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Notice No | Contents | Page

EN

2

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COURT OF AUDITORS

SPECIAL REPORT No 7/2006

concerning rural development investments: do they effectively address the problems of rural areas?

together with the Commission's replies

(pursuant to the second subparagraph of Article 248(4) of the EC Treaty)

(2006/C 282/01)

CONTENTS

GLOSSARY OF TERMS AND ABBREVIATIONS

TERMS

Beneficiary	the final recipient of an EU payment.
Impact	longer-term socio-economic consequences that can be observed a certain period after the completion of an intervention, which may affect either direct addressees of the intervention or indirect addressees falling outside the boundary of the intervention, who may be winners or losers.
NUTS	Nomenclature of Statistical Territorial Units, the EU's common classification for regional statistics, which divides each Member State into a hierarchy of regions (labelled NUTS I, II, III and LAU I and II) depending on national administrative units.
Leader	an initiative financed by the structural funds designed to help rural actors.
Output	that which is produced or accomplished with the resources allocated to an intervention (e.g. farm equipment purchased by a farmer, road built in a village).
Result	immediate changes that arise for direct addressees during or at the end of their participation in an intervention (e.g. improved accessibility to an area due to the construction of a road, more efficient production on a farm).
Urban area	a geographical area which does not have the characteristics of a rural area. Different typologies exist which classify areas into rural and urban, for instance based on population density.

ABBREVIATIONS

CAP	common agricultural policy.
DG AGRI	Directorate-General for Agriculture and Rural Development.
EAGGF	European Agricultural Guidance and Guarantee Fund.
ESPON	European Spatial Planning Observation Network.
GDP	gross domestic product.
LAU	local administrative unit.
LFA	less-favoured area.
OECD	Organisation for Economic Cooperation and Development.
OP	operational programme.
RD	rural development.
RDP	rural development programme.
SWOT	strengths, weaknesses, opportunities, threats.

EXECUTIVE SUMMARY

I. Rural areas face significant challenges such as depopulation and a scarcity of economic opportunities. The EU contribution for rural development for the period 2000 to 2006 is more than 60 billion euro. Around 40 % of this budget is used for rural development investments. They cover a wide range of projects, for which management and implementation is shared by the Commission and the Member States (see paragraphs 1 to 10).

II. This report concerns observations on the Court's audit on rural development investments. The audit sought to reply to the following overall question: 'To what extent do the outcomes of investment measures address effectively the problems of rural areas?' (see paragraphs 3 and 11 to 15).

III. The flexibility of the Rural Development Regulation (broad objectives, lack of priorities) and the lack of a clear strategy in the Member State programmes have led to a situation where it is unclear to which objective the funds have contributed. Member States' programmes focus largely on the agricultural sector and do not sufficiently take into account the characteristics of the geographical area supported (see paragraphs 16 to 28).

IV. There is a lack of effective conditions and selection procedures, to target funds on the most needy geographical areas and beneficiaries (see paragraphs 29 to 34). A lack of effective targeting also leads to a risk of increased deadweight effects, which reduce the effectiveness of the aid (see paragraphs 35 to 39).

V. A significant part of the expenditure is implemented in areas which are not predominantly rural. When compared to the previous programming period, investment support for rural areas decreased significantly (see paragraphs 40 to 46).

VI. It was not always possible to identify the effects of the projects, but when this could be done key factors which increased their effectiveness were synergy with other projects and being sited in rural areas (see paragraphs 47 to 52). Shortcomings were also found in the implementation of the monitoring and evaluation system (see paragraphs 53 to 63).

VII. Overall, the Court finds that no assessment can be made whether rural development investments are effective. Objectives are too broad and strategies to implement the policy are lacking. There is no balanced achievement of the two main objectives of the RD policy. In order to achieve this, the Commission should work with the Member States towards improved effectiveness of the policy. Important elements in this respect include clarifying the objectives and developing principles of effective targeting (see paragraphs 64 to 69).

INTRODUCTION

Background

1. The financial importance of rural development within the EU budget is significant. The EU contribution for the 2000 to 2006 programming period is more than 60 billion euro. The budget for the 2007 to 2013 programming period proposes to increase this to almost 70 billion euro. To this should be added several billion euro coming from 'modulation', the transfer of amounts from direct farm subsidies to rural development [1].

2. Rural areas cover a large part of the EU's territory and its population. In comparison to urban areas, on average in rural areas the GDP per head is around one third lower, population density around 10 times lower and employment in the agricultural sector around 10 times higher. Rural areas are generally more remote and have less infrastructure and basic services and face significant challenges such as depopulation and a scarcity of economic opportunities.

3. This Special Report presents observations on the following measures of the Rural Development Regulation [2]: 'investment in agricultural holdings', 'improving the processing and marketing of agricultural products' and 'promoting the adaptation and development of rural areas'. They cover around 40 % of the available budget. Under these measures a wide range of projects can be financed which, for the purpose of this audit, are labelled rural development investments. Other important rural development measures such as agri-environment, LFA, and forestry which also aim to address problems of rural areas have been covered in previous reports [3].

Description of the rural development investments

The legal basis

4. Before the year 2000, the investment measures were part of the Structural Funds and their objectives and conditions were defined by specific regulations. Investment in agricultural holdings and improving the processing and marketing of agricultural products were to support the agricultural sector across the EU, while the measures for promoting the adaptation and development of rural areas were to address specific problems of those areas.

5. Starting from the year 2000, Rural Development became the 'second pillar of the CAP' [4]. This was done by combining the investment measures with a wide range of other measures in a single regulation. While keeping the Structural Fund objectives, the CAP objectives were integrated in the policy. Few conditions were set and, from then on, all measures were implemented across the EU. This has resulted in a decentralised policy giving Member States a wide range of options to finance national or regional priorities.

The objectives

6. At a global level, the Regulation sets two objectives. The first relates to the agricultural sector, and can be summarised as improving agricultural competitiveness and sustainable land management. The second concerns the structural adjustments of regions that are lagging behind or facing other structural problems. *Table 1* sets out full details of these objectives.

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(1) Council Regulation (EC) No 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers (OJ L 270, 21.10.2003, p. 1). Article 10.

(2) Council Regulation (EC) No 1257/1999 of 17 May 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and amending and repealing certain Regulations (OJ L 160, 26.6.1999, p. 80).

(3) Special Report No 3/2005 (OJ C 279, 11.11.2005), Special Report No 4/2003 (OJ C 151, 27.6.2003), Special Report No 9/2004 (OJ C 67, 18.3.2005).

(4) The first pillar of the CAP consists of support to be granted to farmers in the form of direct payments.

Table 1

Objectives provided by the Rural Development Regulation for the RD investment measures

GLOBAL OBJECTIVES FOR ALL RD MEASURES (1)

Rural development measures shall:

— accompany and complement other instruments of the common agricultural policy and thus contribute to the achievement of the following objectives:

(a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;

(b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;

(c) to stabilise markets;

(d) to assure the availability of supplies;

(e) to ensure that supplies reach consumers at reasonable prices.

— be integrated into the measures promoting the development and structural adjustment of regions whose development is lagging behind, and accompany the measures supporting the economic and social conversion of areas facing structural difficulties in the regions concerned, taking into account the following specific target: in order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular, the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least-favoured regions or islands, including rural areas.

SPECIFIC OBJECTIVES FOR RD INVESTMENT MEASURES (2)

Investment in agricultural holdings	Improving the processing and marketing of agricultural products	Article 33
1. To reduce production costs 2. To improve and redeploy production 3. To increase quality 4. To preserve and improve the natural environment, hygiene conditions and animal welfare 5. To promote diversification of farm activities	1. To guide production in line with foreseeable market trends or encourage the development of new outlets for agricultural products 2. To improve or rationalise marketing channels or processing procedures 3. To improve the presentation and preparation of products or encourage the better use or elimination of by-products or waste 4. To apply new technologies 5. To favour innovative investments 6. To improve and monitor quality 7. To improve and monitor health conditions 8. To protect the environment	No specific objectives provided

(1) Article 1 of Regulation (EC) No 1257/1999.
(2) Articles 4, 25 and 33 of Regulation (EC) No 1257/1999.

7. The Regulation also provides specific objectives for two of the investment measures, which are also set out in *Table 1*. Investments in agricultural holdings contribute to the improvement of agricultural incomes and to the improvement of living, working and production conditions. Investments for improving the processing and marketing of agricultural products contribute to increasing competitiveness and adding value to products.

8. Investments for promoting the adaptation and development of rural areas are commonly known after its number in the Regulation: 'Article 33'. The article defines that support shall be granted for measures, relating to farming activities and their conversion and to rural activities, which do not fall within the scope of other measures. It then provides a list of indents (which are in this report also referred to as measures) for which no details and no specific objectives are provided. Consequently, a wide range of projects can be supported under this measure.

The implementation

9. The Commission and Member States share the management and implementation of rural development investment measures. In practice, this means that the Member States define the strategy and the eligibility conditions in their programmes, approve and check projects, pay beneficiaries and report to the Commission. The Commission is responsible for ensuring that the programmes, their implementation and reporting comply with the legal requirements.

10. Potential beneficiaries (farmers, processing and marketing companies, local authorities) present an application to the implementing body in the Member State concerned. If the project fulfils the requirements (eligibility conditions, available budget and sometimes ranking and selection criteria), it is approved and the beneficiary can implement the project. Upon project completion, the beneficiary requests reimbursement from the Member State paying agency. Periodically, the paying agency asks the Commission to reimburse the expenditure incurred.

Audit scope and approach

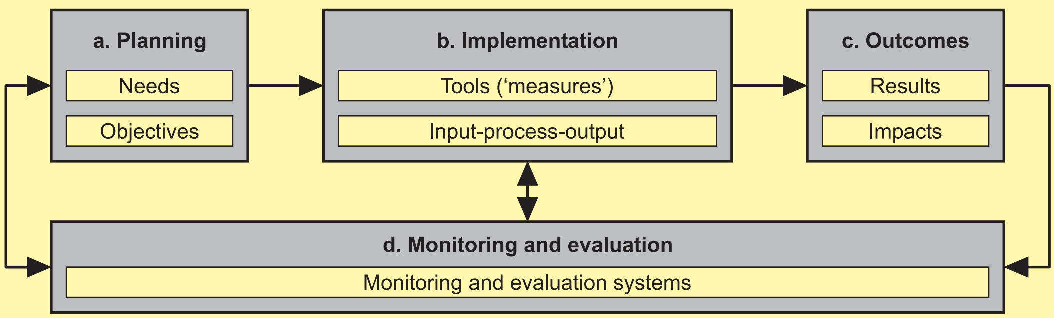
Audit questions

11. The Court decided to carry out a performance audit focusing on effectiveness, with as its scope the 2000 to 2006 programming period. The principle of effectiveness is concerned with attaining the objectives set and achieving the intended results.

12. Planning, implementation, the outcomes achieved and the monitoring and evaluation were identified as key elements. *Figure 1* gives an overview of these elements and their relationships:

Figure 1

The programme logic model



13. The objective of the audit was to conclude on the extent to which rural development investment measures are effective in addressing problems of rural areas. This was approached by addressing the following questions, based on the four key elements above:

(a) Does the EU have a clear strategy and a coherent approach to rural development policy, and are they adequately defined in Member State programmes?

(b) Are those projects selected for EU financing based on criteria which best address the needs of rural areas?

(c) Have the projects been implemented in rural areas and have they had an impact?

(d) Are the outputs, results and impacts properly monitored and evaluated?

Audit approach

14. The audit was carried out in the period January to December 2005 and involved gathering audit evidence from:

(a) an analysis of the legal basis, policy papers, studies, programming documents and of monitoring and evaluation reports;

(b) examination of a random sample of 300 EAGGF projects for the programming period 2000 to 2006, with the main aim of obtaining a representative view of the location of the investments and the socio-economic problems of the area concerned;

(c) nine audit visits to the Member States which were amongst those with the most payments in the sample of 300. A total of 31 projects were audited, concentrating on the financially most important measures. A list of these projects and the measures concerned is contained in *Annex I*. The 31 projects were selected on a judgemental basis, in order to include projects in areas with different types of rurality. The aim was also to identify examples of good practice.

15. The following Member States and regions were selected for on the spot visits on the basis of their size in the random sample. Outside Objective 1 regions [1]: France (national RDP), Germany (Niedersachsen), Italy (Emilia Romagna), the Netherlands (national RDP) and Spain (Catalonia). In Objective 1 regions: Germany (Brandenburg), Italy (Campania), Portugal (Lisboa Vale do Tejo) and Spain (National OP). The visits took place in the period June to October 2005.

OBSERVATIONS

Audit question 1: Does the EU have a clear strategy and a coherent approach to rural development policy, and are they adequately defined in Member State programmes?

Clarity of the strategy

Observation 1

The flexibility of the Regulation (broad objectives, lack of priorities) and the lack of a clear strategy in the Member State programmes have led to a situation where it is unclear to which objective the funds have contributed.

(1) NUTS II regions whose development is lagging behind, which is defined as a per capita GDP of less than 75 % of the Community average.

16. The Rural Development Regulation aims, on the one hand, to contribute to the achievement of the objectives of the CAP and, on the other hand, to contribute to economic and social cohesion (see paragraph 6). In order to reach those objectives, the Regulation defines a series of measures. For some of them, specific objectives are set out, while for others none are provided (see *Table 1*). These measures are a mix of support for agricultural competitiveness improvements, environmental improvements and support for rural areas. The Regulation does not set out which measure should contribute to which objective, nor in which proportion the objectives should be obtained.

17. The Regulation defines the investment measures in a flexible manner, as few conditions are required to get the support. In addition, the measures can contribute to any of the global objectives.

18. For the nine Member State programmes reviewed, the Court found that a clear strategy was lacking. Some programmes do not set out clearly what objectives are pursued and in which proportion a measure shall address them. Other programmes set out objectives but implement measures which achieve different objectives. This makes policy decisions non-transparent: it is not clear how much money is used for which purpose. Text box 1 provides examples of this situation.

Text box 1

Same measure for different objectives

One of the measures in the Spanish programme for improving agricultural structures in Objective 1 areas is investment in agricultural holdings. The objective set out in the programme is to increase agricultural incomes, and to improving living, working and production conditions. However, the audit found that the actual objectives achieved differed depending on the location of the investment. In areas of productive agriculture, this measure contributes to the objective of agricultural competitiveness improvement. However, in mountain areas the measure offers support to small and non-competitive farms with the objective to stabilise the rural population. The programme does not allocate specific resources to these different objectives. There are no specific targets for the two different objectives addressed by this measure; and there is no monitoring of how much money is spent on each of the different objectives or in each of the different type of areas.

The measure water resources management and reparcelling accounts for 70 % of the EAGGF contribution to the Portuguese programme for 'Lisboa e Vale do Tejo'. The objective set out in the programme is 'to develop a modern and competitive agriculture as key element for the development of rural areas'. However the audit found that the measure supports the modernisation of irrigation networks in fertile areas as well as new irrigation networks completed by reparcelling and infrastructure in areas of poor farming structure (very small parcels, obsolete irrigation systems). The measure has two different objectives: to increase the competitiveness of highly productive areas; and to boost the farming activities in rural areas threatened by abandonment. The programme does not establish in which proportion the measure shall address one or the other objective. A single project located in a densely populated area has absorbed 29 % of the whole EAGGF contribution to the programme.

Unclear objectives

Reparcelling is generally considered as the rearrangement of parcels to improve farm structures and thus the economic viability of holdings. Under the Dutch RDP, this Article 33 indent is the financially most important measure. The lack of a detailed description in the Rural Development Regulation enables the Netherlands to use this indent as a means for the State to buy land for the purpose of nature development. The Commission approved RDP shows that from the amount allocated to this indent, 87 million euro should contribute to the objective of sustainable agriculture and 16 million euro to the objective of nature and landscape. However, the Court's audit showed that in reality 86 % of the funds had as main objective nature development and only 14 % for sustainable agriculture. The flexibilty of the Regulation allows this situation. The consequence is a policy where it is unknown to which objective the funds have contributed.

A coherent approach for rural development

Observation 2

Member States' programmes focus largely on the agricultural sector and do not sufficiently take into account the characteristics of the geographical area supported.

19. At the level of Member States, two needs are recognised through the general objectives defined by Articles 33, 158 and 160 of the Treaty. Firstly, there is a need to address structural weaknesses, reduce income inequalities between rural and urban areas, to reduce rural unemployment, improve the competitiveness of the primary sector and promote wider economic opportunities in rural areas. Secondly, because of threats to the viability and vibrancy of many rural communities, caused by a scarcity of economic opportunities, there is a need to maintain the viability of rural communities, support new activities and facilitate the provision of rural services. Additionally, Member States are facing a wider range of challenges such as an increased awareness about product quality, animal welfare, environmental concerns.

20. In order to address these wide-ranging needs, various concepts of territorial approaches for rural areas have been developed. They are focused on a geographical area, based on a socio-economic analysis and a strategy that articulates the different aspects of rural development in explicit relation to other interventions in the area. In addition, they have an integrated approach: multi-sectoral with involvement of all actors and resources in the area concerned. This maximises the synergies within one programme as well as between different programmes applied in the zone.

21. Independent evaluations on rural development, launched by the Commission, recommend a territorial approach (1). The Commission concludes in its third report on Economic and Social Cohesion that many problems of rural areas are territorial in character (2).

22. The two European conferences on rural development, in Cork (1996) and in Salzburg (2003), confirmed the relevance of a territorial approach. In Cork it was underlined that 'Rural development policy must be multi-disciplinary in concept, and multi-sectoral in application, with a clear territorial dimension' (3). In Salzburg it was considered that 'Rural development policy must serve the needs of broader society in rural areas and contribute to cohesion' (4).

23. In addition, there is a large number of studies available on the territorial approach for rural development, which also recommend this approach. Well known institutes and researchers, including OECD and ESPON, conclude in their studies that a sectoral approach is less effective than a territorial one.

(1) *Ex-post* evaluation of Objective 5b programmes 1994 to 1999, August 2003; Synthesis report of the Mid-Term Evaluations 2000 to 2006, February 2006.

(2) A new partnership for cohesion, Third report on Economic and Social Cohesion, February 2004, p. 29.

(3) Conclusions of the European Conference on rural development in Cork, 7 to 9 November 1996.

(4) Conclusions of the second European Conference on rural development in Salzburg, 12 to 14 November 2003.

24. The other approach is the traditional agricultural-centred or 'sectoral' one, focusing on only one sector and not taking account of the characteristics of the geographical area supported. The Court found that the Member State programmes predominantly have this latter approach. Key elements of the programme, such as the specific objectives, the SWOT analysis, the description of the situation and the measures are all focused on the agricultural sector. The programmes did not enable effective spatial targeting because the necessary elements were either lacking or incomplete ([1]).

25. The Commission recognises the need to boost innovation and diversification outside traditional agri-businesses ([2]). However, an analysis by the Court of rural development expenditure for the current programming period shows that almost 90 % of rural development expenditure is paid to the agricultural sector.

26. This strong focus on agriculture puts at risk the achievement of one of the global objectives of the Regulation, reducing territorial imbalances. An appropriate mix of territorial and sectoral approaches would mitigate this risk. A successful case of integration of sectoral and territorial approaches was found in Campania (Text box 2). This shows that it is possible to apply a territorial approach with the EU's rural development policy.

Text box 2

Elements of a partial territorial approach in Italy's programme for Campania

The Campania programme includes the following elements of a territorial approach:

- *appropriate description and diagnosis of the territory. The programme distinguishes two large zones with different problems: areas with intensive agriculture and 'rural areas'. The latter are defined using different criteria, and have an average population density of 127 inhabitants/km^2, compared with 1 239 inhabitants/km^2 outside these areas, and an agricultural employment rate of 22 %, compared with 6 % in the rest of the region.*
- *the measures which apply an approach by agricultural product sector aim at supporting economically viable agricultural holdings and processing firms. They represent 23 % of the EAGGF contribution. Priority is given to investments in areas which are particularly suited for the production of the agricultural product concerned. Additional priority is given to mountain areas,*
- *four Article 33 measures addressing the lack of basic services and promoting new activities, representing 24 % of the EAGGF monies, are only implemented in rural areas,*
- *priority is given to projects located in rural areas, thus addressing the needs of those areas, and creating synergies with other investments in the area.*

27. The new Rural Development Regulation, which will be in force from 2007, continues to allow Member States to adopt a predominantly sectoral approach, with a primary focus on the agricultural sector. There is no territorial objective aimed at a more balanced development by reducing disparities and avoiding territorial imbalances at EU, Member State or regional level.

28. Only 'Leader', which has been included under the new Regulation, has a territorial approach, while also certain measures have some elements of this approach because of their multi-sectoral nature. However the funds available are limited (the minimum Community percentage for Leader is 5 % for EU-15 and 2,5 % for the new Member States; the rate for the multi-sectoral measures is 10 %). The Commission's more ambitious proposals were reduced (for the multi-sectoral measures from 15 % to 10 %) or rejected (in the case of a Leader reserve of 3 % of the RD budget). This shows that in practice there is a reluctance to shift from the sectoral to the territorial approach.

Audit question 2: Are those projects selected for EU financing based on criteria which best address the needs of rural areas?

Conditions and selection procedures

Observation 3

There is a lack of effective eligibility conditions and selection procedures to target funds on the most needy geographical areas and beneficiaries.

(1) For instance, if a diagnosis of the problems of different parts of the territory is included, this is at a general level, without identifying which concrete rural area has which problem. Moreover, the description of the problems/needs is not used for adapting the RD measures to the needs of different areas.

