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Special report

Durability in rural development

Most projects remain operational for the period required, but there are opportunities to achieve longer lasting results

EUROPEAN
COURT
OF AUDITORS

Contents

Executive summary

I Since 2007, the EU has spent approximately €10 billion to diversify its rural economy and €15 billion to improve infrastructure in rural areas through the rural development programmes. Between 2007 and 2020, diversification and infrastructure investments supported through those programmes were, in general, required to remain operational for five years.

II We conducted this audit because of the high materiality at stake and durability issues revealed in previous audits. We expect our work to help the Commission when sharing best practices between the Member States and evaluating the performance of the Common Agricultural Policy. We examined whether investments to diversify the rural economy and improve the rural infrastructure delivered durable benefits. Firstly, we assessed whether projects had met legal durability requirements. Secondly, we examined factors affecting project durability, beyond the legal requirements. Thirdly, we examined the extent to which EU funding could be shown to bring long-term diversification opportunities in rural areas.

III We found that legal durability requirements are largely met. The majority of examined projects were still operational. As expected, this was particularly high for infrastructure projects. For diversification projects, we found that two thirds of diversification projects were still operational. We identified significant variation between different sectors and Member States. We also found that activities frequently ceased shortly after the legal durability period, even in cases of very high investments.

IV We found that weak economic performance and illegitimate private use affect the durability of some diversification projects. The quality of selection procedures improved for 2014-2020 compared to 2007-2013. However, selection procedures did not have a significant impact on the overall quality of projects. In Poland, services to agriculture or forestry projects were less durable than other types of projects. In several Member States some tourist accommodations were not economically viable, a situation that was impacted by illegitimate private residential use.

V Finally, we found limited evidence that audited diversification measures bring long-term diversification in rural areas. We found that services to agriculture have a low diversification potential and that while tourist accommodation may diversify income sources for some beneficiaries, they have little impact on the diversification of many regions. *Ex post* evaluations for the 2007-2013 period concluded that there had been a limited to medium contribution to diversification.

VI Our recommendations to the Commission cover better targeting of funds on viable projects, stricter rules for projects which beneficiaries can easily divert for private use, and harnessing the potential of large databases.

Introduction

Economic situation of rural areas

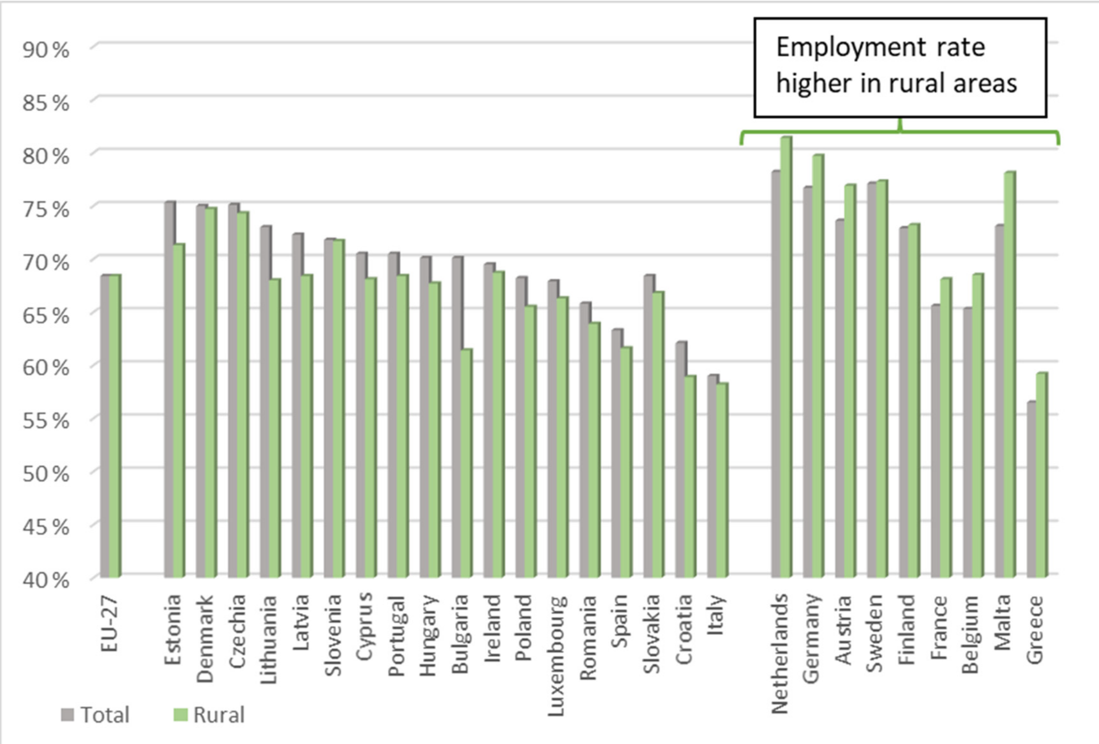
01 In 2018, rural areas represented 83 % of EU territory and were home to 31 % of the EU's population[1]. Some rural areas face depopulation, unemployment, a lower quality of basic services, and a higher risk of poverty or social exclusion. Other rural areas are among the most economically dynamic in the Member States[2].

02 Between 2000 and 2018, Gross Domestic Product (GDP) per capita in rural regions increased faster than in urban regions and helped reduce the gap with urban areas. In 2018, it reached 75 % of the EU average GDP per capita. The employment rate in rural areas increased between 2012 and 2019 for all Member States. Across the EU, it has reached the level of total employment rate. As shown in ***Figure 1***, the rural employment rate now is close to the overall employment rate in most Member States.

[1] EU rural areas in numbers – European Commission (europa.eu).

[2] A better future for Europe's rural areas – Report CG33(2017)16final, Council of Europe, 2017.

Figure 1 – Total employment rate and employment rate in rural areas in 2019



Source: Eurostat data (online data code: LFST_R_ERGAU).

03 In 2018 across the EU, in rural areas the service sector represented over 60 % of employment. Industry and construction represent 27 %, and agriculture, forestry and fishery 12 %, down from 21 % in 2000[3]. Employment in the agricultural sector continued to represent 30 % of employment in rural areas of Bulgaria and Romania.

The EU's rural development policy and the concept of durability

04 EU rural development policy includes long-term objectives such as diversifying the rural economy (by making both rural areas and individual households less dependent on agriculture and forestry), maintaining and creating jobs (see paragraph ***05***) and improving infrastructure in rural areas (see paragraph ***08***)[4]. To support these objectives, EU funded projects in these areas should be durable (see paragraphs ***12***-***13***).

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[3] A long-term Vision for the EU's Rural Areas – Commission Staff Working Document part 2/3.

[4] See whereas 11 and Article 4 of Regulation No 1698/2005 of the Council and Article 5(6) of Regulation No 1305/2013 of the European Parliament and of the Council.

EU rural diversification policy

05 EU spending to promote diversification covers support for the promotion of non-agricultural activities for farmers and the creation and development of new business opportunities, including tourism. ***Table 1*** lists the various measures linked to the diversification of rural areas and ***Figure 2*** shows examples of projects funded.

Table 1 – Diversification measures in the two programming periods

2007-2013	2014-2020
M311 – Diversification into non-agricultural activities **M312** – Support for business creation and development **M313** – Encouragement of tourism activities	**M6.2** – Business start-up aid for non-agricultural activities in rural areas **M6.4** – Investments in creation and development of non-agricultural activities

Source: EC Regulations 1698/2005 and 1305/2013.

Figure 2 – Example of diversification projects

Source: European Court of Auditors (ECA).

06 Almost one third of EU farmers have another gainful activity[5]. This includes activities:

- not directly linked to the farm such as teaching or working for another employer; and
- directly linked to the farm, such as hosting tourists or processing farm products.

07 An evaluation study of the 2007-2013 programming period[6] assessed the contribution of the measures examined in this report to economic diversification as limited (for tourism activities) and medium for diversification into non-agricultural activities and business creation (see paragraph ***61***).

EU support for infrastructure in rural areas

08 EU funding to infrastructure investments in rural areas aims to improve basic services to the rural population and help renew villages[7]. ***Table 2*** lists various public infrastructure investment measures in rural areas and ***Box 1*** shows examples of these types of investments that the European Agricultural Fund for Rural Development (EAFRD) typically supports.

Table 2 – Infrastructures measures in the two programming periods

2007-2013	2014-2020
M321 – Basic services for the economy and rural population **M322** – Village renewal and development	**M07** – Basic services and village renewal in rural areas

Source: EC Regulations 1698/2005 and 1305/2013.

[5] Eurostat EF_OGAAA data and European farming (copa-cogeca.eu).

[6] Synthesis of Rural Development Programmes (RDP) *ex post* evaluation of 2007-2013 – Evaluation Study.

