Will the future CAP lead to less implementation costs and higher impacts of Rural Development Programmes?

Barbara Fährmann and Regina Grajewski
Thuenen Institute of Rural Studies
barbara.faehrmann@thuenen.de
regina.grajewski@thuenen.de

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Abstract

The paper discusses the COM proposals for the new delivery model of the CAP post 2020 against the background of evaluation results of German Rural Development Programmes (pillar 2) from several funding periods. Empirical findings from quantitative and qualitative implementation cost analyses show an urgent need for fundamental amendments in terms of a significant reduction of administrative input. This requires an appropriate and proportionate implementation framework. Some approaches in the new delivery model, such as strengthening subsidiarity, address the problems identified. Other elements seems to be essentially geared to the needs of pillar 1 (direct payments). Results orientation and the future CAP strategy plan primarily serve to legitimise direct payments under severe justification pressure. Whether the implementation efficiency of the RDP will increase (without reducing their effectiveness) is open to question.

Keywords: Rural Development Programmes, evaluation, implementation efficiency, effectiveness, implementation costs

1 Introduction and paper structure

Discussions about the design of the Common Agricultural Policy (CAP) after 2020 began back in late 2016 and started taking shape at European level with the EU Commission's (COM) communication on "The future of food and farming". In addition to the strategic (re)orientation of the CAP, the emphasis is on a new delivery model that will target a combination of a stronger focus on results and a simplification in terms of a significant decrease in bureaucracy and administrative burden (EU-COM, 2017). From COM's point of view, the current excessive focus on compliance hinders the performance orientation (EU-COM, 2018d). Similar approaches and lines of argument can also be found in special reports of the European Court of Auditors (ECA) (ECA, 2018; ERH, 2013; ERH, 2017b) and in fundamental German reform papers (SMEA, 2016).

The core problems of the current CAP are identified as being inefficient implementation in the form of excessive administrative burdens and costs, as well as overloading with targets, and not enough focus on results. This outline of the problems makes little distinction between pillars 1 and 2[1]. From our point of view, however, such a distinction is needed because the two pillars, namely direct payments (pillar 1) and Rural Development Programmes (RDPs) (pillar 2), contain two different support systems from an administrative theory perspective. Pillar 1 of the CAP comprises legally laid-down conditional programmes under which there is a payments' obligation and entitlement if certain conditions are met (IF-THEN condition). Pillar 1 aims clearly and exclusively at the agricultural sector and farmers. The RDPs and the funding measures contained therein, on the other hand, are purpose programmes.[2] They focus on the funding purpose and the funding objective, with funding intended to be a vehicle for implementing and developing a diverse range of environmental and regional policy objectives.

[1] Pillar 1: European Agricultural Guarantee Fund (EAGF); Pillar 2: European Agricultural Fund for Rural Development (EAFRD).

[2] For more on the terms "Conditional Programme" and "Purpose Programme", see Luhmann (2000) and Noack (2009).

In this paper, we discuss, on the basis of empirical findings from various evaluation papers, whether DG Agri's ideas for post 2020 address the fundamental problems of pillar 2. The EAGF is only considered to the extent that it has implications for the EAFRD in terms of its "bigger brother" status. As in previous studies, we are approaching the subject from the perspective of the implementing administrations rather than from that of the beneficiaries and their administrative burden.

The key questions are:

- What are the main problems of the EAFRD and the RDPs in terms of implementation efficiency and effectiveness?
- Is the new delivery model outlined really a system change from the EAFRD's point of view?
- Will it strengthen the effectiveness and implementation efficiency of the RDPs?
- Which conditions would have to be met in order to do so?

These questions are discussed against the background of the EAFRD policy design and audit requirements[3]. First, chapter 2 examines results from analyses of implementation costs (ICs) from various RDP evaluation studies. These concern the gathering of implementation costs (ICs) as key indicators of implementation efficiency as well as analyses of cost structures and their underlying rationale. Chapter 3 deals with the influence of the EU framework, as the entirety of all relevant legal regulations and rules, on implementation efficiency and effectiveness as well as the adjustments which the regions made to the RDP design in response. Chapter 4 presents the cornerstones of the new delivery model and discusses the risks and opportunities. The key conclusions are then summarised in chapter 5.

2 Implementation efficiency and IC analyses as part of evaluation studies

Whereas the issue of the cost-effectiveness of funding programmes has been a traditional element of evaluations, this has only recently been the case for implementation efficiency. Up to now, issues of implementation efficiency have tended to be dealt with by courts of auditors (LRH BW, 2015; LRH NRW, 2006; LRH RP, 2002). Since implementation framework and costs are correlated with the strategic design of the RDPs and thus also with their effectiveness, it is also important for evaluations to look at implementation efficiency.

The lack of systematic empirical findings at the level of the implementing administrations[4] prompted the Thuenen Institute of Rural Studies to conduct IC analyses in its RDP evaluations. The first survey was conducted in the course of the ex-post evaluation of the funding period 2000 to 2006 (Fährmann and Grajewski, 2008). A second analysis for 2011 was conducted as part of

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[3] The term "audit requirements" is used as a generic term for the requirements and design of the administration and control systems.

[4] Existing evaluation studies focus primarily on the costs of the final beneficiary (Deloitte, Capgemini and Ramboell Management, 2011; ENRD, 2011). This also applies to scientific studies of the transaction costs of selected funding instruments (Armsworth et al., 2012; Falconer, Dupraz and Whitby, 2001; Falconer und Saunders, 2002; Mann, 2000; Mann, 2013; Ollikainen, Lankoski und Nuutinen, 2008; Weber, 2015).

the evaluation of the funding period 2007 to 2013 (Fährmann, Grajewski and Reiter, 2014). The objectives of this approach in the evaluation include:

- Creation of transparency regarding the costs of the funding and the burden of administering it.
- Exploration of causes behind the costs of the programme and individual measures.
- Analysis of the strengths and weaknesses of the implementation structures.
- Identification of interrelations between IC or burdens on the applicants and the level of acceptance and targeting of the funding measures.