(2) Commission Newsletter 'Putting rural development to work for jobs and growth', 2005.

29. Both the consolidated Treaty and the Rural Development Regulation use the term ‘rural areas’. Article 33 is entitled ‘promoting the adaptation and development of rural areas’. However the Regulation does not define this, nor requires Members States to set out conditions which rural areas should fulfil (e.g. in their rural development programmes). The Court found for the Member State programmes audited that three did not contain a definition of rural areas, that five had a definition which was not applied, and that only one programme (Campania) actually applied its definition of rural areas.

30. The Regulation also does not require that Member States should tailor the measures to the needs of rural areas in their programmes. This could be done by identifying the areas with the highest needs, and then to allocate funds to rural areas according to the degree of their needs (specific budgets, differentiating aid rates, limiting measures to certain areas, etc.).

31. The Member States have generally not done so in their programmes. Almost all measures are applied in the whole of the programme’s territory, without taking into account the varying degree of needs of rural areas.

32. Even when a project fulfils the conditions, some projects are better at addressing the needs of rural areas than others. For instance, if one investment project creates more jobs in rural areas than another project, assuming all other matters are equal, the first project is preferable. In addition, available funds are limited. For reasons of effectiveness, funds should be prioritised according to needs.

33. The Court’s audit found that Member States generally do not apply effective procedures for selecting those projects which best address the needs of rural areas. Several Member States award projects on the basis of the ‘first-come, first-served’ principle. In other cases, Member States have set up ranking procedures, which were not applied or based partly on non relevant criteria. In only one out of the nine programmes reviewed were effective procedures applied. Text box 3 provides examples.

Text box 3

Examples of ineffective application of ranking and selection

The following are examples of criteria which are not relevant in addressing the needs of rural areas:

— *In Catalonia, for the processing and marketing measure, points are awarded to the proposed projects depending on the length of time since the beneficiary received a grant. This criterion aims to spread the aid to a larger number of beneficiaries rather than to select projects which best address the needs of rural areas. In France, for the same measure none of the selection criteria refers to the location of the investment.*

— *In Niedersachsen, only one of the five criteria used to select a village in the region’s programme for ‘village renewal’ takes into account the rurality of a village. One of these criteria is the commune’s financial situation: it must have sufficient financing power to be able to carry out the actions speedily and effectively. This tailors the measure to communes in urban areas, rather than to rural ones because the latter are usually financially weaker.*

34. The audit also found that there is a risk that the better-informed, better-organised and richer beneficiaries have easier access to EU funds. For the investment measures, the projects financed are proposed by private persons and by municipalities which must co-finance part of the investment. Examples were found where aid is concentrated with the economically stronger beneficiaries and areas rather than the more rural areas. Text boxes 3 and 4 show cases where regional imbalances increased rather than decreased.

Text box 4

Concentration of aid with stronger private and public beneficiaries

In Emilia Romagna, only agricultural holdings are supported which have a minimal revenue by annual work unit of around 10 000 euro for LFA areas and around 15 000 euro for non-LFA areas. 50 % of the farms have less than 5 000 euro revenue. In general these are small farms. 12 % of the region’s biggest farms (more than 20 ha) absorbed 41 % of the grants.

The Article 33 indent ‘agricultural water management’ is financially the most important measure in the Spanish programme for improving agricultural structures in Objective 1 region. Most of the funds of this measure (76 %) are used to modernise existing irrigation networks. Irrigated areas cover around 12 % of the total surface of Objective 1 regions, and are more densely populated and more competitive than non-irrigated areas. People have settled in such areas because irrigated areas are on average six times more productive than non-irrigated areas. This has led to a situation where the majority of the funds is concentrated in 12 % of the surface area in the most favourable position. Only a small percentage of the aid (around 20 %) was implemented in areas which were defined as depopulated (< 38,5 inhabitants/km^2).

Deadweight

Observation 4

A lack of effective targeting also leads to a risk of increased deadweight effects, which reduce the effectiveness of the aid.

35. Deadweight occurs when an investment would have happened also without the assistance. In such instances the effects, such as growth of the firm or jobs created, would have been realised anyway. Support for investments is most effective when the investment would not have been carried out, and the desired effects would otherwise not have been realised. However, a certain level of deadweight can be considered unavoidable, as beneficiaries must be ready to undertake investment projects.

36. The Commission acknowledges that deadweight exists ([1]). This was also confirmed by the Court's audit, of which some of the examples found are included in Text box 5. High levels of deadweight are also reported by independent evaluations.

Text box 5

Examples of deadweight

Two farmers were visited who received aid for projects under the measure investment in agricultural holdings in Emilia Romagna. Both farmers stated that, had the public support not been granted, they would have carried out the investments anyway. Moreover, both farmers had sufficient financial resources and chose to carry out additional investments (not EU co-financed) for amounts in one case five times bigger than the supported project, in the other case half of the supported project.

In Catalonia, until 2005 priority criteria were not applied for the measure improving the processing and marketing of agricultural products, and all eligible applications were co-financed. Because the funds were insufficient to do so at the public co-financing rate foreseen in the RDP, the rate was reduced significantly to an average of 15 %. This increased the likelihood of deadweight — the beneficiaries had to finance 85 % themselves. For two of the three companies visited, the annual accounts for the years after completion of the EU co-financed project showed that the companies had made additional investments for amounts exceeding the EU co-financed investments.

37. In order to reduce the risk of deadweight, better targeting is needed. In addition, little or no attention has been given by the Commission to identifying factors which can predict deadweight. For example, deadweight was generally found to be higher if the investments were made by larger firms but lower in the case of environmentally friendly investments. These factors could consequently be taken into account when targeting the assistance.

38. There is a relationship between viability of the company and sustainability of the investment, on the one hand, and deadweight, on the other hand. However the Court considers that the Commission focused too much on sustainability while accepting too easily a high risk of deadweight.

39. An illustration of this is the situation for investment in agricultural holdings in the Belgian region of Flanders, where almost half of the agricultural holdings are excluded because of the condition for economic viability. This condition was implemented by requiring an income per full-time worker of at least 21 577 euro. The evaluators of the programme concluded that this excluded holdings which needed support and for which the deadweight effects were lower.

Audit question 3: Have the projects been implemented in rural areas and have they had an impact?

The location of projects

Observation 5

A significant part of the expenditure is implemented in areas which are not predominantly rural, to the detriment of the amounts available for such areas.

40. The Commission has little information on the location of the results and impacts of RD Investments (see further paragraph 61). The Court drew a representative sample of 300 EAGGF projects, and classified their location in categories of rurality. This was done by using four of the best available independent benchmarks for which data exists to classify all areas of the EU's territory in urban and rural. The following benchmarks were used (more details are provided in *Annex II*):

(a) whether or not the area was classified as rural in the previous programming period (1994 to 1999). In this period Article 33 measures outside Objective 1 areas were only implemented in certain areas, called 'Objective 5b', which had to fulfil certain criteria of rurality and had to be approved by the Commission;

(b) the classification of the NUTS III area in the ESPON typology, developed as part of the ESPON programme which is jointly managed by the Commission and the Member States;

([1]) DG AGRI factsheet 'New perspectives for EU Rural Development', p. 7.

(c) the relative rurality of the NUTS III area according to national definitions available for statistical purposes;

(d) the classification of the NUTS III area in OECD typology, which is based on population density and which has been generally applied for international analysis since 1994.

41. *Table 2* provides the results of the analysis of how the 300 investments are classified for each of the benchmarks. It shows that for regions outside Objective 1, depending on the typology used, between 29 % (OECD) and 55 % (ex Objective 5b classification) of the expenditure is in non-rural areas. For Objective 1 regions between 9 % (OECD) and 22 % (national definition) of rural development support is located in non rural areas.

Table 2

Location of RD investments in a representative sample of 300 EAGGF projects

Sample population	Ex-objective 5b		ESPON typology			National definition			OECD typology		
	No	Yes	Urban	Medium	Rural	Urban	Medium	Rural	Urban	Medium	Rural
Regions outside Objective 1	55 %	45 %	47 %	29 %	25 %	44 %	7 %	49 %	29 %	38 %	33 %
Objective 1 regions	n/a	n/a	21 %	53 %	26 %	22 %	2 %	76 %	9 %	43 %	48 %

42. When compared to the previous programming period (1994 to 1999), rural development investment support for rural areas (ex Objective 5b) dropped by 50 % in absolute terms (around 1 500 million euro), and by 70 % in relative terms ([1]), despite a significant increase in the RD budget. This illustrates that the lack of prioritisation of rural areas, allowed by the Regulation, has been to the detriment of the funds available for these areas.

Table 3

Average population density of the location of RD investments in a representative sample of 300 EAGGF projects

Sample population	Population density of the location of the investment (inhabitants/km^2)	
	LAU II	NUTS III
Regions outside Objective 1	**259**	**242**
Objective 1 regions	**237**	**246**

43. The population density was also analysed for the 300 projects. For each of the sample populations, the average population density of the area of investment is shown in *Table 3* (LAU II is the 'lowest' administrative level, such as communes, and NUTS III is the larger administrative area such as provinces). For all types of investment measures audited, both LAU II and NUTS III areas have on average a higher population density than the European average of 120 inhabitants per square km. The figures for Objective 1 regions should be compared with the average population density for Objective 1 areas, which is 81 inhabitants/km^2.

44. The relevance of this analysis stems from the correlation between population density and economic performance. The higher the population density, the higher the GDP per head. The results of *Table 3* mean that the RD investments are on average in LAU II and NUTS III areas which have a higher GDP per head than the EU average.

45. A characteristic of the ESPON classification is that the areas defined as urban in its typology have the highest GDP, i.e. they are the richer areas. The results of the sample thus show that a significant part of the expenditure for the measures reviewed (47 % for regions outside Objective 1, 21 % for Objective 1 regions) is implemented in areas with the highest GDP, contrary to the objective of reducing territorial imbalances (see paragraph 6).

([1]) *Source:* Court analysis of Commission accounting data.

46. The results are particularly noteworthy for Objective 1 regions, which are overall the poorer areas of the EU. The average population density of the location of the investment is very similar for regions in and outside Objective 1 (see *Table 3*). This indicates that the investments are concentrated in the richest parts of the Objective 1 regions.

Results and impacts of the projects reviewed on the spot

Observation 6

It was not always possible to identify the effects of the projects, but when this could be done key factors which increased their effectiveness were synergy with other projects and being sited in rural areas.

47. As part of the analysis of the 31 projects reviewed during the Member State visits, the audit addressed the question 'what were the project's results and what were the key variables which have determined them?'. The following photos provide an impression of four of the projects audited. *Annex III* provides a more detailed description of these projects, which illustrate the following points. The results presented below cannot be extrapolated because the sample was made on a judgemental basis and also aimed to include examples of good practice.

Point 1: Effects (results and impacts) cannot always be identified

48. For 10 projects reviewed, clear results and impacts were found. For another 15 projects [1], evidence for some effects was found, albeit not for all the intended effects. For the remaining six projects [2] little or no effects were found. This information was generally not collected by the Member States, which sometimes claimed that this is the responsibility of the evaluators.

Point 2: Projects are more effective when synergy takes place

49. For 20 projects reviewed synergy effects were found. This means that the projects were not implemented in isolation but were linked to others. This was normally because projects were part of a wider concept such as a local development strategy (e.g. for village development or tourism development). For the remaining 11 projects [3], synergy effects could not be established. The Court found that isolated projects, which had no link with other projects, had less impact and were less effective.

50. Member States do not always require that projects are part of a wider concept or local development plan. In those cases, in particular for Article 33 measures, effective targeting would increase the effectiveness of the assistance.

Point 3: Location and impact in rural areas

51. For all projects reviewed, the main effects were realised in close vicinity of the investment. Only seven projects [4] also had an impact in a wider area.

52. For 19 projects reviewed, the results and impacts contributed positively to the development of rural areas. However, for the remaining 12 projects, the Court did not find such a positive contribution: for six cases little or no effects were found (see paragraph 48) and another six cases [5] were in a town or non-rural area. This has a significantly lesser impact on rural development and is thus not effectively addressing the problems of rural areas.

(1) Projects 1 to 5, 7 to 9, 16, 18, 19, 22, 23, 30 and 31 (see *Annex I*).
(2) Projects 12, 15, 17, 20, 26 and 27 (see *Annex I*).
(3) Projects 1, 2, 3, 4, 7, 8, 9, 12, 17, 20 and 31 (see *Annex I*).
(4) Projects 5, 6, 7, 8, 9, 10 and 11 (see *Annex I*).
(5) Projects 7, 8, 11, 18, 24 and 25 (see *Annex I*).

Photo 1

Project No 15, construction of a viewing tower in Brandenburg

Photo 2

Project No 11, purchase of agricultural land by the State in the Netherlands

Photo 3

Project No 19, upgrading of the village centre of Kirchwahlingen in Niedersachsen

Photo 4

Project No 22, modernisation of old concrete aqueducts by a system of underground pipes and pumps in Spain

Audit question 4: Are the outputs, results and impacts properly monitored and evaluated?

The overall framework and implementation of the monitoring and evaluation system

> *Observation 7*
>
> Implementation by the Commission and the Member States of the monitoring and evaluation system does not provide adequate and reliable information about the outputs, results and impacts of RD investments.

53. The design of the monitoring and evaluation system is set out in the legal basis, including for instance the inclusion in the RDPs of operational objectives and expected impacts, quantified where possible in terms of monitoring and evaluation estimates.

54. For monitoring, the legal basis requires Member States to submit annual progress reports to the Commission, which include progress of measures in relation to their objectives. For this, as far as possible, the common indicators defined in the guidelines drawn up by the Commission should be used. On the basis of the common indicators reported by the Member States, the Commission prepares periodically a synthesis report.

55. Three types of evaluations are performed: *ex-ante* (at programme planning stage), mid-term (not later than 31 December 2003 and where necessary updated two years later) and *ex post* (by 31 December 2008). The Commission has also contracted evaluators to prepare summary reports concerning the information included in Member States' *ex post* evaluations for the previous programming period (which were available in 2003) and the mid-term evaluations of the present period.

56. When taking into account that the Commission has addressed some of the present shortcomings with the changes proposed for the new programming period the Court finds that the overall framework of the monitoring and evaluation system is generally adequate.

57. The Court analysed how the monitoring and evaluation system was implemented by the Commission and the Member States. The Court found that neither the Commission nor the Member States adequately monitor and evaluate the outputs, results and impacts of RD investments. This means that they do not have sufficient information to effectively manage the investment measures.

58. The following weaknesses were found:

(a) objectives at project and measure level, indicators and targets were generally found to be inadequately defined in the Member State programmes;

(b) even when indicators were adequately defined, several Member States did not collect and report data on project results, even though this would have been possible;

(c) when data was reported, in many cases the output, result and impact indicators were not reliable. EU achievements were overstated due to the inclusion of national co-financing and double reporting of the results. In addition, data was based on planned figures or estimates and generally not checked in reality by the national administrations;

(d) the Commission has requested that the data is based on commitments and not on payments, there is thus no direct link with the amounts paid and consequently the financial reporting. It also means that figures are not those actually realised and that outputs and results are reported too early or overstated (e.g. when projects are cancelled);

(e) concerning Article 33, because of the wide variety of different type of projects, the Commission did not provide for relevant common output indicators. It is not reported what is actually financed.

59. These weaknesses consequently affect the Member State's annual progress reports, in which the data is reported. The common indicators of these reports form the basis for the Commission's 'EU rural development monitoring data — synthesis reports', a report requested by the Agricultural Council. The last report, relating to the years 2001 to 2003, was prepared in May 2005, focuses on financial implementation, and provides little monitoring data on outputs and results. The report is not complete, as data for Objective 1 regions was not available. It cannot be compared with the year 2000 because the Commission changed the indicators in 2001, and updated figures for the year 2000 are only partly available.

60. The weaknesses (see paragraph 58) also affect the evaluation reports. An additional problem relating to the evaluations is the limited relevance of the 'common evaluation questions'. These are a series of evaluation questions, criteria and indicators developed by the Commission and required by the legal basis. The Court's audit found that the majority of the questions are not answered by the evaluators because most of the questions, criteria and indicators are not pertinent, and when they are, that data is not reported or cannot be quantified.

61. Monitoring and evaluation provides only limited information on where outputs, results and impacts are realised. Such information is necessary to analyse that the problems are addressed in those rural areas where the needs are highest. As such it is the logical completion of targeting and enables to measure the effectiveness of the support.

62. For a number of years the Commission's approach to sound financial management has been through the Activity-Based Management procedures. This provides, at a global level, indicators on output and impact of rural development. These indicators, however, do not provide any insight in what was financed and what was achieved. The output indicators describe the expected activities of the Commission and the only relevant impact indicator for the investment measures is rural development expenditure as share of total EAGGF expenditure.

63. The way in which the monitoring and evaluation system is implemented has led to a situation that reporting does not provide a reliable picture of the outputs, results and impacts of the RD investments. It is not apparent what was financed (outputs), what was achieved (results, impacts) and how this contributed to addressing the problems of rural areas.

CONCLUSIONS AND RECOMMENDATIONS

64. The Court found that key information to answer the question of whether rural development investment measures effectively address the problems of rural areas was lacking. Thus it could not be assessed what funds had contributed to achieve which objective. The non-availability of this information is partly due to the Rural Development Regulation which offers a wide range of measures aiming at broad objectives. Furthermore the Member State programmes did not set out clear strategies in order to address problems of rural areas (see paragraphs 16 to 18).

— The Commission should for the next programming period ensure that when it adopts the rural development programmes Member States have identified clear strategies which relate to specific objectives and which will allow the assessment of the cost effectiveness relationship of the investments.

65. Member States' programmes implementing rural development measures focus support to a large extent on the agricultural sector and thus remain close to one of the global objectives of the Regulation: contributing to the achievement of the objectives of the CAP. This strong focus on agriculture puts at risk achievement of the other global objective of the Regulation: contributing to economic and social cohesion of rural areas which would be best served by a territorial approach as applied in other Structural Funds (see paragraphs 19 to 26).

— When designing the arrangements for the programming period 2007 to 2013, appropriate attention should be given to the balance between the two core objectives of the Regulation: that relating to the CAP and that aiming to reduce territorial imbalances.

66. The Regulation does not give a definition of rural areas, nor stipulates conditions which they should fulfil. Member States are not required to set out rural areas in their rural development programmes. There is a lack of effective conditions and selection procedures to target funds on the most needy geographical areas and beneficiaries (see paragraphs 29 to 34).

— The Commission should ensure that, for reasons of effectiveness, Member States' programmes prioritise allocation of funds according to their needs. Such prioritisation would benefit from a clearer identification of the most needy areas and beneficiaries.

67. The Commission has little information on the location of the results and impacts of the investments. The Court identified that a significant part of the expenditure is implemented in areas which are not predominantly rural and that, when compared to the previous programming period, investment support for rural areas decreased significantly (see paragraphs 40 to 46).

— When approving the rural development programmes the Commission should make sure that Member States have clearly justified in which areas investments are most needed.

68. Regarding the results and impacts of the projects reviewed on the spot it was found that establishing the effect is difficult but that factors which influenced positively the effectiveness were synergy with other projects and being located in rural areas (see paragraphs 47 to 53).

— The Commission should encourage Member States to analyse key factors influencing succes of investment projects and disseminate cases of good practice.

69. The system for monitoring and evaluation does not provide the Commission and the Member States with sufficient and reliable information on outputs, results and impacts (see paragraphs 53 to 63).

— The Commission should improve data collection and reporting in order to be better informed on the effectiveness of the investments.

This report was adopted in Luxembourg at its meeting of 28 June 2006.