[7] Article 52 b) of Regulation 1698/2005 and Article 20 of Regulation 1305/2013.

Box 1

Examples of EAFRD financed infrastructure investments

Local heating plant in Austria
(Measure 321, private beneficiary)
Eligible costs: €5 300 087
Public funding: 50 %

Rural road in Bulgaria
(Measure 321, public beneficiary)
Eligible costs: €1 210 052
Public funding: 100 %

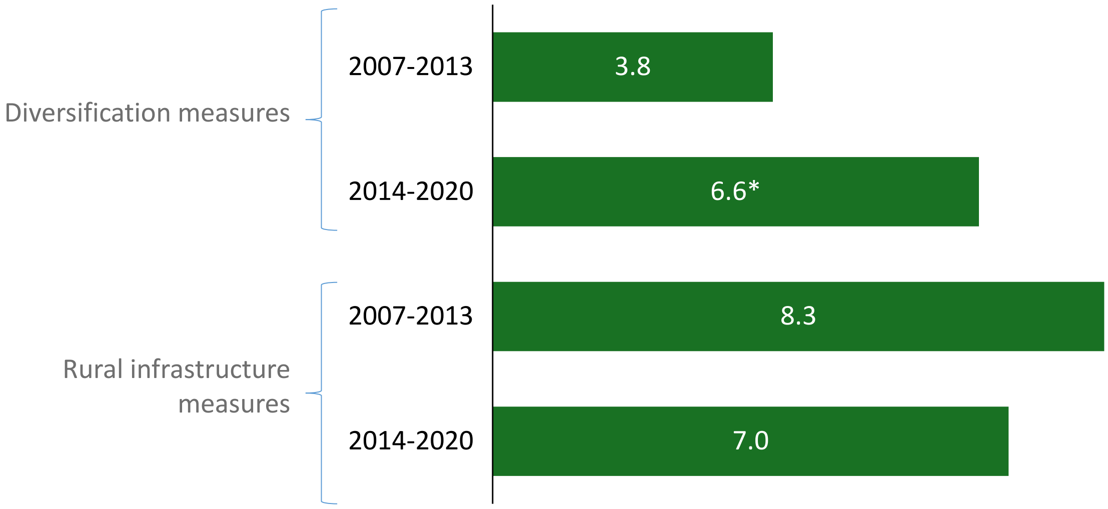
Construction of a water supply and sewage system in Poland
(Measure 321, public beneficiary)
Eligible costs: €936 289
Public funding: 68 %

Source: ECA based on information sent by national authorities.

EU funding and governance of rural development policy

09 The EU will have spent approximately €10 billion for diversification measures and €15 billion for infrastructure investments in rural areas through rural development programmes during the 2007-2013 and 2014-2020 programming periods (see ***Figure 3***).

Figure 3 – EU spending on diversification and infrastructure investments under the EU rural development policy (€ billion)



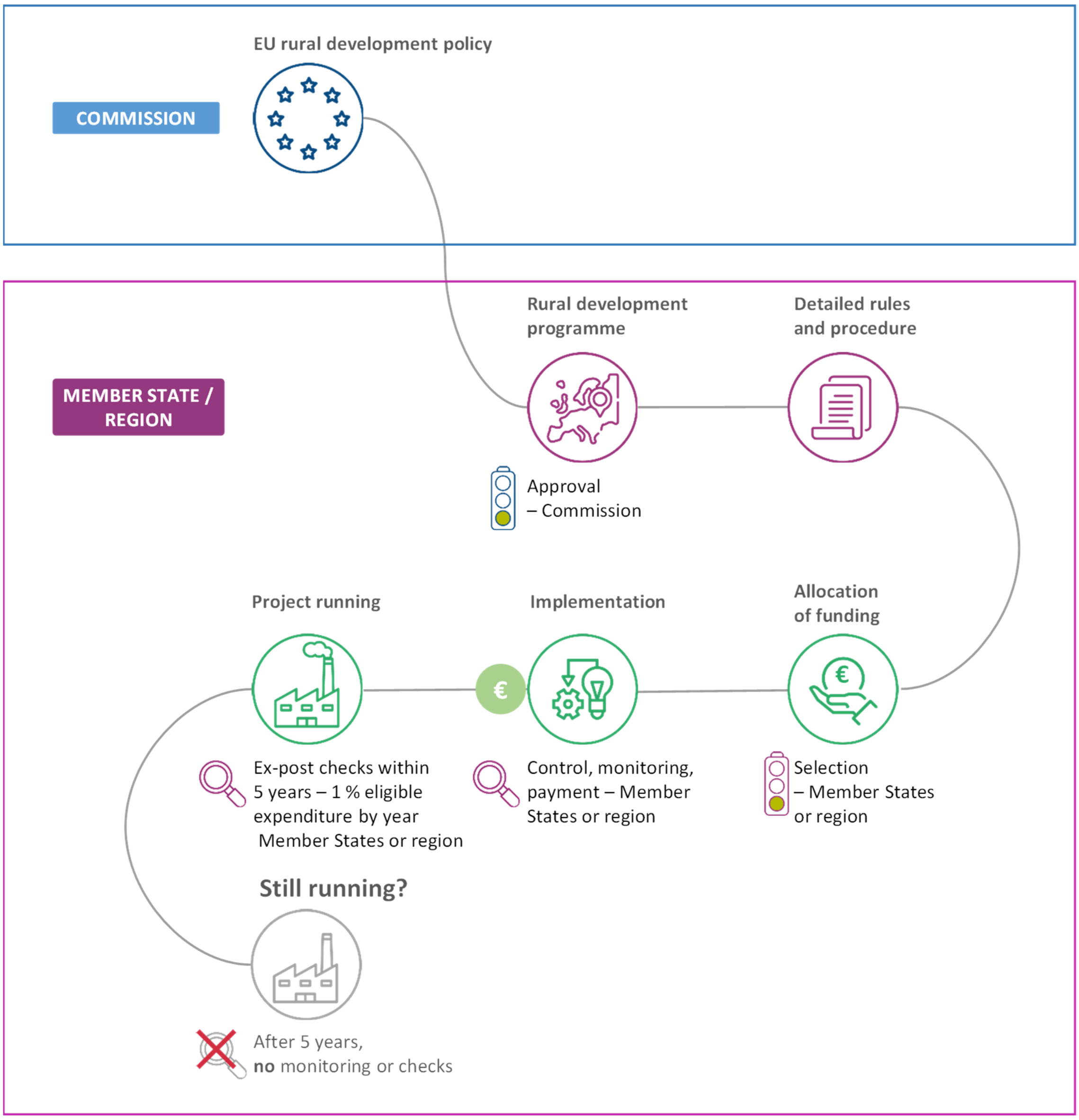
* Farm and business development measure includes diversification projects and other types of support.
Source: ECA based on Commission's information.

10 EU and national/regional funds jointly finance rural development projects under shared management. The EU and Member States lay down the rules and conditions for funding. National/regional authorities:

- draw up rural development programmes (RDPs);
- allocate funds to measures; and
- manage and monitor implementation of their RDPs and evaluate the results.

Figure 4 illustrates how the Commission and national/regional authorities share responsibilities.

Figure 4 – Implementation, control and monitoring of projects



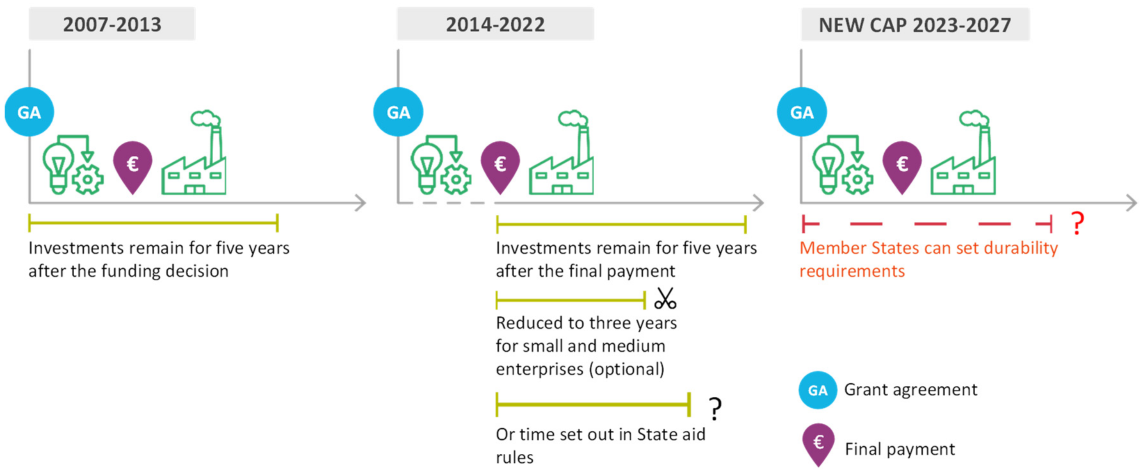
Source: ECA.

