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NO 20

Special Report

The cost-effectiveness of EU Rural Development support for non-productive investments in agriculture

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

Audit team

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

This performance audit was produced by Audit Chamber I — headed by ECA Member Augustyn Kubik — which specialises in preservation and management of natural resources spending areas. The audit was led by ECA Member Jan Kinšt, supported by Alejandro Ballester Gallardo, head of private office; Bernard Moya, private office attaché; Davide Lingua, head of unit; Paulo Oliveira, team leader. The audit team consisted of Franco Radicati; Anne Poulsen; Paul Toulet-Morlane and Zoltan Papp. Secretarial assistance was provided by Murielle Siffert.

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CMEF: Common Monitoring and Evaluation Framework. A single framework for monitoring and evaluating rural development interventions for the 2007-2013 programming period as a means for improving performance of the programmes, ensuring accountability and allowing an assessment of the extent to which the objectives have been achieved.

Cost-effectiveness analysis: Compares the costs and effects of an intervention to assess the extent to which it can be regarded as providing value for money. For the purpose of this audit, non-productive investments are considered to be cost-effective when: (i) they are effective (see definition of effectiveness below) and; (ii) there is no evidence that the same investments could have been implemented at lower costs. When the same investments could have been implemented at lower costs, the value for money of such investments is undermined, since the same objectives and/or results would have been achieved at lower costs.

EAFRD: European Agricultural Fund for Rural Development.

EAFRD regulation: Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the EAFRD.

Effectiveness: Achieving the objectives set. For the purpose of this audit, eligible non-productive investments which address an agri-environmental need and/or contribute to achieve an agri-environmental objective identified by the Member States in their RDPs are considered to be effective.

Efficiency: Achieving the best relationship between effectiveness and costs.

Evaluation: A periodic collection and analysis of evidence to form conclusions on the effectiveness and efficiency of interventions.

Ex ante evaluation: Part of drawing up each rural development programme aiming to optimise the allocation of budgetary resources and improve programming quality.

Managing Authority: A national or regional body designated by a Member State to manage a rural development programme.

Measure: An aid scheme for implementing a policy. Each measure sets out specific rules to be complied with by the projects or actions that can be financed. There are two main types of measures: investment measures and area-related aid.

Mid-term evaluation (MTE): A type of ongoing evaluation report. Mid-term evaluation reports propose measures to improve the quality of rural development programmes and their implementation.

Monitoring: Regular examination of the resources, outputs and results of interventions.

NPI: Non-productive investments supported by EAFRD measure 216.

Programming period: Multiannual framework to plan and implement EU policies such as rural development policy.

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

Glossary

Rural development programme (RDP): A document prepared by a Member State or region, and approved by the Commission, to plan and monitor the implementation of the rural development policy.

Shared management: A method of implementing the EU budget where the Commission delegates implementation tasks to the Member States, while retaining final responsibility.

Executive summary

I

As part of the EU rural development policy, Member States may use the EU budget to give grants towards the costs of non-productive investments (NPIs). NPIs are investments which do not generate a significant return, income, or revenue, or increase significantly the value of the beneficiary's holding, but have a positive environmental impact. In particular, NPIs should play a complementary role in helping to achieve agri-environmental objectives or commitments, which can be undertaken under other environmental schemes, or in enhancing the environmental value of protected areas.

II

Public support for NPIs is provided by the European Agricultural Fund for Rural Development (EAFRD) and national co-financing. The public aid rates applied for NPIs are much higher than those granted to other productive investments, and often reach 100 % of the total investment costs. For the 2007-2013 programming period, approximately 860 million euros of public money were spent on NPIs. This audit examined the cost-effectiveness of NPIs in contributing to the achievement of environmental objectives in the 2007-2013 programming period.

III

The conclusions of this audit are based on the examination of the management and control systems of four Member States that spent 80 % of the total EAFRD funds for NPIs and on visits to 28 NPI projects that were most commonly funded. The Court concludes overall that NPI support has contributed to the achievement of environmental objectives linked to the sustainable use of agricultural land, but in a way that was not cost-effective.

IV

While the Member States did not always ensure the complementary role of NPIs in synergies with other support schemes, they targeted NPI funds to the types of investments with the potential to effectively address their agri-environmental needs. However, the audit revealed that the Member States reimbursed investment costs which were unreasonably high or insufficiently justified, making the NPI support not cost-effective. Furthermore, weaknesses in the selection procedures led Member States to fund NPI projects which were ineligible for EU funding, or to select project applications without verifying appropriately that they respected crucial selection criteria.

V

The audit found that 71 % of the visited projects contributed to the achievement of agri-environment objectives such as landscape and biodiversity protection. For this contribution to be cost-effective, it is essential that the costs of the supported NPIs are reasonable and justified. The Court found clear indications of unreasonable costs in 75 % of these projects. As a result, only 5 of the 28 (18 %) audited projects proved to be cost-effective.

VI

The problems with the reasonableness of costs of NPIs may not be confined to the sample of projects, since the concrete cases identified stem from weaknesses in the management and control systems of the Member States. In particular, they reimbursed investment costs on the basis of unit costs which were much higher than the actual market costs, or did not appropriately verify the reality of the costs claimed, or accepted the most expensive offer for undertaking the investment without requiring justification from the beneficiaries or without comparing the proposed costs against benchmarks. In addition, the Court found several cases in all the Member States audited where NPIs with obvious remunerative characteristics benefited from the maximum aid rates stipulated for this type of investments, which meant that, in most cases, they were fully funded with public money.

VII

There was a lack of performance information to show what has been achieved with the support to NPIs at EU and Member State levels. The available monitoring indicators measured only input and output data, such as the amount of public expenditure, the number of holdings receiving support, and the total investment volume. The absence of specific result indicators led some Member States to bundle the performance assessment of NPIs with other environmental schemes, wishfully assuming that all performed in the same way.

VIII

EAFRD support for NPIs continues in the 2014-2020 programming period, but the Commission and the Member States have not yet corrected most of the weaknesses identified by the Court. The main reason is that they did not do enough to identify weaknesses in a timely manner, so that the necessary corrective actions could be taken before the start of the new period. On the one hand, the Member States did not analyse the causes of the irregularities detected through their own controls to improve the management of the scheme. On the other hand, the Commission's own audits took place too late to help Member States identify and correct management shortcomings during the 2007-2013 implementation period.

IX

On the basis of these findings the Court makes the following recommendations aimed at improving the cost-effectiveness of NPIs that will be funded during the 2014-2020 Rural Development programme period:

- The Commission should monitor the relevant Member States' implementation of NPIs through their annual implementation reports, from 2017, which should also include the number and proportion of NPI projects that have been implemented in combination with other rural development measures or environmental schemes, including integrated projects.
- The Member States should include in their evaluation plans, an assessment of the extent to which NPIs are implemented in synergy with other rural development measures or environmental schemes.
- The Member States should make public all the criteria used in the selection and prioritisation of NPIs and systematically verify the supporting documentation proving compliance with these criteria. The Member States should also ensure an appropriate segregation of duties between organisations and persons involved in the transmission and selection of applications.
- For the new programming period, the Commission should provide guidance to Member States on selection criteria, having due regard to their transparency and check that Member States apply appropriate procedures for the selection of projects.
- The Commission should ensure that the contribution of NPIs to achieving the EU agri-environment objectives is monitored, or at least specifically assessed during the evaluations of the 2014-2020 programming period.
- Member States where NPI support is significant should define specific results indicators and report on these indicators in their annual implementation reports and evaluations.
- Member States should define, as soon as possible, appropriate criteria to determine the remunerative characteristics of NPIs benefiting from the highest aid rates. On the basis of this assessment, Member States should modulate the intensity of support.
- The Commission should also provide further guidance on the establishment of such criteria.
- Member States should implement, without delay, procedures to ensure that the costs of the supported NPIs do not exceed the costs of similar types of goods, service or works offered by the market.

- The Commission should, in the context of its multiannual audit plan, verify the Member States' effective application of the controls foreseen to ensure reasonableness of costs.

- Member States should define, before the first on-the-spot controls for the 2014-20 period are performed, a method for the timely consolidation and analysis of the cause of the errors found during these controls.

- In planning future audits, the Commission should take due account of the scale of weaknesses identified by the Court in the area of expenditure, irrespective of its limited financial importance.

EU support for non-productive investments in agriculture

01
Non-productive investments (NPIs) are investments which do not generate a significant return, income, or revenue, or increase significantly the value of the beneficiary's holding, but have a positive environmental impact. Public support for NPIs provides a financial incentive for the owners of agricultural holdings to undertake this type of environmentally friendly investments. NPIs have a varied content, ranging from the restoration of landscape features such as traditional boundaries, wetlands, hedges and dry-stone walls, to creating and/or restoring a habitat or landscape element, such as restoring heathland, species-rich grassland or floristically enhanced grass margins (see ***Box 1***).

02
During the 2007-2013 period, the European Agricultural Fund for Rural Development (EAFRD) granted support for NPIs under measure 216. As shown in ***Figure 1***, this measure is part of Axis 2 of the EU rural development policy relating to the overarching objective of sustainable use of agricultural land.

Box 1

Examples of supported NPI

Dry-stone wall in Puglia (IT)

Wetland boardwalk in East Devon (UK)

Source: European Court of Auditors.

Figure 1

Structure of Axis 2 of the EU rural development policy with regard to the sustainable use of agricultural land

Axis 2 - Improving the environment and the countryside

Sustainable use of agricultural land

211	Natural handicap payments to farmers in mountain areas
212	Payments to farmers in areas with handicaps, other than mountain areas
213	Natura 2000 payments and payments linked to Directive 2000/60/EC
214	Agri-environment payments
215	Animal welfare payments
216	Non-productive investments

Source: The European Network for Rural Development (ENRD).

03

The EAFRD regulation[1] states that 'support should be granted for non-remunerative investments where they are necessary to achieve the commitments undertaken under agri-environmental schemes or other agri-environmental objectives, or where they enhance on-farm the public amenity value of Natura 2000 areas and other areas of high natural value'.

04

In particular, NPIs should play a complementary role in helping to achieve the sustainable use of agricultural land, either by enhancing the environmental value of protected areas or by contributing towards achieving agri-environment commitments, such as those supported by rural development measure 214[2], 'agri-environment payments'. Alternatively, NPIs can be implemented independently to achieve other agri-environmental objectives, often shared by other environmental schemes and/or measures.

05

In the 2014-2020 programming period, support for NPIs remains under the new sub-measure[3] 4.4 'support for non-productive investments linked to the achievement of agri-environment-climate objectives'. The measure is essentially the same as in 2007-2013 as regards its rationale, scope, beneficiaries, type and level of support. It also retains its complementary role towards other measures[4] and/or other environmental objectives. ***Annex I*** provides, for comparison, the rationale and certain characteristics of the measure in the 2007-2013 and 2014-2020 programming periods.

1 Recital 37 of the preamble to Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 277, 21.10.2005, p. 1).

2 Rural development measure 214 'agri-environment payments' supports the sustainable development of rural areas. The payments granted under this measure represent 57 % of the public funding for sustainable use of agricultural land. It encourages farmers and other land managers to commit, on a voluntary basis, to introducing or continuing to apply agricultural production methods compatible with the protection and improvement of the environment, the landscape and its features, natural resources, the soil and genetic diversity.

3 As defined in the Commission implementing Regulation (EU) No 808/2014 of 17 July 2014 laying down rules for the application of Regulation (EU) No 1305/2013 of the European Parliament and of the Council on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 227, 31.7.2014, p. 18).

06

The Commission and the Member States share responsibility for managing EU support to NPIs. Member States must define specific objectives and implement effective management and control systems to ensure that the supported investments respect the applicable rules and are cost-effective.

07

The Commission establishes implementing rules and guidelines, and approves national or regional rural development programmes (RDPs) where the Member States identify their objectives for the selected support measures. The Commission monitors and supervises the implementation of the programmes and checks that national administrations of the Member States have implemented effective management and control systems.

