



EUROPEAN COMMISSION

Brussels, xxx
COM(20..) yyy final

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

**on support for rural development by the European Agricultural Fund for Rural
Development (EAFRD)**

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

The Commission proposal for the Multiannual Financial Framework (MFF) for 2014-2020 (the MFF proposal)¹ sets the budgetary framework and main orientations for the Common Agricultural Policy (CAP). On this basis, the Commission presents a set of regulations laying down the legislative framework for the CAP in the period 2014-2020, together with an impact assessment of alternative scenarios for the evolution of the policy.

The current reform proposals are based on the Communication on the CAP towards 2020² that outlined broad policy options in order to respond to the future challenges for agriculture and rural areas and to meet the objectives set for the CAP, namely 1) viable food production; 2) sustainable management of natural resources and climate action; and 3) balanced territorial development. The reform orientations in the Communication have since been broadly supported both in the inter-institutional debate³ and in the stakeholder consultation that took place in the framework of the impact assessment.

A common theme that has emerged throughout this process is the need to promote resource efficiency with a view to smart, sustainable and inclusive growth for EU agriculture and rural areas in line with the Europe 2020 strategy, keeping the structure of the CAP around two pillars that use complementary instruments in pursuit of the same objectives. Pillar I covers direct payments and market measures providing a basic annual income support to EU farmers and support in case of specific market disturbances, while Pillar II covers rural development where Member States draw up and co-finance multiannual programmes under a common framework.⁴

Through successive reforms the CAP has increased market orientation for agriculture while providing income support to producers, improved the integration of environmental requirements and reinforced support for rural development as an integrated policy for the development of rural areas across the EU. However, the same reform process has raised demands for a better distribution of support among and within Member States, as well as calls for a better targeting of measures aiming at addressing environmental challenges and better addressing increased market volatility.

In the past, reforms mainly responded to endogenous challenges, from huge surpluses to food safety crises; they have served the EU well both on the domestic and the international front. However, most of today's challenges are driven by factors that are external to agriculture and would thus require a broader policy response.

¹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions *A budget for Europe 2020*, COM(2011)500 final, 29.6.2011.

² Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions *The CAP towards 2020: meeting the food, natural resources and territorial challenges of the future*, COM(2010)672 final, 18.11.2010.

³ See in particular the European Parliament resolution of 23 June 2011, 2011/2015(INI), and the Presidency conclusions of 18.3.2011.

⁴ The current legislative framework comprises Council Regulation (EC) No 73/2009 (direct payments), Council Regulation (EC) No 1234/2007 (market instruments), Council Regulation (EC) No 1698/2005 (rural development) and Council Regulation (EC) No 1290/2005 (financing).

The pressure on agricultural income is expected to continue as farmers are facing more risks, a slowdown in productivity and a margin squeeze due to rising input prices; there is therefore a need to maintain income support and to reinforce instruments to better manage risks and respond to crisis situations. A strong agriculture is vital for the EU food industry and global food security.

At the same time, agriculture and rural areas are being called upon to step up their efforts to meet the ambitious climate and energy targets and biodiversity strategy that are part of the Europe 2020 agenda. Farmers, who are together with foresters the main land managers, will need to be supported in adopting and maintaining farming systems and practices that are particularly favourable to environmental and climate objectives because market prices do not reflect the provision of such public goods. It will also be essential to best harness the diverse potential of rural areas and thus contribute to inclusive growth and cohesion.

The future CAP will not, therefore, be a policy that caters only for a small, albeit essential, part of the EU economy, but also a policy of strategic importance for food security, the environment and territorial balance. Therein lies the EU added value of a truly common policy that makes the most efficient use of limited budgetary resources in maintaining a sustainable agriculture throughout the EU, addressing important cross-border issues such as climate change and reinforcing solidarity among Member States, while also allowing flexibility in implementation to cater for local needs.

The framework set out in the MFF proposal foresees that the CAP should maintain its two-pillar structure with the budget for each pillar maintained in nominal terms at its 2013 level and with a clear focus on delivering results on the key EU priorities. Direct payments should promote sustainable production by assigning 30 % of their budgetary envelope to mandatory measures that are beneficial to climate and the environment. Payment levels should progressively converge and payments to large beneficiaries be subject to progressive capping. Rural development should be included in a Common Strategic Framework with other EU shared management funds with a reinforced outcome-orientated approach and subject to clearer, improved ex-ante conditionalities. Finally, on market measures the financing of the CAP should be reinforced with two instruments outside the MFF: 1) an emergency reserve to react to crisis situations; and 2) the extension of the scope of the European Globalization Fund.

On this basis, the main elements of the legislative framework for the CAP during the period 2014-2020 are set out in the following regulations:

- Proposal for a regulation of the European Parliament and of the Council establishing common rules for direct support schemes for farmers under the common agricultural policy and repealing Regulation (EC) No 73/2009 (the direct payments regulation);
- Proposal for a regulation of the European Parliament and of the Council establishing a common organisation of the market in agricultural products (the Single CMO regulation);
- Proposal for a regulation of the European Parliament and of the Council on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (the rural development regulation);

- Proposal for a regulation of the European Parliament and of the Council on the financing, management and monitoring of the common agricultural policy (the horizontal regulation);
- Proposal for a Council regulation determining measures on fixing certain aids and refunds related to the common organization of the market in agricultural products;
- Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) No 73/2009 as regards the application of transitional measures in respect of the year 2013;
- Proposal for a Regulation of the European Parliament and of the Council modifying Regulation (EC) No 1234/2007 establishing a common organization of agricultural markets and on specific provisions for certain agricultural products (Single CMO Regulation) as regards the regime of the single payment scheme and support to vine-growers.

A regulation will follow on the scheme for most deprived persons, for which funding is now placed under a different heading of the MFF.

In addition, new rules on the publication of information on beneficiaries taking account of the objections expressed by the Court of Justice of the European Union are also under preparation with a view to finding the most appropriate way to reconcile beneficiaries' right to protection of personal data with the principle of transparency.

2. RESULTS OF CONSULTATIONS WITH THE INTERESTED PARTIES AND IMPACT ASSESSMENT

On the basis of the evaluation of the current policy framework and an analysis of future challenges and needs, the impact assessment assesses and compares the impact of three alternative scenarios. This is the result of a long process started in April 2010 and steered by an inter-service group that brought together extensive quantitative and qualitative analysis, including setting a baseline in the form of medium-term projections for agricultural markets and income up to 2020 and modelling the impact of the different policy scenarios on the economics of the sector.

The three scenarios elaborated in the impact assessment are: 1) an adjustment scenario that continues with the current policy framework while addressing its most important shortcomings, such as the distribution of direct payments; 2) an integration scenario that entails major policy changes in the form of enhanced targeting and greening of direct payments and reinforced strategic targeting for rural development policy in better coordination with other EU policies, as well as extending the legal base for a broader scope of producer cooperation; and 3) a refocus scenario that reorients the policy exclusively towards the environment with a progressive phasing out of direct payments, assuming that productive capacity can be maintained without support and that the socio-economic needs of rural areas can be served by other policies.

Against the background of the economic crisis and the pressure on public finances, to which the EU has responded with the Europe 2020 strategy and the MFF proposal, all three scenarios attach different weight to each of the three policy objectives of the future CAP which aims at a more competitive and sustainable agriculture in vibrant rural areas. With a

view to a better alignment with the Europe 2020 strategy, notably in terms of resource efficiency, it will be increasingly essential to improve agricultural productivity through research, knowledge transfer and promoting cooperation and innovation (including through the European Innovation Partnership on agricultural productivity and sustainability). Whereas EU agricultural policy does not any more operate within a trade distorting policy environment, additional pressure on the sector is expected from further liberalization, notably in the framework of the DDA or the FTA with Mercosur.

The three policy scenarios were drawn up taking into account the preferences expressed in the consultation which was conducted in the context of the impact assessment. Interested parties were invited to submit contributions between 23.11.2010 and 25.1.2011 and an advisory committee was organised on 12.1.2011. The main points are summarized below:⁵

- There is broad agreement among stakeholders on the need for a strong CAP based on a two-pillar-structure in order to address the challenges of food security, sustainable management of natural resources and territorial development.
- Most respondents find that the CAP should play a role in stabilizing markets and prices.
- Stakeholders have diverse opinions concerning the targeting of support (especially redistribution of direct aid and capping payments).
- There is agreement that both pillars can play an important role in stepping up climate action and increasing environmental performance for the benefit of EU society. Whereas many farmers believe that this already takes place today, the wider public argues that Pillar I payments can be more efficiently used.
- The respondents want all parts of the EU, including less favoured areas, to be part of future growth and development.
- The integration of the CAP with other policies, such as environmental, health, trade, development, was emphasised by many respondents.
- Innovation, development of competitive businesses and provision of public goods to EU citizens are seen as ways to align the CAP with the Europe 2020 strategy.

The impact assessment thus compared the three alternative policy scenarios:

The refocus scenario would accelerate structural adjustment in the agricultural sector, shifting production to the most cost efficient areas and profitable sectors. While significantly increasing funding for the environment, it would also expose the sector to greater risks due to limited scope for market intervention. Furthermore, it would come at a significant social and environmental cost as the less competitive areas would face a considerable income loss and environmental degradation, since the policy would lose the leverage of direct payments coupled with the cross compliance requirements.

At the other end of the spectrum, the adjustment scenario would best allow for policy continuity with limited but tangible improvements both in agricultural competitiveness and environmental performance. There are however serious doubts as to whether this scenario

⁵ See Annex 9 of the impact assessment for an overview of the 517 contributions received.

could adequately address the important climate and environmental challenges of the future, which also underpin the long-term sustainability of agriculture.

The integration scenario breaks new ground with enhanced targeting and greening of direct payments. The analysis shows that greening is possible at a reasonable cost to farmers although some administrative burden cannot be avoided. Similarly, a new impetus in rural development is possible provided that the new possibilities are efficiently used by Member States and regions and that the common strategic framework with the other EU funds does not remove synergies with Pillar I or weaken rural development's distinctive strengths. If the right balance is struck, this scenario would best address the long term sustainability of agriculture and rural areas.

On this basis the impact assessment concludes that the integration scenario is the most balanced in progressively aligning the CAP with the EU's strategic objectives and this balance is also found in the implementation of the different elements in the legislative proposals. It will also be essential to develop an evaluation framework to measure the performance of the CAP with a common set of indicators linked to policy objectives.

Simplification has been an important consideration throughout the process and should be enhanced in a variety of ways, for instance in the streamlining of cross compliance and market instruments, or the design of the small farmers scheme. In addition, the greening of direct payments should be designed in such a way as to minimize administrative burden including the costs of controls.

3. LEGAL ELEMENTS OF THE PROPOSAL

It is proposed to maintain the current structure of the CAP in two pillars with annual mandatory measures of general application in Pillar I complemented by voluntary measures better tailored to national and regional specificities under a multi-annual programming approach in Pillar II. However, the new design of direct payments seeks to better exploit synergies with Pillar II, which is in turn placed under a Common Strategic Framework to better coordinate with other EU shared management funds.

On this basis, the current structure of four basic legal instruments is also maintained, albeit with the scope of the financing regulation enlarged to bring together common provisions into what is now called the horizontal regulation.