11 For the new 2023-2027 programming period, the CAP regulation requires Member States to draw up CAP strategic plans combining funding for income support, market measures and rural development. In these plans, Member States shall set out how they intend to achieve their goals within the nine specific CAP objectives. Future Diversification projects can contribute to two specific objectives; […] to facilitate business development in rural areas and to promote employment, growth, gender equality […] in rural areas […][8]. The Commission will approve these plans and follow their implementation through regular national performance reports prepared by Member States[9]. The Commission can also promote the exchange of best practices between the Member States.

Durability of rural development projects

12 In this audit, we examined whether EU-funded projects are "durable". ***Figure 5*** presents the EU legal durability requirements for supported projects. The legal requirement became more demanding for the 2014-2020 programming period (extended to 2022)[10]. For the 2023-2027 programming period, the CAP regulation does not set out legal durability requirements. The Member States, through their national rules, can reintroduce such requirements.

Figure 5 – Evolution of durability requirements over time



Source: ECA.

[8] See Article 6 of Regulation (EU) No 2115/2021 of the European Parliament and of the Council.

[9] See Article 118 of Regulation (EU) No 2115/2021 of the European Parliament and of the Council and Articles 13 and 40 of Regulation (EU) No 2116/2021 of the European Parliament and of the Council.

[10] See Article 71 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council.

13 In the context of this performance audit, in considering the performance of these programmes and these spending streams, we looked at whether financed projects:

- Met the durability period set out in legislation (i.e. continued to operate during the durability period set by the legislation),
- Continued to operate beyond this durability period, and
- Brought lasting changes to rural areas.

14 In three previous reports (one on rural development and two on Cohesion funding)[11], we noted issues with the durability of EU-funded investments:

- local authorities insufficiently focused on durability at different stages in the management of EU funding;
- recipients or local authorities failed to maintain the infrastructure;
- the majority of analysed projects were not financially viable.

[11] Special report 25/2015; Special report 08/2018; Special report 06/2011.

Audit scope and approach

15 We decided to conduct this audit because:

- Since 2007, the EU has spent more than €25 billion on diversification projects and infrastructure investment through rural development programmes;
- Several of our performance audits revealed durability issues (see paragraph ***14***) and we identified specific risks for the diversification measures.

16 We expect our work to help the Commission to share best practices on the potential inclusion of safeguards on projects' durability, and evaluate the diversification and rural infrastructure projects supported by the Common Agricultural Policy of the 2023-2027 programming period.

17 Our main audit question was whether investments to diversify the rural economy and in rural infrastructure have delivered durable benefits. In the first part of this report, we assessed the compliance aspect of durability, i.e. whether legal durability requirements were met. In the second part, we assessed whether there are factors affecting project durability, also beyond the legal requirements. In the third part, we examined whether there was enough evidence that EU funding brought long term diversification opportunities in rural areas.

18 To assess whether expected benefits lasted over time we examined projects financed in the 2007-2013 and in the 2014-2020 programming periods. We examined two types of projects:

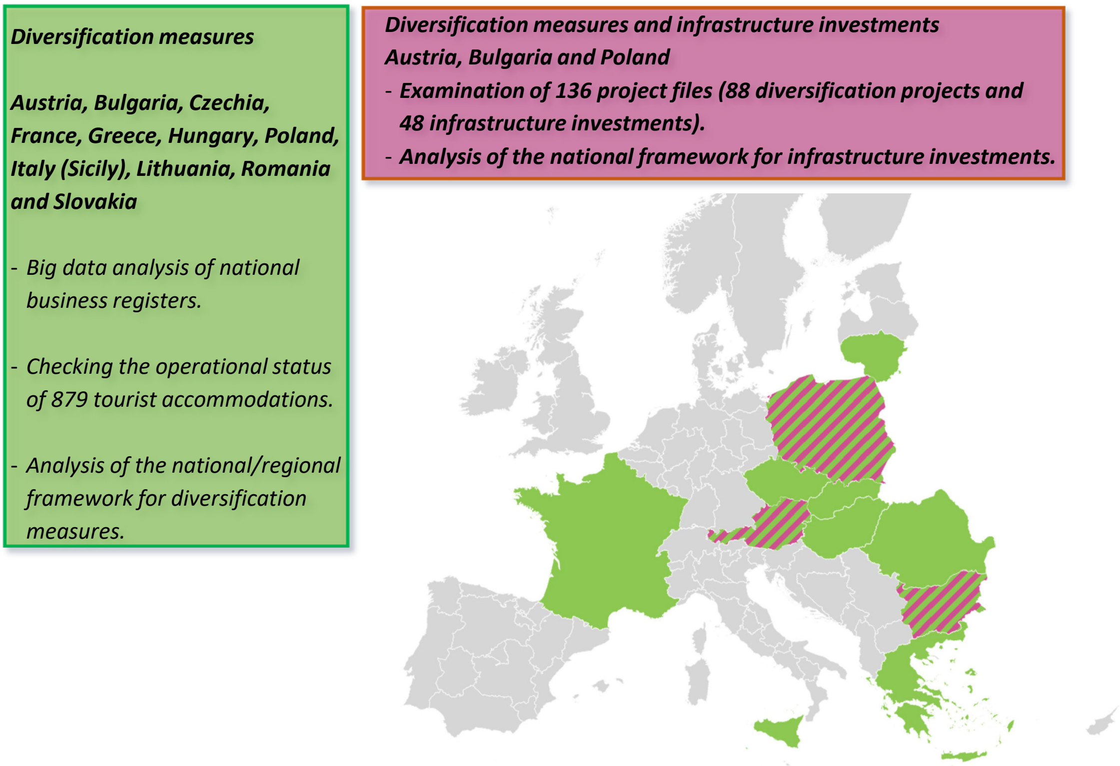
- projects to diversify the rural economy (see ***Table 1*** and ***Figure 2***);
- public infrastructure investments such as roads, water and wastewater assets (see ***Table 2*** and ***Box 1***).

19 We collected audit evidence through (see ***Figure 6***):

- A review of legislation and statistics;
- An analysis of business registers and a check of some tourist accommodations' operational status;
- Interviews with national or regional authorities;

- An examination of national/regional frameworks and projects selected from eleven Member States/regions.

Figure 6 – Member States selected and audit work



Note: We selected the Member States based on their expenditure for the selected measures.
Source: ECA.

Observations

Projects usually achieve the legal durability period but some diversification projects are discontinued shortly afterwards

20 In this section, we examined projects through the prism of the EU legal durability requirements and assessed whether those requirements were adapted to the type of supported investments.

- For **diversification projects**, we:
  - assessed whether a selection of 879 selected tourist accommodation projects (one of the most common type of diversification projects), were still operating;
  - assessed, for a selection of 88 diversification projects, whether they were still operational and meeting their business plan targets (see paragraphs ***44***, ***45*** and ***59***). We selected projects to include the main types of projects supported during both programming periods (see ***Figure 2***).
- For **infrastructure projects**, we examined whether the 48 projects in our sample were still operational and delivering the expected benefits. We focused on the types of projects having received most funding during both programming periods (roads, heating plants, and water supply and sanitation systems (see ***Box 1***).

