

## FUNCTIONING OF LOCAL ACTION GROUPS – FINANCIAL ANALYSIS AND SIMPLIFICATION PROPOSALS

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### Abstract

*Rural Local Action Groups are funded under LEADER through the Rural Development Programmes of the Member States over the last 30 years in order to cover two categories of needs: mainly, for financially supporting the best projects in their own territories that meet local needs, and secondly for ensuring their own running and animation costs. In the literature there are numerous papers dealing with the main allocation of funding, analysed at European, national or regional level, but very few articles that analyse the second component of financing. The paper presents an analysis of the situation of running and animation expenses carried out by the Romanian LAGs during the period 2017 - 2021 and, in the context of the elaboration of new programmatic documents for the next financing period, proposes variants of simplification and reorganization of budget chapters, that leads not only to administrative burden reduction, but also to a better local strategy implementation.*

**Key words:** LEADER, running and animation costs, simplification, standard costs, Local Action Group

### INTRODUCTION

In Romania, the LEADER concept was first introduced during the EU programming period 2007 – 2013, i.e. 20 years behind countries such as Ireland, Italy or France.

The term “LEADER” originally came from the French acronym for “Liaison Entre Actions de Développement de l'Économie Rurale”, meaning “Links between the rural economy and development actions”.

However, in the 10 years of operation it has had a real impact in the rural area, both through the financing of various projects that meet the needs of the territory, but also through the creation for the first time in Romania of functional public-private partnerships.

The Local Action Groups (LAGs) are financed through the National Rural Development Programme; during the programming period of 2014 – 2020, including the transition period of 2021 – 2022, for the implementation of Local Development Strategies (LDS) and for ensuring the running costs for LAGs, there were allocated over 765 million euros, representing 6,03% of the public amount of the Programme (MADR, 2022a) [14]. There is

also an increase in the allocation for the LEADER program for the period 2023-2027, given that the 500 million euros allocated under the National Strategic Plan submitted by Romania to the European Commission represents over 8,5% of the total envelope (MADR, 2022b) [15].

There are numerous materials in the literature on LEADER evaluation, which can be classified into two main categories (Metta, 2016) [11]: the literature on the evaluation of the LEADER program and the literature on the evaluation methodology of Local Development Strategies.

LEADER evaluation materials refer to legislative documents (European Commission – DG AGRI, 2014; 2015 [4, 5]; European Parliament, 2013 [8]); evaluation and self-assessment guides elaborated by governmental authorities (European Commission, 2017) [6], and, finally, a long collection of studies and academic research that:

- Analyses the empirical application of different LEADER evaluation approaches (LAGs self-assessment - Birolo, 2013[2]; quantitative impact evaluation - Pisani & Franceschetti, 2011[17]; Rusu (2021) [19]; Staic et al. (2022) [20]; evaluation of the

social impact of LEADER - Permingeat, Vanneste, 2019 [16] etc).

- Analyses the application of evaluation methods and LEADER indicators (Data Envelopment Analysis for measuring the LAGs performance from the point of view of their efficiency -Lopolito A., Giannoccaro, &Prosperi, 2011[10]);

- Proposes a critical analysis of the LEADER evaluation system, e.g., the existing tensions between the LAG management and the administrative bureaucracy of LEADER and the use of participative forms of evaluation (Ray, 2000) [18].

Although there is an extensive literature about LEADER evaluation, there is no research on running and animation costs, both in terms of the size and in terms of a budgetary structure to ensure the efficient conduct of specific operations, according to LEADER principles. Starting from a European Court of Accounts statement, according to which *„despite public-private partnerships (PPPs) have the potential to achieve faster policy implementation and ensure good maintenance standards, the audited projects were not always effectively managed and did not provide adequate value for money. Potential benefits of PPPs were often not achieved, as they suffered delays, cost increases and were under-used”* (ECA, 2018) [3], we formulate the following hypothesis:

- The degree of contracting and absorption of LAGs in Romania depends on how the funding allocated for running and animation is spent;

- The performance of LAGs in Romania is influenced by their size in terms of the rural population they address.

