Chapter 5

# FUNDING AND FINANCE

**Contributors**

Carlotta Fioretti – European Commission, Joint Research Centre
Martijn De Bruijn – UTD Consulting
Sissy Windisch – The Forward Group

Territorial strategies of non-urban territories can vary widely in terms of the size of populations covered and the type and themes addressed. Likewise, **a similar variety exists in the financial size and complexity of these strategies and the funding instruments they use.**

When designing their strategy, local stakeholders must make sure that the scope and focus of the strategy are in line with the available budget and the relevant funding rules. Managing an integrated strategy with external resources requires knowledge on funding instruments as well as skills and capacity to set up a selection process and monitor progress in line with the rules of the individual funds. Moreover, sufficient financial resources are usually needed to provide match funding for the supported projects, and such resources are often scarce, especially in remote rural areas. Therefore, a first challenge to resolve is **to match the ambition of the strategy to the funding availability and capacity of the local actors to manage and access EU funds.**

Managing public funding, especially from the EU, is normally associated with a number of administrative processes that must be followed. However, with multiple levels of governance these processes can become very complex – and even more so when multiple funding sources and programmes are used, each of them with distinct funding rules, procedures and timetables. It is therefore essential to look for **ways to reduce this administrative complexity** and make the tasks of the local actors and beneficiaries easier. This is the second challenge of this chapter.

For several decades EU funding for non-urban strategies consisted mainly of the European Agriculture Fund for Rural Development (EAFRD) for rural development, the European Maritime and Fisheries fund[81] (EMFF) for support to fisheries communities, the European Regional Development Fund (ERDF), the Cohesion Fund (CF) for infrastructure investments and European Social Fund (ESF)[82] for investment in skills and training. These funds are all implemented under shared management, which means that Member States and regions have a central role in their management through national or regional managing authorities.

Moreover, excluding the EAFRD, they all follows the same set of rules called Common Provisions Regulation (CPR). In addition, other European-wide funds such

81 In the 2021–2027 programming period the former EMFF was called European Maritime, Fisheries and Aquaculture Fund (EMFAF).

82 In the 2021–2027 programming period the former ESF was abbreviated as European Social Fund Plus (ESF+).

as LIFE for biodiversity or Horizon for research can support projects in non-urban areas based on a competitive procedure.

Over the last few years, as part of the European twin green and digital transitions and in response to the COVID-19 pandemic, even more funding opportunities have become available for non-urban strategies. The above mentioned funds will now be complemented with (a) the Recovery and Resilience Facility (RFF) to boost the investment capacity of Member States towards the green and digital transition and (b) the Just Transition Fund (JTF) to support territories that are most negatively impacted by the transition towards a low-carbon economy due to their economic structure. The JTF also uses the rules of the CPR.

Territorial strategies are likely to combine some of the above mentioned funds as well as national co-financing[83] and other sources. The third challenge addressed in this chapter will therefore be **how to combine these different funding sources to achieve the greatest impact of the strategy.**

As a last challenge, this chapter will explore **supporting a territorial strategy with other funding sources besides grants.** These can include financial instruments of the European Investment Bank, as well as commercial bank loans and participatory finance from citizens.

In this chapter we address the following challenges:

- *How to programme investments that match strategy ambition with the funding available and capacity of local actors.*
- *How to reduce the administrative burden of integrated territorial strategies.*
- *How to combine different EU and national funds in an integrated strategy.*
- *How to benefit from other sources of financial support.*

## CHALLENGE 1: How to programme investments that match strategy ambition with the funding available and capacity of local actors

When drafting the integrated territorial strategy, local actors sometimes try to address too many needs at once – as a result, their financial needs can be considerably higher than the available resources. Managing the funding of an integrated strategy can also be challenging, and the necessary knowledge, skills and resources are not always available at local level. Therefore it is important that in designing their territorial strategy, local actors match their strategy ambitions with their administrative capacity.

83 The amount of co-financing varies according to the classification of the region, divided into: less developed (GDP/head less than 75 % of the EU-27 average), transition (GDP/head between 75 % and 100 % of the EU-27 average), more developed (GDP/head above 100 % of the EU-27 average). This can also have an impact on how important the other funding sources will be in a given strategy.

In practical terms, matching strategy to available funds and capacity involves two main aspects:

- Adjusting the strategy ambitions to the budget available (and – if necessary – searching for additional funding sources).
- Conducting a critical assessment of the implementation capacity in relation to the funding framework.

## Adjusting strategy ambition to the budget available

Public budgets allocated to territorial strategies vary greatly depending, for example, on the size of the area, the national context, and the type of instrument. Under CLLD, strategy budgets are typically lower than under ITI and other territorial tools.

According to STRAT-Board, in the 2014–2020 programming period **84 % of CLLD strategies had a budget of less than EUR 5 million.**

*Learning from data*

Taking into account that local budgets for CLLD need to have a certain 'critical mass' in order to make a difference, the European Commission recommends CLLD budgets generally **not smaller than around EUR 3 million for seven years**[84]. No parallel recommendation exists for ITI, but from the data available in STRAT-Board it can be estimated that the ESIF contribution to an average ITI strategy is in the order of EUR 44.8 million. When working on the strategy, local actors normally have a good idea of the amount of funding they can expect to obtain.

*Be careful!*

Local strategy owners may be facing some difficult choices: is it better to develop a broader strategy, addressing all the needs of their territory, or to focus only on those needs they know they can get funding for? This can be particularly challenging where the strategy is at the same time an application for funding, or constitutes the core part of such an application (as is the case in CLLD). Local actors can be tempted to adjust their strategy to the formal requirements of the call, i.e. to modify their needs and objectives in line with the rules of the funding source. Such funding-driven strategies may not address the real needs of the community, or mobilise stakeholders to participate in their implementation.

To avoid such difficult choices, managing authorities should carry out broad consultation with the local and territorial stakeholders before designing the objectives and eligibility rules for CLLD and ITI strategies. At the local level, stakeholders can try to identify additional funding sources when important needs cannot be addressed by their main funding source.

*Learning from practice*

**CLLD STRATEGY OF LOCAL ACTION GROUP (LAG) KOSTENETS 2010 (BULGARIA)**

When designing its strategy for 2014–2020, the Bulgarian LAG Kostenets 2010 identified rural depopulation as one of the key needs. In the consultation process, the community identified activities to keep employees in the area focusing on working conditions, transport and health and safety standards. However, many of these activities were not eligible for funding under EAFRD.

84 *https://ec.europa.eu/regional_policy/en/information/publications/guidelines/2014/guidance-on-community-led-local-development-for-local-actors*

The LAG therefore decided to apply for funding from the ESF. The main challenge was to develop relationships with the ESF managing authority and to learn about ESF application requirements. Without the LAG, local companies would never have had the courage and know-how to apply for ESF funding at the national level.

The up-take of the project was higher than anticipated (eight businesses were involved, instead of two as originally foreseen). Although this required more work for the LAG, it was agreed to finance all of them with a smaller amount of funding. Improvements in health and safety equipment, workplace environment and free transportation for workers benefitted a total of 100 workers. Intangible results included increased levels of motivation, a better work atmosphere and improved relationships between employers and employees

One of the key lessons mentioned by the LAG manager is: 'Design projects that correspond to the real needs in the community and access funding sources accordingly'.

**For more information**

ENRD website:
*https://enrd.ec.europa.eu/publications/using-multi-fund-approach-meet-local-needs_en*

STRAT-Board strategy fact-sheet:
*https://urban.jrc.ec.europa.eu/strat-board/#/factsheet?id=BG-CLLD-003&fullscreen=yes*

Even with additional sources, the available funding is almost always going to be insufficient to address all the identified needs. Therefore, it will be very important to **prioritise the objectives** or types of activities that will ensure the greatest impact on the territory and that are not being addressed by other funding sources. In this prioritisation, the local actors might find useful the following simple table.[85]

**TABLE 3.** Exercise to prioritise objectives and/or actions.

| Strategic objective or type of action supported by your strategy (resulting from SWOT and needs analysis) | Reasons why you have a good chance to achieve impact with this type of action within the territorial strategy (specific skills, local knowledge, contacts with key stakeholders, etc.) | Other potential funding sources for this type of activity (realistically available to local promoters) |
|---|---|---|
| Objective/action 1 | | |
| Objective/action 2 | | |
| … | | |

It is important to ensure that the discussions on the most appropriate utilisation of the strategy budget involve a wide range of local actors. For example, in the case of the CLLD strategy of the LAG 'GotseDelchev-Garmen-Hadzhidimovo' in Bulgaria, the initial definition of the financial resources took into account the potential beneficiaries that had been identified and involved in the consultation process (see Chapter 1, Strategic Dimension).

