

Special Report

EU support for rural infrastructure: potential to achieve significantly greater value for money



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Special Report**EU support for rural infrastructure: potential to achieve significantly greater value for money**

(pursuant to Article 287(4), second subparagraph, TFEU)

The ECA's special reports set out the results of its performance and compliance audits of specific budgetary areas or management topics. The ECA selects and designs these audit tasks to be of maximum impact by considering the risks to performance or compliance, the level of income or spending involved, forthcoming developments and political and public interest.

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Reply of the Commission

CMEF (common monitoring and evaluation framework): EU-wide monitoring and evaluation framework for rural development in the 2007-2013 programming period.

CMES (common monitoring and evaluation system): EU-wide monitoring and evaluation system for rural development in the 2014-2020 programming period.

Complementarity: A deliberate counterpoint or synergy between two or more funds, when applied to a particular territory or field of action, intending to result in needs being better met than if only one fund was applied and avoiding funding gaps.

Demarcation: Separation lines between the EAFRD and other funds, based on geographical areas, types of projects supported or types of beneficiaries. Demarcation is intended to result in avoiding overlaps of funds.

Deadweight effect: A situation where a subsidised activity or project would have been wholly or partly undertaken without the grant aid.

EAFRD: European Agricultural Fund for Rural Development.

European Structural and Investment Funds (ESI Funds, ESIF): A new term for five EU funds providing support under cohesion policy in the 2014-2020 programming period. These five funds are: the European Regional Development Fund (ERDF); the European Social Fund (ESF); the Cohesion Fund (CF); the European Agricultural Fund for Rural Development (EAFRD); the European Maritime and Fisheries Fund (EMFF).

(Public) intervention: An action, such as an 'operation', 'measure', programme or project carried out by or funded by a public authority.

LEADER approach: A method to achieve the objectives of the EU's rural development policy through bottom-up implementation rather than the traditional top-down approach. 'Leader' is a French acronym for 'links between rural development actions'.

Managing authority: The local, regional or national body appointed by the Member State to submit a rural development programme to the Commission and then manage and implement it.

Measure: An aid scheme for implementing a policy. A measure defines the rules, such as eligibility and selection criteria, for the projects that can be financed.

Operation: A project, contract or other action financed under a 'measure'.

Outputs: Something that is produced with the resources allocated to an 'intervention'.

Programming period: Multiannual framework to plan and implement EU policies such as the rural development policy. This audit concerns mainly the 2007-2013 period. The current rural development period runs from 2014 to 2020.

Public procurement: Tender process to be followed by public bodies when purchasing goods, works and services above a certain price threshold. The aim is to obtain the best value offer by creating sufficient competition between suppliers and to award contracts in a fair, transparent and non-discriminating way, in line with Directives 2004/18/EC¹ and 2004/17/EC².

1 Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts (OJ L 134, 30.4.2004, p. 114).

2 Directive 2004/17/EC of the European Parliament and of the Council of 31 March 2004 coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors (OJ L 134, 30.4.2004, p. 1).

Reference prices: Prices for items of equipment, machinery, construction materials or building costs, labour costs, etc. against which the Member State authorities evaluate the project costs proposed in grant applications.

Results: The direct effects or changes that arise due to the 'intervention'.

Rural development programme (RDP): A programming document prepared by a Member State and approved by the Commission to plan and monitor the implementation of the EU rural development policy at regional or national level.

Rural infrastructure: The physical assets that support rural areas, such as roads, bridges, water supply systems, sewers, waste management facilities, electrical grids and telecommunications, but also public facilities such as schools, kindergartens, sports facilities and community centres, which are commonly referred to as social and cultural infrastructure.

Shared management: Method of implementation of the EU budget where the implementation tasks are delegated to the Member States³, while the Commission retains final responsibility.

³ Article 59 of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26.10.2012, p. 1).

I

For the 2007-2013 programming period, the Member States allocated 13 billion euro of EU funds to investments in rural infrastructure through four measures in their rural development programmes (RDPs). The EU funds are supplemented by national spending, which brings the total budget for these measures to almost 19 billion euro. The funding was provided to private and public beneficiaries, in order to boost economic growth, enhance the attractiveness of rural areas and improve their links with major infrastructures. The financed projects were mainly rural roads, water management schemes and social and cultural infrastructure.

II

The Court's performance audits assess whether the principles of sound financial management (economy, efficiency, effectiveness) have been applied, seeking to identify good practices in achieving the highest benefit with the EU funds available. For this particular audit, the Court examined whether the Commission and the Member States had achieved value for money with the rural infrastructure measures they decided to finance. Audit visits were made to the Commission and to five Member States, selected on the basis of the significance of the amounts allocated to rural infrastructure.

III

Even though the individual audited projects delivered their expected physical outputs and, in some cases, made a clear positive contribution to the rural areas, the Court found that the Member States and the Commission, acting through shared management, had achieved only limited value for money, as aid was not systematically directed towards the most cost-effective projects addressing the objectives set in the RDPs and there was insufficient information to demonstrate the success or otherwise of the measures.

This was due to the fact that:

- Member States did not always clearly justify the need for using EU rural development funds. Effective coordination with other EU, national, regional or local funds was often affected by weak demarcation lines and insufficient mechanisms to ensure complementarity. The risk of deadweight was not effectively mitigated, though some good practices were identified;
- selection procedures did not always direct funding towards the most cost-effective projects, the risk of excessive project costs was not effectively limited and the sustainability-related requirements did not take into account the useful life of investments. Long delays in the administrative processes, especially with regard to the approval of grant applications, also impacted the measures' efficiency and effectiveness;
- the monitoring and evaluation system did not produce adequate information. While the audited projects delivered the expected physical output, reliable information on what has actually been achieved with the public funds spent was often unavailable, making it difficult to direct future policy and manage the budget by results.

IV

The Commission did not offer sufficient guidance to Member States at the start of the 2007-2013 programming period. Since 2012, the Commission has adopted a more proactive and coordinated approach. If the changes are implemented properly, this should lead to better financial management in the 2014-2020 programming period. However, certain weaknesses concerning the coordination of funds and performance information are likely to persist.

V

The Court believes that significantly more can be achieved with the given financial resources and recommends that:

- (a) The Member States should have a coordinated approach for supporting rural infrastructure, which quantifies needs and funding gaps and justifies the use of the RDP measures. They should make better use of the existing coordination structures.
- (b) The Commission should build upon the first steps taken to ensure effective coordination and carry out a thorough assessment of the complementarity between the different EU funds to be used by Member States in the 2014-2020 programming period.
- (c) Member States should establish and consistently apply criteria to ensure the selection of the most cost-effective projects⁴, take into account the useful life of the investments when establishing the sustainability-related requirements and checks, and set a reasonable timeframe for processing grant and payment applications and respect it.
- (d) For the 2014-2020 period, the Commission and the Member States should collect timely, relevant and reliable data that provides useful information on the achievements of the projects and measures financed.
- (e) Member States should ensure that clear, specific objectives are set for the projects to which funds are committed.

⁴ See Special Report No 22/2014 'Achieving economy: keeping the costs of EU-financed rural development project grants under control' (<http://eca.europa.eu>).

The importance of rural infrastructure investments in the European Union

01

Rural areas face significant challenges, such as depopulation and a scarcity of economic opportunities. Good infrastructure (roads, water supply, sewerage systems, flood prevention systems, irrigation pipes, etc.) helps to boost economic growth and to increase the attractiveness of rural areas. The Community strategic guidelines, adopted by the Council in 2006⁵, identify the European Union's priorities under the European Agricultural Fund for Rural Development (EAFRD). The guidelines emphasised the importance to be attached to the upgrading of local infrastructure in the 2007-2013 programming period:

'Significant investment will be undertaken in major telecommunications, transport, energy and water infrastructure over the coming years. Considerable support will be available from the Structural Funds, ranging from trans-European networks to the development of connections to business or science parks. For the multiplier effect to be fully realised in terms of jobs and growth, small-scale local infrastructure, supported within rural development programmes, can play a vital role in connecting these major investments to local strategies for the diversification and development of agricultural and food-sector potential.'

Rural development support for infrastructure investments

02

Some 13 billion euro, amounting to 13.5 % of the total EAFRD funding, were allocated to infrastructure investments in the 2007-2013 programming period (see *Annex I*). The total public expenditure programmed by Member States in their RDPs, including national co-financing, was 19 billion euro, of which almost 12 billion euro had been spent by the end of 2013. Although 2013 corresponds to the end of the programming period, this is not the end of its implementation, which extends until 31 December 2015⁶. Taking into account the beneficiaries' own contributions, the total volume of investment is expected to reach nearly 29 billion euro.

03

The main measures chosen by the Member States to support infrastructure under their RDPs in the 2007-2013 programming period were the following:

- measure 125: 'Infrastructure related to the development and adaptation of agriculture and forestry';
- measure 321: 'Basic services for the economy and rural population';
- measure 322: 'Village renewal and development';
- measure 323: 'Conservation and upgrading of the rural heritage'.

The abovementioned measures will be referred to in this report as 'infrastructure measures'.

- 5 Council Decision 2006/144/EC of 20 February 2006 on Community strategic guidelines for rural development (programming period 2007 to 2013) (OJ L 55, 25.2.2006, p. 20) sets out the Community priorities for rural development, as required by Article 9 of Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 277, 21.10.2005, p. 1).
- 6 Under the 'N+2 rule', the Member States can incur expenditure for the 2007-2013 programmes until the end of 2015.

04

The EU rural development regulation applicable to the 2007-2013 programming period sets neither the maximum eligible amount nor the maximum aid rate for projects under these measures. Member States determine these elements in their RDPs, in accordance with EU state aid rules. The standard aid rates are usually high, and ranged from 70 % to 100 % in the RDPs audited. **Box 1** gives typical examples of the projects funded under each of these measures, which were mainly used by public beneficiaries, but were also open to private beneficiaries.

Box 1**Examples of projects funded by the rural infrastructure measures**

Farm roads in Italy (Sicily)
(measure 125, private beneficiary)
Eligible cost: 1 330 000 euro
Aid rate: 80 %



Extension of a day care centre in Germany (Saxony)
(measure 321, public beneficiary)
Eligible cost: 145 000 euro
Aid rate: 100 %



Box 1

Construction of a water supply and sewerage system in Romania (measure 322, public beneficiary)
 Eligible cost: 2 200 000 euro
 Aid rate: 100 %



Source: European Court of Auditors.

Restoration of a rural path for livestock in Spain (Extremadura) (measure 323, public beneficiary)
 Eligible cost: 120 000 euro
 Aid rate: 100 %



05

Depending on the measure under which they are supported, infrastructure projects should contribute either to the objective of improving the competitiveness of the agriculture and forestry sector (measure 125) or to the objective of improving the quality of life in rural areas (measures 321, 322 and 323). Infrastructure projects contributing to the same objectives could also be implemented following a bottom-up ('LEADER') approach⁷.

06

The regulatory framework for allocating EAFRD funding to infrastructure projects is based on shared management. Under this system, the Member States submit their RDPs for the Commission's approval. The Commission's role is to supervise the proper functioning of the management and control systems in Member States and ensure the respect of the principles of sound financial management⁸. Based on the approved RDPs, Member States select the projects to be funded.

- 7 A method to achieve the objectives of the EU's rural development policy through bottom-up implementation rather than the traditional top-down approach.
- 8 See Article 73 of Council Regulation (EC) No 1698/2005.

07

Figure 1 shows how funding is allocated to infrastructure projects. The different steps are intended to ensure that funding is directed to the projects that best match the overall policy objectives while meeting the needs and priorities established at Member State or regional level.

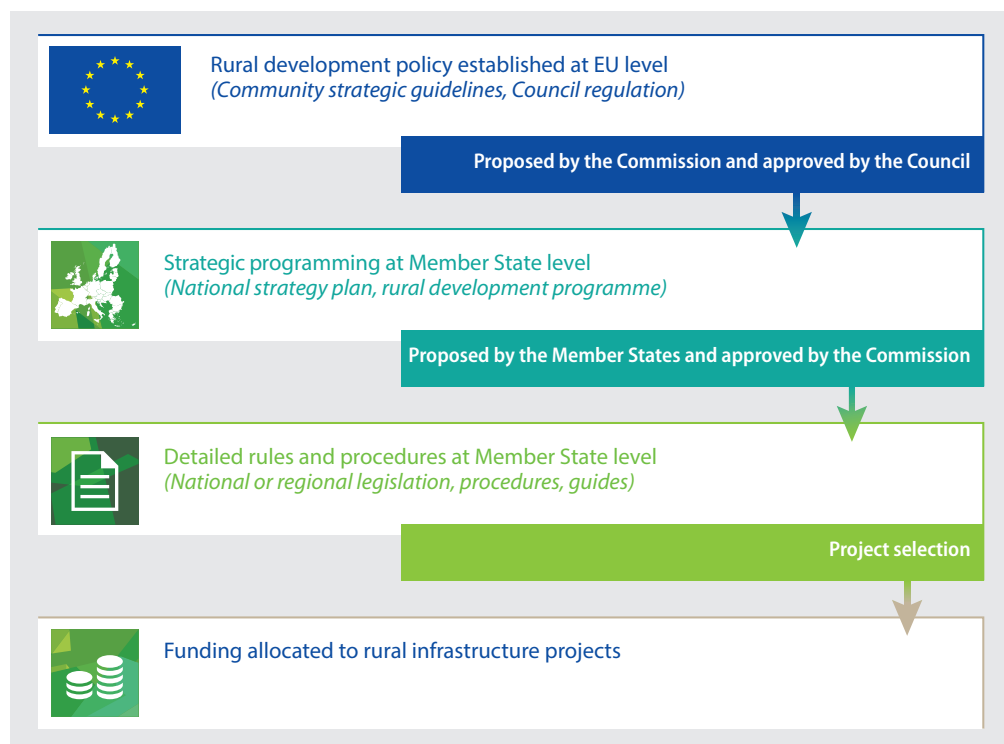
08

The EU regulation for the 2014-2020 programming period⁹ broadly retains the legal requirements set for the 2007-2013 programming period with regard to the audited measures and operations. Member States have earmarked more than 14.65 billion euro for infrastructure measures in the 2014-2020 programming period. Thus, the findings, conclusions and recommendations presented in this report are also relevant for the 2014-2020 programming period.

⁹ Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005 (OJ L 347, 20.12.2013, p. 487).

Figure 1

Regulatory framework for allocating EAFRD funding to projects



Source: European Court of Auditors.

09

The audit sought to answer the following question:

Have the Member States and the Commission achieved value for money with the support for rural infrastructure investments?

