the programming period. However, it should always be remembered that local development and capacity building is a long term process. Experience shows that concrete implementation of local strategies usually starts only from the 4th year of the programming period.

What types of projects can be funded under the local development strategies?

Detailed minimum general eligibility rules (conditions set at the Community level and at programme level according to Article 71(3) of Regulation (EC) n°1698/2005) will have to be respected;

"Award criteria" (selection criteria under Article 78 a) of Regulation (EC) n°1698/2005 set at programme level after consultation of the Monitoring Committee will also to be applied;

In addition, Local action groups are defining project selection criteria "local selection criteria" in relation to the specific priorities of their local development strategies; Since all selection criteria for financed operations have to be approved by the Managing Authority/Paying Agency after consultation of the Monitoring Committee, it is recommended to include these local selection criteria in the local development strategies; under this model local selection criteria will be approved under the selection procedure of local action groups.

According to Article 63 of Regulation (EC) N° 1698/2005 LAGs can undertake actions which fall under the scope of a EARDF measure or outside the scope of a measure within each Axis designated as applicable to the Leader approach under the programme.

It means that any operation within the scope of this designated Axis (competitiveness of agricultural and forestry sector, improving the environment or diversification of economic activities and improving the quality of life) is eligible. Within their responsibility, Member States must ensure coherence and consistency with other Community funds.

If properly justified, Member states have the possibility to exclude the application of certain measures from the Leader approach. This possibility of exclusion should concern measures applying only objective eligibility criteria defined at national level (e.g. Less favoured areas measure).

(1) Operations eligible within measures defined in Council Regulation (EC) N°1698/2005

In principle any territorial measure and several sector related measures can be implemented with the Leader approach (see conclusions of the DG Agriculture and Rural Development study "Methods for and success of mainstreaming Leader innovations and approach into rural development programmes."³ under point 5.2.3.2 : "sufficient examples showed that a broad range of agricultural measures, beyond the ones eligible under Article 33 (diversification) and 9 (training), can be integrated into Leader-type programmes, such as investments in farms, setting up of young farmers, marketing and processing, agri-environmental measures, and forestry beyond the extent to which this is already done in regional operational programmes...There are sufficient examples in ES, FI, FR, IT and UK showing that the strong mainstreaming of LEADER features embraces measures for developing farm businesses and for preserving the diversity of cultural landscapes. The inclusion of farm-targeted measures can produce material and immaterial benefits for the producers, land stewards, the rural society and the society as a whole..."

Measures can be implemented exclusively with the Leader Axis or implemented in addition to the normal top down delivery system (selection of projects by the Managing Authority)

If a project enters into the scope of application of one measure, its eligibility and selection conditions apply; Measure related conditions are defined at EU level (Council Regulation N°1698/2005 and/or by Regulation N°1974/2006) and at programme level (eligibility rules defined according to Article 71(3) of the Council Regulation). Horizontal conditions not specific to a measure also apply (e.g. state aid rules, contributions in kind)

Once included in a LAG's local development strategy approved by the Managing Authority, the measure is by definition included in the programme.

(2) Operations eligible outside the measure defined in Council Regulation (EC) N°1698/2005

Operations supported do not necessarily correspond to one of the rural development measures. This is important in order to maintain the experimental/innovative function of the Leader method. Horizontal conditions defined at Community level (e.g. state aid rules, contribution in kind...) and at programme level not specific to the measure apply. Objectives of the relevant Axis have to be respected and the demarcation line with other EU funds defined in the programme as well.

How will the budget per group cover the running costs of the group as well as the animation of the territory?

The programme must provide an indicative estimate of expenditure which will be used for running costs, skills acquisition and animation for the Leader Axis.¹⁰

- *The basic administration and financial management of the programme.*

In the implementation stage the local action group has the responsibility for selecting projects which meet the objectives of the local strategy. This means publicising information about calls for tender, designing selection criteria, analysing project proposals and selecting the projects.

In certain models of implementation (see Chapter V letter b) it means also certifying that the expenditure has been carried out according to the funding agreement and making payments to beneficiaries.

The minimum number of staff required for such functions is usually a qualified manager and an administrative assistant. The staff must be qualified and/or have experience in the administrative management of local projects and in certain models of implementation also in financial management.