85 Adapted from the FARNET Guide 'Forward-looking strategies for fisheries areas', *https://webgate.ec.europa.eu/fpfis/cms/farnet2/library/guide/farnet-guide-20-forward-looking-strategies-fisheries-areas_en.html*

## Aligning the funding framework with implementation capacity

A critical assessment must be made of the available and required capacities for the management of the strategy's budget. In a joint pilot action from the European Commission and the OECD on 'Frontloading administrative capacity building for post-2020', **four dimensions of administrative capacity** were identified: people, organisation, strategic planning and coordination and enabling framework conditions.

**FIGURE 3.** OECD Analytical framework for administrative capacity building.


**Source:** OECD, 2020.

**People** refer to the need to have employees with the right skills and competences. **Organisation** refers to the business processes and culture that need to be in place for data-informed decision-making. **Strategic planning** refers to the planning cycle of integrated territorial strategies from design to implementation to monitoring and evaluation. Finally, the **enabling framework** conditions refer to the framework needed at all levels to carry out investments efficiently such as clear, consistent regulatory and legislative systems (OECD, 2020). Managing authorities dealing with local and territorial strategies can use an ABC Self-Assessment Instrument, based on the same pilot action, to assess their own administrative capacity.[86]

While in some cases a realistic assessment of the available capacity might require an adjustment in the strategic ambition, it is also possible to increase this capacity. In the 2021–2027 programming period **capacity-building actions can be part of every specific objective in a programme.** A good practice is to use roadmaps for building administrative capacities that start with an assessment, identify gaps and shortcomings, proposes actions needed, deliverables, a timeline, results and indicators.

Under CLLD, support for the preparation and design of the strategy and for capacity building of the local actors is mentioned explicitly[87] in the regulations, highlighting

86 *https://ec.europa.eu/regional_policy/sources/policy/how/improving-investment/ACB_Self_assessment_Instrument.pdf*

87 Regulation (EU) 2021/1060, Article 29.6 and Article 34.1(a)

the fact that administrative capacity is a crucial element for the success of a strategy. Funding is also available for the dedicated team managing the strategy and for information and support targeting the local community (i.e. activities aimed at mobilising, empowering and involving local people). The running and animation costs can go up to 25 % of the total budget of the local strategy – this indicates the importance of adequate human and technical resources to implement a local strategy.

A realistic assessment of local capacities can also influence the decision concerning the **use of several funds** to support the territorial strategy. It should be kept in mind that an integrated territorial strategy does not necessarily need to be funded by various funds in order to be integrated. Support from one fund might have some limitations in the type of projects that can be supported, but can be easier from a management point of view. The list below shows **different funding options** for territorial strategies **from simpler to most complex.**

1. It is possible to support an integrated strategy using **only one priority under a programme supported by a single fund.** In 2014–2020, the CLLD instrument had the possibility to support an integrated local development strategy that only needed to report under one specific CLLD investment priority. In the 2021–2027 programming period this approach has been broadened with introducing Policy Objective 5 'Europe closer to citizens'. It has two specific objectives: the first dedicated to integrated urban strategies, and the second to integrated non-urban strategies. Territorial strategies under these specific objectives can receive support through territorial tools to address various themes. In addition, an integrated strategy with a clear thematic focus (for example energy reduction) can be supported under one Policy Objective of a programme but still include a range of different actions.
2. It is also possible to support strategies under **several Policy Objectives of a single fund within the same operational programme,** for example combining Policy Objective 1 'a smarter Europe' with Policy Objective 2 'a greener Europe'. This is typically done through the use of territorial tools. Even though this might demand a more elaborated monitoring system for the strategy and potentially different calls for projects, often the managing authority is the same, which simplifies coordination. The ITI Westküste in Germany is an example of integrated strategies that combine two policy objectives within the same programme.

*Learning from practice*

### ITI WESTKÜSTE (GERMANY)

The west coast of Schleswig-Holstein is a peripheral region in Germany that faces, compared to other areas, several important obstacles to development including: fewer transport links, a high proportion of agriculture and tourism with different development prospects and weak innovative power. The ITI Westküste (west coast), called 'Western Coast: competence region for tourism and energy' was part of the ERDF Operational Programme Schleswig-Holstein 2014–2020.

The ITI was an innovative implementation tool, where local areas could apply in a two-stage process to obtain funding for packages of measures that had to include at least one energy project under Thematic Objective 4 (TO4) and at least one tourism project as part of TO6. By the end of 2020, fifteen projects were completed.

**For more information**

Schleswig-Holstein website: *https://www.schleswig-holstein.de/DE/Fachinhalte/F/foerderprogramme/MWAVT/iti_Westkueste.html*

STRAT-Board strategy fact-sheets:

- Joint island development plan to strengthen eco-tourism in the Wadden sea
  *https://urban.jrc.ec.europa.eu/strat-board/#/factsheet?id=DE-089&fullscreen=yes*
- Innovation region Itzehoe and Brunsbuettel
  *https://urban.jrc.ec.europa.eu/strat-board/#/factsheet?id=DE-090&fullscreen=yes*
- Northern energy and sustainability path Nes-trail
  *https://urban.jrc.ec.europa.eu/strat-board/#/factsheet?id=DE-091&fullscreen=yes*
- Cultural value west coast
  *https://urban.jrc.ec.europa.eu/strat-board/#/factsheet?id=DE-092&fullscreen=yes*
- Pearls of the west coast
  *https://urban.jrc.ec.europa.eu/strat-board/#/factsheet?id=DE-093&fullscreen=yes*
- Sustainable tourism value for world natural heritage site Wadden sea
  *https://urban.jrc.ec.europa.eu/strat-board/#/factsheet?id=DE-094&fullscreen=yes*
- Helgoland – Atlantis 4.0
  *https://urban.jrc.ec.europa.eu/strat-board/#/factsheet?id=DE-095&fullscreen=yes*
- Beach plan Foehr
  *https://urban.jrc.ec.europa.eu/strat-board/#/factsheet?id=DE-096&fullscreen=yes*

3. A strategy can be supported by **different funds and programmes under shared management** through **territorial tools.** This allows for a combination of investments in, for example, infrastructure and business development, training and social inclusion and rural development. As such, it is very relevant for many territorial strategies and can lead to strong cross-sectoral approaches. These funds will very likely have different managing authorities and the implementation of such a strategy can be more challenging. Although Member States have a broad flexibility in aligning national rules, this does not always happen. The Czech LAG Nad Orlicí is an example of a local strategy that is supported by multiple funds and illustrates some of the challenges involved.

*Learning from practice*

### THE INTEGRATED CLLD STRATEGY FOR THE LAG NAD ORLICÍ (CZECH REPUBLIC)

The local action group Nad Orlicí consists of 58 municipalities in the northeast of the Czech Republic. Most of the area is rural.

After a SWOT analysis of the territory, the LAG drafted a local strategy in which all LAG members participated and that had also been widely consulted with citizens. The strategy covers a broad range of topics and has the following objectives:

- Increase the efficiency of municipalities and their cooperation with citizens.
- Increase the employment rate of the local residents.
- Improve the quality of services and education.
- Diversify the local economy.
- Support the development of sustainable tourism and the recreational opportunities for citizens while preserving nature.
- Innovate in the field of sustainable energy and energy efficiency.

The local strategy is supported by three funds: EAFRD (1 million euro), ERDF (2.5 million euro) and ESF (0.5 million euro). Each fund supports its own actions. There is no possibility to support integrated projects, but taken together, the actions support an integrated strategy for the area concerned.

According to the LAG, the CLLD method proved to be useful for building cooperation between mayors, entrepreneurs, non-profit organisations, local producers and local economy actors. However, launching the multi-fund strategy was not easy. The major issues confronted included:

- A delay in the approval of the strategy by all the managing authorities concerned (13 months).
- An initially dysfunctional system for submission of applications.
- Difficult collaboration with some of programme authorities involved.
- Divergent interpretation of the rules by the controlling authorities.
- Excessive bureaucracy – e.g. a 40 page application for a project with a budget of 11 000 euro.

**For more information**

Lorencová, M., LAG NAD ORLICÍ (Check Republic), in L., Servillo, L., *CLLD under ERDF/ESF in the EU: A stock-taking of its implementation,* Final Report, European Commission, Brussels, December 2017. Available at: *https://ec.europa.eu/regional_policy/en/information/publications/studies/2018/clld-under-erdf-esf-in-the-eu-a-stock-taking-of-its-implementation*

STRAT-Board strategy fact-sheet:
*https://urban.jrc.ec.europa.eu/strat-board/#/factsheet?id=CZ-CLLD-157&fullscreen=yes*

4. There are even possible **links** to be made **with EU funds that are not in shared management,** but that are allocated on the basis of an EU-wide competition (Horizon Europe, LIFE, etc.). In this case the selection procedure is managed at the EU level, and the chances of obtaining funding can be lower.

Much depends on the national or regional rules for the EU funds and the setup of programmes. These decisions can determine for example which type of territorial instruments can be used for non-urban strategies, which funds can finance them and which combination of funds is possible. It is of utmost importance that such rules are developed in partnership with stakeholders at strategy level to make sure that the design of programmes and support measures available respond to local needs and available administrative capacity. Programme authorities should also envisage the necessary support activities for local actors to enhance their capacity to design and implement cross-sectoral strategies – such support can for example be financed with Technical Assistance of the relevant programmes.