## MATERIALS AND METHODS

For the purpose of this study, both quantitative and qualitative approaches were used. In the quantitative approach, all payment requests for operating and entertainment expenses submitted by LAGs to the paying agency from the beginning of their operation were centralized, dividing the amounts authorized according to the budget chapter. Included in the analysis were all

payment claims submitted between 26.01.2017 - 31.07.2021, i.e. from the date of submission of the first payment claim for reimbursement of expenses related to the operation of the LAG until the reference date on which the Managing Authority decided to evaluate the performance of the LAG (MADR, 2021a) [12].

The analysis focused on: (1) the structure of the LAG budget; (2) the degree of spending of funds allocated for the for running of the LAG and for animating the territory in correlation with the degree of contracting of funds allocated to the implementation of the Local Development Strategy; (3) as well as the correlation between the LAGs performance and the rural population covered.

The centralisation of the payment claims by LAG was then corroborated with the situation regarding the surface, population, and the degree of contracting and payment of all authorised LAGs (MADR, 2021b) [13]. We have calculated Pearson correlation coefficients for all the data series mentioned above.

A qualitative approach was used to gain a deeper understanding of the importance of the main issues encountered in the operation of LAGs, to create a simpler framework for reimbursement of expenditure of running and animation costs in the next programming period. The study was conducted from March to June 2022 and information was collected from all functioning LAGs using questionnaires.

## RESULTS AND DISCUSSIONS

The LEADER approach has been implemented in all EU member states as well as in many non-EU countries to support development processes in rural areas focusing on the local community, and *“to help the rural actors to realize the potential of their region on a long-term basis”*. (WINNET, 2020) [21]. The European policy shift from the top – down approach to endogenous programmes has shown that initiatives such as LEADER bring a greater development to local communities. According to a recent study published by the European Commission,

*“LEADER effectively developed solutions to address economic and social development challenges and opportunities at local level. The study suggests that LEADER’s strongest areas are job creation and maintenance, local added value of products and enterprise modernisation. Enhancing local governance capacities and knowledge within LEADER operations was also identified as a benefit.”* (European Commission, 2022) [7].

The LEADER approach is based on the following seven specific features shown in Figure 1.



Fig. 1. The seven principles of LEADER  
Source: WINNET, 2020 [21].

One of the most important key principles of the LEADER approach is the bottom-up approach; it aims to encourage participatory decision-making at the local level for all aspects of development policy. Local actors, including the community as a whole, economic and social interest groups and representative public and private institutions need to be involved.

The bottom-up approach is based on two major activities ("animating" and forming local communities). LEADER believes that the locals are the best experts to lead the development of their territory. This bottom-up approach means that actors and the local community can help define a development path for their area in line with their needs, expectations, and plans. Doing so through a collective approach with delegated decision, allows them to take control of the future of their area. They make decisions about the local strategy and the selection of priorities to follow. Active participation is encouraged at

every stage throughout the process, during the development, implementation, evaluation, and modification of the LAG’s strategy. The involvement of local actors should be fair and transparent, including the general population, economic, civic, and social interest groups and representative public and private institutions. This bottom-up approach is enshrined in EU regulations with provisions on animation and decision-making to ensure that no interest group can have a majority.

The European Commission’s study has concluded that “budgets squeezed by increased administrative burdens and limited funds leading to low resources for animation and facilitation actions, have compromised beneficiary demand and project quality” and “Achieving wide participation of multiple actors through application of the bottom-up principle and promotion and animation strategies including events, publications, web based and direct communications for further engagement with stakeholders and the wider public were effectively applied in all case studies except Romania”. “The analysis highlighted that animation was crucial to ensure LAG performance and capacity to achieve good results. Animation proved essential both for effectiveness and efficiency.” (European Commission, 2022) [7].

During the present programming period (2014- 2020), the launch for the selection of the Local Development Strategies (LDS) was made in March 2016, with the final results published in August 2016. The first financing agreements were signed by the authorised LAGs in November 2016, when their functioning for the present programming period has begun.