2.1 Design, methods and data in IC analyses

Quantitative data were gathered by conducting a full survey of the implementation burden, in full-time equivalents, for a pre-defined catalogue of tasks (conception, management, application processing, approval and checking). All involved administrative entities in the selected reference year were included: ministries, state and administrative bodies, as well as local administrations and commissioned third-parties. The values, based on self-assessment, were converted into the costs associated with the respective salary grade/compensation group. These include both direct and indirect personnel costs. IT costs specific to the funding programme were also included. The resulting ICs were expressed in absolute terms (absolute ICs) or related to the funds disbursed in the reference year and/or the output achieved (e.g. supported land in hectares) under a given measure (relative ICs).

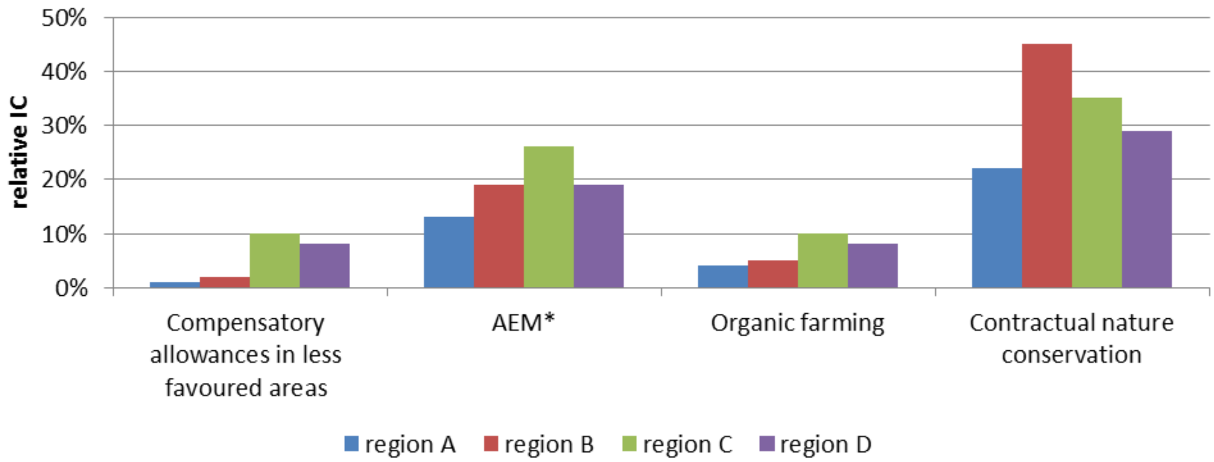
Qualitative data for the IC analysis of the reference year 2011 were gathered by conducting some 70 structured interviews with approval authorities, paying agencies, managing authorities etc. and group discussions. These focused on identifying the reasons for the cost structures that were found for the measures. Apart from these measure characteristics, functionality and appropriateness of the implemented implementation systems were discussed. The relationship between impact level and IC level was also examined by means of model-based regression analyses (Fährmann and Grajewski, 2013).

2.2 Quantitative and qualitative findings on IC and IC components

In the following, the quantitative results refer primarily to the ex-post evaluation of the RDP 2007 to 2013, while the qualitative results relate to the findings of the various evaluation phases.[5] The relative ICs assume substantial dimensions. Excluding IT costs[6], they range from 10 to 28% in the programmes that were analysed. In other words, the disbursement of one euro in funding incurs up to 28 cents in implementation costs. Measures-related and region-related differences are high (see Figures 1 and 2).

[5] The studies of the various evaluation phases are all available at www.eler-evaluierung.de, but are only in German.

[6] When programmes are being compared, IT costs have to be deducted because IT architecture and cost acquisition vary so much that inclusion gives rise to considerable distortion.



* Agri-environmental measures

Fig. 1. Relative IC of selected area-related measures (reference year 2011). *Source***:** Fährmann, Grajewski and Reiter (2014: 49).

Figure 1 shows the difference in level between area-related measures. Whereas implementation efficiency is high for compensatory allowances in less favoured areas, i.e. the IC of paying out one euro in funding are low, the same cannot be said of contractual nature conservation. There, the relative IC are high (over 40% in region B).

Comparable ranges were determined for the investment measures (see figure 2).

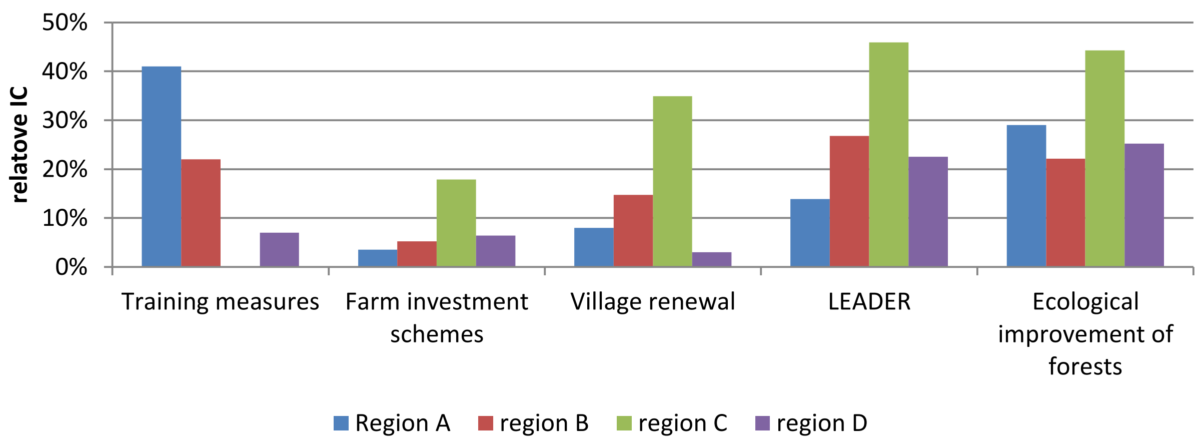


Fig. 2. Relative IC of selected investment measures (reference year 2011). *Source*: Fährmann, Grajewski and Reiter (2014: 51).

The findings of the quantitative and qualitative analyses were condensed. The ICs can be explained schematically in terms of three different cost components. These are (1) the "business-as-usual" costs which are always incurred in funding measures; (2) costs ensuring from organisational decisions, (3) impact-related costs, i.e. this cost component is an investment in the effectiveness of measures. The level and share of the cost components in the overall ICs vary from region to region and from measure to measure. However, the individual components also have to be assessed differently in terms of their changeability and justification and they exist in a specific interrelation with the EU framework (see chapter 3).