# CHALLENGE 2: How to reduce the administrative burden for integrated territorial strategies

EU funding is often associated with **administrative complexity.** This is partly due to the multiplicity of objectives and funding sources, combined with the need to ensure accountability and transparency of spending EU money. However, further complexity is often introduced at national or regional level, where managing authorities design eligibility rules that are more restrictive than those at the EU level, or complex procedures are put in place involving multiple checks for fear of an audit and control (this practice is sometimes called '**gold plating**'). With territorial instruments such as ITI or CLLD, there is also the additional complexity resulting from multiple levels of decision-making. On the other hand, beneficiaries of these territorial instruments, especially in non-urban areas, are often small-scale local actors (individual producers, SMEs, community associations) that can become discouraged or disorientated by detailed eligibility criteria and elaborate administrative procedures.

There are several opportunities to reduce the administrative burden when using European funding in the implementation of integrated territorial strategies. The cohesion policy regulations of the 2021–2027 period foresee a long list of **simplifications.** The Commission's Simplification Handbook[88] lists no fewer than 80 simplification measures. Broadly speaking these measures cover the following: simplifications of the legal framework and the policy framework for easier programming; fewer, more strategic conditions; faster and more strategic programming; simpler territorial tools; simpler implementation; simpler and more proportionate management, control and audit; simpler financial instruments; streamlined monitoring and evaluation; and a single integrated framework for Interreg (European Commission, 2018).

When considering simplification, it is important to specify who will benefit from it. Sometimes simplification at programme level means that the administrative burden is simply transferred to the local level, i.e. strategy owners or project promoters. Managing authorities should design delivery rules in consultation with the territorial actors to ensure a **genuine simplification** for all governance levels.

*Be careful!*

## Simplified Cost Options

One of the key measures of reducing the administrative burden of territorial strategies is the use of **Simplified Cost Options** (SCOs). SCOs can greatly facilitate access to EU funding for small local actors and enable them to focus more on the achievement of objectives than on paperwork. At the same time, SCOs can help managing authorities address two key concerns: the fear of errors and the high workload linked with checking applications and payment claims. Under SCOs, the relevant programme authority defines up-front how much funding can be granted for certain types of operations or costs, and project promoters don't need to document the real costs – they just need to demonstrate they have completed the project and/or reached specific outputs or results.

88 *https://ec.europa.eu/regional_policy/en/information/publications/factsheets/2018/simplification-handbook-80-simplification-measures-in-cohesion-policy-2021-2027*

In the 2021–2027 programming period SCOs are obligatory for projects under EUR 200 000 (unless support involves state aid)[89] and can include financing not linked to costs, unit costs, lump sums and flat-rate financing[90]:

- **Lump sums** involve a fixed amount of funding linked with a specific output, e.g. a study or a seminar. If the project output meets predefined criteria, the beneficiary gets the grant without showing detailed calculation of its costs or demonstrating expenditure.
- **Unit costs** establish how much funding can be allocated per specific unit (e.g. per participant trained) so that the total grant can be calculated by checking only how many participants were trained without looking at the actual costs of lecturers, meeting rooms, etc.
- In **flat rates** the funding eligible for certain parts of a project are calculated in relation to another part of the project, e.g. indirect costs or staff costs can be calculated as a percentage of other types of costs, in which case the beneficiary does not have to prove the part of costs covered by the flat rate.

The calculation of costs for an SCO scheme can be based on statistical data, expert judgement, usual accounting practices or historical data from previous projects, or by using rules of similar schemes used in national policies or EU funding. A very useful method of calculating SCOs is the use of a **draft budget** presented by the applicant and agreed upon by the body selecting the operation. If the costs in the draft budget are eligible and reasonable, the beneficiary must demonstrate only that the project has been correctly completed and reached the outputs/results envisaged, without the need to present and verify the real expenses. Managing authorities can also use **'off the shelf' SCOs,** i.e. calculation methods already defined in EU legislation[91] – this helps avoid the calculation methods being questioned by auditors.

Finland has gained experience in using draft budget for projects under EUR 100 000 already in 2014–2020. The cost of a project is decided upfront, based on clear objectives to be achieved. Once these objectives are met (which can be proven with a simple picture) the entire cost is paid. This makes the paying process simple, easy and fast (Vaissalo, 2019).

*Learning from practice*

### SIMPLIFIED COST OPTION IN FINLAND

The lump sum cost option based on a draft budget was included in the Finnish Rural Development Programme 2014–2020. In 2018, the first such project was funded. By the end of 2019, over 150 projects were implemented with a draft budget SCO. This option was welcomed, especially for CLLD projects that are often small.

The planning of the project is the same as for a project where the eligible costs are actually incurred. A project plan must be clear and the application form filled in

89 Regulation (EU) 2021/1060, Article 53

90 The explanation of SCOs in the following paragraphs is adapted from the FARNET Guide on 'Delivering CLLD effectively', *https://webgate.ec.europa.eu/fpfis/cms/farnet2/library/farnet-guide-19-delivering-clld-effectively-guide-emff-managing-authorities_en.html*

91 Article 54 of Regulation (EU) 2021/1060 envisages the following off-the-shelf flat rates: for **indirect costs of an operation,** at up to 7 % of eligible direct costs, or up to 15 % of eligible direct staff costs; **direct staff costs of an operation** can be calculated at up to 20 % of other (non-staff) direct costs; **non-staff related direct costs** can be calculated at up to 40 % of eligible direct staff costs of the operation.

carefully. Beneficiaries must be sure to implement the project as planned because changes are not possible in lump sum projects. The draft budget is evaluated case by case (this is different from an off the shelf lump sum cost option). The reasonableness of the costs is verified in the project application.

The paying process in a lump sum project is very easy. There is a short application form for payments. The grant may be paid in 3 instalments and every milestone/step is verified with a specific outcome. Each project has a final report where the outcome is verified with pictures, YouTube–links, etc. The last instalment may be paid when the last part is finished as planned.

One example is the municipality of Sonkajärvi that has developed the cultural- and outdoor trail of Sukeva. Many development projects had been completed before, but the current project aim was to make better use of the trail by purchasing info-signs and constructing two small bridges. The aid granted for this project was EUR 5150. The project only consisted of one part and the payment was applied in one instalment. All that was needed was a photograph and a short report after the project was completed.

**For more information**

Vaissalo, K., Experiences on implementing the lump sum (draft budget) cost option in Finland, 2019. Available at: *https://enrd.ec.europa.eu/sites/default/files/tg9_smart-villages_simplified-cost-options_vaissalo.pdf*

In CLLD, a type of cost that is fairly standardised and well documented is the **running and animation costs of the LAGs.** Managing authorities already experimented with SCOs in running costs in the 2014–2020 period – for example the ‘off the shelf’ option of indirect costs as 15 % of direct staff costs in the LAG. In Poland, the EAFRD managing authority introduced a more advanced system of flat rates for LAG running costs based on real costs from the 2007–2013 period[92]. The use of such SCOs has greatly helped reduce the administrative burden for LAGs and leave more time for community outreach and animation.

## Supporting small-scale beneficiaries

Indeed, LAGs implementing CLLD can play a big role in **supporting beneficiaries to deal with administrative complexity.** They can help them not only in finding the most appropriate funding source, but also in filling the application form and later in implementing the project and meeting the reporting obligations. A good example is the LAG Tirol with a ‘one-stop-shop’ approach for beneficiaries (Servillo, 2017). The Tirol managing authority is in charge of three funds (EAFRD, ERDF, and CBC-ERDF), which supports the Austrian LAGs of the Austria-Italian border region (for more information on the governance structure, see Chapter 3, Governance). The Tirol managing authority managed to unify the procedure for all the Funds, and to simplify the procedures for the LAGs at the local level. Since the integration of the different funds is operated at regional level, the LAGs have only one interlocutor for the financial implementation of the projects.

92 For a step-by-step description of how the SCO was calculated and set up by the Polish MA, see: *https://enrd.ec.europa.eu/sites/enrd/files/w3_scos-leader_factsheet4_0.pdf*

Another way of simplifying access to funding for small-scale beneficiaries is to implement **'umbrella projects'** – a package of small operations that from an administrative perspective are treated as a single project. Umbrella projects have been used for example in Austria, where LAGs can use up to 5 % of their total budget for small lump sum grants up to EUR 5700[93].

Small scale actors often have difficulties in finding sufficient cash to complete the whole operation, make payments and wait for reimbursement; some managing authorities introduce various forms of **advance payments** or **payments in instalments** (where reimbursement can be made once a specific part of the project is completed).

In addition, well-designed **online application and decision-making systems** and, more generally, **e-governance** in the management of support programmes also has the potential of reducing the administrative burden on beneficiaries and national and regional administrations.