For the Court of Auditors
Hubert WEBER
President

ANNEX I

LIST OF PROJECTS AUDITED IN THE MEMBER STATES

Ref.	Member State and Programme	Measure — Regulation (EC) No 1257/1999						Short project description
		Investment in agricultural holdings	Improving processing and marketing of agricultural products	Article 33 measures: Reparcelling	Article 33 measures: Renovation and development of villages and protection and conservation of the rural heritage	Article 33 measures: Agricultural water management	Article 33 measures: Development and improvement of infrastructure connected with the development of agriculture	
1	Italy — Emilia Romagna	×						Purchase of farm machines, aiming at cost reduction
2	Italy — Emilia Romagna	×						Construction of farm buildings to store machines, aiming at cost reduction
3	Spain — National OP	×						Supporting an investment (grant, interest rate and loan subsidy) at a small family farm with around 15 cows
4	Spain — National OP	×						Supporting an investment (grant and interest rate subsidy) at a relatively large size milk cooperative (186 cows, milk quota 1,2 million kg)
5	France — National RDP		×					Investments to improve quality control in a wine production cooperative
6	France — National RDP		×					Investments to improve and control hygienic conditions in a slaughterhouse
7	Spain — Catalonia		×					Improving sanitary conditions and saving energy through adjusting production process in a private company
8	Spain — Catalonia		×					Building a new plant and improving sanitary conditions through adjusting production process in a private company
9	Spain — Catalonia		×					Building a new plant and improving sanitary conditions through adjusting production process in an association of producers
10	Netherlands — National RDP			×				Purchase of 28,6 hectares of agricultural land in a nature reserve area from a farmer

Ref.	Member State and Programme	Measure — Regulation (EC) No 1257/1999						Short project description
				Article 33 measures				
		Investment in agricultural holdings	Improving processing and marketing of agricultural products	Reparcelling	Renovation and development of villages and protection and conservation of the rural heritage	Agricultural water management	Development and improvement of infrastructure connected with the development of agriculture	
11	Netherlands — National RDP			×				Purchase of 125,6 hectares of land in a nature reserve area, mostly used as agricultural land, from the municipality of Zaanstad
12	Italy — Campania				×			Renovating an existing building in an isolated farm with the commitment to use it as a bed-and-breakfast facility
13	Italy — Campania				×			Renovating an open space (street and square) of a commune in order to use it as social area
14	Germany — Brandenburg				×			Renovating of a castle for museum purposes
15	Germany — Brandenburg				×			Building of a 31,5-meter-high steel tower giving a panoramic view over a lake and surrounding area
16	Germany — Brandenburg				×			Rebuilding of two bridges and the upgrading of a 1,1-km-long rural road
17	Germany — Niedersachsen				×			Converting an old traditional building into a social and meeting place
18	Germany — Niedersachsen				×			Restoring fencing and gables of an old farmhouse
19	Germany — Niedersachsen				×			Building a car park, resurfacing a road, creating a turning place for agricultural supply lorries repairing typical fences and establishing benches for leisure
20	Spain — Catalonia				×			Renewal of a meeting room in a rural commune
21	Germany — Brandenburg					×		Improving of the dykes along the river Oder and providing water from the river to irrigation
22	Spain — National RDP					×		Improving and modernising an irrigation network for an irrigation society
23	Spain — National RDP					×		Improving an area for an irrigation society in an integrated project (irrigation, drainage, roads, etc.)
24	Spain — National RDP					×		Irrigation in an agricultural area immediately next to the town of Castellón de la Plana

Ref.	Member State and Programme	Measure — Regulation (EC) No 1257/1999						Short project description
		Investment in agricultural holdings	Improving processing and marketing of agricultural products	Article 33 measures				
				Reparcelling	Renovation and development of villages and protection and conservation of the rural heritage	Agricultural water management	Development and improvement of infrastructure connected with the development of agriculture	
25	Spain — National RDP					×		Irrigation of agricultural land next to the town of Sagunto
26	Portugal — Lisboa e Vale do Tojo					×		Constructing a new irrigation system in the area of two villages in a rural community of Tomar
27	Portugal — Lisboa e Vale do Tojo					×		Constructing a new irrigation system in an area 25 km from Lisbon
28	Italy — Campania						×	Renovating existing rural roads, improving the accessibility to the surrounding farms, improving the communication between different parts of the commune and the access to the main roads
29	Italy — Campania						×	Renovating existing rural roads, improving the accessibility to the surrounding farms, improving the communication between different parts of the commune and the access to the main roads
30	Germany — Niedersachsen						×	Creating a new rural road of 410 meters
31	Germany — Niedersachsen						×	Upgrading of 1,4 km of rural road

ANNEX II

DEFINITIONS OF RURAL AREAS — BENCHMARKS USED FOR THE AUDIT

1. Ex-Objective 5b areas

With the date of effect of the Rural Development Regulation, 1 January 2000, Regulation (EEC) No 2052/88 ([1]) was repealed. The latter defines in Article 1(5) Objective 5b as 'promoting the development of rural areas'. Further on, Article 11 stipulates that areas eligible under Objective 5b shall be selected (…) taking into account in particular the degree to which they are rural in nature, the number of persons occupied in agriculture, their level of economic and agricultural development, the extent to which they are peripheral and their sensitivity to changes in the agricultural sector, especially in the context of reform of the common agricultural policy. For the 1994 to 1999 programme period, the Commission approved 83 zones following these criteria. The area thus affected by the Objective 5b programmes covered 26 % of the EU's surface area and 9 % of its population.

2. ESPON typology

The focus of the final report of ESPON project 1.1.2 'Urban-rural relations in Europe' is on whether the urban-rural divide is sensible, how this should be done and what the criteria should be, and whether it can be used for policy making. The report elaborates a typology of regions in Europe according to urban-rural characteristics. The ESPON typology is based on two main dimensions, the degree of urban influence and the degree of human intervention. Urban influence is defined according to population density and status of the leading urban centre of each NUTS III area. The degree of human intervention was determined by the relative share of land cover according to the main land cover classes of the CORINE data set. The main classes are artificial surfaces, agricultural areas, and residual land cover. For the purpose of the audit, the first class (type one 'high urban influence, high human intervention') is considered as urban, classes two to five as medium and class six as rural.

3. National definitions

Because the variation of criteria applied by the Member State is very large, the different typologies as such defined are not comparable. However, as part of project 1.1.2, ESPON has harmonised the national classifications by defining three classes depending on the country average. The result is a typology of relative rurality according to national definitions in three classes: low rurality (index below 90 of the country average), medium rurality (index between 90 and 110) and high rurality (index above 110).

4. OECD

The OECD classification has three classes where NUTS III areas are labelled as urban if less than 15 % of its population live in LAU II areas with a population density below 150 inhabitants/km^2. A NUTS III area is relatively rural if 15 to 50 % of its population live in LAU II areas with a population density below 150 inhabitants/km^2, while it is rural if it is more than 50 %.

([1]) Council Regulation (EEC) No 2052/88 of 24 June 1988 on the tasks of the Structural Funds (OJ L 185, 15.7.1988, p. 9).

ANNEX III

EXAMPLES OF RESULTS AND IMPACTS OF PROJECTS REVIEWED

Point 1 — Effects cannot always be identified

In Brandenburg, under the Article 33 measure 'renovation and development of villages and protection and preservation of the rural heritage', a 31,5-meter-high steel viewing tower has been built, giving panoramic views over the Senftenberger See and surrounding area (see also *Photo 1*). The tower is an additional attraction for the area, but in the opinion of the auditors it is not an essential project. If it had not been constructed the number of visitors would probably have been essentially the same. There is no evidence that this project, costing around 380 000 euro, develops the rural area effectively. The park authorities were able to provide statistics showing the number of overnight and day visitors. The construction of the tower had no discernible impact on these figures, and in any event any trend could be due to other factors. Thus the results and impact of the tower are very difficult to determine and quantify and it is early to assess the medium and long-term effects of the project.

Point 2 — Projects are more effective when synergy takes place

Example 1: Synergy with other instruments and objectives, part of a wider strategy

The project concerned the purchase of agricultural land by the State under the Article 33 measure of reparcelling in the Netherlands (see also *Photo 2*). For this project, the parcels were purchased in the 1960s by the commune for building purposes, but now (with EU co-financing) bought by the State for nature development rather than for urbanisation. Other EU co-financed projects were also implemented in the area, which has resulted in achieving at the same time the two main objectives of the RDP: nature development and sustainable development of agriculture. In addition, the area in which the project was located offered possibilities for water recreation and an EU co-financed cycle path was under construction between the parcels purchased and the city of Zaanstad. The project also fitted in a wider strategy of national and provincial plans and detailed arrangement plans. This is in particular relevant for the objective of nature, for example for the protection of species, which requires a larger intervention than at individual project level.

Example 2: Synergy with other projects and part of a wider strategy

Under the Article 33 measure 'renovation and development of villages and protection and conservation of the rural heritage', the village centre of Kirchwahlingen (Germany) was upgraded (see also *Photo 3*). This involved creating a car park for church and other visitors, resurfacing the road to help drain rainwater and avoid flooding, creating a turning place for agricultural supply lorries, repairing typical fencing, and establishing benches for leisure. This has led to an appreciation in the value of the village which has been opened up for cultural events and tourism and even attracted people to return to live. The inclusion of this project in a wider village renewal plan ensured that a range of appropriate local people have had an input into the planning procedure, including prioritisation, and that the most needy projects have been selected for that village. The project was complemented by two other closely-related public projects and one private project which were also identified in the village renewal plan. Moreover, the project was part of a wider concept of the (in total) 15 village renewal plans of the three local joint-communitoes (Samtgemeinde). The village concerned is in a rural area, where depopulation had been a problem and where infrastructure was relatively weak. The village was losing its identity. These facts reinforced the impact of this project.

Point 3 — Location in a non-rural areas

One of the projects reviewed for the measure irrigation in Spain has a total investment of 9,9 million euro, co-financed by EAGGF for 2,4 million euro. The project concerns irrigation in an agricultural area immediately next to Castellón de la Plana. There are no small villages in or around the agricultural area and the farmers benefiting from the project live in Castellón.

Through the middle of the irrigated agricultural area runs a highway which leads from the city to the port of Castellón, a distance of around 5 km. Between the agricultural area and the Mediterranean Sea is mainly built-up area. Castellón de la Plana has a population of around 147 000 and a population density of 1 346 inhabitants/km^2. The town is one of the centres of Spanish citrus fruit production because the area is fertile. It is an important commercial centre, with a large petrochemical industry, ceramic tile manufacturing and fishing as main activities.

Castellón de la Plana is one of the 29 Spanish cities which have benefited from the EU co-financed URBAN I Community initiative. The URBAN Community Initiative is an instrument within EU Cohesion Policy, dedicated to the regeneration of urban areas and neighbourhoods in crisis.

The project involves the modernisation of an irrigation network in an area of 895 hectares, by changing the existing concrete aqueducts to a system with pumps and underground channels (see also *Photo 4*). Main results are a significant reduction in water use, making the agriculture in the area more efficient, improving the quantity and quality of the products and thus maintaining the existing part-time agriculture (consolidar la agricultura a tiempo parcial).

The results of this project contribute to improving the competitiveness of agriculture and to the environment (water saving). However, these results are realised in an area which in several aspects are in the most competitive and best-situated parts of the Objective 1 areas of Spain. Castellón de la Plana, and the agricultural areas next to this town, are not characterised by problems which are typical for rural areas (depopulation, high employment in agriculture, etc.). Based on objective criteria, the areas cannot be considered as rural. The financing of such projects does not contribute to and does not promote the adaptation and development of rural areas.

THE COMMISSION'S REPLIES

II. The successful implementation of the investment measures should not solely be assessed against their impact on solving the problems of rural areas. Rural development deals with territorial cohesion but includes also other objectives like increasing the competitiveness of the agricultural and forestry sector, enhancing the environment and the countryside, and improving the wider rural economy both at Community and national/regional level (see reply to paragraphs 6 to 13).

Therefore, to adequately tackle the problems of rural areas, several instruments need to be put in place.

III. Specific 'measure-related' objectives are included for each of the audited measures under the respective Chapters I, VII and IX of Council Regulation (EC) No 1257/1999. For the next programming period, the Commission has included a more strategic approach through the Community Strategic Guidelines allowing Member States to better focus their rural development strategies on relevant objectives deriving from specific needs.

The strong focus on the agricultural sector is inherent to the rural development policy which has evolved from a policy dealing with the structural problems of the farm sector to a policy which addresses the multiple roles of farming in society and, in particular, challenges faced in a wider rural context. The tandem of sectoral and territorial elements is embedded in that policy being considered as the second pillar of the CAP (see reply to paragraphs 16 to 28).

IV. Rural development is a horizontal policy which is applicable to all European areas. Following the principle of subsidiarity, the identification of beneficiaries and areas eligible for support and the formulation of appropriate strategies is the responsibility of the Member States (see reply to paragraphs 29 to 34).

Regulation (EC) No 1698/2005 for the next programming period includes a clearer targeting towards smaller enterprises in processing and marketing of agricultural products (and micro-enterprises for forestry products in axis 1 and for business development in axis 3) in order, *inter alia*, to limit deadweight effects (if and where they occur) as much as possible (see reply to paragraphs 35 to 39).

V. The definition and identification of eligible areas as well as the location of the different measures is the responsibility of the Member States/regions on the basis of their analysis of problems, their objectives and the strategy that they have defined in their programmes. This is a core element in the context of subsidiarity. Furthermore, efficient spending of the investment measures can not only be brought down to the rural character of the area in which the intervention takes place (see reply to paragraphs 40 to 46).

VI. The Commission acknowledges that integrated territorial approaches provide an important tool for implementing the rural development policy and has recommended this possibility in the new Regulation (EC) No 1698/2005 by encouraging integrated projects which combine several measures and by mainstreaming the Community initiative Leader (see reply to paragraphs 48 to 51).

The Commission has already undertaken serious efforts to remedy shortcomings in the quantity and quality of the monitoring data of Member States, for the current programming period. Monitoring will be strengthened with the introduction of a Common Monitoring and Evaluation Framework (CMEF) for the next programming period in cooperation with the Member States (see reply to paragraphs 55 to 63).

VII. For the period 2007 to 2013, support will be better targeted through the introduction of the CMEF which has strong links to the national strategies.

In addition, Council Regulation (EC) No 1698/2005 concerning the next programming period takes a more strategic approach to rural development through the definition of three core objectives (improving competitiveness of farming and forestry, environment and countryside, improving quality of life and diversification of the rural economy) which are subsequently further broken down into sub-objectives specific to the different measures.

6 to 13. The Commission welcomes the observations and conclusions presented by the Court in this report. Many of them are relevant in view of the implementation of the legal framework for the next programming period 2007 to 2013.

Rural development policy consists of a set of nine groups of various sorts of measures. To address problems of rural areas, all groups of measures have to be taken into account in order to cover the wider scope of rural development objectives.

The specific objectives defined in the three groups of RD investment measures focus more specifically on reducing production costs, improving production and quality, promoting diversification of farm activities etc. These goals are embedded in the wider rural development approach of increasing competitiveness of the agricultural and forestry sector, enhancing the environment and the countryside and improving the wider rural economy (see also reply to paragraphs 19 to 27).

Observation 1

The flexible design of the RD policy allows Member States/regions to define objectives and strategies fitted to their specific situation. The RDPs include information on the objectives set out for the programming period and provide a description of the measures used to achieve those objectives.

16. Council Regulation (EC) No 1257/1999 for the current programming period 2000 to 2006 managed for the first time to merge several pre-existing measures into a single legal framework evolving from a policy dealing with the structural problems of the farming sector to a policy which addresses the multiple roles of farming in society.

This approach for more coherence between the individual measures is now further developed by Council Regulation (EC) No 1698/2005 for the next programming period 2007 to 2013. It improves the internal structure by clearly defining the three major policy objectives which are subsequently further broken down into specific objectives at the level of the individual measures (see reply to paragraph 27).

17. The flexibility of investment measures does not prevent Member States from building coherent development strategies: the regulation offers a toolkit with a large spectrum of measures so that Member States can choose those more relevant to their situation and needs.

18. On the basis of the analysis of problems, Member States/regions define objectives and a strategy in their RDPs. Various measures can contribute to the realisation of these objectives. That is why it is sometimes difficult at the beginning of the programming period to predefine resource allocation to certain sub-objectives at regional level.

Following the framework provided by the Council for the next period 2007 to 2013 a more strategic approach has been introduced through the Community Strategic Guidelines (CSG) adopted by the Council in February 2006 (1).

Member States shall prepare their national rural development strategies on the basis of six community strategic guidelines, which will help to:

— identify the areas where the use of EU support for rural development creates the most value added at EU level,

— make the link with the main EU priorities (Lisbon, Gothenburg);

— ensure complementarity and coherence between actions financed by the structural, employment and rural development policies on a given territory and in a given field of activity;

— accompany the implementation of the new market-orientated CAP and the necessary restructuring it will entail in the old and new Member States.

Text box 1 — Spain

Objectives pursued by the programme derive from the *ex-ante* evaluation at the level of the respective rural development plan. Where the territorial coverage of a single programme is composed of several regions, like the Spanish programme for improving structures, quoted in text box 1, the realisation of a general objective may be implemented in different ways, depending on farm structure and on the coherence of the measures proposed.

Text box 1 — Portugal

The two examples mentioned by the Court are in line with the objective of increasing incomes and of improving living, working and production conditions. In general, it is not because a certain degree of competitiveness has been achieved that no new investment should be done.

In the Portuguese example, the measure ‘water resources management and reparcelling’ (combination of two indents of Article 33) is only one of the instruments to achieve the global objective ‘to develop a modern and competitive agriculture’. The two aspects of irrigation and reparcelling are closely linked. In those areas where farms are fragmented into numerous small parcels, it is advisable to start reparcelling first and then develop the irrigation networks, once the farming structure has improved and stabilised. In other parts of Portugal where the farm structure is better, the main factor of development is water management. It is not always feasible to allocate the funds to sub-objectives at the beginning of the programming period, and that is the reason why the two indents have been combined into one single measure in the programme. Concerning the reference to one big project the key element to consider is whether the project contributes to the objectives of the programme.

Furthermore, a measure can contribute to more than one sub-objective of the programme, all related to the global objective of developing a modern and competitive agriculture. However, in the next period, the Member States will have to establish a separate national strategy, defining priorities which then will be further translated into the rural development programmes.

(1) Council Decision 2006/144/EC.

Text box 1 — Netherlands

In the Netherlands, the measure of reparcelling is related to different objectives. The purchase of land is done on a voluntary basis. It offers farmers the possibility to move the holding to another place where there is a greater potential for sustainable development. With this integrated approach both objectives of nature protection and agricultural development are realised.

As priorities/objectives and their linked financial allocation evolve during the programming period (e.g. in function of the uptake of the measure by farmers), a retargeting of the measure is sometimes needed to ensure a successful implementation.

Observation 2

Agenda 2000 established rural development as the second pillar of the CAP. The majority of rural development measures are by definition targeted towards agriculture and farmers resulting in a high share of spending on the agricultural sector but also includes territorial elements like higher co-financing rates for investments in less favoured areas and in cohesion regions.

20. The flexible design of RD policy in combination with its decentralised approach provides Member States the possibility to include a territorial approach in their rural development programmes. Regulation 1257/1999 states 'be as decentralised as possible and emphasis must be on participation and a "bottom-up" approach' (1). The integration of various policies put in place in a territory at regional/local level is carried out by the Member States. Additionally, rural development programmes (RDPs) require information on the complementarity of support with other Community instruments like cohesion policy.

21. The Commission's reports on economic and social cohesion were drafted taking account of the need of all structural policies (including regional policy) being designed to contribute to enhancing territorial cohesion in rural areas. They therefore need to be seen as a whole with the rural development policy as the second pillar of the CAP having a clear contribution (see also reply to paragraph 24).

22. The two European conferences on rural development mentioned by the Court need to be seen within the context of a new era where a need for a more comprehensive RD policy was felt which, besides agricultural restructuring, also addressed environmental concerns and the wider needs of rural areas. This is reflected in the current programming period and strengthened in the future period under Regulation (EC) No 1698/2005.

(1) Recital 14 of Council Regulation (EC) No 1257/1999.

24. Agenda 2000 established rural development as the second pillar of the CAP to face the multiple challenges of agriculture as the main land user. Therefore the policy is by nature strongly linked to the agricultural sector but promotes also the taking into account of territorial disparities. Additionally, for the period 2000 to 2006, rural development is also characterised by several territorial aspects like the implementation of the LFA-measure and higher co-financing rates for investments in less-favoured areas and in cohesion regions. A further spatial differentiation at programme level is the responsibility of the Member States.

25 and 26. The majority of rural development measures is by definition targeted towards agriculture and farmers resulting in a high share of spending on agriculture. Since agriculture continues to be the largest user of rural land and still plays an important role in the economy of rural areas, support for the agricultural sector can contribute significantly to the development of rural areas. Rural development policy has a strong function in promoting sustainable methods of farming and preserving the rural environment and landscape. Furthermore, as shown in the case of Campania, a mainly sectoral-oriented policy does not exclude a territorial differentiation.

For the next programming period, a minimum funding of 10 % of the total EU contribution has been withheld by the Council Regulation for measures concerning the quality of life and diversification of the rural economy outside agriculture and forestry.

27. Following the framework established by the Council, RD should also in the future accompany and complement the market and income support policies of the CAP as a second pillar, taking into account the general objectives of economic and social cohesion.

This is why the RD policy for 2007 to 2013 will focus on three areas in line with the 'three axes' of measures laid down in Regulation (EC) No 1698/2005: Axis 1: 'improving competitiveness of the agricultural and forestry sector'; Axis 2: 'improving the environment and the countryside'; Axis 3: 'improving quality of life in rural areas and diversification of the rural economy'. The fourth 'Leader' axis introduces possibilities for locally based bottom-up approaches to rural development.

However, to better accentuate the territorial dimension, Member States need to assess the designation of rural areas and their importance in the preparation of their RDPs.

28. As outlined in paragraphs 24 to 26, the application of some sector-related measures does follow a territorial differentiation already in the current period 2000 to 2006.

For the next programming period, several territorial elements have been included, like the implementation of the LFA-measure and a differentiation in co-financing rates according to the type of area (higher co-financing rates for certain measures implemented in LFA areas, like convergence regions, outermost regions, smaller Aegean islands). The mainstreaming of the Community initiative Leader under the other three axes will also facilitate this approach.

It is true that the minimum Community contributions to the programme for axes 1 and 3 have been reduced by the Council to 10 %. These reductions were preferred by the Member States to leave them more flexibility to adapt programming to their particular needs. However, the programming rates are a minimum giving Member States the possibility to apply higher rates. The reduced percentage for Leader contributions in the new Member States has to be seen as a 'phasing in' period, to gain experience in the lengthy process of implementing those measures.

Observation 3

The areas and beneficiaries eligible for intervention, as well as the selection of projects, are the responsibility of the Member States in function of the needs and objectives set out in their rural development programmes.

29. Taken into account the variety of regions in Europe and the different situations at national level, it is difficult to provide a single definition of rural areas.

Therefore, the definition of rural areas and the identification of areas eligible for intervention as well as the location of the projects within these rural areas is the responsibility of the Member States in function of their needs, objectives and the strategy defined in their programmes. This explains the differences among the RDPs for the current programming period of the audited Member States as regards the clear designation of the areas of implementation of the specific measures.