08

For the 2007-2013 period, the public support rates stipulated for NPIs can reach 100 % of total eligible costs. This compares with a support rate of 40 % generally applied to other productive investments, such as those linked with the modernisation of agricultural holdings or adding value to agricultural products. For the 2014-2020 period, these public support rates are maintained.

09

For the 2007-2013 programming period, approximately 1 014 million euros, i.e. 1,5 % of public funding (EAFRD plus national co-financing) for the sustainable use of agricultural land was programmed for non-productive investments (see ***Table 1***). In the 2014-2020 programming period, since most of the RDPs had not been approved by the time of writing (late May 2015[5]), it is not possible to present the amounts of EAFRD expenditure that is programmed.

4 'Agri-environment-climate' refers to the new rural development measure 10 for the period 2014-2020. The payments under this measure aim to preserve and promote necessary changes to agricultural practices with intent to make a positive contribution to the environment and climate.

5 According to the Commission's SFC2014 system, by 29.5.2015 there were 51 programming documents approved by the Commission and 67 programming documents still undergoing approval procedures.

Table 1

Total EAFRD and public (EAFRD plus national co-financing) expenditure for NPI 2007-2013 (in euro)

Measure	Description	Paid		Programmed	
		EAFRD	Public	EAFRD	Public
216	Non-productive investments	549 900 632	859 331 286	610 843 250	1 013 996 313

Source: European Commission SFC2007 system (May 2015).

Audit scope and approach

10

The Court conducted an audit of the cost-effectiveness of NPIs in contributing to the EAFRD objective of a sustainable use of agricultural land in the 2007-2013 programming period, with a view to providing recommendations regarding the new programming period. This is so that Member States can take these recommendations into account in developing implementation rules and procedures which will govern their programmes, and so that the Commission can use them as well, in particular to improve its monitoring of the Member States' management and control systems.

11

The audit focused on answering the following question:

Have NPIs provided a cost-effective contribution to the sustainable use of agricultural land?

12

With regard to this, the Court's report provides answers to the following sub-questions:

— Have NPIs effectively contributed to the achievement of agri-environmental objectives linked to the sustainable use of agricultural land?

— Were the costs of the supported NPIs justified and reasonable?

— Have the Commission and the Member States identified and corrected the weaknesses affecting the cost-effectiveness of NPIs in the 2007-2013 period in order to make improvements for the 2014-2020 period?

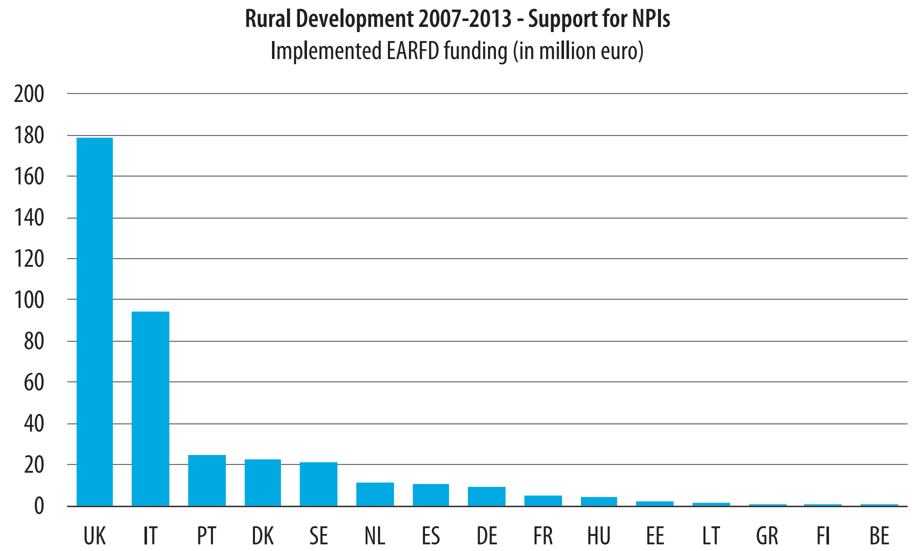
13

The audit was carried out between July 2014 and April 2015. The audit focused on the 2007-2013 programming period and covered the Member States' management and control systems related to NPI support and a sample of 28 projects that reflected the most relevant NPIs in four Member States[6]: Portugal (Mainland), Denmark, United Kingdom (England) and Italy (Puglia) that represented 80 % of EAFRD expenditure and 60 % of the beneficiaries of measure 216 at the beginning of the audit (see ***Figure 2***).

6 For the purpose of this report, Member State may be taken to mean the country or a region in that country.

Figure 2

2007-2013 programming period — Implemented EAFRD expenditure for NPI



Source: European Commission SFC2007 system (March 2014).

14

Audit evidence was collected through documentary reviews and audit visits to Managing Authorities and beneficiaries in the audited Member States. For the 28 audited NPI projects, the Court assessed their eligibility and complementarity with other agri-environment measures or objectives, and whether they actually contributed to addressing the identified agri-environmental needs at a reasonable cost. The results of this assessment are presented in ***Annex II***.

The Court found indications of effective NPI support, despite weaknesses in the selection procedures and the monitoring tools

15
The Court reviewed the management and control systems of the audited Member States and applied the following criteria in order to assess whether NPI support contributed effectively to the sustainable use of agricultural land:

— Member States should clearly identify their specific agri-environment needs as regards the sustainable use of agricultural land and the types of NPI that would contribute to addressing those needs. Given that NPIs should complement other relevant agri-environment measures and/or objectives, Member States should ensure this complementarity by explicitly linking NPI support to those measures and/or objectives.

— Member States should effectively apply project selection criteria to direct the available funding to the identified types of NPI, while ensuring transparency and compliance with the applicable legislation.

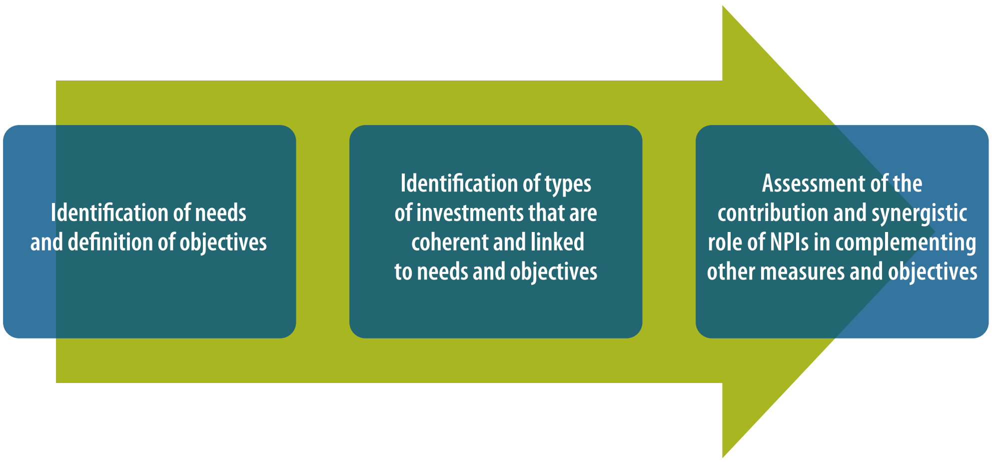
— Member States should monitor project implementation and assess whether the supported NPIs contributed to achieving the defined environmental objectives.

An intervention logic illustrating these criteria is presented in ***Figure 3***.

16
In addition to this assessment of the management systems, the Court reviewed a sample of 28 NPI projects (see paragraph 13), the Member States' RDPs and relevant monitoring data and evaluation reports.

Figure 3

Intervention logic of NPI within the scope of the 2007-2013 programming period



Despite the broad definition of agri-environment needs, Member States targeted the aid by restricting the types of NPI eligible for funding

17
In order to be effective, NPI support must be targeted to address specific agri-environment needs related to the sustainable use of agricultural land. The Court found that, although all Member States defined their agri-environment needs in broad terms, they mitigated the risk of untargeted support by restricting the NPI types eligible for funding. A summary of agri-environment needs and objectives, and types of NPI observed in each audited Member State, are presented in ***Annex III***. It shows that there is indeed overall consistency between the type of NPIs selected by Member States and the agri-environment needs described in their RDPs.

18
When considering the financial allocation of public support, two Member States have targeted the aid further, mainly to projects related to landscape maintenance and protection. In the case of Portugal, 89 % of NPI support regarded the restoration of traditional dry-stone walls supporting terraced vineyards in the Douro valley. In the case of Italy (Puglia), 97 % of public support to NPIs concerned the restoration of traditional dry-stone walls that constitute a characteristic of the regional farming systems and of the landscape. These are examples of a clear choice of concentrating NPI support to address an agri-environment need.

All four audited Member States referred to the complementarity of NPI support, but only two applied it at operational level to foster synergies with other support schemes

19
The EAFRD regulation provided NPIs with a complementary role (see paragraphs 3 and 4), but granted Member States the discretion to choose the level at which this complementarity should occur. The audit found references to complementarity in all Member States audited, but only in two — Portugal (Mainland) and UK (England) — was this complementarity defined at an operational level to actually foster synergies between different environmental support schemes. In particular, these latter Member States had integrated NPI support with the EAFRD measure 214, 'Agri-environment payments', to the extent that the access to NPI support required the existence of an agri-environment commitment linked to rural development measure 214.

20
On the other hand, Denmark and Italy (Puglia) defined complementarity in less practical and vaguer terms, since NPI support was linked to general agri-environment objectives defined in their RDPs (e.g. landscape preservation and natural resource protection) that were shared by other EAFRD measures of Axis 2 (see ***Figure 1***). However, cross measure complementarity was not developed. ***Box 2*** shows examples of synergies and vague complementarity of NPI support.

Box 2

Examples of complementarity with other measures/objectives

In Portugal (Mainland), NPI schemes supporting the restoration of dry-stone walls in the Douro Valley require applicants to be beneficiaries of measure 214 agri-environment payments. Under measure 214, beneficiaries receive financial support for undertaking a number of agri-environmental commitments. One of these commitments is to maintain the existing dry-stone walls of their agricultural holding in good condition for a minimum period of 5 years. In such cases, NPI support for the restoration of dry-stone walls complements the commitment requiring their maintenance, and both measures combined contribute to the objective of keeping an important landscape feature in that region in good condition.

In the case of the United Kingdom (England), Environmental Stewardship is a voluntary scheme that offers payments (financed under rural development measure 214) to land managers who commit to manage their land for the benefit of agri-environment objectives. This scheme is composed of different tiers with increasing requirements; one of those tiers, High-Level Stewardship (HLS) includes the possibility of financing certain types of capital works (e.g. restoration of landscapes and features or traditional boundaries) to be undertaken by beneficiaries. NPI support provides the financing of these capital works.

In the case of Italy (Puglia) and Denmark, NPI support was linked to the achievement of general agri-environment objectives that were defined for the whole of Axis 2, such as protection of rural landscapes and maintaining biodiversity and was not limited to specific areas identified as having particular environmental value. In the case of Italy (Puglia), the beneficiaries for the support are only required to develop a farming activity, whilst in the case of Denmark any private or public legal persons, including owners or tenants of agricultural land, may be a beneficiary except for the sub-measure for the acquisition of land for the creation of wetlands, for which the Danish state was the beneficiary.

21
The Court considers that the choice of integrating NPI support with other rural development measures, such as measure 214, provided for a potentially stronger link with already existing agri-environment commitments and therefore encourages a stronger synergy effect for the achievement of agri-environment objectives.

22
However, this integration of measures also causes a risk of overlapping support if the activities to be funded under each measure are not clearly demarcated. This was the case in Portugal (Mainland), where the support under measure 214 Agri-environment payments included amounts for the maintenance/restoration of portions of dry-stone walls that were in need of restoration (bad condition). As a consequence, payments under measure 214 related to the maintenance commitment could include both, walls which had to be maintained, and restored. At the same time, the cost of the restoration work could also be claimed under NPI support at 100 %. This means that the aid intensity of support for the reconstruction of some dry-stone walls could objectively exceed 100 %. The Court found four such cases in the six projects visited in Portugal.

23
Overall, the choice made by the Member States to implement NPI support was reflected in the sample of projects visited by the Court, where 16 of the 28 visited projects were implemented in synergy with other rural development measures, and a majority of projects (21 of 28) was considered to be complementary to other agri-environment objectives. See ***Annex II*** for details.