10

The Court assessed the justification of the need for EU funds for rural infrastructure and the coordination with other funds (Part I of the report). Several key aspects related to the Member States' implementation of the measures were further analysed: the application of selection criteria, the checks on the reasonableness of costs, the sustainability-related requirements and the timeliness of the administrative processes (Part II). The Court also assessed whether the results of the measures had been monitored and evaluated in such a way as to allow the Member States and the Commission to identify and respond to any problems which may have arisen, and to provide objective information on the results of the measures financed (Part III).

11

The audit, which was carried out between November 2014 and June 2015, concerns the design and implementation of the infrastructure measures in the 2007-2013 programming period. Where possible, the changes in place for the programming period 2014-2020 were also covered by the Court's assessment. Audit visits were made to the Commission and to five Member States, selected on the basis of the significance of the amounts allocated to rural infrastructure¹⁰. These Member States were: Germany (Saxony), Spain (Extremadura), Italy (Sicily), Poland and Romania.

12

The audit focused on infrastructure investments financed under measures 125, 321, 322 and 323. Projects financed using the LEADER approach were audited in Germany (Saxony) and Spain (Extremadura), as these two regions used this approach for significant infrastructure investments.

13

In terms of project types, the audit concentrated on rural roads, water management infrastructure and social and cultural infrastructure, as these are the main project categories supported under the relevant measures.

14

The audit analysed the systems used by managing authorities and/or paying agencies to implement support for infrastructure projects, as well as the key management information derived from Member States' control and monitoring activities. This entailed the examination of 48 project files, selected as a sample of infrastructure projects typical of those financed in the Member State concerned. Site visits, involving interviews with the beneficiaries, were made to 32 of these projects, while the remaining 16 project files were checked through a documentary review. More information about the projects visited can be found in **Annex II**.

10 See Annex I for detailed financial figures on programmed and realised expenditure per Member State.

Part I — Insufficient justification for using EU rural development funds and weak coordination with other funds

15

Infrastructure investments in rural areas can receive funding from several sources. At EU level, in addition to the EAFRD, the European Regional Development Fund (ERDF) and the Cohesion Fund may also finance rural infrastructure. The Member States often finance such projects from their own national, regional or local budgets, either through dedicated programmes (organised in a similar way to the RDP measures) or through the direct allocation of funds, for example through a specific budget line for road maintenance.

16

Furthermore, private beneficiaries may be able to cover at least part of the costs of some infrastructure projects, as they are the main users of investments such as rural roads and irrigation systems that are likely to improve their economic performance. For water supply and sewerage systems, some investment costs are normally recovered from the fees paid by users.

17

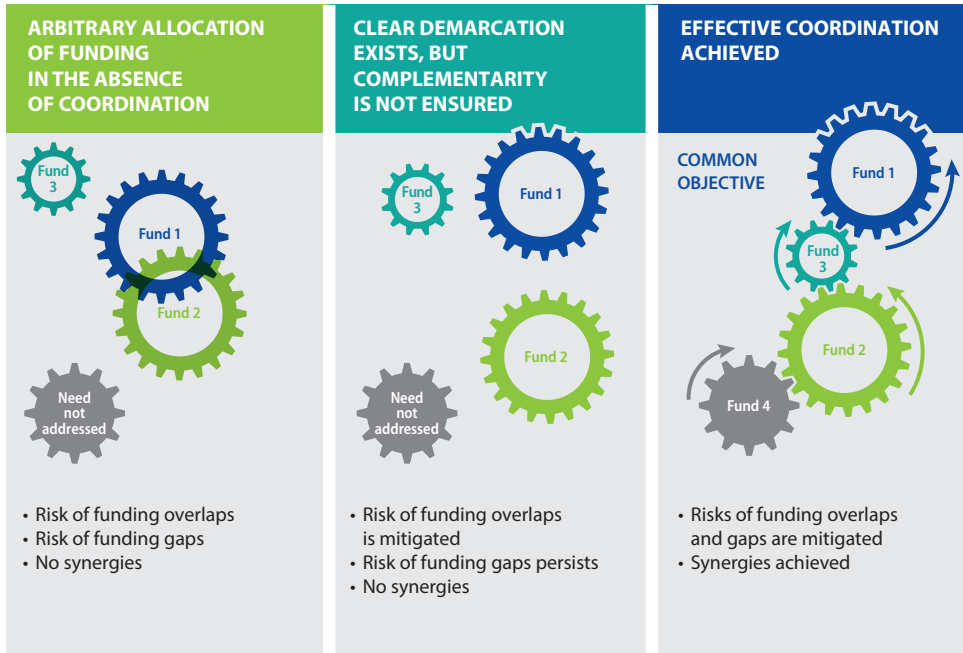
In order to achieve optimum value for money, Member States should identify the rural development needs and, from among these, the main priorities. After considering all possible interventions that could be financed by the various funds, Member States should decide strategically which funds are best suited to addressing needs and coordinate their use.

18

Funds can be coordinated effectively by setting demarcation lines (minimising funding overlaps) and ensuring complementarity (minimising funding gaps and encouraging synergies). Potential funding gaps in rural areas are particularly detrimental when they occur with infrastructure projects, given that infrastructure generally operates as a network of interconnected elements (e.g. roads, irrigation networks, water supply and sewerage, power grids), in which each element is important for the effective operation of the entire network. **Figure 2** shows a simplified example of how better coordination in a given sector or territory can lead to improved results.

Figure 2

Coordination of funds in a given sector or territory



Source: European Court of Auditors.

19

The implementing rules for the 2007-2013 EU rural development regulation required Member States to include demarcation criteria and information about complementarity with other EU funds in their RDPs¹¹, but there was no similar requirement with regard to the Member States' own funds and support programmes.

Member States did not always clearly justify the need for the EU rural development funds

20

A first step in justifying the need for EU rural development funds (RDP intervention) is to identify and quantify the need for investments in rural infrastructure. The audited RDPs explained why support was needed for infrastructure in rural areas. For example, the Polish RDP stated that 'some flood protection facilities only fulfil their tasks to a limited extent, and restoring their full technical capacity may require modernisation or rebuilding' and listed the facilities concerned (such as water tanks with a total capacity of 35 000 m³ and 180 pumping stations). However, in general, the audited Member States did not attempt to quantify these needs in terms of the financial resources required to address them.

11 Article 5(1) of Commission Regulation (EC) No 1974/2006 of 15 December 2006 laying down detailed rules for the application of Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 368, 23.12.2006, p. 15).

Observations

21

After assessing their investment needs, Member States should identify the resources available to address those needs (the existing EU funds, national, regional and local public funds, as well as private funds) and quantify the funding gap to be covered by EU rural development funds.

22

The RDPs of all the audited Member States referred to other EU funds supporting similar projects. This is a legal requirement, checked by the Commission before approving the RDPs. Other Member State or private funding sources addressing the same needs were, however, not mentioned or quantified. Only one RDP (Romania) referred to a national programme funding cultural establishments. Despite neglecting to mention them in the RDP, the audit found that the Member States actually had many public programmes and funds dedicated to rural infrastructure.

23

In the absence of a strategy which coordinates all the potential funding sources and quantifies needs and the resulting funding gap, the justification for RDP intervention is weak. In this instance, substitution of funds is more likely to occur, whereby Member State funds earmarked for infrastructure projects are replaced by RDP funds, thus entailing the risk of compromising the added value of the EU intervention.

24

In two of the Member States audited, there were indications that substitution of public funds had occurred (see **Box 2**).

Box 2

Indications of the substitution of national and regional funds with RDP funds

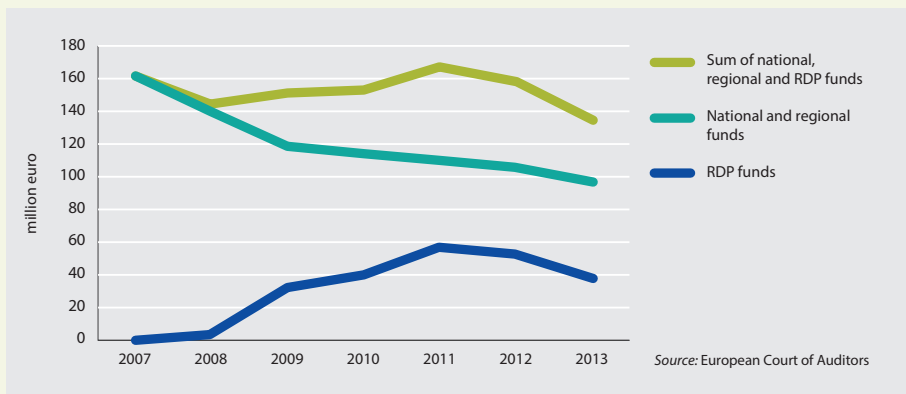
Italy (Sicily)

In 2000, when EU funds became available for road projects in rural areas, Italy (Sicily) cancelled its own budget for financing the maintenance of local and farm roads.

Germany (Saxony)

Since 2007, when RDP funds became available for rural road projects, the provision of national and regional funds for such projects has decreased substantially. As shown in the graph below, while the total funding allocated to rural roads has remained relatively stable at between 140 and 160 million euro per year, the decrease in the national and regional funds has been offset by an increase in RDP funding (see **Figure 3**).

Figure 3 — Allocation of funds for rural roads in Germany (Saxony)



The risk of deadweight was not effectively mitigated, though some good practices were identified

25

Just as entire budget lines can be replaced with the RDP measures, substitution of funds can occur at project level, without any additional effect on the outcome achieved. The risk of deadweight refers to the likelihood that a beneficiary would have undertaken the investment even without the grant funding. The primary means of reducing the risk of deadweight is to design the measures in such a way as

to direct RDP support to where there is a funding gap, for example to sectors or types of projects providing public goods but for which the financial returns are insufficient to justify the full costs of the investment.

26

The high aid rates set for infrastructure measures by the audited Member States were not backed by an analysis assessing the appropriate level of public funding needed to encourage investments while, at the same time, mitigating the risk of deadweight.

Observations

27

Only in Germany (Saxony), for the 2014-2020 programming period, did the Court find an economic rationale behind the setting of aid rates for measure 125. Following the recommendation arising from the 2010 mid-term evaluation to differentiate the aid rates under this measure on the basis of the profitability of the forest holdings, the managing authority decided to revise the aid rates from a standard 80 % for all holdings to a differentiated aid rate based on the size of the holdings, as a proxy for their profitability. Larger holdings (above 200 ha) would receive an aid rate of 75 %, while smaller holdings (up to 200 ha) would receive 90 %.

28

Still, the audit identified an example of good practice in directing RDP support to where it is most needed. Romania (under measure 322), Poland (under measures 321 and 322/323) and Italy (Sicily) (under measure 125) used selection criteria to prioritise projects submitted by communities with high poverty rates and/or located in remote areas (**Box 3** shows an example of this).

Box 3

Directing RDP support to poor areas

Romania

One of the selection criteria used under measure 322 assigned 10 out of a maximum of 100 scoring points to communes with high poverty rates (i.e., rates between 60 % and 89.6 %). Communes with a medium poverty rate (between 40 % and 59.9 %) obtained 7 scoring points, and those with a low poverty rate (< 40 %) obtained 5 points. Poverty was defined and calculated according to a methodology provided by the World Bank and the national authorities, based on the welfare of a household.

29

Member States can also mitigate the risk of deadweight through the project selection process, by checking, where appropriate before approving applications for support, whether the applicant had sufficient capital or access to capital to finance all or part of the project. The audit found that four out of the five Member States audited did not check the applicants' capacity to finance the projects from their own funds or other public programmes (see **Box 4**).

Box 4

Granting RDP funding to projects that had access to other funds

In **Italy (Sicily)**, one of the audited projects concerning public water infrastructure had already been included in the beneficiary's investment plan before the submission of the application for RDP support and was to be funded from the beneficiary's own resources. The project was nevertheless approved for RDP funding. Similarly, another water infrastructure project had already been approved for funding under the national irrigation plan at the time of its approval under the RDP. The RDP approval was subsequently withdrawn; nonetheless, these examples show that funds are used interchangeably and some of the projects would probably have been implemented even in the absence of the RDP funds.

In **Spain (Extremadura)**, an audited project with an estimated cost of 11 million euro involved the creation of a 145 km road network to improve the access to 1 629 agricultural holdings. Although the roads were likely to increase the value of the private land and the farms' economic performance, the authorities approved the project, granting a 100 % public aid rate, without checking whether the private beneficiaries could have borne part of the project costs. Similarly, an audited project of 1 million euro, involving the upgrade of an irrigation network to reduce water losses, received a 90 % aid rate without requiring the beneficiary (irrigation community) to demonstrate its need for such a grant with reference to its financial capacity and the profitability of the investment. The beneficiary might, for example, have been able to finance a greater part of the investment by increasing the tariffs paid by farmers for the water irrigation service¹² or through a loan. These examples show that the managing authority not only set very high aid rates of the measures without an economic justification but also did not verify at project level the actual need for such high aid rates.

¹² For similar findings, see Special Report No 9/2010 'Is EU structural measures spending on the supply of water for domestic consumption used to best effect?', in particular paragraphs 64 to 67, which state that 'Member States tend to maximise EU financial assistance by keeping tariff levels low'.

30

In Romania, an eligibility check was carried out to ensure that the RDP grant was needed. The check was applied in the case of revenue-generating operations, such as the provision of water supply and sewage services, supported under measure 322. However, in practice, the check had limited relevance, as it was based on unreliable assumptions regarding the future revenues and expenditure

associated with the operation of the infrastructure. For two of the three water infrastructure projects audited, the Court found that the actual tariffs paid by users were respectively seven times and nine times higher than the beneficiary's estimates indicated in the project documentation, which had been used to justify the need for support and received the approval of the authorities.

Observations

Effective coordination of funds was often affected by weak demarcation lines and insufficient mechanisms to ensure complementarity

The demarcation criteria set by Member States allowed overlapping of public funds for certain types of projects

31

As regards demarcation between the different EU funds, the audit showed that, although the Member States' national strategy plans and RDPs for 2007-2013 generally set out clear demarcation criteria, these were not always consistent with criteria from other programming documents and overlaps of funds were explicitly allowed in some cases:

- In Germany (Saxony), according to the RDP, the demarcation between the EAFRD and ERDF funds for school modernisation projects was based on the number of pupils: the EAFRD only financed schools of less than 350 pupils. However, the ERDF operational programme does not set a pupil threshold for eligible projects.
- In Italy (Sicily), while the RDP stated that the ERDF could only fund infrastructure projects in villages with more than 500 inhabitants, the ERDF operational programme itself did not mention this demarcation criterion. When visiting one of the audited projects, the auditors found that an ERDF-funded project had been carried out in a village of less than 500 inhabitants.