As mentioned in paragraph 27, for the next programming period Member States need to include in their RDPs the designation of their rural areas and indicate their importance.

30 and 31. Investment measures should be tailored to the needs of the areas eligible for intervention. In some Member States for example, the increasing (environmental) urban pressure on so-called 'peri-urban' areas is forming an important spatial challenge to which rural development policy can contribute. So, depending on the aim of the measure, support can be more effective in areas under urban pressure than in remote peripheral areas.

However, as outlined under paragraph 29, the situation differs in the different Member States. For a small country as the Netherlands for example — where the regional disparities are small — a national general approach could be more useful. In other Member States, thematic differentiations exist in order to promote areas with highest needs.

32 and 33. Following the principle of subsidiarity, the selection and ranking of projects is also the responsibility of the Member States.

However, the Commission has introduced a more strategic management based on priorities and objectives for the next programming period.

Text box 3 — Spain

The practice in Catalonia, described by the Court, of encouraging new applications by increasing the total number of different beneficiaries over time is an incentive to bring European benefits to more people.

Text box 3 — Germany

The quoted example of Niedersachsen is an exception in Germany, as the communes are in charge of co-financing. In other German *Länder* the Federal State (Bund) and/or the *Land* are responsible for it.

34. In the current period one of the eligibility conditions for productive investments is economic viability of the holding in order to support projects with real economic perspectives. This is intended to help to increase efficiency of public support. For the next programming period, enterprises that are 'in difficulty' will be excluded from support.

However, it is inevitable that the better informed and organised potential beneficiary is best placed to benefit from a scheme.

Text box 4 — Italy

The quoted example for Emilia Romagna of a required minimal revenue recalls the criteria chosen by the region, on the basis of a methodology set up by the Member State, to fulfil the legal requirement of economic viability for agricultural holdings benefiting from EU co-financed investment support. The fact that only a part of the holdings operating in the region (approximately half of them) may be able to benefit from this support is based on considerations on the specific structure of agricultural farms, on the objective to be fulfilled, namely to support competitive farms, and on the responsibility for financial management of EU funds.

Text box 4 — Spain

As outlined above (paragraph 34), the Regulation requires that the investment in agricultural holdings that will receive EU funding must be economically viable. Pursuant to Article 33, subsidies may be granted for investments going beyond individual agricultural holdings. It is essential that the EU funding brings value added, and economic viability in the case of investment. This can be achieved by a targeting of the best projects, which explains the situation observed in Spain concerning the water management projects.

Observation 4

The Commission agrees that a lack of targeting increases the risk of deadweight and that a clear focus of the resources by the Member States contributes to the effectiveness of the RD programmes.

35. The Commission agrees that deadweight is an important issue that should be considered at both the level of establishing the legal framework and when drawing up programmes.

However, lessons learnt from previous evaluations show that the perceptions of deadweight have to be taken with caution. As impacts observed at the micro-level are a result of a multiplicity of intervening factors, it is difficult to establish the evidence of deadweight.

36. In the factsheet on 'New perspectives for EU rural development' mentioned by the Court, the Commission states: 'A lack of targeting increases the danger of deadweight, a focusing of resources may increase programme effectiveness'. The latter is the responsibility of the Member States.

The 'Synthesis of Rural Development Mid-Term Evaluations', which only became available after the finalisation of the Court's report [1], concludes that no definitive judgement across the EU can be made on the evidence of deadweight since no systematic assessment of the issue has been made in the mid-term evaluations of the various RD programmes.

Text box 5 — Italy

In the updated mid-term evaluation of the Emilia Romagna RDP, the evaluator points to differences as regards this aspect, particularly in relation to the types of products, the size of holdings and the types of investment. Similar measures under the next programming period 2007 to 2013 will have to take account of these conclusions.

37 and 38. The Commission agrees that deadweight is an important element which needs to be taken into account when drafting the legal framework. However, practise has shown that several elements can influence deadweight which makes it very difficult to provide a 'standardised' solution.

There will be a clear targeting of investment support in the next programming period according to the needs of enterprises. Regulation (EC) No 1698/2005 (EAFRD regulation) targets smaller enterprises in processing and marketing of agricultural products (and micro-enterprises for forestry products in axis 1 and for business development in axis 3) in order, *inter alia*, to limit deadweight effects as much as possible. On the other hand, supported investments must improve the overall performance of the firm/holding (including environmental performance) (see also reply to paragraph 34).

(1) Published in June 2006.

39. Granting investment support to farms that are too small and therefore do not reach a certain level of viability, raises the question of whether those farms have a chance of staying in business in the medium term and, therefore, raises doubts on the sustainability of the investment.

In this specific case, Flanders included the requirement of an income per full-time worker of at least 21 577 euro in its RDP based on the analysis of problems at regional level and the resulting objectives and priorities they wish to include in their programme.

Observation 5

The eligibility of support under investments in agricultural holdings and investment in food processing is not restricted to rural areas. The aim of the measures is respectively to contribute to the improvement of the agricultural income and of living, working and production conditions and to increase the competitiveness and added value of food processing, where these activities are present in the country (rural and non-rural areas).

40. Evaluators do investigate where outputs, results and impacts are realised. In the monitoring data that are annually provided by the Member States a geographic breakdown of support is included.

The various definitions of 'urban' and 'rural' areas that have been developed in different studies indicate the difficulty in formulating a single 'multi-purpose' definition covering the whole EU for steering rural development interventions.

41. A general finding which can be deducted from this exercise is that very few projects supported by EAGGF Guidance are situated in urban areas (for two out of four benchmarks 22 % and according to the OECD-classification only 9 %), which indicates a territorial dimension in rural development policy.

42. The calculation presented by the Court includes an estimation based on a set of 300 samples. Furthermore, the comparison over time on the expenditure for Article 33 measures is difficult since the delimitation of Objective 5b areas for the programming period 1994 to 1999 has not been maintained for the period 2000 to 2006.

43. Due to the diversity of Europe's regions, this kind of threshold setting is a very complex issue when aggregating data from a local level to a European level. Furthermore, Member States can choose in which area they decide to implement some or all of their measures and these are not necessarily the less populated ones. There may be cases where forms of support other than investment support fit better to the needs of particular types of rural areas (e.g specific support in LFAs being as a general rule less populated and remote areas).

45. Table 2 illustrates that in Objective 1 areas 80 % of the expenditure of the projects reviewed went into rural areas. Next to this, the objective of reducing territorial imbalances is just one of the objectives to which rural development contributes.

46. Following the OECD definition, which is based on population density, a high share of projects (91 %) implemented in Objective 1 regions are located in significant and predominantly rural regions which are in general the poorer parts of the Objective 1 regions.

Observation 6

The effectiveness of spending is measured by comparing the projects with its objectives.

48. The judgement of interventions according to their results, impacts and the needs they aim to satisfy forms part of the evaluation exercise carried out at national or regional level. The syntheses of those national/regional rural development evaluations regularly carried out on behalf of the Commission allow an assessment to be made of the impacts of different measures at programme level.

The possibility to measure the contribution of the immediate effects of single projects on the overall programmes' objectives will be strengthened in the next programming period through ongoing evaluation of programmes via the Common Monitoring and Evaluation Framework (CMEF), which also will ensure a better follow up.

49. The Commission acknowledges that integrated territorial approaches provide an important tool for implementing the rural development policy and has recommended this possibility in the current programming period and in the new Regulation (EC) No 1698/2005 by encouraging integrated projects which combine several measures and by mainstreaming the Community initiative Leader.

50. The necessity of integrating projects into a wider local development plan depends on the objective and nature of the project and is assessed by the Member States/regions.

51. All projects have indirectly a potential wider impact, as beneficiaries are integrated in the economic life in rural areas and they play an important role there.

Observation 7

The Commission has undertaken serious efforts to remedy shortcomings in the quantity and quality of the monitoring data of Member States, already for the current programming period. Monitoring will be strengthened with the introduction of a CMEF for the next programming period in cooperation with the Member States.

57. As part of the monitoring exercise, the Commission does check the output data provided by Member States in their annual progress reports. Evaluation does assess the impact of the measures in view of addressing their contribution on the established targets defined at programme level.

The Commission has undertaken serious efforts to remedy shortcomings in the quantity and quality of the monitoring data of Member States, already for the current programming period. Monitoring will be strengthened with the introduction of a CMEF for the next programming period in cooperation with the Member States.

58.

(a) In line with Article 43 of Council Regulation (EC) No 1257/1999 rural development plans shall include a description of the strategy proposed, its quantified objectives, and rural development priorities selected, as well as the geographical area covered.

(d) The approach of commitments as a basis for output measurement seems to fit better to certain multi-annual types of RD support which are spread over time (e.g. agri-environment, afforestation, etc.) as these often do not show any concrete results during the first years of their implementation. For the period 2007 to 2013 realised expenditure will be put in the monitoring tables and financial reporting will be aligned as much as possible with physical reporting.

The synthesis of the rural development mid-term evaluation reports includes financial data on the EAGGF expenditure per chapter and per Member State.

(e) The variety of projects that are eligible under Article 33 measures is so wide that it is impossible to foresee monitoring indicators which would cover all projects. The list of common indicators included in the monitoring tables is by no means exhaustive. Member States can add additional indicators which are adapted to their specific needs or to the specific features of their programmes.

59. For the current programming period, Member States are not obliged to apply the Common Evaluation Questions (CEQ) to rural development support financed through the Guidance Fund. The Commission agrees that this is a weakness of the current monitoring and evaluation system put in place, which will be solved for the next programming period through the creation of one single rural development fund. The year 2000 was the first year of reporting and mainly atypical since programme approval was still ongoing and the implementation of the measures was still in an early stage.

60. The use of alternative indicators and additional national questions as supplement to the CEQ in national evaluation reports has been low. The specified common indicators were generally appropriate and the range of questions asked was relevant for addressing the evaluation of the rural development programmes.

The system of 'ongoing evaluation' introduced by the Common Monitoring and Evaluation Framework (CMEF) for the next programming period will enhance the contribution of monitoring to evaluation, as well as the data collection and the quantification of indicators.

61. Some information is available at programme level, where evaluations take place, but not at the level of projects. Within the geographical scope of the programmes, evaluators investigate where outputs, results and impacts are realised. Table 5 of the monitoring tables, for example, includes a geographic breakdown of financial support and the number of applications approved.

62. It is difficult to summarise at the level of the activity-based management procedures an adequate set of indicators describing the outcomes and achievements of RD policy which is broad by definition. Only a small number of indicators can give a proxy picture on this. This difficulty is further exacerbated in the current period due to the different management, monitoring, reporting and evaluation systems applied according to the programming patterns (Guidance, Guarantee, Leader+). Improvements are expected in future under the single Common Monitoring and Evaluation Framework.

63. The monitoring synthesis reports and the various evaluation reports do provide data and information. Both mid-term and *ex post* evaluations, carried out by independent evaluators, provide an assessment of results and impacts of the rural development measures. Shortcomings included in the current system have been remedied for the future and should allow the Commission and other interested parties to get a complete insight into the monitoring and evaluation of rural development spending.

64. The flexible design of the rural development policy with its variety of measures and objectives does not prevent Member States from setting out clear strategies and objectives in their rural development programmes as is required by Council Regulation (EC) No 1257/1999.

— *For the next programming period, a more strategic approach has been introduced through the Community Strategic Guidelines. This will allow Member States to better focus their RD strategies on relevant objectives deriving from specific needs. Furthermore, Member States need to allocate a minimum percentage of their national envelope for each axis ensuring thus a balanced programme, taking into account both sectoral and territorial concerns.*

65. The majority of the rural development investment measures are by definition targeted towards agriculture and farmers which explains the high share of support for the agricultural sector. However, since agriculture still plays an important role in the economy of rural areas, support to this sector can provide a significant contribution to the development of rural areas.

— *Council Regulation (EC) No 1698/2005 sets out three core objectives for rural development support for the programming period 2007 to 2013: (1) improving the competitiveness of agriculture and forestry, (2) improving the environment and the countryside, and (3) improving the quality of life in rural areas and encouraging diversification of economic activity. These objectives are implemented by means of measures which are grouped in four axes. Article 17 of the Regulation ensures a balance between the objectives by introducing minimum spending rates per axis.*

66. Taking into account the variety of regions in Europe and the different situations at national level, it is difficult to provide a single uniform definition of rural areas. Therefore, the areas eligible for intervention, as well as the selection and ranking of projects, is the responsibility of the Member States.

— *With the introduction of the national strategy plans a more targeted approach is foreseen for the next generation of rural development programmes.*

67. The eligibility of support under investments in agricultural holdings and investment in food processing is not limited to the rural areas defined for the purposes of the relevant Article 33 measures. The choice of the scope of these measures is consistent with their aim, respectively to contribute to the improvement of the agricultural income and of living, working and production conditions and to increase the competitiveness and added value of food processing, where these activities are present in the country (rural and non-rural areas).

— *The RDPs include a general description of the plan in which they indicate the geographical coverage as well as a description of the current situation, using quantified data, highlighting strengths, disparities, gaps and potential for rural development. This description takes into account the agricultural and forestry sector, rural economy, the demographic situation, human resources and employment and the state of the environment. On the basis of this information Member States describe the priorities for action and their appropriate strategy.*

— *A further step in the direction of territorial targeting has been incorporated in the next programming period as Member States need to include in their RDPs the designation of their rural areas and indicate their importance.*

68. The Commission agrees that integrated territorial approaches provide an important tool for implementing the rural development policy and has encouraged both in the current and the next programming period the implementation of local development strategies.

— *The outcomes of the mid-term evaluation reports and the results of the* ex-ante *evaluations will form an important input into the current and new RDPs. Furthermore the national rural networks and the EU rural network will offer the floor for exchanging information and best practice.*

69. The Commission has undertaken serious efforts to improve the quality and quantity of the monitoring data of Member States for the current programming period.

— *The Commission has proposed, in collaboration with the Member States, a new and better Common Monitoring and Evaluation Framework for the next programming period.*

SPECIAL REPORT No 8/2006

Growing success?

The effectiveness of the European Union support for fruit and vegetable producers' operational programmes

together with the Commission's replies

(Submitted pursuant to Article 248(4), second subparagraph, EC Treaty)

(2006/C 282/02)

CONTENTS

EXECUTIVE SUMMARY

I. A new policy was introduced in 1996 to support fruit and vegetable growers in adapting to the changing market situation. This offered aid for 50 % of the costs of measures taken by growers in 'operational programmes', which aimed, *inter alia*, to improve product quality, reduce production costs and improve environmental practices. The aid is only available to groups of growers that collectively market their produce in 'producer organisations'. Member States are responsible for approving operational programmes and paying the aid. In 2004, the aid amounted to 500 million euros.

II. The Court audited the effectiveness of this aid scheme based primarily on a random sample of 30 operational programmes in eight Member States and on a review of Commission data.

III. Member States based their decisions to approve operational programmes on the nature of the planned expenditure, without also taking account of the likely effectiveness of the proposed measures. The programming elements required by the regulations were followed nominally, at a significant cost but without real benefits. The criteria for the eligibility of expenditure were not clear, resulting in uncertainty.

IV. The Commission checks the eligibility of operational programme expenditure, but has not checked whether Member States' procedures for approving operational programmes ensure that the expenditure is likely to be effective. It has not monitored the effectiveness of operational programmes or evaluated the policy.

V. Operational programmes have, on the whole, resulted in progress being made towards the Council regulation's objectives. Almost half of the actions financed represented a significant advance from the producer organisations' initial situation towards at least one of the 11 objectives, and can therefore be considered effective. However, the effectiveness of the majority of the actions was low, in that they did not result in a significant advance from the producer organisations' initial situation.

VI. Producer organisations in the sample had made progress towards most of the objectives set for the policy. However, the Commission has no information on the achievement of these objectives at the European level with two exceptions: for withdrawals from the market of surplus produce, which have been reduced, and for the concentration of supply.

VII. On current trends, the Commission's target of 60 % of supply concentrated in producer organisations by 2013 will not be reached. Producer organisations account for only about one-third of the EU's fruit and vegetable production and they have grown at a lower rate than the sector as a whole.

VIII. The Court recommends that the Commission considers the merits of alternative approaches to simplify and reduce the costs of the scheme and improve the effectiveness of the aid. The Commission should consider if this could best be achieved by aligning the scheme's procedures and rules for the eligibility of expenditure with those of the Rural Development investment measures.

IX. Whichever approach is followed, the Commission should improve its monitoring of the effectiveness of the aid and use the planned evaluation study in 2009 to establish the reasons for the relative lack of progress by producer organisations, particularly in those Member States where the fruit and vegetables sector represents the highest proportion of agricultural output.

X. If the evaluation confirms that producer organisations are an effective mechanism for strengthening the position of growers in these Member States, the policy should be better targeted to achieve this.

XI. If, on the other hand, the Commission cannot demonstrate that the concentration of supply in producer organisations delivers real benefits, it should reconsider this mechanism for supporting the EU's fruit and vegetable growers.

INTRODUCTION

Objective of the aid scheme: adapting to the changing market situation

1. Faced in the 1990s with a changing market for fruit and vegetables, requiring different products and increased guarantees of quality and environmental standards, the EU introduced a new aid scheme to support growers in adapting to this demand. This was the aid for 'operational programmes', which is described below. At the same time, cuts were made in the long-standing aid for withdrawals [1], providing a further incentive for the EU's growers to produce what the market wanted.

2. The market situation was also changing with the increasing dominance of a few large retail and distribution groups. In response, the EU strengthened the policy followed since the 1960s encouraging the formation of groups of growers known as 'producer organisations' with a view to obtaining economies of scale and a stronger market presence.

3. This grouping of supply (or 'concentration') was encouraged by making membership of a producer organisation a condition for receiving the new aid for operational programmes. Fruit and vegetable growers not in producer organisations were not eligible for the EU aid. This created an incentive for growers to form or join producer organisations. At the same time, the EU set stricter conditions to be met by the producer organisations to ensure that they would be effective in concentrating the supply.

> ***Text box 1***
>
> **'An intelligent aid'** enthused the director of a fruit and vegetable producer organisation we visited. No longer does the EU hand out aid to growers to destroy their surplus fruit and vegetables that no one wants to buy. Now, the EU subsidises measures taken by the growers to adapt their production to the quantity and quality for which there is demand.

> ***Text box 2***
>
> **'Growing success':** The aid is linked to turnover, so the more producer organisations grow, the more aid they get to finance adaptation. This success should encourage more growers to form or join producer organisations, resulting in more bargaining power and a higher turnover, and therefore more aid for further adaptation…

(1) Growers who 'withdraw' surplus fruit and vegetables from the market to support prices (usually by destroying the produce) are paid compensation from the EU budget.

Audit scope and approach

4. The Court reported the results of its previous audit of the aids for the fruit and vegetable sector in the Annual Report for 2000 [2]. At that time, few operational programmes had been completed, so the longer-term effectiveness of the aid was not apparent. However, the report identified weaknesses in the Member States' management of the scheme, which had reduced the effectiveness of the aid. In the light of this, the objective set for this audit was to assess the effectiveness of the aid scheme for operational programmes.

5. Effectiveness is defined in the EU's Financial Regulation [3] as 'attaining the specific objectives set and achieving the intended results'. As the objectives set for the operational programme aid scheme are not definite or quantified, in this audit, effectiveness is considered as *making progress* towards those objectives.

6. The questions set for this audit were:

(i) Has the aid scheme been implemented in a way to ensure that operational programmes are likely to be effective?

(ii) Have the measures financed in operational programmes been effective?

(iii) Have producer organisations made progress towards achieving the objectives set for the aid scheme?

7. The audit approach consisted of:

(i) assessing the procedures established by the Commission and the Member States for implementing the policy;

(ii) testing the effectiveness of a sample of operational programme actions; and

(iii) examining a sample of producer organisations, and Commission data at EU level, for evidence of progress made by producer organisations towards the policy objectives.

8. The audit fieldwork was undertaken in 2005, based on a random sample of 30 operational programmes completed in 2003 and 2004 in eight Member States: Greece, Spain, France, Ireland, Italy, the Netherlands, Portugal, and the United Kingdom. Producer organisations in the new Member States were not included as they had not completed operational programmes at the time of the audit.

(2) Court of Auditors — Annual Report concerning the financial year 2000 (OJ C 359, 15.12.2001).

(3) Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 (OJ L 248, 16.9.2002, p. 1).

Producer organisations

9. A producer organisation is a group of growers who act together to strengthen their position in the market. Many are cooperatives, but they can be groups of individuals or groups of companies. The conditions to be met, set out in the EU regulations [1], are to have at least five members and a minimum turnover of 100 000 euro. Producer organisations have to provide the means for storing, packaging and marketing their members' produce. They have to be able to plan and adapt their production, and promote environmentally sound cultivation and waste-management practices.

10. A start-up aid is available over a five-year period for new producer organisations to set up and acquire the facilities they need to meet the EU's conditions. Once established, Member States check that producer organisations continue to meet these conditions, although no further aid is available for this. In principle, the EU does not support producer organisations' administrative, operating or production costs [2].

11. There are some 1 500 producer organisations in the 14 Member States [3] (*Diagram 1*). There is a great diversity in the sizes and nature of producer organisations (*Diagram 2*). In the course of this audit, the Court visited fig growers in Greece and mushroom growers in Ireland, a citrus fruit cooperative in Portugal and tomato growers from Spain to the Netherlands. Some had fewer than 10 members, one in Italy specialising in apples had 5 800 members. One producer organisation was made up of 14 companies, each with turnover averaging 2,6 million euro, another was a cooperative of 800 part-time growers averaging just 600 euro of produce each. The average EU producer organisation in 2003 had a turnover of 9 million euro and over 300 members.