Weaknesses in the audited Member States' selection procedures led to NPIs being supported that were ineligible, or whose selection was insufficiently justified

24
Member States must direct scarce public money to those project proposals that best meet national or regional needs, while respecting the applicable regulations and the principles of equal access and transparency. The Court reviewed the selection procedures in place in the audited Member States and found, in all but one, weaknesses concerning these aspects. Examples are provided in ***Box 3***.

Box 3

Weaknesses found in the selection of NPI projects

(a) Selection of ineligible investments

Denmark

The preliminary (i.e. feasibility) studies for wetland projects are treated as individual NPIs, follow individual approval procedures and are economically independent from any investment that might take place at a later stage. However, Article 55 of Regulation 1974/2006[7] stipulates that a general cost of an investment operation which is eligible for co-financing can only be considered as such in so far as an actual investment operation exists. The Court considers that this requirement protects value for money principles, since it prevents EU money from being spent on actions which do not contribute to the objectives of the support scheme. This is the case for feasibility studies that do not result in concrete investments. In this Member State, less than half of the financed preliminary studies were eventually followed by separate applications for actual investments in wetlands. Furthermore, in several cases, feasibility studies with a positive conclusion did not lead to concrete projects being implemented.

Italy (Puglia)

The national authorities have defined that only farm holders that are registered in the farms register of the Chamber of Commerce can have access to NPI support. The Court found that three out of the six beneficiaries visited on the spot did not comply with this requirement and as such should not have accessed NPI support.

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

(b) Project selection insufficiently transparent

United Kingdom (England)

The national authorities identify holdings that could potentially be supported. To do so, they use predefined lists of holdings prioritised according to their potential to deliver environmental outcomes followed by a negotiation procedure between the national authorities and the potential beneficiaries. However, information on the basis for the prioritisation and assessment of the merits of the application was not available. In addition, the scheme documentation suggests that the inclusion of additional land management proposals is at the discretion of national officials.

Denmark

The aid applications relating to NPIs on collective plantations are submitted to the Managing Authorities almost exclusively by a national association of landowners and tenants. This national association decides, based on its own criteria, which local association will participate in the projects submitted, and ultimately on which projects are supported. In addition, the national association participates in the advisory committee that determines the relative priority of the applications that were submitted. In the Court's view, this constitutes a potential conflict of interest.

(c) Inappropriate verification of crucial selection criteria

Italy (Puglia)

In the 2009 call for proposals concerning NPI support for the restoration of dry-stone walls, 602 of 3 887 submitted applications were approved, entailing total public expenditure of 42.7 million euros. The prioritisation criteria awarded a maximum of seven points. All applications with less than six points were excluded.

Among the decisive prioritisation criterion was the classification of the holding as having high environmental and landscape value if it had olive groves. Applicants fulfilling this criterion would receive two points, which was decisive for not being excluded.

The national authorities did not verify compliance with this specific criterion independently. This task was entrusted to the producer associations, who had to certify that their affiliated members fulfilled the criterion.

There was a lack of relevant information to show what has been achieved by EU support to NPIs at EU and Member State levels …

25

A key tool in ensuring that EAFRD support to NPIs is well spent is monitoring and evaluation. For the 2007-2013 period the rural development regulation introduced a 'Common Monitoring and Evaluation Framework' (CMEF). The CMEF used common indicators intended to record progress towards rural development objectives in a way that allows each of the RDPs to be compared and the data to be aggregated. As common indicators cannot fully capture all the effects of individual support schemes, Member States can also set a limited number of additional indicators.

26

The Court found several weaknesses in monitoring and evaluation that lead to an overall lack of relevant information showing the results achieved by NPIs, notably in the extent to which NPIs have contributed towards the achievement of agri-environment objectives linked to the sustainable use of agricultural land.

27

Firstly, the Member States did not define additional baseline indicators in relation to NPI support during the programming phase. The use of additional baseline indicators would make it possible to establish a context in which the allocation of resources for supporting NPI becomes clearer and allows a comparison of the contribution of NPI support at the end of the period. ***Box 4*** provides an example of how baseline indicators could facilitate the measurement of results achieved by NPI support.

Box 4

Examples of possible baseline indicators

Italy (Puglia) and Portugal (Mainland)

The restoration of dry-stone walls was the single most important type of NPI defined in the RDP (97 % of total public support in Puglia, 89 % in Portugal). However, the national authorities have not defined a baseline situation regarding the total quantity of dry-stone wall in the areas subject to this type of NPI support, the quantity of dry-stone wall that was identified as requiring maintenance at the beginning of the programming period, or the targeted quantities of dry-stone wall to be recovered at the end of the programming period; this would have provided a clearer picture of the significance and effectiveness of the resources allocated to this type of NPI.

28

Secondly, the CMEF common indicators measure input and output data, such as the amount of public expenditure, the number of holdings receiving support, and the total investment volume, but are particularly inadequate in their attempts to assess the impact of investment measures such as NPI support. Likewise, the common result indicator obtained for NPI support takes into account the area of land (measured in number of hectares) under successful land management schemes and therefore, is meaningless to express the link or the contribution of an investment measure.

29

Despite the inadequacy of the common result indicators, which was explicitly acknowledged in the RDPs of Portugal (Mainland) and the UK (England), the audited Member States have not defined additional indicators to capture this important information as regards NPI support.

30

Another source which can produce relevant information on results is an evaluation. In contrast to the regular examination performed by monitoring, evaluation is a periodic collection and analysis of evidence, including the information produced for monitoring. At the time of the audit, only the mid-term evaluations carried out towards the middle of the period were available. The review of these evaluation reports showed that they did not provide relevant information on the results achieved by NPI support. This was mainly due to the combination of late implementation and the lack of relevant monitoring information. In fact, the Commission's review of the individual MTE reports mentioned the low availability and completeness of monitoring data. ***Box 5*** provides examples of the very limited information concerning the performance of NPI support.

Box 5

Examples of references made to NPI support in MTE reports

In the case of Portugal (Mainland), the MTE did not contain any reference to NPIs due to the late implementation of the measure.

Regarding Italy (Puglia), the MTE provided information on the outcome of NPI support and its correlation to environmental benefits. However, at the time of the MTE, no expenditure had been paid, which suggests that the report repeated the intended environmental benefits that were expressed in the RDP and *ex ante* evaluation report.

As for Denmark, the MTE referred that the national measures implementing NPI support lacked in terms of definition of operational objectives.

Concerning the United Kingdom (England), the MTE included a specific recommendation regarding the need to define new indicators to allow the assessment of the effectiveness and relevance of NPI support.

31
The issues described above prevented the national authorities from being able to draw meaningful conclusions on the success or the effectiveness of NPI support in contributing to the achievement of other environmental measures or objectives. This could lead, for instance, the Member States who restricted NPI support to beneficiaries of other rural development measures, such as agri-environment payments, to bundle the assessment of both measures, according to a wishful rationale in which the performance of the latter in a certain direction would imply that NPIs must have been performing in the same way, despite the lack of objective data regarding the outcome of NPI support (see ***Box 6***).

Box 6

Example of a bundled assessment

In the case of UK (England), the national authorities stated that, when assessing how NPI support had performed, they considered the performance of two measures (214 agri-environment/216-NPI) together. However, the demonstration of the way in which NPI aid contributed to the longer-term benefit of agri-environment commitments is affected by the lack of specific objectives and indicators for NPIs.

… nevertheless, the Court found indications that 71 % of the audited NPIs contributed to objectives linked to the sustainable use of agricultural land

32
As indicated in paragraph 13 the Court examined a sample of 28 NPI projects. In order to assess whether these projects had contributed effectively to the sustainable use of agricultural land, the Court assessed the following.

— Whether the projects were eligible for EAFRD support.

— Whether they addressed an environmental need recognised by the Member States in their RDP and pursued objectives linked to the sustainable use for agricultural land.

— Whether related investments were carried out as planned and were sustained at the time of the audit visits. ***Annex II*** presents, for each project, the results of this assessment together with an analysis of the reasonableness of their costs, which is developed in the next section.

33
As regards eligibility, the Court found that four projects were not eligible even at the time of the application (see ***Box 3***). In addition, the Court found three projects which were ineligible due to issues which occurred during their implementation (see paragraph 44). Since these seven projects (25 %) should not have been supported with EAFRD funding, the Court considers them not to be contributing to the objectives of the measure.

34
The Court found evidence to suggest that 20 out of the 21 remaining projects addressed identified agri-environment needs. The needs which were covered most frequently were landscape and biodiversity protection. In addition, these projects were implemented as planned and were operating sustainably at the time of the audit visits. Overall, the Court found indications that 20 out of the 28 projects examined (71 %) contributed to the achievement of agri-environment objectives linked to the sustainable use of agricultural land.

In the audited Member States, the costs of supported NPIs were often unreasonably high or insufficiently justified

35
In order to provide a cost-effective contribution to the sustainable use of agricultural land, NPIs must not only address related environmental needs, but should do so at a reasonable cost. Furthermore, given that the proportion of the investment costs funded with public money is higher (up to 100 %) than for other EAFRD investment measures, the beneficiaries of NPIs may have less incentive to contain their costs. The Member States should therefore pay particular attention to ensure that they reimburse only investment costs which are reasonable and appropriately justified.

36
As noted in paragraph 3, the rationale for granting public support to NPIs is to provide beneficiaries with the financial incentive to undertake investments which do not generate any significant return, but deliver a positive environmental impact. As such, the support rate can be up to 100 % of the eligible expenditure of the NPI. Since almost any kind of investment can potentially provide a direct or indirect economic benefit, the applicable regulations state that NPIs should not provide a significant economic return to the beneficiary. However, the Commission did not provide guidance as to what a significant economic return is or how Member States should assess it.

37
The Court considers that, to safeguard the principle of economy, the remunerative or return-generating characteristics[8] of operations that are subject to NPI support should be taken into consideration by the Member States when determining how much public support they should receive. In particular, this rate of support should be defined according to the significance of the remunerative aspects or agronomic benefits expected from the NPI, between the funding rates provided for normal productive investments, typically 40 %, and the maximum rate of 100 % permitted for NPI.

38
The Court examined the public support rates applied to NPIs by the four Member States visited and assessed whether these rates were modulated to take into account any productive features in a sample of 28 NPI projects. Furthermore, for these NPIs, the Court also assessed the reasonableness of their costs. Overall, the Court found that most NPIs in fact had some productive features, but that the Member States did not take these features into account to reduce the high rates of public funding used. The Court also found systematic problems with ensuring the reasonableness of costs in all Member States.

NPIs receive high rates of public funding even though sometimes they include remunerative components

39
All the Member States audited have set specific rates for NPI support. Whilst Portugal (Mainland) and Italy (Puglia) set the support at 100 % of eligible expenditure, Denmark and the UK (England) have set specific rates per type of NPI, from 50 % in the case of NPIs with some remunerative characteristics to 100 % if there are no remunerative characteristics. Examples of modulation include projects for erecting fencing, co-financed at a rate of 50 % in the UK (England); projects for restoring hedgerows, funded at a rate of 60 %, in both Denmark and UK; and projects funded at a rate of 100 %, such as projects involving the reversion of land to heathland (UK) and the state acquisition of land for establishing wetlands (DK).

40
The Court considers that the UK (England) RDP was the only RDP that considered aspects such as the expected environmental and agronomical benefits, or market failure, in determining the support rate individually for each NPI.

8 Productive or remunerative characteristics of an investment are those that result in, or contribute to, an increase in the value or profitability of the agricultural holding. They can take the form of economic or agronomical benefits such as the structural role of the investment on the holding's farming systems, the reduction of costs of operations associated with the investment or the increase of the holding's output.