According to the national implementation framework, for the 2014-2020 programming period, the value of the Local Development Strategy depended on the area covered by the LAG and the population in that territory. The value of the running and animation costs is maximum 20% of the value of the Strategy, respectively maximum 25% in the case of the LAGs from the territory of the Danube Delta. Following the only session of selection of Local Development Strategies, the 239

authorized LAGs have an average population of 40,977 inhabitants and cover an average area of 889.82 km<sup>2</sup>, which corresponds to an average value of a Strategy of 1,689,786.72 euros.

The calculations were made based on the entries in the Applicant's Guide for participation in the selection of local development strategies, according to which the calculated values in relation to population and area were 19.84 Euro/inhabitant and 985.37 Euro/km<sup>2</sup>.

The 239 LAGs authorised by the Managing Authority cover 92% of the rural area and 86% of the rural population.

The 239 LAGs authorised by the Managing Authority for the 2014 – 2020 programming period had to implement each a Local Development Strategy with values ranging from 1,583,850.31 euros, the smallest, to 5,866,271.31 euros, the largest.

Starting with January 2017 until 31.07.2021 (date of reporting the degree of contracting and payment related to Local Development Strategies) (MADR, 2021) [12], the 239 LAGs authorized by the Managing Authority submitted payment claims under two subsequent financing agreements (subsequent financing agreement No. 1 covering the period 2016-2019 and the subsequent financing agreement No. 2 covering the period 2020-2021).

For the reimbursement of running costs, the rules imposed by the paying agency for the submission of payment claims are:

- **for the first Financing Agreement**, the running costs requested for payment were not to exceed the maximum percentage of running costs approved in the Strategy in relation to the total amount of public allocation approved under LDS;

- **for the second Subsequent Financing Agreement**, the percentage of running costs requested for payment were not to exceed the percentage of public value contracted under the LDS. (AFIR, 2016) [1].

During the second financing contract, 2 LAGs failed to submit payment claims within the legal deadline of maximum 12 months from the signing of the contract and, according to the procedures, their operating license was revoked.

The structure of the budget for running and animation costs for the 2014-2020 programming period is as follows:

Chap. I - staff costs

Chap. II - expenses with technical and financial consulting services, expertise related to the implementation of LDS and audit

Chap. III - logistical, administrative and travel expenses for the operation of the LAG

Chap. IV - expenses for training and skills development on LDS implementation

Chap. V - expenses for animation

Chap. VI - expenses for local events, themed festivals, traditional product fairs and other events promoting the territory covered by the LAG.

Table 1. Distribution of running and animation expenses for the period 2017 - 2021

Budget chapter	First financing contract			Second financing contract		
	No. Of LAGs submitting payment claims	Value authorised for payment (ROL)	% of the authorised amount	No. Of LAGs submitting payment claims	Value authorised for payment (ROL)	% of the authorised amount
Chap. I	239	222,746,795.88	78.22%	237	79,474,870.91	91.67%
Chap. II	239	17,026,171.35	5.98%	186	3,021,277.83	3.48%
Chap. III	237	30,654,856.64	10.76%	184	3,487,941.52	4.02%
Chap. IV	184	3,889,598.84	1.37%	13	74,730.15	0.09%
Chap. V	234	8,219,086.37	2.89%	110	595,470.65	0.69%
Chap. VI	129	2,229,249.20	0.78%	4	39,913.55	0.05%
<b>TOTAL</b>		<b>284,765,758.28</b>			<b>86,694,204.61</b>	

Source: own elaboration considering all the payment claims submitted.

The distribution of running and animation expenses for the 5 years of activity (2017 - 2021) within the 2 financing contracts can be found detailed in Table 1.