The majority of projects examined were still operational

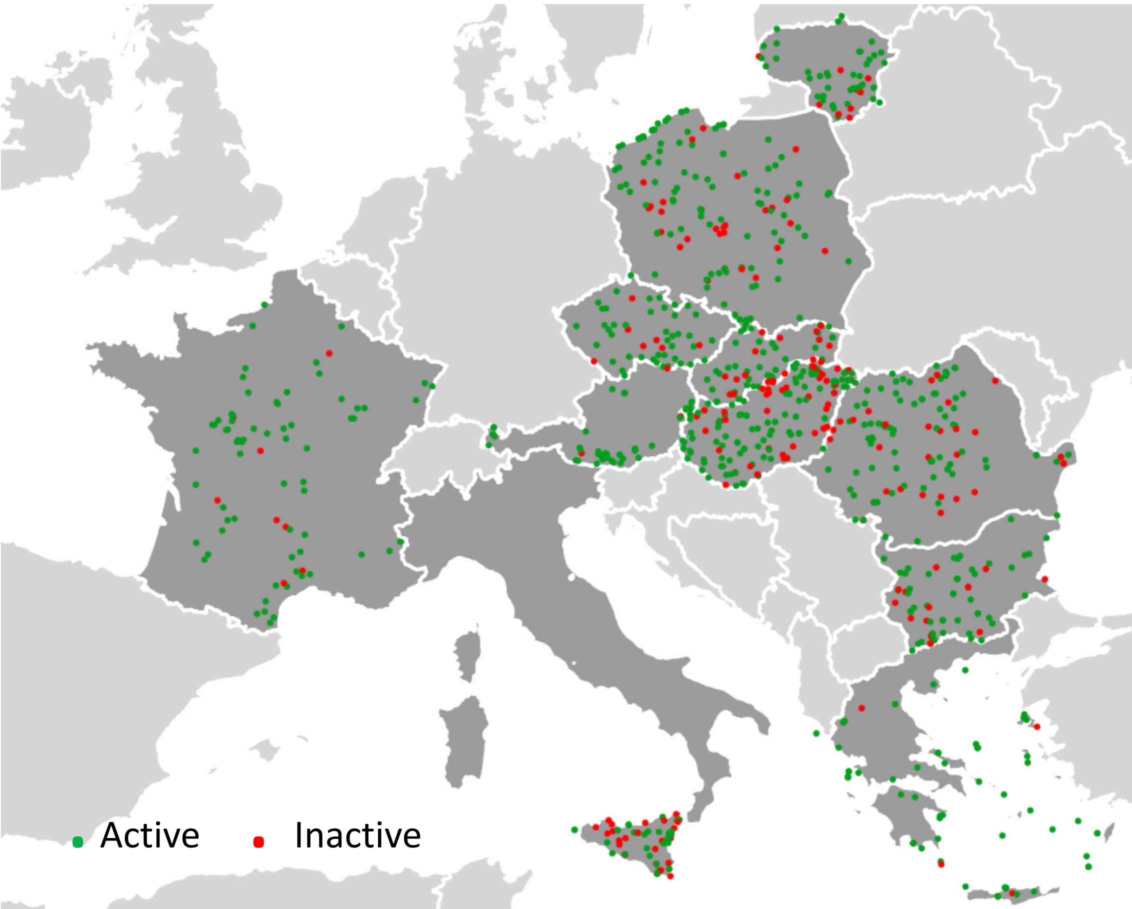
80 % of tourist accommodation projects were still operational

21 Investments in tourist accommodation were among the most commonly supported diversification projects. The 11 Member States we examined spent almost €500 million of rural development funds to support around 8 000 investments in tourist accommodation in the period 2014-2015 (i.e. projects from the 2007-2013 programming period).

22 We checked whether the 879 tourist accommodation projects we sampled in these 11 Member States were still offering accommodation. All the establishments received funding in the 2007-2013 period, and most of them received a final payment in 2014 or 2015. Those still active had therefore been in existence for more than five years. Most of our checks took place between June and October 2020. We found 21 tourist accommodations of our sample of 879 closed because of the health crisis (i.e. 2 % of our sample).

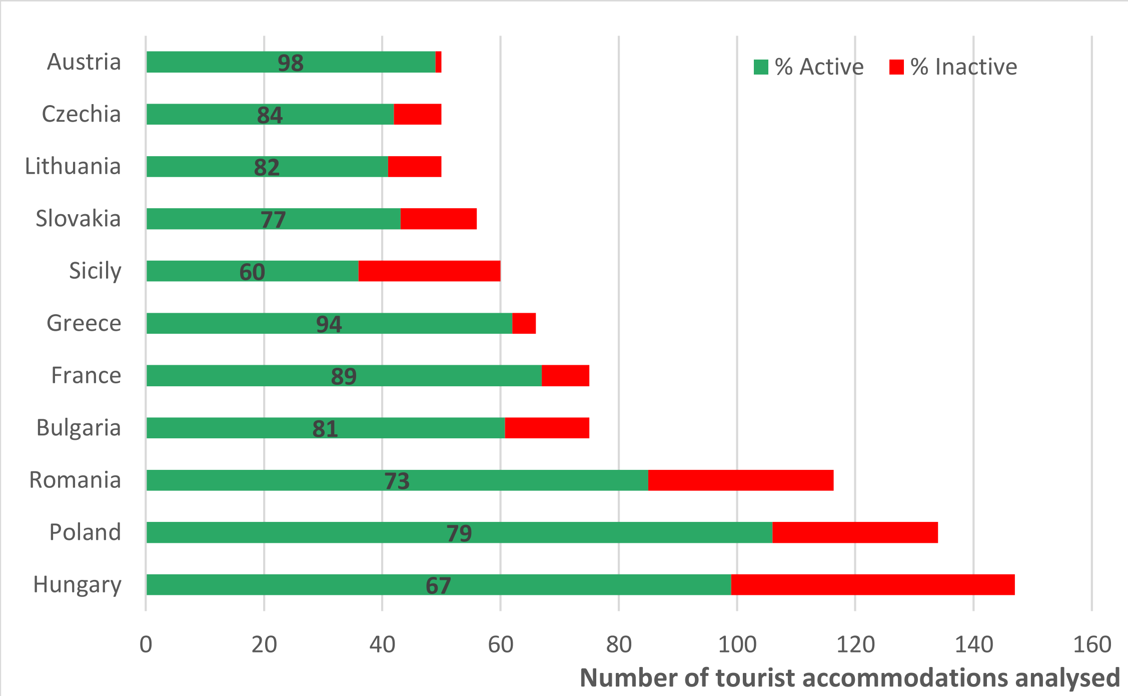
23 ***Figure 7*** and ***Figure 8*** show that overall 80 % of establishments were still offering accommodation. The figures for individual Member States ranged from 98 % in Austria to 67 % in Hungary and 60 % in Italy (Sicily). We found 24 establishments in Czechia, France, Hungary, Italy (Sicily), Romania and Slovakia which were, according to our initial analysis of on line sources, open, but in practice never available to book. We followed up these cases through telephone or email contact. Where managers declared these establishments as "open" (20 cases), we classified them as such in our analysis. In the remaining four cases, we established clearly that the accommodation was not available to tourists.

Figure 7 – Location and operational status of examined tourist accommodation projects



Source: ECA.

Figure 8 – Share of active tourist accommodation projects

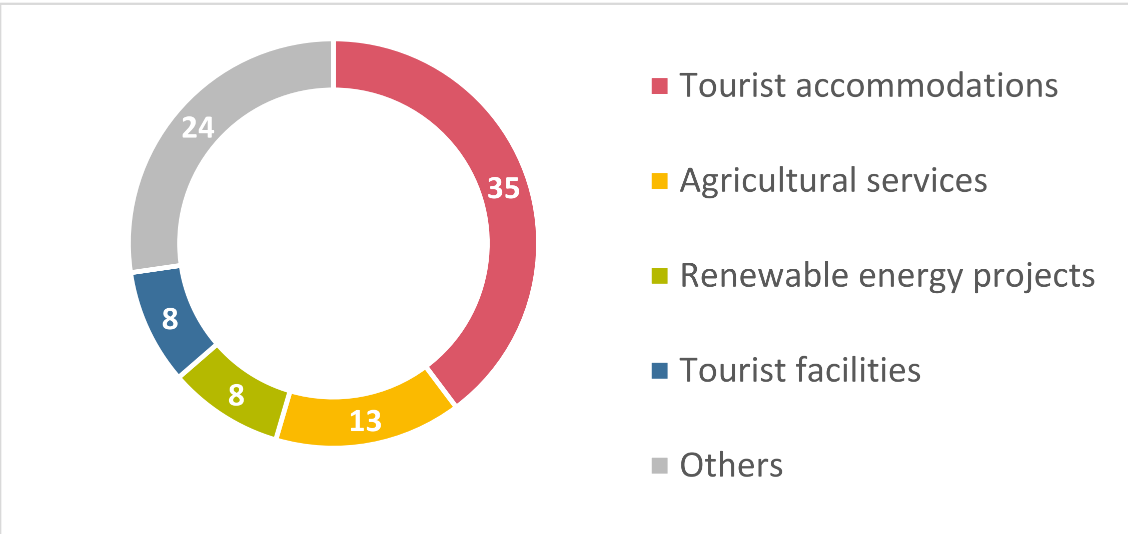


Source: ECA.

Two thirds of diversification projects were still operational

24 We examined 88 diversification projects in Bulgaria, Austria, and Poland. The selected projects were mainly related to tourist facilities (tourist accommodations and cycle/foot paths), agricultural services and renewable energy (see ***Figure 9***).

Figure 9 – Breakdown of the 88 projects examined



Source: ECA.

25 Out of these 88 projects (67 from the 2007-2013 programming period and 21 from the 2014-2020 period), we found that 59 projects (67 %) were still operational; and

- of the 30 projects still within their durability period, 29 (97%) were still operational; but
- of the 58 projects beyond their durability period, 30 (52 %) were still operational;
- overall, seven of the 88 projects stopped operating during the durability period.