12. Fruit and vegetables is the largest agricultural sector by value of output in the EU-15. It is particularly important to the agricultural economies of Greece, Spain, Italy and Portugal, where the sector represents over 25 % of the value of agricultural output. Spain, France and Italy together account for 70 % of EU fruit and vegetable production by value. About a third of their production was marketed by producer organisations in 2004. In the Netherlands, Belgium and Ireland, the proportion of fruit and vegetable output marketed by producer organisations was much higher, at around 80 %, whereas in Greece it was 13 % and in Portugal 6 % (*Diagram 3*).

Diagram 1

Number of producer organisations in 2004

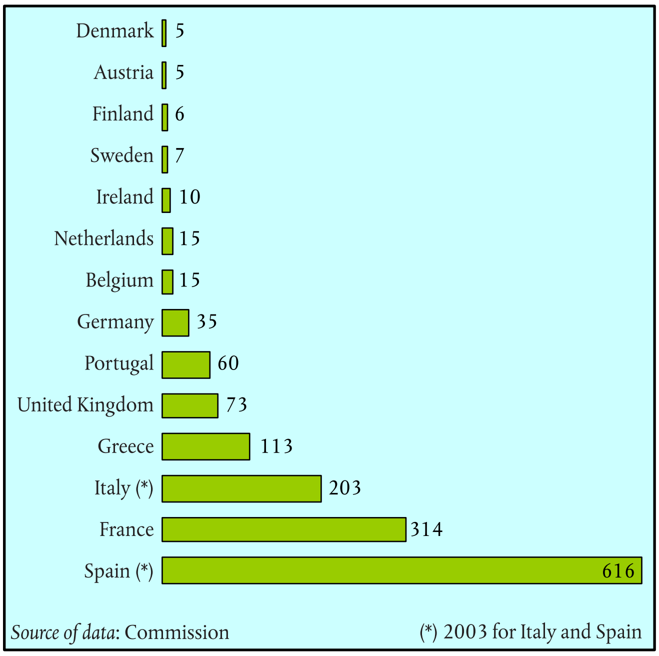
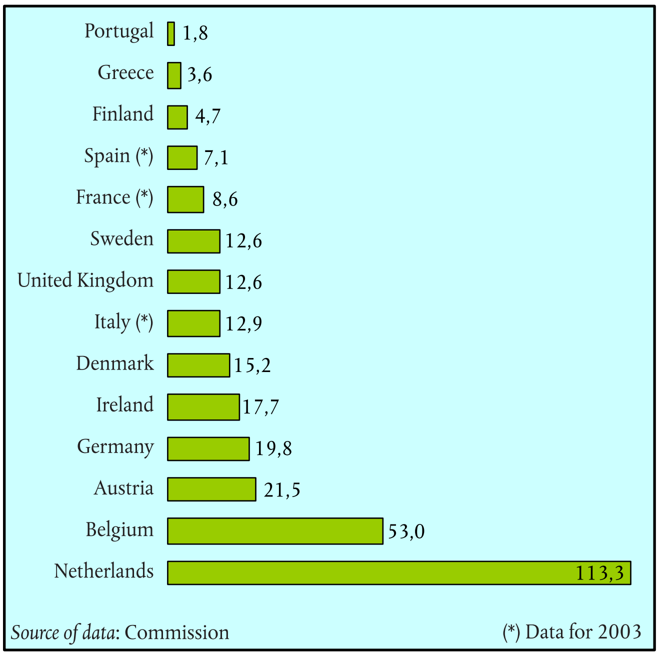


Diagram 2

Average value of marketed production per producer organisation 2004 (Mio EUR)



The aid for operational programmes

13. Producer organisations that meet the conditions in paragraph 9 can apply for aid for an 'operational programme'. This is a programme of measures that a producer organisation undertakes to adapt its members' production to market demand and strengthen its position in the marketplace (Text box 3). The specific objectives that the measures should aim to achieve are set in

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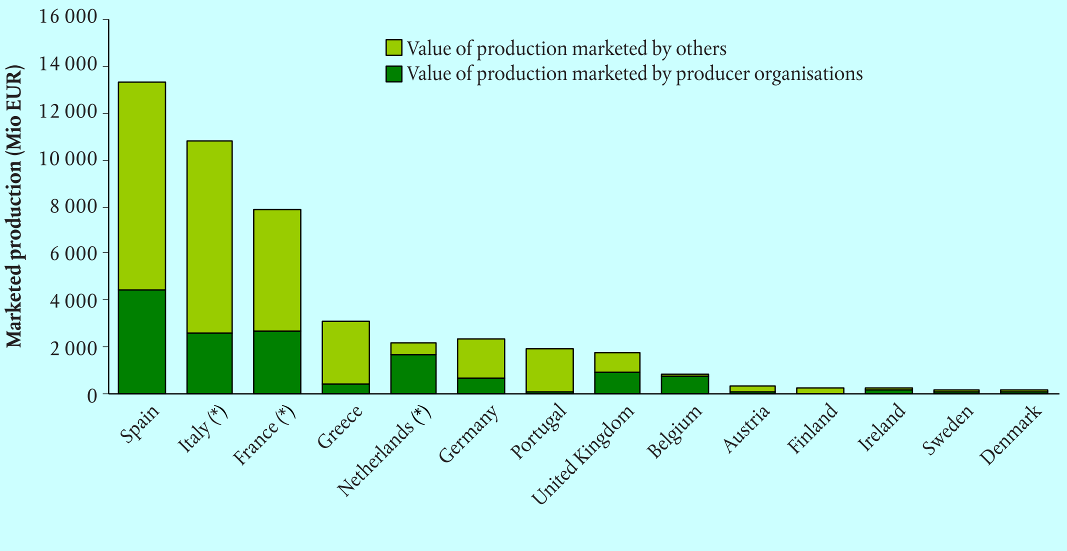
[1] Council Regulation (EC) No 2200/96 of 28 October 1996 on the common organisation of the market in fruit and vegetables (OJ L 297, 21.11.1996, p. 1). and Commission Regulation (EC) No 1432/2003 of 11 August 2003 laying down detailed rules for the application of Council Regulation (EC) No 2200/96 regarding the conditions for recognition of producer organisations and preliminary recognition of producer groups (OJ L 203, 12.8.2003, p. 18).

[2] Some exceptions are allowed in producer organisations' operational programmes. See paragraph 42.

[3] Luxembourg has no producer organisations.

Diagram 3

Value of marketed production in 2004



Source of data: Commission
(*) Data for 2003

the Council regulation [1] (Text box 4). The programme is drawn up by the producer organisation and approved by the Member State, which pays EU aid annually of 50 % of the costs incurred by the producer organisation in implementing the programme. The duration of an operational programme is between three and five years, and at the end of the period a producer organisation may apply for a new programme. There is an annual ceiling on the aid, set at 4,1 % of the producer organisation's turnover.

14. Over 70 % of producer organisations have an operational programme and the aid amounted to 500 million euro in 2004. This represented 3 % of producer organisations' turnover and approximately 1 % of the total value of EU fruit and vegetable output. Take-up of the aid has increased greatly since it was introduced in 1997, at the same time as the aid for the withdrawal of surplus production has decreased (*Diagram 4*). The diagram also shows the aid paid through producer organisations to growers of tomatoes and fruit for processing, which is based on the volume of production.

Text box 3

Typical contents of an operational programme

— purchase of sorting and packing machinery

— employment of quality control staff and marketing staff

— investments in irrigation facilities and greenhouses

— subsidies to growers for replanting fruit trees

— costs of natural pest and disease control approaches

Text box 4

The 11 operational programme objectives

— ensuring that production is planned and adjusted to demand, particularly in terms of quality and quantity

— promoting the concentration of supply and the placing on the market of the products produced by its members

— reducing production costs and

— stabilising producer prices

— promoting the use of environmentally-sound cultivation practices, production techniques and waste-management practices

— improvement of product quality

— boosting products' commercial value

— promotion of the products targeted at consumers

— creation of organic product lines

— the promotion of integrated production or other methods of production respecting the environment

— the reduction of withdrawals

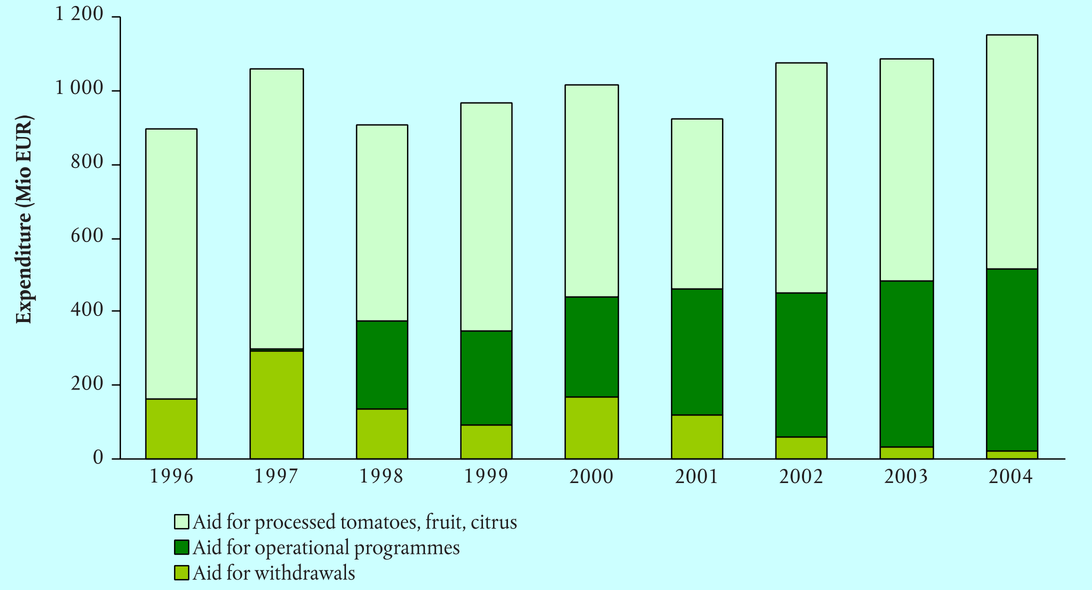
15. Implementation of the aid scheme is on the usual shared management basis whereby Member States follow detailed rules, set by the Commission, within the framework of the Council Regulation. They are required to cooperate with the Commission to ensure that the aid is granted according to the principles of sound financial management: economy, efficiency and effectiveness.

(1) Regulation (EC) No 2200/96.

Diagram 4

Main EU aids paid to fruit and vegetable producer organisations

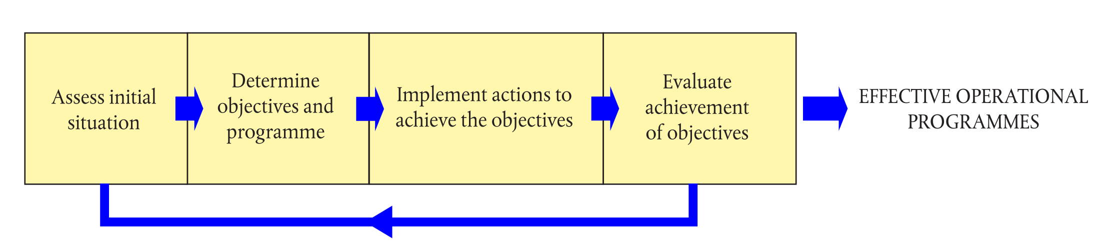
1996-2004 (EU 15)



Source of data: Commission

Diagram 5

Programming model



16. The Commission implementing regulation ([1]) requires producer organisations to describe in their operational programme proposal:

— their initial situation, in particular regarding production, marketing and equipment,

— the objectives of the programme, bearing in mind the market outlook, and

— the concrete measures or 'actions' proposed to achieve those objectives.

17. Producer organisations have the freedom to propose operational programme measures that suit their particular situation, with the proviso that the programmes must target 'several' of the objectives set out in the Council regulation (see Text Box 4). To complete the feedback circuit, producer organisations are required to report to the Member State at the end of the programme on the extent to which they have achieved their objectives, and the lessons to be learnt for their next programme. This 'programming model' to be followed by producer organisations is illustrated in *Diagram 5*.

18. The Commission regulation also specified a number of checks that the Member States should make on the operational programme proposals:

— verify the producer organisation's initial situation and the operational programme objectives;

— verify the compliance of the operational programme objectives with those set out in the Council regulation;

([1]) Commission Regulation (EC) No 411/1997 of 3 March 1997(OJ L 62, 4.3.1997, p. 9), replaced by Commission Regulation (EC) No 1433/2003 of 11 August 2003 laying down detailed rules for the application of Council Regulation (EC) No 2200/96 as regards operational funds, operational programmes and financial assistance (OJ L 203, 12.8.2003, p. 25).

— verify the economic consistency and technical quality of the proposed operational programme, and the soundness of the estimates.

The regulation provided that the Member States should then approve the programme, require changes, or reject it.

PART I: EFFECTIVENESS OF OPERATIONAL PROGRAMMES

19. As described above, Member States and the Commission share the responsibility to ensure that the aid scheme is effective: that the aid is used to achieve progress towards the 11 objectives the Council set for operational programmes. This part of the report first looks at whether the aid scheme was implemented by the Commission and Member States in a way to encourage effectiveness, and in particular, if the 'programming model' operated as intended. It then assesses a sample of operational programmes to determine whether the measures financed resulted in progress towards the scheme's objectives.

Has the aid scheme been implemented in a way to ensure that operational programmes are likely to be effective?

Commission checks to ensure that Member States grant the EU aid according to the principles of sound financial management

20. Member States approve the operational programmes proposed by the producer organisations, but under the Treaty, the Commission retains final responsibility for the sound financial management of the EU budget and supervises the Member States.

21. In the 'Clearance of Accounts' process, the Commission visits Member States to check that the aid payments have been made in compliance with Community rules. The Council regulation also set up a 'Special Corps of Inspectors' for the fruit and vegetable sector with the role, *inter alia*, of ensuring a uniform application of the rules across the EU. In practice, these are the same officials that check expenditure for the Clearance of Accounts.

22. In relation to other EU agricultural policies, the operational programme aid scheme requires Member States to exercise a greater degree of judgment in deciding whether to approve, reject or require changes to the measures proposed in an operational programme. However, since the initial checks of the Member States' procedures in 1997 and 1998, Commission inspections have focused on compliance with the criteria for the eligibility of expenditure and have not checked whether the Member State procedures for approving and monitoring operational programmes shown in paragraph 18 operate in a way to ensure that operational programmes are likely to be effective.

23. Consequently, while the Commission has checked the eligibility of the aid paid out by Member States for Clearance of Accounts purposes, it has not checked whether this aid has been granted respecting the sound financial management principles, in particular, of effectiveness.

Member States' implementation of the aid scheme

Details of the audit in the Member States

24. Given the Member States' key role in approving operational programmes, the Court audited the procedures applied in all 14 Member States concerned (Text box 5). As implementation of the scheme is decentralised in some Member States, the procedures were also checked at a further 19 regional and local administrations in Italy, Spain, France and Greece.

25. The implementing regulation requires Member States to make a number of checks, but does not prescribe how. This gives Member States the flexibility to organise these procedures according to their context. Consequently, each administration has implemented the scheme in a different way and the findings below do not apply equally in all Member States ([1]).

Text box 5

Details of the audit in the Member States:

We based the audit of the Member States' procedures on a random sample of 30 operational programmes completed in 2003 and 2004. We visited the Member States' administrations responsible for approving those programmes and the producer organisations concerned.

Number of operational programmes selected			
Spain	11	Portugal	2
France	8	United Kingdom	1
Italy	4	Netherlands	1
Greece	2	Ireland	1

The selected operational programmes were approved by the Member States between 1998 and 2001. To obtain sufficient evidence, and ensure that findings were still relevant, we examined documentation from 1998 to 2005 for a further 94 operational programmes and 103 evaluation reports. We selected these randomly at the Member State authorities we visited.

We undertook a more limited audit of the procedures followed by the other six Member States, based on a questionnaire and a check of documentation concerning randomly selected operational programmes.

([1]) The Court has informed Member States of the specific findings that concern them.

Criteria for assessing the implementation of the programming model

26. To comply with the requirements for sound financial management, Member States should apply the principles of economy, efficiency and effectiveness in deciding whether to approve an operational programme, thereby granting the EU aid.

27. For the aid to be effective, each action financed in the programme should have an effect: the action should result in progress being made towards one or more of the 11 objectives set by the Council Regulation. Consequently, Member States should base their decision on whether to approve, reject or require changes to an operational programme on whether the producer organisation has satisfactorily demonstrated that the proposed actions are likely to achieve these objectives.

28. Member States need detailed information from the producer organisations to be able to justify their decisions to award the aid in these terms. They need to know, for each objective, the producer organisation's initial situation and what impact the action(s) is expected to have.

29. Following this logic, and the specific requirements of the Regulation (see paragraphs 16 to 18), the Court developed audit criteria for what would be reasonable to expect in a 'good' system (Text box 6). If these criteria are met, Member States' procedures are likely to ensure that the aid will be effective. These criteria can be summarised as follows:

— Operational programme documents should show the producer organisation's initial situation in respect of each of the programmes' objectives. The objectives should be 'SMART' (specific, measurable, achievable, relevant and timed): *specific* so that there is no doubt about what the producer organisation aims to achieve; *measurable* (and *timed*) so that their achievement can be monitored; *achievable* through implementing the actions proposed in the programmes; and *relevant:* coherent with the producer organisation's situation and market outlook, and with the EU's 11 objectives. Producer organisations should give targets for each objective in relation to the initial situation. The documents should show how the proposed actions will achieve the programme's objectives. At the end of the programme the producer organisation should report on the extent to which the objectives have been achieved in relation to the initial situation and targets.

— Member States should ensure that the operational programme objectives correspond to those in the EU regulation, and that the actions proposed represent a real advance towards the objectives at a reasonable cost. They should use the evaluation information in the producer organisations' final reports to monitor the effectiveness of the operational programmes and apply the lessons learned to improve the effectiveness of future programmes.

Text box 6

Methodology: Some of the Court's criteria for assessing the Member States' implementation of the aid scheme go beyond formal compliance with the letter of the regulation (see *Annex*). As an illustration, to comply with the regulation the producer organisation has to describe its initial situation, and the Member State has to check its accuracy. To meet the audit criteria, the Member State should also ensure that the description is related to the objectives and actions in the proposed programme. If not, the description of the initial situation has little purpose.

The initial situation description is not related to the operational programme objectives

30. All but two of the operational programmes examined included a section called 'initial situation' and more than half (60 %) formally complied with the regulation by mentioning production, marketing and equipment, even if very briefly. Some Member States required producer organisations to list their equipment and facilities and give a table of their production in tonnes and by value, but without requiring this to be related to the programme's objectives or actions in any way. Other Member States issued no particular instructions, and accepted very general descriptions, in some cases of only one or two sentences. Few producer organisations described their initial situation in respect of the environment, product quality and production costs, yet nearly all operational programmes had these objectives (see Text box 7). No producer organisation described the initial situation for each of the objectives in its operational programme.

Text box 7

Regional authorities in Spain approved an operational programme containing ten actions with a total cost of 770 000 euros. Six of these actions had the objective of improving product quality, eight had the objective of reducing production costs, and two had the objective of improving environmental practices.

The producer organisation listed in the **initial situation** the types of fruit grown and the surface area, but gave no information on the initial quality of the fruit, the costs of production, or the environment.

31. In a few cases, producer organisations described the starting situation in relation to specific actions, which is a requirement in the Netherlands, for example. This went some way to meeting the criteria, but did not sufficiently describe the producer organisation's initial situation in terms of its objectives.

The contents of operational programmes do not always relate to the stated objectives

32. Several Member States required producer organisations to explicitly state in their operational programmes which EU objectives related to each action. In these cases, the correspondence between the objective and the programme was automatic on paper, making the Member States' check of the compliance of objectives with those in the regulation a formality. However, many producer organisations listed any objective that seemed relevant in an attempt to justify the programme or particular action, regardless of whether that was their real objective or not (Text boxes 8 and 9).

33. In Italy and Greece, the authorities developed detailed lists of possible actions, from which the producer organisation could choose, and gave a predetermined objective to each action. The French authorities also issued a list of possible actions, but classified according to their nature, not their objective. For the environmental and quality categories of actions the relevant objective was usually evident, but for the category 'measures linked to production facilities' sometimes it was not. As a result it was not possible to identify the objective of some of the actions on the basis of the operational programme documentation (Text box 10). The Italian, Greek and French authorities did not attempt to check the objectives of individual programmes as they considered that the compliance of the actions with the EU objectives had been established when drafting the national lists of actions. However, changes over time to the classification had the effect of 'changing' the operational programmes' objectives for a given action (Text box 11).

Text box 8

An operational programme in the Netherlands included an electronic delivery note system at a cost of 135 000 euro with the objective 'planning and adjusting production to the demand'. The producer organisation could not demonstrate a relation between the action and this objective. The real objective, the reduction in costs, was not mentioned in the operational programme.

Text box 9

In an operational programme approved by the regional authorities in Spain, a producer organisation purchased a fork-lift truck at a cost of 25 000 euro. The producer organisation could not demonstrate a relation between the action and the stated objective of 'reducing withdrawals'.