The proposals comply with the principle of subsidiarity. The CAP is a truly common policy: it is an area of shared competence between the EU and the Member States that is being handled at EU level with a view to maintaining a sustainable and diverse agriculture throughout the EU, addressing important cross-border issues such as climate change and reinforcing solidarity among Member States. In the light of the importance of future challenges for food security, the environment and territorial balance, the CAP remains a policy of strategic importance to ensure the most effective response to the policy challenges and the most efficient use of budgetary resources. In addition, it is proposed to maintain the current structure of instruments in two pillars where Member States have more leeway to tailor solutions to their local specificities and also co-finance Pillar II. The new European Innovation Partnership and risk management toolkit are also placed within Pillar II. At the same time the policy will be better aligned with the Europe 2020 strategy (including a common framework with other EU funds) and a number of improvements and simplification elements introduced. Finally, the analysis carried out in the framework of the impact

assessment clearly shows the cost of no action in terms of negative economic, environmental and social consequences.

The rural development regulation builds on the strategic approach introduced in the current period, which has had a positive impact with Member States developing strategies and programmes on the basis of a SWOT analysis to best tailor intervention to national and regional specificities. The new delivery mechanism aims at reinforcing the strategic approach – among other things by setting clearly defined common priorities for rural development at EU level (with associated common target indicators) as well as by making the necessary adjustments in light of experience gained to date.

The regulation also includes the European Innovation Partnership on Agricultural Productivity and Sustainability which is aimed at promoting resource efficiency, building bridges between research and practice and generally encouraging innovation. The partnership acts through operational groups responsible for innovative projects and is supported by a network.

The regulation provides that Pillar II of the CAP should work in a coordinated and complementary manner with Pillar I, as well as with other EU funds (in particular the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund and the European Maritime and Fisheries Fund (EMFF)). The funds are placed under a Common Strategic Framework (CSF) at EU level which will be transposed into Partnership Contracts at national level.

Rural development policy retains the long-term strategic objectives of contributing to the competitiveness of agriculture, the sustainable management of natural resources and the balanced territorial development of rural areas. In line with the Europe 2020 strategy, these broad objectives of rural development support for 2014-2020 are given more detailed expression through the following six EU-wide priorities:

- fostering knowledge transfer in agriculture and forestry;
- enhancing competitiveness of all types of agriculture and enhancing farm viability;
- promoting food chain organization and risk management in agriculture;
- preserving and enhancing ecosystems dependent on agriculture and forestry;
- promoting resource efficiency and the transition to a low carbon economy in the agriculture and food sectors and the forestry sector;
- realising the jobs' potential and the development of rural areas.

These priorities should be the basis of programming, including the definition of target indicators in relation to each of them. The regulation includes rules on the preparation, approval and revision of programmes that largely follow current rules, and opens up the possibility for sub-programmes (e.g. young farmers, small farmers, mountain areas, short supply chains) that benefit from higher aid intensities.

The list of individual measures has been streamlined and individual measures have been reviewed, with a number of adjustments introduced to address issues on implementation and uptake raised in the current period. With most measures serving more than one objective or

priority, it is no longer deemed appropriate to group them into axes; programming on the basis of priorities should ensure balanced programmes. A specific measure for organic farming is created, and a new delimitation for areas facing specific natural constraints is introduced. Provision for supporting joint environmental action is improved.

The current cooperation measure is significantly reinforced and extended to support a wide range of types of cooperation (economic, environmental and social) between a wide range of potential beneficiaries. It now explicitly covers pilot projects as well as cooperation crossing regional and national borders. Leader and networking approaches will continue to play a key role, in particular for the development of rural areas and the spreading of innovation. Support through Leader will be consistent and coordinated with the support for local development from other EU shared management funds. A prize for local innovative co-operation projects will support transnational initiatives in favour of innovation.

A risk management toolkit including support to mutual funds and a new income stabilization tool offers new possibilities to deal with the strong volatility in agricultural markets that is expected to continue in the medium term.

Member States are further encouraged to provide support with different financial instruments, such as loan funds, guarantee funds and venture capital funds, under common EU rules for these types of instruments.

With the objective of simplifying rural development policy, eligibility rules are further harmonised with other EU funds. This will make projects easier to handle for both beneficiaries and national authorities and will also facilitate the implementation of integrated projects. The EAFRD will be orientated towards an approach based to a wider extent on simplified costs for grants, i.e. standard costs, lump sum payments and indirect costs as flat rate payments.

The abolishment of the current axis system will also streamline programming by the Member States.

Finally, it is proposed to build on the Common Monitoring and Evaluation Framework (CMEF) introduced in the current period which will be simplified and improved based on experience gained to date. A common list of indicators will be linked to the policy priorities for the purpose of monitoring and evaluation.

4. BUDGETARY IMPLICATION

The MFF proposal provides that a significant part of the EU budget should continue to be dedicated to agriculture, which is a common policy of strategic importance. Thus, in current prices, it is proposed that the CAP should focus on its core activities with EUR 317.2 billion allocated to Pillar I and EUR 101.2 billion to Pillar II over the 2014-2020 period.

The Pillar I and Pillar II funding is complemented by additional funding of EUR 17.1 billion consisting of EUR 5.1 billion for research and innovation, EUR 2.5 billion for food safety and EUR 2.8 billion for food support for the most deprived persons in other headings of the MFF, as well as of EUR 3.9 billion in a new reserve for crises in the agricultural sector and up to EUR 2.8 billion in the European Globalization Fund outside the MFF, thus bringing the total budget to EUR 435.6 over the 2014-2020 period.

As regards distribution of support among Member States, it is proposed that all Member States with direct payments below 90% of the EU average will see one third of this gap closed. The national ceilings in the direct payments regulation are calculated on this basis.

The distribution of rural development support is based on objective criteria linked to the policy objectives taking into account the current distribution. As is the case today, less developed regions should continue to benefit from higher co-financing rates, which will also apply to certain measures such as knowledge transfer, producer groups, cooperation and Leader.

Details on the financial impact of the CAP reform proposals are set out in the financial statement accompanying the proposals.

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 43 thereof,

Having regard to the proposal from the European Commission⁶,

After transmission of the draft legislative act to the national Parliaments,

Having regard to the opinion of the European Economic and Social Committee⁷,

Having regard to the opinion of the Committee of the Regions⁸,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) The Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on "The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future"⁹ (hereinafter "the CAP towards 2020 Communication") set out potential challenges, objectives and orientations for the common agricultural policy (hereinafter "the CAP") after 2013. In the light of the debate on that Communication, the CAP should be reformed with effect from 1 January 2014. That reform should cover all the main instruments of the CAP, including Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)¹⁰. In view of the scope of the reform, it is appropriate to repeal Regulation (EC) No 1698/2005 and to replace it with a new text.
- (2) A rural development policy should accompany and complement direct payments and market measures of the CAP and thus contribute to that policy's objectives as laid down in the Treaty on the Functioning of the European Union (hereinafter "the Treaty"). A rural development policy should also integrate the major policy objectives spelled out in the Communication from the Commission of 3 March 2010 "Europe

⁶ OJ C , , p. .

⁷ OJ C , , p. .

⁸ OJ C , , p. .

⁹ COM(2010) 672 final, 18.11.2010.

¹⁰ OJ L 277, 21.10.2005, p. 1.

2020 A strategy for smart, sustainable and inclusive growth"¹¹ ("Europe 2020 Strategy") be coherent with the general objectives for the economic and social cohesion policy set out in the Treaty.

- (3) To ensure the sustainable development of rural areas, it is necessary to focus on a limited number of core priorities relating to knowledge transfer in agriculture and forestry, the competitiveness of all types of agriculture and farm viability, food chain organisation and risk management in agriculture, preserving and enhancing ecosystems dependant on agriculture and forestry, resource efficiency and transition to a low carbon economy in the agricultural and food and forestry sectors, and realising the growth and jobs potential and the development of rural areas. In doing so account must be taken of the diversity of situations that affect rural areas with different characteristics or different categories of potential beneficiaries and the transversal objectives of fostering innovation and contributing to climate change mitigation and adaptation. The priority relating to knowledge transfer in agriculture and forestry should apply horizontally in relation to the other Union priorities for rural development.
- (4) Since the objective of this Regulation, namely rural development, cannot be achieved sufficiently by Member States, given the links between it and the other instruments of the CAP, the extent of disparities between the various rural areas and the limits on the financial resources of the Member States in an enlarged Union, and can therefore be better achieved at Union level through the multi-annual guarantee of Union finance and by concentrating on its priorities, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5(3) of the Treaty on European Union. In accordance with the principle of proportionality as set out in Article 5(4) of that Treaty, this Regulation does not go beyond what is necessary in order to achieve that objective.
- (5) Action by the Union should be complementary to that carried out by the Member States or seek to contribute to it. The partnership between the Commission and Member States should be strengthened through arrangements for the participation of various types of partners with full regard to the institutional competences of the Member States. Particular attention should be paid to ensuring adequate representation for women and minority groups. The partners concerned should be involved in the preparation, implementation, monitoring and evaluation of programming as well as in the preparation of Partnership Contracts. In order to ensure effective implementation of partnerships throughout the Union, the Commission should draw up a European code of good practice in consultation with the Member States and the organizations representing the partners at Union level. For the same reason the Commission should consult the partners on the implementation of rural development programmes.
- (6) The activities of the European Agricultural Fund for Rural Development (hereinafter the "EAFRD") and the operations to which it contributes must be consistent and compatible with the other Union policies and comply with all Union legislation.

¹¹ COM(2010) 2020 final, 3.3.2010.

- (7) In its action in favour of rural development, the EU aims at eliminating inequalities and promoting equality between men and women and non-discrimination, in accordance with the Treaty.
- (8) In order to increase synergies between the EU rural development, cohesion and maritime and fisheries policies and the corresponding EU financial instruments a Common Strategic Framework (hereinafter "CSF") covering the EU's territorial development Funds should be prepared. The CSF should provide a framework at EU level for use of the EAFRD, the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund. This framework should replace the current approach of establishing separate sets of strategic guidelines for these funds. It should ensure greater coherence between EU financial instruments, simplify the management of programmes, set out key principles for use of these Funds and show how the objectives and priorities of individual policies and Funds contribute to the major policy objectives set out in the Europe 2020 Strategy. The Common Strategic Framework should establish certain minimum requirements and be adopted by the Council and Parliament.
- (9) At the initiative of the Commission, the Council and Parliament should review the implementation of the Common Strategic Framework in order to take account of any major changes in the Union's priorities.
- (10) On the basis of the Common Strategic Framework adopted by the Council and Parliament, it is appropriate that each Member State prepares, in dialogue with the Commission, a Partnership Contract. Each Partnership Contract should set out arrangements to ensure alignment with the objectives and targets of the Union strategy for smart, sustainable and inclusive growth, coordination mechanisms for territorial development, strategies to address the specific needs of certain geographical areas and arrangements to ensure effective and efficient implementation of the EAFRD, the ERDF, the ESF, the Cohesion Fund and the EMFF. These contracts should also provide a performance framework against which progress on commitments can be assessed. The Commission should assess the consistency of the Partnership Contract with the Common Strategic Framework, the National Reform Programme and the Council Recommendations made under Articles 121(2) and 148(2) of the Treaty.
- (11) In order to permit the Commission to monitor progress towards achieving Union priorities, Member States should submit progress reports in 2017 and 2019 on implementation of their Partnership Contracts. These reports should enable the Commission to review the performance of each rural development programme. In accordance with the principle of shared management, the Commission's review should be done in cooperation with the Member States.
- (12) To strengthen effective implementation of the EAFRD and its contribution to Union priorities for rural development over the programming period, a performance reserve should be established as part of a performance framework, consisting of 5% of the total EAFRD contribution to each rural development programme. This amount should be reinforced by the assigned revenue. The performance reserve should be allocated in 2019 on the basis of a review by the Commission. In assessing the achievement of milestones set in the Partnership Contract in 2019, the Commission should be assisted by a performance review committee.