26 Two thirds of the 35 tourist accommodation projects in this sample of 88 diversification projects were still open. In Austria, all 10 tourist accommodation projects were still open. In Bulgaria and Poland respectively, 11 out of 17 and three out of eight were still operational.

All but one of the audited infrastructure projects were still in use

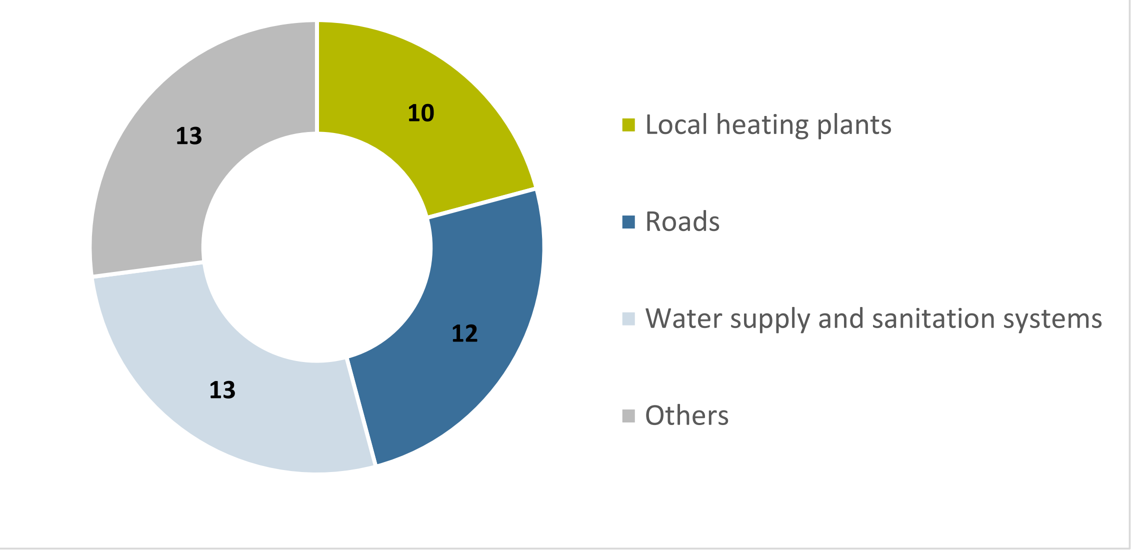
27 In Bulgaria, Austria and Poland, we examined 48 infrastructure projects mainly consisting of the construction or upgrade of heating plants, roads, and water and sanitation systems. At the time of the audit, 38 projects were older than five years (beyond the legal durability period) and the other 10 were younger, still within the legal durability period.

28 We checked whether the EU-funded infrastructure was still used. We examined:

- For **heating plants**: operational status of the plant, energy production, number of customers, financial data and employment;
- For **roads**: change in the number of users (local residents, tourists, companies located in the area, where available);
- For **water supply and sanitation systems**: operational status of the infrastructure, number of connections to networks (where available), improvement in water quality.

29 All 48 projects (see ***Figure 10***) delivered the expected physical outputs (for example, construction of a local heating plant, upgrading of a road, construction of a water supply and/or sewage system). Except for one wastewater plant (see ***Box 4***), the investments still benefited the local community at the time of the audit.

Figure 10 – Breakdown of the 48 projects examined



Source: ECA.

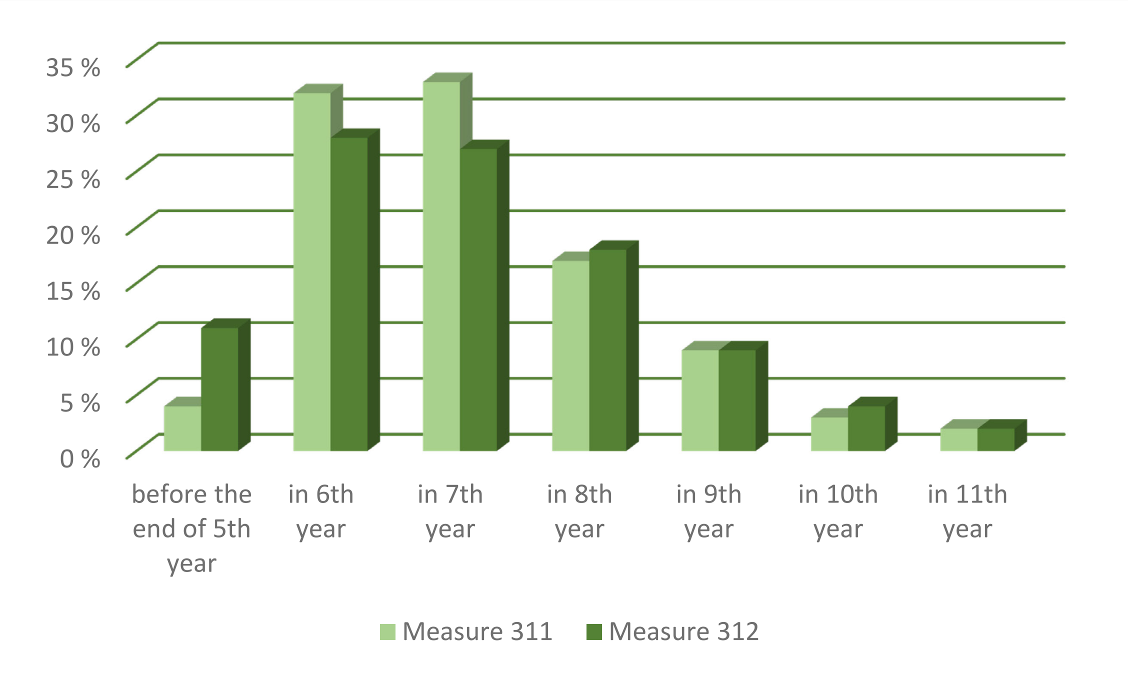
Diversification activities frequently ceased shortly after the expiry of the legal durability period

30 We examined whether project activities continued at least for two years after the legal durability period established in EU law. We assessed whether the period of operation was influenced by the sector or size of project.

31 Of the business registers examined, only Poland's included data on the status of the various activities of beneficiaries. We used this more detailed information to perform additional analysis. For beneficiaries who set up their non-agricultural activity under measures 311 and 312 (respectively 9 221 and 3 429 beneficiaries), we checked how many years the activity had lasted.

32 ***Figure 11*** shows that beneficiaries who ceased activity typically did so in the 6th or 7th year of operation, that is soon after the end of the five-year durability period.

Figure 11 – Distribution of Polish beneficiaries who stopped their non-agricultural activity according to the time of cessation (year of operation)



Note: distribution made for:

- 4 865 beneficiaries who started the non-agricultural activity in order to benefit from measure 311 and later stopped this activity.
- 735 beneficiaries who started such activity in order to benefit from measure 312 and later stopped this activity.

Source: ECA based on information from the Polish Business Register and Polish authorities.

33 ***Box 2*** gives examples of tourist establishments (supported during the 2007-2013 programming period) in which the EU invested more than €150 000 that stopped operating after the five-year durability period. Two of them operated for less than five years because the legal durability period started from the funding decision (see paragraph ***12***). These short durations of activity mean that the European subsidies amounted to between €2 667 and €9 125 per month of activity.

Box 2

Examples of costly tourist accommodations no longer active

Country/region	One tourist accommodation		Duration of the accommodation activity in years*	Equivalent EU funding given by month for this tourist activity (€)
	Total costs (€)	EU contribution (€)		
Slovakia	991 822	371 933	6	5 165
Greece	555 411	299 717	4	6 244
Italy (Sicily)	452 497	273 761	2,5	9 125
Romania	235 294	177 058	5	2 951
Bulgaria	200 000	160 000	5	2 667

* Starting from the project completion, i.e. final payments.
Source: ECA based on Member States' information.

34 In 2014-2020, Member States could reduce the durability period to three years for small and medium enterprises. However, the durability requirements are the same whether the level of EU funding reaches €9 000 or €500 000 or whether the beneficiaries finance 10 % or 90 % of their investments.

Most Member States applied a five-year durability period for infrastructure investments

35 The durability period is a legal requirement that does not aim to reflect the operational life of the investment. It is to be expected that projects would have an operational life significantly longer (15-25 years for energy plant projects, 25-30 years for roads and 30 years for water and wastewater infrastructure) than the durability requirements. Austria and the Piedmont region in Italy extended the durability requirement for certain types of investment (see *Box 3*) to better take into account their expected operational life. National authorities in the other Member States in our sample applied the five-year durability requirement.

Box 3

Good practices: adapted durability period at Member States/Region level

In **Austria**, to receive public funding, local heating plants have to satisfy additional requirements aiming to ensure project durability:

(1) applicants must prove that they have already signed contracts covering at least 75 % of their production capacity; and

(2) clients must sign a binding contract for 10-15 years.