Analysing the expenditures made by the LAGs within the two subsequent financing contracts, it is noted that in the first period of operation (2017 - 2019) 78% of the expenditures were allocated to salaries, with an average of 5 employees/LAG, including the salary for the animator. The relatively high share of expenses related to chap. III during the first period of operation was due to the purchase of cars by the LAGs; about 3 quarters of the LAGs bought cars to cover the managed territory, considering that during the first programming period, such expenditure was not considered eligible. The need to buy transportation means to monitor the LDS implementation and to animate the territory was welcomed by the authorities, considering it an advantage to a better achievement of the LEADER principle. The 25% of the LAGs not buying cars have spent an average of 5% on chapter III.

Regarding the second period of operation, it is noted that most of the expenditures were directed to salaries (over 90%), but also to administrative expenses (7.5%).

There is a low proportion of spending on animation, training of employees and local leaders and organizing events to promote the territory, although not all funds from the LDS have been contracted, and the purpose of LAGs in the territory is to value the endogenous potential.

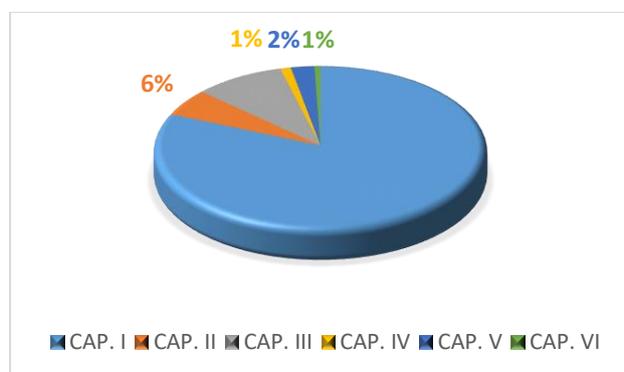


Fig. 2. Distribution of running and animation costs by budget chapters

Source: own elaboration considering all the payment claims submitted.

On average, until 31.07.2021, LAGs have requested to payment 71.03% of the running costs allocated for the entire period of implementation of the LDS.

Centralized, the situation of expenditures made by LAGs, according to the budget chapters in the period 2017 - 2021 is illustrated in Figure 2.

In order to ensure the continuity of the LDS' implementation process, in the transition period to the next programming period (2021-2022), Romania decided to provide additional funds to the selected Local Development Strategies, their distribution being made according to the related performance criteria: of the cumulative fulfilment of the percentages of minimum 70% contracted value and minimum 30% paid value on July 31, 2021 (MADR, 2021) [13].

Analysing the situation published by the Managing Authority, regarding the degree of contracting and payment of the 237 active LAGs, shows an average degree of contracting of 89.71% and an average degree of payment of 63.36%, as well as a non-fulfilment of performance criteria by 20 LAGs.

Of these, 15 LAGs did not meet the criterion of a minimum 70% contracting rate, with an average contracting value of 65.47%, and 5 LAGs did not meet the criterion of a minimum percentage of 30% payment, having an average payment value of 25.31%. The 20 LAGs considered non-performing on 31.07.2021, requested for reimbursement operating expenses of 68.97% of the allocated value, below the average threshold mentioned above.

From the point of view of the covered population and of the non-fulfilment of the degree of performance imposed by the Managing Authority on 31.07.2021, the situation of the LAGs in Romania is presented in Table 2.

It is observed that more than half of the LAGs in Romania have a population below the average size of 40,977 inhabitants, and 13.74% of them failed to reach the performance indicators, compared to 5.56% of the LAGs from the other categories.

Table 2. Situation of LAGs from the point of view of non-compliance with the performance criteria, distributed according to the population covered

Population (no. inhabitants)	No. Of LAGs	Average value of LDS (euro)	Average no. of employees	Average of running costs reimbursed (% related to approved amount)	No. of LAGs not compliant with the criterion min. 70% contracting	No. of LAGs not compliant with the criterion min. 30% payment	No. of LAGs dissolved	Proportion of non-performing LAGs
under 20,000	34	1,554,342.51	4	70.95%	4	2		17.6%
20,001 – 40,000	97	2,136,145.74	5	69.84%	8	2	2	12.4%
40,001 – 60,000	67	2,717,514.11	5	71.22%	2	2		6.0%
60,001 – 80,000	33	3,296,873.55	6	74.56%	1	1		6.1%
above 80,000	8	4,237,593.87	6	69.45%	0	0		0.0%
TOTAL	239				15	7	2	10.0%

Source: own elaboration using the payment claims submitted for reimbursement.