41

However, in all Member States visited the Court found NPIs whose remunerative characteristics had not been taken into account in determining the support rates granted, which were in fact the highest possible. The Court considers that this undermines the principle of economy because it involves overpaying for certain types of goods when those goods could have been obtained at a lower cost in view of the share of benefits that go to the beneficiary and/or to associated entities:

— In Portugal (Mainland), the restoration of dry-stone walls supporting terrace farming in the Douro valley made up the greatest share of NPIs supported (89 % of total expenditure for the measure). The support rate was 100 % of eligible expenditure, capped at 70 000 euro per holding. The Court considers that this type of NPI includes a productive component, as the walls play a structural role in the system of terrace farming used in the area where the investments were made and the landscape element is therefore not the only driver for the farming systems in question. The very high support rate in Portugal (Mainland) can be seen in contrast with the UK (England), where stone wall projects had a support rate of 60 %.

  Additionally, the Court found that in one of the six NPIs visited, the intended support for maintaining traditional farm structures resulted in the support of a non-traditional structure that was used for farming operations.

— In Italy (Puglia), the restoration of dry-stone walls delimiting agricultural parcels made up the greatest share (97 % of total expenditure for the measure) of NPIs supported in Italy (Puglia). The support rate was 100 % of the eligible expenditure; this was not capped in the first application period. Subsequent periods had an expenditure ceiling of 100 000 euro. The Court considers that this type of NPI includes a productive component, because the stone walls are used as boundaries to keep livestock in certain grazing areas or to protect plantations from being damaged by neighbouring livestock or wild animals. The very high support rate in Italy (Puglia) contrasts with the situation in the UK (England), where stone wall projects were co-financed at a rate of 60 %.

— In the United Kingdom (England), despite the existence of a methodology allowing the degree of economic impact of supported NPIs to be taken into account in determining the aid rate, the Court found that 4 out of 10 projects visited on the spot, all of which were funded at a rate of 100 %, involved significant economic benefits for the beneficiaries and/or associated entities. In two cases involving the restoration of degraded peatlands[9], the beneficiaries had managed projects in a partnership which included two water companies. The two projects are located in the catchment areas of two water reservoirs managed by those companies. The economic interest of those companies lay in the reduction of water treatment costs resulting from the implementation of these NPIs. Whilst these projects fall in the scope of NPI support, the vested economic interest of the water companies ought to be taken into account for the definition of the support rate.

9 Peatlands are wetlands with a thick waterlogged organic soil layer (peat) made up of dead and decaying plant material. Peatlands include moors, bogs, mires, peat swamp forests and permafrost tundra.

In another case, the beneficiary used the support to buy equipment primarily used for his economic activity as a forest owner. The fourth case regards the recovery of historic buildings in a property in which the beneficiary operates a Bed & Breakfast. These two projects benefited from a support rate that was significantly higher to the rate they would have received as productive investments in other RD measures foreseen for similar types of projects.

— In Denmark, despite the stipulation made by the national authorities that NPIs linked to a commercial operation should have support rates below 75 %, the Court found that 2 out of 6 projects visited were grazing projects that were linked to commercial operations but received a standard support rate of 75 %. These projects comprised inter alia fencing and the creation/extension of grazing areas for their previously stabled cattle which consequently resulted in the increase in the number of the reared cattle or the renting out of some of the additional grazing areas.

Audited Member States funded investments with excessively high costs or with costs which were insufficiently justified

42

The Court reviewed the procedures in place in the Member States audited to ensure the reasonableness of costs of supported NPIs. The auditors observed weaknesses in all the Member States visited.

43

Regarding Portugal, in the case of dry-stone walls supporting terrace farming in the Douro valley (89 % of total NPI support), the national authorities had defined a maximum eligible unit cost that was excessive when compared with independent benchmarks[10] or with similar types of NPIs in other Member States (see ***Box 7***).

44

In addition, the Court found in Portugal that an eligibility condition for NPIs requiring public works, whereby the contractor carrying out the works must have an activity permit was not respected in three of the six projects visited on the spot. A further examination showed that a total of 12 out of 20 additional beneficiary files examined were affected by the same eligibility issue. A limited follow-up undertaken by the national authorities showed that the contractors used by five of those beneficiaries were involved in a total of 79 similar cases.

10 Benchmarks obtained from the public database of the National association of construction companies (AICCOPN).

Box 7

Examples of unreasonably high costs — Portugal (Mainland)

The national authorities have defined a maximum eligible unit cost of 250 euro per cubic metre in the case of the construction of dry-stone walls supporting terrace farming. According to data provided by the national authorities the average cost paid to beneficiaries was 198 euro per cubic metre. Independent professional benchmarks, such as reference costs from the National Association of Construction Companies, suggest that the unit cost for similar types of works activity should be 75 euro per cubic metre.

In the case of dry-stone walls used solely as boundaries, which are another type of NPI, the defined maximum eligible unit cost of 150 euros per cubic metre can be compared with similar NPIs in Italy (Puglia) where the maximum eligible unit cost was 74 euros per cubic metre in the first call for applications; this was later reduced to 61 euros per cubic metre in the second call for applications. In the UK (England), the maximum eligible unit cost was 75 euros per linear metre.

45

In Denmark, the procedures in place for checking the costs that were paid did not require all supporting documents to be verified. In fact, a declaration by the beneficiary's auditor concerning compliance with environmental and legal rules, including tendering, was considered sufficient. Similarly, until the end of 2013, the Danish authorities did not verify whether the invoices submitted had actually been paid by the beneficiary prior to the payment request. The Court also found that the national authorities did not check whether deductible VAT, which is not eligible, was included in the payment requests by the beneficiaries. As a result, in one of the six NPIs examined by the Court in Denmark, deductible VAT amounting to 20 % of the total investment costs declared was subsequently reimbursed. Since the end of 2013, a new procedure for checking costs has been in place, but the Court found no evidence, such as a service order or an official communication to staff, documenting the implementation of the new procedure.

46

In the UK (England), the Court reviewed, when applicable, the tendering documentation and the service agreements between beneficiaries and third parties for the management of 10 investment projects. The Court found instances in which the actual costs incurred were higher than the cost of the alternative options that had been proposed. In other instances, the analysis of the bids did not use comparison with benchmarks to mitigate the risk of awarding the tender to an overpriced bid (see ***Box 8***). Additionally, the lack of physical visits by the national authorities constitutes a shortcoming in ensuring the reality and the value for money of the supported NPIs, especially considering the high support rates and the absence of a deterrent factor, such as significant financial participation by beneficiaries.

Box 8

Examples of unreasonably high costs — United Kingdom (England)

In three of the 10 projects visited on the spot, the tendering documentation showed that the NPI cost was higher than necessary given that other less costly alternatives were available. Examples of this include the use of airlifting services, timber removal and preparatory earthworks and restoration of an historic structure for which the selected bids exceeded the cost of their competitors by 65 %, 139 % and 31 % respectively.

In three other projects visited on the spot, the winning bids represented the lowest cost. However, in the absence of a benchmark system for assessing the reasonableness of the costs of the bids, the risk concerning the reasonableness of costs is not mitigated, for instance, in cases where all the bids for an NPI are overpriced.

47

In the case of Italy (Puglia), the audit showed that the costs of NPIs concerning dry-stone walls were systematically equal to the maximum eligible unit cost. Although the Court only found indications that the maximum eligible unit costs were set at a high level, it is obvious that implementing NPI projects in different conditions, depending on their location (mountainous or flat land), accessibility or land conditions, requires differentiation in at least some of the costs of the investments (see ***Box 9***).

48

Furthermore, the invoices presented by the beneficiaries of four of the six NPIs visited in Italy (Puglia) did not provide enough information to ascertain the quantities of restored dry-stone walls and the location of the works. This meant that the national authorities could not ensure the reasonableness of the costs or the reality of the supported operations.

Box 9

Examples of unreasonably high costs Italy (Puglia)

The support conditions for dry-stone walls allowed beneficiaries to use their own farm labour to justify a part of the costs of the works. The remaining costs of the works had to be performed by external contractors, and the expenditure had to be substantiated by invoices. Alongside the systematic alignment of NPI costs with the maximum eligible cost, there was no requirement to use tendering to select external contractors.

An indication that the maximum eligible unit cost set for dry-stone walls was set at a high level is that in the 2011 call for applications, the maximum eligible unit cost was 23 % lower than in the 2009 call for applications. Despite this reduction, the demand for NPI support exceeded the funding that was available.

The lack of competitive tenders combined with the systematic alignment of costs with maximum eligible unit costs set at high levels entails a risk to the cost-effectiveness of the support.

There were problems with the reasonableness of the costs in most of the NPIs audited by the Court

49
Annex II provides detailed information on the 28 projects that were visited on the spot, as well as individual assessments of whether the projects included productive components and of whether their costs were reasonable. It also includes the Court's overall assessment of their cost-effectiveness.

50
As stated in paragraph 34, 71 % of the projects audited were effective in the sense that they contributed to the achievement of objectives linked to the sustainable use of agricultural land. However, the Court found indications of unreasonable costs in 75 % of these projects. The combined analysis of effectiveness and reasonableness of costs shows that overall only 5 of the 28 audited NPI (i.e. 18 %) provided a cost-effective contribution to the achievement of agri-environment objectives. The problems with the reasonableness of costs of investments may not be confined to the sample of projects, since the cases identified stem from the weaknesses in the control systems of Member States described in paragraphs 41 to 48.

Weaknesses affecting the cost-effectiveness of NPI support in the 2007-2013 period had not yet been corrected by the start of the 2014-2020 period

51
Since the entry into force of the new 2014-2020 multiannual financial framework, Member States or regions wishing to receive EAFRD funds have had to present their new RDPs to the Commission for approval. This represented a unique opportunity for the Commission and the Member States to solve weaknesses in the programming, management, monitoring and evaluation of NPI support from the previous period. This is all the more important in a context where the audited Member States will maintain or extend the range of investments eligible[11] for support.

52
The Court assessed the extent to which the Commission and the visited Member States had identified and corrected the weaknesses highlighted in the two previous sections of this report, with a view to improving the cost-effectiveness of NPI in the new programming period. This assessment was based on the information contained in the four audited RDPs[12], implementing rules, guidelines and management and control procedures available at the time of the audit. Furthermore, the Court reviewed communications between the Commission and the four Member States resulting from the Commission's review of draft RDPs. Overall, the evidence obtained by the Court shows that corrective action has not yet been taken for most of the weaknesses identified by the Court (see paragraphs 60 to 71).

11 In UK (England) NPI support will maintain its integration with the new measure 10 'Agri-environment-climate' that replaces the previous measure 214 'Agri-environment' payments, as is the case in Portugal (Mainland). In the case of Denmark the support for NPI is maintained on similar terms as in the previous programming period and in Italy (Puglia) the scope of the support is enlarged to include public bodies as potential beneficiaries and new types of NPIs like non-residential stone structures or traditional paths (Tratturi).

12 For Denmark, Portugal (Mainland) and UK (England) the approved RDP, for Italy (Puglia) the latest draft available.

53
One reason explaining the limited improvement observed so far is that the Commission and the Member States did not do enough to identify possible weaknesses in good time. In particular, national authorities did not analyse sufficiently the causes of the irregularities found during their checks to improve the management of the scheme.

54
The on-the-spot checks carried out by the national authorities[13] showed a significant frequency of irregularities. In Portugal (Mainland), 50 % of the projects examined by the national authorities were affected by irregularities or the final use of the NPI was eminently productive (e.g. generated returns). In Italy (Puglia) 27 % of the NPIs examined by the national authorities were affected by irregularities and in the UK (England), breaches of the rules on NPI support occurred in around 10 % of the cases. The Court did not obtain data for the controls carried out by the Danish authorities[14].

55
However, with the exception of Denmark, the national authorities made limited use of the irregularities found. They basically used them to reduce the amounts to be paid to the affected beneficiaries, but did not analyse the causes of irregularities in order to identify aspects of the scheme management that should be improved.