- (13) In order to ensure the immediate start and balanced implementation of rural development programmes, support from the EAFRD should be based on the existence of sound administrative framework conditions. Member States should therefore assess compliance with certain ex ante conditionalities. Fulfilment of these ex ante conditionalities should be assessed by the Commission in the framework of its assessment of the Partnership Contract.
- (14) Each Member State should prepare either a national rural development programme for its entire territory or a set of regional programmes. Each programme should identify a strategy for meeting targets in relation to the Union priorities and a selection of measures. Programming should comply with Union priorities, while being adapted to national contexts and complement the other Union policies, in particular the agricultural market policy, cohesion policy and the common fisheries policy. Member States which opt for a set of regional programme should be able to also prepare a national framework, without a separate budgetary allocation, in order to facilitate co-ordination among the regions in addressing nation-wide challenges.
- (15) Rural development programmes should identify the needs of the area covered and describe a coherent strategy to meet them in the light of the Union priorities for rural development policy. This strategy should be based on the setting of quantified targets. The links between the needs identified, the targets set and the choice of measures selected to meet them should be established. Rural development programmes should also contain all the information required to assess their conformity with the requirements of this Regulation.
- (16) Targets are to be established in rural development programmes against a common set of target indicators for all Member States. In order to facilitate this exercise the areas covered by these indicators should be defined, in line with the Union priorities. Given the horizontal application of the priority relating to knowledge transfer in agriculture and forestry, interventions under this priority are to be considered as instrumental to the target indicators defined for the remaining Union priorities.
- (17) Member States should be able to include in their rural development programmes thematic sub-programmes to address specific needs in areas of particular importance to them. Thematic sub-programmes should concern among others young farmers, small farms, mountain areas and the creation of short supply chain. Thematic sub-programmes should also be used to provide for the possibility to address restructuring of agricultural sectors which have a strong impact on the development of rural areas. As a means to increase the efficient intervention of such thematic sub-programmes Member States should be allowed to provide for higher support rates for certain operations covered by them.
- (18) The duration of programmes should cover the 2014 to 2020 programming period. It is necessary to establish general rules for programming and revising rural development programmes. A lighter procedure should be provided for revisions not affecting the strategy of the programmes or the respective Union financial contributions.
- (19) In order to ensure legal certainty and clarity concerning the procedure to be followed in the case of programme amendments, the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission in respect of the setting of those criteria on the basis of which proposed changes of the quantified

targets of the programmes shall be considered as major, thus triggering the need for amending the programme by means of an implementing act adopted in accordance with Article 122 of this Regulation.

- (20) The evolution and specialisation of agriculture and forestry and the particular challenges faced by micro-, small and medium-sized enterprises (hereinafter "SMEs") in rural areas require an appropriate level of technical and economic training as well as an increased capacity to access and exchange knowledge and information including in the form of diffusion of best agricultural and forestry production practices. Knowledge transfer and information actions should take not only the form of traditional training courses but be adapted to the needs of rural actors. Workshops, coaching, demonstration activities, information actions but also short-term farm exchange or visit schemes should therefore also be supported. Knowledge and information acquired should enable farmers, forest holders, persons engaged in the food sector and rural SMEs to enhance in particular their competitiveness and resource efficiency and improve their environmental performance while at the same time contributing to the sustainability of the rural economy. In order to ensure that knowledge transfer and information actions are effective in delivering these results it should be required that the providers of knowledge transfer services have all the appropriate capabilities.
- (21) In order to ensure that bodies providing knowledge transfer services are able to provide services of a quality and nature that is in line with the purposes of the rural development policy, to ensure a better targeting of funds and to ensure that farm exchange schemes and farm visits are clearly demarcated in relation to similar actions under other Union schemes, the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission in respect of minimum qualifications of bodies providing knowledge transfer, eligible costs and the duration and content of farm exchange schemes and farm visits.
- (22) Farm advisory services help farmers, forest holders and SMEs in rural areas to improve the sustainable management and overall performance of their holding or business. Therefore both the setting up of such services and the use of advice by farmers, forest holders and SMEs should be encouraged. In order to enhance the quality and effectiveness of the advice offered, provision should be made for the minimum qualifications and regular training of advisors. Farm advisory services, as provided for in Regulation of the European Parliament and the Council (EU) No HR/xxxx of ...¹² should help farmers assess the performance of their agricultural holding and identify the necessary improvements as regards the statutory management requirements, good agricultural and environmental conditions, agricultural practices beneficial to the climate and the environment set out in Regulation of the European Parliament and the Council (EU) No DP/xxx of ...¹³, requirements or actions related to climate change mitigation and adaptation, biodiversity, protection of water, animal disease notification and innovation at least as laid down in Annex I to Regulation (EU) No HR/xxxx. Where relevant, advice should also cover occupational safety standards. Advice may also cover issues linked to the economic, agricultural and environmental performance of the holding or enterprise. Farm management and farm relief services should help farmers improve and facilitate management of their holding.

¹² OJ L

¹³ OJ L , , p. .

- (23) In order to ensure that bodies and authorities offering advisory services are able to provide advice of a quality and nature that is in line with the purposes of rural development policy, the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission in respect of the further specification of the minimum qualifications of the authorities and bodies providing advice.
- (24) Union or national quality schemes for agricultural products and food provide consumers with assurances on the quality and characteristics of the product or the production process used as a result of the participation of farmers in such schemes, achieve added value for the products concerned and enhance their market opportunities. Farmers should therefore be encouraged to participate in these schemes. Given that it is at the moment of entering such schemes and in the early years of their participation that additional costs and obligations imposed on farmers as a result of their participation are not fully remunerated by the market, support should be limited to new participation and cover a period of no more than five years. Given the special characteristics of cotton as a farm product, quality schemes for cotton should also be covered. In order to ensure the efficient and effective use of EAFRD budgetary resources, the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission in respect of the Union quality schemes that may be covered by this measure.
- (25) In order to improve the economic and environmental performance of agricultural holdings and rural SMEs, improve the efficiency of the agricultural products marketing and processing sector, provide infrastructure needed for the development of agriculture and support non-remunerative investments necessary to achieve environmental aims, support should be provided to physical investments contributing to these aims. During the 2007-2013 programming period a variety of measures covered different areas of intervention. In the interest of simplification but also of allowing beneficiaries to design and realise integrated projects with increased added value, a single measure should cover all types of physical investments. Member States shall define a threshold for agricultural holdings eligible for aid for investments related to supporting farm viability based on the results of the strengths, weaknesses, opportunities and threats ("SWOT") analysis as means to better target the aid. For the same reason support granted to beneficiaries other than agricultural holdings should be limited to SMEs.
- (26) The agricultural sector is subject more than other sectors to damage to its productive potential caused by natural disasters. In order to help farm viability and competitiveness in the face of such disasters support should be provided for helping farmers restore agricultural potential damaged. Member States should also ensure that no overcompensation of damages occurs as a result of the combination of Union (in particular the risk management measure), national and private compensation schemes. In order to ensure the efficient and effective use of EAFRD budgetary resources, the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission in respect of defining the eligible costs under this measure.
- (27) The creation and development of new economic activity in the form of new farms, new businesses or new investments in non-agricultural activities is essential for the development and competitiveness of rural areas. A farm and business development measure should facilitate the initial establishment of young farmers and the structural adjustment of their holdings after initial setting up, diversification of farmers into non-

agricultural activities and the setting up and development of non-agricultural SMEs in rural areas. The development of small farms which are potentially economically viable should also be encouraged. In order to ensure the viability of new economic activities supported under this measure, support should be made conditional on the submission of a business plan. Support for business start up should cover only the initial period of the life of a business and not become operating aid. Therefore, where Member States opt to grant aid in instalments these should be for a period of no more than five years.

- (28) SMEs are the backbone of the Union rural economy. Farm and non-agricultural business development should be aimed at employment promotion and the setting up of quality jobs in rural areas, maintenance of already existing jobs, reduction of seasonality fluctuations in employment, development of non-agricultural sectors outside agriculture and agricultural and food processing while fostering at the same time business integration and local inter-sectoral links. Projects integrating at the same time agriculture, rural tourism, natural and cultural heritage should be encouraged as well as renewable energy investments.
- (29) In order to ensure the efficient and effective use of EAFRD budgetary resources and to avoid discrimination among beneficiaries in different Member States, the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission in respect of laying down conditions under which legal persons may be considered as young farmers, the setting of a grace period for the acquisition of occupational skills, the minimum content of business plans and the criteria to be used by Member States for the definition of small farms and of thresholds provided under paragraph 4 of the farm and business development measure.
- (30) The development of local infrastructure and local basic services in rural areas, the renewal of villages and activities aimed at the restoration and upgrading of the cultural and natural heritage of villages and rural landscapes is an essential element of any effort to realise the growth potential and promote the sustainability of rural areas. Support should therefore be granted to operations with this aim, including the access to Information and Communication Technologies and the development of fast and ultra-fast broadband. In line with these objectives, development of services and infrastructure leading to social inclusion and reversing trends of social and economic decline and depopulation of rural areas should be encouraged. In order to achieve the maximum effectiveness for such support, covered operations should be implemented in accordance with plans for the development of municipalities and their basic services elaborated by one or more rural communes.
- (31) Forestry is an integral part of rural development and support for sustainable land use should encompass forest area development and sustainable management of forests. During the 2007-2013 programming period a variety of measures covered different types of support for forestry investments and management. In the interest of simplification but also of allowing beneficiaries to design and realise integrated projects with increased added value, a single measure should cover all types of support for forestry investments and management. This measure should cover the extension and improvement of forest resources through afforestation of land and creation of agro-forestry systems combining extensive agriculture with forestry systems, restoration of forests damaged by fire or other natural disasters and relevant prevention measures, investments in new forestry technologies and in the processing and marketing of forestry products aimed at improving the economic and environmental

performance of forest holders and non remunerative investments which improve the resilience and environmental value of forest ecosystems. Support should avoid distorting competition and be market neutral. As a result limitations should be imposed relating to the size and legal status of beneficiaries. Preventive actions against fires should be in areas classified by Member States as medium or high fire risk. All preventive actions should be part of a public forest protection plan. The occurrence of a natural disaster in the case of action for the restoration of damaged forest potential should be subject to the formal recognition by a scientific public organisation. The forestry measure should be adopted in the light of undertakings given by the Union and the Member States at international level, and be based on Member States' national or sub-national forest plans or equivalent instruments which should take into account the commitments made in the Ministerial Conferences on the Protection of Forests in Europe. It should contribute to the implementation of the Union Forestry Strategy¹⁴.