Text box 10

In an operational programme in France, a producer organisation included an action described as 'provision of services' a cost of 50 400 euro. 25 % of this cost was allocated to the objective of 'improving quality' and 25 % to 'improving environmental practices'. We were unable to identify the EU objective related to the remaining 50 % of the costs.

Text box 11

An irrigation project in Italy was allocated to the objective of 'improving quality' in accordance with the 1997 national guidelines. Following a revision of the guidelines it was given the objective of 'concentration of supply' in 1999. In 2002 a further revision classified the same action under the objective 'reducing costs'.

Operational programme objectives are not given in measurable terms and targets are not set

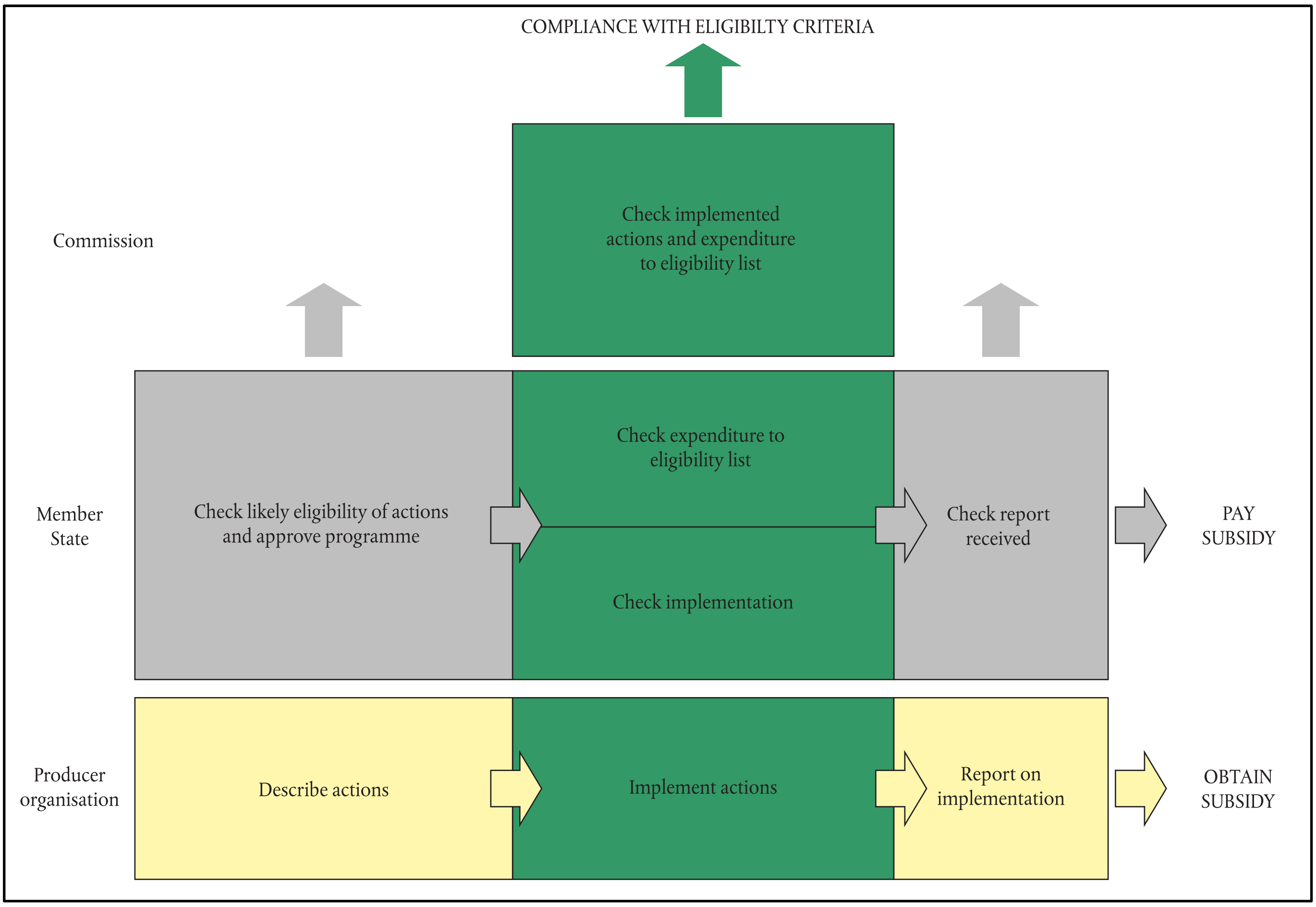
34. Only the United Kingdom authorities formally required producer organisations to set measurable objectives for operational programmes, although in practice it did not ensure that this was done. In Spain, Italy and the Netherlands, the authorities required the expected results to be shown for each measure or action, but this was focused on the outputs — how the implementation of the actions could be demonstrated — rather than on the achievement of the objective. In 10 % of the operational programmes examined, producer organisations gave quantified objectives for at least one action where this was straightforward, such as for the expected reduction in costs, or the number of hectares to be converted to organic production. These cases were mostly in Spain and Italy. Otherwise, producer organisations did not set targets or indicators by which achievement of the objectives could be monitored.

Producer organisations' evaluation reports do not show the achievement of objectives

35. Except for some cases in France and Ireland, the Member States ensured that producer organisations' final evaluation reports described the implementation of the programme and outputs (what had been done), but none in practice required the reports to also show the extent to which the operational programme objectives had been achieved. As such the reports were of little use for assessing the effectiveness of the aid.

Diagram 6

Subsidy approach



36. The evaluations in the final reports were little used by the Member States [1], and were treated as another formality required for compliance with the regulation. In Greece, Spain [2] and Portugal, final reports were simply filed by the paying agency and not examined by the authorities responsible for approving operational programmes.

37. The content of the reports varied widely, from less than one page of general unsubstantiated statements such as that 'quality has been improved', to over 100 pages of detailed facts and figures on the implementation of the programme, action by action. Member States did not require final reports to contain a common set of information to allow monitoring of the effectiveness of the programmes at regional or national level, and the diversity of the reports made any such analysis impractical.

Member States do not apply effectiveness criteria when approving operational programmes

38. In practice, Member States approved the programmes according to the nature of the proposed expenditure, not in terms of what the programme was expected to achieve. Effectiveness criteria, such as additionality, were not applied in deciding whether or not to approve the financing of an action with EU aid. Consideration of factors specifically required by the regulation, such as the initial situation and objectives, the technical quality and economic consistency of the programme, has become redundant and has only been done to the extent necessary to demonstrate compliance with the letter of the regulation.

39. Instead, Member States followed a different approach, with the focus placed on compliance with the eligibility criteria and the payment of subsidy as illustrated in *Diagram 6*.

(1) Member States commented that, according to the deadlines set in the implementing regulation, final reports are received after they have already approved the next operational programme for the producer organisation concerned. Although the regulation has been revised several times since 1997, this inconsistency has not been amended. Evaluation reports could be required earlier in the final year of the programme, simultaneous with the request for the following programme, for example.

(2) This concerns the national paying agency in particular.

40. This is largely a result of the amendment of the Commission implementing regulation to introduce 'eligibility lists' with which operational programmes since 1999 have had to comply. These list the types of expenditure that can and cannot be included in operational programmes (Text box 12).

Text box 12

Example of eligibility criteria: transport costs

Eligible:

— investments in transport equipped with cold storage.

Ineligible:

— costs of collection or transport (internal or external),

— investments in transport for marketing or distribution.

41. The initial implementing regulation in 1997 did not set detailed criteria for eligibility, except to exclude producer organisations' administrative and operating expenditure. Member States were uncertain of what the Commission would accept as eligible expenditure in the Clearance of Accounts process and, in response to queries from the Member States, the Commission issued a series of ad hoc interpretive notes.

42. As these interpretive notes had no official status, the Commission amended the implementing legislation to introduce a list of ineligible operations and expenditure. At the same time, it required Member States to check the eligibility of proposed operational programme expenditure against this list before approving operational programmes. In 2001 the Commission added a list of what *could* be included in operational programmes and in 2003 the interpretive notes were withdrawn and both lists were revised again. The eligibility lists allowed some exceptions to the exclusion of producer organisations' production and operating costs such as certain staff salaries, recyclable packaging and costs of natural pest and disease controls.

43. The existence of these eligibility lists does not prevent Member States from also considering the producer organisations' initial situation and objectives and the likely effectiveness of the proposed actions. However, Member States that refuse to approve proposed expenditure defined in the regulation as eligible would have to be able to justify their decision to the producer organisation and also may face legal challenges. Member States can avoid these difficult decisions by approving the same action for all producer organisations that request it, regardless of the objectives or situation of each particular producer organisation (Text box 13).

Text box 13

Example: pallet-boxes

In 10 of the 30 randomly selected operational programmes, Member States had approved the purchase of pallet-boxes, crates or similar containers for collecting, transporting and storing fruit and vegetables at a combined cost of 1,7 million euro. The Commission considers this expenditure to be eligible. The objectives given in the operational programmes included:

— stabilising producer prices,

— increasing product quality,

— boosting products' commercial value,

— reducing production costs,

— improving environmental practices,

— concentration of supply,

— reducing withdrawals.

In some cases, the purchase represented an advance from the initial situation to achieve an objective: one producer organisation replaced wooden crates with more hygenic plastic in order to supply a baby-food manufacturer (objective given: improving quality). In other cases these were simply replacements of old, lost or damaged crates, or additional purchases needed for increased production levels, without any clear relation to the given objectives.

The coexistence of the programming model and subsidy approach has increased complexity and costs

44. In effect, a 'subsidy approach' has been followed by Member States rather than a programming approach, while the programming elements of the regulation are still required. The result is that the aid scheme has become more complex than necessary, with increased costs of administration and control. This results from the lack of clarity of the eligibility lists as well as from the coexistence of the programming model. If done properly, preparing operational programmes, annual implementation reports and end-of-programme evaluations entails significant costs for producer organisations. This is all the more so in Member States such as Italy and the Netherlands, which require detailed annual operational programmes also to be submitted for approval.

45. The eligibility lists published in the regulation can never be precise enough to cover all possible actions in such a diverse and fast-changing sector and so are written in quite general terms such as 'quality improvement measures'. Inevitably, queries arise, and the lists are interpreted differently by different Member States and even by different regions within Member States. Even after eight years of operation of the scheme, examples of ineligible expenditure continued to be found by the Commission in the 2005 Clearance enquiries in Spain, France, Italy and the United Kingdom where the Member States had not always interpreted the eligibility rules in the same way as the Commission.

46. In the light of the uncertainty on eligibility and the associated risks, several Member State administrations undertake more checks than required by the regulation [1], some visiting every producer organisation several times a year. This adds costs not only for the Member State but also for the producer organisation.

47. This uncertainty on the eligibility, the costs of administration and extensive checks of their activities may also deter producer organisations from risking innovative measures, which may ultimately be disallowed. This may encourage them to include only those measures in their operational programmes where the eligibility has been clearly established.

There is a risk that ineffective actions have been approved

48. As the programming model has not been properly implemented, the EU budget has been exposed to an increased risk of ineffectiveness: the risk that actions will be approved that do not result in progress towards the EU's objectives.

49. Some Member States have argued that they do not need to concern themselves with the effectiveness of the programmes, as producer organisations will normally make the best business decisions for their circumstances. After all, the members of the producer organisation have to co-finance 50 % of the costs of the programme. However, the examples seen in this audit show that some producer organisations use the subsidy to support the costs of their existing activities, which do not represent a step forward from their initial situation. While this may make business sense for the producer organisation, particularly when under competitive pressure, it does not contribute to achieving the objectives of the EU aid scheme. The example in Spain (Text box 14) illustrates the inclusion of costs which are not 'actions' or 'measures' designed to achieve operational programme objectives, but are normal costs of any fruit and vegetable producer. Although it is not common for operational programmes to include such a high proportion of recyclable packaging [2], Member States have approved significant amounts of expenditure for this. Ten operational programmes in the Court's sample of 30 included a combined total of 4,9 million euro for recyclable or reusable packaging.

(1) Annual checks of at least 20 % of producer organisations representing 30 % of expenditure.

Text box 14

Example: Regional authorities in Spain had approved one operational programme in our sample, which included 2,7 million euro for recyclable cardboard boxes. This represented 83 % of the total programme for 2000-2003. In 2001 they approved a revision to the programme which deleted planned investments in greenhouses and irrigation, and increased the budget for recyclable boxes to 98 % of the total. The only other 'action' was the salary of a technician.

Have the measures financed in operational programmes been effective?

50. The previous section showed that the approach followed by the Member States in approving operational programmes results in a risk that the measures financed may not be effective. This section assesses whether or not the actions implemented by producer organisations have been effective in achieving the operational programme objectives.

Producer organisation evaluations of operational programmes (final reports)

51. The primary source of information on the effectiveness of operational programmes should be the final reports drawn up by producer organisations at the end of each programme. The regulation requires these to show the extent to which the operational programme objectives have been achieved. None of the 142 final reports examined in this audit gave a full assessment of the achievement of the operational programme objectives. Compliance with this requirement of the regulation has not been included in the Commission's checks of Member States' procedures.

(2) The Commission disallowed this expenditure in the Clearance of Accounts process on the basis that the programme did not have several objectives as required by the regulation. In 2002, the Spanish authorities limited spending on recyclable packaging to a maximum 35 % of each operational programme to ensure equal treatment for all Spanish producer organisations.

52. This represents a missed opportunity for the Commission, which has a specific responsibility under the EU's Financial Regulation to monitor the achievement of policy objectives. Had the final reports contained the required assessments, it should have been possible to analyse a sample of reports and draw conclusions on whether operational programmes had achieved their objectives. With a few well-chosen performance indicators required from all producer organisations, these final reports could have produced a long time series showing progress made in objectives such as improving quality, reducing costs, organic production, and improving environmental practices.

Sample of operational programme actions

53. In order to check if operational programme actions have been effective, the Court selected a total of 104 actions at random from thirty producer organisations' operational programmes completed in 2003 or 2004 (Text box 5). The producer organisations were asked to demonstrate the impact of the selected actions in terms of the related operational programme objectives. Some actions had more than one objective, giving a total of 265 cases examined.

54. In only 30 % of the cases could producer organisations provide sufficient evidence to show that the action had resulted in progress towards the related objective (*Diagram 7*). In a further 41 % of cases, while there was no direct evidence, a positive conclusion could be reached based on a logical reasoning (see Text box 15). However, as shown in paragraph 58, in many cases the progress made was only marginal.

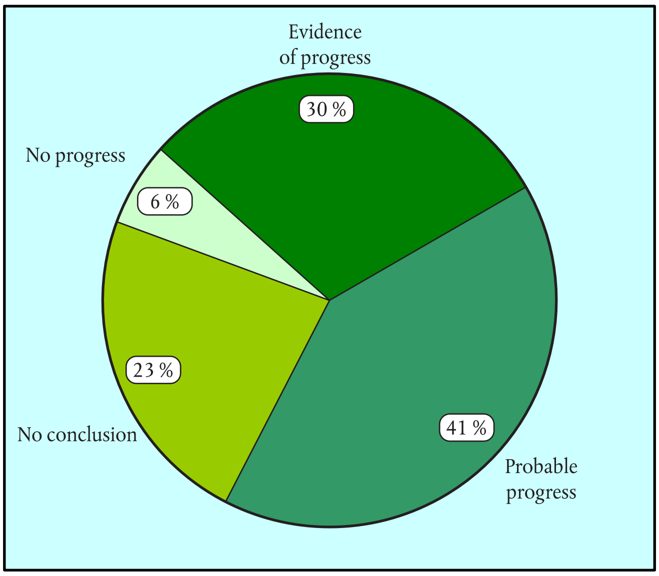
Text box 15

Example of 'probable progress': A producer organisation in Portugal purchased a refrigerated lorry to stop the quality of its fruit products deteriorating during distribution. It had no data to prove an improvement of quality, but showed us the equipment and explained the refrigeration processes. On the basis of this, we concluded that quality had probably been improved.

55. In almost a quarter of the cases, the Court could not draw a conclusion on whether or not progress had been made. In most cases, this was because the related objective was so general that it was not possible to prove that there had been no impact. This was particularly the case for the objectives of reducing withdrawals, concentration of supply, and stabilising producer prices *(Diagram 8)*. For example, a producer organisation's raison d'être is to concentrate supply and market its members' produce. Consequently, all of its activities contribute to this objective in some way, however indirectly.

Diagram 7

Sample of actions: impact on EU objectives



56. In 6 % of cases there was clear evidence that no progress had been made (*Diagram 7*). In a few of these cases, the action had failed: one producer organisation had started an operational programme action concerning organic production, for example, but abandoned the project. In the rest of the cases, the reason for the lack of progress was that objectives had been incorrectly allocated to the measures, either through misunderstanding (several producer organisations understood the objective 'promotion of products to consumers' as being promotion to clients), or to comply with a national classification (see paragraph 33).

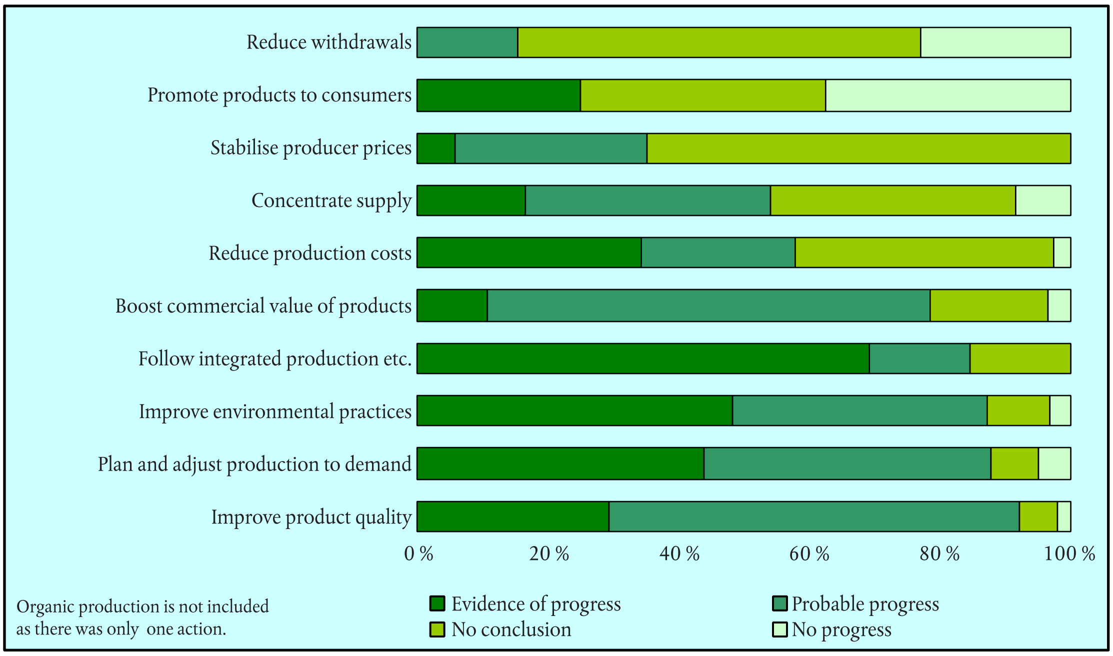
Low effectiveness of actions

57. The results of the sample presented above show only whether there is evidence of progress being made but not the *extent* of that progress. Although many actions in the sample had clearly moved the producer organisation forward from its initial situation towards the related objectives, in other cases the progress made was only marginal. Replacement machinery usually resulted in *some* progress as it represented an improvement over the old model. However, in relation to the total cost of the replacement, the progress was sometimes not significant. Similarly, the continuing employment of staff to check product quality enabled the producer organisations to maintain quality levels, but did not necessarily lead to a discernable improvement in quality in relation to previous years.

58. In order to gauge the incidence of these 'low effectiveness' measures, the Court reviewed each of the 104 actions that had been audited on the spot to consider if they represented a significant advance for the producer organisation from its initial situation towards one or more of the EU's objectives (Text box 16). Against this criterion, more than half (55 %) of the random sample of actions were classed as 'low effectiveness'.

Diagram 8

Sample of actions: impact on EU objectives



59. These findings show the extent to which Member Sates have approved actions in operational programmes on the basis of their nature (*is the action eligible*?) without also taking into account their effectiveness (*does the action advance the producer organisation towards the objective*?).

Text box 16

Examples of actions where we often found a significant advance from the initial situation:

— improvements in production facilities (irrigation systems, energy-efficient greenhouses);

— introduction of certified quality schemes.

Examples of actions where we often found no significant advance:

— replacements of machinery such as pallet-movers, fork-lift trucks, lorries and tractors;

— pallet-boxes, crates, containers, etc.;

— salaries of existing staff (marketing departments, quality checkers).

Conclusions on the effectiveness of operational programmes

60. Member States formally applied most of the aspects of the programming model that were specifically required in the regulation. However, they did not take account of the likely effectiveness of the actions in their decisions to approve operational programmes. This increased the risk of low-effectiveness actions being supported with EU aid.

61. Member States instead followed a 'subsidy approach' using the eligibility lists to approve programmes in relation to the nature of the proposed expenditure without having to take account of the producer organisations' situations and objectives.

62. However, this has not resulted in the uniform application and simplicity that such an approach could offer. The eligibility lists did not set sufficiently clear criteria to guide the expenditure towards the activities that the EU wants to support, with the result of uncertainty and increased costs of control. The coexistence of the programming model required producer organisations to prepare operational programmes and evaluations to comply with the regulations at a significant cost, and for little benefit.