56
The Commission is responsible for supervising the correct implementation of the NPI schemes in the Member States. In this respect, audit visits are crucial to identify weaknesses affecting the execution of management procedures (e.g. selection of projects, checks on reasonableness of costs, production of reliable monitoring data, etc.), which cannot be detected through documentary reviews. However, the Court found that the Commission's audits took place too late to help Member States identify and correct the detected shortcomings during the 2007-2013 implementation period. Furthermore, the results of these audits were not available during the Commission's review and approval of the 2014-2020 RDPs in any of the Member States audited except Italy (Puglia)[15]. This means that the Commission could not use the final results of these audits to request the Member States to reflect in the new RDPs the necessary corrective actions before they were approved. Once the Commission approves an RDP and the EU funds are made available to the Member State, it is more difficult for the Commission to ensure that the Member States take the necessary corrective actions in good time.[16]

57
Table 2 shows that for three out of the four audited Member States, the audit results were not available before the approval of the new RDP for 2014-2020.

13 Article 25 of Commission Regulation (EU) No 65/2011 of 27 January 2011, laying down detailed rules for the implementation of Council Regulation (EC) No 1698/2005, as regards the implementation of control procedures as well as cross-compliance in respect of rural development support measures (OJ L 25, 28.1.2011, p. 8).

14 Additional data regarding the types of error and the financial importance of the irregularities was not made available with the exception of Italy (Puglia), where the most frequent reason for irregularity was the calculation of the cubic meters of restored wall.

15 In the case of Italy, the Commission's services have not audited the implementation of NPI in Puglia. Instead the Commission's audit covered the NPI support in Sicily. As at June 2015, the RDP of Puglia was not yet approved by the Commission.

16 As at May 2015, the results of the Commission's audits regarding UK (England), Portugal (Mainland) and Italy (Sicily) concerning the 2007-2013 period were still being considered by the Commission as part of the decision process that may lead to the application of financial corrections to the Member States in question.

Table 2

Timing of Commission's audits of NPI versus 2014-2020 RDP approval dates

Member State	Date of Commission audit	Status of audit	Date of approval RDP 2014-2020
Portugal (Mainland)	February 2014	Ongoing	December 2014
United Kingdom (England)	June 2014	Ongoing	February 2015
Denmark	October 2014	Ongoing	December 2014

58
Monitoring and evaluation should also allow the Commission and the Member States to identify problems, learn lessons, and apply this when preparing and reviewing the draft RDP. However, as reported in paragraphs 25 to 31, monitoring only provided information on expenditure incurred, number of beneficiaries and total investment. The mid-term evaluations did not provide relevant information on implementation and performance. This represented an additional burden for the timely identification and correction of weaknesses affecting the cost-effectiveness of NPI support.

59
The following paragraphs present the Court's analysis on the extent to which the Commission and the visited Member States have corrected the weaknesses reported in the two previous sections of this report.

Complementarity not always achieved at operational level to foster synergies

60
The Court found that two out of the four Member States audited (Denmark and Italy-Puglia) did not implement NPI support in complementarity with other support schemes (see paragraph 20). For the 2014-2020 period, Denmark, like the UK and Portugal, intends to implement NPIs in synergy with other rural development measures or/and environmental schemes. The new EAFRD regulation provides for the possibility of implementing integrated projects concerning investments in physical assets, whereby the same beneficiary applies once for implementing actions under at least two different measures or sub-measures. Only the RDP for Denmark makes explicit reference to the possibility of receiving support for integrated projects combining three types of NPI (establishment of wetlands, extensification in lowlands and restoring natural water-level conditions in Natura 2000 areas) with the new measure 10 'Agri-environment climate'. The latest draft RDP for Italy (Puglia) does not foresee the implementation of NPI in synergy with other EAFRD measures or other environmental schemes.

61
The Court notes that, in Portugal (Mainland), the support for the maintenance of dry-stone walls foreseen in the new measure 10 'Agri-environment-climate' is essentially the same as was foreseen in the previous programming period for measure 214 'Agri-environment payments'. The Court did not find any evidence that the national authorities have addressed the problem of overlapping support between the support provided for the maintenance and the restauration of dry-stone walls (see paragraph 22).

Lack of appropriate indicators and performance data beyond inputs and output

62
The Court found that there was a lack of monitoring indicators to measure the results of NPI support in the 2007-2013 programming period. This limited the performance information to the number of holdings supported and amounts spent because the result indicators were inadequate for an investment measure (see paragraphs 26 to 29). Furthermore, the Court noted that none of the visited Member States had completed the set of common indicators with result indicators specific to their NPIs. The Commission has reviewed the performance framework proposed by the audited Member States in their draft RDPs. This review covered the Member States' compliance with the requirements of the 2014-2020 monitoring and evaluation system[17]. In particular, the review examined whether the RDPs included the common context, result and output indicators and presented plausible targets and milestones in relation to the proposed budgetary allocations.

63
However, the new set of common indicators includes results indicators only at the level of the focus areas, to which several measures contribute. This means that, as in the previous period, there are no common indicators measuring the results achieved by individual measures or sub-measures. Since the budgetary allocations are made at measure/sub-measure level, the Court considers that measuring performance of individual measures/sub-measures is important to identify the cause of problems and to effectively target corrective actions. This will be difficult when results are only assessed at the level of focus areas. For example, if targets for a given focus area are not reached, it will be difficult to identify which measure/s or sub-measure/s are lagging behind or which are the ones contributing the most to the achievement of the defined targets. ***Box 10*** shows the monitoring framework applicable to the sub-measure 4.4; 'non-productive investments'. It shows that no performance information concerning results will be produced for NPIs.

64
The new RDPs for 2014-2020 prepared by the audited Member States make no provision for any additional indicator in relation to NPI support.

17 The common monitoring and evaluation system is referred to in Article 67 of Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005 (OJ L 347, 20.12.2013, p. 487) and further developed by Commission implementing Regulation (EU) No 808/2014.

Box 10

Monitoring framework applicable to measure 4.4 'non-productive investments'

NPIs can potentially contribute to at least three focus areas linked to the rural development priority of Restoring preserving and enhancing ecosystems:

- 4(a) biodiversity, including Natura 2000 areas, areas facing natural or other specific constraints and high nature value farming, and the state of European landscapes;
- 4(b) water management, including fertiliser and pesticide management; and
- 4(c) prevention of soil erosion and soil management.

Apart from NPI, the following measures can also contribute to these focus areas: measure 1-knowledge transfer and information; measure 2-advisory services; measure 10-agri-environment–climate; measure 11-organic farming, measure 12-Natura 2000 and water framework directive payments; and measure 13-payments to areas facing natural or other specific constraints.

However, the common result indicators apply only at the level of focus areas:

- Result indicators for focus area 4(a): R6 — % of forest or other wooded areas under management contracts supporting biodiversity and R7 — % of agricultural land under management contracts supporting biodiversity and/or landscapes.
- Result indicators for focus area 4(b): R8 — % of agricultural land under management contracts to improve water management and R9 — % of forestry land under management contracts to improve water management.
- Result indicators for focus area 4(c): R10 — % of agricultural land under management contracts to improve soil management and/or prevent soil erosion and R11 — % of forestry land under management contracts to improve soil management and/or prevent soil erosion.

The common indicators specific for NPI are output indicators measuring the number of projects supported, since the total expenditure and total public expenditure are applied at measure level (including sub-measures 4.1 to 4.4).

The performance information for NPIs will therefore be very limited.

Weaknesses in the selection procedures

65

The Court identified weaknesses affecting the transparency in the selection of NPI project applications and the verification of the applicants’ compliance with key selection criteria (see paragraph 24). The Commission has little scope to correct these issues during the RDP approval process, because the detailed selection procedures are defined in the national rules governing the implementation of the scheme, generally once RDPs are approved. The Commission has, however, required Member States to reflect in their RDPs the commitment to use relevant selection criteria and apply minimum thresholds for the selection of project applications. The Court has recommended these practices several times in previous special reports. In any case, the Commission can supervise the correct implementation of the Member States selection procedures through its audits.

66

As regards the Member States audited, only the UK (England) made explicit reference in its RDP to the principles governing the selection of projects. The information provided suggests that the issues referred to in ***Box 3*** are likely to be addressed, such as the clear definition of inclusion and exclusion criteria, the segregation of duties and the use of a scoring system, which will involve a minimum threshold, above which applications will be prioritised. The other audited Member States make reference to selection criteria that will be defined at a subsequent stage. However, these criteria were not developed at the time of the audit.

Aid rates not adjusted on the basis of the remunerative features of the investments

67

The Court found in all Member States visited NPIs for which their remunerative characteristics were not taken into account to reduce the high aid rates granted (see paragraphs 35 to 41). The new EAFRD regulation provides for a maximum aid rate of 100 % for NPIs. In its review of the draft RDPs, the Commission verified that the aid rates proposed by the Member States complied with the maximum aid rates in the regulation. However, the Court found no evidence that the Commission required Member States to reduce NPI aid rates on the basis of projects’ remunerative elements.

68

The new RDPs of the Member States audited except Denmark show a greater variety of aid rates for NPIs, which increases the possibilities for national authorities to modulate the aid according to the remunerative characteristics of the investments. Overall, this is a limited improvement, since only the UK (England) will apply the good practice of defining a specific aid rate for each NPI type on the basis of its remunerative characteristics. The UK (England) maintains a comprehensive list of capital work options indicating the rate of support that varies between 10 % and 100 % according to the non-remunerative characteristics of the capital work option. However, it should be noted that the Court found problems in the correct application of this modulation procedure in the 2007-2013 period.

Unreasonable or insufficiently justified costs

69

Beyond general statements noting the Member States intentions to use reference costs and to compare different offers, the Court found examples of concrete improvements in the procedures for checking the reasonableness of costs in two Member States (UK–England and Portugal–Mainland).

70

In the case of the United Kingdom (England), beneficiaries will need to provide a clear specification of the activity to be procured, an invitation to tender, a minimum of three written quotations, an evaluation of all bids, and a justification for the selection of preferred supplier making reference to pre-established and recorded value-for-money criteria. In the case of Portugal (mainland) the reference costs will be validated using independent professional benchmarks. Denmark noted also its intention to use reference costs for the different phases of the creation of wetland projects. However, since these costs had not been defined at the time of the audit, the Court could not assess the appropriateness of the benchmarks on which these reference costs will be defined.

Other eligibility issue

71

The Court found that, in Denmark, feasibility studies (see ***Box 3***) are planned for eligible NPIs for all types of intervention at national level. The new EAFRD regulation explicitly stipulates that feasibility studies are eligible expenditure even where, based on their results, no investment expenditure is made[18]. Nevertheless, the Court considers that granting by default NPI support to feasibility studies undermines the principle of economy, notably in view of the experience in the previous period, in which a considerable number of positive feasibility studies did not lead to any investment. Furthermore, the Court considers that the widespread use of feasibility studies may entail the risk that other general costs, such as consultation fees or professional advice, may be labelled as feasibility studies, thus avoiding the eligibility requirement that such general costs must be linked to actual investment expenditure.

18 Article 45 of Regulation 1305/2013 of the European Parliament and of the Council.

Conclusions and recommendations

72
As part of the EU rural development policy, Member States may use the EU budget to give grants towards the costs of non-productive investments (NPIs). NPIs are investments which should not generate a significant economic return to the undertakers, but contribute towards the sustainable use of agricultural land. In particular, NPIs play a complementary role in helping to achieve agri-environment objectives or commitments, which can be undertaken under other schemes, or in enhancing the environmental value of protected areas. Because of their non-productive character, the Member States apply public aid rates to NPIs that are higher than those granted to productive investments, and often reach 100 % of the total investment costs.

73
The audit set the question 'Have NPIs provided a cost-effective contribution to the sustainable use of agricultural land?' The Court concludes overall, that NPI support has contributed to the achievement of objectives linked to the sustainable use of agricultural land, but in a way that was not cost-effective.

74
The Court found that the Member States targeted the NPI support to investment types with the potential to effectively address their agri-environmental needs. This was corroborated by the sample of projects visited by the Court, where 71 % addressed agri-environmental needs and objectives identified by the Member States, notably landscape and biodiversity protection. However, the complementary role of NPIs to help achieve the specific objectives of other agri-environmental schemes was not always realised. Often, NPIs were not implemented in synergy with other schemes and the aid was granted to beneficiaries which had not undertaken any additional agri-environmental commitment or benefited from other environmental support programmes. In the Court's view, this reduced the potential environmental impact of NPIs (paragraphs 19 to 23 and 32 to 34).