(1) **Business-as-usual costs** comprise fixed costs and variable costs for application acceptance, granting, checks and payment claims. The fixed costs of setting up the administration and control systems have a much greater impact in the case of measures with small budgets. This relationship holds especially true for investment measures and less for area-related measures. As a rule, all area-related measures are implemented via integrated application and granting systems, whereas investment measures require separate procedures due to their diversity. Typical measure characteristics (project size, type of beneficiary, heterogeneity of supported projects) affect both fixed costs and variable costs. For example, the relative ICs for training measures are higher in region A than in region D, because region A funds different training providers and highly heterogeneous training courses, whereas region D funds only one provider which offers "off-the-shelf products" (see figure 2).

(2) The level of **organisational costs** depends primarily on the chosen implementation structure (centralised/decentralised), the extent to which other service departments and specialist authorities are involved, and the functionality of the IT deployed. In particular, the high participation of farmers in the land-related area require a functional IT. The differences in the case of contractual nature conservation (see figure 1) are mainly due to different ways in which funding and the associated IT system are organised. Region B, for example, implements a decentralised form of contractual nature conservation with a specific IT system, via local authorities. This IT system does not have an interface to the IT system which is otherwise used for processing the area-related measures. The result is additional administrative work. Region B therefore has the highest relative IC. The farm investment schemes (see figure 2) are a measure which, with the exception of region C, is administered on a centralised basis by one granting authority. This makes sense because it is a standard measure that requires professional but not necessarily regional competence. Region C, which has a decentralised organisational structure, therefore incurs the highest relative ICs.

(3) The more ambitious the measures, the higher will be the **impact-cost component of the IC**. Some of the ICs incurred are to be seen as an investment in effectiveness. For this reason, targeted, effective measures in particular tend to have high-to-very-high relative ICs due to their sophisticated design and differentiated approaches, advising intensity, etc. Conversely, high implementation efficiency of individual measures, as expressed by low relative ICs, indicates a low effectiveness of measures, combined with higher deadweight risks arising from low funding requirements.

Table 1 illustrates this with the example of various area-related measures aimed at (improving) biodiversity. The high relative IC of the effective measures for this protected good can be seen under the columns IC/ ha and Total costs (premium + IC)/ha. Overall, the IC/ha for all measures of high positive biodiversity impact were higher than for those of low impact. Thus, the cost structure of the measures reflects its impact intensity.

Table 1. IC and effectiveness of area-related measures aimed at improving biodiversity (region A)

Area- related measures	Biodiversity objective	Impact intensity	Deadweight effects	IC/ha in euros	Total costs (premium + IC)/ha in euros
Compensatory allowances in less favoured areas	yes	0	existing	0,4	35
Mulch sowing systems	(yes)	+	existing	3,2	43
Ploughless sward restauration	(yes)	+	existing	5,2	49
Organic farming	(yes)	+	existing	6	167
Grassland extensification	yes	+	existing	18,1	116
Contractual nature conservation	yes	++	no	45	251
Flower strips, annual	yes	++	no	60,2	567
Indicator plants, grassland	yes	++	no	71,1	180
Buffer strips	yes	++	no	110,7	223

impact intensity: + = low, ++ = major, 0 = despite biodiversity objective negligible impacts
( ) secondary objective

Source: Based on Sander and Franz (2013).

In summary, the empirical studies conducted during the evaluation show that the IC of RDPs have assumed an appreciable dimension and have also risen continuously. The EU framework influences the three described costs components and leads to increasing costs to different extents.

3 Influence of the EU framework: policy design and audit requirements

The EU framework in the EAFRD is, roughly speaking, set by policy design (objectives, content and budget targets of the RDPs) and the audit requirements as the totality of all control and administrative regulations and audit bodies for the purpose of ensuring the legality of the payments. Different actors and interests play a role in both arenas, both at EU level, at Member state level and in the regions. Policy design and audit requirements directly and indirectly influence the implementation efficiency and effectiveness of funding, both positively and negatively.

3.1 EAFRD policy design: Influence on implementation efficiency and effectiveness

In the name of better targeting, the policy design of the EAFRD is characterised by increased requirements on the programming process and the level of detail from funding period to funding period.

These include the intervention logic, the system of objectives and the structure and content of measures (see Grajewski, 2011). Associated with this are exhaustive requirements on monitoring and evaluation, comprehensive indicator systems and evaluation questions for assessing the achievement of objectives at the level of each of the 118 RDPs currently in Europe. However, the integration of the EAFRD into the overarching CAP objectives, the ESIF objectives[7] and the Europe 2020 strategy has led to a hyper-complexity of objectives in the current funding period.

This is accompanied in part by exaggerated expectations and target overload, e.g. with regard to politically motivated objectives on income, employment and climate protection effects. The different levels of strategy to be taken into account during programming are contributing to strategic overload (see also ERH, 2017b).

Across the funding periods, and despite all the weaknesses that still exist in the context of justification and intervention logic, the target-oriented programming requirements in the EAFRD have strengthened the impact orientation of the programmes evaluated by us. In terms of content, both the EU requirements and the national RDP policies have been given a stronger profile. LEADER and other approaches based on integrated concepts enjoy high priority. These are intended to contribute to a strengthening of the "accuracy of fit" and targeting. The programmes contain a high share of area-specific contractual nature conservation measures and AEMs with a high level of mandatory stipulations. Investment measures directed to farms or enterprises have been focused more strongly on public goods. Certain types of measures, which are very important to COM, have been provided with increased co-financing rates. The European Innovation Partnership was introduced to anchor innovation more firmly in the programmes. It should be emphasised that, despite the detailed content-based prescriptions concerning the EAFRD measures laid down in the EU framework, there has always been and still is a great deal of design leeway on the part of the regions. This is evidenced by the huge variation in the designs of the RDPs, which reflect different creative drive and a different degree of funding continuity – despite ongoing changes in overarching CAP/EAFRD systems of objectives.

At the same time, however, the greater focus on objectives and impacts is contributing to lower implementation efficiency (higher relative ICs). Complex programming processes, the integration of new measures (sometimes with low budgets) and higher demands on monitoring and evaluation are causing programme overheads to rise. In addition, ambitious measures are generally more expensive to implement (see chapter 2.2). Moreover, uptake of targeted funding is often lower due to the high requirements imposed on the funding project. The fixed costs of implemented measures (administration and control system, IT applications) are thus faced with lower output. For example, the number of applications for farm investment schemes dedicated to animal welfare improvements has fallen substantially compared to "mainstream" farm investment schemes.