Participation in the meetings of the National and European Networks should be an eligible expenditure under the running costs.

The running costs of the groups may not exceed a ceiling of the total public expenditure allocated to the local strategy, fixed in the implementing rule (20%).

- *Animation.*

Most local action groups consider that the main part and value of their work comes from animation activities. This includes informing, advising, training, capacity building and acting as a go-between to bring together the different stakeholders that make up their community. If they do not play this role only the strongest organisations, companies and areas will take part in the implementation of the local development strategy. This important part of their function consists of: animating the weaker members and areas of the community; providing them with the necessary technical assistance; teasing out new ideas that would otherwise not emerge, helping overcome the conflicts that exist in every community, creating a culture of working together for common goals, and forging a strong identity and image of the territory.

This requires additional resources and communication skills distinct from those needed for the financial and administrative functions mentioned above. The countries that have used Leader approaches to improve the organisational capacity and local development of their rural areas usually have locally a team of 4-5 people. Those local teams should dispose of both the economic and technical skills required for assessing and supporting the viability of local projects.

It requires time to train and build up the experience of a good local partnership and team.

¹⁰ Point 5.3.4.3. Annex II of Regulation (EC) No 1974/2006.

This is why many countries that have used Leader approaches to improve the governance and local development of rural areas argue that the partnerships and technical teams are key assets.

Should cooperation be included in the local development strategy?

Cooperation is not mandatory at LAG level but must be available for those LAGs willing to implement cooperation projects. The cooperation measure as the other Leader measures should be programmed.

Cooperation can be integrated ex-ante in the local development strategies and in old Member States has to be given a priority in the selection criteria for the local development strategy.

A Cooperation measure can also be directly implemented through selection procedures by the competent authority.

Chapter IV

The selection of the local action groups

What will be the selection criteria and procedures to be followed?

Selection procedure

The selection and setting up of the local groups and their corresponding territories and strategies is probably the most important phase of the entire programme. So it is important that the definition of selection criteria is not only seen as a simple administrative process but should correspond to the policy strategic objectives attributed to the Leader Axis in the programme.

Calls for proposals for the selection of rural areas for the implementation of local development strategies shall be organised no later than two years after the approval of the programmes. However, Member States or regions may organise additional calls for proposals, especially where Leader is open to new areas, in which case longer time limits may be needed.

Regulation (EC) N°1974/2006 states that the programme shall specify the procedures, the time table and the objective criteria for selecting the local development strategies. The advantage of already having in the programme precise objective selection criteria is that the call for tenders can be launched as quick as possible.

The Member States have a certain flexibility in adopting implementation models.

The procedures for selecting the local action groups must be open to all rural areas and ensure competition between the local action groups putting forward local development strategies.¹¹ In other words, the Member States must at least demonstrate that procedures are in place for the information of the stakeholders about the possibility of applying for Leader Axis and that the decision making process is clear to them. Information of rural communities should be as large as possible (publications, web sites, etc.).

The same selection criteria should apply to all LAGs in the programme to ensure the application of the principle of equal treatment.

Selection procedure under a national programme might include a regional selection phase to assess the consistency of the local development strategy with the regional development strategy under other policies or instruments. However, the same selection criteria should apply to all LAGs. This regional phase should precede a national final selection phase where a national selection committee carries out a comparative assessment of all applications.

The Managing Authority can envisage one call for interest with two submission deadline dates: a first date for areas with Leader experience which are ready to implement local

¹¹ Article 37 Regulation (EC) No 1974/2006.

development strategies and a later date for the areas where Leader+ is not yet implemented with a view to start local strategies from 2008.

The Managing Authority can also envisage two successive calls for proposals for each of these categories.

In areas with Leader experience in the programming period 2000-2006 (or 2004-2006 for the EU 10) transitional rules have to be respected: these LAGs will only start implementation of their new local development strategies when the former strategy is already closed in terms of legal commitments with beneficiaries. Special cases of old LAGs expanding their territory or the scope of their local strategy have also to be envisaged; they can start the implementation of the new strategy in the new territory while waiting for end 2008 (or for end of commitments/cut-off) in the old territory. If a new type of operation (new category of eligible recipient of payments or new domain of intervention) is included in the Local development Strategy, they may start being implemented in parallel with the previous strategy. A separate book keeping has to be respected. However, on the interest of a good financial management, it is recommended that a LAG has exhausted the financial allocation of the previous local development strategy before starting the implementation of the new strategy.