Recommendation 1 Complementarity and synergies with other support schemes

(a) In order to foster a stronger synergy effect for the achievement of agri-environment objectives, the complementary role of NPIs should be maximised. To this end, the Commission should encourage Member States to implement NPIs more in synergy with other rural development measures and/or environmental schemes. More concretely, the Commission should monitor relevant Member States' implementation through their annual implementation reports, from 2017, which should also include the number and proportion of NPI projects that have been implemented in synergy with other rural development measures or environmental support schemes, including integrated projects.

(b) Member States should include in their evaluation plans, an assessment of the extent to which NPIs are implemented in synergy with other rural development measures or environmental schemes.

75
The overall effectiveness of the support was undermined by weaknesses in the Member States' selection procedures. These weaknesses led Member States to fund investments which were ineligible for EU funding and as such, did not contribute to the objectives of the support scheme, or to select project applications without verifying appropriately that they respected crucial selection criteria. In addition, some Member States used selection procedures that were not fully transparent (paragraph 24).

Recommendation 2 Selection of NPIs project applications

(a) The Member States should ensure that selection procedures are transparent and effectively implemented. In particular, Member States should make public all the criteria used in the selection and prioritisation of NPIs and effectively verify the compliance with these criteria. Furthermore, the Member States should ensure an appropriate segregation of duties between organisations and persons involved in the transmission and selection of applications.

(b) For the new programming period, the Commission should provide guidance to Member States on selection criteria, having due regard to their transparency and relevance, and check that the Member States apply appropriate procedures for the selection of projects.

76
The audit revealed that neither the Commission nor the Member States had relevant information about the direct results of NPI support. Basic performance data such as the increase in the number of traditional structures or landscape features restored, or the extent to which NPIs have contributed to protect biodiversity was missing. Several reasons could explain this. Firstly, the Member States did not define baseline indicators during the programming phase on the basis of which a sound allocation of resources and a subsequent comparison of the progress achieved could be made. Secondly, the common monitoring indicators used to aggregate the performance data at Member State and EU levels measured only input and output data, such as the amount spent, the number of holdings receiving support and total volume of investment.

77
The absence of specific results indicators led some Member States to bundle the assessment of NPIs with that of other environmental schemes, according to a wishful rationale in which the performance of the latter in a certain direction would imply that NPIs have been performing in the same way, despite the lack of objective data regarding the outcome of NPI support (see paragraphs 25 to 31).

Recommendation 3
Monitoring and evaluation

(a) The Commission should ensure that the contribution of NPIs to achieving the EU agri-environment objectives is monitored, or at least specifically assessed during the evaluations of the 2014-2020 programming period. To this end, the Commission should advise those Member States where NPI support is significant, to define specific result indicators for the NPIs types most frequently funded.

(b) Member States should report on these indicators in their annual implementation reports starting from June 2016. These Member States should include the assessment of the results of NPIs in their evaluation plans.

78

Although most projects visited by the Court delivered a positive contribution to address the Member States' agri-environmental needs and objectives, for this contribution to be cost-effective, it is essential that the cost of the supported NPIs are reasonable and justified. This is all the more so in the case of high public funding rates (up to 100 %) in which the beneficiaries may have less incentive to contain the costs. However, the Court found clear indications of unreasonable costs in 75 % of these projects. As a result, only 5 of the 28 (18 %) audited projects proved to be cost-effective.

79

The weaknesses observed with the reasonableness of costs of NPIs are not confined to the sample of projects, since the concrete cases identified stem from weaknesses in the management and control systems of the Member States. In particular, they reimbursed investment costs on the basis of unit costs which were much higher than the actual market costs, or did not appropriately verify the reality of the costs claimed, or accepted the most expensive offer for undertaking the investment without requiring justification from the beneficiaries or without comparing the proposed costs against benchmarks.

80

In addition, the audit revealed several cases in all the Member States audited where NPIs with obvious remunerative characteristics benefited from the maximum aid rates stipulated for this type of investments, which meant that, in most cases, they were fully funded with public money. In the Court's view, the fact that Member States did not reduce these high aid rates to take account of the remunerative aspects entailed the overpayment of the related investment costs. Indeed, once deducted the benefits that the investments provided to the beneficiaries, these costs could be actually lower than the aid granted (see paragraphs 35 to 50).

Recommendation 4
Intensity of support rates and reasonableness of costs

(a) Member States should define, as soon as possible, appropriate criteria to determine the remunerative characteristics of NPIs benefiting from the highest aid rates. These criteria should consider, for example, the economic benefit, the agronomical benefit, the degree of financial assistance necessary to encourage undertaking the NPI and the basic support rate applicable to productive investments in the same geographical area. On the basis of this assessment, Member States should modulate the intensity of support.

(b) The Commission should also provide further guidance on the establishment of such criteria and promote their implementation through the Monitoring Committee.

(c) Member States should implement, without delay, procedures to ensure that the costs of the supported NPIs do not exceed the costs of similar types of goods, service or works offered by the market. More concretely, Member States should define appropriate benchmarks and/or reference costs against which the costs of NPIs are systematically verified as part of their administrative checks. These checks must include the verification of proof that the costs claimed have been actually incurred by the beneficiaries.

(d) The Commission should build on the information provided by the Member States regarding the controllability and verifiability of the measures for the approval of their RDPs for 2014-2020 to ensure that Member States define and implement adequate procedures regarding the reasonableness of costs.

(e) The Commission should, in the context of its multiannual audit plan, verify the Member States' effective application of the controls foreseen to ensure reasonableness of costs.

81

EAFRD support for NPIs continues in the 2014-2020 programming period, but the Commission and the Member States have not yet corrected most of the weaknesses identified by the Court. The main reason is that they did not do enough to identify weaknesses in a timely manner, so that the necessary corrective actions could be taken before the start of the new period. On the one hand, the Member States did not analyse the causes of the irregularities detected through their own controls to improve the management of the scheme. On the other hand, the Commission's audits took place too late to help Member States identify and correct management shortcomings during the 2007-2013 implementation period (see paragraphs 51 to 71).

Recommendation 5 Identification of management weaknesses

(a) Member States should define, before the first on-the-spot controls for the 2014-2020 period are performed, a method for the timely consolidation and analysis of the cause of the errors found during these controls. The results of this analysis should trigger, when applicable, improvements in the management and control systems of the NPIs scheme. The Member States should report on these improvements in their annual implementation reports starting from June 2016 onwards.

(b) In planning future audits, the Commission should take due account of the scale of weaknesses identified by the Court in this area of expenditure, irrespective of its limited financial importance.

This report was adopted by Chamber I, headed by Mr Augustyn KUBIK, Member of the Court of Auditors, in Luxembourg at its meeting of 11 November 2015.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA
President

Annex I

Main characteristics of the EAFRD measure support for non-productive investments in agriculture

	Programming period 2007-2013	Programming period 2014-2020
Title/ actions	Measure 216 — Support for NPI Investments that do not lead to any significant increase in the value or profitability of the agricultural holding.	Measure 4.4 — Support for NPI linked to the achievement of agri-environment–climate objectives Investments that do not lead to any significant increase in the value or profitability of the agricultural holding.
Rationale	Support is needed for NPI where they are necessary to achieve: – commitments undertaken under agri-environmental schemes; – other agri-environmental objectives; – enhancement on-farm of the public amenity value of a Natura 2000 area or other high nature value areas.	Support is needed for NPI linked to the achievement of agri-environment–climate objectives including: – biodiversity conservation status of species and habitat; – enhancing the public amenity value of a Natura 2000 area or other high nature value system in Member States.
Beneficiaries	– Farmers and/or land managers	– Farmers and/or land managers
Types of operations	– Land use change; – Wetland restoration; – Conversion of agricultural land to swamp; – Construction/management of biotopes/habitats; – Management of high value perennials.	– Capital works in the framework of an agri-environment–climate commitment; – Fencing and other works needed to facilitate conservation management; – Restoration of wetlands and moorland; – Restoration of landscapes and features; – Dry-stone walls.

Annex II

Summary of NPI visited on the spot

Member State	Description	EAFRD approved *(euro)*	Complementarity[1]		NPI[2]	Support rate *(%)*	Environmental objective[3]		Eligibility[4]	Reasonableness of costs[5]	Overall Cost-effectiveness[6]
			Synergy	General			Proposed	Addressed			
DK[7]	Plantations	107 786		Y	Partially	60	Landscape and biotope improving	Y	Y	N	N
DK	Grazing	29 132		Y	Partially	75	Landscape and biotope improving	Y	Partially	N	N
DK	Wetland	2 089 870		Y	Y	100	Protect/improve aquatic environment	N	Partially	N	N
DK	Preliminary study wetland	48 523		Y	N	100	Protect/im-prove aquatic environment	N	N	N	N
DK	Hedges	6 926		Y	Partially	60	Landscape and biotope improving	Y	Y	N	N
DK	Grazing	43 529		Y	Partially	75	Landscape and biotope improving	Y	y	N	N
IT	Dry-stone walls	251 245		Y	Partially	100	Landscape	N	N	N	N
IT	Dry-stone walls	975 328		Y	Partially	100	Landscape	Y	Y	N	N
IT	Dry-stone walls	208 760		Y	Partially	100	Landscape	Y	Y	N	N
IT	Dry-stone walls	200 397		Y	Partially	100	Landscape	Y	Partially	N	N
IT	Wetlands	35 759		Y	N	100	Biodiversity, landscape	N	N	N	N
IT	Wetlands	492 196		Y	Y	100	Biodiversity, landscape	N	N	Y	N
UK[8]	Suspension bridge	407 408[9]	Y		Y	99	Landscape	Y	Partially	N	N
UK	Access features — wetlands	264 576	Y		Y	99	Public access and conservation of natural wildlife	Y	Y	Y	Y
UK	Culm grassland	294 845	Y		Partially	95	Biodiversity, conservation of natural wildlife	N	N	N	N
UK	Stone wall, tree planting	166 883	Y		Partially	65	Biodiversity, landscape	Y	Y	Y	Y
UK	Lowland raised bogs	1 027 307	Y		Y	100	Biodiversity, conservation of natural wildlife	Y	Partially	N	N

Member State	Description	EAFRD approved *(euro)*	Complementarity[1]		NPI[2]	Support rate *(%)*	Environmental objective[3]		Eligibility[4]	Reasonableness of costs[5]	Overall Cost-effectiveness[6]
			Synergy	General			Proposed	Addressed			
UK	Peatland	1 710 408	Y		Partially	100	Biodiversity and resource protection	Y	Y	N	N
UK	Peatland	1 153 002	Y		Y	100	Biodiversity and resource protection	Y	Y	Y	Y
UK	Stone wall	159 183	Y		Partially	68	Landscape	Y	Y	Y	Y
UK	Peatland	622 402	Y		Partially	89	Biodiversity and resource protection	Y	Y	Y	Y
UK	Historic buildings	284 775	Y		N	93	Landscape	N	N	N	N
PT	Traditional structures	21 721	Y		N	100	Landscape	N	N	N	N
PT	Dry-stone walls	59 500	Y		Partially	100	Landscape	Y	Y	N	N
PT	Dry-stone walls	59 500	Y		Partially	100	Landscape	Y	Partially	N	N
PT	Dry-stone walls	59 500	Y		Partially	100	Landscape	Y	Partially	N	N
PT	Dry-stone walls	59 479	Y		Partially	100	Landscape	Y	Partially	N	N
PT	Traditional structures	25 876	Y		Y	100	Landscape	Y	Partially	N	N

1 Complementarity: NPIs were considered to be implemented in synergy when the NPI funds complemented payments from other EAFRD measures and/or other environmental schemes. General complementarity refers to those projects which were not implemented in synergy with other schemes, but shared the same general objectives.

2 Assessment of the significance of the remunerative components of NPI projects: when there were no indications that the investment delivered and/or contained significant remunerative components, the investment was considered as *non-productive*. When the remunerative elements observed were considered not significant, but in view of the very high aid rates granted the Court considered that these elements should have been taken into account to reduce these aid rates, the investment was considered as *partially productive*. Investments which clearly influenced the main commercial or productive activity of the beneficiary were considered as providing a 'significant' remunerative component.