Selection criteria are another element to improve targeting. The EAFRD regulation mandates the use of selection criteria in the choice of projects. These selection criteria are intended to ensure both a minimum quality on the part of the projects and a ranking that, when budgetary resources are tight, enables the selection of the best in terms of the greatest potential contribution to programme objectives. Selection criteria could be used rationally as a steering instrument. It should be noted that funding measures are organised very differently in the regions and in the member states as well. At least for those measures, which are already based on sound/profound

[7] The European Structural and Investment Funds (ESIF) include five separate EU funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

specialist planning including priority lists or are managed by the authorities, additional formal selection criteria do not bring added value. On the contrary, they increase the risk of financial corrections (EUGH, 2018).

Irrespective of the funding objectives, the disbursement or outflow-of-funds logic continues to play a dominant role – in the political arena, as well. In the area of policy design, the reintroduction of the performance framework and the performance reserve has laid down mechanisms that require a focus on spending discipline rather than on effectiveness (see Grajewski, 2011). In our empirical work we found various disincentive effects for funding design and implementation management. New strategies and funding approaches, innovation, measures fostering cooperation between numerous players and "partnerships" for public goods are being hampered. Project figures generated by new approaches are hard to anticipate because of the difficulty in estimating demand and the necessary lead time. Funding "evergreens" which are in high demand and some of which are less effective or have high deadweight effects, then tend to be strengthened. At programme level, the performance framework gives rise to greater administrative effort on financial monitoring and monitoring of the achievement of output targets. In the long term, though, the increased implementation efficiency resulting from this incentive may come at the expense of effectiveness if funds and efforts tend to be directed more towards standard measures.

Even COM representatives (e.g. in meetings of the RDP monitoring committees for the current funding period) sometimes fail to wax lyrical about effectiveness when there is less outflow of funds than expected. In that event, strict eligibility conditions, e.g. for tailoring funding measures to public goods, are given the pejorative term gold-plating[8]. Thus it is, that a consistent focus on impact and on reducing deadweight effects is put on a par with an excessive, unnecessary flood of regulations.

3.2 EAFRD audit requirements: influence on implementation efficiency and effectiveness

Implementation of the RDPs is subject to a strict and complex management and control regime, which seems inappropriate in some cases in view of the funding objectives and the funding purpose and which also differs from that which applies to the other ESI funds.

The fundamental reason for this is that the EAFRD is designed as the EAGF's "little brother". Thus, administration and control systems in pillar 2 of CAP are mainly characterised by the philosophy and rules of pillar 1 despite different strategic approaches and aims. In the name of simplification and harmonisation, the rigid direct-payment control framework has been applied to the targeted area-related EAFRD measures as well as to investment-related and innovative support measures. When the audit requirements were being transferred, no account was taken of the fundamental differences between purpose programmes (RDP) and conditional programmes (direct payments) (see chapter 1). Due to the existing legal entitlement to annual direct payments where required conditions are met, this funding system must apply strict standards to control

[8] "Gold-plating is a pejorative term to characterise the process where an EU directive is given additional powers when being transposed into the national laws of member states. The European Commission defines gold-plating as "an excess of unnecessary norms, guidelines and procedures accumulated at national and regional levels" (Bocci, de Vet and Pauer, 2014).

them. In the case of recurrent payments, it may be appropriate to work with dissuasive sanctions. This approach is in parts inappropriate for purpose programmes which tend to deliver a broad range of social, economic and environmental goals.

Another trigger is the 2% materiality threshold as a basis for the Statement of Assurance, which applies to all EU policy areas. In order to apply reliable accounting as envisaged by the ECA and the EU Parliament, funds disbursed in error[9] may not exceed 2% of the total funds (expenditure) disbursed. The error rate is a virulent topic and the source of the growing “pressure” within the EAFRD implementation system. In the opinion of the paying agencies surveyed, compliance with the 2% threshold both for the area-related measures of pillar 2 and the investment measures is scarcely possible given the vast differentiation of the measures. Initiatives on the part of COM to introduce a tolerable risk of error with policy area-specific thresholds have not yet become established (EU-KOM, 2008). The EU Parliament, as the guardian of budgetary sovereignty, is sticking to the strict 2% interpretation and has so far rejected any amendments in this direction.

The architecture of the legal framework is complex and thus becomes its own source of error[10]. In order that errors may be avoided and community interests protected, the administration and control system is characterised by a jungle of rules comprising EU regulations, delegated legal acts, funding directives, instructions, decrees and budgetary provisions at all levels involved. In addition, the EAFRD is serving two masters in the current funding period. “The fact that the EAFRD is integrated into both the ESI framework and the CAP horizontal regulation leads to a multiplication of provisions and high risk of inconsistencies and problems in the management of the legal changes in the course of the funding period” (SMEA, 2016). The ECA 2016 also notes that the error rate is high because of, and not despite, the complex regulations (ERH, 2016).

The governance structures in the area of administration and control systems are equally complex: paying agencies, granting bodies, inspection services, certifying bodies, competent authorities, COM audit services as well as the courts of auditors check the compliance and legality of approvals and payments and the functionality of the administration and control systems which are in place. They do this by conducting individual audits up to and including the beneficiaries and system checks following a specific audit programme. This has created a fundamental culture of mistrust and uncertainty that weighs on both the work of the administrations and the reputation of EU funding among potential beneficiaries.

And it is not only the jungle of legal regulations which is leading to a lack of legal certainty. Other contributory factors are numerous non-binding guidelines issued by COM, which are becoming the yardstick for the implementation and are thus acquiring “quasi-legal” status. The same applies to the audit and control findings obtained by the numerous supervisory bodies. These results are being used for de facto retroactive application of legal interpretations and differentiation of procedural rules.

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[9] The EU Commission defines errors as the record of a transaction not carried out in accordance with the legal and regulatory provisions, therefore rendering declared (and reimbursed) expenditure irregular (Bocci, de Vet and Pauer, 2014).

[10] For a good survey of the implications of the legal framework of the current funding period, see the ELER Reset Paper (SMEA, 2016) and a study compiled by the State Audit Office of Baden-Württemberg (LRH BW, 2015).

As a result, the upward spiral of audit complaints and counter-reaction with new regulations and controls continues. “This was an attempt to create a perfect, infallible, bureaucratic system capable of preventing all errors” (SMEA, 2017).