We have calculated Pearson correlation coefficient between the performance indicators of all 239 LAGs, as defined by the Managing Authority (contracting degree over 70% and 30% paid amount), the number of inhabitants covered by LAG, the population's density, the surface, the amount spent for animation and the cost of animation per inhabitant, the amount spent for running and animation and the number of employees.

According to the calculations made, there is a moderate indirect correlation between the population's density and the cost of animation per inhabitant ( $r=-0.34$ ) and between the population's density and the amount spent for running and animation ( $r=-0.33$ ). There is also a moderate direct association between the number of LAG's employees and the total population ( $r=0.36$ ), and an obvious strong correlation between the degree of contracting and the degree of payment ( $r=0.56$ ). There are low or negligible correlations between all the other data series.

The analysis of the payment claims submitted by LAGs according to the structure of the budget shows that only 2.37% of the total expenditures made by the LAGs were made for animation, the remaining 97.63% being expenses related to the effective functioning of the LAG (salary expenses, expenses of training and public relations, costs related to

monitoring and evaluation of the strategy), although according to the requirements of the regulation the animation costs should represent a significant share in the LAG's spending structure.

It is also worth noting that in the years 2020 - 2021, only 110 LAGs had expenses related to animation in a percentage of 0.69%.

In order to assess how the administrative burden can be reduced, in order to allow the LAGs to better concentrate on specific LEADER activities (i.e. animation and training), for the next programming period 2023 – 2027, a questionnaire was sent to all 237 functioning LAGs. The questionnaire contained several identification items (e.g. name of LAG, region of implementation, programming period of LAG establishment, e-mail address), closed questions (yes/no questions), such as: "Do you consider that introducing simplified cost options (SCO) would be a simplification for the LAGs activity?" or "Do you consider that introducing simplified cost options (SCO) would be a simplification for the Paying Agency activity?" or with multiple choices, such as: "From the options below, which do you consider to be most useful for a real simplification: a) Flat-rate financing for indirect costs from all eligible direct staff costs or b) flat rate of up to 40 % of eligible

direct staff costs.” or “Considering your experience, which do you consider to be a correct rate for covering the indirect expenditure: 8% of all direct staff costs; 10% of all direct staff costs; 12% of all direct staff costs; 15% of all direct staff costs; other (please mention)”. Also, the questionnaire contained open questions, such as: “Please specify in which way the LAG’s activity will be simplified by introducing SCO”, or “Please specify in which way the Paying Agency’s activity will be simplified by introducing SCO”. The main question is “Do you consider necessary the administrative simplification of the reimbursement process for the running and animation expenditures of LAGs by introducing simplified cost options (SCO)?” If the answer was NO, the LAGs were requested to explain the reasons and to propose other types of simplification. If the answer was YES, they were requested if they consider the simplification is for the LAG or for the Paying Agency, and to choose, according to their experience, the best option of simplified cost from the following:

- flat rate for indirect costs – with the specification of the necessary percentage,
- flat rate of eligible direct staff costs– with the specification of the necessary percentage.

There were received 116 answers, from all the regions of Romania, almost 64% of the answering LAGs being founded in the first programming period, 2007 – 2013.

Only 6 LAGs responded that the introducing of the SCO for the administrative simplification is not necessary, because there were no problems related to the reimbursement of the expenditures according to the current procedure.

From the 110 LAGs that considered necessary the introducing of the SCO, 3 of them do not consider it a simplification either for the LAGs activities, nor for the Paying Agency.

When asked what the best option from the simplified costs presented is, 66.4% of the LAGs have chosen the flat rate of eligible direct staff costs, and 33.6% have marked the flat rate for the indirect costs.