3 Assessment of whether or not the NPI project contributed to the achievement of the proposed environmental objective(s) (Y/N). In the case of NPIs that were assessed as non-eligible, the Court considers that the NPI project in question is not contributing to the objectives of the measure.

4 Assessment of the eligibility of NPI projects in regard to their nature and costs (Y/N/Partially). 'Partially' denotes the existence of ineligible costs that are not affecting the entirety of the NPI project.

5 Assessment of the reasonableness of the costs of the NPI projects (Y/N). It takes in consideration the existence of adequate tendering procedures and/or the use of reasonable reference costs and whether the high intensity of aid took into account the remunerative characteristics of the project.

6 Cost-effectiveness (Y/N): non-productive investments are considered to be cost-effective when they fulfil the following two criteria: (i) they are effective, meaning that they are eligible, address an agri-environmental need and/or contribute to achieve an agri-environmental objective identified by the Member States in their RDPs and; (ii) there is no evidence that the same investment could have been implemented at a lower cost (i.e. investment costs are reasonable). When effective investments could have been implemented at lower costs, the value for money of such investments is undermined, since the same objectives and/or results would have been achieved at lower costs.

7 The amounts in DKK regarding Denmark's projects have been converted to euros using an exchange rate of 0.13 euro/DKK.

8 The amounts in GBP regarding United Kingdom's projects have been converted to euros using an exchange rate of 1.18 euro/GBP.

9 The individual EAFRD contribution for each project funded in the UK was not evident from the grant documents reviewed. The Court has therefore used the average co-financing rate by EAFRD for M216 projects during the period 2007-May 2015 in the UK, which was 74 %. This rate has been applied for the calculation of EAFRD amounts for these projects.

Annex III

Summary of needs, objectives and types of NPI per Member State

Member State	Identified needs and objectives	Description of types of NPI
United Kingdom (England)	– Conservation of natural wildlife; – Natural resource protection; – Adaptation of farming methods; – Maintenance of landscape quality and character; – Promotion of public access and understanding.	– Traditional boundaries; – Fencing in association with conservation works; – Items associated with tree planting and management; – Restoration of moorland and wetlands; – Control of scrub and bracken; – Reversion of land to heathland and species-rich grassland; – Restoration of landscapes and features; – Structures for specific species; – Changes to farm access tracks and gateways.
Portugal (Mainland)	– Maintenance of landscape quality and character; – Maintenance of ecological structure of farming systems in order to preserve high natural value areas; – Maintenance of specific habitats.	– Dry-stone walls; – Traditional structures; – Protection of riparian zones; – Fencing (to protect from wildlife activity); – Traditional boundaries; – Water management structures.
Denmark	– Conservation of natural wildlife; – Natural resource protection; – Adaptation of farming methods; – Maintenance of landscape quality and character; – Promotion of public access and understanding.	– Maintenance of landscape and cultural elements; – Establishment of landscape and biotope-improving vegetation; – Restoration of dikes; – Operations that encourage sustainable use of and public access to rural natural heritage; – Establishment of permanent wetlands; – Periodical and reoccurring flooding of farmland; – Clearing of scrubs and fencing; – Restoration of hydrological conditions; – Conversion of farmland to permanent grassland.
Italy (Puglia)	– Conservation of biodiversity; – Protection and diffusion of high natural value agro-forestry systems; – Protection of landscape.	– Dry-stone walls; – Small constructed wetlands; – Interventions on wetlands such as towers for sighting wildlife, walkways; – Interventions to plant hedges.

Reply of the Commission

Executive summary

I

The NPIs should not generate a significant economic return to those who undertake them. This does not mean that no economic return can be expected and accepted. In the majority of investments there is always an element of return even though the investment is of a purely non-productive nature, for instance in the case of installing hedges made of trees or bushes which, when pruned or cut can provide biomass serving as a source of electricity. Therefore, it is difficult to create an entirely non-productive investment.

The Managing Authorities may reduce the aid intensity, although if environmental objectives are to be achieved, the impact of such reduction on the uptake of the measure must be estimated to ensure that the environmental objectives are met.

II

The difference in the maximum support rate between productive and non-productive investments is due to the fact that the latter by definition are not supposed to bring significant economic benefits. Therefore, without a higher support rate the agri-environmental–climate objectives could not be achieved.

IV

Article 24(2)(d) of Commission Regulation (EU) No 65/2011 requires the Member States to assess the reasonableness of costs during administrative checks using a suitable evaluation system, such as reference costs, comparison of offers or evaluation committee. This provision has been maintained with regard to the 2014-2020 programming period.

The Member States have also to ensure the eligibility of the projects, assess them against the selection criteria established in consultation with the Monitoring Committee and rank them according to their quality. The Commission has produced guidance on eligibility and selection to assist the Member States and regions for the programming and implementation of the 2014-2020 RDPs.

V

Where the level of support is based on standard costs and standard assumptions of income foregone, the Member States must ensure that the calculations contain only verifiable elements, are based on figures established by appropriate expertise and are regionally or locally differentiated if needed.

Where the level of support is based on simplified cost options, a thorough *ex ante* assessment of the calculation method is necessary, which will be applicable to any cost falling under the selected category.

These methods should guarantee that costs incurred and declared are reasonable and should help in justifying the payments proposed by Member States.

VI

The Commission carries out conformity audits in the Member States to verify that the expenditure paid is in compliance with the rules. Since these audits have also revealed weaknesses regarding the reasonableness of costs, substantial financial corrections have already been made and a number of conformity clearance procedures are currently ongoing which should lead to further financial corrections.

VII
The CMES provides monitoring information on what is supported. A more thorough assessment of the effectiveness of all measures against programmes' objectives will be performed at the time of the *ex post* evaluation. However, a balance needs to be found between what can be done through monitoring and evaluation taking into account the risk of excessive administrative burden and the financial constraints. Collecting specific result indicators for NPIs can be burdensome.

VIII
With regard to the 2014-2020 programming period the Commission has strengthened the provisions and guidance regarding reasonableness of costs.

The audit work programme is determined on the basis of a risk analysis, where the most important element is the level of expenditure. Since the amount of funding for NPIs is relatively low, the priority is given to more financially important measures where weaknesses in management and control systems could have a bigger financial impact on the EU budget.

IX First alinea
The Commission accepts this recommendation.

The Commission considers that the new programming period 2014-2020 provides the opportunity for increasing synergies between rural development measures towards policy objectives. While not all NPIs must be directly complementary to other RD measures and schemes, in cases where there is such complementarity, the Commission will encourage the relevant Member States to report in their annual implementation reports the number and proportion of NPI projects linked to the achievement of agri-environmental–climate commitments.

IX Second alinea
This part of the recommendation is for the Member States

IX Third alinea
This recommendation is for the Member States.

IX Fourth alinea
The Commission accepts this recommendation.

Selection criteria are defined by the Member States following consultation with the Monitoring Committee where the Commission is present in an advisory capacity.

The Commission has produced guidance on eligibility and selection criteria to assist the Member States and regions in the programming and implementation of the 2014-2020 RDPs.

The Commission will continue to carry out conformity audits in the Member States in accordance with its audit planning to verify that the expenditure paid is in compliance with the rules including appropriate procedure for the selection and appraisal of projects. The measures and the paying agencies to be audited are determined on the basis of a risk analysis, where the most important element is the level of expenditure.

IX Fifth alinea
The Commission accepts this recommendation.

The 2014-2020 CMES will monitor the implementation of the measure whereas the evaluation will consider its performance in the context of the relevant RD objectives.

IX Sixth alinea
This recommendation is for the Member States.

IX Seventh alinea
This recommendation is for the Member States.

IX Eighth alinea
The Commission accepts this recommendation.

However, Managing Authorities may reduce the aid intensity of the measure, although if environmental objectives are to be achieved, the impact of such reduction on the uptake of the measure must be estimated to ensure that the environmental objectives are met.

IX Ninth alinea
This recommendation is for the Member States.

IX Tenth alinea
The Commission accepts this recommendation.

The Commission will continue to carry out conformity audits in the Member States in accordance with its multiannual audit plan to verify that the expenditure paid is in compliance with the rules, including the reasonableness of costs. The measures and the paying agencies to be audited are determined on the basis of a risk analysis.

IX Eleventh alinea
This recommendation is for the Member States.

IX Twelfth alinea
The Commission partially accepts this recommendation.

The Commission takes due account of the Court's findings in establishing its audit planning.

However, the multiannual audit plan is determined on the basis of a risk analysis, where an important element is the level of expenditure. Since the amount of funding for non-productive investment is relatively low, the priority is given to more financial important measures where weaknesses in management and control system could have a bigger financial impact on the EU budget.

Introduction

08
The difference in the maximum support rate between productive and non-productive investments is due to the fact that the latter by definition are not supposed to bring significant economic benefits. Therefore, without a higher support rate the agri-environmental–climate objectives could not be achieved.

Observations

19
The aim of NPIs is to contribute to the overall objectives and priorities of rural development. In this sense, NPIs are complementary to other rural development measures in pursuing agri-environmental (and in 2014-2020 also climate) objectives. While the synergy between NPIs and other rural development measures can be reached by establishing a link in their implementation (i.e. by linking NPI projects to the achievement of specific agri-environmental–climate commitments), NPIs can also contribute to agri-environmental–climate objectives, Natura 2000 and high nature value systems as a stand-alone measure.

21
See common reply to paragraphs 19.

22
The Commission is of the opinion that the overlapping of commitments leading to double funding must be excluded as a matter of principle.

The objectives of measures 214 and 216 are different and clearly set in the RDPs. Support under 214 has the commitment of maintaining (among others) existing dry-stone walls, while NPIs can support the reconstruction/restoration of dry stone walls. However, in some cases setting a clear demarcation can be difficult and can lead to an increased administrative burden.

23
See common Commission reply to paragraph 19.

24
As regards the 2014-2020 programming period, the selection criteria are obligatory for the NPIs support.

See also Commission reply to paragraph 19.

Box 3(a)
Given the expected contribution of non-productive investments to environmental objectives, excluding feasibility studies from eligible costs might severely undermine its uptake.

Feasibility studies should help to decide whether an investment should or should not be undertaken. A feasibility study may conclude that the investment will not contribute to the objectives of the support scheme. Cases where the feasibility study reached a positive conclusion on the investment, which was not then carried out, need to be analysed on a case-by-case basis. Budgetary constraints may be one of the reasons for not implementing the project which was the subject of feasibility study.

27
The Commission recommended to the Member States to define additional indicators in accordance with the sound cost–benefit analyses. However, defining additional baselines for all sub-measures is not always possible and would lead to an increased administrative burden.

Box 4
Exhaustive statistics for specific environmental features such as stone walls are rarely available and it would be costly to constitute them.

28
CMEF is one of the tools through which the impact of investments can be assessed.

The result indicators such as the number of hectares under successful land management are relevant since they are used as input for the evaluations which aim at assessing the contributions of the relevant group of measures.

See also Commission reply to paragraph 27.

30
The mid-term evaluation for the 2007-2013 programming period came too early for results to be measurable. As regards the 2014-2020 programming period enhanced implementation reports in 2017 and 2019 will replace the mid-term evaluation.

31
Collecting specific result indicators for NPIs can be burdensome. A more thorough assessment of the effectiveness of all measures against programmes' objectives will be performed at the time of the *ex post* evaluation.

33
Although the projects did not always respect the eligibility conditions, they may have contributed to the objectives of the measure.

34
See Commission reply to paragraph 33.

36
By their very nature NPIs are not expected to provide significant economic returns, although some limited economic benefits cannot be excluded. Where economic benefits prevail over environmental ones, the respective investment should be funded under measure 121. Demarcation between the two measures is assessed at the time of programmes' approval.

Common Commission reply to paragraphs 37 and 38
Although the NPIs should be free of productive elements, any kind of investment has at least a small element of 'productivity' in it. Nevertheless, such investments should remain mostly non-productive and their 'productive' or remunerative features should be limited.

The Managing Authorities may reduce the aid intensity, although if environmental objectives are to be achieved, the impact of such reduction on the uptake of the measure must be estimated to ensure that the environmental objectives are met.