- (32) In order to ensure the efficient and effective use of EAFRD budgetary resources, the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission in respect of laying down conditions under which Member States shall establish the occurrence of a natural disaster or a pest or disease and the definition of types of preventive actions that shall be eligible for EAFRD support.
- (33) Producer groups help farmers to face jointly the challenges posed by increased competition and consolidation of downstream markets in relation to the marketing of their products including in local markets. The setting up of producer groups should therefore be encouraged. In order to ensure the best use of limited financial resources only producer groups that qualify as SMEs should benefit from support. In order to ensure that the producer group becomes a viable entity, a business plan should be submitted as a condition for the recognition of a producer group by Member States. To avoid providing operating aid and maintain the incentive role of support, its maximum duration should be limited to five years.
- (34) Agri-environment payments should continue to play a prominent role in supporting the sustainable development of rural areas and in responding to society's increasing demands for environmental services. They should further encourage farmers and other land managers to serve society as a whole by introducing or continuing to apply agricultural practices contributing to climate change mitigation and compatible with the protection and improvement of the environment, the landscape and its features, natural resources, the soil and genetic diversity. In this context the conservation of genetic resources in agriculture should be given specific attention. Payments should contribute to covering additional costs and income foregone resulting from the commitment undertaken and should only cover commitments going beyond relevant mandatory standards and requirements. In many situations the synergies resulting from a commitment undertaken jointly by a group of farmers multiplies the environmental benefit. However, joint action brings additional transaction costs which should be compensated adequately. In order to ensure that farmers and other land owners are in a position to correctly implement a commitment they have undertaken, Member States should endeavour to provide them with the required skills and knowledge.

¹⁴ [full title]

- (35) In order to ensure that agri-environment commitments are defined in line with the EUs overall environmental objectives, the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission in respect of laying down the conditions applicable to commitments to extensify or manage differently livestock farming, to limit fertilisers, plant protection products or other inputs, to rear local breeds in danger of being lost to farming or to preserve plant genetic resources and the eligible operations in relation to conservation of genetic resources in agriculture.
- (36) Payments for the conversion to or maintenance of organic farming should encourage farmers to participate in such schemes thus answering society's increasing demand for the use of environmentally friendly farm practices and for high standards of animal welfare. In order to increase synergy in biodiversity benefits delivered by the measure, collective contracts or collaboration between farmers should be encouraged to cover larger adjacent areas. In order to avoid large-scale reversion of farmers to conventional farming, both conversion and maintenance measures should be supported. Payments should contribute to covering additional costs incurred and income foregone as a result of the commitment and should cover only commitments going beyond relevant mandatory standards and requirements.
- (37) Support should continue to be granted to farmers and forest holders to help address specific disadvantages in the areas concerned resulting from the implementation of Directive 2009/147/EC of the European Parliament and of the Council of 30 November 2009 on the conservation of wild birds¹⁵ and Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora¹⁶ in order to contribute to the effective management of Natura 2000 sites while support should also be made available to farmers to help address disadvantages in river basin areas resulting from the implementation of Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for the Community action in the field of the water policy¹⁷. Support should be linked to specific requirements described in the rural development programme that go beyond relevant mandatory standards and requirements.
- (38) Payments to farmers in mountain areas or in other areas facing natural or other specific constraints should contribute, by encouraging continued use of agricultural land to maintaining the countryside as well as to maintaining and promoting sustainable farming systems. In order to ensure the efficiency of such support payments should compensate farmers for income foregone and additional costs linked to the disadvantage of the area concerned.
- (39) In order to ensure efficient use of Union funds and equal treatment for farmers across the Union mountain areas and areas facing natural or other specific constraints should be defined in accordance with objective criteria. In the case of areas facing natural constraints these should be bio-physical criteria underpinned by robust scientific evidence. Transitional arrangements should be adopted in order to facilitate the phasing out of payments in areas that will no longer be considered as areas facing natural constraints as a result of the application of these criteria.

¹⁵ OJ L 20, 26.1.2010, p. 7.

¹⁶ OJ L 206, 22.7.1992, p. 7.

¹⁷ OJ L 327, 22.12.2000, p. 1.

- (40) Farmers should continue to be encouraged to adopt high standards of animal welfare by providing for support for farmers that undertake to adopt standards of animal husbandry, which go beyond the relevant mandatory standards. In order to ensure that animal welfare commitments are in line with the overall Union policy in this field, the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission in respect of the definition of the areas in which such commitments need to provide upgraded standards.
- (41) Payments should continue to be granted to forest holders who provide environmental or forest conservation services by undertaking commitments to enhance biodiversity preserve high-value forest ecosystems and reinforce the protective value of forests with respect to soil erosion, to maintenance of water resources and to natural hazards. In this context the conservation and promotion of forest genetic resources should be given specific attention. Payments shall be granted for forest environmental commitments going beyond relevant mandatory standards established by national legislation. In order to ensure the efficient and effective use of EAFRD budgetary resources, the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission in respect of the types of operations eligible for support under this measure.
- (42) During the 2007-2013 programming period only one type of co-operation was explicitly supported under rural development policy: co-operation for the development of new products, processes and technologies in the agriculture and food sector and the forestry sector. Support for this type of co-operation is still necessary but should be adapted in order better to meet the requirements of the knowledge economy. In this context the possibility should be provided for projects by a single operator to be financed under this measure, on condition that the results obtained are disseminated, thus achieving the purpose of diffusion of new practices, processes or products. In addition, it has become clear that supporting a much broader range of types of co-operation, with a wider range of beneficiaries, from small operators to larger ones, can contribute to achieving the objectives of rural development policy by helping operators in rural areas to overcome the economic, environmental and other disadvantages of fragmentation. Therefore, the measure should be widened. Support for small operators to organise joint work processes and share facilities and resources should help them to be economically viable despite their small scale. Support for horizontal and vertical co-operation among actors in the supply chain, as well as for promotion activities in a local context, should catalyse the economically rational development of short supply chains, local markets and local food chains. Support for collective approaches to environmental projects and practices should help to provide greater and more consistent environmental benefits than can be delivered by individual operators acting without reference to others (for example, through practices applied on larger unbroken areas of land). Support in these various areas should be provided in various forms. Clusters and networks are particularly relevant to the sharing of expertise as well as the development of new and specialised expertise, services and products. Pilot projects are important tools for testing the commercial applicability of technologies, techniques and practices in different contexts, and adapting them where necessary. Operational groups are a pivotal element of the European Innovation Partnership (hereinafter "EIP") for agricultural productivity and sustainability. Another important tool lies in local development strategies operating outside the framework of LEADER local development – between public and private actors from rural and urban areas. Unlike within the Leader approach, such partnerships and strategies could be

limited to one sector and / or to relatively specific development aims, including those mentioned above. Inter-branch organisation should also be eligible for support under this measure. It should be limited to seven years except for collective environmental action in duly justified cases.

- (43) Farmers are exposed today to increasing economic and environmental risks as a consequence of climate change and increased price volatility. In this context, effective management of risks has an increased importance for farmers. For this reason a risk management measure should be set up to assist farmers in addressing the most common risks faced by them. This measure should therefore support farmers to cover the premiums they pay for crop, animal and plant insurance as well as the setting up of mutual funds and the compensation paid by such funds to farmers for losses suffered as a result of the outbreak of animal or plant diseases or environmental incidents. It should also cover an income stabilisation tool in the form of a mutual fund to support farmers facing a severe drop in their income. In order to ensure that there is equal treatment among farmers across the EU, that competition is not distorted and that the international obligations of the Union are respected, specific conditions should be provided for the granting of support under these measures. In order to ensure the efficient use of EAFRD budgetary resources the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission with respect to defining the minimum and maximum duration of commercial loans to mutual funds.
- (44) The LEADER approach for local development has, over a number of years, proven its utility in promoting the development of rural areas by fully taking into account the multi-sectoral needs for endogenous rural development through its bottom-up approach. LEADER should therefore be continued in the future and its application remain compulsory for all rural development programmes.
- (45) The implementation of integrated LEADER local development strategies can reinforce territorial coherence and synergies between measures and other actions which contribute to the development of rural areas. This includes in particular the facilitation of diversification from agriculture and the creation of jobs, as well as the promotion of social inclusion and poverty reduction. LEADER local development strategies should be well defined and selected in accordance with adequate selection criteria.
- (46) LEADER local development strategies should be implemented by local action groups that mirror correctly the local society. For this reason they should be composed in a balanced way of partners from the various socio-economic sectors and the civil society of the territory concerned. It is important in order to ensure the representativeness of local action groups the private partners make up at least 50% of the partnership and have an equally part in the voting on project selection. In order to ensure that local development strategies are applied at a territorial level that allows them to deliver results that effectively contribute to the EU priorities and innovation, the power to adopt acts in accordance with Article 290 of the Treaty on the Functioning of the European Union should be delegated to the Commission in respect of setting population criteria for the area to be covered by each such strategy and the detailed scope of preparatory and animation costs to be supported.
- (47) Support to LEADER local development from the EAFRD should cover all aspects of the preparation and implementation of local development strategies and operation of local action groups as well as the support of cooperation among territories and groups

which carry out bottom-up and community-led local development. In order to enable partners in rural areas not yet applying LEADER to test and prepare for the design and operation of a local development strategy a "LEADER start-up kit" should also be financed.

- (48) The support to rural areas via LEADER should be coordinated with the local development support offered by other European Funds. The coordination should preferably be done at sub-regional level.
- (49) In order to ensure the efficient and effective use of EAFRD budgetary resources the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission with respect to the detailed definition of eligible animation costs for LEADER local action groups.
- (50) Access to capital has been burdened for many rural and agricultural businesses and especially for small entrepreneurs. Member States should be able to use innovative financial instruments to release the potential of the EAFRD beneficiaries and to stimulate the leverage effect and more efficient use of EU resources. These could also be combined with non-repayable direct assistance to deliver higher-value added, to increase the effectiveness of support for rural development measures, and in this way to better support the EU recovery. In order to ensure the sound financial management in relation to these instruments specific rules for their operation should be laid down.
- (51) In order to ensure the efficient and effective use of EAFRD budgetary resources, the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission in respect of requirements relating to the specific rules on eligibility of expenditure for financial instruments; the types of activities, which shall not be supported through financial instruments; detailed rules concerning the combination of support provided to beneficiaries through non-repayable direct assistance and financial instruments, including the combination of financial instruments with interest rate subsidies, as well as the form of calculation of the related eligible expenditure; the specific rules regarding certain types of financial instruments set up at national or regional level, as well as the products that may be delivered through such instruments; the detailed rules concerning funding agreements; the role and responsibility of the entities to which the implementation tasks are delegated; specific rules concerning the management costs and fees; the specific requirements regarding the transfer and management of assets managed by the entities to whom the implementation tasks are delegated; conversion of assets between euro and national currencies; the specific rules concerning the withdrawal of payments to financial instruments and possible consequences in respect of declarations of expenditure; the conditions for the establishment of a system of capitalisation of remaining annual instalments for interest rate subsidies; .
- (52) Investments are common to many of the rural development measures under this Regulation and may relate to operations of very diverse nature. In order to ensure clarity in the implementation of these operations certain common rules for all investments should be laid down. These common rules should define the types of expenditure that may be considered as investment expenditure and ensure that only such investments that create new value in agriculture receive support. In order to take account of specificities relating to particular types of investments such as the purchase of second hand equipment and simple replacement investments while ensuring the

efficient use of EAFRD funds, the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission in respect of the conditions under which certain types of investments may be considered as eligible expenditure. In order to facilitate realisation of investment projects it should be possible for Member States to pay advances. To ensure the effectiveness, fairness and sustainable impact of EAFRD assistance, rules should be laid down to ensure that investments related to operations are durable and that EAFRD support is not used to distort competition.