A further driving factor behind the unconditional avoidance of errors is the strict sanction mechanism of “financial corrections” (exclusion from expenditures from community financing), which COM has at its disposal both in the event of concrete errors and abstract risks. The pressure on the implementing administrations is correspondingly high.

But, the marginal return of system improvement have been reached. A recently published study examined the ratio of control costs to the level of detected errors (LRH BW, 2015). The average corrected amounts per control case for EAFRD IACS[11] are 80 euros for a ratio of errors to the costs of the on-the-spot controls of 1:67, while the corresponding figures for EAFRD non-IACS are 25 euros for a ratio of 1: 70 (LRH BW, 2015: 55).

This framework not only reduces implementation efficiency. Effectiveness also suffers indirectly, as funding measures are affected to varying degrees, and that elicits different adjustment responses on the part of the administrations (see chapter 3.3). Some examples are given below:

Area-related measures are subject to the IACS requirements arising from pillar 1. Requirements imposed on the accuracy of area measurement and falling error tolerance ensuing from technical advances are spawning higher error numbers which are due to mostly only minor discrepancies in area. Irrespective of the cause[12] and extent, each discrepancy in area leads to a (repeated) processing of all data records based on the area data. This mainly affects measures aimed at integrating or developing natural elements and structures, such as the contractual nature conservation measures which are highly effective for biodiversity. Again, the stipulation-specific checks introduced with the amendment of the Control Regulation, which in some cases requires several checks to be performed on the same area per year, has also further increased the outlay on targeted dark-green measures. Under current requirements, only compensatory allowances in less favoured areas, which are non-specific in their impact, can be implemented at low cost.

Worthy of particular mention in the area of investment funding measures are the sanction regulations, which were adopted from pillar 1 (and which do not exist in other ESI funds), and the problems in the context of the public procurement law.

The requirements relating to sanctioning of “over-declarations” or discrepancies in the area of investment measures are presenting administrations with challenges. Since national funding legislation does not provide for sanctions, applicants must be informed in their application of the conditions under which sanctions may be imposed. This increases the advising effort required on the part of the administration. There is no discernible added value to be gained from this somewhat deterrent instrument, which assumes that applicants are intending to commit fraud from the outset, in a funding area that, above all, also needs partners if policy objectives are to be achieved. This regulation is alien to the system and reduces the acceptance of funding measures.

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[11] Integrated Administration and Control System (IACS).

[12] Such as a change in the area reference, or the identification of a discrepancy in area between the submitted area in the application and the area found.

Public procurement rules and the control of their compliance are not new and were an issue even before 2014. However, in the current funding period they are developing into a key conflict because they have come in for scrutiny from higher-level audit and control bodies due to their susceptibility to error.

Detected errors, including those in the area of national public procurement legislation, are reflected in the error rate and have to be sanctioned. Within the funding, public procurement legislation, which entails a great deal of interpretation, comes up against an EU framework in which procedural errors have to be examined and financial corrections to be applied to possible errors”[13] without room for discretion”, irrespective of whether or not the error has caused damage to the Union. Particularly affected by the uncertainty are applicants and administrations in the area of LEADER, basic services, investment in nature and water conservation projects as well as cooperative ventures. Acceptance of EU funding is on the decline. This applies in particular to non-profit associations and volunteers.

However, these problems are determined not by the EU framework alone, but also by the structure of national funding and budgetary legislation. The cost of uniform application of law and maintenance of EU legal expertise also increases with the chosen implementation structure and is therefore also the responsibility of the regions (see chapter 2.2).

3.3 Adjustments by regions to RDPs in response

The regions have made adjustments to the design of their RDPs – in some cases to ease the burden on their systems – which counteract the positive developments outlined in chapter 3.1 aimed at greater impact orientation. Some of the strategies are outlined roughly below.

Ambitious funding approaches are being switched to purely national funding wherever sufficient national funds are available. For example, in one region, all the dark-green measures for protecting biodiversity are now being funded without EU cofinancing. Forest support measures, too, are often being “renationalised” in whole or in part. Due to the incompatibility of the land consolidation measure with the requirements of mandatory selection criteria, more and more German regions are removing this measure from their RDPs (see EUGH, 2018)), even though the measure received a positive evaluation. As well the funding of broadband infrastructure – a flagship measure for rural development – is difficult to implement due to the high susceptibility to errors under the EAFRD (few funding cases with very high funding amounts; lengthy, complex procedures under public procurement legislation). Many regions decided to forego broadband funding in the first place or are removing it from the RDP under an amendment.

Despite high co-financing rates, some regions are foregoing qualification and advisory measures from the outset. Cooperation measures also tend to be programmed with restraint, because these small-scale measures in particular entail high IC. This also applies to other instruments that COM deems particularly important. For example, the use of the financial instruments strongly promoted by COM is failing, among other reasons, due to excessive administrative costs.

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[13] The corresponding EU guideline distinguishes 25 types of error.

From the point of view of implementation efficiency, this streamlining of the programmes in response to the disproportionate administration and control requirements is both understandable and logical.

However, in so doing, the RDPs are running the risk of (re)aligning themselves with large-scale standard measures, despite all strategic efforts and targeting.

3.4 Lessons learned up to now

Table 2 summarises the implications of the identified interactions between the key elements of policy design and the audit requirements for implementation efficiency and effectiveness. It can be clearly seen that the EU framework is providing different stimuli. Policy design and audit requirements aimed at strengthening effectiveness and implementation efficiency, are not free of tensions or contradictions, either intrinsically or among themselves.

The evaluation results show that there is a fundamental need for change for the next funding period, primarily with regard to audit requirements, but also in policy design. The burden of both high ICs and the prevailing “culture of mistrust” is high and consumes a great deal of resources. Thus, COM's statement that the focus up to now on compliance is hindering performance orientation (EU-COM, 2018d) is a shared one. However, the EAFRD and EAGF find themselves in different starting positions ahead of a new funding period.

Pillar 2 does not suffer from a lack of goals, goal orientation or indicators. Rural development is suffering from the negative impact of contradictions in policy design and “imprisonment” within the IACS implementation system, as well as from a regulatory system for 98% compliance that is taking on a life of its own. Despite the responses of the regions to adjust the design of their RDPs, as shown in chapter 3.3, over the recent funding periods the EAFRD has moved in the right direction from the point of view of a results- or impact-based approach.