Austria extended the durability period for investments of this type to 10 years.

In 2014-2020, the Piedmont region (**Italy**) adapted the durability period to the type of investment. Projects such as tourist accommodation have to operate during at least 10 years[12].

Source: Member States' documents.

36 All the infrastructure projects that we examined were still operational (see paragraph ***29***), except one: in Bulgaria, one infrastructure project failed because of a lack of maintenance (see ***Box 4***).

[12] Piedmont RDP 2014-2020, p. 378.

Box 4

A wastewater treatment plant stopped operating after two years due to lack of maintenance

In Bulgaria, in 2009 a local authority signed a grant agreement (eligible costs €1.5 million) to rehabilitate streets, water and sewage networks and to build a wastewater treatment plant. Construction ended in 2015, a year after the expiry of the durability period for this project which ran from the funding decision in the 2007-2013 programming period (see ***Figure 5***).

The wastewater treatment plant stopped operating in 2017, two years after the final payment, because the local authority did not maintain it. No mechanism allowed for the recovery of EU funds spent on this project as the "legal durability requirement" was over.

One third of diversification projects had ceased operations by the time of our audit

37 In this section, we assessed whether there are factors affecting project longevity, also beyond the legal durability requirements. Two thirds of diversification projects were still operational at the time of the audit. The remaining third were no longer operational. We assessed whether national and regional authorities analysed the expected economic viability of diversification projects they selected and which type of projects were less durable.

Selection procedures did not have a significant impact on the overall quality of projects

38 Selection procedures should contribute to the quality of supported projects and how long they would last. This entails prioritisation via relevant selection criteria and proper assessment of the projects. EU rules require Member States to define and apply selection criteria when deciding which operations to prioritise. During the 2007-2013 programming period, we found:

- Poland (until 2009) and France did not use such criteria.
- Lithuania used selection criteria only when the volume of requests exceeded the available funds.

- Austria had such criteria but did not use them to rank projects.

- Bulgaria, Czechia, Greece, Poland (after 2009) and Slovakia used selection criteria without establishing a minimum score to achieve. They ranked projects but supported them as long as the budget was available, even if they had been given a low score[13].

- Hungary, Italy (Sicily) and Romania established a minimum score that applications had to achieve to qualify for aid. However, after having signed a grant contract, 46 % of Romanian beneficiaries of measure 313 and 10 % of Sicilian beneficiaries of measure 311 did not finalise their project. They therefore did not receive a final payment.

39 During the 2014-2020 programming period, national and regional authorities in all Member States used selection criteria and points thresholds. Usually, these thresholds did not exceed 50 % of the maximum score. As an example, for measure 6.4 (see ***Table 1***), the minimum scores in Romania and Austria were respectively 10 out of 100 points and five out of 24. With low minimum scores, national and regional authorities risk selecting projects with low potential.

40 Beyond the application of selection criteria, Member States have to assess the project. ***Box 5*** provides an example of projects in Poland which we consider should not have been supported if properly assessed.

[13] See also Special report 06/2013.

Box 5

Poland selected projects owned by family members who closed their companies at the end of the durability period

A Polish company dealing with transport and storage services was not eligible for support under measure 312. Three daughters and two sons-in-law of the company's owner set up five *new* companies just before or soon after submitting aid applications for measure 312.

These five new companies declared the same or similar activities and operated under the same address as the original company. They purchased vehicles and renovated spaces and equipment, for which they received up to 50 % subsidies.

The total public funding amounted to €265 000 (including 75 % of EU contribution), well above the maximum aid set by the national legislation for a single eligible entity (€72 000).

Four out of these five beneficiaries closed their respective company at the end of the durability period.

41 In order to assess the durability of operations, national authorities in all Member States we examined (except France) required applicants to submit a business plan.

42 Five of these ten Member States[14] considered the business forecasts included in business plans to be a basis for future assessment. For example, beneficiaries had to achieve at least 50 % (Bulgaria and Hungary) or 70 % (Lithuania) of their business forecasts. When an *ex post* control took place, failure to reach these percentages resulted in sanctions (see paragraph ***55***).

43 Seven Member States[15] defined the number of jobs created as one of their eligibility or selection criteria. When job creation was a selection criterion, beneficiaries had to create jobs and maintain them at least until the end of the durability period. Lithuania and Poland granted higher funding to beneficiaries who expected to create more jobs.

[14] Bulgaria, Czechia, Greece, Hungary and Lithuania.

[15] Czechia, Greece, Hungary, Lithuania, Poland, Romania and Slovakia.

44 For beneficiaries in our sample for which we could get enough information, respectively 90 % (9/10) of Bulgarian beneficiaries and 63 % (17/27) of Polish beneficiaries did not reach the economic forecasts set in their business plan (including four out of 10 for beneficiaries from the 2014-2020 period). We did not find such an issue in Austria (see paragraph ***59***).

45 ***Table 3*** shows that the majority of beneficiaries fell significantly short of their forecasts.

Table 3 – Projects that did not reach business plan forecasts

	Projects that did not reach business plan forecasts			
	Total	**Percentage of forecast reached**		
		less than 10 %	**between 10 and 50 %**	**More than 50 %**
Poland	17	7	8	2
Bulgaria	9	3	4	2

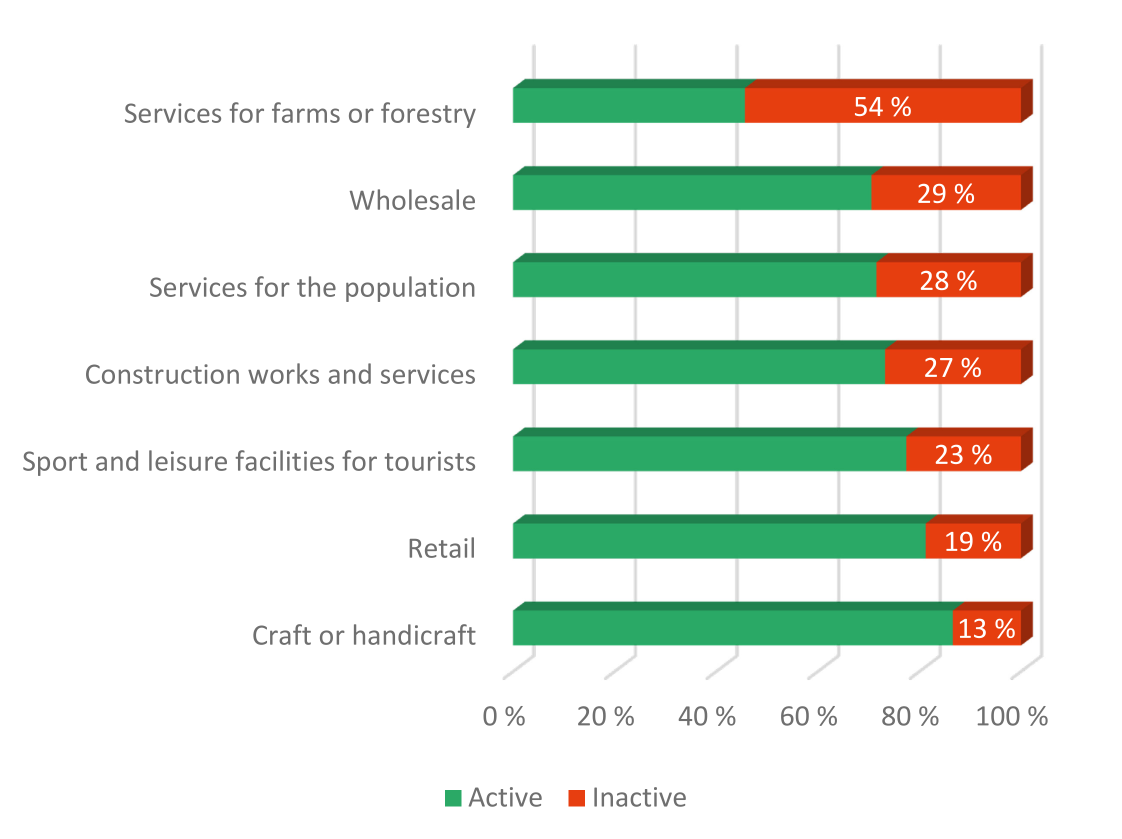
Source: ECA based on projects' files analysis.

46 The business plan forecasts were binding in Bulgaria. Three quarters of *ex post* checks led to recovery proceedings because beneficiaries had not achieved forecasts (see paragraph ***55***).