## The Lead Fund in the 2021-2027 programming period

The administrative burden can be particularly heavy for local actors if the **territorial strategy is multi-funded** (Jasińska-Mühleck, 2020). LAGs and beneficiaries may have to comply with a different set of rules, reporting requirements and time frames for each fund. To address this issue, the idea of the **Lead Fund** (already present, in a limited form, in the 2014–2020 programming period) was further developed in the 2021–2027 period.

Even though the EAFRD is no longer included in the rules of the Common Provision Regulation (CPR), an exception is made for bottom-up local strategies under CLLD. The rules established for CLLD in the CPR also apply to CLLD funded under EAFRD (i.e. LEADER/CLLD). This ensures a common legal basis for local development strategies.

When a CLLD strategy is supported by multiple funds, the CPR stipulates that programme authorities **may choose one of the funds concerned as the Lead Fund.** While respecting the scope and the eligibility rules of each fund involved in supporting the strategy, the rules of the Lead Fund shall apply to that strategy. The authorities of other funds shall rely on decisions and management verifications made by the competent authority of the Lead Fund.

In practice, this means that the day to day management (including procedures of carrying out eligibility checks, grant and payment decisions, controls, possible corrections/penalties) will follow the rules of the Lead Fund, while the other contributing funds' rules will only apply to the definition of scope and eligibility of what can be funded, collecting data for monitoring and payments. The Lead Fund will handle all contacts with LAGs and beneficiaries, except for making payments.

The implementation of the Lead Fund in practice will require very good **communication and trust** between managing authorities of the funds concerned. The CPR stipulates that the managing authority of the Lead Fund shall provide

93 *https://www.rederural.gov.pt/centro-de-recursos/send/51-enrd-seminar-leader-acting-locally-in-a-changing-world/889-the-austrian-approach-to-leader-implementation-and-delivery*. See also a report from managing authorities' discussion about the potential of umbrella projects in LEADER: *https://enrd.ec.europa.eu/sites/default/files/w7_umbrella-projects_report_160215_0.pdf*. More information about simplification in LEADER can be found here: *http://elard.eu/wp-content/uploads/2020/04/Simplification-practice-in-LEADER-CLLD-final.pdf*.

the authorities of other funds with information necessary to monitor and make payments in accordance with the rules set out in the Fund-specific Regulations (CPR, article 31.4-6).

These provisions, if taken up by Member States, can significantly reduce the administrative burden for LAGs and beneficiaries, who will no longer have to deal with different managing authorities and follow separate rules for each type of project.

# CHALLENGE 3. How to combine different EU and national funds in an integrated strategy

Since funds and programmes are generally set up to support a specific target community (for example EMFF for fisheries communities, EAFRD for rural communities) or type of investment (ERDF and CF for infrastructure and business support and ESF for training and inclusion), an integrated strategy may need a combination of programmes and funds[94].

**Support from multiple funding sources has several advantages.** It can enlarge the financial basis of a strategy. In other words, a strategy can be more ambitious if there is more funding. Given that funds have their own type of beneficiaries, including different funds can also increase the involvement of different stakeholders in the strategy.

However, combining various funds in one strategy can be challenging for both programme authorities and for local actors because it means different rules to adhere to, monitoring systems to set up and increased coordination between different government actors in decision making and implementation. More examples about coordination at different governance levels can be found in the Chapter 3, Governance.

## Combining several funds in a single strategy

When we look at the 2014–2020 programming period, we see that in many Member States, e.g. Poland, Czech Republic, Finland, France, Germany, Greece, Italy[95], multi-funding is already present at programme level, which means that several funds (often ERDF and ESF) are part of the same programme and are managed by the same managing authority. Where this is not the case, multiple funding sources almost always means that the owners of a territorial strategy will have to deal with various ministries and managing authorities.

From STRAT-Board, we learn that in the 2014–2020 programming period almost half of all CLLD strategies funded by EU cohesion policy funds[96] were supported by two funds and 43 % even by three funds. For ITI strategies, there appears to

*Learning from data*

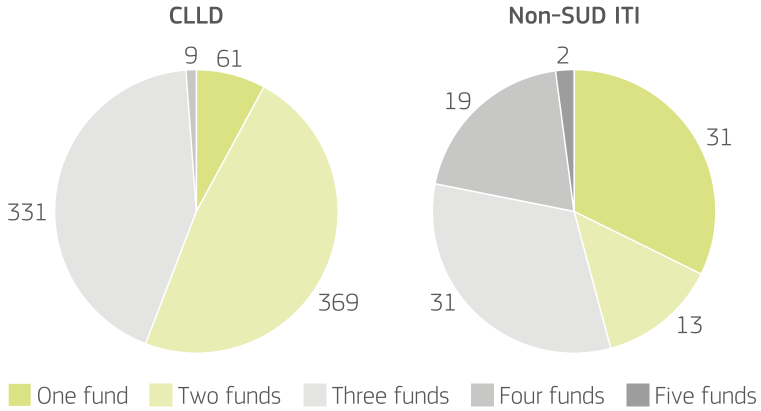
94 According to Article 25.2 of Regulation (EU) 2021/1060, even though a cross-financing provision for ERDF and ESF+ allows the former to support ESF-type soft measures and the latter to support ERDF-type infrastructure to a certain threshold.

95 It is possible to navigate across the operational programmes here: *https://ec.europa.eu/regional_policy/en/atlas/programmes* and here: *https://ec.europa.eu/esf/main.jsp?catId=576&langId=en*

96 Servillo (2017) found that the vast majority of CLLD strategies (at least 2 000 strategies) in the 2014–2020 programming period received support from a single fund – usually the EAFRD and EMFF. These EAFRD and EMFF supported strategies are not included in the STRAT-Board database.

be a tendency to either be mono-funded and only combine different thematic objectives, or on the contrary, to combine three or four different funds[97].

**FIGURE 4.** Number of non-SUD (Sustainable Urban Development) CLLD and ITI strategies per number of funds used in the 2014–2020 programming period.




**Source:** STRAT-Board, JRC.

**Coordination at programme** level is always recommended **to ensure coherence between strategic objectives, achieve synergies and facilitate learning** between managing authorities. However, such coordination is absolutely crucial when local strategies are multi-funded. In the case of multi-funded CLLD, the CPR explicitly requires that the selection of strategies and the monitoring committees of the funds involved be harmonised. A possible solution to facilitate coordination is to appoint a dedicated agency or department at national or regional level for managing the different funds. A publication by the European Commission's Directorate-General for Regional and Urban Policy (DG REGIO) on 'Scenarios for Integrated Territorial Investments'[98] describes possible arrangements for four ITI strategies in detail.

Particularly relevant for non-urban territorial strategies is the combination between EAFRD and cohesion policy funds. There are examples where EAFRD is combined with ERDF and ESF in an ITI strategy, as in the case of the ITI Castilla-La Mancha in Spain. There is also the possibility of having a CLLD strategy supported by the EAFRD and cohesion policy funds, as in the LAG Nad Orlicí in the Czech Republic. Finally, a CLLD strategy can be complemented by other funds (on a project-by-project basis) for more large-scale investments that are not possible under CLLD, either as part of a formal ITI or not.

*Learning from practice*

### INTEGRATED TERRITORIAL INVESTMENT (ITI) OF CASTILLA-LA MANCHA (SPAIN)

The ITI of Castilla-La Mancha pursues the socio-demographic recovery of the sparsely populated and declining rural areas of the region. The ITI integrated different ESIF programmes managed at regional level, namely the ERDF, the ESF and the EAFRD.

97 However, there are strong national differences, e.g. Greece, the Netherlands and Lithuania have CLLD strategies mono-funded with ERDF or ESF, while in Czech Republic, Germany, Poland, Portugal and Sweden most CLLD strategies use three funds. Similarly, non-urban ITI strategies in Germany, France and Slovakia use exclusively ERDF, while in Italy the majority of ITI strategies use three funds, in Portugal four funds, and the single non-urban ITI strategy in Romania even five funds.

98 *https://ec.europa.eu/regional_policy/en/information/publications/reports/2015/scenarios-for-integrated-territorial-investment*

The strategy fosters an entrepreneurial culture in the business environment and among local producers through the promotion of new economic activities. The three pillars of the strategy are: digital infrastructure and digital service innovation, new employment opportunities and the sustainable use of natural and cultural resources.

The Castilla-La Mancha ITI has its own governance structure, based on two main actors: a Planning, Coordination and Monitoring Committee at the regional level (which gathers all ESIF management bodies and relevant sectoral actors) and five Territorial Subcommittees, one in each of the five provinces with ITI target areas. The Subcommittees gather local representatives, organisations representing socio-economic interests and other institutions such as the regional university.