- In Poland, both the EAFRD and the ERDF allowed for the financing of infrastructure projects in rural areas. Smaller projects were primarily financed under the EAFRD, but could also be financed under the ERDF if applicants had reached their grant limit under the EAFRD (which varied, depending on the measure). 72 % of the sewerage infrastructure projects approved under the ERDF operational programme were implemented by the same beneficiaries that had used EAFRD funds for the same type of projects.

32

Moreover, there was no demarcation between EU rural development funds and Member State funds for rural infrastructure. There was no critical assessment of the arguments in favour of having several funds acting independently to provide support for similar projects, despite the fact that this led to a duplication of management structures and required a greater effort to ensure coordination between funds and avoid double funding.

Observations

Complementary actions were not actively promoted

33

Four out of the five audited Member States set up coordination bodies to supervise the spending of EU funds and in two Member States representatives of the managing authorities of other EU funds participated in the rural development monitoring committees. However, no evidence was available to show how this helped ensure better complementarity between funds, i.e. by filling funding gaps and operating in synergy in order to achieve common objectives. Although the term 'complementarity' was mentioned in Member States' RDPs and during high-level meetings, it was often misused to refer to demarcation and the rules aimed at avoiding double funding.

34

Complementarity could have been encouraged by, for example, using different funds to prioritise successive projects that build upon each other or parallel projects that complement each other in order to achieve additional benefits. The audit only identified one mechanism aimed at promoting complementarity in the Member States audited: in Romania, selection criteria used under measure 322 prioritised sewerage infrastructure projects that complemented projects supported under the Cohesion Fund with the aim to achieve the objectives of the waste water directive.

35

The common approach taken by Member States was to leave it up to the potential beneficiaries to coordinate their use of the different funds (see **Box 5**).

Box 5

An example of the alternate use of funds based on availability

Germany (Saxony)

A commune in Germany (Saxony) used several funds (national, own funds and RDP funds) to support the consecutive stages of a school renovation project from 2009 to 2011. The RDP funds were used for the same type of investment as the national funds, e.g. the replacement of school windows. This does not represent complementarity, but rather the practice of switching between different funds, depending on their availability.



Source: European Court of Auditors.

36

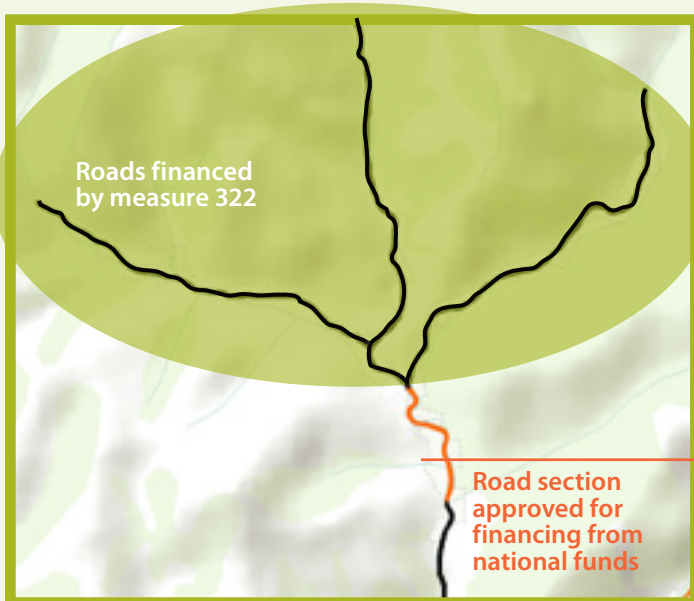
The audit identified two cases where the lack of complementarity with national and local funds jeopardised the efficiency and effectiveness of the EAFRD projects (see **Box 6**).

Box 6

Examples of a lack of complementarity between funds

Romania

In a commune that had received RDP support for building a network of roads, the main road leading to these financed roads was in very poor condition. The main road was supposed to be upgraded with local funds, but never received the approved funding.



Source: www.geoportal.gov.ro



Source: European Court of Auditors.

Italy (Sicily)

One of the audited projects involved building a new road as an alternative to an existing communal road that had become unusable through lack of maintenance. The road had fallen into disrepair because communal roads were not eligible for RDP support and the region's own budget for road maintenance had been cancelled (see **Box 2**). Building a new road rather than regularly maintaining an existing one is clearly inefficient¹³ and reveals a gap between the funds, which do not complement each other.

13 Recent studies and reports on this topic include the following: Smart Growth America and Taxpayers for Common Sense, 'Repair priorities: transportation spending strategies to save taxpayer dollars and improve roads', 2011; McKinsey Global Institute, 'Infrastructure productivity: how to save \$1 trillion a year', 2013; European Parliament, Directorate-General for Internal Policies of the Union, 'EU road surfaces: economic and safety impact of the lack of regular road maintenance', 2014.

The Commission focused on improving coordination in the 2014-2020 programming period in order to address the weaknesses of the past

37

Responsibility for justifying the need for RDP intervention and ensuring good coordination between funds lies mainly with the Member States. However, the Commission has the power to influence these processes at the programme approval stage, when it reviews the needs analysis and the demarcation and complementarity principles set out by the Member States. The Commission can also intervene indirectly during the implementation of the programmes, by issuing guidance, promoting good practice and participating in monitoring committee meetings, where it has an advisory role¹⁴.

38

In the 2007-2013 programming period, the Commission approved the RDPs submitted by the Member States, even though they lacked a clear justification and quantification of the need for using the EAFRD for infrastructure investments. The Commission generally insisted that the audited measures had to be better targeted, that demarcation criteria be set, that cross-checks be performed to avoid double funding and that coordination bodies be set up. However, it accepted overlaps of funds for the same types of intervention (see paragraphs 31 and 32) and issued no guidance to Member States on how to achieve better complementarity.

39

In the 2014-2020 programming period, improving coordination and ensuring consistent implementation of the various funds were among the main goals behind drafting a single set of rules covering the EU's five Structural and Investment Funds. These rules highlight the importance of greater consistency between the EU funds. The new approach focuses less on demarcation and more on complementarity. A positive element for rural infrastructure is the fact that the measure 'basic services and village renewal' can now also offer support to the development plans for municipalities and villages, thus encouraging them to carry out investments in a coherent way.

40

The Court reviewed the checklist used by the Commission to ensure the consistency of the 2014-2020 RDPs. The checklist included points that refer to the complementarity of the EU's Structural and Investment Funds in the areas of local roads, irrigation and water treatment; however, it did not include any checks on the risk of substitution of funds.

14 Article 77(2) and Article 78 of Council Regulation (EC) No 1698/2005 state that 'At their own initiative, Commission representatives may participate in the work of the Monitoring Committee in an advisory capacity', and that 'The Monitoring Committee shall satisfy itself as to the effectiveness of the implementation of the rural development programme'. This is done by considering and revising selection criteria, monitoring progress toward objectives, the achievement of targets, etc.

Observations

41

As highlighted in the Court's 2014 annual report¹⁵, partnership agreements, as the key mechanism for coordinating EU funds, have provided little evidence that the aims of complementarity and synergy are being put into practice by Member States. Furthermore, despite the Commission's checks, the 2014-2020 RDPs for Germany (Saxony), Poland and Romania¹⁶ still do not provide a description of the mechanisms to be used to promote complementarity and synergies between the different sources of funding. The focus of the programmes remains on demarcation and avoiding double funding.

Part II — Limited value for money in the implementation of the measures audited

42

In order to achieve value for money¹⁷, Member States should:

- apply selection methods that prioritise the most cost-effective projects, i.e. the projects with the potential to make the greatest contribution towards the RDP objectives per unit of cost;
- ensure that costs are reasonable before approving grant applications and payment claims;
- ensure, before approving grant applications, that applicants have been able to show that their projects are likely to be sustainable;
- ensure that the administrative procedures allow projects to be implemented within a reasonable time frame.

The Commission, through its guidance and audit activities, should ensure that Member States observe the principles of sound financial management (economy, efficiency and effectiveness).

Selection procedures did not always direct funding towards the most cost-effective projects

43

To ensure that funding is directed towards the RDP objectives, Member States must set out the conditions for eligibility — which identify, for example, the types of investments supported, the categories of beneficiaries that can apply for a grant and the nature of the support. The Court found that the eligibility criteria set by the audited Member States were generally clear and objective. However, a specific case was identified in Italy (Sicily) where an eligibility criterion applicable to rural road projects supported under measure 125 was not in line with the needs described in the RDP (see **Box 7**).

- 15 The findings presented in the annual report are based on a sample of five partnership agreements: those of Germany, France, Latvia, Poland and Portugal.
- 16 The 2014-2020 RDPs for the remaining two regions audited (Spain (Extremadura) and Italy (Sicily)) have not been reviewed because they had not yet been approved by the date of the audit.
- 17 In accordance with the principles of economy, efficiency and effectiveness set out in Article 30(2) of Regulation (EU, Euratom) No 966/2012.

An eligibility criterion inconsistent with the RDP objectives and needs of rural areas

Italy (Sicily)

Although the RDP indicates that projects supported under measure 125 should favour the rehabilitation of existing farm roads, the eligibility criteria set in the call for proposals required that a maximum of 40 % of the eligible project costs was spent on rehabilitation, while the remaining 60 % had to be spent on building new roads. This requirement resulted in the financing of some projects which did not match the needs of the rural areas as identified in the RDP.

For example, in one of the audited projects, the initial section of the existing access road was in bad condition and would have warranted rehabilitation, yet it was not included in the project to keep the costs for rehabilitation under 40 % of the eligible project costs. On the other hand, around one third of the length of the newly built road served only two out of the 31 farms included in the association which implemented the project, i.e. only 5.5 % of the total agricultural land owned by the association.

44

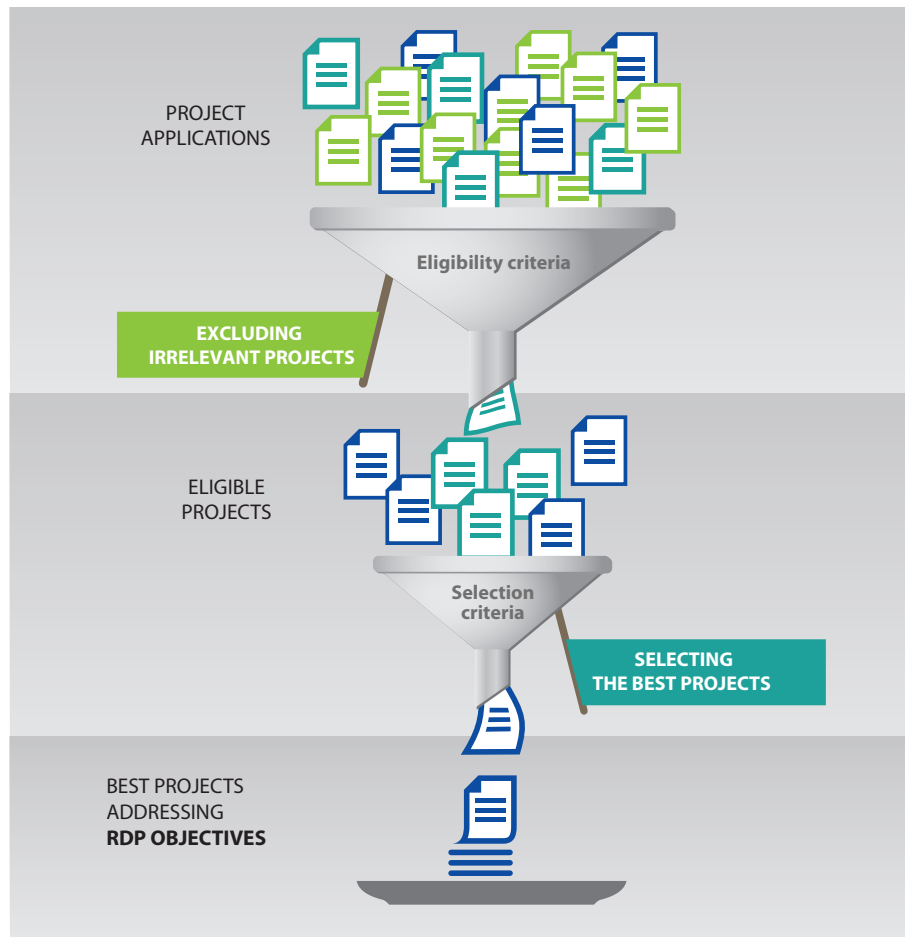
Whereas eligibility criteria should exclude projects that do not address the RDP objectives, selection criteria should enable the relative merits of project proposals to be evaluated on an objective and transparent basis, so that Member States spend the available budget on those projects that contribute most to the objectives. For instance, all else being equal, if one water infrastructure project connects more users than another project,

or generates higher water savings, it should be prioritised, if this is in line with the Member State's strategy for developing infrastructure. Effectively applying selection criteria is a requirement of the relevant EU legislation¹⁸. Therefore, even in cases when the budget is sufficient to approve all eligible projects at a given time, Member States should set a minimum score (a threshold) that projects would have to reach in order to be selected.

18 Article 71(2) of Regulation (EC) No 1698/2005 states that: 'Expenditure shall be eligible for EAFRD contribution only where incurred for operations decided on by the Managing Authority of the programme in question or under its responsibility, in accordance with the selection criteria fixed by the competent body.'

Figure 4

Targeting the aid through an effective selection process



Source: European Court of Auditors.

45

The Member States audited either did not set selection criteria or, if they did do so, the criteria set did not always lead to actual prioritisation of projects in relation to the RDP objectives. This happened in cases where the budget programmed for the measures was sufficient to support all eligible project applications and where the selection criteria were not relevant for the RDP objectives.

46

In Germany (Saxony) and Spain (Extremadura), the project selection process was insufficiently documented, not based on specific selection criteria and did not produce a ranking of projects (see **Box 8**).

Examples of non-transparent and unverifiable project selection procedures hindering the selection of the most cost-effective projects

Spain (Extremadura)

Projects representing 73 % (i.e. 49 out of 67 million euro) of the funds spent under infrastructure measures 125 and 323 were managed directly by the regional administration. The managing authority collected project proposals (prepared on its own initiative or following the informal requests of municipalities) and subsequently approved projects in a non-transparent and unverifiable way. The selection procedure was not based on specific selection criteria and did not result in a ranking of projects.

Germany (Saxony)

The selection of projects under measures 321 and 322 was generally¹⁹ carried out at two subsequent levels: first at local level by 'coordination groups', and then at central level by the managing authority. The managing authority provided coordination groups their own dedicated budget under which they could fund projects. Project applications could be passed on to the central level only if they received a positive vote from the coordination group. The decision process of the coordination groups was insufficiently documented and did not result in a ranking of project applications. The managing authority approved all eligible projects with a positive vote from the coordination groups, as sufficient funds were available under these measures.