Certain types of diversification projects were relatively short-lived

47 In Poland, almost three quarters of the 13 000 beneficiaries of measure 311 (9 221 beneficiaries who set up a non-agricultural activity analysed in paragraph ***31*** and approximately 3 800 others who developed existing activities under the same measure) diversified their activities into "services for farms and forestry", i.e. within the agricultural sector. Services for farms and forestry include, for example, machine rental or work done for another farmer (such as farmers purchasing a ploughing machine with EU funding to plough other farmers' soil or to rent them the machine). More than half of the beneficiaries we checked in the Polish business register (5 114 out of 9 419) had ceased activity by February 2020. ***Figure 12*** shows that this share is much higher than for other diversification activities.

Figure 12 – Status of main activities supported under measure 311 in Poland



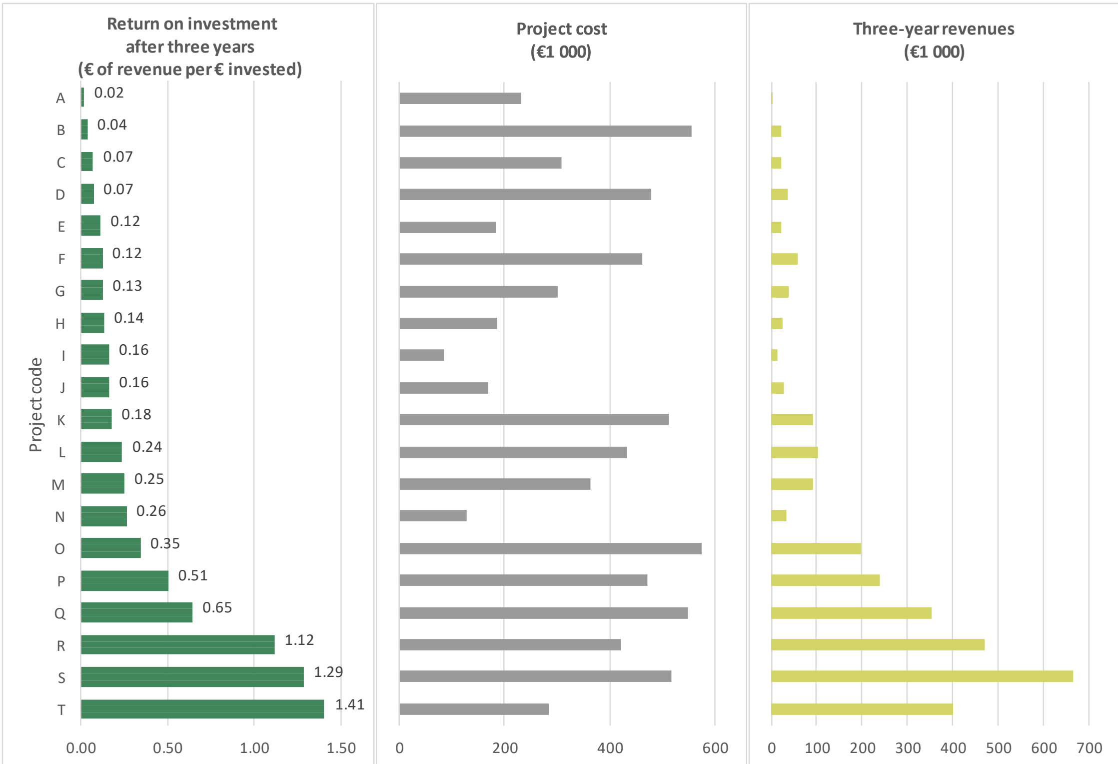
Source: European Court of Auditors based on REGON business register analysis.

48 The EU and national rules did not explicitly forbid the use of the purchased equipment on the beneficiary's own land. For the 2014-2020 programming period, Commission's guidance states that for agricultural services the "supported investment should be mainly used for the provision of services to third parties". But we found no mechanism preventing agricultural machinery funded under this measure from being used mainly on the beneficiary's own farm.

49 Given the specific risks identified in relation to tourist accommodation projects, we considered whether the durability results for this class of projects reflected or masked problems of economic viability. We therefore performed additional analysis of tourist accommodation projects in Bulgaria, Greece and Poland. In Greece, the national monitoring of tourist accommodation projects provided information on revenue generated during the first three years. We analysed this information against investment costs for 20 tourist accommodation projects that were still active.

50 Our analysis raised questions relating to their economic viability. For each euro of total investment cost, in average, global revenue over three years amounted to €0.4. As illustrated in ***Figure 13***, this average hides considerable dispersion of the capacity to generate revenue. Over three years, tourist accommodation projects generated between €0.02 and €1.41 for each euro invested. Four (20 %) of them generated less than €0.1 for each euro invested.

Figure 13 – Return on investments, investment costs and three years revenue for 20 projects in Greece



Source: ECA based on information transmitted by the Greek authorities.

51 On the other hand, we also found projects that had a very high return on investment (see ***Figure 13***): three generated revenues exceeding the investment made within three years.

52 In ECA Special Report 02/2022 on energy efficiency in enterprises, we found that for projects with very short payback times, financial instruments such as loans or repayable grants are usually cost-effective options for the EU budget. EU legislation provides for loans to be used for viable projects[16]. The Commission considers financial instruments appropriate for supporting viable rural development projects[17]. Loans repayments incentivise beneficiaries of projects (including tourist accommodations or agricultural services) to generate profits from their investment and therefore limit the risk they request support for non-viable projects or use them only for private purposes.

53 ***Table 4*** shows that in Bulgaria and Poland, respectively 29 % and 38 % of the tourist accommodation projects checked (see paragraph ***26***) either closed quickly or generated very low turnover.

Table 4 – Tourist accommodation projects not delivering durable benefits

Member States	Number of accommodations checked	Number of accommodations not delivering benefits	Comments
Bulgaria	17	6	Three closed after the durability period. Three others had less than 10 % of their forecasted turnover (one reported a turnover of €188 for one year) and had to reimburse their grant following the *ex post* check.
Poland	8	3	Three closed, including one within the durability period. One had a turnover of €250/year – less than 10 % of the forecast and closed after the end of the durability period.

Source: ECA based on information transmitted by the Member States.

Residential use of buildings financed as tourist accommodation

54 The EU legislation did not explicitly forbid the private residential use of buildings financed to provide tourist accommodation during the durability period. However, it stated that the investment should not be subject to a substantial change undermining

[16] Article 37 of Regulation (EU) No 1303/2013.

[17] The European Agricultural Fund for Rural Development – Financial instruments.

its original objectives[18]. Austrian legislation explicitly prohibited permanent private use of the investment[19]. This was not the case in the Polish and Bulgarian national legislation.

55 We found the following issues regarding private use of tourist accommodations:

- In one Member State we found potential fraudulent private use of a guest house during the durability period. This case has been referred to OLAF and is under investigation.
- In Bulgaria and Romania, we identified administrative actions after identification of private use of supported tourist accommodation. The Commission made recommendations to these Member States and applied a financial correction for Bulgaria. Romania decided to limit the funding of tourist accommodation in 2021 and 2022. The Bulgarian authorities launched administrative action by performing additional *ex post* checks focusing on the achievement of business plan forecasts. The majority (76 %) of the 288 EU funded guesthouses did not reach the forecasts. The Bulgarian authorities requested repayment amounting to €21 million. This recovery process is progressing slowly due to legal challenges in the national court. Bulgaria stopped supporting tourist accommodation in the 2014-2020 programming period.
- From the 11 Member States we examined, we identified press articles reporting covered cases of private residential use in eight Member States (in at least three of them, press articles reported investigations and court cases on fraudulent claims for subsidy for tourist accommodations used privately). In some cases, the buildings were advertised as available for tourists, but could not be booked in practice (see paragraph ***23***). Building or renovating a house with EU support can be attractive as, after between three and five years, the beneficiary can officially use it as private house or sell it.

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[18] An operation shall repay the EU contribution if within five years of the final payment it is subject to “a substantial change affecting its nature” (Article 71 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council).

[19] Sonderrichtlinie im Rahmen des Österreichischen Programms für die Entwicklung des ländlichen Raums 2007 – 2013 „Sonstige Maßnahmen“– Point 10.4.3.5.

There is limited evidence that EU funding brings long term diversification in rural areas

56 EU funding should bring long term diversification to rural areas (see paragraph ***04***). We assessed whether projects brought continuing diversification to rural economies. We also examined whether evaluation and monitoring provided sufficient insight into the results of EU spending.

Some types of diversification projects bring limited diversification opportunities

57 During 2007-2013, Poland spent €252 million to support services to agriculture or forestry. This funding continued during the 2014-2020 programming period. We found that services to agriculture made a limited contribution to long term diversification into non-agricultural activities. These projects do not help beneficiaries to diversify their income from the agricultural sector. The Commission considers that these services (such as ploughing/harvesting) indirectly benefit diversification by enabling farmers using these services to save time in order to start a non-agricultural activity in parallel. Furthermore, the activity "services to agriculture or forestry" was the least durable activity as the majority of the beneficiaries stopped it (see paragraph ***47***).