The difference in the maximum support rate between productive and non-productive investments is due to the fact that the latter by definition are not supposed to bring significant economic benefits. Therefore, without a higher support rate the agri-environmental–climate objectives could not be achieved.

39
See common Commission reply to paragraphs 37 and 38.

41
See common Commission reply to paragraphs 37 and 38.

41 Third alinea
Where the environmental benefit of the operation is significantly predominant, water agencies may be beneficiaries of the measure on their own or together with farmers, notwithstanding potential residual economic advantage.

42
The Commission carries out conformity audits in the Member States to verify that the expenditure is in compliance with the rules. Since these audits have also revealed weaknesses regarding the reasonableness of cost, substantial financial corrections have already been made and a number of conformity clearance procedures are currently ongoing which should lead to further financial corrections.

50
See Commission reply to paragraph 33.

51
With regard to the 2014-2020 programming period the following actions have been undertaken to solve weaknesses in the programming, management, monitoring and evaluation of the NPI support:

— The measure specific guidance and horizontal guidance providing information on eligibility conditions and selection criteria and guidance on investments, including NPIs have been issued;

— A joint *ex ante* assessment by the Managing Authority and the Paying Agency has been made obligatory in order to establish the verifiability and controllability of all measures included in the RDP;

— The result-oriented approach has been reinforced with the setting of precise targets for the programmes and the reporting throughout the programming period, based on a rationalised common monitoring and evaluation system;

— The SWOT analysis of the RDP aims at establishing the baseline for monitoring and evaluation of the programme.

52
Corrective actions to address potential weaknesses can also be implemented after the adoption of the programmes through their amendments.

See also Commission reply to paragraph 51.

55
In some Member States the controllability and verifiability of the NPI and related maintenance contracts have been debated in connection with the 2014-2020 programme negotiation.

56
The Commission carries out the conformity audits in the Member States to verify that the expenditure is in compliance with the rules. If during these audits weaknesses are found, financial corrections are applied.

The measures and the paying agencies to be audited are determined on the basis of a risk analysis. The risk factors such as the importance in financial terms, the quality of the control systems, the characteristics of the paying agency, the nature of the measures (its complexity) and any other information and findings from other bodies are taken into account. The financial importance plays a major role in the quantification of the exposure to risk. That means that high expenditure is more likely to be highly ranked and audited.

Measure 216 was not targeted by the conformity audits during the first years of auditing the 2007-2013 period when the focus was on the agri-environmental measures which represent more than 50 % of the expenditure declared under Axis 2. Measure 216 was audited in 2014-2015.

57
The fact that the audit is still ongoing does not mean that the Member State is not aware of the preliminary results. In the case of Portugal, the Letter of Findings was sent in April 2014 and the bilateral meeting between the Member State and the Commission took place in September 2014. In the case of England, the Letter of Findings was sent to the Member State in July 2014 and the bilateral meeting took place in December 2014.

58
Monitoring committees which involve RD managers, broader RD stakeholders and the Commission services in their advisory capacity are better designed to deal with problems and lessons learnt.

The key reason for not having sufficient information on performance in the mid-term evaluation is the timing. Firstly, there is a minimum time necessary to launch and initiate the implementation and secondly, all operations, but in particular those in the environmental field, will take time before result of that operation could become measurable.

60
See reply to paragraph 19.

61
See reply to paragraph 22.

62
See common reply to paragraphs 27 and 28.

63
The assessment of the effects of measures or sub-measures will be carried out against the programmes' objectives to which they contribute. The objectives are defined at the level of focus areas for which targets are established *ex ante*. The progress of the programmes against these targets is regularly monitored. This approach reflects a result-orientation of the policy and allows to better address the combined effects of measures against relevant objectives.

Member States can define additional programme-specific indicators in relation to a set of key measures. However, this should not be requested systematically for all measures and sub-measures for reasons of keeping the costs of monitoring/evaluation reasonable and avoiding excessive administrative burden.

In case of underperformance of the programmes against their targets the Managing Authorities can look further at the level of individual measures/sub-measures to identify the causes of problems and to effectively target corrective actions.

Ex post evaluators will further investigate the performance of single measures/sub-measures.

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

Box 10
The 2014-2020 monitoring will also contain total expenditure by sub-measures including non-productive investments (4.4). Indicators are one component of the monitoring and evaluation system.

See also Commission reply to paragraph 63.

65
During the 2007-2013 programming period, the Commission reminded on several occasions the Member States of the obligation to set up genuine selections criteria, ensuring a ranking of projects when the budget allocation did not allow financing all eligible project applications. In order to help MS to avoid weaknesses in the application of selection criteria and taking into account previous ECA recommendations, the Commission produced guidance on eligibility and selection as regards the 2014-2020 programming period.

The Commission can through it audits verify the use of selection criteria. When audits are performed on investment measures, the implementation of selection criteria is indeed systematically verified. The Commission has imposed financial corrections for a number of Member States for deficiencies found in the use of selection criteria.

66
As regards Denmark, the projects will be selected on the basis of their cost-efficiency in relation to the objectives of the measure (e.g. area of biotope created/cost of the project, etc.).

67
See common Commission reply to paragraphs 37 and 38.

68
Denmark has simplified the RDP by reducing the number of possible NPIs to be supported. This could partly explain decreasing variability of the aid rates from the previous RDP.

71
Given the expected contribution of this sub-measure to environmental objectives, excluding feasibility studies from eligible costs might severely undermine its uptake.

The Commission considers that Denmark's intention to support feasibility studies under non-productive investments is in line with the legislation: feasibility studies receiving support should be capable of reaching negative investment conclusions.

Conclusions and recommendations

72

The NPIs should not generate a significant economic return to those who undertake them. This does not mean that no economic return can be expected and accepted. In the majority of investments there is always an element of return even though the investment is of a purely non-productive nature, for instance in the case of installing hedges made of trees or bushes which, when pruned or cut, can provide biomass serving as a source of electricity. Therefore, it is difficult to create an entirely non-productive investment.

The Managing Authorities may reduce the aid intensity, although if environmental objectives are to be achieved, the impact of such reduction on the uptake of the measure must be estimated to ensure that the environmental objectives are met.

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The agri-environmental objectives targeted by the NPIs do not always require the complementarity with other RD measures. In most cases, NPI support was linked to agri-environmental–climate commitments. However, it is possible to meet the NPIs objectives without a link to any other RD measure. For instance, supporting the purchase of fences to avoid large carnivores causing damage to livestock achieves the agri-environmental objective per se even without a link to other RD measures. Support for NPIs can also exist as a stand-alone sub-measure which contributes to agri-environmental–climate objectives.

Recommendation 1(a)

The Commission accepts this recommendation.

The Commission considers that the new programming period 2014-2020 provides the opportunity for increasing synergies between rural development measures towards policy objectives. While not all NPIs must be directly complementary to other RD measures and schemes, in cases where there is such complementarity, the Commission will encourage the relevant Member States to report in their annual implementation reports the number and proportion of NPI projects linked to the achievement of agri-environmental–climate commitments.

Recommendation 1(b)

This part of the recommendation is for the Member States.

75

The Commission is of the opinion that only the projects respecting the selection criteria should receive support and that the selection procedures should be clear and transparent.

The selection of operations is better underlined in the legal framework for the 2014-2020 programming period and extensive guidance has been provided to Member States/regions with the aim of ensuring that only the best operations and investments contributing to the programmes' objectives and priorities are selected.

Recommendation 2(a)

This recommendation is for the Member States.

Recommendation 2(b)
The Commission accepts this recommendation.

Selection criteria are defined by the Member States following consultation with the Monitoring Committee where the Commission is present in an advisory capacity.

The Commission has produced guidance on eligibility and selection criteria to assist the Member States and regions in the programming and implementation of the 2014-2020 RDPs.

The Commission will continue to carry out conformity audits in the Member States in accordance with its audit planning to verify that the expenditure paid is in compliance with the rules including appropriate procedures for the selection and appraisal of projects. The measures and the paying agencies to be audited are determined on the basis of a risk analysis, where the most important element is the level of expenditure.

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The CMES provides monitoring information on what is supported. A more thorough assessment of the effectiveness of all measures against programmes' objectives will be performed at the time of the *ex post* evaluation. However, a balance needs to be found between what can be done through monitoring and evaluation taking into account the risk of excessive administrative burden and the financial constraints. Collecting specific result indicators for NPIs can be burdensome.

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A more thorough assessment of the effectiveness of all measures against programmes' objectives will be performed at the time of the *ex post* evaluation.

Recommendation 3(a)
The Commission accepts this recommendation.

The 2014-2020 CMES will monitor the implementation of the measure whereas the evaluation will consider its performance in the context of the relevant RD objectives.

Recommendation 3(b)
This recommendation is for the Member States.

78
The Commission carries out conformity audits in the Member States to verify that the expenditure is in compliance with the rules. Since these audits also revealed weaknesses regarding the reasonableness of costs, substantial financial corrections have already been made and a number of conformity clearance procedures are currently ongoing which should lead to further financial corrections.

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Compliance with one of the methods of selecting an offer (i.e. comparison of different offers, assessment by the evaluation committee or comparison of reference costs with the costs of other similar projects) is sufficient to ensure that the justified and reasonable offers in terms of the costs are selected. Multiplying obligations can lead to an unnecessary administrative burden.

80
Although the NPIs should be free of productive elements, it is difficult to have an investment without an element of 'productivity' in it. In other words, it is difficult to imagine a purely NPI.

Nevertheless, such investments should remain mostly non-productive and therefore their 'productive' or remunerative features should be sufficiently limited. The administrative burden and complexity linked to extracting the economic benefits from the eligible expenditure should also not be underestimated.

Furthermore, Member States can make use of the simplified cost options for the calculations and payments of the grants. In this case a fair, equitable and verifiable calculation must be carried out in advance.

Recommendation 4(a)
This recommendation is for the Member States.

Recommendation 4(b)
The Commission accepts this recommendation.

Recommendation 4(c)
This recommendation is for the Member States.

Recommendation 4(d)
The Commission accepts this recommendation and has started to implement it.

During the screening of the Rural Development Programmes for the 2014-2020 programming period, the Commission paid attention to check the controllability and verifiability section of the measures. If this explanation was missing or was not detailed enough, MS had to provide additional information.

Recommendation 4(e)
The Commission accepts this recommendation.

The Commission will continue to carry out conformity audits in the Member States in accordance with its multiannual audit plan to verify that the expenditure paid is in compliance with the rules, including the reasonableness of costs. The measures and the paying agencies to be audited are determined on the basis of a risk analysis.

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With regard to the 2014–2020 programming period the Commission has strengthened the provisions and guidance regarding reasonableness of costs which should address some of the weaknesses identified by the Court.

The audit work programme is determined on the basis of a risk analysis, where the most important element is the level of expenditure. Since the amount of funding for NPIs is relatively low, the priority is given to more financial important measures where weaknesses in management and control system could have a bigger financial impact to the EU budget.

Recommendation 5(a)
This recommendation is for the Member States.

Recommendation 5(b)
The Commission partially accepts this recommendation.

The Commission takes due account of the Court's findings in establishing its audit planning.

However, the multiannual audit plan is determined on the basis of a risk analysis, where an important element is the level of expenditure. Since the amount of funding for non-productive investment is relatively low, the priority is given to more financial important measures where weaknesses in management and control system could have a bigger financial impact on the EU budget.

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Non-productive investments (NPIs) are investments which do not generate significant return, income, or revenue, or increase significantly the value of the beneficiary's holding, but have a positive environmental impact. Public support for NPIs is provided by the European Agricultural Fund for Rural Development and national co-financing. This public support often reaches 100 % of the total investment costs. The Court concludes that NPI support has contributed to the achievement of objectives linked to the sustainable use of agricultural land, but in a way that was not cost effective. This was because the costs of 75 % of the visited projects were unreasonably high. Furthermore, even though many of these projects had obvious remunerative characteristics, they were fully funded with public money. The Court makes five recommendations aimed at improving the cost-effectiveness of NPIs that will be funded during the 2014-2020 programming period.

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