The situation is different for pillar 1, whose core elements are direct payments aimed primarily at stabilising farm incomes. Although the requirements on control are also high in pillar 1, they are not so high when it comes to the design. Criticism of pillar 1 is primarily based on an insufficient focus on targets and results, dwindling social justification for the direct payments and ineffective greening (ERH, 2017a; Wissenschaftlicher Beirat Agrarpolitik, 2011; Wissenschaftlicher Beirat Agrarpolitik, 2010).

Not to put too fine a point on it: pillar 1 mainly has an impact and justification problem, pillar 2 has an administration system problem. This insight, in conjunction with the different balance of power between the two pillars, is crucial for the classification of the proposals for the new delivery model.

Table 2. Key elements of the EAFRD policy design and audit requirements and its effects on implementation efficiency and effectiveness

Key elements	Implementation efficiency	Effectiveness
Policy design		
Programming process, SWOT, target system, monitoring/evaluation	**Shrinking** because it is associated with higher expenditure	**Increasing**, promotes a focus on higher accuracy, reduction of deadweight effects and greater profiling on public goods
Selection criteria	**Shrinking**, due to high formal effort for creation and criteria, Organisation and documentation of the selection procedure	**Increasing**, if they are actually used for strategic steering purposes and the selection of the best projects **Shrinking**, if they cause what are actually sensible measures to be removed from the programme because they are not compatible with the rigid application requirements
Performance framework	**Increasing** in the short-term, especially at programme level (monitoring and steering) **Shrinking** in the long term, because they are incentives for easily implemented measures for achieving budgetary target values	**Shrinking** Tendency to disadvantage new, innovative and sophisticated funding measures
Audit requirements		
Audit, control and sanctions	**Shrinking extremely** Lack of legal certainty and increasing error rate due to high complexity and retroactive application of new legal opinions Audit findings and COM guidelines becoming *quasi* law Spiral of findings and reactions Excessive, increasingly ineffective controls Disproportionate sanction regulation	**Shrinking** Burden of effective funding approaches Culture of fear and distrust Shrinking acceptance of EU funding of certain groups of beneficiaries and administration Adjustment responses on the part of regions in terms of streamlining the RDP

Source: Authors' own representation.

4 Proposals for the new delivery model post-2020

The following deliberations outline the key points of COM's communication entitled "The future of food and farming" on the new delivery model against the background of the evaluation results of the recent funding periods. Due to the general nature of the communication, presentations by COM representatives in workshops and information events are also included (EU-COM, 2018b; EU-COM, 2018a; EU-COM, 2018c; EU-COM, 2018d).

In formulating its overall goal of increasing simultaneously implementation efficiency and effectiveness within the meaning of a greater focus on targets and results, COM has set itself an ambitious and demanding benchmark for the assessment of its own proposals. The proposals concern both policy design and audit requirements. Cornerstones are:

- Focusing the CAP on fewer objectives – without further hierarchical levels,
- Integration of pillar 1 and 2 into a CAP strategic plan to be drawn up at Member State level with a common system of objectives and common indicators,
- Greater subsidiarity by shifting responsibility and design scope back to the Member States, in terms of both funding content and audit requirements,
- Greater focus on results through a "budget focused on results" approach,
- Use of performance reports as a basis for accountability to COM, instead of COM verifying that payments are in compliance with regulations,
- The abandonment of direct rules and controls by the EU at beneficiary level.

Leading the way is a new division of roles between the EU and the Member States. For example, the COM would only set an "EU minimum" for both policy design and audit requirements: objectives of the CAP, broad categories of measures, essential requirements. Basically, this approach signals a return to an appropriate division of roles in the context of shared management.

The opportunities and risks for effectiveness and implementation efficiency from the EAFRD's perspective are discussed below. It should be pointed out that many details are still vague and in flux. Some of the following assessments are therefore more of a provisional nature. However, they do give an indication of what we believe will be important for further design post 2020.

4.1 Opportunities and risks arising from the realignment of policy design

Fewer objectives and strategic levels open up opportunities and risks for the EAFRD

This approach can counteract the strategic overload and hyper-complexity of objective trees, lead to the setting of appropriate and attainable goals, and clarify programme structures. Honesty in respect of targets and less programme overload also facilitate coherent monitoring and evaluation systems. It should be emphasised, however, that so far the debate has been taking place inside the CAP. Whether the CAP objectives outlined so far will remain unchanged will depend on how and whether the CAP will be integrated into other overarching strategic levels, e.g. of a new common umbrella regulation for all EU funds. Concerning the content of the targeted objectives (EU-COM, 2018d) as well as the entire COM communication (EU COM, 2017), one critical aspect from the EAFRD's point of view is that more prominence has clearly been given to the agricultural sector. Territorially focused rural development as an independent policy area is hard to discern. It is addressed along with the topics of LEADER, smart villages and bio-economy and has been merged into one target. As a result, the narrowed system of objectives no longer reflects the breadth of the former EAFRD priorities, but is clearly heavily influenced by pillar 1. Regarding pillar 2, the proposed system of objectives lacks appropriate complexity.

Greater design freedom equals more effectiveness?

In our opinion, the EAFRD already took account of local conditions and requirements in the recent funding periods. To be sure – and this is not to be the case any longer in the future – a selection had to be made from a detailed menu of measures. Thus, it was already possible to tailor many measures to site specific or regional needs. COM's assertion that "We are moving from a one-size-fits-all to a tailor-made approach" applies only in part to the RDPs. Moreover, the connection between more design options and greater effectiveness and targeting is not necessarily a given, but will continue to depend on the regions' creative will. The fact that the current RDPs also offered measures that were not very effective but had high deadweight effects is not a result of COM requirements.

The issue is whether the narrowed spectrum of objectives, including the set of common outputs and results indicators (EU-COM, 2018b) can deliver on the desired diversity of measures or whether it will not once again have a restrictive effect via the back door.