63. Operational programmes have, on the whole, resulted in progress being made towards the Council regulation's objectives. However, less than half of the actions financed represented a significant advance from the producer organisations' initial situation towards at least one of the 11 objectives, and can therefore be considered effective. The aid has also been granted for operational programme actions with low effectiveness that achieve little change. In these cases, the aid could be more effective if better targeted

PART II: PROGRESS MADE BY PRODUCER ORGANISATIONS

64. Many factors have an impact on the progress made by producer organisations, in addition to the effectiveness of the operational programmes described in Part I. Foremost among these are the activities undertaken by producer organisations and their members that are not financed by operational programmes. Many producer organisations undertake significant investments under Rural Development programmes, for example. Furthermore, other EU aid schemes also support producer organisations, notably the schemes for the withdrawals of surplus production and for the processing of fruit and tomatoes. Also affecting the producer organisations' achievement of the objectives are the strategy followed by the producer organisation, the competition it faces, changing customer requirements and preferences, other EU policies such as for quality and the environment, and even, in the shorter term, weather conditions.

Have producer organisations made progress towards achieving the objectives set for the aid scheme?

65. Part I showed that operational programmes have, on the whole, resulted in progress being made towards the Council regulation's objectives. This part of the report examines whether this progress has been reflected in the overall performance of producer organisations. The report first assesses the sample of producer organisations visited during the audit (Text box 17), then considers the Commission's aggregated data at EU level.

> ***Text box 17***
>
> **Sample characteristics:** Producer organisations in the random sample represented 2 % of the total number and 5 % of the turnover of EU producer organisations in 2004.

Sample of producer organisations

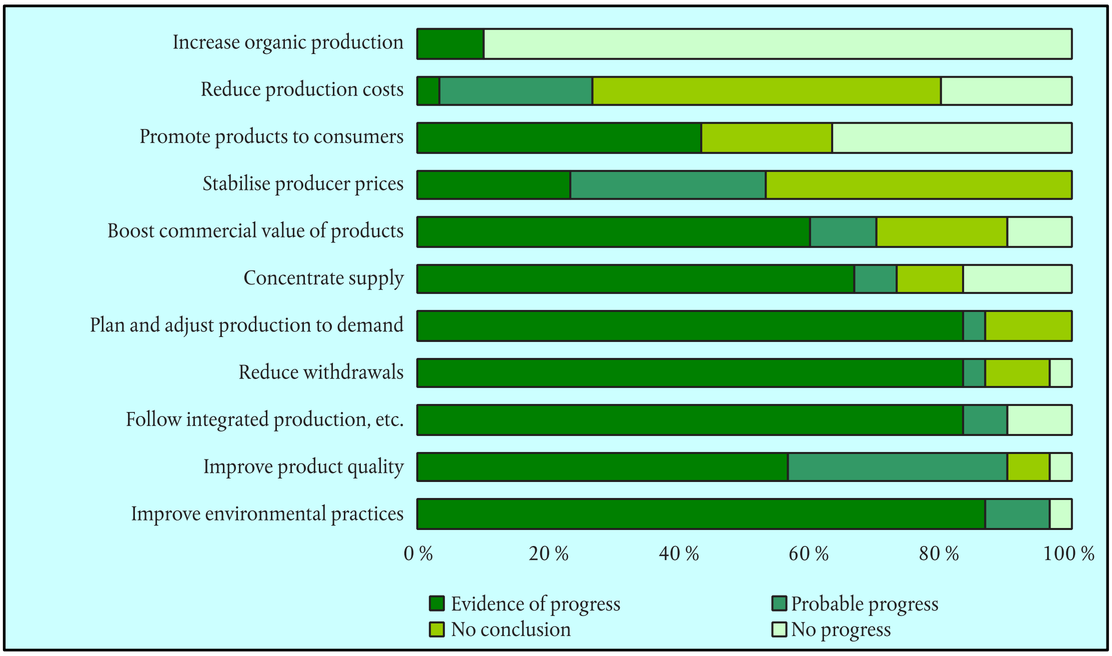
66. The 30 producer organisations visited were asked to demonstrate the progress they had made towards each of the 11 objectives, regardless of whether they had included actions related to those objectives in their operational programmes. This gave a total of 330 cases examined. In 54 % of these, the producer organisation was able to provide evidence to show that it had made progress. In a further 12 % of cases, the conclusion was reached that the producer organisation had probably made progress. A lack of information, particularly on production costs and the stability of prices, explained most of the 16 % of cases where a conclusion could not be made (*Diagram 9*).

67. Many producer organisations had not followed the objectives 'organic production' and 'promoting products to consumers', which accounts for most of the 18 % of cases where 'no progress' was observed. Relatively little progress had also been made against the objectives of 'reducing production costs' and 'stabilising prices'. Producer organisations explained that they aimed for increasing prices rather than stable prices, although most considered themselves price-takers and could do little to influence the prices they obtained. More important than simply reducing costs was maximising profit, which often involved increasing costs to obtain better quality and added value. Producer organisations also noted that improving environmental practices usually increased costs, without necessarily leading to increased product prices.

68. Although the sample results show that most producer organisations made at least some progress towards most of the 11 objectives, this is not sufficient on its own to confirm that the operational programme aid scheme has been effective, because of the influence of the other factors described in paragraph 64.

Diagram 9

Sample of producer organisations: progress towards EU objectives



Commission data on producer organisations

69. As shown in Part I, the Commission has not taken the opportunity of exploiting the evaluations made by producer organisations in their final reports to monitor achievement of the operational programme objectives. Furthermore, the Commission has not so far complied with its obligation under the EU Financial Regulation to evaluate the policy. An evaluation study is scheduled to start in 2008, with the results expected in 2009.

70. Nevertheless, the Commission does have some information on producer organisations. It obtains data on the quantities of surplus produce withdrawn from the market for which aid is claimed. Since 2000, it has also required information on operational programmes and extended the information collected on producer organisations in an annual statistical report from the Member States.

71. The data on operational programmes is limited to breakdowns of the aid paid by categories of expenditure. This indicates what the operational programme aid is being spent on, but not what is being achieved with that aid.

72. The Commission requires a more extensive set of data on producer organisations, in particular on their membership, their production and their sales. The Court's checks on the reliability of this information were made difficult, as the Commission does not have a proper management information system for recording the data. The Commission addressed numerous queries to the Member States in 2004 and 2005 on inconsistencies in the data, but did not follow these up. Important data is lacking, particularly for the three largest fruit and vegetable producing Member States: Italy, Spain and France. Analysis of the data is hampered by its incompleteness and the large number of inconsistencies, making it insufficiently reliable for indicating anything other than broad trends.

73. The main indicator that can be derived from this data is the share of producer organisations' output in the EU total. This shows how much production is concentrated in producer organisations, which is the overall aim of the policy for the fruit and vegetable sector. It also indicates the broader success of the policy by showing what proportion of fruit and vegetable growers choose to participate in the EU aid scheme. In the 2005 budget documents the Commission set a target of 60 % for this indicator by 2013, with an annual increase.

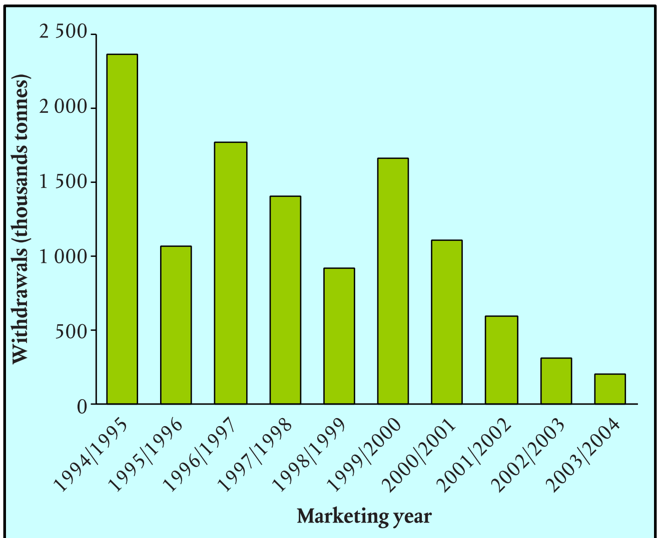
74. Consequently, while it has data on withdrawals and the concentration of supply, the Commission has no indicators to show the progress made by producer organisations towards achieving the other policy objectives such as reducing costs, stabilising prices, improving quality and the environment.

Analysis of data on withdrawals of surplus produce

75. The reform of the fruit and vegetable policy in 1996 limited the quantities of surplus produce that could be disposed of under the withdrawals aid scheme, and cut the compensation paid to growers for those withdrawals. The Commission data shows that this has resulted in a substantial reduction in the quantities of withdrawals within the EU aid scheme (*Diagram 10*). This is in line with the result of the Court's sample that 90 % of producer organisations had reduced withdrawals, or maintained them at zero.

Diagram 10

Withdrawals of fruit and vegetables for which aid was paid 1994-2004 (EU 15)



Source of data: Commission

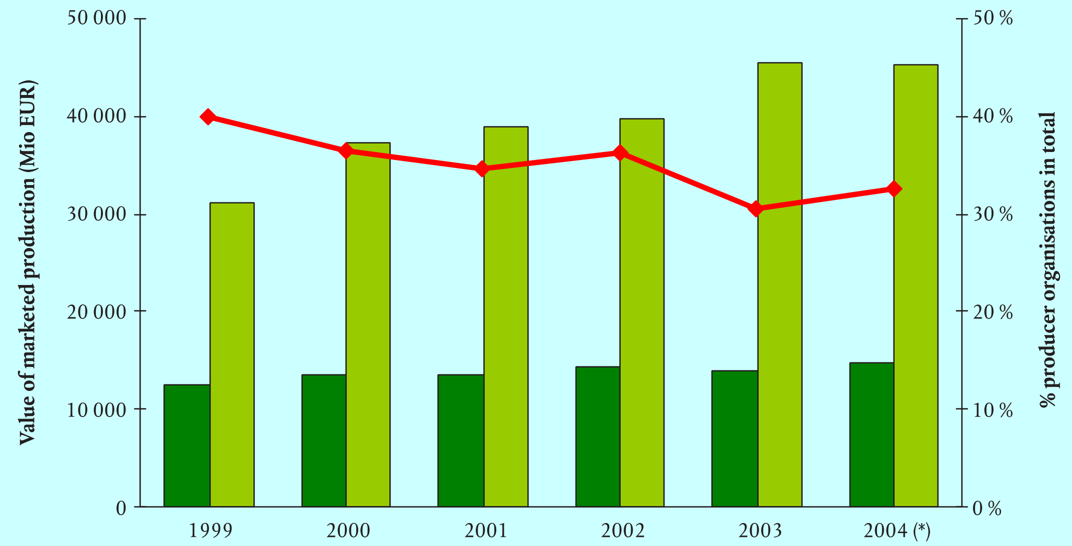
76. One of the objectives set for the operational programme aid scheme was to support measures taken by producer organisations to reduce withdrawals. However, this reduction in withdrawals does not necessarily prove that the operational programme aid has resulted in producer organisations planning and adjusting their production to the demand: producer organisations explained that the reduced aid rates for withdrawals phased in since 1996, together with increased controls, make it no longer worthwhile to claim the aid on their surplus production.

Analysis of data on the concentration of supply

77. The policy introduced in 1996 should result in a situation where the aid helps producer organisations to adapt and succeed and other growers are encouraged to join. Both of these factors should increase the turnover of producer organisations, 'concentrating supply' in their hands.

Diagram 11

Share of producer organisations in total value of marketed production (EU 15)



Source of data: Commission

(*) 2003 for Belgium, France and Italy (2004 data not available)

78. However, the Commission's data shows that the concentration of supply indicator has decreased: producer organisations' share of the total output fell from 40 % in 1999 to 31 % in 2003 (*Diagram 11*). (The figure shown for 2004 is provisional, as two of the largest Member States, France and Italy, have not reported complete data). While the value of marketed production of the total fruit and vegetable sector increased by 45 % from 1999 to 2003, that of producer organisations increased by only 12 %.

79. As described in paragraph 72, it is not possible to place too much reliance on this data, other than to indicate the broad trend. The 2003 percentage was incorrectly reported by the Commission, for example, because of an error concerning missing data for Greece. While the Court was able to easily find and correct this, the Commission could not demonstrate to the Court that the other data is sufficiently reliable.

80. The data also shows the continuing geographical disparity in participation in the aid scheme (*Diagram 12*). Portugal and Greece, the Member States in which fruit and vegetables represents the largest share of agricultural output, have the lowest participation rates, and have not shown any significant increase. Because of this low participation in producer organisations, only 6 % of Portugal's fruit and vegetable sector receives aid for operational programmes, and 13 % in Greece compared to 80 % in the Netherlands. The design of the aid scheme, which rewards success by paying aid as a percentage of producer organisations' turnover, should create an incentive for smaller producers with lower value production, and with the most need for adapting to the market's increasing quality and environmental standards and concentrated demand, to join producer organisations. The data shows that in some Member States, this has not happened. Instead the scheme has had the result of directing the aid to large producer organisations with high value production.

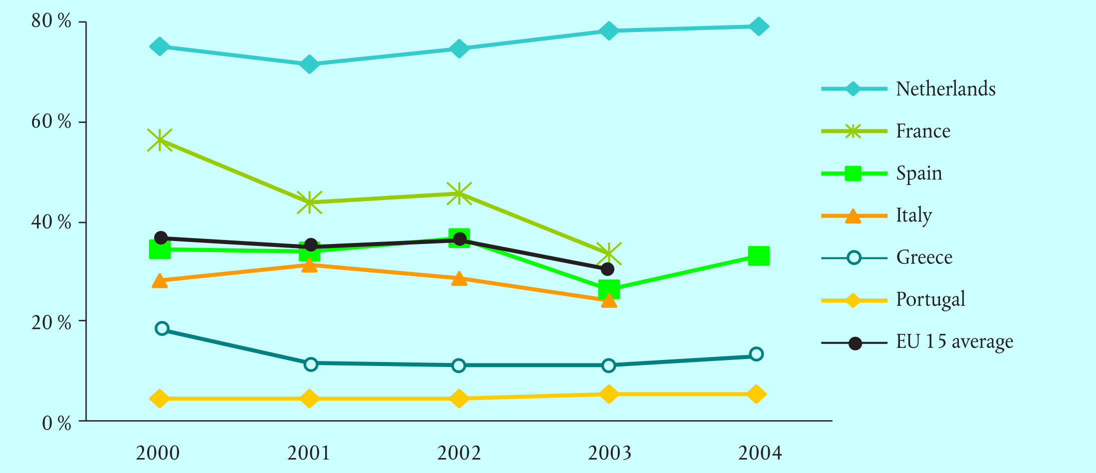
81. The Commission lacks information on the differences in performance of producer organisations and other growers and so cannot explain why the sector outside producer organisations appears to be growing at a faster rate than producer organisations.

82. To explain the lack of progress in the concentration of supply, it is also necessary to find out why growers do not join producer organisations. The Commission has not questioned producers in any systematic way to find the real reasons for this.

83. In its reply to the Court's Annual Report 2000, the Commission stated 'if the majority of producers … prefer not to join an effective producer organisation, they must also take the consequences of their decision. A comparison of the income of those belonging to producer organisations and that of non-members will show which choice was better'. However, the Commission has not monitored the revenues of producer organisation members to be able to make this comparison.

Diagram 12

Producer organisations' share of the total value of marketed production 2000-2004



Source of data: Commission

Rural development

84. One particular risk, identified by the Commission at an early stage, is that the availability of rural development funding may have undermined the incentive to join or form producer organisations by offering aid similar to operational programmes without requiring the growers to be members of producer organisations (see Text box 18). Although the rural development regulation addressed this issue (by providing that fruit and vegetable producers are not eligible for rural development aid to the extent that similar aid is available under operational programmes), exceptions were allowed.

Text box 18

Key features of the two aid schemes	Rural development	Operational programmes
Aid only available to producer organisations?	No	Yes
Multiannual programme?	Yes	Yes
Objectives include planning and adapting production to demand, reducing costs, improving quality and environment?	Yes	Yes
Measures proposed, implemented and co-funded by beneficiary?	Yes	Yes
Measures approved and checked by Member State?	Yes	Yes
Evaluation at end of programme?	Yes	Yes

85. As a result of these exceptions, Rural Development funding is available for a similar range of activities, from irrigation projects to packaging machinery, for producer organisations and other growers alike. A significant proportion of Rural Development projects under the measures 'investments in agricultural holdings' and 'improving the processing and marketing of agricultural products' concern fruit and vegetables.

86. Despite the potential importance of the risk of the Rural Development programmes undermining producer organisations, which are the cornerstone of the EU's policy for fruit and vegetable producers, the Commission has not checked the operation of Member States' procedures for ensuring consistency, or collected information or undertaken any assessment of the extent to which this may have occurred.

CONCLUSIONS

The effectiveness of operational programmes

Has the aid scheme been implemented in a way to ensure that operational programmes are likely to be effective?

87. Member States have focused on the eligibility of operational programme actions by the nature of the expenditure, without also considering whether they represent a step forward for the producer organisation towards achieving the operational programme objectives. As a result, Member States' procedures do not

ensure that all operational programme actions are likely to be effective. Member States have not applied the sound financial management principle of effectiveness in approving operational programmes. Commission checks have focused on compliance with the criteria for the eligibility of expenditure and not on whether the Member State procedures for approving and monitoring operational programmes operate in a way to ensure that the programmes are likely to be effective.

88. The aid scheme has been costly to implement for the Member State administrations and for producer organisations. The programming elements required by the regulations have been followed nominally, at a significant cost but without real benefits. The criteria for the eligibility of expenditure were not clear, resulting in uncertainty and an increased need for controls to ensure compliance.

Have the measures financed in operational programmes been effective?

89. Almost half of the actions financed in operational programmes resulted in a significant advance from the producer organisations' initial situation towards at least one of the 11 objectives, and can therefore be considered effective.

90. Member States have also granted the aid for operational programme actions with low effectiveness that achieve little change. In these cases, the aid could be more effective if better targeted.

Progress made by producer organisations

Have producer organisations made progress towards achieving the objectives set for the aid scheme?

91. Producer organisations have adapted to the changing demand and made progress towards the objectives set in the Council regulation. Operational programmes have contributed to this, but are not the only factor. Rural development funding is also available to producer organisations, and to other fruit and vegetable growers, to support similar activities, with similar objectives to operational programmes. Market forces put pressure on all producers to meet higher environmental standards, improve product quality and control costs. Consequently, some of these effects may have been observed even without the operational programme aid.

92. Despite the availability of EU aids to members of producer organisations, the majority of growers in the main fruit and vegetable producing Member States choose not to participate. The policy has so far not succeeded in concentrating supply in most Member States. When the Court reported on the fruit and vegetable sector in 2000, around 40 % of the EU's fruit and vegetable production was marketed by producer organisations. The Commission's latest data shows that this has fallen to about one-third. On current trends, the Commission's target for producer organisations to reach a 60 % share of the total value of marketed production by 2013 will not be achieved.

93. The Commission has not assessed the reasons for this lack of participation in producer organisations, including whether Member States' procedures have been sufficient to ensure that Rural Development funding has not undermined the incentive for growers to join.

RECOMMENDATIONS

94. The conclusions presented above show that the overall policy objective of concentrating supply in producer organisations has not been achieved in most Member States, and the Commission lacks the information on the reasons for this that would be necessary for reviewing the policy. Pending a review of this, which should take account of the results of the evaluation of producer organisations due in 2009, the Commission should bring forward proposals to make the aid scheme for operational programmes simpler and more effective.

Make the aid for operational programmes simpler and more effective

95. The Commission should consider the merits of the following alternative approaches to improve the operational programme aid scheme:

(i) simplify and reduce the costs of the scheme by clarifying the criteria for eligible expenditure and removing the programming requirements;

(ii) simplify and improve the effectiveness of the aid by reviewing the objectives set for operational programmes and the eligibility lists to encourage Member States to approve operational programmes based on effectiveness criteria;

(iii) improve coherence, simplify administration and reduce costs by aligning the scheme's procedures and rules for the eligibility of expenditure with those of the Rural Development investment measures.

96. The Commission should improve its data collection on operational programmes and producer organisations, focusing on a few key indicators that will allow it to monitor the effectiveness of the aid scheme and provide useful information for periodic evaluation.

Better target the policy to achieve the overall objectives of concentration and adaptation

97. The Commission should use the evaluation planned for 2009 to obtain a better understanding of the reasons for the lack of progress in the concentration of supply in producer organisations. It should assess whether producer organisations have improved the situation of their members in relation to other growers, and how the policy coexists with rural development.

98. If these studies confirm that producer organisations are an effective mechanism for strengthening the position of growers, the policy should be better targeted to achieve this. The Commission should propose changes to encourage membership of producer organisations, particularly in the main fruit and vegetable producing Member States. The Commission should also consider if the policy aim of adapting production to the changing market demands could be better achieved if the aid was targeted at those who have the most need of adaptation by introducing new criteria, in addition to turnover, for allocating funding to producer organisations.

Question the policy of encouraging producer organisations

99. The Commission should also use the planned evaluation to establish whether the benefits of concentration of supply achieved by the policy are sufficient to compensate for the inequality caused by limiting the aid to one particular structure of fruit and vegetable growers: producer organisations.

100. A policy choice was made in 1996 to exclude growers who are not in producer organisations from the benefits of the EU aid. If the Commission cannot demonstrate that the support for producer organisations produces real gains in terms of strengthening their position in the market place, the rationale for excluding other producers from the EU aid should be questioned and the Commission should reconsider this mechanism for supporting the EU's fruit and vegetable growers.