The strategy did not have multi-fund calls for projects, but there was ex ante coordination in the definition of the calls, and ex post coordination in monitoring and follow-up between the different funds. This has led to:

- Calls that are better adapted to the nature, challenges and capacities of the ITI targeted territories.
- Territories that benefited in practice from a multi-fund approach.
- Higher awareness and capacity of local actors in ITI areas to take advantage of ESI Funds targeting their territories.
- More participation from communities/beneficiaries that do not usually have access to the ESI Funds.

The perception gathered with the managers of the Funds (ERDF, ESF, EAFRD) suggests that the real added value of the ITI lies in the change it has brought about in the way of working together under the umbrella of an integrated strategy.

**For more information**

Paton, J., Analysis of the ITIs effectiveness in Spain (2014-2020), Infyde, European Commission Directorate-General for Regional and Urban Policy, 2020. Available at: *https://iti.castillalamancha.es/sites/iti.castillalamancha.es/files/2020-03/ITI_E3_FINAL_Report_Spanish_Version-CLM.pdf*

ITI Castilla-La Mancha website: *https://iti.castillalamancha.es*

STRAT-Board strategy fact-sheet:
*https://urban.jrc.ec.europa.eu/strat-board/#/factsheet?id=ES-128&fullscreen=yes*

## New EU funds

In the 2021–2027 programming period two new European funding sources are available for integrated territorial strategies.

First, there is the **Just Transition Fund (JTF)**[99], which also falls under the CPR and has similar programming and management rules as for example the ERDF, though with a different eligibility scope. The aim of this fund is to address the social, economic and environmental costs of the transition to a climate-neutral economy. Fighting climate change will benefit all in the long term. However, not all regions and Member States start their transition from the same point or have the same capacity to respond. Some are more advanced than others, and the transition

99 Regulation (EU) 2021/1056

entails a wider social, economic and environmental impact for those regions that rely heavily on fossil fuels for energy use or greenhouse gas intensive industries.

Member States should make territorially just transition plans for the territories most negatively affected, where JTF support should be concentrated. It must be noted that these same territories can also be targeted by territorial or local development strategies. Such plans should describe specific actions to be undertaken to reach the EU's 2030 targets for energy and climate and a climate-neutral EU economy by 2050. In particular, this concerns the conversion or closure of facilities involving fossil fuel production or other greenhouse gas intensive activities. Such plans can be a stand-alone programme or a dedicated priority in programmes supported by the ERDF, the ESF+ or the Cohesion Fund[100].

Second, there is the **Resilience and Recovery Facility (RRF)**[101] that can provide both grants and loans. The aim of this Facility is to support Member States in their recovery from the COVID-19 pandemic. To receive a financial contribution, Member States had to prepare national recovery and resilience plans[102]. Those plans set out the reform and investment agenda of the Member State concerned. In some cases, the plans pay particular attention to non-urban areas, and can be used to finance integrated territorial strategies. For example, the Italian plan invests in the regeneration of small historical towns (*borghi*), rural areas and minor islands, supporting cultural heritage and sustainable tourism with measures aimed at balancing tourist flows, counteracting over-tourism and increasing environmental and social sustainability. In particular, the actions targeting small towns will be implemented through a national instrument (*Piano Nazionale Borghi*) and will be structured around local integrated projects.[103]

So in the 2021–2027 period some non-urban territories will be covered by a JTF plan and in many non-urban territories large-scale investments from the RRF will take place. This means that much more financial support might be available for these non-urban territories. It also increases the **need for co-ordination between ministries at national or regional level and between higher and lower levels of government** to support coherent integrated strategies that make the most of the **complementarity between these funding sources.**

## Strategically managing multiple EU funds at national level

One way of ensuring complementarity of EU funds is to set up a **clear demarcation between the different sources of funding.** The European Institute for Public Administration (EIPA) identifies four possible ways for national authorities to ensure this at a strategic level: **thematic delineation,** territorial demarcation,

100 More information on the JTF can be found at *https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism/just-transition-funding-sources_en*

101 Regulation (EU) 2021/241

102 Recovery and resilience plans that are eligible for financing under the Facility shall comprise measures for the implementation of reforms and public investment through a comprehensive package. Such plans should be consistent with European-level recommendations and policies such as the European Semester, the National Energy and Climate Plans, the territorial just transition plans, the Youth Guarantee implementation plans and the partnership agreements and operational programmes under the Union funds. More information on the RRF and the national recovery and resilience plans are available at *https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en#national-recovery-and-resilience-plans*

103 *https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility/italys-recovery-and-resilience-plan_en*

different types of beneficiaries, different time horizons. For thematic delineation, it is possible to make a distinction at national level between investments supported by one or the other fund. In Wallonia for example, the RRF will finance state-of-the-art training infrastructure, while ESF+ will focus on training in the very specific fields of biotechnology and health. In the French recovery plan there is an example of **territorial demarcation,** because the RRF will focuses on soft mobility in rural areas while the ERDF finances sustainable mobility in urban areas. An example of a **demarcation between beneficiaries** is the German plan where energy efficiency of residential buildings is supported with the RRF and energy efficiency in non-residential buildings is supported through the ERDF. Finally, as an example of the **time dimension,** Portugal foresees supporting initial investments in the hydrogen sector with the RRF but intends to follow up with the EU cohesion policy (Lopriore, 2022).

However, it is important to remember that **demarcation alone does not ensure complementarity.** Demarcation helps to make sure the same project cannot be financed from different funding sources, and can sometimes be useful to avoid overlapping responsibilities. On the other hand, complementarity is more than avoiding overlaps: it also involves a shared understanding of the objectives of each funding source, clarity of who does what, harmonised responses to questions from beneficiaries and joint problem-solving.

The example of Halki shows that different funding sources can be combined **at national level** to achieve complementarity in supporting an ambitious territorial strategy.

*Learning from practice*

**HALKI, THE FIRST GR-ECO ISLAND (GREECE)**

The GR-eco islands national initiative aims to transform the small Greek islands into models of clean energy transition, green economy, energy self-sufficiency and digital innovation. This is pursued through targeted interventions and adapted programmes of the Ministry of Environment and Energy and other responsible ministries under the umbrella of the National Energy and Climate Plan.

The small island of Halki in the south-eastern Aegean is the first island to benefit from this initiative. It has a permanent population of around 500 and is powered mainly by diesel generators installed on neighbouring Rhodes island.

The Greek ministry for the Environment and Energy will oversee the project, which also involves the Embassy of France in Greece, the Region of South Aegean (responsible for permit granting), the municipality of Halki (which has established the Energy Community 'ChalkiON') and several French and Greek companies that will carry out the investments in a photovoltaic system meeting the island's energy demand. They will also donate electric vehicles to the police, the coastguard and the municipality. Smart management systems for public lighting and innovative telecommunication services based on the deployment of 5G and broadband networks will be installed.

The transformation of Halki into a green island will save around 1.800 tonnes of $CO_2$, while the estimated annual savings on the electricity bills of the municipality and residents will amount to EUR 180.000–250.000 (depending on the electricity prices). The residents will have improved access to digital services and the island will be able to attract more eco-friendly tourists.

The GR-eco islands is an example of an initiative that could take the form of an ITI and be funded through ERDF, JTF, RRF, or a combination of these (at the time of writing a decision on the funding mechanisms had not yet been taken).

**For more information**

European Commission (EC), 'Gr-eco Islands: Turning Greek Islands into models of green and sustainable development', EC News, 15 June 2022. Available at: *https://clean-energy-islands.ec.europa.eu/news/gr-eco-islands-turning-greek-islands-models-green-sustainable-development*

## Combining EU with other public and private funding sources

Territorial strategies always need **additional resources beyond EU funds.** There are several reasons for this. Some investments are an integral part of the strategy but can be outside the scope of EU funds. It is also possible that certain investments fall within the scope of EU funds, but there are other limitations such as the amount of funding available and the eligibility of territories or beneficiaries. And sometimes national or regional funding sources are more easily accessible, with fewer administrative requirements than EU cohesion policy funding.

Another reason is that, as a rule, cohesion policy funding never finances 100 % of investments. This means that a project – and therefore a strategy – always needs a part of **local, regional or national co-financing** to complement the EU funding. The rationale for this is to raise accountability and a sense of ownership of the programme from authorities and local actors. In addition to national public co-funding, the beneficiaries of projects usually must contribute **private match-funding** (especially in case of productive projects).

The importance of domestic resources in a strategy increases when the EU co-financing rate is lower. This is the case for the more developed regions of the EU. This means that other sources should fill this financing gap. This is often a challenge for project promoters and local authorities. Here support from regional or national authorities can step in. Some regions have a dedicated co-financing fund that can structurally provide co-financing for EU projects. In other cases this is done more on an ad-hoc basis.

The table below shows an overview of the different funding sources dedicated to the Strategisch Actieplan voor Limburg in het Kwadraat (SALK) ITI in Belgium. Next to the contributions from the ERDF and ESF programmes, the Flemish Region supported the strategy with funding and loans, as did the provincial authorities and the city of Genk.