In new areas prior acquisition of skills (6 months to one year) is necessary before the submission of a local development strategy.

Once the selection is made a good administrative practice taken on the initiative of certain Member States is to sign a convention (contractualization) on the local development plan between the legal entity established by, or designated by the LAG and the Paying Agency and/or Managing Authority/. A local development plan summarizes the administrative arrangements proposed to put in place to deliver the agreed local development strategy.

Selection criteria

We can distinguish 3 categories of selection criteria: criteria related to the partnership, to the territory and strategy. Qualitative elements in addition to eligibility criteria can be required for each of these three elements (coherence of the territory, quality of the strategy, organization of the local action group....)

Article 62 of Council Regulation (EC) N°1698/2005 defines minimum selection criteria. They can therefore be supplemented by specific national criteria. So Member States can add additional criteria which specifically help them to select the best groups and areas for implementing their goals for local communities.

- Criteria related to the territory

The area covered by the strategy shall be coherent and offer sufficient critical mass in terms of human, financial and economic resources to support a viable development strategy (Article 62(3) of the Council Regulation (EC) N°1698/2005).

The coherence of the territory

The area must be sufficiently *coherent* from a geographical, economic and social point of view. The territorial approach adopted for the Leader Axis fundamentally changes the way in which local areas are perceived and defined. The territories are becoming territorial projects –

active, learning organisations which work together for a common goal. This approach changes the logic for defining the boundaries of LAGs areas. It is not recommended to start from fixed administrative boundaries, consider their needs and look for someone (usually from outside) to solve it. The cycle has to start with the actors in the territory, the definition of their needs, the identification of their potential and their strategy for the future. The precise boundaries of the territory depend upon who wants to do what with whom.

Criteria of Critical mass: What should be the size of the territories?

Regulation (EC) N°1974/2006 fixes the lower and upper limits for the LAG's area in flexible terms: "The population of each area must be as a general rule be not less than 5,000 and not more than 150,000 inhabitants. However, in properly justified cases, the limits of 5,000 and 150,000 inhabitants may be lowered or increased respectively." ¹²

If the Member State uses this derogation possibility a sound justification has to be presented in the programme. Small towns and peri-urban areas might be included in the territory but for Axis 4 the geographical targeting should not go beyond the delimitation of rural area given in the programme: According to Article 61 a) of Regulation (EC) No 1698/2005, Leader approach area-based local development strategies are intended for well-identified subregional *rural territories*.

As a reference the average population size of Leader+ local action groups is around 56 000 inhabitants over an average territory of 1.805 square kilometres; This however, hides large variations; the average number of inhabitants was over 70,000 inhabitants in countries like Ireland , the United Kingdom and Italy and below 40 000 in Spain, Austria, Belgium and Luxembourg. In Sweden and Finland average size is over 4,000 km² and below 500 km² in Belgium, Luxembourg and the Netherlands.

It is clear that the size of the territory should be adapted to the realities of each country (e.g. population density). In this sense, each Member State needs to take into account at least two aspects:

- The larger the territory - the greater the critical mass. There are more likely to be economies of scale in managing the programme and possibly (but not necessarily) the area may conform more closely to a functional (and sustainable) labour market area.
- The smaller the territory - the easier it is to connect with local people, increase local participation, and build organisational capacity as well as local identity. So since these are main aims of the Leader Axis the areas should not be too large.

Consequently, the main task for Member States is to strike a reasonable balance between the two aspects mentioned above, within the limits foreseen by Article 37(3) of the Implementing Regulation.

- **Criteria related to the partnership**

¹² Article 37(3) Regulation (EC) No 1974/2006.