¹⁹ Only in exceptional cases (e.g. temporary direct funding for school projects) was project selection carried out directly at central level by the managing authority.

47

Poland did not set selection criteria under measure 125, which finances water infrastructure to protect agricultural land from floods. All eligible projects were approved on the basis of the 'first come, first served' principle. In this context, the managing authority did not prioritise the most cost-effective projects; for example, two projects were both approved although their cost-effectiveness ratio was vastly different (150 euro compared to almost 10 000 euro of public support per protected ha).

48

Examples were identified where selection criteria were established (in Italy (Sicily), Poland and Romania). However, in Italy (Sicily), the selection criteria were effectively applied only under sub-measure 125-A, as all eligible projects were approved under the other audited measures. In Poland and Romania, the selection criteria were generally in line with RDP objectives and a minimum threshold was used to ensure the quality of the selected projects. However, the selection criteria were not always related to the projects' contribution to the RDP objectives (see **Box 9**).

Box 9

Examples of selection criteria which did not prioritise the projects based on their contribution to RDP objectives**Poland**

A selection criterion used under measures 322/323 was designed to first promote larger projects and then (later in the programming period) smaller projects, with the aim of 'ensuring balanced access to EU funds'. This was not stated in the RDP.

Italy (Sicily)

Under sub-measure 125-B, which finances irrigation systems, the selection criteria were not quantifiable and did not prioritise projects aimed at saving water in areas where there was a greater need to reduce water losses. This led to the high ranking of projects in areas not affected by water shortages and the low ranking of projects in areas affected by a serious lack of water.

Romania

A selection criterion under measure 322 prioritised applicants that had not previously received EU support for a similar investment, although this criterion did not reflect the extent to which the project met the RDP objectives.

49

Cost-effectiveness criteria prioritising projects offering the highest value for money were identified only in Germany (Saxony) (see **Box 10**), although these were not applied in practice.

Box 10

An example of cost-effectiveness criterion being set, but not applied in practice**Germany (Saxony)**

Under measure 125, the German authorities set four selection criteria, to be applied to the population of eligible projects in the case of insufficient budget. One of them was a simple cost-effectiveness ratio which prioritised projects costing less per linear metre of forest road built. However, once the deadline for receiving project applications had elapsed (towards the end of the 2007-2013 programming period), additional funds were shifted to measure 125. With sufficient budgetary resources available, all applications were granted funding, and so the ranking produced using this selection criterion was never put into effect.

Checks on the reasonableness of costs and public procurement procedures did not effectively limit the risk of excessive project costs

50

High aid rates, which are common in infrastructure measures, result in little or no risk for project promoters. This reduces their incentive to limit the project costs. It is therefore particularly important that Member States establish proportionate requirements and checks for ensuring reasonableness of costs. The Member States audited generally relied on the use of reference prices and public procurement procedures to ensure the reasonableness of the investment costs²⁰. However, these tools were not adequately applied, as the Court has already noted in its previous reports²¹. Details of the main weaknesses identified by this audit are provided below.

51

Although widely used, the systems based on reference prices had serious limitations, mainly because the reference prices were provided by construction companies and were thus likely to overstate the real market prices following negotiations or competitive tenders. In Spain (Extremadura), Italy (Sicily) and Poland, the audit identified that average savings of 30 % to 40 % compared to the reference prices were normally obtained following a tender procedure.

52

Only in Romania were reference prices established on the basis of actual transactions between the government and construction companies. Prices were, however, available only for a limited range of public works and had not been updated since 2009. The managing authority of Germany (Saxony) automatically accepted deviations of up to 50 % compared to the reference prices, without performing further inquiries.

53

While the risk of using inflated reference prices may be mitigated when the final costs are established based on a fair, competitive tender, there is no safeguard for projects that are not subject to a competitive tender (as is the case for certain measures and beneficiaries in Spain (Extremadura) and Italy (Sicily)) and in cases where the public procurement procedures are affected by serious weaknesses.

54

The audit identified several such weaknesses that hindered fair competition and the reasonableness of costs (see **Box 11**).

20 Article 24(2)(d) of Commission Regulation (EU) No 65/2011 of 27 January 2011 laying down detailed rules for the implementation of Council Regulation (EC) No 1698/2005, as regards the implementation of control procedures as well as cross-compliance in respect of rural development support measures (OJ L 25, 28.1.2011, p.8) specifies that Member States should verify the reasonableness of project costs submitted as part of the administrative checks on applications for support. This evaluation must be performed using a suitable system, such as reference costs, the comparison of a number of offers or an evaluation committee. Furthermore, Article 24(2)(c) of the same regulation specifies that Member States should check the compliance of the operation for which support is requested with applicable national and Union rules on, in particular, and where relevant, public procurement, State aid and other appropriate obligatory standards established by national legislation or established in the rural development programme.

21 ECA annual reports, Special Report No 6/2013 'Have the Member States and the Commission achieved value for money with the measures for diversifying the rural economy?', Special Report No 22/2014 and Special Report No 23/2014, 'Errors in rural development spending: what are the causes, and how are they being addressed?' (<http://eca.europa.eu>).

Examples of public procurement procedures that hindered transparency, fair competition and reasonableness of costs

Spain (Extremadura)

The managing authority arbitrarily decided to award to a state-owned construction company contracts for 18 % (i.e. some 14 million euro) of the allocation to measure 125. The managing authority justified this based on the 'urgency' of the works, 'specificity/type of works' and 'confidentiality'. However, the authorities could not provide any evidence to support such justifications. The project costs were reimbursed based on a price list agreed between the company and the national authorities. While this procedure may be quicker than organising a tender, it does not ensure that the prices obtained are in line with market prices.

Even when formal tenders were organised, award criteria were in some cases insufficiently defined and therefore unverifiable. This was the case of an audited project, having an estimated cost of 11 million euro, for which 48 out of 100 scoring points were awarded based on vague criteria, such as 'the knowledge of the project, the area and the quality of the proposal', 'the respect of safety rules', 'the environmental measures' and 'other improvement proposed'.

Romania

The audit also identified poorly defined award criteria. For example, the 'shortest duration of the works' was used as an award criterion in 9 out of the 11 projects reviewed, without indicating acceptable timeframes or checking whether the proposed durations were realistic. The duration indicated in the winning offers and subsequent contracts was largely exceeded in practice, with works lasting up to eight times longer than the contractual term (24 months instead of 3 months). Adverse weather conditions could only partially explain such delays.

Italy (Sicily)

Contracts for public works were awarded through competitive tenders using a methodology that resulted in the automatic exclusion of the lowest offers²², which were disregarded as 'abnormal' without further analysis. This procedure did not allow for selection of the most economical offer and, in general, does not provide an incentive for the bidders to offer their lowest price.

²² In line with Article 86.1 of the Italian public procurement law 163/2006, this procedure consists of four steps: (1) excluding the top and bottom 10 % of the offers received; (2) calculating the average of the 'rebates' (i.e. discounts as compared to the estimated value of the contract) of the remaining offers; (3) adding to this average the variance of the rebates which are above the average; and (4) awarding the tender to the offer proposing a rebate just under the value of the rebate as calculated after step 3.

Observations

Sustainability-related requirements did not take into account the useful life of the investments

55

The sustainability of financed investments is a key factor in achieving project and wider RDP objectives. Sustainability is a particular concern with infrastructure investments due to their long expected useful life²³, the large number of users, the need to ensure continued access to public services and the high costs associated with both the initial investment and subsequent maintenance. Various studies have shown that the costs of restoring infrastructure that has fallen into disrepair are much higher than the costs of retaining initial quality levels²⁴. The benefits of adequate maintenance planning extend beyond financial considerations, as they also have an impact on the quality of life and safety standards. The existence of an adequate maintenance plan and a dedicated budget are therefore vital to the effectiveness of these investments.

56

None of the audited Member States had asked beneficiaries to submit a detailed maintenance plan setting out the regular and extraordinary maintenance requirements and costs. Beneficiaries were not required to earmark funds for maintenance or to indicate the financing sources to be used.

57

In Romania, the national audit office highlighted the potential unsustainability of RDP-funded investments in social and cultural infrastructure, as, once the project is complete, the beneficiaries may have difficulties in financing the related activities from the local budget. This risk was subsequently confirmed, as the beneficiaries of more than half of the 191 projects checked by the paying agency in 2014 could not prove that the activities planned were actually carried out following the completion of the project.

58

The risk that project outputs and results may not be sustainable was also found in the case of rural roads in Italy (Sicily), where the managing authority intended to use the 2014-2020 RDP to support the rehabilitation costs for roads which had been built or rehabilitated using EU funds just some 10 years earlier²⁵. This suggests that roads may have deteriorated substantially in a relatively short timeframe due to a lack of adequate maintenance.

- 23 In its guide to the cost-benefit analysis of investment projects (published in July 2008), the Commission indicated that for the majority of infrastructures, the time horizon over which financial forecasts should be made, and which should not exceed the economic useful life of the project, is at least 20 years. For example, the guide sets the recommended time horizon for road projects at 25 years and for water infrastructure at 30 years.
- 24 Examples of such studies are given in footnote 13.
- 25 This possibility was included in the draft RDP for the programming period 2014-2020, sent to the Commission in July 2014 (section M04 — Investments in physical assets (Article 17), page 221).

59

To ensure the durability of investments, the rural development regulation, Regulation (EC) No 1698/2005, requires Member States to recover the EAFRD contribution if an investment project undergoes a substantial modification that ‘affects its nature or implementation conditions’ within 5 years (known as ‘commitment period’) from the managing authority’s funding decision²⁶. However, this requirement is not differentiated by type of investment. Only Germany (Saxony), Italy (Sicily) and Romania specified longer commitment periods for certain types of investment, although the limited timeframe of *ex post* checks weakened the incentive on beneficiaries to respect their commitments (see **Box 12**).

26 Article 72 of Council Regulation (EC) No 1698/2005.

Box 12

Good practices implemented by Member States to ensure the sustainability of infrastructure investments and their limitations

Germany (Saxony)

In the 2007-2013 programming period, there were differentiated commitment periods²⁷ which ranged between 5 and 20 years after the completion of the project, depending on the type of project as well as on the total eligible costs. These commitment periods were taken into account in the risk assessment leading to the sampling of projects for the *ex post* checks, making it more likely that older projects would be sampled.

Another element favouring sustainable investments in schools was the requirement that applicants (communes) submit with their application a written confirmation from the Ministry of Culture and Sport that the school concerned by the modernisation project is expected to remain in operation for 5 or 10 years.

Romania

As part of the eligibility conditions for measure 125 (that supports farm and forest roads and irrigation infrastructure), beneficiaries were required to commit to maintaining and repairing the financed infrastructure throughout its entire useful life. *Ex post* checks during which this commitment could be checked are, however, only performed for up to 5 years after the date of the grant agreement.

27 These commitment periods have been revised downwards in the 2014-2020 programming period to the standard 5-year period stated in Article 71 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

Observations

60

The audited Member States generally applied the 5-year requirement and used the *ex post* checks²⁸ to verify that the beneficiaries had respected their commitments. Each year the *ex post* checks cover at least 1 % of the eligible public expenditure for investment operations for which the final payment has been made from the EAFRD. However, it is possible for the 1 % to be reached by checks on just one project. In addition, as in Poland and Romania the commitment period of 5 years was counted from the date of the *funding decision*, it was reduced in practice to much less time after the *completion* of the project. For example, seven out of the 10 projects audited in these two Member States were completed more than 2 years after the funding decision. So, the '5 years' requirement and the corresponding checks had a reduced relevance in practice in carrying out their function to ensure the sustainability of the projects.

Long delays in the administrative process impacted the measures' efficiency and effectiveness

61

To make EAFRD funding attractive to potential beneficiaries and to allow projects to generate timely benefits for rural areas, administrative procedures should not be excessively long and burdensome.

62

Three (Italy (Sicily), Romania and Poland) out of the five audited Member States set time limits for processing project applications and final payment claims. These limits were generally between 1 and 4 months.

63

The time limits set by the Member States for processing grant applications were exceeded for most of the measures audited (see **Figure 5**)²⁹. In Germany (Saxony), Poland and Romania, it took³⁰ from 3.5 to 9 months to process grant applications, while the Italian (Sicilian) authorities needed around 16 months to process applications under measures 125 and 321, with extreme cases lasting more than 3 years. This was mainly due to the excessive time required to perform the required checks on the eligibility of the beneficiaries.

64

Payment claims were generally processed quicker than grant applications; however notable delays were again incurred in Italy (Sicily) (see **Figure 6**).

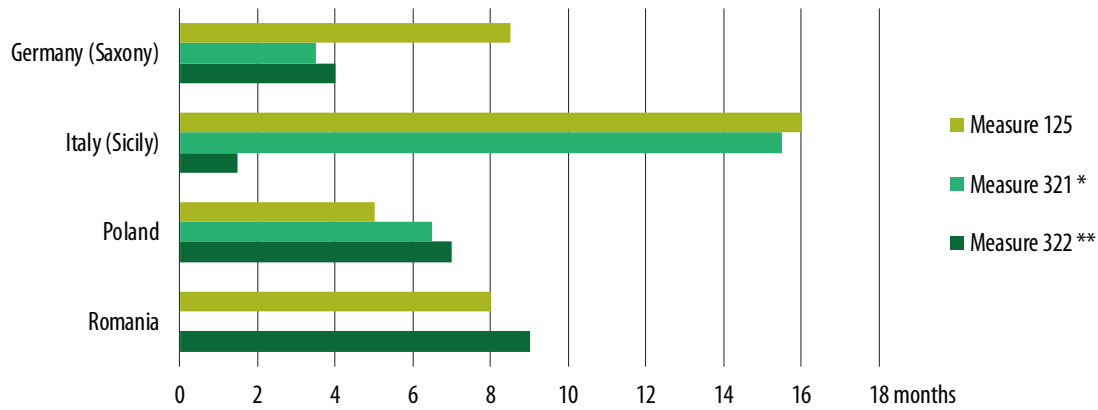
28 Made in accordance with Article 30 of Commission Regulation (EC) No 1975/2006 of 7 December 2006 laying down detailed rules for the implementation of Council Regulation (EC) No 1698/2005, as regards the implementation of control procedures as well as cross-compliance in respect of rural development support measures (OJ L 368, 23.12.2006, p. 74).

29 For Spain (Extremadura), it was not possible to calculate such statistics as there was no overview data available for all approved projects under the audited measures.

30 Median value: a value in an ordered set of values below and above which there is an equal number of values (or which is the arithmetic mean of the two middle values if there is no middle number).