**TABLE 4.** Funding sources of the SALK ITI in Belgium.

| Resources | | Planned expenditure |
|---|---|---|
| **Flemish resources** | SALK-provision (CBO/1CB-X-2-A/PR) | 24 000 000 Euro |
| | Hermes fund | 57 907 200 Euro |
| | Loan facility | 100 000 000 Euro |
| **European resources** | ERDF | 43 300 000 Euro |
| | ESF | 26 700 000 Euro |
| **Other resources** | City Genk | 20 000 000 Euro |
| | Province Limburg | 50 000 000 Euro |
| **TOTAL** | | **321 907 200 Euro** |

**Source:** SALK Taskforce, SALK Evaluatie, 11 December 2015 (own translation).

Ideally, domestic funding should be assured at the level of the whole strategy – as in the case of the Limburg ITI above. In some cases, regional or local authorities might decide to provide **co-financing on a project-by-project basis,** but this should be avoided as it **can create additional barriers for project promoters** who might have to prepare two separate applications (one for the EU funding and the other for the regional or local co-financing). In addition, the authority that provides the funding might be tempted to prioritise projects in line with the short-term political agenda, rather than those that can best contribute to the long-term objectives of the integrated strategy.

*Be careful!*

### USEFUL RESOURCES ON MULTI-FUNDED CLLD STRATEGIES

The report on **'CLLD under ERDF/ESF in the EU: A stock-taking of its implementation'** was commissioned by DG REGIO and the Commission's Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL) in 2017 to assess the initial state of play of programming CLLD under ERDF and ESF in the 2014–2020 period by ERDF and ESF. It describes the different configurations of funds in different Member States and analyses the overall figures, the financial articulation and the scope of the local strategies. Nine case-studies are further analysed.

The report concludes that from a European perspective the uptake of CLLD in the ERDF and ESF can be considered a success: 44 programmes in 18 Member States in the 2014–2020 period supported close to 700 CLLD local strategies. However, this uptake is rather unequal in Europe where many EU13 Member States[104] seem to be more willing to experiment with multi-funding than EU15 Member States. The case-studies showed that there is a bigger administrative burden when combining multiple funds.

*Additional resource*

104 The EU-13 Member States are the 13 countries that joined the European Union in 2004: Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia. The EU-15 Member States are the countries that were already part of the European Union before 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom.

A more recent report of a study carried out for DG EMPL and published in 2022, **'The ESF and community-led local development: Lessons for the future'** shows how CLLD under ESF has been implemented so far and provides recommendations for the future.

The uptake and expansion of CLLD in the ESF between 2014–2020 responded to the need for integrated, locally developed solutions to address a wide range of local problems relating to employment, social inclusion and poverty reduction. While the use of CLLD was at Member States' discretion, ESF funding opened up for LAGs a broader range of eligible themes, target groups and projects. CLLD at local level was particularly effective where LAGs had previous experience of CLLD with other funds and/or where the managing authorities provided them with additional support.

**For more information**

Servillo, L., *CLLD under ERDF/ESF in the EU: A stock-taking of its implementation,* Final Report, European Commission, Brussels, December 2017. Available at: *https://ec.europa.eu/regional_policy/en/information/publications/studies/2018/clld-under-erdf-esf-in-the-eu-a-stock-taking-of-its-implementation*

ICF, The ESF and community-led local development: Lessons for the future, Publication Office of the European Union, 2022, Luxembourg. Available at: *https://ec.europa.eu/european-social-fund-plus/en/publications/esf-and-community-led-local-development-lessons-future*

# CHALLENGE 4: How to benefit from other sources of support

Next to grants for projects from EU and national/regional funds, there are other ways to support the implementation of a territorial strategy. This not only encompasses access to other sources of finance but also in-kind support[105].

To understand the availability of other sources in greater detail, this section takes a closer look at the following solutions:

1. Financing instruments of the European Investment Bank and the European Bank for Reconstruction and Development.
2. Commercial bank loans and private investments.
3. Specialised financial institutions and citizen-led investments via crowdfunding.

## Financing instruments at the EU level: EIB and EBRD

The **European Investment Bank** (EIB) and **European Bank for Reconstruction and Development** (EBRD) play a prominent role in the **financing and technical support to municipalities.**

The EIB has a wide range of financing instruments for local and regional governments based on their investment needs: framework loans, investment loans, intermediated loans and equity funds. An important part of EIB lending is also

105 For an example of in-kind support, see the example on Gr-eco islands in Challenge 2.

its support for European Structural and Investment Funds (ESIF) projects through the financing of a share of the national co-financing obligations. Moreover, EIB acts as a fund or fund manager on behalf of EU managing authorities wishing to implement financial instruments in shared management. Through its structural programme loans and regional/urban framework loans, the EIB has also found ways to target regions and local authorities of different sizes in an integrated and place sensitive multi-sector investment approach.

For smaller-scale projects, **National Promotional Banks** often act as financial intermediaries for EIB Group investments. They channel EIB loans to businesses and collaborate with the European Investment Fund (EIF) in the implementation of its guarantee or equity mandates.

Support that international institutions can bring is not only financial. The **European Investment Advisory Hub** is a great example of technical assistance. As a single point of entry to a comprehensive offer of advisory services and technical assistance, it helps regions to identify, prepare and develop investment projects across the European Union[106].

EBRD's contributions are also sizable. With an average investment of EUR 25 million, project finance ranges from EUR 5 million to EUR 250 million. The types of instruments range from loans to equity and guarantees. Under its Small Business Initiative, the EBDR also brings advisory services and other forms of support to local and regional projects. The 'Regional EU cohesion funds water co-financing framework' in Romania is a good example of EBDR's financial support of municipal and environmental infrastructure. It involved a EUR 200 million framework to co-finance projects in Romania's water and wastewater sector alongside EU Cohesion Funds[107].

A **useful tool to learn about Financial Instruments** under European Structural and Investment Funds (ESIF) is *https://www.fi-compass.eu*, providing a comprehensive overview on relevant financial instruments, case studies, news, learning videos and events. Country-specific information regarding the state of play of ESIF financial instruments is particularly insightful, enabling stakeholders to navigate easily through the information.

### EUROPEAN INVESTMENT BANK INSTRUMENTS

The following instruments can be useful when implementing territorial and local development strategies:

- **Structural Programme Loans (SPL).** SPLs blend loans and grants linked to EU policy and EU structural fund mechanisms. The structural funds are aimed at new investments complementary to funds provided by regions and countries. SPLs assist the regions and countries to find these additional resources and comply with the additional funds to implement their programmes.
- **Investment Loans.** The purpose is to arrange long-term financing on a project-basis. The EIB or other banks can provide dedicated project-specific loans used for single investments.

*Additional resource*

106 More information on the Advisory Hub is available at *https://advisory.eib.org/about/the-hub.htm*

107 *https://www.ebrd.com/work-with-us/projects/psd/regional-eu-cohesion-funds-water-co-financing-framework-r2cf.html*

- **Framework Loans.** These finance small and medium sized projects, usually in the size range of EUR 1-50 million, over a period of three to five years. Some local authorities and regions that benefit from ESIF use EIB framework loans to provide the co-financing requirement. The total size of the investment programme financed under a framework loan is usually over EUR 100 million, with the EIB framework loan providing up to 50 % of the total financing.

**For more information**

European Investment Bank – Loans: *https://www.eib.org/en/products/loans/index.htm*

Some of the main challenges in promoting the use of these sources of finance is the lack of qualified personnel and information gaps for their use. These challenges not only concerns the planning but also the implementation and follow-up phases of strategies. Partnerships of the EIB and commercial banks address these challenges by bundling EIB funding and commercial loans, as well as by providing advisory and in-kind support. The so-called *Belfius[108]/EIB Smart Cities & Sustainable Development programme* in Belgium is an example of a successful programme.

In Belgium, borrowers were able to **combine EIB funding and commercial loans,** saving them time in the research and application process via the Belfius/EIB Smart Cities & Sustainable Development programme[109]. More than 120 smaller Belgian municipalities sought loans via the programme between 2014 and 2018. The programme not only lowered the borrowing costs but also the administrative burden. Many Belgian Belfius bank branches participated. As a result, it is easier for borrowers to find a contact person in a local branch that understands the bespoke risk profile of the borrower and project. Moreover, learning was effectively disseminated via case studies in a dedicated magazine, online presence and other information material. Awards for successfully funded projects in Belgian regions helped other regions learn about best practice examples.

Recognising the need of local communities to receive systematic technical support before they can access investment finance, the European Island Facility helps islands in mobilising funding for energy transition from the bottom up. The objective is to make projects ready for external finance from various sources.

*Additional resource*

**NEW ENERGY SOLUTIONS OPTIMISED FOR ISLANDS (NESOI) EUROPEAN ISLAND FACILITY**

This European Commission's Horizon 2020 project benefits 2.400 inhabited islands across the EU. Its goals are to mobilise more than EUR 100 million investment in 60 sustainable energy projects to significantly reduce CO2 and GHG emissions by 2023.