The local action group must consist of either a group that qualified for the Leader II or Leader+ initiatives, or gained experience following the Leader approach, or a new group representing partners from the various locally based socioeconomic sectors in the territory concerned.¹³

At the decision-making level the economic and social partners, as well as other organisations representing the civil society, such as farmers, rural women and young people organisations, must make up at least 50 % of the local partnership. Here the aim is to achieve a balance between the socio economic composition of the area and the composition of the partnership.¹⁴

Leader action groups must be distinguished from local public-private partnerships under Article 59(e) of Regulation (EC) No 1698/2005, of Axis 3 established for local strategies applying only one or several measures of Axis 3 and where the minimal share of the private partners is not fixed at Community level.

The local action group must show an ability to define and implement a development strategy for the area, propose an integrated local development strategy and be responsible for its implementation¹⁵.

The Managing Authority shall ensure that the local action groups either select an administrative and financial lead actor able to administer public funds and ensure the satisfactory operation of the partnership, or come together in a legally constituted common structure the constitution of which guarantees the satisfactory operation of the partnership.¹⁶ The ability to administer public funds must be guaranteed. Some local groups may have this expertise within their organisations whereas, in other cases, it may be necessary to use one of the members of the partnership or an external body with the ability to manage public funds. The latter model, although understood for new LAG territories without experience in Leader, should not systematically be used in older LAGs

- **Criteria related to the local development strategy**

An integrated local development strategy must be based at least on the following elements (Article 61(a) to (d) and (g) of Council Regulation):

- area-based local development strategies intended for well-identified sub-regional rural territories;
- local public-private partnerships;
- bottom-up approach with a decision-making power for local action groups concerning the elaboration and implementation of local development strategies;
- multi-sectoral design and implementation of the strategy based on the interaction between actors and projects of different sectors of the local economy;
- networking of local partnerships.

¹³ Article 62(1)(b) Regulation (EC) No 1698/2005.

¹⁴ Article 62(1)(b) Regulation (EC) No 1698/2005.

¹⁵ Article 62(1)(a) and (c) Regulation (EC) No 1698/2005.

¹⁶ Article 62(2) Regulation (EC) No 1698/2005.

EU 15 Member States are obliged to seek to give a priority to the selection of local action groups which have integrated cooperation into their local development. A priority might also be given to the innovative strategies or other characteristics.

The fact that the LAG legal entity is implementing other EU funds (e.g. acting as a group under Axis 4 of the European Fishery Fund) should not be considered as an exclusion criteria. A clear separation of instruments (distinct partnerships; project selection committees; separate book keeping and delimitation between strategies) and a share of the common running costs are required.

Chapter V

How will the administrative, management and financial circuits be organised?

The evaluations of Leader Community Initiatives and Leader programmes/measures already mainstreamed show that if the administrative and financial circuits are not organised in an adequate manner then they can wipe out all the potential gains of the bottom-up integrated territorial approach.

The “centre of gravity” in the decision-making process should be local, where the main operations for implementing the Leader Axis have to be carried out. This can be called a decentralised governance context.

Programme administrative procedures and rules will satisfy final beneficiaries if they experience that the funding from the Leader Axis is more adapted to their needs than they could get through other instruments/programmes, if available (speed, flexibility and reliability); This depends on a number of factors.

a) *Whether the group is responsible for only selecting the projects*

In that case the eligibility check is made by the Paying Agency or Managing Authority or some other public body through delegation. According to the bottom-up principle this administrative check should *only* be a legality check on the eligibility of operations and not a quality assessment or opportunity assessment (relevance of the project for the local strategy). If there is an eligibility check it is useful to establish necessary clear simple rules and principles. These rules should be presented to the Monitoring Committee.

b) *Whether the group is also actually responsible for certifying and paying the final beneficiary or whether it just passes a recommendation to the Managing and Paying Authority*

There are two main models for certifying the expenditure and paying the final beneficiary:

A decentralised model where the group is directly responsible for the initial certification of completion of the projects and payment is the global grant system. The global grant is either held by the LAG itself or managed by a partner agency, which was either embedded in the LAG or acting independently from the local group.

Article 6(1) of Regulation (EC) No 1290/2005 lists the tasks to be carried out by paying agency and then states: “With the exception of the payment of Community aid, the execution of these tasks may be delegated”. Article 6(1) only refers to the “payment of Community aid”. In the area of rural development, where normally a single public subsidy co-financed by the Community and the Member State is paid out to the final beneficiary, that payment to the final beneficiary is not covered by Article 6(1) and, therefore, may be executed by the local action group. Only the reimbursement of the Community part of the subsidy to another authority or body must remain with the paying agency.