Figure 5

Processing of grant applications (median value, in months)



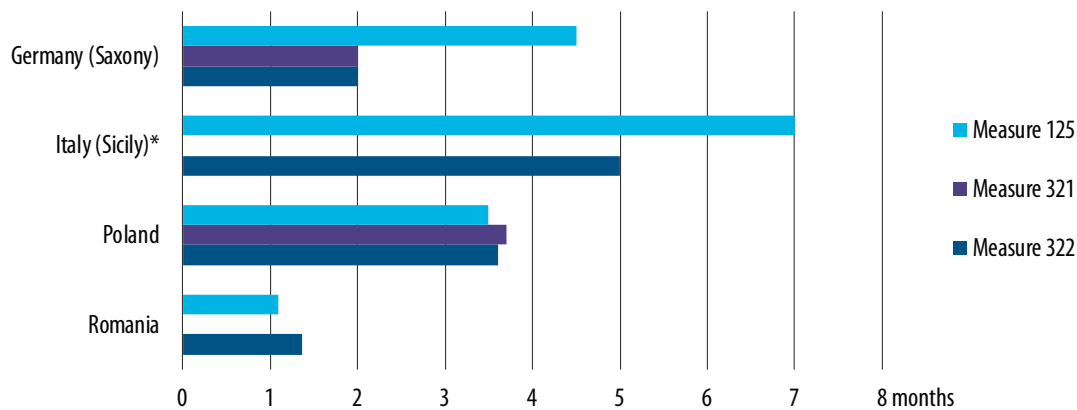
* The information presented for Italy (Sicily) under measure 321 only applies to the audited sub-measure, 'Azione 2'; in Romania, measure 321 is implemented jointly with measure 322.

** In Poland, measure 322 is implemented jointly with measure 323.

Source: European Court of Auditors, based on data provided by Member States.

Figure 6

Processing of payment applications (median value, in months)



* In Italy (Sicily), only the data regarding the processing of final payment requests was used for the calculation; also in Italy (Sicily), information regarding measure 321 was not available, as none of the approved projects had received its final payment by December 2014.

Source: European Court of Auditors, based on data provided by Member States.

Observations

65

The audit found that Romania had devised a good practice in addressing the main causes of delays and limiting the administrative burden on the applicant. In order to speed up the project submission and evaluation process, in the 2014-2020 programming period the paying agency will allow applications to be submitted online in full (including all the supporting documents), on an ongoing basis, and selection reports will be published at shorter intervals than in the previous programming period.

The Commission started to systematically follow up weaknesses and related Member States' action plans late in the programming period

66

In the 2007-2013 programming period, the Commission checked, mainly through its conformity audits, whether Member States were complying with the legal requirements of applying selection criteria, verifying the reasonableness of costs and following public procurement rules. The scope of the Commission's audits did not include an examination of performance aspects.

67

Consequently, the Commission's audits identified only a few of the above weaknesses — mainly those with respect to the application of public procurement rules in Romania, which gave rise to a financial correction³¹ in 2014. Only in 2013 did the Commission start to systematically follow up on actions taken by Member States to address the root causes of errors in rural development measures, including errors related to the project selection system, checks on the reasonableness of costs and public procurement. As a result of this exercise, out of the Member States audited, only Italy (Sicily) and Romania have introduced or are in the process of developing new procedures that intend to tackle some of the weaknesses identified. However, these changes arrived too late to have an influence on the bulk of the expenditure incurred in the 2007-2013 programming period.

68

Recognising past problems, the Commission has made changes for the 2014-2020 programming period, which are intended to improve the situation.

69

On project selection, it is an explicit requirement for the 2014-2020 RDPs to include the principles guiding the establishment of selection criteria. The Commission issued guidance in March 2014 encouraging Member States to ensure that eligibility and selection criteria are applied in a transparent and consistent way throughout the programming period, that selection criteria are applied even in cases when the budget available is sufficient to fund all eligible projects and that projects with a total score that is below a certain threshold are excluded from support.

31 Following its audit findings, the Commission may launch procedures whereby EU funding for the Member State concerned is reduced to compensate for the shortcomings identified. These procedures are referred to as 'financial corrections'.

70

On public procurement, at the end of 2014 the Commission developed guidelines on how to avoid common errors in EU co-funded projects³². In this document, the Commission criticises the use of the ‘average pricing’ method, whereby tenders close to the average for all tenders receive more points than tenders deviating from the average, as this methodology ‘represents unequal treatment of tenderers, particularly those with valid low tenders’. Further guidance is given on topics such as the selection of the appropriate public procurement procedure, time limits and selection and award criteria. Nevertheless, at the time of the audit, the *ex ante* conditionality³³ related to public procurement had not been fulfilled by Romania and it had only been partially fulfilled by Italy (Sicily) and Poland. The non-fulfilment of this *ex ante* conditionality by the end of 2016 may lead to a suspension of payments to Member States, as the Court has recently recommended³⁴.

71

The Commission organised a series of workshops on the topic of reasonableness of costs and simplified cost options in 2014-2015. However, the issue of setting and using reference prices (see paragraph 51) was not addressed in the guidance documents discussed during these workshops.

72

The Commission has not taken any specific action with regard to Member States’ project sustainability requirements and checks.

Part III — The monitoring and evaluation system did not produce adequate information on project results

73

Performance information on the effectiveness and efficiency of rural development spending is needed to demonstrate what has been achieved with the EU budget and to show that it has been spent well (accountability). Furthermore, it is used to improve the efficiency and effectiveness of the EU budget by guiding ongoing management of the measures, pointing to possible improvements and helping to shape future policy, for example by revealing the types of investment that performed well.

74

In order to show what has been achieved with the EU budget spent on rural infrastructure measures, Member States should collect data on the outputs and results achieved by projects. Under the common monitoring and evaluation framework (CMEF), Member States must collect information for at least the following output and result indicators (see **Table**).

- 32 ‘Public procurement guidance for practitioners on the avoidance of common errors in ESI-Funded projects’.
- 33 *Ex ante* conditionalities have been introduced by Articles 2 and 19 of Regulation (EU) No 1303/2013 as prerequisites for the effective and efficient achievement of specific objectives for Union priorities. The *ex ante* conditionality on public procurement refers to ‘the existence of arrangements for the effective application of Union public procurement law in the field of the European Structural Investment Funds’.
- 34 ECA Special Report No 10/2015 ‘Efforts to address problems with public procurement in EU cohesion expenditure should be intensified’, recommendation No 2 (<http://eca.europa.eu>).

Table Overview of the compulsory output and result indicators under the CMEF for the 2007-2013 programming period¹

Code	Measure	Output indicators	Result indicators
125	Infrastructure related to the development and adaptation of agriculture and forestry	— Number of operations supported — Total volume of investments	Increase in gross value added (GVA) in supported holdings/enterprises
321	Basic services for the economy and rural population	— Number of actions supported — Total volume of investments	Population in rural areas benefiting from improved services
322	Village renewal and development	— Number of villages where actions took place — Total volume of investments	
323	Conservation and upgrading of the rural heritage	— Number of rural heritage actions supported — Total volume of investments	

1 As regards rural development policy, the CMEF will be replaced in the 2014-2020 period by the 'Common monitoring and evaluation system (CMES)'. Details about the new system are provided from paragraph 85 onwards.

75

Given the co-financing element, and irrespective of the monitoring and evaluation work required by the CMEF, Member States have a vested interest in project monitoring, as this is an important tool with which to keep track of projects' progress and to be kept informed as to whether they are achieving the expected results and the RDP objectives. Monitoring could be carried out by using the administrative and control information available and by periodically collecting relevant information from the beneficiaries³⁵. Member States can set additional, programme-specific indicators (within or outside the CMEF system).

76

The Court examined the data collection and monitoring systems in the Member States audited and found, as in previous reports³⁶, that there was an absence of relevant and reliable information to draw a conclusion on the effectiveness of these measures. Therefore, the auditors measured project results and, where applicable, the achievement of the specific project objectives, on the basis of evidence obtained from project visits. More information on the audited projects can be found in **Annex II**.

35 At least until the expiry of the 5-year period for retaining the assets determined by Article 72 of Council Regulation (EC) No 1698/2005.

36 See Special Reports Nos 8/2012, 1/2013, 6/2013 and 12/2013 (<http://eca.europa.eu>).

Observations

The audited projects delivered the expected physical outputs, but reliable information on project results was often unavailable

77

All 32 audited projects delivered the expected physical outputs (e.g. modernisation of a road, construction of a sewerage system) and 20 of them respected the deadlines indicated in the grant agreement and/or in the contract for works. The delays that occurred were in certain cases partially justified by bad weather conditions or other circumstances beyond the beneficiaries' control.

78

By achieving the expected outputs, some of the projects also automatically achieved their objectives in terms of results, for example by improving the flood protection of a certain area (see **Box 13**).

Box 13

Example of a project that generated the expected output and result

Poland

The audited project involving the extension and modernisation of a pumping station, with an estimated cost of 700 000 euro, was completed in line with technical specifications, with approximately 100 000 euro in savings compared to the budget approved (obtained through competitive tendering), and with a delay of 5 months due to the late delivery of an administrative document. The new, more powerful pumping station was needed after the extensive flooding of almost 800 ha in the region in 2001 and improved the protection of 320 ha of agricultural land against seasonal flooding.



Source: European Court of Auditors.

Observations

79

However, this is not always the case. It is possible for projects to fail to achieve the intended results, despite delivering the agreed physical outputs. The audit found that the Member States did not collect reliable information regarding the short- to medium-term success of the projects in terms of achieving RDP objectives and the project-specific targets. This was mainly due to the failure to establish relevant indicators and an absence of specific objectives and targets in the application and grant decision. For example, although the RDP for Italy (Sicily) set the objective of achieving water savings through investments in water infrastructure, the authorities had not established an indicator that would allow them to assess the achievement of this objective; the projects audited also lacked related quantifiable targets.

80

At the date of the audit, three out of the five Member States audited (Spain (Extremadura), Italy (Sicily) and Poland) had not submitted the mandatory monitoring information required by the CMEF regarding the measure 125 result indicator, 'increase in gross value added in supported holdings'. The remaining two Member States (Germany (Saxony) and Romania) reported a value for this indicator, which was however based on unreliable information (see **Box 14**).

Box 14

Unreliable data collection method: financial data from farms not taken into account in measuring their competitiveness

Romania

The indicator 'increase in gross value added in supported holdings' aims to quantify the impact of measure 125 on the competitiveness of agricultural and forestry holdings supported. However, in Romania the indicator was calculated at the level of the whole commune where the project was implemented (based on the commune's financial accounts) and not for the farms benefiting from the new roads.

81

As regards the result indicator for measures 321, 322 and 323, 'population in rural areas benefiting from improved services', Member States reported the entire population of the commune where the project was implemented, irrespective of the number of actual users of the financed

infrastructure (see **Box 15**). This reporting method leads to inflated figures, especially since when several projects are implemented in a single commune, the entire population of the commune is reported for each of these projects, and is thus counted several times when the figures are aggregated.

Box 15

Example of a project for which the total population of a commune was considered as benefiting from a new investment, although the project concerned only a limited number of inhabitants**Germany (Saxony)**

For a project concerning the refurbishment of a 200-metre stretch of village road, the German authorities reported under the result indicator for measure 322, 'population in rural areas benefiting from improved services', that 40 631 people were benefiting from this investment. This is the total number of people living in the commune; however, only a small proportion of them actually use the road, as about 300 people live in the village where the project was implemented.

In its annual progress report for 2014, Saxony reported under the measure 322 result indicator that 2.9 million people were benefiting from improved services in rural areas. This is more than the state's total rural population of about 2 million people.

82

Even when the audited Member States did set out additional, programme-specific indicators, these were incapable of measuring the success of the interventions. This was due to two main issues. Firstly, Member States did not set targets. Secondly, the additional indicators measured outputs such as the number of kilometres of road repaired, rather than results related to the RDP objectives, such as achieving water savings, allowing farmers to reduce transport costs and providing certain services to the rural population.

83

Twenty of the 32 audited projects lacked measurable targets for results. However, the auditors could obtain some data on the actual results achieved (see examples in **Box 16** and detailed information in **Annex II**). Whilst certain positive results were observed in 13 cases, in 10 of these the information was not sufficient to allow the auditors to conclude on the projects' effectiveness in addressing RDP objectives. In four cases, the relevant indicators showed that targets had not been achieved. In three further cases, the information obtained was not reliable. More information on the audited projects can be found in **Annex II**.

Limited evidence of positive results and unreliable data

In **Italy (Sicily)** and **Spain (Extremadura)**, the authorities did not collect data on individual project results. Upon the auditors' request, only three of the eight and respectively two of the seven audited beneficiaries in these two regions could provide some quantified result data. The data generally showed a positive effect of the investments. However, one project for relaying asphalt on a rural road in a tourist area of Spain (Extremadura) did not have a positive impact on the number of tourists. The average number of visitors had actually decreased in the years following the project completion, compared to the average number of visitors before the project. There was no information regarding the effects of the investment on the agricultural holdings.



Source: European Court of Auditors.

In **Romania**, the beneficiaries provided to the auditors quantified target and result data for four of the five audited projects, which received grants ranging between 1 and 2.4 million euro.

Only one project had reached its target of connecting 575 users to the new water and sewerage system. Three other projects were still far from achieving their targets almost 3 years after project completion: less than half of the target number of users had been connected to the sewerage network for two water projects and no new jobs had been created for the remaining project, although creating employment was one of its objectives.

In **Germany (Saxony)**, the data reported for the three main result indicators established for the measures were based on the authorities' assumptions on the likely result deriving from an investment. Targets and actual result data were not available for these indicators. The information that could be obtained by the auditors for the audited projects was therefore limited to basic indicators such as the number of households served by the financed roads.

In **Poland**, for four of the five audited projects, the beneficiaries reported to the managing authority data on project results, which showed an increase in the number of users and a general achievement of project objectives. However, in three cases, no supporting evidence was provided to allow the Court to verify the reported figures.

Observations

The Commission has encouraged Member States to improve monitoring and evaluation, but some weaknesses are likely to persist in the 2014-2020 programming period

84

Although Member States are primarily responsible³⁷ for collecting the data to feed output and result indicators, the Commission is responsible for monitoring and supervising the implementation of RDPs and publishes the information collected from Member States through the CMEF.

85

As regards the measure 125 result indicator 'increase in gross value added in holdings/enterprises supported', the Commission recognised that, despite the guidance provided in 2010 on the methodology to measure the GVA increase, most of the Member States faced difficulties in reliably assessing this indicator. Thus, it has been replaced in the 2014-2020 programming period by the indicator 'Change in agricultural output on supported farms/annual work unit'. The Commission indicated that the new indicator will only be assessed by external evaluators, as Member States lack the required expertise within their administrations. An additional compulsory result indicator has been introduced in the 2014-2020 programming period for the equivalent measure 125, namely 'percentage of irrigated land switching to more efficient irrigation system'.