Results-oriented budgeting – focus on results is hardly new for the EAFRD

This approach includes two elements: first, a stronger link between the measures implemented by the Member States and the CAP objectives and expected results and, second, a change in the audit system (see below). The results-oriented approach adopted by DG Agri is congruent with the BFOR (budget focused on results)[14] initiative launched by DG Budget in 2015. This stipulates that available funds should be invested in a result-oriented manner so that they deliver better and tangible results. For pillar 2, J.C. Junker's demand to make sure that we link "every euro spent to an expected result" (EU-COM, 2018d) coincides with our view on the RDP programming logic up to now. However, this approach is new for direct payments and they are therefore under greater pressure to implement severe changes. Crucial issues in relation to greater socially relevant effectiveness are: which results are to be achieved with the direct payments, how sound is the underlying rationale and which indicators are used to measure performance. If result indictors are more or less output indicators (share of farmers receiving support, share of hectares receiving support), then not much is gained in terms of the quality of the use of the funds.

The CAP Common Strategic Plan

The future common strategic plan for the CAP, including pillars 1 and 2, which must be drawn up at Member State level, is a completely new approach. It must align all measures on economic, social and environmental objectives and these must be backed up by corresponding quantified output and result indicators.

The potential of this lies in greater cohesion between the various policy approaches, which have been pursued and implemented separately to date and which have partially contradictory effects. Thus, contradictory impacts of the two CAP pillars in the environmental area have brought about a situation in which the RDP measures, instead of actually achieving progress towards certain targets (biodiversity, water conservation), mitigate negative impacts of the pillar 1 policy

[14] Read more: http://ec.europa.eu/budget/budget4results/index_en.cfm

(Fährmann, Grajewski and Pufahl, 2017). In the future, contributions to specific objectives are to be jointly assessed for all CAP measures. This means that there is a chance that conflicts of interest will become more apparent.

The envisaged greater closeness between the two pillars, which differ in their underlying logic, raises the question as to which one will shape the other more strongly in the future: Will the EAFRD, as the eternal "little brother", be dominated by pillar 1 interests, or will it rub off on the latter? Whose interests will dominate the ductus of the strategic plans? For the CAP as a whole to be more effective, much will depend on whether pillar 1 payments, through ambitiously formulated results, e.g. for the provision of public goods, will actually be given a different content-related design. Inertia in this area over the past decades and the failure of greening give little cause for optimism.

A greater strategic integration of the two pillars will cause the EAFRD to move away again from the other ESI funds. Up to now, COM has not made any reference to future relationship between the different funds in its communications. Despite all problems posed by the ESIF Regulation in the current funding period (see chapter 3.2), stronger cross-fund cooperation structures and strategies between EAFRD and the other ESI funds have emerged in the regions. In terms of content, the investment schemes financed by the EAFRD have to a large extent more in common with the ERDF than with direct payments. This should not fall victim to CAP isolation.

While the added value for effectiveness still depends on many framework decisions, implementation efficiency in terms of programming, coordination and control is likely to decline. This plan will prove to be a challenge, especially in the federal states: up to now, pillar 1 measures have been regulated nationally. RDPs, by contrast, are programmed and implemented regionally. The federal government has only a weak coordination function due to the distribution of constitutional responsibilities. COM's demand that the future CAP strategic plan be drawn up at national level and that reporting take place at this level (see below) will make the processes considerably more difficult. In that event, 13 "former" RDPs, which will be highly heterogeneous due to the greater design freedom mentioned above, will then have to be mapped, merged, managed and reported, together with, if necessary, ongoing national measures of pillar 1, in a single set of specific objectives for the CAP, a single set of indicators and a single monitoring tool (EU-COM, 2018d). This means that different administrative entities (pillars 1 and 2) in the regions, with their different characteristics and implementation systems, as well as 13 state administrations and the federal government will have to work closely together. From COM's point of view, the many "singles" (see above) and the reduction from the current 118 RDP to 27 GAP strategy plans look like a simplification. The reality at a federal level is different. It is questionable whether the additional cost could be compensated by the fact that, according to COM, the programming procedures should be considerably less complex than in current RDP programming (COM 2017), since binding requirements concerning the details of measures and rules on eligibility will be removed from EU legislation.

4.2 Opportunities and risks associated with the realignment of the audit and control system

According to COM, the system of detailed requirements and strict controls does not satisfy the diversity of agriculture and is unsuitable for attaining the desired CAP results. This is supported by the results of our evaluation. In some COM papers, the presentations tend to suggest that results orientation will replace the dominant focus on compliance with the legal framework and will thus completely replace the previous system. That will certainly not be the case. If necessary, the audit requirements and compliance will be redesigned, but they will not fade away.

New design of the control architecture through more involvement of the MS

Member States are to have a greater say in the design of the administration and control rules (including reviews and sanction) applicable to beneficiaries (COM 2017). It is envisaged that minimum requirements only will be set at EU level. These will include basic provisions on eligibility and on the governance structures of the implementation systems. The future minimum requirements must satisfy the audit departments of the COM, and if necessary also the courts of auditors and above all the European Parliament as the holder of budgetary sovereignty, if the interests of the community are to be safeguarded.

COM's pronouncement that "another important task of the Commission would of course be to monitor the results and compliance with basic EU rules and international obligations within a well thought-out audit and reliability system" (COM, 2017) indicates that COM will continue to check/revise Member States. In addition, the governance structure comprising all hitherto paying agencies and audit bodies (see chapter 3.2) is to be largely retained.

Emphasis is placed on a key simplification that the EU no longer regulates and checks compliance with certain eligibility conditions for aid in the internal relations between the Member State and the beneficiary (EU-COM, 2018a). This is done exclusively in accordance with the legal framework established by the Member State in conformity with the EU (see above) and by the Member State itself.

The announcement of less depth and density of regulation is a step in the right direction and opens up opportunities for more appropriate approaches in the Member States and thus greater implementation efficiency. The crucial question is whether this change of course, with the same players, will significantly reduce the burdens associated with the focus on legality and regularity.
However, COM and state representatives (SMEA, 2018) see this as a prerequisite for switching to results-oriented accountability.

The decisive factor for reducing the negative impacts of the current audit requirements on the effectiveness of the RDP (see chapter 3.3) is how the above mentioned minimum requirements turn out and the implemented systems will be checked/revised (see above, COM 2017). The aim must be to restore legal certainty in the system and to reduce fear and mistrust. The elimination of EU controls on the beneficiary will be insufficient on its own.