- (53) Certain area related measures under this Regulation involve the undertaking on the part of beneficiaries of commitments extending over at least five years. During this period changes may occur to the situation of either the holding or of the beneficiary. Rules should therefore be laid down in order to determine the course to be followed in these cases.
- (54) Certain measures under this Regulation provide as a condition for granting support that beneficiaries undertake commitments going beyond a relevant baseline defined in terms of mandatory standards or requirements. In view of possible changes in legislation during the period of the commitments that have as a result the modification of the baseline, provision should be made for the revision of the contracts concerned in order to ensure continued respect of this condition.
- (55) In order to ensure that financial resources for rural development are used in the best possible way and to target measures under rural development programmes in accordance with the Union priorities but also to guarantee equal treatment of applicants, Member States should establish selection criteria for the selection of projects. Exception to this rule should be made only for those measures for which support consists in payments for the provision of agri-environmental or animal welfare services. In the application of selection criteria account should be taken of the principle of proportionality in what concerns small grants.
- (56) The EAFRD should support through technical assistance actions relating to the implementation of rural development programmes, including costs related to the protection of symbols and abbreviations relating to Union quality schemes for participation in which support may be granted under this Regulation and costs of the Member States for the delimitation of areas facing natural constraints. In order to ensure the efficient use of EAFRD budgetary resources, the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission in respect of the control activities that may be financed under technical assistance.
- (57) The networking of national networks, organisations and administrations involved in the various stages of programme implementation, organised in the context of the European Network for Rural Development, has proven that it can play a very important role in improving the quality of rural development programmes by increasing the involvement of stakeholders in the governance of rural development as well as in informing the broader public of its benefits. It should therefore be financed as part of the technical assistance at Union level.
- (58) In order to contribute to the achievement of the aims of the EIP for agricultural productivity and sustainability a EIP Network should be set up in order to network operational groups, advisory services and researchers involved in the implementation

of actions targeting innovation in agriculture. It should be financed as part of technical assistance at Union level.

- (59) During the 2007 -2013 programming period an Evaluation Expert Network operated in the context of the European Network for Rural Development. To take account of the specific needs of evaluation, a European Evaluation Network for Rural Development should be set up for the 2014-2020 programming period in order to bring together all actors involved in evaluation activities to facilitate the exchange of expertise in the field. It should be financed as part of technical assistance.
- (60) Member States should reserve a portion of the total amount of each rural development programme devoted to technical assistance to finance the setting up and operation of a National Rural Network bringing together organisations and administrations involved in rural development, including the partnership, with the aim of increasing their involvement in the implementation of the programme and improve the quality of rural development programmes. National Rural Networks should prepare and implement an action plan.
- (61) The EAFRD should signal the EU's recognition of how local development approaches and a trans-national dimension can reinforce each other, especially when an innovative spirit is applied. It should do this by awarding prizes to a limited number of projects which exemplify these characteristics. The prizes should complement other sources of funding available through rural development policy by conferring recognition on any leading suitable project, whether or not that project was also financed through a rural development programme.
- (62) Rural development programmes should provide for innovative actions promoting a resource-efficient, productive and low-emission agricultural sector, with the support of the [EIP for agricultural productivity and sustainability]. The [EIP] should aim to promote a faster and wider transposition of innovative solutions into practice. The [EIP] should create added value by enhancing the uptake and effectiveness of innovation-related instruments and enhancing synergies between them. The [EIP] should fill gaps by better linking research and practical farming.
- (63) Implementation of innovative projects in the context of the [EIP] for agricultural productivity and sustainability should be undertaken by operational groups bringing together farmers, researchers, advisors, businesses and other actors concerned by innovation in the agricultural sector. In order to ensure that results of such projects profit to the sector as a whole, their results should be disseminated.
- (64) Provision should be made for the determination of the total amount of Union support for rural development under this Regulation for the period from 1 January 2014 to 31 December 2020, its annual breakdown and the minimum amount to be concentrated in less developed regions in accordance with the Multi-annual Financial Framework for the period 2014 to 2020 and the Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure for the same period. The appropriations available should be indexed on a flat-rate basis for programming.
- (65) In order to facilitate the management of EAFRD funds, a single contribution rate of the EAFRD to rural development programming should be set in relation to public expenditure in the Member States. In order to take account of the particular

importance or nature of certain types of operations, specific contribution rates should be set in relation to them. In order to mitigate the specific constraints resulting from level of development, remoteness and insularity appropriate contribution rates of the EAFRD should be set for less-developed regions, outermost regions referred to in the Treaty and the smaller Aegean islands.

- (66) The unprecedented global financial crisis has seriously damaged economic growth and financial stability and provoked a strong deterioration of financial and economic conditions of several Member States. Based on Article 122(2) of the Treaty Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism¹⁸ has established a mechanism for granting Union financial assistance to these Member States with a view to preserving the financial stability of the Union. Greece already faced serious difficulties with respect to its financial stability and received financial assistance *inter alia* from other euro area Member States before the entry into force of Regulation (EU) No 407/2010. Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments¹⁹ has established an instrument providing that the Council will grant mutual assistance where a Member State which has not adopted the euro is in difficulties or is seriously threatened with difficulties as regards its balance of payments. In order to facilitate the management of Union funding, to help accelerate the investments in Member States and regions and to increase the impact of the funding on the economy it is necessary to allow the increase of the EAFRD support rate up to a maximum of 95% for less developed regions and 85% for other regions of Member States receiving support under these mechanisms. Given the importance of LEADER a minimum share of the contribution of the EAFRD should be reserved for its implementation.
- (67) Funds released in members states as a result of the application of the upper ceiling to directs payments received by large individual farms under the first pillar of the CAP should be reserved for financing, in each member state of projects related to innovation in order to help farms, including large farms, to increase their competitiveness in the framework of the objectives of the CAP. These projects should be initiated by farmers, whatever the size of their farms, EIP operational groups or local action groups, groups of partners involved in the agricultural sector.
- (68) In accordance with the principle of subsidiarity, there should be national rules for eligibility of expenditure subject only to some minimum provisions to ensure sound financial management. Minimum conditions should also encompass the location in which a supported operation is implemented.
- (69) Contributions for the realisation of rural development operations supported under this Regulation may take the form of contributions in kind, for which no invoices or other proof of payment can be provided. Such contributions should be allowed as they can improve the efficiency of an operation. However, rules should be adopted to ensure the correct use of EAFRD funds. Simplified cost approaches simplify the management of rural development programmes. Rules should therefore be laid down to allow and provide the framework for their use. Where advances are provided for in this Regulation, the granting of such advances should be subject to the provision of a

¹⁸ OJ L 118, 12.5.2010, p. 1.

¹⁹ OJ L 53, 23.2.2002, p. 1.

guarantee and relevant rules should be laid down. In order to take account of the utilisation of procurement procedures or flat rates in the implementation of operations some minimum rules should be defined for these methods.

- (70) Member States should take all the necessary steps and put in place adequate provisions to ensure that their rural development measures are verifiable and controllable. To this end the Managing Authority and Paying Agency should provide an ex ante assessment and undertake to assess measures throughout the implementation of the programme. Measures not respecting this condition should be adjusted.
- (71) The Commission and Member States should take all required steps to ensure sound management of rural development programmes. In this context the Commission should undertake adequate controls and the Member States should take measures to guarantee sound functioning of their management system.
- (72) A single Managing Authority should be responsible for the management and implementation of each rural development programme. Its duties should be specified in this Regulation. The Managing Authority should be able to delegate part of its duties while retaining the responsibility for the efficiency and correctness of management. In case a rural development programme contained thematic sub-programmes the Managing Authority should be able to designate another body to carry out fully management and implementation of that sub-programme in relation to the financial allocations that have been identified for it in the programme while ensuring sound financial management of these sub-programmes.
- (73) Each rural development programme should be subject to monitoring in order to regularly follow the implementation of the programme and progress towards the established targets of the programme. Demonstrating and improving the effectiveness and impact of actions under the EAFRD also depends on appropriate evaluation during the preparation and implementation of a programme and its completion. A monitoring and evaluation system should therefore be set up in common by the Commission and the Member States with the purpose of demonstrating the progress and assessing the impact and efficiency of rural development policy implementation.
- (74) In order to ensure that information can be aggregated at Union level a set of common indicators should form part of the system. Key information on the implementation of rural development programmes should be recorded and maintained electronically as a means to facilitate data aggregation. Beneficiaries should therefore be required to provide the minimum necessary information that is needed for monitoring and evaluation.
- (75) Responsibility for monitoring of the programme should be shared between the Managing Authority and a Monitoring Committee set up for this purpose. The Monitoring Committee should have as its task to monitor the effectiveness of implementation of the programme. To this end its responsibilities should be specified.
- (76) Monitoring of the programme should involve the drawing up of an annual implementation report, to be sent to the Commission. To ensure adequate follow-up to the finding of the report the Commission should be able to invite the Managing Authority of the programme to an annual review meeting.

- (77) Each rural development programme should be subject to evaluation in order to improve its quality and demonstrate its achievements. Before the adoption of the programme, evaluation should be in the form of an ex-ante evaluation which should be part of the process of drawing up the programme as a means to optimise its contribution to the Union's goals of smart, sustainable and inclusive growth and the allocation of budgetary resources.
- (78) During programme implementation Member States should set up a system for ongoing evaluation ensuring among others that relevant data are available on time, including for assessment of progress on commitments in the context of the performance framework established by the Partnership Contract. An ex post evaluation should also be prepared by Member States. In order to describe the overall achievements of rural development policy the Commission should undertake a synthesis of the ex post evaluations.
- (79) Articles 107, 108 and 109 of the Treaty shall apply to the support for the rural development measures under this Regulation. Nevertheless, it should be established that, given the specificity of the agricultural sector, the rural development measures concerning operations falling within the scope of Article 42 of the Treaty, that are carried out under and in conformity with this Regulation, as well as payments made by the Member States, intended to provide additional national financing for rural development operations for which Union support is granted and which fall within the scope of Article 42 of the Treaty should be excluded from the application of Articles 107, 108 and 109 of the Treaty.
- (80) Moreover, in view of ensuring consistency with the rural development measures eligible for Union support and in order to simplify procedures, payments made by the Member States, intended to provide additional national financing for rural development operations for which Union support is granted and which fall within the scope of Article 42 of the Treaty, should be authorised as a part of programming under a notification procedure in accordance with the provisions of this Regulation. In order to ensure their appropriate monitoring, when assessing these payments the Commission should apply the criteria established for the application of Article 107 of the Treaty by way of analogy. In order to ensure that additional national financing which is not authorised by the Commission is not implemented, the Member State concerned should not put its proposed additional financing for rural development into effect until it has been approved.
- (81) An electronic information system should be established to provide an efficient and secure exchange of data.
- (82) Where this Regulation delegates to the Commission the power to adopt acts in accordance with Article 290 of the Treaty, it is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level.
- (83) In order to ensure uniform conditions for the implementation of this Regulation in relation to the presentation of rural development programmes, the procedures and timetables for approval of programmes, the procedures and timetables for the approval of amendments to programmes, including their entry in to force and frequency of submission, the approval of individual programmes and amendments to them, specific

conditions for the implementation of rural development measures, the uniform conditions concerning monitoring and the provision of monitoring information to the Commission on the implementation of financial instruments, the structure and operation of networks set-up by this Regulation, the adoption of the monitoring and evaluation system the detailed elements to be contained in annual implementation reports and in the ex ante and ex post evaluations, and the rules for the operation of the information system, implementing powers should be conferred on the Commission. Those powers should be exercised in accordance with Regulation (EU) No 182/2011.