This Report was adopted by the Court of Auditors in Luxembourg at its meeting of 28 June 2006.

For the Court of Auditors

Hubert WEBER

President

ANNEX

AUDIT CRITERIA FOR THE APPROVAL OF EFFECTIVE OPERATIONAL PROGRAMMES

Compliance with the Regulation	Additional performance audit criteria
Producer organisation's initial situation	
1. The operational programme should contain a description of the initial situation, in particular concerning production, marketing and equipment.	1. The description should show the starting situation in relation to each of the operational programmes' objectives. 2. The description should set a benchmark against which progress towards the objectives can be assessed.
Operational programme objectives	
1. Operational programmes should include several of the 11 EU objectives (the environment objective is compulsory). 2. The operational programme should describe the objectives of the programme, bearing in mind the outlook for production and markets. 3. The Member State should check the compliance of the objectives with the regulation.	1. The objectives should be SMART: ***s****pecific* so that there is no doubt about what the producer organisation aims to achieve; ***m****easurable* (and ***t****imed*) so that their achievement can be monitored; ***a****chievable* through implementing the actions proposed in the programmes; and ***r****elevant:* coherent with the producer organisation's situation and market outlook, and with the EU's 11 objectives. 2. In particular, targets, indicators or quantified objectives should be given to allow the achievements of the programme to be monitored and to demonstrate to the Member States the expected impact of the programme on its objectives.
Operational programme actions	
1. Operational programmes should include a detailed description of the actions. 2. The Member State should check the technical quality of the programme and the soundness of its estimates.	1. Actions should be sufficiently well described so that Member States can check that the programme of actions is likely to achieve its objectives.
Final reports (end-of-programme evaluations by the producer organisation)	
1. Producer organisations should prepare annual reports describing implementation of the programme, and in the 'final report' include an assessment of the extent to which the programmes' objectives have been achieved.	1. Member States should take account of final reports when approving new programmes or amendments in order to avoid inclusion of actions likely to be ineffective (for that and for other producer organisations). 2. Member States and the Commission should use the final report information to monitor the effectiveness of the policy (the extent to which producer organisations are achieving the operational programme objectives).
Approval of operational programmes	
1. In addition to the above requirements, the Member State should check the economic consistency of the programme; 2. …and the eligibility of the proposed expenditure. 3. The Member State should approve, reject, or require amendments to the programme. 4. Member States should ensure that aid is granted in accordance with the principles of sound financial management: economy, efficiency and effectiveness.	1. Member States should approve actions for which the producer organisation has sufficiently demonstrated that they are likely to achieve a significant advance towards the EU operational programme objectives for a reasonable cost. 2. Decisions to approve operational programmes should be sufficiently documented to demonstrate that they were taken according to the principles of sound financial management.

THE COMMISSION'S REPLIES

EXECUTIVE SUMMARY

I. The scheme provides financial support for the operational programmes of fruit and vegetable growers who market their products via producer organisations. It was introduced to help a fragmented sector improve its position in a market dominated by a relatively small number of large purchasers.

III. The Commission recognises the Court's concerns. However, some progress towards the related objectives could either be clearly seen or assumed in over 70 % of cases the Court audited (see paragraph 54).

The Commission introduced eligibility lists, which (as far as was reasonably possible) clearly set out what could be funded. It is for the national authorities to ensure that the programmes they approve harmonise not only with these guidelines, but also with the overall objectives set by the regulations. Member States decide on their own detailed administrative arrangements and the Commission verifies that these are in compliance with the regulations.

IV. During its various Clearance of Accounts missions and desk audits, the Commission paid particular attention to ensuring that Member States' systems of management and control offer reasonable assurance that expenditure declared conforms to the regulatory requirements. This led, where appropriate, to assessments of compliance of the procedures for approving and monitoring operational programmes. Weaknesses are followed up via the Clearance of Accounts process and give rise, where necessary, to financial corrections against the Member State concerned.

Under the shared management system, Member States are primarily responsible for evaluating and controlling the effectiveness of any given action. The Commission regularly discusses the functioning of the aid scheme, including issues related to effectiveness, with Member States in the Management Committee meetings and bilaterally.

The issue of effectiveness will be addressed further in the impact assessment and the forthcoming evaluation, where the Court's observations will be taken into account. Moreover, more attention will be paid in the forthcoming reform to making the requirements on reporting and monitoring by Member States more effective tools for them in their assessment of the effectiveness of the policy.

V. The Commission is pleased to note that the Court's findings give a positive global picture of progress made by producer organisations thanks to Community support. It notes also that nearly three-quarters of the actions the Court tested showed some progress towards the programme objectives.

The Commission considers that even if an action may not appear effective in achieving a significant advance towards one of the objectives specified in Article 15(4) of the Council Regulation, the aid should be considered effective in terms of improving producers' incomes through improving their competitiveness, which is one of the overall policy aims. However, it does agree that the aid can be more effective if better targeted, and it will address this issue in the on-going impact assessment.

VI. In addition to the sources of information cited by the Court, indirect indicators exist as far as the objective of improving quality (the increasing number of geographic indicators and quality labels related to fruit and vegetable products) is concerned, although these do not show specifically the progress made by producer organisations.

VII. The Commission shares the Court's concerns regarding achievement of the 60 % target. However, it considers that the picture is more complex. The instrument has been used in very different ways in different Member States, and results are not uniformly negative. Other more encouraging data should be highlighted, in particular the formation of Associations of Producer Organisations (APOs) and the emergence of big producer organisations in some Member States since the reform of the policy in 1996 (in particular BE, NL and IT), some of which are already able to counterbalance the bargaining power of big retailers.

This policy approach, having in mind the increased market access implied by the Doha Development Agenda and the increasing concentration of the demand side, is still the best instrument to try to achieve a better balanced chain (between producers and consumers). One of the aims of the forthcoming reform is to address the weaknesses and to reinforce the available instruments, in particular by favouring mergers between producer organisations, Associations of producer organisations, cooperation between producer organisations, and producer organisations with a transnational dimension.

VIII. The Commission is carrying out an impact assessment in preparation for the CMO reform proposal to be presented later in 2006. It agrees with the aims expressed in the Court's recommendations and will, as part of the impact assessment, explore how best they can be achieved.

IX to XI. The Commission will improve its capacity to collect data and develop relevant indicators. To address the data reliability issue, DG AGRI is starting an IT project in 2006 to have a proper database in place, starting in 2007.

The scope of the evaluation and the evaluation questions will be formulated during the preparation of the tender specifications. The observations of the Court will be taken into account.

INTRODUCTION

1. Council Regulation (EC) No 2200/96 foresees several destinations for products withdrawn from the market: free distribution to charitable organisations; schools; non-food purposes; animal feed; processing industries; and (but not exclusively) compost or biodegradation under environmentally strict conditions.

5. The Common Market Organisation (CMO) was last reformed in 1996, prior to the entry into force of the more detailed requirements of the Financial Regulation in 2002.

However, given the evolution of the Financial Regulation, the objectives will be reconsidered in the next CMO reform, announced for the end of 2006.

PART I: EFFECTIVENESS OF OPERATIONAL PROGRAMMES

20. The Commission recognises its final responsibility for the sound financial management of the EU budget under Articles 274 of the EC Treaty and 179 of the Euratom Treaty. The results of the application of clearance-of-accounts procedures and other financial corrections mechanisms, established under the provisions of Article 53(5) of the Financial Regulation are part of this framework. Furthermore, Council Regulation (EC) No 1290/2005 on the financing of the Common Agricultural Policy requires directors of Paying Agencies to sign a declaration of assurance (DAS), mirroring in shared management the declaration of assurance issued by the Directors-General of the Commission.

21. The merging of the Special Corps of inspectors into the clearance of accounts team increased the efficiency of the Commission's checks on Member States' procedures. The team in charge of auditing the fruit and vegetable sector, which includes the Corps, was reinforced in 2000.

22 and 23. During its various Clearance of Accounts missions and desk audits, the Commission paid particular attention to ensuring that Member States' systems of management and control offer reasonable assurance that expenditure declared conforms to the regulatory requirements. This led, where appropriate, to assessments of compliance of the procedures for approving and monitoring operational programmes. Weaknesses are followed up via the Clearance of accounts process and give rise, where necessary, to financial corrections against the Member State concerned.

Under the shared management system, Member States should have adequate control systems in place: they are primarily responsible for evaluating and controlling the effectiveness of any given action. The Commission's Action Plan towards an integrated internal control framework (COM(2006) 9) aims to reinforce Member States' accountability as required by the Parliament.

The Commission regularly discusses the functioning of the aid scheme, including issues related to effectiveness, with Member States in the Management Committee meetings and bilaterally.

The issue of effectiveness will be addressed further in the impact assessment and the forthcoming evaluation.

Text box 9:

The Commission notes that for the action's other stated objectives, the Court found that there was a relationship with 'reducing production costs', and indirectly with 'improving product quality', and thereby 'increasing the commercial value of products'.

38 to 40. The Commission recognises the Court's concerns. However, some progress towards the related objectives could either be clearly seen or assumed in over 70 % of cases the Court audited (see paragraph 54).

The decision to include in the Commission Regulation a list of eligible actions (a 'positive' list), accompanied by a list of non-eligible actions, increased legal security for both Member States' administrations and producer organisations. This approach was never conceived as an alternative to the Member States' obligations to approve operational programmes in relation to producer organisations' initial situations and objectives.

41. The interpretative notes issued by the Commission, in particular between 1997 and 2000, covered a large range of issues, including eligibility and, to a greater extent, Article 11 of Regulation (EC) No 2200/96 on recognition of producer organisations.

43. The decision to include in the Commission Regulation a list of eligible actions (a 'positive' list), accompanied by a list of non-eligible actions, increased legal security for both Member States' administrations and producer organisations. This approach was never conceived as an alternative to the Member States' obligations to approve operational programmes in relation to producer organisations' initial situations and objectives.

Text box 13:

In general, the purchase of pallet-boxes is seen as an investment both under this scheme and under Rural Development programming, and as such would be considered eligible.

44. The Commission introduced eligibility lists, which (as far as was reasonably possible) clearly set out what could be funded. It is for the national authorities to ensure that the programmes they approve harmonise not only with these guidelines, but also with the overall objectives set by the regulations. Member States decide on their own detailed administrative arrangements and the Commission verifies that these are in compliance with the regulations.

Eligibility lists and the ‘programming model’ do not necessarily conflict. Even in a more framed policy (for example rural development) both elements coexist.

45. The regulations have foreseen a comprehensive set of rules for this measure.

The fact that examples of ineligible expenditure continued to be found by Member States and Commission auditors seems inherent to any aid scheme and not a peculiarity of this one. Furthermore, the Commission noted several cases where the Member States interpreted EU law very broadly.

46. Community law fixes the control rate at a reasonable level. The Commission considers that the undertaking of more checks by some Member States does not reflect uncertainty on eligibility and the associated risks.

47. Innovative measures may, by their very nature, test the limits of eligibility. However, the Commission was not informed of any problems relating to the inclusion of such measures into the operational programmes.

48. The fact that members of producer organisations have to co-finance 50 % of the costs of the programme counterbalances the risk that ineffective actions are chosen by beneficiaries, as long as the producer organisations’ objectives coincide with those of the CMO. Furthermore, the Member States have a precise set of obligations to respect, as set out in paragraph 18.

49. An overall aim of the CMO has always been to improve farmers’ incomes, not via support but via the market, thereby enhancing their competitiveness. In this respect, it seems sensible that they use subsidies to support the costs of existing activities, even if this may not appear to represent a significant advance from the initial situation in respect of the Regulations’ 11 specific objectives. However, the support given in Operational Funds, with some exceptions, has to target structural improvements and not running costs.

The specific example of recycled packaging is a clear illustration of the Commission’s approach in this regard. In 2004 the Commission moved to change the eligibility rules from supporting the costs of the packaging itself to the environmental management of recyclable packaging. The aim was to stop the abuses observed in certain Member States and make the expenditure better linked to environmental improvements. As mentioned in footnote 13, the Commission made a financial correction in 2001.

51 and 52. In the framework of the incoming reform, more attention could be paid to making the requirements on reporting and monitoring by Member States more effective tools for them in their assessment of the effectiveness of the policy.

The Commission has included in its evaluation programme the commitment to launch evaluations of the various market measures concerning the CMO of fruits and vegetables. The evaluation concerning producer organisations shall be launched in 2007, with a final report due in 2009.

54. This means that 71 %, or nearly three-quarters, of actions selected showed, to varying degrees, progress towards the programme objectives.

57 and 58. The Commission considers that even if an action may not appear effective in achieving a significant advance towards one of the objectives specified in Article 15(4) of the Council Regulation, the aid should be considered effective in terms of improving producers’ incomes through improving their competitiveness, which is one of the overall policy aims.

Furthermore, quality standards are fast moving in the sector, and maintenance of quality levels up to (improving) standards implies an advance.

61. The decision to include in the Commission regulation a list of eligible actions (a ‘positive’ list), accompanied by a list of non-eligible actions, increased legal security for both Member States’ administrations and producer organisations. The existence of eligibility lists does not absolve Member States from their responsibility in ensuring that what is approved is likely to be both eligible and effective, and should not be seen as an endorsement by the Commission of the so-called ‘subsidy approach’.

62. The Commission introduced eligibility lists, which (as far as was reasonably possible) clearly set out what could be funded. It is for the national authorities to ensure that the programmes they approve harmonise not only with these guidelines, but also with the overall objectives set by the regulations. Member States decide on their own detailed administrative arrangements and the Commission verifies that these are in compliance with the regulations.

Eligibility lists and the ‘programming model’ do not necessarily conflict. Even in a more framed policy (for example rural development) both elements coexist.

63. The Commission considers that even if an action may not appear effective in achieving a significant advance towards one of the objectives specified in Article 15(4) of the Council Regulation, the aid should be considered effective in terms of improving producers' incomes through improving their competitiveness, which is one of the overall policy aims.

The issue of better targeting of the aid will be addressed in the forthcoming CMO reform.

PART II: PROGRESS MADE BY PRODUCER ORGANISATIONS

69. In the framework of the incoming reform, more attention could be paid to making the requirements on reporting and monitoring by Member States more effective tools for them in their assessment of the effectiveness of the policy.

The Commission has included in its evaluation programme the commitment to launch evaluations of the various market measures concerning the CMO of fruits and vegetables. The evaluation concerning producer organisations shall be launched in 2007, with a contract to be established in 2008 and a report due in 2009.

71. The collection of data on operational programmes is part of monitoring the implementation of the policy; it follows an input-output logic (how much money is spent (input) and for what kind of activities (output). In evaluation, greater emphasis is put on objectives and impacts.

72. The Commission agrees with the Court that the amount of data contained in Member States' reports deserves a proper management IT system. It continues its efforts to improve the management and reliability of data. Looking to the future, DG AGRI is starting an IT project in 2006 with the aim of having a detailed database in place from 2007.

74. Indirect indicators exist as far as the objective of improving quality (the increasing number of Geographic Indicators and quality labels related to Fruit and Vegetable products) is concerned, although this information does not show specifically the progress made by producer organisations.

76. The reduction of withdrawals (in quantity and in expenditure) indicates that supply has been adapted to demand. The dramatic decrease in withdrawals is witnessed also by the low percentage of Operational Funds (only 2 %, when the ceiling is 30 %) devoted to this purpose.

78. The Commission shares the Court's concerns. However, it considers that the picture is more complex. The instrument has been used in very different ways in different Member States, and results are not uniformly negative. Other more encouraging data should be highlighted, in particular the formation of associations of producer organisations (APOs) and the emergence of big producer organisations in some Member States since the reform of the policy in 1996 (in particular BE, NL and IT), some of which are already able to counterbalance the bargaining power of big retailers.

79. To address the data reliability issue, DG AGRI is starting an IT project in 2006 to have a proper database in place, starting in 2007.

80. The Commission is aware of this issue, which will constitute one of the major concerns to be tackled in the forthcoming CMO reform.

81. These issues will be considered in the context of the forthcoming evaluation.

82. The evaluation concerning the producer organisations is included in the evaluation programme of the DG AGRI for the year 2007 with the contract to be established in 2008 with a report due in 2009. The observations of the Court will be taken into account when defining the scope of the evaluation and the evaluation questions.

83. The Commission compared the evolution of producer organisations' value of marketed production (VMP) to the VMP of producers which were not producer organisation members. Depending on the future role of producer organisations in the forthcoming reform, the Commission is prepared to investigate whether more direct income information could be obtained. The matter will require discussion with, and the cooperation of, Member States.

84 and 85. Exceptions have to be justified by objective criteria and after consultation with Member States. The Commission services are systematically involved in *ex ante* assessments of Member States' requests for exceptions.

The Commission requested Member States to include a clear demarcation in their rural development programmes, whereby measures are differentiated by nature or by value; this determines whether they are rural development- or operational programme-financed.

86. According to Article 37(3) of Council Regulation (EC) No 1257/1999, it is the role of rural development (RD) programming to prove that a request for an exception does not undermine the coherence between the first and second pillar. The coherence between the CMO Fruit and Vegetables and RD will be considered as part of the wider impact assessment, which is currently ongoing.

CONCLUSIONS

87. Under the shared management system, Member States are primarily responsible for evaluating and controlling the effectiveness of any given action. The Commission regularly discusses the functioning of the aid scheme, including issues related to effectiveness, with Member States in the Management Committee meetings. Furthermore, matters requiring clarification are dealt with in bilateral meetings between the Commission and Member States.

During its various Clearance of Accounts missions and desk audits, the Commission paid particular attention to ensuring that Member States' systems of management and control offer reasonable assurance that expenditure declared conforms to the regulatory requirements. This led, where appropriate, to assessments of compliance of the procedures for approving and monitoring operational programmes. Weaknesses are followed up via the Clearance of accounts process and give rise, where necessary, to financial corrections against the Member State concerned.

88. The Commission recognises the Court's concerns. However, some progress towards the related objectives could either be clearly seen or assumed in over 70 % of cases the Court audited.

The Commission introduced eligibility lists, which (as far as was reasonably possible) clearly set out what could be funded. It is for the national authorities to ensure that the programmes they approve harmonise not only with these guidelines, but also with the overall objectives set by the regulations. Member States decide on their own detailed administrative arrangements and the Commission verifies that these are in compliance with the regulations, which fix the control rate at a reasonable level. The Commission's observations arising from its 2005 audit missions indicate several cases where the Member States interpreted EU law very broadly.

89. The Commission is pleased to note that the Court's findings give a positive global picture of progress made by producer organisations thanks to Community support.

90. The Commission considers that even if an action may not appear effective in achieving a significant advance towards one of the objectives specified in Article 15(4) of the Council Regulation, the aid should be considered effective in terms of improving producers' incomes through improving their competitiveness, which is one of the overall policy aims. However, it does agree that the aid can be more effective if better targeted, and it will address this issue in the on-going impact assessment.

91. The Commission acknowledges that operational programmes effects cannot be seen as the only factor pushing producers towards the objectives set in the Council Regulation. However, they do contribute to a more market oriented approach. Market forces, particularly recently, have put producers under enormous pressure, resulting in major crises for leading EU products (i.e. peaches, citrus, table grapes, tomatoes, tomatoes for processing).

As a result of these crises, in a struggle for economic survival and having cost reduction as a priority, producers may pay less attention to quality aspects and neglect environmental concerns. This risk makes the operational programmes an important element for keeping producers focussed on quality and environment issues in their actions.

92. The Commission is aware of the shortcomings pointed out by the Court. However, this policy approach, having in mind the increased market access implied by the Doha Development Agenda and the increasing concentration of the demand side, is still the best instrument to try to achieve a better balanced chain (from producer to consumer). One of the aims of the incoming reform is to address the weaknesses and to reinforce the available instruments, in particular by favouring mergers between producer organisations, Associations of producer organisations, cooperation between producer organisations, and producer organisations with a transnational dimension.

93. The Commission considers that the *ex ante* check made by its services on Member States' requests for exceptions under Article 37(3) of Council Regulation (EC) No 1257/1999 were sufficient to ensure coherence between the two instruments. The reasons for the unsatisfactory participation of producers in the scheme will be assessed in future evaluations.

RECOMMENDATIONS

94. This issue will be assessed and appropriately addressed in the forthcoming review of the CMO (end 2006), with the aim of making the aid scheme simpler and more effective in the future.

The results of the evaluation could lead to additional legislative initiatives from the Commission, if these are considered to help achieve the scheme's objectives.

95. The Commission is carrying out an impact assessment in preparation for the CMO reform proposal to be presented later in 2006. It agrees with the aims expressed in the Court's recommendations and will, as part of the impact assessment, explore how best they can be achieved.

96. The Commission will improve its capacity to collect data and develop relevant indicators. To address the data reliability issue, DG AGRI is starting an IT project in 2006 to have a proper database in place, starting in 2007.

97. The scope of the evaluation and the evaluation questions will be formulated during the preparation of the tender specifications. The observations of the Court will be taken into account.

98. The Commission will address in its forthcoming reform proposal the issue of lack of organisation in the main fruit and vegetable producing Member States by encouraging membership of producer organisations more effectively.

99 and 100. In a sector where supply is facing ever stronger bargaining power from the demand side, the concentration of supply is, and will be, a valid tool for ensuring a more balanced market. The scope of the evaluation and the evaluation questions will be formulated during the preparation of the tender specifications. The observations of the Court will be taken into account.