Introduction of performance assurance instead of conformity audit

In the future, the Member State will no longer have to proof compliance of expenditure to the EU COM and the EU Parliament. Proof of sound financial management will consist in reliably monitoring and reporting the performance of the funds used. This is to be implemented through a new system of reporting to the EU, for which future monitoring will play a key role: in addition to financial clearance (which will remain), there will be the annual performance clearance based on output indicators and the annual performance review based on the result indicators. In particular, the latter will monitor progress made towards the targets set in the CAP strategic plan. According to COM (ibid.), audit and financial corrections are limited to serious non-compliance with EU basic requirements and governance structures (EU-COM, 2018d).

The decisive factors for a better atmosphere, burden relief and greater implementation efficiency in the system are how the term “serious” is interpreted and how the culture of financial corrections and their calculation change. The nature and extent of “thumbscrews” applied by COM in the case of deviations from target values or too little progress within the framework of the performance review, will effect the target-setting tactics and the ambitions of the Member States in respect of objective and impact orientation. The uptake of funding programmes is significantly influenced by external factors (e.g. market and price developments, investment climate), which cannot be influenced by those responsible. Uptake and disbursement flow are difficult to predict (see also Liverani, 2018), especially in the case of new approaches. As described in chapter 3.1, experiences with the performance framework during this funding period point to critical negative effects if there is a risk of loosing funds due to non-achievement of planned output targets. In the future, more justifications of deviations may become increasingly necessary, or action plans may be requested by COM – although the counter-strategies for generating greater uptake are limited. That is, unless the content-related requirements of funding are lowered (evergreen instead of dark green).

Monitoring becomes the basis of the audit system

With the new accounting system based on output and result indicators and no longer on payment transactions, monitoring takes on a whole new meaning. The first challenge lies in developing and defining reliable, measurable and manageable indicators, while the second consists in their actual acquisition.

Up to now, monitoring has been a strategic management and steering tool and not a control instrument. There was no express claim to 100% accuracy of the information within the meaning of an accounting information system (EU-KOM, 2015). Nevertheless, the effort involved in acquiring the data in the current system was relatively high, with little EU-wide comparability among data beyond pure unit and euro data – despite all the plausibility checks and definitions laid down in guidelines. A review of Common Monitoring and Evaluation Framework (CMEF) 2014 - 2020 clearly highlighted the problems of availability and reliability (EU-COM, 2018c). For the new system, however, both would have to be guaranteed for the monitoring data. The audit bodies, namely the certifying bodies, will direct their attention towards checking the reliability of the monitoring data: “the quality of data has to be assessed by future certification bodies.” Up until now, this system has not been the subject of audit reviews.

From the World Bank’s perspective, the introduction of such systems[15] requires “substantial investments (...) in strengthening monitoring and evaluation systems” (Liverani, 2018). For the Member States, this sounds as if high investment in IT and training for all implementing bodies will be needed because, if there is no change in the implementation organisation, the necessary

[15] The World Bank introduced a programme for results financing with disbursement-linked indicators in 2012.

data has to be collected decentrally by the approval authorities. COM's assurance that the collection of result indicators will pose "no extra administrative burden on Member States, as they rely on information generated by good CAP plan management" (EU-COM, 2018d) is not very convincing. If such management is to be any good at all in this new sense, additional efforts will be needed.

The turning of the audit bodies' attention to data storage and acquisition systems may herald a new spiral of audit-complaint-retrofit, and generate a new area of uncertainty.

5 Conclusions

A need for fundamental amendments has been identified on the basis of the empirical data concerning the level of the ICs and the role of the EU framework in negative developments relating to implementation efficiency in the EAFRD. The new delivery model for CAP proposed by COM poses opportunities and risks for the EAFRD. The stated objective of making the CAP simpler and more effective can only be achieved in part – if at all. As our studies on the ICs have shown, the ambition of realising highly effective funding combined with simple implementation and guaranteed fund disbursement seems to be "oversized". These objectives cannot be optimized simultaneously. In particular, effective measures are often accompanied by higher costs.

Many of the changes envisaged seem to be geared primarily towards pillar 1 requirements. The streamlined system of objectives, which is also clearly geared towards the agricultural sector, along with the results orientation and the common CAP strategic plan serve to enhance the legitimacy of direct payments, which find themselves under justification pressure. Greater effectiveness can only be achieved by using the results orientation as a trigger to design the greening more ambitious compared to the current situation. In rural development, a focus on effective measures will depend, as in the past, on the willingness of those responsible for the RDP. The current RDPs are already target- and result-oriented due to their programming logic and contain a multitude of very effective measures.

For the EAFRD, the focus of necessary reforms is therefore on reducing the high implementation burden and streamlining the programmes while maintaining the breadth of content. The latter seems rather questionable due to the new common CAP strategic plan, which will be expensive to administer, and anchoring in the target and indicator system dominated by pillar 1. As far as the simplification of the administration and control systems are concerned, the proposals combine two approaches.

1. The first involves strengthening subsidiarity by reducing the rules to an EU minimum and by having the Member States design the legality framework. Possible future efficiency gains depend on the design of the minimum requirements and the meta-control, which the EU intends to continue exerting over the legality framework. The fact that the governance structures in the paying agency and control system are to remain in place is a cause for scepticism. If the mistrust which has evolved over decades is to be overcome, a cultural change must take place in the institutions.
2. The second approach is the introduction of performance assurance. In the future, a Member State will no longer have to prove that expenditure complies with the rules but

will have to submit performance clearance and performance reviews based on output and result indicators.

This new accounting system places extremely high demands on the monitoring systems in terms of the reliability of the data. This will require extensive investment in certified monitoring systems and intensive training of the numerous administrations concerned, especially as monitoring will be the subject of the audit in the future. The question needs to be asked whether this approach is imposing excessive demands on traditional monitoring as a management tool. Many decisions still determine whether a positive balance for the EAFRD in terms of greater implementation efficiency will result from the less detailed regulations for the administration and control systems, and from the additional effort involved in the performance review. However, the regions can and must also make a contribution to increasing efficiency. The organisational effects at IC level have clearly shown this. In this way, aspects of national funding law can be reformed and organisational structures optimised.

In summary, it can be said that the problems have been identified, but whether they will be resolved with the new system is questionable in the case of pillar 2. The major profiteer is more likely to be pillar 1. What could the alternatives have been? In our opinion, from the EAFRD's point of view, a clear return to the principle of adequacy and proportionality in the management and control systems through the transfer of responsibility to the Member States and the streamlining of the system of objectives and programming procedures would have been sufficient.

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