- (84) An electronic information system should be established to provide an efficient and secure exchange of data.
- (85) The new support scheme provided for by this Regulation replaces the support scheme set up by Regulation (EC) No 1698/2005. Therefore, Regulation (EC) No 1698/2005 should be repealed from 1 January 2014.
- (86) In order to facilitate a smooth transition from the system established by Regulation (EC) No 1698/2005 to the system established by this Regulation, the power to adopt acts in accordance with Article 290 of the Treaty should be delegated to the Commission in respect of establishing transitional provisions.

HAVE ADOPTED THIS REGULATION:

TABLE OF CONTENTS

TITLE I Objectives and Strategy	30
Chapter I Scope and Definitions	30
Chapter II Missions, objectives and priorities.....	33
Chapter III Principles of assistance	35
TITLE II Strategic Framework	38
Chapter I Common Strategic Framework	38
CHAPTER II Partnership Contract	39
Chapter III Ex ante conditionalities and performance review.....	42
TITLE III Programming	46
Chapter I Programming content	46
Chapter II Preparation, approval and revision	50
TITLE IV Rural development support	53
Chapter I Measures.....	53
Section 1 Individual Measures	53
Section 2 Leader.....	76
Chapter II Financial Instruments and common provisions for several measures	81
Section 1 Financial Instruments	81
Section 2 Common provisions for several measures	86
Chapter III Technical Assistance and Networking	89
Chapter IV Prize for innovative, local cooperation.....	94
TITLE V [EIP] for agricultural productivity and sustainability.....	96
TITLE VI Financial provisions	98
TITLE VII Management, control and publicity	107

TITLE VIII Monitoring and evaluation	110
Chapter I General provisions.....	110
Section 1 Establishment and Objectives of a monitoring and evaluation system.....	110
Section 2 Technical provisions	111
Chapter II Monitoring	112
Chapter III Evaluation	115
TITLE IX Competition provisions	118
TITLE X Commission powers, transitional and final provisions	119
Chapter I Commission powers	119
Chapter II Common provisions	120
ANNEX I Amounts and support rates.....	122
ANNEX II Biophysical criteria for the delimitation of areas facing natural constraints	126
ANNEX III Indicative list of measures and operations of particular relevance to thematic sub-programmes referred to in Article 14	127

TITLE I

Objectives and Strategy

Chapter I

Scope and Definitions

Article 1

Scope

This Regulation:

- (1) lays down the general rules governing Union support for rural development, financed by the European Agricultural Fund for Rural Development (hereinafter "the EAFRD"), established by Regulation (EU) No HR/xxxx;
- (2) defines the objectives to which rural development policy is to contribute and the relevant Union priorities for rural development;
- (3) outlines the strategic context for rural development policy;
- (4) defines the measures of rural development policy;
- (5) lays down rules on partnership, programming, networking, management, monitoring and evaluation on the basis of responsibilities shared between the Member States and the Commission.
- (6) lays down the provisions necessary to ensure co-ordination of the EAFRD with other Union instruments.

Article 2

Definitions

For the purposes of this Regulation, the following definitions shall apply:

- (a) "programming": the process of organisation, decision taking and allocating the financial resources in several stages intended to implement, on a multi-annual basis, the joint action by the Union and the Member States to achieve the EU priorities;
- (b) "region": territorial unit corresponding to level 1 or 2 of the Nomenclature of territorial units for statistics (NUTS level 1 and 2) within the meaning of Regulation (EC) No 1059/2003 of the European Parliament and of the Council of

26 May 2003 on the establishment of a common classification of territorial units for statistics (NUTS)²⁰;

- (c) "measure": a set of operations contributing to one or more of the Union priorities for rural development referred to in Article 5;
- (d) "operation": a project, contract, or arrangement or other action selected according to criteria for the rural development programme concerned and implemented by one or more beneficiaries allowing achievement of one or more of the Union priorities for rural development referred to in Article 5;
- (e) "beneficiary": a natural or legal person or other body, whether public or private, responsible for implementing operations or receiving support;
- (f) "monitoring and evaluation system": a general approach developed by the Commission and the Member States defining a limited number of common indicators relating to the baseline situation and the financial execution, outputs, results, and impacts of the programmes;
- (g) "local development strategy": a coherent set of operations to meet local objectives and needs, which contributes to meeting the Union priorities, implemented in partnership at the appropriate level;
- (h) "support rate": the rate of the total public contribution to an operation;
- (i) "public expenditure": any public contribution to the financing of operations whose origin is the budget of the State, of regional and local authorities, of the Union and any similar expenditure. Any contribution to the financing of operations whose origin is the budget of public law bodies or associations of one or more regional or local authorities or public law bodies, within the meaning of Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts²¹, shall be regarded as public contribution;
- (j) "less developed regions": regions whose gross domestic product (GDP) per capita is less than 75% of the average GDP of the EU-27;
- (k) "micro-, small and medium-sized enterprises" (hereinafter "SMEs") : micro-, small and medium-sized enterprises as defined in Commission Recommendation 2003/261/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises²²;
- (l) "transaction cost": a cost linked to a commitment but not directly attributable to its implementation;
- (m) utilised agricultural area (hereinafter "UAA"): utilised agricultural area within the meaning of Commission Decision 2000/115/EC of 24 November 1999 relating to the definitions of the characteristics, the list of agricultural products, the exceptions

²⁰ OJ L 154, 21.6.2003, p. 1.

²¹ OJ L 134, 30.4.2004, p. 114.

²² OJ L 124, 20.5.2003, p. 36.

to the definitions and the regions and districts regarding the surveys on the structure of agricultural holdings²³;

- (n) “economic losses”: any additional cost incurred by a farmer as a result of exceptional measures taken by the farmer with the objective of reducing supply on the market concerned or any substantial loss of production;
- (o) “adverse climatic event”: weather conditions, such as frost, hail, ice, rain or drought, which can be assimilated to a natural disaster;
- (p) “animal diseases”: diseases mentioned in the list of animal diseases established by the World Organisation for Animal Health or in the Annex to Council Decision 90/424/EEC of 26 June 1990 on expenditure in the veterinary field²⁴;
- (q) “environmental incident”: a specific occurrence of pollution, contamination or degradation in the quality of the environment related to a specific event and of limited geographical scope. It does not cover general environmental risks not connected with a specific event, such as climate change or acid rain;
- (r) "short supply chain": a supply chain involving a limited number of economic operators, committed to co-operation, local economic development, and close geographical and social relations between producers and consumers;
- (s) "young farmer": farmer who is less than 40 years of age at the moment of submitting the application, possesses adequate occupational skills and competence and is setting up for the first time in an agricultural holding as head of the holding.
- (t) "thematic objectives": a set of priority objectives for the Union derived from the Europe 2020 Strategy for smart, sustainable and inclusive growth for the purpose of setting-up a joint Common Strategic Framework for the ERDF, the ESF, the Cohesion Fund, the EAFRD and the EMFF.
- (u) "completed operation" means an operation that has been physically completed or fully implemented and in respect of which all related payments have been made by beneficiaries and the corresponding public contribution has been paid to the beneficiaries.

²³ OJ L 38, 12.2.2000, p. 1.

²⁴ OJ L 224, 18.8.1990, p. 19.

Chapter II

Missions, objectives and priorities

Article 3

Missions

The EAFRD shall contribute to the Europe 2020 strategy for smart, sustainable and inclusive growth ("Europe 2020 Strategy") by promoting sustainable rural development throughout the Union in a complementary manner to the other instruments of the common agricultural policy (hereinafter "CAP"), to cohesion policy and to the common fisheries policy. It shall contribute to a more territorially and environmentally balanced and innovative Union agricultural sector.

Article 4

Objectives

Within the overall framework of the CAP, support for rural development shall contribute to achieving the following objectives:

- (1) the competitiveness of agriculture;
- (2) the sustainable management of natural resources;
- (3) a balanced territorial development of rural areas.

Article 5

Union priorities for rural development

The achievement of the objectives of rural development policy and of the Europe 2020 strategy objectives shall be pursued through the following six Union priorities for rural development:

- (1) fostering knowledge transfer in agriculture and forestry, with a focus on the following areas:
 - (a) promoting human capital and smart networking in agriculture and forestry;
 - (b) fostering innovation and the knowledge base of agriculture and forestry;
 - (c) strengthening the links between agriculture and forestry and research and development.

- (2) enhancing competitiveness of all types of agriculture and enhancing farm viability, with a focus on the following areas:
 - (a) facilitating restructuring of farms facing major structural problems, notably farms with a low degree of market participation, market-oriented farms in particular sectors and farms in need of agricultural diversification;
 - (b) facilitating generational renewal in the agricultural sector.
- (3) promoting food chain organisation and risk management in agriculture, with a focus on the following areas:
 - (a) better integrating primary producers into the food chain through quality schemes, promotion in local markets and short supply circuits, producer groups and interbranch organisations;
 - (b) supporting farm risk management.
- (4) preserving and enhancing ecosystems dependent on agriculture and forestry, with a focus on the following areas:
 - (a) preserving biodiversity and the state of European landscapes;
 - (b) improving water management;
 - (c) improving soil management.
- (5) Promoting resource efficiency and the transition to a low carbon economy in the agriculture and food sectors and the forestry sector, with a focus on the following areas:
 - (a) increasing efficiency in water use by agriculture;
 - (b) increasing efficiency in energy use in agriculture and food processing;
 - (c) facilitating the supply and use of wastes, residues and other non food raw material for purposes of the bio-economy;
 - (d) reducing nitrous oxide and methane emissions from agriculture;
 - (e) fostering carbon sequestration in agriculture and forestry;
- (6) realising the jobs potential and the development of rural areas, with a focus on the following areas:
 - (a) facilitating diversification and job creation;
 - (b) promoting social inclusion and poverty reduction;
 - (c) fostering local development in rural areas.

Chapter III

Principles of assistance

Article 6

Complementarity, consistency and conformity

1. The EAFRD shall provide support, through multi-annual programmes, to complement national, regional and local actions in delivering the Union's priorities for rural development.
2. The Commission and the Member States shall ensure that support from the EAFRD and the Member States is consistent with the policies of the Union and complementary to other instruments of the Union.
3. Support from the EAFRD shall be implemented in close cooperation between the Commission and the Member States.
4. There shall be consistency with the measures financed by the European Agricultural Guarantee Fund.
5. Support from the EAFRD shall also be consistent with the objectives of economic, social and territorial cohesion and those of the Union support instrument for fisheries in particular.
6. In accordance with their respective responsibilities, the Commission and the Member States shall ensure coordination and complementarity between support from the EAFRD and the ERDF, the ESF, the Cohesion Fund, the EMFF, and the interventions of the European Investment Bank, and of other Union policies and financial instruments.
7. No support under this Regulation shall be granted to operations supported under common market organizations. The Commission shall be empowered to adopt delegated acts, in accordance with Article 121 to define exceptions from this rule.
8. Operations supported by the EAFRD shall comply with Union and national law. In the case of non-compliance the MS shall determine the eligibility of the operation in particular on the basis of the severity, extent and permanent nature of the non-compliance.