86

As regards the result indicator used for measures 321, 322 and 323, 'population in rural areas benefiting from improved services', the Commission accepted the reported figures, despite the risk of over-estimating the number of users. For the 2014-2020 period, a similar result indicator will be used for these measures ('Percentage of rural population benefiting from improved services/infrastructures'). The Commission will not accept the same population being reported several times (for each project implemented in the area) for the new result indicator; however, such a reporting method is explicitly allowed for the new output indicator, 'Population benefiting from improved services/infrastructures'.

87

The Court could not assess at the time of the audit to what extent the new indicators will remedy the weaknesses of the previous ones. However, assessing the effectiveness of the measures only on the basis of the change in agricultural output, percentage of land switching to a more efficient irrigation system and the population benefiting from the new infrastructure will not provide a complete picture on the success or otherwise of the funds allocated to the measures, given the great diversity of projects financed.

³⁷ Article 79 of Council Regulation (EC) No 1698/2005.

88

In the 2007-2013 programming period, due to the significant delays in the implementation of infrastructure measures, there was a mismatch between the spending cycle and the timing of the reporting requirements. This led to a lack of pertinent data for mid-term evaluations and, most likely, even the *ex post* evaluations will come too early to be able to use reliable data. If monitoring and evaluation information is not available at key reporting moments, Member States and the Commission cannot use it to improve the implementation of the measures.

89

This situation is likely to persist in the 2014-2020 programming period, as Member States are required to prepare the first 'enhanced annual implementation report' including evaluation findings, in 2017, even though spending started quite late due to delays in the RDP approval process³⁸. The absence of timely, reliable and pertinent information on the results of the use of the public funds invested in infrastructure makes the result-based management of future funds difficult to achieve.

38 Only 79 of the 118 RDPs had been approved by the Commission by September 2015.

90

In 2007-2013 the EU provided 13 billion euro for rural infrastructure projects aimed at boosting the competitiveness of agricultural and forestry holdings and improving the quality of life in the countryside. Together with Member States' co-financing, the total support channelled through four rural development measures reached 19 billion euro.

91

Infrastructure measures were implemented under shared management, whereby the Commission approved the RDPs submitted by Member States, which then selected the projects to be funded.

92

The Court's audit sought to answer the following question:

Have the Member States and the Commission achieved value for money with the support for rural infrastructure investments?

93

Even though the individual audited projects delivered their expected physical outputs and, in some cases, made a clear positive contribution to the rural areas, the Court found that the Member States and the Commission, acting through shared management, had achieved only limited value for money, as aid was not systematically directed towards the most cost-effective projects addressing the objectives set in the RDPs and there was insufficient information to demonstrate the success or otherwise of the measures.

94

The Commission and the Member States share the responsibility for the implementation of a huge number of infrastructure projects, not only related to rural development but across the spectrum of structural funds. Despite this, there was little evidence of effective coordination or sharing of best practice in order to improve the management of the funds and achieve greater value for money through, for example, project selection procedures, checks on the reasonableness of costs and sustainability-related checks. There remains scope for greater cooperation, which would allow for far more to be achieved with the existing level of funding.

95

The weaknesses identified and the Court's related recommendations are further developed below.

Conclusions and recommendations

96

The audit found that the Member States lacked a coordinated approach for quantifying rural infrastructure needs (e.g. the number of roads needing repairs and the corresponding budget needed) and identifying sources of financing. None of the audited RDPs considered the existing national, regional, local public or private funds that could address — or were already addressing — the same needs as the RDPs. Therefore, there was no attempt to quantify the remaining funding gap — which would justify the EAFRD intervention — for such investments (see paragraphs 20 to 22).

97

In the absence of a coordinated approach encompassing all financing possibilities, substitution of funds may occur, leading to an inefficient use of scarce resources. In two of the audited Member States, there were indications that substitution had occurred, as the national or regional funds available for rural roads were cancelled or decreased precisely when similar projects started to be supported under the RDP (see paragraphs 23 to 24).

98

Although some good practices were identified, Member States did not systematically channel the RDP funding to projects for which there was a demonstrable need for public support. As a consequence, there is a risk of deadweight and the results achieved by projects cannot necessarily be attributed to the grant (see paragraphs 25 to 30).

99

The lack of clear demarcation lines led in some cases to the alternate use of different funds for the same types of infrastructure, with the inherent risk of needlessly duplicating management structures (see paragraphs 31 to 32).

100

Whilst four of the five Member States audited had set up coordination structures, they did not actively promote complementarity between funds. There were cases where the lack of complementarity with national and local funds jeopardised the efficiency and effectiveness of the projects (see paragraphs 33 to 36).

101

The Commission took steps to improve coordination between EU funds in the 2014-2020 programming period, but the Member States' programming documents do not yet provide sufficient assurance that the new approaches will lead to better coordination (see paragraphs 37 to 41).

Conclusions and recommendations

Recommendation 1 — Analysis of needs and coordination between funding sources

- (a) The Member States should have a coordinated approach for supporting rural infrastructure, which quantifies needs and funding gaps and justifies the use of the RDP measures. This approach should consider the EU, national, regional and local public funds and the private funds that could address — or are already addressing — the same needs as the RDP. Member States should ensure that RDP funds do not merely replace other public funds dedicated to the same policy area and select projects for which there is a demonstrable need for public support and which deliver added value.
- (b) In fulfilling its role in shared management, the Commission should promote the adoption of best practices in mitigating the risk of deadweight and encourage Member States to avoid simple substitution of other funds by the RDP resources, thereby achieving greater added value for the EU funds employed.
- (c) Member States should make better use of the existing coordination structures such as coordination bodies and joint management, control and monitoring arrangements to implement effective mechanisms aimed at minimising gaps and overlaps in funding, in line with the guiding principles of the common strategic framework. For example, Member States could prioritise projects that best fit with national, regional or local plans for the integrated development of infrastructure.
- (d) The Commission should build upon the first steps taken to ensure effective coordination between the different EU funds and carry out a thorough assessment of the complementarity between the different EU funds to be used by Member States in the 2014-2020 programming period. The Commission should be proactive in encouraging Member States to draw on the experience gained with other funds supporting infrastructure (such as the ERDF and the Cohesion Fund) to improve the efficiency of the management of the measures. It should take the opportunity provided by the enhanced annual implementation report to be submitted by Member States in 2019 to assess the effectiveness of the coordination mechanisms and suggest improvements where necessary.

Conclusions and recommendations

102

EU legislation requires Member States to establish selection criteria; these should allow the most effective and efficient eligible projects to be prioritised, and provide a basis for rejecting those that do not represent value for money. In the Member States audited, selection criteria were either not set out or they did not always lead to actual prioritisation of the most cost-effective projects in relation to the RDP objectives (see paragraphs 43 to 49).

103

The Court identified weaknesses in the systems put in place by the Member States to assess the reasonableness of project costs. These weaknesses increase the risk of public funds not being spent in the most economical way. The Member States audited mainly relied on the use of reference prices and public procurement procedures to ensure the reasonableness of costs. However, these tools were not adequately applied to ensure reasonableness of costs, as the Court has noted in its previous reports. Although widely used, the systems based on reference price lists showed serious limitations, as reference prices were often set above the real market prices at which transactions happen (for example when competitive tenders are organised). In several cases, public procurement processes hindered fair competition and reasonableness of costs (see paragraphs 50 to 54).

104

To ensure the sustainability of investments, the audited Member States generally applied the standard 5-year commitment period requirement — which in practice was reduced to much less for most of the projects. For certain projects, three of the audited Member States applied longer commitment periods, which were more in line with the useful life of the investments. However, none of the audited Member States asked beneficiaries to provide a detailed maintenance plan and to set aside some budget for maintenance (see paragraphs 55 to 60).

105

To make EAFRD funding attractive to potential beneficiaries and to allow projects to generate timely benefits for rural areas, administrative procedures should not be excessively long and burdensome. Two of the audited Member States/regions did not set deadlines for processing grant and payment applications, whereas the other three largely exceeded the deadlines they had set, especially for grant applications (see paragraphs 61 to 65).

106

In the first part of the 2007-2013 programming period, the Commission did not sufficiently encourage Member States to follow the value-for-money principles (economy, efficiency and effectiveness), for example by setting selection criteria prioritising the most cost-effective projects, applying sound reference prices and ensuring fair and competitive public procurement procedures. The Commission has, however, proposed some improvements for the 2014-2020 programming period (see paragraphs 66 to 72).

Conclusions and recommendations

Recommendation 2 — Management of the measures

- (a) Member States should establish and consistently apply criteria to ensure the selection of the most cost-effective projects — the projects with the potential to make the greatest contribution to the RDP objectives per unit of cost (such as projects delivering the highest increase in farms' productivity or the highest water savings per unit of cost in areas most seriously affected by water shortages). These selection systems should systematically set a minimum threshold taking into account the quality of the projects.
- (b) With regard to effective checks on the reasonableness of costs, the Commission and the Member States should implement the recommendations in the Court's special report on this subject³⁹. In particular for infrastructure projects, the Member States should ensure that project cost estimations are based on up-to-date price information that reflects actual market prices and that public procurement procedures are fair and transparent and promote genuine competition.
- (c) Member States should take into account the useful life of the supported investments when establishing the sustainability-related requirements and checks.
- (d) Member States should set a reasonable timeframe for processing grant and payment applications and respect it.

107

The 32 audited projects generally delivered the expected physical outputs, such as new or rehabilitated roads, water supply and sewage systems, or improved school facilities. However, the Court found, as in previous reports⁴⁰, that information on project results was either missing or insufficiently reliable to draw a conclusion on the effectiveness of these measures. Meaningful data about results is either not collected or, when collected, is based on beneficiaries' declarations or estimates which are not directly linked with the financed projects.

108

Twenty of the 32 audited projects lacked measurable objectives and targets. Where measurable objectives could be identified, there was little or no assurance concerning the reliability of the reported data and limited evidence of positive results for the few projects for which result data was available. For example, several projects aiming to improve the quality of life of rural populations reported the total number of people living in a commune as the 'population in rural areas benefiting from improved services'; however, the new facilities built, such as roads in remote areas, had only a limited number of users (see paragraphs 77 to 83).

39 See Special Report No 22/2014.

40 See Special Reports Nos 8/2012, 1/2013, 6/2013 and 12/2013.

Conclusions and recommendations

109

The Commission has proposed changes for the 2014-2020 programming period. However, weaknesses in the quality of the indicators and the late start of the implementation of the measures are likely to affect the monitoring and evaluation process (see paragraphs 84 to 89). In the absence of timely, relevant and reliable information on results, decisions on future policy direction and how to best achieve the objectives set for infrastructure investments in rural areas are hampered and the Commission's ambition to manage the budget by results ensuring that every euro is spent wisely becomes more difficult to attain.

Recommendation 3 — Monitoring, evaluation and feedback

- (a) For the 2014-2020 programming period, the Commission and the Member States should collect timely, relevant and reliable data that provides useful information on the achievements of the projects and measures financed. This information should allow conclusions to be drawn on the efficiency and effectiveness of the funds spent, identify the measures and types of infrastructure projects delivering the greatest contribution to the EU objectives and provide a sound basis for improving the management of the measures.
- (b) Member States should ensure that clear, specific objectives are set for the projects to which funds are committed. Objectives should be quantified where possible to facilitate the execution and monitoring of the projects and to provide useful feedback for the managing authorities.

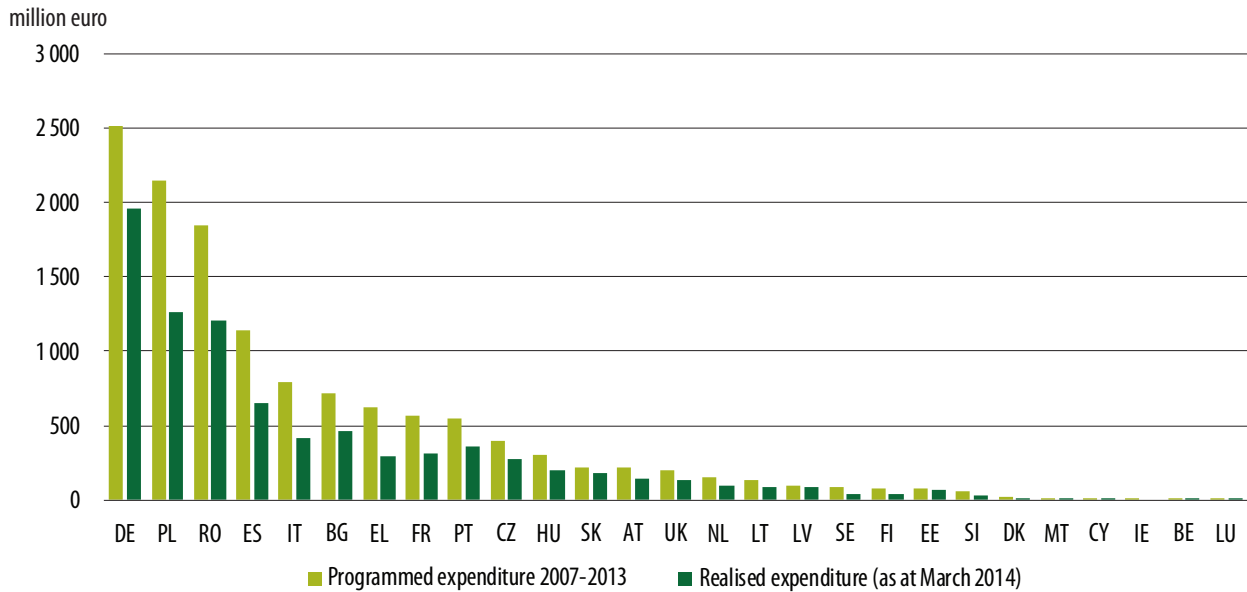
This Report was adopted by Chamber I, headed by Mr Augustyn KUBIK, Member of the Court of Auditors, in Luxembourg at its meeting of 16 December 2015.

For the Court of Auditors



Vítor Manuel da SILVA CALDEIRA
President

EU funds for infrastructure measures 125, 321, 322 and 323 — programmed and spent in the 2007-2013 programming period



Source: European Court of Auditors' compilation on the basis of data provided on the website of the European Network for Rural Development: financial and physical indicators (http://enrd.ec.europa.eu/enrd-static/policy-in-action/rural-development-policy-in-figures/rdp-monitoring-indicator-tables/financial-and-physical-indicators/en/financial-and-physical-indicators_en.html).