In cases where a Member State makes use of this possibility, the paying agency remains fully responsible for the legality and regularity of the entire underlying transaction, including protecting the financial interest of the Community, as well as for declaring the corresponding expenditure to the Commission and for preparing the accounts accordingly. The LAGs can for instance use an eligibility check - list which has been prepared by the Paying Agency corresponding to the relevant financial legislation. This check-list has to be filled in by the LAGs. The entire file has to be kept for control as long as foreseen in the relevant legislation. A global grant system of delivery is only fully operational if all the public funds are concentrated in one package (see below part of the degree of concentration of funding). If just the European funding is decentralised, whereas the LAG has to bid for the national co-funding for each project, the gain in flexibility would be annihilated. Global grant requires well coordinated management of financial flows.

A more centralised model is where the payment is made by the Paying Agency. The ultimate beneficiary presents its payment claim via the LAG to the Paying Agency (the LAG informs the Paying Agency that the payment can be made) or directly to the Paying Agency with copy to the LAG. The payment is executed by the Paying Agency directly to the ultimate beneficiary with copy to the LAG. The information of the LAGs is necessary for the monitoring and the evaluation of their strategy.

Both systems have been used for Leader+ LAGs. There are advantages and disadvantages with both methods. But much depends on the administrative practice and routine. For example, some authorities are able to make payment directly to the beneficiary very rapidly after receiving the documentation from the group without interfering in the decision. However, in other cases this involves a laborious process of double checking which considerably slows down procedures and diminishes the groups ability to take decisions and deliver results.

It is suggested that maximum delays for payments to beneficiaries, or for reimbursements to LAGs if applicable, should be introduced in the description of the financial circuits so that LAGs have a certain planning security and spending horizon.

The degree of concentration of funding streams has an impact on the duration of procedures. There are two possibilities:

- All public funds (EARDF and national public co-funding) are concentrated in or transit through one institution.
- EARDF and national public funds are managed by different institutions and have to be applied for separately

The more dispersed the funding streams, the more important are the coordination mechanism between the different implementing bodies.

Other financial issues

- *The size and speed of advances to the group*

Following the adoption of programme the CAP funding Regulation N° 1290/2005 limits advances from the Commission to 7% of the Community contribution to the relevant program, split into the 2 budgetary years 2007 and 2008 by 3,5% each.

Under Leader+ the Member State authorities are either redistributing a part of this advance to the LAGs or not. In the latter case this practice can cause major liquidity problems. In principle, there is nothing preventing the Paying Agency from making larger advances and/or interim payments to the local action groups.

- *Whether the group actually has to pay out the money before receiving payment.*

The Commission will not make a payment until it receives evidence that the beneficiary has actually been paid. If advances and interim payments are not sufficient to cover this, then a liquidity problem may occur. The question is whether it is up to the Local Action Group or the Paying Agency to solve this issue.

The experience with Leader+ is as follows: For example, in some programmes, Leader+ LAGs have to make the payment by contracting a loan. This has the advantage that they can pay the final beneficiary in a very short delay. On the other hand some local action groups have an important debt and interest rates are not eligible. In other programmes, the Leader+ group passes its certification up to the Managing and Paying Authority and waits for payment. This avoids liquidity problems for the Local action groups but the system can lead to delays in paying final beneficiaries. In these cases the Local action groups argue that many of the smaller more innovative projects have collapsed because of this and that they are losing credibility with their communities.

- *The speed of checking and certifying the documentation at each stage and the speed of transferring the funds.*

In some countries, Managing and Paying Authorities are well staffed and procedures extremely streamlined. However, in other countries with understaffed administration applying long and complex procedures, making use of the local groups' administrative and financial capacities can be a means of overcoming bottlenecks in the system that could put under threat, relationships with final beneficiaries.

To sum up, in designing the delivery system which is a main responsibility of the Member States authorities attention should be paid to the above mentioned administrative problems; Delivery system should remain simple and avoid unnecessary bureaucracy while applying the principle of a sound and rigorous management.