Article 7

Partnership

1. EAFRD support shall be implemented through close consultations (hereinafter "partnership") between the Commission and the Member States and with the

authorities and bodies designated by the Member States under national rules and practices, including at least:

- (a) the competent regional or local authorities and other public authorities;
- (b) the economic and social partners;
- (c) other appropriate bodies representing civil society, non-governmental organisations, including environmental organisations, and bodies responsible for promoting equality between men and women and non-discrimination.

Member States shall designate the most representative partners at national, regional and local level and in the economic, social, environmental or other sphere (hereinafter "partners"). They shall create the conditions for a broad and effective involvement of all appropriate partners, in accordance with national rules and practices, taking into account the need to promote equality between men and women, non-discrimination and sustainable development through integration of environment protection and improvement requirements.

2. The partnership shall be conducted with due regard to the respective institutional, legal and financial responsibilities of each category of partner as defined in paragraph 1.
3. The partnership shall be involved by Member States in the preparation of Partnership contracts and progress reports and in the preparation, implementation, monitoring and evaluation of the rural development programmes. Member States shall involve all appropriate partners at the various programming stages, due regard being had to the time limit set for each step.
4. In cooperation with the Member States and the organizations representing the partners at Union level, the Commission shall draw up a European code of good practice regarding the implementation of partnership. This code of good practice shall set out objectives and criteria to support the implementation of partnership and to facilitate the sharing of information, experience, results and good practices among Member States.
5. At least once a year, the Commission shall consult the organisations which represent the partners at Union level on the implementation of support from the EAFRD.

Article 8

Subsidiarity

Member States shall be responsible for implementing the rural development programmes at the appropriate territorial level, according to their own institutional arrangements, in accordance with this Regulation.

Article 9

Equality between men and women and non-discrimination

Member States and the Commission shall promote equality between men and women and shall ensure that any discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation is prevented and the gender perspective is integrated during the stages of programme preparation, implementation, monitoring and evaluation

TITLE II

Strategic Framework

Chapter I

Common Strategic Framework

Article 10

Scope

In order to promote the harmonious, balanced and sustainable development of the Union, a Common Strategic Framework shall translate the objectives and targets of the Union Strategy for smart, sustainable and inclusive growth into detailed investment priorities and focus areas for the EAFRD, the ERDF, ESF, Cohesion Fund and the EMFF.

Article 11

Content of the Common Strategic Framework

The Common Strategic Framework shall establish:

- (a) for each thematic objective and Union priority for rural development, the detailed investment priorities and focus areas to be addressed by the EAFRD, the ERDF, ESF, Cohesion Fund, and the EMFF, including, for the relevant funds, strategic investments of Union interest;
- (b) the key territorial challenges for urban, rural and coastal areas, as well as areas with particular territorial features referred to in Articles 174 and 349 of the Treaty, to be addressed by the EAFRD, the ERDF, ESF, Cohesion Fund and the EMFF;
- (c) horizontal principles and policy objectives for the implementation of the EAFRD, the ERDF, ESF, Cohesion Fund, and the EMFF;
- (d) priorities for territorial cooperation activities of the relevant funds, taking account of macro-regional and sea basin strategies;
- (e) coordination mechanisms, among the EAFRD, the ERDF, ESF, Cohesion Fund, and the EMFF, and with other relevant Union policies and instruments, including external instruments for cooperation;
- (f) mechanisms for ensuring the coherence and consistency of the programming of the EAFRD, the ERDF, ESF, Cohesion Fund, and the EMFF with the guidelines and recommendations issued under Articles 121(2) and 148(2) of the Treaty.

Article 12

Adoption and review

The Council and European Parliament shall adopt the Common Strategic Framework within three months of the adoption of the Regulations on support by the EAFRD, the ERDF, ESF, Cohesion Fund, and the EMFF.

In case of major changes in the Union Strategy the Commission shall review the Common Strategic Framework and where appropriate, propose a revised Common Strategic Framework for adoption by the Council and the European Parliament.

Within six months of adoption of a revised Common Strategic Framework, Member States shall propose amendments, where necessary, to their Partnership Contract and operational and rural development programmes to ensure their consistency with the revised Common Strategic Framework.

CHAPTER II

Partnership Contract

Article 13

Preparation of the Partnership Contract

1. Each Member State shall prepare a Partnership Contract for the period from 1 January 2014 to 31 December 2020.
2. The Partnership Contract shall be drawn up by Member States in cooperation with the partnership referred to in Article 7. The Partnership Contract shall be prepared in dialogue with the Commission.
3. The Partnership Contract shall cover all support from the EAFRD, the ERDF, ESF, Cohesion Fund, and the EMFF in the Member State concerned.
4. Each Member State shall transmit its Partnership Contract to the Commission within three months of the adoption of the Common Strategic Framework.

Article 14

Content of the Partnership Contract

The Partnership Contract shall set out:

1. Arrangements to ensure alignment with the objectives and targets of the Union Strategy for smart, sustainable and inclusive growth including:

- (a) an analysis of disparities and development needs with reference to the thematic objectives, detailed investment priorities and focus areas defined in the Common Strategic Framework and the targets set in the Member State's National Reform Programme and the relevant Council recommendations under Article 121 (2) and 148 (2) of the Treaty;
 - (b) a summary analysis of the ex-ante evaluation of each rural development programme;
 - (c) for each thematic objective and Union priority for rural development, a summary of the main results expected for the EAFRD, the EFRD, ESF, Cohesion Fund, and the EMFF;
 - (d) the indicative allocation of support by the Union by thematic objective and Union priority for rural development at national level for the EAFRD, the ERDF, ESF, Cohesion Fund and the EMFF;
 - (e) horizontal principles and policy objectives for the implementation of the EAFRD, the ERDF, ESF, Cohesion Fund and the EMFF;
 - (f) a list of the operational and rural development programmes with the indicative contribution by Fund.
2. Coordination mechanisms for territorial development including:
- (a) the mechanisms at national and regional level that ensure coordination between the EAFRD, the ERDF, ESF, Cohesion Fund the EMFF and other Union and national funding instruments and with the EIB;
 - (b) the arrangements to ensure an integrated approach to the use of the EAFRD, the ERDF, ESF, Cohesion Fund and the EMFF for the territorial development of urban, rural, coastal areas and areas with particular territorial features with particular regard to the use of Article 55 and 56 of this Regulation;
3. Integrated strategies to address the specific needs of geographical areas most affected by poverty or of target groups at highest risk of discrimination or exclusion, with special regard to marginalized communities, where appropriate, including the indicative financial allocation for the relevant Funds.
4. Arrangements to ensure effective implementation including:
- (a) a summary of the milestones established under operational and rural development programmes for the performance framework, together with the methodology and the key principles applied to ensure consistency of the approach across the rural development programmes of a Member State;
 - (b) a summary of the assessment of the fulfilment of the ex ante conditionalities set out in Article 17 and of the actions to be taken at national and regional level and the timetable for their implementation where ex ante conditionalities are not fulfilled;

- (c) the actions taken to involve the partnership referred to in Article 7 and its role in the preparation of the Partnership Contract and of the progress report referred to in Article 16.
- 5. Arrangements to ensure efficient implementation of the EAFRD, the ERDF, ESF, Cohesion Fund and the EMFF including:
 - (a) an assessment of whether there is a need to reinforce the administrative capacity of the authorities and beneficiaries and actions to be taken for this purpose;
 - (b) a summary of the actions planned to reduce the administrative burden for beneficiaries and corresponding targets in the rural development programmes;
 - (c) an assessment of the existing systems for electronic data exchange, and the actions planned to ensure that all exchanges of information between beneficiaries and authorities responsible for management and control of operational programmes and rural development programmes, can be carried out solely by electronic data exchange.
- 6. Member States implementing the EAFRD through one rural development programme may include the information under paragraphs 4 and 5 of this Article in the rural development programme and not in the Partnership Contract.

Article 15

Adoption of the Partnership Contract

1. The Commission shall assess the consistency of the Partnership Contract with the Regulations on support by the EAFRD, the ERDF, ESF, Cohesion Fund and the EMFF, with the Common Strategic Framework, the National Reform Programme and the Council Recommendations made under Articles 121(2) and 148(2) of the Treaty taking account of the ex ante evaluations of the operational and rural development programmes, and shall make observations within three months of the date of submission of the draft Partnership Contract. The Member State shall provide all necessary additional information and, where appropriate, shall revise the Partnership Contract.
2. The Commission shall approve the Partnership Contract, by means of an implementing act, no later than six months after its submission by the Member State, provided that any observations made by the Commission have been satisfactorily taken into account. The Partnership Contract shall not enter into force before 1 January 2014.
3. Where a Member State proposes an amendment to the Partnership Contract, the Commission shall carry out an assessment in accordance with paragraph 1 and, where appropriate, shall adopt a decision approving the amendment.
4. Where a Member State implements the EAFRD through more than one rural development programme, the Partnership Contract may be updated after the last rural development programme of that Member State is approved.

Article 16

Progress report

1. By 30 June 2017 and by 30 June 2019, the Member States shall submit to the Commission a progress report on the implementation of the partnership contract as at 31 December 2016 and 31 December 2018 respectively.
2. The progress report shall set out information on and assess:
 - (a) changes in development needs in the Member State since the adoption of the partnership contract;
 - (b) the progress towards the achievement of the objectives and targets of the Union Strategy for smart, sustainable and inclusive growth, in particular in respect of the milestones set out in the performance framework;
 - (c) whether the actions taken to fulfil ex ante conditionalities not fulfilled at the date of adoption of the Partnership Contract have been implemented in accordance with the timetable established;
 - (d) implementation of mechanisms to ensure coordination between the EAFRD, the ERDF, ESF, Cohesion Fund, the EMFF and other Union and national funding instruments and with the EIB;
 - (e) actions taken to reinforce the administrative capacity of the Member State's authorities and the capacity of beneficiaries to use the Funds; .
 - (f) the role of the partnership referred to in Article 7 in the implementation of the partnership contract.
3. In 2017 and 2019, the Commission shall prepare a strategic report summarising the progress reports of the Member States.
4. In 2018 and 2020, the Commission shall include in its Annual Progress Report to the Spring European Council a section summarising the strategic report referred to in paragraph 3, in particular with regard to the progress made towards the objectives and targets of the Union Strategy for smart, sustainable and inclusive growth.

Chapter III

Ex ante conditionalities and performance review

Article 17

Ex ante conditionalities

1. In order to ensure an immediate starting and balanced implementation of the rural development programmes, the Member States shall ensure that the following

ex ante conditionalities are fulfilled at the time of the approval of their respective programme(s):

- (a) sufficient capacity in human resource allocation, training, management and IT systems within the bodies responsible for the management and implementation of each rural development programme;
 - (b) sufficient advisory capacity to ensure advice on the regulatory requirements and all aspects linked to sustainable management in agriculture and forestry;
 - (c) relevant initiatives for raising awareness and animating innovative actions and establishing operational groups of the European Innovation Partnership 'Agricultural Productivity and Sustainability' are planned;
 - (d) an appropriate approach laying down principles with regard to the setting of selection criteria for projects and local development is defined;
 - (e) provision of sufficient resources and capacity building activities to address the needs relating to monitoring and evaluation requirements;
 - (f) the accreditation of national or regional paying agency(-ies), respecting the minimum conditions referred to in article 8(1)(a) of Regulation (EU) No HR/xxxx in respect to all measures.
2. Where ex ante conditionalities are not fulfilled at the date of transmission of the draft Partnership Contract, Member States shall set out in their Partnership Contract a summary of the actions to be taken at national and regional level to ensure their fulfilment and the timetable for their implementation before the approval of the respective rural development programme(s), or within an appropriate timeframe thereafter.