Of the 71 LAGs that have chosen the flat rate of eligible direct staff costs: 40.8% of them consider that 30% of the personnel

expenditures cover the all the other expenditure, 25.4% of the LAGs considering that 25% is enough and 11.3% that 20% is the right amount.

52.8% of the 36 LAGs that have chosen the flat rate for indirect costs consider that 15% of the personnel costs should be enough to cover the indirect costs, followed by 13.9% of them requiring 10% of the personnel costs and 11.1% of the LAGs considering 12% of the personnel costs.

Based on the historical data from the payment claims analysed, and according to the answers to the questionnaire submitted, **we propose 2 variants of simplification, using simplified costs options:**

**VARIANT 1, respecting the provision of art. 56 of EU Regulation 2021/1060 [9]** Flat rate financing for eligible costs other than direct staff costs concerning grants, **parag. (1)** „*A flat rate of up to 40 % of eligible direct staff costs may be used in order to cover the remaining eligible costs of an operation. The Member State shall not be required to perform a calculation to determine the applicable rate.*”, we propose the following budget structure:

**Chap. I – costs with LAG staff – 76.92% of the total budget**

Types of eligible costs: salaries and fees related to the LAG team (manager, evaluator, etc., including the animator).

**Chap. II – costs for the LDS implementation** (other than the costs with the LAG staff)

**Chap. III – costs related to cooperation projects** (other than the costs with the LAG staff)

**Chap. II + Chap. III – flat rate financing of 30% of the eligible direct staff costs** (simplified cost option).

The option chosen by most of LAGs, i.e. 30% of the personnel expenditures cover all the other expenditure, partially confirms the historical data. According to the payment claims submitted, the total costs with the LAGs personnel is on average 81.32% of the total amounts. The frequency distribution of the LAGs regarding the costs of the operation, except for the personnel costs, is shown in Table 3.

Table 3. Distribution of LAGs according to the percentage of the staff costs used for all the LDS implementation

Percentage of the staff costs used for all the LDS implementation	No. of LAGs
less than 10%	21
10% - 20%	77
20% - 30%	70
30% - 40%	44
over 40%	27

Source: own elaboration using the payment claims submitted for reimbursement.

**VARIANT 2, respecting the provision of art. 54** of the EU Regulation 2021/1060 [9] Flat-rate financing for indirect costs concerning grants, **lett. b)** „*up to 15 % of eligible direct staff costs, in which case the Member State shall not be required to perform a calculation to determine the applicable rate*”, we propose the following budget structure:

**Chap. I – costs with LAG staff, except for expenses with the animator - maximum 75% of the total budget**

Types of eligible costs: salaries and fees related to the LAG team (manager, evaluator, etc.).

**Chap. II – indirect costs – 15% of direct eligible staff costs, which represents maximum 11.25% of the total budget – simplified cost option.**

Types of eligible costs:

- costs for office supplies;
- communication costs, including telephone and postal costs and costs for access to necessary information/services (ONRC, REVISAL, notaries, etc.);
- information technology costs, including website management costs, purchase, rental and leasing of office equipment, and maintenance and repair costs of servers, networks, and office equipment;
- LAG office space utilities costs, including heating, water and electricity costs and cleaning costs;
- renting the office space of the LAG;
- expenses for security services;
- service fee for banking operations;
- travel expenses;

- maintenance and repair costs of a vehicle owned or leased by the LAG;
- motor insurance;
- expenses for the purchase, rental, hire and leasing of office furniture;
- expenditure on the acquisition of digital certificates required for the day-to-day running of the LAG;
- accounting expenses and auditing.

**Chap. III – costs for training and skills development of the LAG team and LDS beneficiaries**

Types of eligible costs:

- authorised courses for development the skills of LAG’s employees;
- training of local leaders from the LAG territory regarding the implementation of the LDS through seminars and working groups;
- training the beneficiaries from the LAG territory regarding the implementation of their own projects, eligible only on the Romanian territory.