Overview of projects audited

Member State	Measure	Project description	Eligible costs (rounded, euro)	RDP aid as % of eligible costs	Delays (months)	Funding date	Works end date	Measurable targets for project results?	Project results at the date of the audit visit (Oct. 2014-Feb. 2015)
Germany (Saxony)	125	Repairing 1.4 km of forest road	100 000	80 %	—	15.5.2009	10.10.2009	1 000 m ³ of timber harvest in 5 years	3 936 m ³ of timber harvest in 4 years
	321	Escape stairway and extension of primary school	35 000	100 %	—	8.5.2012	5.9.2012	No	75 students and 6 teachers benefiting from improved safety
	321	Extension of day-care centre	145 000	100 %	6	30.9.2011	24.10.2012	To reduce energy consumption	Energy-saving measures implemented
	321	Repairing 1.6 km of road	130 000	85 %	—	11.3.2011	22.7.2011	Direct beneficiaries: 12 households, 3 firms, 2 holdings	Direct beneficiaries: 12 households, 3 firms, 2 holdings
	321	Repairing 1 km of road	110 000	85 %	—	4.4.2011	2.9.2011	No	Not quantified
	322	Repairing 0.175 km of road and 0.252 km of pedestrian slip	115 000	89 %	—	26.3.2009	17.11.2009	Direct beneficiaries: 12 households, 3 public buildings	Direct beneficiaries: 12 households, 3 public buildings
	322	Repairing 1.6 km of road	760 000	85 %	—	17.8.2010	15.8.2011	Direct beneficiaries: 170 households, 6 firms and 2 public buildings	Direct beneficiaries: 170 households, 6 firms and 2 public buildings

Member State	Measure	Project description	Eligible costs (rounded, euro)	RDP aid as % of eligible costs	Delays (months)	Funding date	Works end date	Measurable targets for project results?	Project results at the date of the audit visit (Oct. 2014-Feb. 2015)
Italy (Sicily)	125	Building 2.7 km of road and repairing 2.6 km of road	1 330 000	80 %	4	25.2.2010	16.1.2013	No	Not quantified
	125	Building 3.3 km of road	1 060 000	80 %	6	30.12.2010	21.3.2013	No	Not quantified
	125	Building 3.3 km of road and repairing 2.2 km of road	1 350 000	80 %	4	31.8.2010	23.8.2012	No	Increase in number of animals: + 26 % in 2010-2014
	125	Building 2.8 km of road and repairing 1 km of road	960 000	80 %	2	21.12.2010	19.10.2012	No	Increase in number of tourists: + 28 %; Increase in number of animals: + 38 % in 2011-2013
	125	Replacing 4 km of pipes serving 390 farmers	1 760 000	100 %	—	10.11.2011	8.1.2014	No	Not quantified
	321	Renewal of aqueduct network and water tank	130 000	100 %	—	30.3.2012	13.1.2014	No	Reduction of 10-15% in water losses
	322	Renewal of village water fountain	160 000	100 %	—	3.7.2012	19.6.2013	No	Not quantified
	322	Renewal of village main square (buildings + water fountain)	810 000	100 %	3	22.11.2011	15.2.2014	No	Not quantified

Member State	Measure	Project description	Eligible costs (rounded, euro)	RDP aid as % of eligible costs	Delays (months)	Funding date	Works end date	Measurable targets for project results?	Project results at the date of the audit visit (Oct. 2014-Feb. 2015)
Poland	125	Improving pumping station to protect from flood	800 000	75 %	5	17.11.2010	25.6.2012	To improve flood protection for an area of 320 ha	Better flood protection for 320 ha
	321	Reconstruction and extension of a sewage treatment plant	2 500 000	40 %	—	16.12.2009	28.8.2012	To meet legal water quality standards	172 new users reported, however no supporting evidence provided; drop in utilisation rate from 81 % in 2012 to 71 % in 2014; legal water quality standards met
	321	Building 4.5 km of water supply and 2.8 km of sewerage network	300 000	75 %	—	11.8.2011	9.8.2012	No	160 users (water supply) and 150 users (sewerage) reported, however no supporting evidence provided
	321	Building 8.9 km of sewerage network and repairing 1.7 km of water supply network	800 000	50 %	2	16.12.2009	31.12.2012	No	48 new users reported, however no supporting evidence provided
	322/323	Renovating cultural centre, parking area and equipment for football pitch	95 000	75 %	—	14.8.2009	31.12.2011	No	Not quantified

Member State	Measure	Project description	Eligible costs (rounded, euro)	RDP aid as % of eligible costs	Delays (months)	Funding date	Works end date	Measurable targets for project results?	Project results at the date of the audit visit (Oct. 2014-Feb. 2015)
Romania	125	Repairing 7.4 km of road	800 000	100 %	2	1.12.2010	22.10.2012	No	Direct results not quantified; number of subsidised farms in the area increased from 58 in 2012 to 72 in 2014
	322	Repairing 18.5 km of road and building after-school facility for 10 children	2 400 000	100 %	8	17.6.2010	13.12.2012	7 new jobs; 10 children to attend the after-school facility	No new jobs, 16 children attending after-school facility
	322	Building 15 km of water supply network and 14.5 km of sewerage system and wastewater treatment plants	2 190 000	100 %	10	28.8.2008	23.6.2011	575 new sewerage connections	628 new sewerage connections; water quality improved
	322	Building 0.93 km of road and 21 km of sewerage system	1 270 000	100 %	—	25.9.2008	16.5.2011	1 725 new sewerage connections	802 new sewerage connections
	322	Repairing 4 km of road, building 14 km of sewerage system, renovating town hall and day-care centre for 12 children	1 770 000	100 %	16	22.7.2009	28.5.2012	871 new sewerage connections, 8 new jobs, 12 children in the day-care centre	327 new sewerage connections, no new jobs, 12 children in the day-care centre

Member State	Measure	Project description	Eligible costs (rounded, euro)	RDP aid as % of eligible costs	Delays (months)	Funding date	Works end date	Measurable targets for project results?	Project results at the date of the audit visit (Oct. 2014-Feb. 2015)
Spain (Extremadura)	125	Repairing 1.3 km of water irrigation canal and replacing 7 pumps/filters	800 000	90 %	—	29.8.2013	29.8.2014	No	Not quantified
	125	Building 144.6 km of non-paved roads serving 1629 farmers	7 910 000	100 %	—	23.2.2009	21.1.2011	No	Not quantified
	125	Repairing two roads of 6.4 km + 14.8 km	1 420 000	100 %	—	25.9.2012	22.1.2013	No	22 % decrease in the number of tourists in the 2 years after works (2013-2014), compared to average number of tourists in the 2007-2012 period
	125	Repairing 18.2 km of road	630 000	100 %	—	11.2.2013	2.2.2014	No	Not quantified
	323	Signalling rural paths	120 000	100 %	—	2.7.2013	30.5.2014	No	Not quantified
	323	Renewing a rural/bicycle path	120 000	100 %	—	29.5.2013	8.5.2014	No	Not quantified
	413	Buying furniture and equipment in residence for elderly	175 000	100 %	—	1.8.2011	23.3.2012	30 more persons to be hosted	30 more persons could be hosted

Executive summary

III

The Member States were encouraged to include in their rural development programmes (RDPs) the most important rural areas to be developed. The RDPs had to identify the areas where the use of EU support for rural development adds the most value. The Member States had to choose the most relevant operations to be funded. The EAFRD has permitted the funding of investments which otherwise may have not been funded.

III First indent

In the 2007-2013 programming period, the Member States were requested to justify their investment priorities based on a SWOT analysis of needs. Provisions concerning strategic programming and an effective coordination in the use of different funds have been strengthened in the 2014-2020 programming period. The risk of deadweight has to be considered on a case by case basis, depending on the type of investments concerned and local investment conditions.

III Second indent

Selection criteria and selection procedures are defined by the Member States. During the 2007-2013 programming period, the Commission reminded on several occasions the Member States of the obligation to set up genuine selection criteria and to correctly apply the selection procedures. In order to help the Member States to avoid weaknesses in the application of selection criteria the Commission produced guidance on eligibility and selection applicable to the 2014-2020 programming period.

III Third indent

Information available through the monitoring and evaluation system (e.g. mid-term evaluations), while incomplete and possibly not always fully reliable, did provide a good overview of the implementation of RDPs. However, for multiannual programmes certain results, such as gross value added, and impacts can only be properly assessed well into the programming period and afterwards. Such effects can only be measured after sufficient time since the implementation has passed. For most interventions, this was not yet the case at the moment of the mid-term evaluation. Consequently, certain results and impacts of the programmes could not yet be measured, unlike the expenditure or outputs.

IV

The Commission issued basic guidance for the 2007-2013 programming period to help the Member States to prepare their RDPs.

As regards the 2014-2020 programming period, the Commission has issued more extensive guidance providing information on eligibility conditions, selection criteria and investments.

V (a)

This recommendation is for the Member States.

V (b)

The Commission accepts this recommendation and has started to implement it.

Reply of the Commission

When establishing the legal framework for the 2014-2020 programming period, the Commission has taken the necessary steps to improve coordination between different funds as regards the support to rural infrastructures. Coordination and complementarity of EU funds at the level of national/regional strategies is addressed by the different services of the Commission. It is however for national/regional authorities to enforce such coordination/complementarity at measure/project levels when implementing the programmes.

The Commission will regularly monitor and assess implementation in the Member States within the established framework for performance monitoring and reporting.

V (c)

This recommendation is for the Member States.

V (d)

The Commission accepts this recommendation. However, given the limited value of assessing measures in isolation, the Commission is of the opinion that evaluation should be carried out at the level of the focus areas, which reflect policy objectives. Moreover, the Commission stresses the importance of evaluation to interpret and analyse the data collected in order to draw conclusions on effectiveness or efficiency.

V (e)

This recommendation is for the Member States.

Observations

Common Commission reply to paragraphs 20-22

In the 2007-2013 programming period, the Member States were requested to justify their investment priorities based on a SWOT analysis of needs. Provisions concerning strategic programming and an effective coordination in the use of different funds have been strengthened in the 2014-2020 programming period.

Coordination was to be ensured at national and/or regional level. The Member States and/or regions have been considering together the need for complementarities on the basis of demarcation. Often integrated approaches at regional and local level have been followed aiming at optimising the EU co-funding.

23

Based on lessons learnt during the 2007-2013 programming period, the legal framework for the 2014-2020 programming period reinforces a strategic approach to programming and enhances complementarity among EU and national funds.

24

The interventions under the RDPs are co-financed by the Commission and the Member States. In the context of scarcity of national financial resources, the EAFRD has allowed the Member States and regions to fund interventions in rural areas, which otherwise may have not been financed, to the benefit of local populations.

Box 2 — Italy (Sicily)

According to the Sicilian authorities, the region experienced a lack of national or regional resources to fund structural investments. In this context, the EAFRD has allowed the region to fund interventions in rural areas, which otherwise may have not been financed.

Box 2 — Germany (Saxony)

The substitution of public funds illustrated by the case of Saxony is a consequence of the annuality of budget spending in Germany, while the RDP is a multiannual programme (7 years) for the implementation of which the rule 'n+2' applies.

25

The substitution of public funds by the EAFRD at project level does not necessarily entail the absence of additional effects on the outcome. It is not demonstrated, based on the audited projects, that the EAFRD measures have not supported investments for which the financial returns were insufficient to justify the full costs of the investment.

26

Backing aid rates with economic analysis is not foreseen in the legislation. However, several Member States justified the need for RDP intervention and conducted macroeconomic analyses. For example:

- the Sicily RDP does include an analysis of agriculture, forestry and rural areas and provide for an identification of relevant needs;
- the Romania RDP includes a description of the need for infrastructure investments including some quantification of needs. The co-financing rates were set up at axis level taking into account macroeconomic criteria.

See also common Commission reply to paragraphs 20-22.

29

Projects can be funded through EAFRD support and/or national resources. This does not mean that projects would have been implemented even in the absence of the RDP funds. The Commission is of the opinion that appropriate selection criteria represent an essential means to ensure an effective targeting of support. The checking of the financial capacity of individual applicants should not lead to a disproportionate administrative burden for the managing authorities.

Box 4

In the case of Sicily, the Italian authorities have identified double funding and consequently the projects concerned have been excluded from the aid granted under the RDP.

31

The setting up of demarcation criteria is one possible way to avoid double funding. However, the overlapping of public funds can occur as long as double funding of the same items is avoided as it does not necessarily entail a lack of added value from the different interventions.

31 First bullet

According to Article 56 of Regulation (EC) No 1698/2005, the EAFRD finances only 'small infrastructure' in the measure 'basic services'. For this reason the RDP for Saxony set up a ceiling for these types of projects. This does not prevent the ERDF from supporting integrated projects.

31 Second bullet

The demarcation criteria set by Sicily in the RDP are clear and do not allow the overlapping of public funds. The managing authority is responsible for the implementation of appropriate controls to ensure the respect of the demarcation.

31 Third bullet

The Polish RDP for 2007-2013 contains demarcation rules regarding:

- (a) type of the project: for example broadband skeleton infrastructure for the ERDF; 'last-mile' for the EAFRD;
- (b) localisation: for example broadband in 'white' rural areas (i.e. with no access to broadband).

This means that a single project can only be funded from a single source at any given point in time.

Reply of the Commission

32

Article 60 of Regulation (EC) No 1698/2005 refers to the obligation of establishing demarcation criteria only in relation to EU support instruments. The management of national funds and the setting up of national/regional coordination structures are the responsibility of the Member States. The overlapping between the EU and national funds in a given area does not jeopardise complementarity as long as double funding of the same operation is avoided.

33

Several Member States took actions to ensure complementarity between the funds. For example:

- Romania set up a mechanism aimed at promoting complementarity;
- Italy has set up a framework within which all EU-supported regional programmes can operate in synergy to achieve common objectives.

35

Coordination was to be ensured at national and/or regional level. The Member States and/or regions have been considering together the need for complementarities on the basis of demarcation. Often integrated approaches at regional and local level have been followed aiming at optimising the EU co-funding.

36

As regards Romania, this single example does not mean that there is no complementarity between the funds.

As regards Sicily, the region has been requested by the Commission to clarify in the draft 2014-2020 RDP that no support can be granted for the restructuring of roads which have fallen into disrepair because of a lack of regular maintenance or for new roads in areas already served by roads which have fallen into disrepair because of a lack of maintenance.

38

In 2007-2013, programmes could only be approved in the presence of needs analyses backing satisfactorily the Member States' strategic choices. Only overlaps between funds for the same type of operations can be accepted, provided this does not lead to double funding of the same undertakings.

In 2007-2013, complementarity between Community support instruments was sought by the establishment of demarcation criteria.

See also Commission common reply to paragraphs 20-22.