The NESOI Facility provides training, technical support, cooperation opportunities and facilitates access to robust funding opportunities. It aims to create a one-

108 Belfius Bank & Insurance is a well-established Belgian retail and commercial bank providing financial services for the public and corporate sectors. It is wholly owned by the Belgian Government via the Federal Holding and Investment Company (SFPI). Its shares are not listed on a stock exchange.

109 *https://www.belfius.be/publicsocial/NL/Themas/Smart-Cities/index.aspx?firstWA=no*; *https://www.eib.org/en/projects/pipelines/all/20150899*; *https://www.eib.org/en/press/all/2016-039-deux-nouveaux-projets-intelligents-et-durables-a-silly-grace-au-programme-de-financement-de-belfius-et-la-bei-smart-cities-sustainable-development.htm*

stop-shop for islands to find ideas and effective organisational, technical and financial instruments for the whole value chain of a project. In addition, the consortium provides on-site technical assistance and fund-matching.

Activation of financial resources is at the heart of the project. Possible financial providers include investment funds, crowdfunding platforms, development banks and commercial banks. Financial models range from loan agreements to direct equity holding, public private partnerships, energy performance contracts and project bonds.

Among the outcomes of the project there is a report that gathers data regarding funding sources available in Europe for islands, identifies relevant financial models and creates a map of the most important financing opportunities for energy solutions on islands.

**For more information**

NESOI website: *https://www.nesoi.eu/content/nesoi-objectives*

Mapping of financial instruments:
*https://www.nesoi.eu/content/d15-mapping-financial-instruments*

## Dedicated financial instruments to facilitate local investment

Even where **beneficiaries** can access EU funding, they need resources for their **own contribution to projects,** and they may also need **bridging loans to finance the investment** until it can be reimbursed from the grant. To address this, the Bulgarian Fund for local authorities and governments reduced the administrative burden by granting smaller bridging loans and loans for own contribution in support of regional developments. Simplified procedures, short-term request processing and technical support facilitated more than 1300 loan agreements in many non-urban Bulgarian municipalities between 2009 and 2021.

### THE FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS (BULGARIA)

*Learning from practice*

Established in March 2007, the Fund for local authorities and governments is a state-owned instrument for regional development. It grants loans for project implementation to municipalities, associations and companies with municipal participation. It grants two types of loans to beneficiaries that implement projects financed by EU funds or other multi-donor arrangements:

1. Bridging loan – provides running capital for eligible costs, payments on projects with financial support from EU.
2. Loans for own contribution to projects.

Between 2009 and 2021 the Fund supported more than 200 municipalities, representing 25 % of the municipal debt in Bulgaria (excluding Sofia). It encompasses 1300 loan agreements for a total of EUR 1 billion, supporting projects for EUR 3.6 billion.

It is particularly relevant for non-urban municipalities as it helps borrowers reduce the administrative burden by means of simplified procedures, short-term request processing and technical support. Flexibility on financial instruments and competitive interest rates lower the borrowing costs and enable municipalities of different creditworthiness to access loans.

**For more information**

Project support, financed by EU OP funds: *https://www.flag-bg.com/en/?cid=10*

An overarching problem in the promotion and utilisation of other sources of finance is the **average project size.** It is generally easier to attract finance for larger projects, which are beyond reach of CLLD strategies. Coordination with other municipalities to bundle projects is one possibility to increase the project size. Yet this might provoke other practical problems to arise, such as deciding upon the roles in managing the overall project coordination.

**Debt ceiling regulations** are another challenge for local authorities. Such a regulation makes it more difficult to seek a loan. Another entry barrier to traditional finance is the inability to offer sufficient assets as collateral to secure the loan. The use of collaterals for loans is more complicated for public than for private actors. In Bulgaria, the fund for local authorities and governments took budgetary restrictions of municipalities into consideration when designing the loan instruments. This level of flexibility allowed municipalities of different credit worthiness to access loans. Technical assistance was also of tremendous help in making projects bankable in their context.

For energy-efficiency projects like building renovations, debt ceiling may be lowered by use of **Energy Service Companies** (ESCOs). ESCOs are not just energy consultants but also financiers of hardware instalment and maintenance. Their remuneration is linked to energy savings. The financing is often tied to energy savings achieved. Project owners thus also benefit from the technical and financial expertise of ESCOs in designing, implementing and following up on building renovations and other projects.

*Additional resource*

**TECHNICAL SUPPORT FOR INVESTORS IN ENERGY EFFICIENCY**

The Joint Research Centre (JRC) of the European Commission provides a comprehensive overview of the activities and development of Energy Service Companies (ESCOs) as part of the Scientific & Technical Reference System on Renewable Energy and Energy End-use Efficiency.

Another source of support is the H2020-financed Investor Confidence Project (ICP Europe) that assists investors in energy efficiency with templates, certifications and case studies. It is also a matchmaker platform for investors and projects. Bespoke expertise is provided for Germany, Bulgaria, Austria, Portugal and the UK. Ultimately, ICP Europe intends to build a marketplace for standardised energy efficiency projects, which would greatly facilitate access of such projects to the financial markets.

**For more information**

Energy Service Companies: *https://e3p.jrc.ec.europa.eu/node/190*

Investor Confidence Project Europe website:
*https://fedarene.org/investor-confidence-project-europe*

Some financial instruments require **special purpose vehicles (SPV).** An SPV is a subsidiary company that is formed to undertake a specific business purpose or activity. The aim is to isolate parent company assets, operations or risks. Such a set-up must be actively managed over a longer time-period. This entails annual audits and ongoing legal and management costs over the project life-cycle.

*Be careful!*

National and regional authorities can sometimes **encourage lenders to support local projects.** For example in the Spanish regions of Extremadura, Asturias and Galicia, the regional managing authorities negotiated with the local savings banks to develop special products for LEADER LAGs and their beneficiaries. In Extremadura and Asturias such negotiations were facilitated by the regional LAG networks. Financial products covered by such agreements included credit lines and guarantees for LAG running costs, bridging loans and other types of loans. In Galicia, small-scale grants were also available from the banks' social fund. In return, the banks required preferential treatment by the LAGs, for example through publicity, dissemination of information among beneficiaries, participation of the bank's representative in decision making, channelling the financial operations of the LAGs or LAG network through the bank etc.[110]

## Participatory forms of finance

Next to traditional financial instruments like bank loans and private investors, territorial strategy owners may also consider **participatory or citizen-led finance.** This may be a more feasible solution, especially for smaller-scale or non-public beneficiaries. Specialised (micro-)finance institutions and crowdfunding are the most popular sources of this type of finance. Examples of successful crowdfunding campaigns vary from football stadiums to social businesses, energy poverty alleviation programmes, energy communities, social housing and solar roofs amongst others. Revenue-generating investments such as energy-efficiency building renovations and solar roofs are particularly prone to this type of finance.

The **timing of a financial and operational project** does **not** always **coincide with the legislature period** of decision-makers. Some investment projects (for example linked with energy efficiency) can take up to 15 years.

*Be careful!*

**One of the many benefits of crowdfunding campaigns** and other participatory forms of fundraising **is citizen engagement.** Financial returns are shared with people living nearby. In the example below, the Croatian municipality of Križevci was able to finance and install solar roofs on administrative buildings without taking any debt. The roofs were fully financed by their citizens. Citizens benefited from the economic returns and took an active role in the rollout of clean infrastructure. It is a very effective form of engaging citizens in a proactive way and making them feel the ownership of projects and of territorial strategies.

110 More information: *https://webgate.ec.europa.eu/fpfis/cms/farnet/sites/default/files/documents/28290910_MAMEETING_UBS_example_Spain.pdf*

*Learning from practice*

### THE SOLAR ROOFS COOPERATIVE (CROATIA)

In 2014, citizens financed a 30-kW photovoltaic installation on an administrative building in Križevci via a cooperative. The municipality of approximately 21 000 inhabitants partnered with the energy cooperative Zelena Energetska Zadruga (ZEZ), the United Nations Development Program (UNDP) and others to finance and implement the project.

The solar roof primarily covers the building's own power consumption. Surplus is fed into the grid at pre-defined purchase prices. The owner of the building leases the photovoltaic installation from the cooperative, which buys, owns and maintains the hardware.

This was the first Croatian solar project primarily financed by citizens. Within ten days, 53 small investors invested into the project via a micro-loans model, ranging from EUR 130 to EUR 1 300. In return, citizens receive annual interest rates of 4.5% over a period of 10 years. The project's finances were set up under an SPV structure. Another positive effect was citizen engagement.

By opening the finances of the project to smaller investors, local citizens played an active role in fostering the rollout of renewables in their own community. This also created positive publicity for the municipality and its stakeholders.