**Chap. IV – costs for animation: minimum 5% of the total budget**

Types of eligible costs:

- salary costs with the animator(s). According to the EC guidelines set out in "5.3.9 LEADER tool", good practice includes the allocation of minimum staff for animation and the definition of indicators that reflect its results. The actual resources dedicated to animation will have to be established considering the number of people covered by the LDS and the size of the area to allow the animator the necessary closeness and familiarity with the inhabitants.
- costs on animation and promotional materials (including personalized clothing);
- expenditure on the purchase or rental of pavilion-type tents bearing the logo of the LAG;
- expenses for the purchase/ rental of chairs, tables, stands for the promotion/ information activity regarding the LDS;
- expenditure on ensuring the transparency of the allocation of European funds (information board, billboard, stickers);
- expenses for the organization of animation events, including local holidays, themed festivals, traditional product fairs and other

events promoting the territory covered by the LAG.

#### **Chap. V – Other types of costs related to LDS implementation**

Types of eligible costs:

(a) technical and financial advisory services and expertise related to the implementation of the LAG strategy, respectively:

- elaboration of evaluation, selection and appeals procedures, of the Beneficiary's Guides for the LDS interventions;
- project evaluation;
- monitoring the LDS strategy;
- evaluation of LDS implementation;
- management (including aspects related to procurement procedures);
- evaluation of compliance of payment claims;
- legal services related to LDS implementation.

(b) Expenditure on the purchase of a single means of transport by each LAG (only for LAGs that did not purchase in the 2014-2020 programming).

(c) Expenditure on organizing LAG meetings (transport and meals/day, as well as (if necessary) renting the necessary space) - General Assembly and Board of Directors, Selection Committee;

(d) Expenditure on participation in the activities of the National Network for Rural Development and the European Network for Rural Development or other events related to rural development.

(e) Expenditure specific to cooperation projects (excluding indirect costs - which will be included in Chapter II, and costs for LAG staff involved in projects – included in Chapter I).

For this variant, the direct eligible costs are considered the personnel costs associated with the implementation of the supported activities, included in Chapter I and the costs with the salaries of the animators within Chapter IV.

The option chosen by 17% of the LAGs answering the questionnaire, i.e. 15% of the personnel expenditures to cover the indirect costs, confirms the historical data.

Moreover, we have decided to maintain the amount of the salaries (approx. 75% of the budget), considering that the animator's salary was integrated to animation costs, and in order

to confirm the importance given to fulfilling the bottom-up principle, also in terms of financial allocation, we consider important establishing a minimum of 5% for the animation costs.

According to the survey presented by the European Commission, "The data suggest that the use of SCOs particularly for preparation, animation and running costs, brings significant efficiencies to LAG operations." (European Commission, 2022) [7].

#### **CONCLUSIONS**

Following the above analysis, the first hypothesis was partially confirmed, in the sense that the degree of contracting and absorption of LAGs in Romania does not depend on how the funding allocated for running is spent, in the sense that a bigger allocation for certain budget chapters does not have a direct effect on performance, but rather on the actual spending of this funding.

Lopolito, A., Giannoccaro, G., & Prospero, M. (2011) [10], who by applying the DEA method, have agreed that „*less efficient LAGs are also undersized. Therefore, in order to address this problem, the structure of the LAG should be changed accordingly, eventually by enlarging the existing structure (e.g. increasing the population or the economic size) or by merging two contiguous LAGs*”. The correlation coefficients calculated cannot confirm the conclusion, but it provides further research ideas for identifying the factors that lead to performance.

Finally, following the analysis of the structure of running expenses, considering the need for administrative simplification, based on the new regulatory provisions, and on the study carried out among the Romanian LAGs, we proposed 2 variants of budget structures that can be applied in the next programming period.

The advantages of applying any of these options are valid both for the paying authority which would benefit from a reduction in administrative effort and for LAGs which would have more freedom in managing the allocated funds, as well as in concentrating their activities towards the territory.

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