58 In their *ex post* evaluations, Member States most frequently named tourism as the sector in which it was possible to diversify[20]. Indeed, 23 of them implemented measure 313 "Encouragement of tourist activities". The creation and development of tourist accommodation could be financed under all diversification measures (measure 311, measure 312, measure 313), depending on the choice of the Member State/region. As stated in paragraph ***21***, more than €500 million of public funds supported tourist accommodation projects in 2014-2015 in our 11 selected Member States.

59 At beneficiary level, tourist accommodation can diversify and complement beneficiaries' revenues, subject to sufficient potential demand. In Austria, all 10 tourist accommodation projects analysed were still operational. Seven of them had reached their business plan forecasts, and provided between 10 and 90 % of beneficiaries' revenues. In seven cases, financing was provided to expand an existing business. In the remaining three, tourism represented a new source of income.

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[20] Synthesis of Rural Development programmes *ex post* evaluation period 2007-2013, p. 58.

60 At territorial level, however, there are cases of investments in tourism which do not represent diversification in touristic areas. Across the EU, tourism is a larger economic sector than agriculture and plays a larger role in the economy of rural areas than of urban ones. The number of tourism nights per resident in rural areas is three times higher than in urban regions, and tourism expenditure per resident is generally higher in rural areas[21]. In rural areas such as Crete (Greece) or Corsica (France), the tourism industry dominates local economies, representing respectively 47 % and 31 % of GDP (compared to 7.5 % and 2 % for agriculture[22]).

Evaluation and monitoring do not sufficiently demonstrate diversification benefits

61 In 2018, the Commission published a summary of Member State *ex post* evaluation reports of the 2007-2013 period[23], which concluded that:

- Measures 311 ”Diversification into non-agricultural activities” and 312 “Support for business creation and development” contributed to improving the economic diversification of the beneficiaries “to a medium extent”;
- Measure 313 “Encouragement of tourism activities” contributed to improving the economic diversification “to a limited extent”. Less than half of the *ex post* RDPs evaluations reported a positive contribution of this measure to the economic diversification improvement of rural areas.

62 The evaluation found that many diversification projects were insufficiently “cross-sectoral” (i.e. too centred on agriculture). We discuss this issue in paragraph ***57***.

63 We found that monitoring provided limited information on the durability of projects and their long term impact on diversification of rural areas. While Member States adequately monitor projects until final payment, monitoring is limited throughout the durability period and barely exists after this. Thus, when Member States and the Commission prepare *ex post* evaluations, evaluators have little

[21] Commission Staff Working document part 2/3 – A long-term Vision for the EU’s Rural Areas – p. 51, June 2021.

[22] *The nexus between agriculture and tourism in the Island of Crete,* John Vourdoubas, 2020 – INSEE Corse, 2015-2017.

[23] See footnote [6].

information on how many projects of the different types continued in operation after the period in which grants were paid. Monitoring projects beyond the durability period is not a legal requirement. However, collecting relevant information beyond the durability period would allow the Commission and Member States to assess lasting results and identify the types of projects supporting long-term policy objectives.

64 Our audit showed that some tools, such as business registers and other relevant databases, can give additional insight into the durability of projects. The basic available information only concerns the status of the beneficiary, but in Poland we also found an example of a database that contained more detailed information on the status of the EU funded activities (see paragraphs ***31*** and ***47***). Bulgaria, Poland and Romania collected information from business registers.

65 Large databases, such as business registers, exist and could provide insights on beneficiaries who became inactive or stopped supported activities (see paragraphs ***31***-***32***). Currently, the Commission does not use information from either national business registers or other big data sources to assess the durability of diversification projects and their long term benefit for rural areas.

Conclusions and recommendations

66 We found that most infrastructure investments and diversification projects operated throughout the legal durability period (see paragraphs ***21***-***29***). However, we found that diversification projects frequently ended soon after (see paragraphs ***31***-***34***). In Poland, services to agriculture or forestry projects were less durable than others (see paragraphs ***47***-***48***).

67 We found that the overall quality of selection procedures improved for 2014-2020 compared to 2007-2013. However, selection procedures did not have a significant impact on the overall quality of projects (see paragraphs ***38***-***46***).

68 We found that some types of projects, such as services to agriculture or forestry, have a low diversification potential (see paragraph ***57***). Tourist accommodation can diversify beneficiaries' activities but additional accommodation capacity does not diversify the economies' touristic areas (paragraphs ***58***-***60***).

69 We extended our analysis of tourist accommodation projects and identified problems of economic viability in three Member States (see paragraphs ***49***-***53*** and ***Table 4***). Private residential use of accommodation affects the economic performance of such projects. We noted examples of Member States launching investigations into the private use of building financed as tourist accommodation and/or restricting access to grants for tourist accommodation projects (see paragraph ***55***). We found that loans are a relevant alternative to support viable projects (including projects to support tourist accommodation or services to agriculture – see paragraph ***52***).

Recommendation 1 – Target spending better on viable projects

In its advisory capacity, the Commission should share best practices to promote the application of selection procedures in a way that limits the risk of selecting non-viable projects.

Timeframe: from 2023

Recommendation 2 – Mitigate the risks of diversion of funded assets for personal use

To promote long-lasting project benefits and value for money from EU support, the Commission should:

(a) Facilitate the sharing of best practices to promote safeguards on project durability and against the diversion of EU funded assets for personal use. These exchanges should include the appropriate use of:

(i) national durability conditions, taking account of the different types of investments supported;

(ii) loans to finance long-term assets;

(iii) evidence of the continued operation of funded activities; and

(iv) provisions in grant agreements on the use of the investments for their intended purpose.

Timeframe: 2023

(b) Analyse the use of these best practices by Member States and disseminate the results.

Timeframe: 2027

70 Overall, *ex post* evaluations of the 2007-2013 period concluded to a limited to medium contribution to diversification (paragraphs *61*-*62*). Monitoring provided limited insights on projects' benefits over time, in particular after the end of the legal durability period, despite the potential of big data to provide additional insight on the durability of funded projects in a cost effective way (see paragraphs *63*-*65*).

Recommendation 3 – Harness the potential of large databases for evaluation

For evaluation purposes, the Commission, in consultation with Member States, should:

(a) identify relevant sources of information on the continued operation of EU funded projects and share best practices with Member States;

Timeframe: 2024

(b) use this information to draw up a list of risk factors based on examples of projects which are less durable.

Timeframe: from 2026

This Report was adopted by Chamber I, headed by Mrs Joëlle Elvinger, Member of the Court of Auditors, in Luxembourg on 27 April 2022.

For the Court of Auditors

Klaus-Heiner Lehne
President

Acronyms and abbreviations

CAP: common agricultural policy

EAFRD: European agricultural fund for rural development

GDP: gross domestic product

RDP: rural development program

Glossary

Big data: The processing, collection, storage and analysis of large amounts of data, revealing patterns, trends and associations and offering the potential to use the resulting information for new insights.

Business plan: Document summarising a company’s operational and financial forecasts and setting out how it will achieve its goals.

***Ex post* check:** in the context of this report a check carried out after final payment on an investment to ensure it is still being used as its intended purpose.

Programming period: The period within which an EU funding programme is planned and during which funding can be disbursed. For the 2007-2013 period, funding could be disbursed until 2015. Similarly, funding for 2014-2020 can be disbursed until 2022.

Rural development programme: A set of national or regional multiannual objectives and actions, approved by the Commission, for the implementation of EU rural development policy.

Replies of the Commission

https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=61262

Timeline

https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=61262

Audit team

The ECA's special reports set out the results of its audits of EU policies and programmes, or of management-related topics from specific budgetary areas. 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 carried out by Audit Chamber I-Sustainable use of natural resources, headed by ECA Member Joëlle Elvinger. The audit was led by ECA Member Viorel Ștefan, supported by Roxana Banica, Head of Private Office, and Olivier Prigent, Private Office Attaché; Michael Bain, Principal Manager; Eric Braucourt, Assistant to the Director; Céline Ollier, Head of Task; Maciej Szymura, Deputy Head of Task; Milan Šmid, Jan Huth, Dimitrios Maniopoulos, Auditors. Thomas Everett provided linguistic support.

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Since 2007, the Commission has spent more than €25 billion of rural development funds to diversify its rural economy and improve infrastructure. Funded projects were required to remain operational for at least five years.

We examined whether these investments delivered durable benefits. We found that legal durability requirements are largely met. The durability of diversification projects varied across sectors and Member States. Weak economic performance and illegitimate private use affect the durability of projects such as tourist accommodation.

We recommend that the Commission should share best practices to better target funds on viable projects, mitigate the risk of diversion of projects for private use and harness the potential of large databases.

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