ZEZ was established in 2013 as part of the project 'Development of Energy Cooperatives in Croatia' implemented by UNDP. Other important partners were the Regional Energy Agency North, Greenpeace Croatia, Solvis and ACT Group. Upon completion of the project, ZEZ continues to operate independently as an umbrella organisation for energy cooperatives in Croatia. The pilot project served as a means to disseminate learnings and generate efficiencies via a handbook and conferences. ZEZ is also part of Rescoop.eu, the European federation of energy cooperatives.

**For more information**

Crowd investing pilot project in cooperation with City of Križevci – group financing for photovoltaic power plant: *https://www.zez.coop/en/crowdinvesting-pilot-project-in-cooperation-with-city-of-krizevci-group-financing-for-photovoltaic-power-plant*

United Nations Development Program (UNDP), *Manual for the establishment of energy cooperatives in Croatia*, 2014. Available at: *https://www.zez.coop/en/manual-for-the-establishment-of-energy-cooperatives-in-croatia-2014*

Official website Rescoop: *https://www.rescoop.eu/network*

To navigate the emerging landscape of citizen-led financing and better understand it, a review of the underlying types of financing is useful. Different types of financing include amongst others:

- **Specialised financial institutions** such as credit unions, cooperative banks, charity banks, micro-credit organisations, etc. These are often managed in a participatory way (e.g. cooperative banks or credit unions) and usually offer more favourable terms and conditions for their loans than commercial banks do; they can take into account the specificity of the smaller-scale borrowers.
- **Cooperatives** – individuals join and democratically control an enterprise. They buy a cooperative share. Cooperative members share profits amongst themselves. The cooperative model is particularly popular for clean energy projects.

- **Donation-based crowdfunding** – people donate money. No returns are expected.
- **Debt-based crowdfunding** – people give small loans for projects, expecting financial returns. The type of loan sub-ordinate or ordinate varies per crowd-funding platform. This is particularly common for return-generating energy projects and loans to businesses.
- **Equity-based crowdfunding** – people invest in an equity and expect a return. Startups are typically financed via this model.

### EASTERN CANTABRIA LOCAL ACTION GROUP (SPAIN)

Primary producers, such as farmers or fishers, usually find it very difficult to access funding from classical financial institutions. Several initiatives across the EU have looked for ways to facilitate access to funding for fishing communities within CLLD funded from the EMFF. LAGs have teamed up with financial institutions to develop special products targeting fishers or other businesses in their area. The LAG's knowledge of the fisheries and business sector and the availability of LAG support in implementing the project were considered an important asset, which reduced the lenders' risk linked with financing small-scale operators, thus bringing down the cost of the loans.

In Spain, the Eastern Cantabria LAG has partnered with a local microcredit institution MicroBank, a social branch of the Caixabank, to help project promoters that do not have the standard profile that most banks demand in order to provide a loan. Through this partnership, the LAG can help community members secure the private match funding needed to complement the LAG grant as well as help those whose projects do not receive a grant.

This collaboration with MicroBank takes the form of a contract between the two organisations, whereby the FLAG:

- Provides MicroBank with the necessary knowledge on the applicant for microcredit.
- Assesses the viability and coherence of business ideas of would-be entrepreneurs and provides specialist advice necessary to draw up their business plan.
- Approves the feasibility of the project and writes the assessment report, mandatory to obtain a loan from MicroBank.
- Sends the application to MicroBank for final approval.

**For more information**

FARNET Good Practice Method on Cantabria:
*https://webgate.ec.europa.eu/fpfis/cms/farnet2/on-the-ground/good-practice/methods/flag-collaborates-microcredit-institution-support-new-local_en.html*

*Learning from practice*

## RECOMMENDATIONS

- Ensure that the budget and funding sources of a territorial strategy are determined primarily by the local needs and implementation capacity of the body in charge of the strategy.
    - Don't try to address too many needs with your strategy – choose your priorities in line with the available funding and a realistic assessment of where you can make a difference. However, avoid strategies that are purely driven by the funding rules.
    - Be well aware of your own capacity and experience in choosing a specific funding option to support an integrated territorial strategy (local and regional authorities can use the ABC Self-Assessment Instrument to assess their own administrative capacity).
    - Use the opportunities of capacity building offered by specialised regional, national and EU bodies.
- Make use of the new EU cohesion policy options for a simplified support to integrated territorial strategies:
    - Use the specific objective under Policy Objective 5 to support integrated non-urban strategies also within a programme supported by a single fund.
    - Use the broad scope of other policy objectives to support integrated territorial strategies.
    - Use the available territorial tools to implement integrated strategies with the support of different funds and programmes.
- Make sure the local level benefits from the envisaged simplification measures; in particular.
    - Make use of a wide range of simplified cost options.
    - Consider the possibility of introducing other forms of simplification for local actors, for example umbrella projects, advance payments or payments in instalments.
    - In case of multi-funding, make use of the possibilities of the Lead Fund.
- When allocating funding for integrated territorial strategies, take into account the need for critical mass necessary to address needs and make a difference in the area. To reach this, managing authorities can also look beyond the EU cohesion policy.
    - EAFRD, the new JTF and the RFF may offer additional European funding opportunities.
    - Local, regional or national funding is normally used for co-financing EU projects, but may also be an option if needed investments fall outside of the scope of available EU funds, if the EU funds have limits on eligibility or if national programmes are easier to access.
    - Managing authorities should allocate national or regional public co-financing to the strategy as a whole, rather than on a project-by-project basis.
    - Where possible, managing authorities should facilitate access of local level actors to additional sources of funding (e.g. by providing guidance and technical support etc.).

- Partnerships of the EIB and commercial banks can effectively address the particular needs of regions by.
    - Intermediating smaller loans in simplified procedures.
    - Providing technical assistance in making projects bankable.
    - Combining EIB funding and commercial loans, lowering the administrative burden of finding and applying to support schemes.
- Local strategy owners shouldn't limit their search for funding to the main-stream financial institutions – they can also involve micro-finance institutions, credit unions, cooperative banks, etc.
- Involving citizens in the finance of regional projects, for example via crowd-funding, can bring benefits by.
    - Effectively communicating projects and territorial strategies to their citizen and engaging them actively in the process.
    - Making local actors less dependent on bank loans and other commercial sources of finance.

# REFERENCES


European Commission (EC), *Simplification Handbook – 80 simplification measures in cohesion policy 2021-2027,* Brussels, 2018. Available at: *https://ec.europa.eu/regional_policy/en/information/publications/factsheets/2018/simplification-handbook-80-simplification-measures-in-cohesion-policy-2021-2027*

European Commission (EC), 'Gr-eco Islands: Turning Greek Islands into models of green and sustainable development', EC News, 15 June 2022. Available at: *https://clean-energy-islands.ec.europa.eu/news/gr-eco-islands-turning-greek-islands-models-green-sustainable-development*

ICF, *The ESF and community-led local development: Lessons for the future,* Publication Office of the European Union, Luxembourg, 2022. Available at: *https://ec.europa.eu/european-social-fund-plus/en/publications/esf-and-community-led-local-development-lessons-future*

Jasińska-Mühleck, K., *Simplification possibilities of LEADER and multi-funded CLLD post-2020,* presentation at the European Week of Regions and Cities, 14 October 2020. Available at: *https://webgate.ec.europa.eu/fpfis/cms/farnet2/sites/default/files/simplifying-delivery-karolina-jasinska-muehleck.pdf*

Lopriore, M., *Recovery plans and structural funds: how to strengthen the link?,* European Institute for Public Administration (EIPA), Briefing, February 2022. Available at: *https://www.eipa.eu/publications/briefing/recovery-plans-and-structural-funds-how-to-strengthen-the-link*

Organisation for Economic Cooperation and Development (OECD), Strengthening Governance of EU Funds under Cohesion Policy: Administrative Capacity Building Roadmaps, OECD Multi-level Governance Studies, OECD Publishing, Paris, 2020. Available at: *https://doi.org/10.1787/9b71c8d8-en*

Paton, J., *Analysis of the ITIs effectiveness in Spain (2014-2020),* Infyde, European Commission Directorate-General for Regional and Urban Policy, 2020. Available at: *https://iti.castillalamancha.es/sites/iti.castillalamancha.es/files/2020-03/ITI_E3_FINAL_Report_Spanish_Version-CLM.pdf*

Servillo, L., *CLLD under ERDF/ESF in the EU: A stock-taking of its implementation,* Final Report, European Commission, Brussels, December 2017. Available at: *https://ec.europa.eu/regional_policy/en/information/publications/studies/2018/clld-under-erdf-esf-in-the-eu-a-stock-taking-of-its-implementation*

United Nations Development Program (UNDP), Manual for the establishment of energy cooperatives in Croatia, 2014. Available at: *https://www.zez.coop/en/manual-for-the-establishment-of-energy-cooperatives-in-croatia-2014*

Vaissalo, K., *Experiences on implementing the lump sum (draft budget) cost option in Finland,* 2019. Available at: *https://enrd.ec.europa.eu/sites/default/files/tg9_smart-villages_simplified-cost-options_vaissalo.pdf*