40

Substitution does not necessarily entail the absence of added value from the different funds. Substitution was necessary in some cases due to a difficult situation in the public finances of many Member States and regions.

41

Complementarity in the intervention by different funds is considered in the partnership agreements and at the level of operational and rural development programmes.

The Romanian partnership agreement contains information on synergies between different funds and details of coordination mechanisms. Moreover, at the level of individual measure fiches, Romania has indicated possible complementarity and coordination with other funds.

The issue of complementarity was extensively discussed with the Member States during the negotiations regarding the 2014-2020 RDPs. The Commission has provided appropriate guidance to the Member States on these issues.

The draft 2014-2020 RDP for Sicily, the approval of which was ongoing at the time of the audit, does provide a description of the mechanisms to promote the complementarity between the different EU funds.

Box 7 — Italy (Sicily)

The applicable eligibility conditions and selection criteria are only those defined in the Sicily RDP, as approved by the Commission. The call for proposals should not set eligibility conditions in addition to or alternative to those defined in the RDP. Nor should the region implement RDP measures according to criteria which are not foreseen by the relevant measure fiche as described in the RDP. It is the responsibility of the managing authority to ensure the correct implementation of the programme.

45

The weaknesses identified are expected to be addressed in the 2014-2020 RDPs. Article 49 of Regulation (EU) No 1305/2013 requires that selection criteria are applied according to a transparent and well-evidenced procedure. In addition, the Commission's guidance on eligibility and selection criteria for the 2014-2020 RDPs specifically mentions that selection criteria should be applied even when the managing authority is the sole beneficiary.

47

In Poland, the beneficiaries of this measure were regional bodies responsible for water infrastructure, which are, inter alia, responsible for the proper selection of projects.

48

It is the responsibility of the Member States and regions to make sure that selection criteria are correctly applied to ensure that only the best-quality projects are supported by EAFRD. The Commission has provided guidance to the Member States as regards the application of appropriate selection criteria.

Box 9 — Italy (Sicily)

At the monitoring committee meeting in June 2013, the managing authority informed the Commission about the correct application of all selection criteria foreseen by the RDP. Moreover, all new calls for proposals after June 2013 for measures under axes 1 and 3 included a minimum threshold of points to further ensure the quality of the selected projects.

50

The Commission has issued guidance on reasonableness of costs which addresses the need to make risk-based checks according to amounts and aid intensities at stake.

51

In its guidance on rural development controls and penalties, the Commission encourages Member States to have reliable price databases in place and if possible to complement this system with a comparison of offers and expert opinions.

Box 11 — Spain (Extremadura)

During the approval process for the 2014-2020 RDP for Extremadura, the Commission addressed the issue of direct awarding of the aids to state-owned companies, in particular with regard to the justification of prices. This weakness is expected to be addressed in the 2014-2020 RDP.

Reply of the Commission

56

While requiring the submission of a maintenance plan may be considered as a good practice for certain investments, there is no legal obligation to do so.

57

The Commission has also identified this risk, and following the Court's specific findings on this issue, it has been included in the Romanian error rate action plan.

58

The 2014-2020 RDP for Sicily had not been approved at the time of the audit. Following negotiations with the regional authorities, it has been decided that the costs of these projects will not be supported under the 2014-2020 RDP.

60

According to Article 71 of Regulation (EU) No 1303/2013, in the 2014-2020 programming period the 5-year period cannot start at the time of approval of the application but will start with the last payment to the beneficiary.

61

During the 2014-2020 programming period negotiations the Commission encouraged the Member States to speed up the administrative processes so that beneficiaries can implement the operations from the beginning of the programming period.

62

While setting administrative deadlines may be considered as a good practice, there are no legal provisions that empower the Commission to force Member States to set such deadlines.

63

The Member States have been reminded of the importance of a timely implementation of the measures to ensure a successful execution of the programmes and an efficient use of EU funds during the annual review meetings and the meetings of the monitoring committees.

67

The Commission's audits found similar weaknesses to those identified by the Court, such as non-conformities with regard to the selection of projects, the reasonableness of the costs or non-compliances with public procurement provisions. Based on the findings of these audits, the audited Member States undertook to take corrective measures in order to improve the performance of the abovementioned areas.

70

The only outstanding modification of the (national) public procurement law in Poland entered into force on 19 October 2014. Assessment by the Commission is ongoing.

Romania did develop during 2015, in conjunction with the Commission services, a reinforced action plan for this *ex ante* conditionality. This was adopted by the Romanian authorities on 9 July 2015 and is now being implemented for all ESIF programmes.

71

The assessment of reasonableness of costs has been largely covered in the guidance on controls and penalties for rural development, which also includes information on the use of reference prices.

72

Infrastructure projects must ensure that during the 5 years following the final payment, there is no substantial change of the projects affecting their nature, objectives or implementation conditions which would result in undermining of their original objectives. This is to be verified with *ex post* checks on a sample basis as provided by Article 52 of Regulation (EU) No 809/2014.

Common Commission reply to paragraphs 79 and 81

In the 2007-2013 programming period, the CMEF was a new feature. Some Member States required a learning curve regarding the methodology of data collection, processing and the use of the evaluation results.

Information available through the monitoring and evaluation system, while incomplete and possibly not always fully reliable, was the best available at this stage, taking into account financial and practical limitations. The Commission has proposed solutions for a number of problems related to the monitoring and evaluation system for the programming period 2014-2020 but there will always be the need to find a balance between the benefits of monitoring and evaluation and the costs and administrative burden related to it.

80

In its observation letters addressed to the Member States concerning the annual progress reports, the Commission has invited the authorities to speed up the process of quantification of the indicators.

Box 15

The fact that only a few hundred of persons live in a village in which a road is built does not give information on how many actually use it or might use it. Not only the rural population benefits from improved services in rural areas.

The double counting of the rural population for the aims of measure 322 (village renewal) was intended and is a result of the adopted methodology.

83

There is no legal requirement for setting quantified targets for each individual projects. The CMEF foresees target setting at RDP level by the managing authority.

As shown in Annex II to the report, four out of five Polish projects had quantifiable results, while the only exception related to the cultural/sport infrastructure.

85

For 2014-2020 CMES, the new result indicator 'Change in agricultural output on supported farms/ annual work unit' will be assessed by external evaluators in 2017 and 2019 and in the *ex post* evaluations. The Commission considers that this frequency is appropriate taking into account the cost/benefit ratio of such evaluations.

86

The two 2014-2020 CMES indicators (the output and result indicators 'population benefiting from improved services/infrastructure') will complement each other. They will measure respectively the gross and the net number of population benefiting for the operations.

87

The assessment of the effects of measures will be carried out against the programmes' objectives to which they contribute. The objectives are defined at the level of focus areas for which targets are established *ex ante*. The progress of the programmes against these targets is regularly monitored. This approach reflects a result orientation of the policy and enables the combined effects of measures against relevant objectives to be better assessed.

Reply of the Commission

The Member States can define additional programme-specific indicators in relation to a set of key measures. However, this should not be requested systematically for all measures for reasons of keeping the costs of monitoring and evaluation reasonable. *Ex post* evaluators will further investigate the performance of single measures/sub-measures.

Moreover, the indicators as defined in the legislation or by the Member States are only the starting point for an evaluation, The evaluators can collect additional information, for example through case studies.

88

The mid-term evaluation did provide a good overview of the implementation of RDPs. However, for multiannual programmes such as RDPs certain results (e.g. gross value added) and impacts can only be properly assessed and measured after sufficient time since implementation has passed.

89

The 2014-2020 monitoring and evaluation system incorporates a number of improvements in comparison with the 2007-2013 CMEF:

- Enhanced annual implementation reports (AIRs) incorporating evaluation findings will replace mid-term evaluations. The first AIR in 2017 will concentrate on elements related to programme steering, while the second AIR in 2019 will provide an initial assessment of the impact of the RDPs.
- The Member States will be required to carry out evaluation activities throughout the programming period in accordance with the evaluation plan included in the RDPs.
- The assessment and reporting of the results and impacts of the policy will be linked more appropriately to the stage of implementation of the RDPs.

Conclusions and recommendations

93

The Member States were encouraged to include in their RDPs the most important rural areas to be developed. The RDPs had to identify the areas where the use of EU support for rural development adds the most value. The Member States had to choose the most relevant operations to be funded. The EAFRD has permitted the funding of investments which otherwise might not have been funded.

94

Sharing best practices can best be done *ex post*, since infrastructure investments are of a longer-term nature and their benefits will be shown at a later stage. However, lessons learnt from the previous programming period are reflected in the legislative framework for 2014-2020. The European Network for Rural Development promotes the sharing of good practices among Member States and regions.

96

Coordination was to be ensured at national and/or regional level. The Member States and/or regions have been considering together the need for complementarities on the basis of demarcation. Often integrated approaches at regional and local level have been followed, aiming at optimising the EU co-funding.

97

The interventions under the RDPs are co-financed by the Commission and the Member States. In the context of scarcity of national financial resources, the EAFRD has allowed the Member States and regions to fund interventions in rural areas, which otherwise may have not been financed, to the benefit of local populations.

98

In the 2007-2013 programming period, the Member States were requested to justify their investment priorities based on a SWOT analysis of needs. Provisions concerning strategic programming and an effective coordination of the use of different funds have been strengthened in the 2014-2020 programming period. The risk of deadweight has to be considered on a case-by-case basis, depending on the type of investments concerned and local investment conditions.

Common Commission reply to paragraphs 99 and 100

The demarcation and complementarities were detailed in the 2007-2013 programming documents. While the support by different funds to the same type of interventions does not necessarily compromise the added value of the contributions, double funding of the same investment was excluded through the establishment of demarcation lines. Synergies have been encouraged by allowing joint interventions by different funds in certain areas, while demarcation was ensured through the use of criteria such as financial ceilings or physical parameters.

For the 2014-2020 programming period, the issue of complementarity and demarcation was raised in the RDPs. Also, the so-called 'Commission services' position papers' drawn up for each Member State provided guidance on the coordinated interventions of the ESIF. The Member States have to ensure the complementarity, consistency and conformity with other EU instruments.

Recommendation 1 (a)

This recommendation is for the Member States.

Recommendation 1 (b)

The Commission accepts the recommendation and has started to implement it.

The risk of deadweight has to be considered on a case-by-case basis, depending on the type of investments concerned and local investment conditions. Exchange of best practices concerning the mitigation of the risk of deadweight will be promoted through the activities of the European Rural Development Network.

Mechanisms to ensure better complementarities and coordination between funds have been reinforced in the 2014-2020 programming period through the partnership agreements, where the Member States have to describe the use of ESIF in order to ensure complementarity and synergies of activities. The issue of complementarity and demarcation was also raised in the RDPs.

While the principle of additionality of RDP resources to national funds is addressed at programme level by applying the relevant co-financing rates, the Commission will continue to promote efficiency in rural development spending.

Reply of the Commission

Recommendation 1 (c)

This recommendation is for the Member States.

Recommendation 1 (d)

The Commission accepts this recommendation and has started to implement it.

When establishing the legal framework for the 2014-2020 programming period, the Commission has taken the necessary steps to improve coordination between different funds as regards the support to rural infrastructures.

Coordination and complementarity of EU funds at the level of national/regional strategies is addressed by the different services of the Commission. It is however for national/regional authorities to enforce such coordination/complementarity at measure/project levels when implementing the programmes.

The Commission will regularly monitor and assess implementation in the Member States within the established framework for monitoring and reporting.

103

The Commission's audits have also identified weaknesses in the systems put in place in the Member States to assess the reasonableness of costs. In some cases, financial corrections have been imposed.

The improvement of checks on the reasonableness of costs and public procurement is a priority for the Commission. Training related to these issues has been delivered for the managing authorities and paying agencies and specific guidance has been issued. As regards public procurement, an action plan for all ESI funds and specific guidance for practitioners, training courses and dedicated webpages are being developed.

Public procurement is an *ex ante* conditionality for all ESI funds and where there is not enough assurance that procedures and institutions in place can manage EU funds in an effective and efficient way, respecting the legality of the transactions, payments to the Member States might be suspended.

104

While requiring the submission of a maintenance plan may be considered as a good practice for certain investments, there is no legal obligation to do so.

105

While setting administrative deadlines may be considered as a good practice, there are no legal provisions that empower the Commission to force Member States to set such deadlines.

Recommendation 2 (a)

This recommendation is for the Member States.

Recommendation 2 (b)

The Commission accepts this recommendation.

The Commission is implementing the recommendations made in Special Report No 22/2014 by delivering specific training for the managing authorities and paying agencies, enhanced assessment of the verifiability and controllability of the measures and promotion of the use of simplified cost options. Furthermore, the systems in place for ensuring that the costs of the projects are reasonable will be assessed in the framework of conformity audits. Financial corrections will be applied in cases of non-compliance.

Recommendation 2 (c)

This recommendation is for the Member States.

Recommendation 2 (d)

This recommendation is for the Member States.

Common Commission reply to paragraphs 107 and 108

Information available through the monitoring and evaluation system was the best available at this stage, taking into account financial and practical limitations. The Commission has proposed a number of improvements to the monitoring and evaluation system for the 2014-2020 programming period, while considering the need to find a balance between the benefits of monitoring and evaluation and the costs and administrative burden related to it.

109

The 2014-2020 monitoring and evaluation system incorporates a number of improvements.

Enhanced annual implementation reports (AIRs) will be issued in 2017 and 2019, which will incorporate evaluation findings. The first report will concentrate on the programme steering and the second one on the assessment of the impact of the RDPs. The Member States will be required to carry out evaluation activities throughout the programming period in accordance with the evaluation plan included in the RDPs. The assessment and reporting on the results and impacts of the policy will be linked more appropriately to the stage of implementation.

To further underpin the result orientation of the policy, its assessment against relevant policy objectives will be strengthened.

Recommendation 3 (a)

The Commission accepts this recommendation. However, given the limited value of assessing measures in isolation, the Commission is of the opinion that evaluation should be carried out at the level of the focus areas, which reflect policy objectives. Moreover, the Commission stresses the importance of evaluation to interpret and analyse the data collected in order to draw conclusions on effectiveness or efficiency.

Recommendation 3 (b)

This recommendation is for the Member States.

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The EU co-finances investments in rural infrastructure with the aim to improve competitiveness of the agricultural and forestry sectors and increase the quality of life in rural areas. This audit examined whether the Member States and the European Commission have achieved value for money with the funds allocated. The audit found that the need for EU rural development funding was not always clearly justified, coordination with other funds was weak and selection procedures did not systematically direct funding towards the most cost-effective projects. The Commission and the Member States have not collected adequate information on the effectiveness or efficiency of the measures funded, making it difficult to direct future policy and manage the budget by results.



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