Member States shall set out the detailed actions relating to the fulfilment of *ex ante* conditionalities, including the timetable for their implementation, in the rural development programmes.

3. Where ex ante conditionalities are not fulfilled within the agreed timeframe, the Commission may decide to make reimbursements of expenditure of relevant measures subject to the fulfilment of (a) given commitment(s) related to specific *ex ante* conditionalities.

Article 18

Performance Framework

1. The Member States shall establish critical milestones towards the achievement of the programme's objectives, based on the common indicators referred to in article 105.

2. The critical milestones shall be agreed between the Commission and the Member States in the context of the preparation of the programmes, and included in the respective Partnership Contracts referred to in Article 13.
3. The method for establishing the performance framework and for the allocation of the performance reserve referred to in Article 19 is set out in Annex IV.

Article 19

Performance reserve

5% of the total EAFRD contribution to each rural development programme shall be set aside and allocated to the same or other rural development programmes of the same Member State which have met their milestones in accordance with Article 20.

Article 20

Performance review

1. The Commission, in cooperation with the Member States, shall undertake a review of the performance of the rural development programmes in each Member State in 2017 and 2019 with reference to the performance framework set out in the respective partnership contract.
2. This review shall examine the achievement of the milestones of each rural development programme on the basis of the information and the assessments presented in the progress reports submitted in the years 2017 and 2019 and referred to in Article 16.
3. Where the review of performance undertaken in 2017 reveals that a rural development programme has not attained its milestones set for the year 2016, the Commission shall make recommendations to the Member State concerned.
4. On the basis of the review undertaken in 2019, the Commission shall make a decision to allocate the respective performance reserve of the EAFRD to the rural development programme(s) of each Member State. The amount of its performance reserve to be allocated to each Member State shall be calculated pro-rata for those Union priorities for rural development which have reached the milestones set for 2018. The Member State shall propose the attribution of this amount to Union priorities for rural development within one or more rural development programmes.
5. Following the Commission decision on the allocation of the performance reserve, the rural development programme(s) shall be amended in line with Article 25.
6. The amounts which remain in the performance reserve following the procedure referred to in paragraph 4 shall be allocated in the form of a performance bonus to the best performing rural development programmes, where a Member State implements the EAFRD through more than one rural development programme, or

to the best performing Union priorities for rural development within a programme in cases where a Member State has only one rural development programme.

7. To the amounts mentioned under paragraph 6 shall be added the available assigned revenue collected in accordance with Article 42 of the [Regulation on the financing, management and monitoring of the common agricultural policy] for EAFRD. These amounts shall be allocated to Member States proportionally to their share of the total amount available for EAFRD.
8. If a performance bonus is available following the review, the Member State shall submit to the Commission a duly justified proposal on its allocation to best performing programmes not later than 30 September 2019.
9. The Commission shall adopt an implementing act on the allocation of the performance reserve and the performance bonus not later than 31 December 2019.
10. Without prejudice to the clearance of accounts procedure referred to in Section II of Chapter IV of Title IV of Regulation (EU) No HR/xxxx, where the Commission, following the review of performance, determines that the failure to attain the milestones established for 2018 puts the achievement of the objectives of a rural development programme at risk, it may, by means of implementing acts, declare the expenditure ineligible for the EU budget.
11. The Commission shall be empowered to adopt delegated acts defining rules for the application of paragraph 9 of this Article.
12. In examining the achievement of the milestones of rural development programmes, as referred to in paragraph 2, in the context of the 2019 performance review, the Commission shall be assisted by an EAFRD performance review committee.
13. The committee shall be composed of one representative per Member State, X representatives of the European Parliament and X external experts. It shall be chaired by the Commission.

TITLE III

Programming

Chapter I

Programming content

Article 21

Rural development programmes

1. The EAFRD shall act in the Member States through rural development programmes. These programmes shall implement a rural development strategy to meet the Union priorities through a set of measures defined in Title IV, for the achievement of which aid from the EAFRD will be sought.
2. Each rural development programme shall cover the period between 1 January 2014 and 31 December 2020.
3. A Member State may submit either a single programme for its entire territory or a set of regional programmes.
4. Member States with regional programmes may also submit for approval a national framework containing common elements for these programmes without a separate budgetary allocation. The national framework may also contain a list of specific measures to be obligatorily included in regional programmes in order to address particularly relevant environmental, economic or social goals identified at national level.

Article 22

Thematic sub-programmes

1. Member states may include within their rural development programmes thematic sub-programmes, contributing to the Union priorities, aimed to address specific needs identified, in particular in relation to:
 - (a) young farmers;
 - (b) small farms as referred to in the third subparagraph of Article 33(2);
 - (c) mountain areas as referred to in Article 46(2);
 - (d) short supply chains.

An indicative list of measures and types of operations of particular relevance to each thematic sub-programme is set out in Annex III.

2. Thematic sub-programmes may also address specific needs relating to the restructuring of agricultural sectors with a significant impact on the development of a specific rural area.
3. For measures supported in the framework of thematic sub-programmes concerning small farms and short supply chains, the support rates laid down in Annex I may be increased by 10 percentage points. However, the maximum combined support rate shall not exceed 90%.
4. In the case of young farmers and mountain areas, the maximum support rates may be increased in accordance with what Annex I.

Article 23

Content of rural development programmes

1. Each rural development programme shall include:
 - (a) the ex ante evaluation referred to in Article 114;
 - (b) an analysis of the situation in terms of strengths, weaknesses, opportunities and threats (hereinafter "SWOT") and identification of the needs that have to be addressed in the geographical area covered by the programme and, where relevant, by the thematic sub-programmes referred to in Article 22.

The analysis shall be structured around the Union priorities. Specific needs concerning climate change mitigation and adaptation and promotion of innovation shall be assessed across Union priorities, in view of identifying relevant responses in these two areas at the level of each priority;

- (c) a description of the strategy which includes the target setting for each of the areas of the Union priorities laid down in Article 5(2) to (6) on the basis of common target indicators to be defined as part of the monitoring and evaluation referred to in Article 105, and a selection of measures, based on a sound intervention logic of the programme, including an assessment of the expected contribution of the measures chosen to achieve the targets.

The rural development programme shall demonstrate that:

- (i) relevant combinations of measures are included in relation to each of the Union priorities, logically following from the ex ante evaluation referred to in point (a) and the analysis referred to in point (b);
 - (ii) specific needs linked with specific conditions at regional or sub-regional level are taken into account and concretely addressed through adequately designed combinations of measures or thematic sub-programmes;

- (iii) a pertinent approach towards innovation and climate change mitigation and adaptation is integrated into the programme;
 - (iv) appropriate action is envisaged to simplify the implementation of the programme;
 - (v) measures have been taken to ensure the availability of sufficient advisory capacity on the regulatory requirements and all aspects linked to sustainable management in agriculture and forestry;
 - (vi) initiatives are planned for raising awareness and animating innovative actions and establishing operational groups of the European Innovation Partnership (hereinafter "EIP") for agricultural productivity and sustainability;
 - (vii) an appropriate approach has been defined laying down principles with regard to the setting of selection criteria for projects and local development strategies, which takes into account relevant targets. In this context Member States may provide for priority to be given or for a higher support rate for operations undertaken collectively by groups of farmers;
- (d) the assessment of the ex ante conditionalities and, where required, the commitments referred to in Article 17 and the critical milestones established for the purpose of Article 18;
 - (e) a description of each of the measures selected;
 - (f) in relation to local development, a specific description of the coordination mechanisms between the LEADER local development strategies referred to in Article 56, the measure co-operation referred to in Article 49, the measure basic services and village renewal in rural areas referred to in Article 34 and the support for non-agricultural activities in rural areas under the measure farm and business development in rural areas referred to in Article 33.
 - (g) a description of the approach towards innovation in view of enhancing productivity and sustainable resource management and the contribution to achieving the objectives of the EIP for agricultural productivity and sustainability referred to in Article 86;
 - (h) an analysis of needs relating to monitoring and evaluation requirements. The Member States shall provide sufficient resources and capacity building activities to address the identified needs;
 - (i) a financing plan comprising:
 - (i) a table setting out, in accordance with Article 89(4), the total EAFRD contribution planned for each year. When applicable this table shall indicate separately within the total EAFRD contribution the appropriations provided for the less developed regions and the funds transferred to the EAFRD in application of Article 7(2) of Regulation

(EU) No DP/xxxx. The planned annual EAFRD contribution shall be compatible with the Multi-annual Financial Framework;

- (ii) a table setting out, for each measure, the type of operation with a specific EAFRD contribution rate and technical assistance, the total Union contribution planned and the applicable EAFRD contribution rate. Where applicable, this table shall indicate separately the EAFRD contribution rate for less developed regions and for other regions;
 - (j) an indicator plan comprising for each of the priorities referred to in Article 5(2) to (6) the target indicators and the selected measures with planned outputs and planned expenditure, broken down between public and private;
 - (k) where applicable, a table on additional national financing per measure in accordance with Article 120;
 - (l) the elements needed for the appraisal under Article 120 and, where applicable, the list of aid schemes falling under Article 119(1) to be used for the implementation of the programmes;
 - (m) information on the complementarity with measures financed by the other common agricultural policy instruments, through cohesion policy or by the EMFF;
 - (n) programme implementing arrangements including:
 - (i) the designation by the Member State of all authorities referred to in Article 101(2) and, for information, a summary description of the management and control structure;
 - (ii) a description of the monitoring and evaluation procedures, as well as the composition of the Monitoring Committee;
 - (iii) the provisions to ensure that the programme is publicised, including through the National Rural Network referred to in Article 80;
 - (o) the designation of the partners referred to in Article 7 and the results of the consultation of the partners;
 - (p) where applicable, the main elements of the National Rural Network action plan and structure referred to in Article 80(3), and provisions for its management, which would constitute the basis for its annual actions plans.
2. Where thematic sub-programmes are included in a rural development programme, each sub-programme shall include:
- (a) a specific analysis of the situation in terms of SWOT and identification of the needs that have to be addressed by the sub-programme;
 - (b) specific targets at sub-programme level and a selection of measures, based on a thorough definition of the intervention logic of the sub-programme,

including an assessment of the expected contribution of the measures chosen to achieve the targets;

- (c) a separate specific indicator plan, with planned outputs and planned expenditure, broken down between public and private.
3. The Commission shall, by means of implementing acts lay down rules for the presentation of the elements described in paragraphs 1 and 2 in rural development programmes. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 122.

Chapter II

Preparation, approval and revision

Article 24

Preparation and approval

1. Rural development programmes shall be established by Member States following close co-operation with the partners referred to in Article 7. Consultation of the partners on the preparatory documents shall be organised in such a way as to allow the partners a period of at least four weeks to examine them.
2. Member States shall submit to the Commission a proposal for each rural development programme, containing the information mentioned in Article 23, at the same time as the Partnership Contract.
3. The Commission shall assess the proposed programmes in view of their effective contribution to the Union priorities for rural development and their consistency with this Regulation, the Common Strategic Framework, the Partnership Contract, the National Reform Programme and the Council Recommendations made under Articles 121(2) and 148(2) of the Treaty, taking account of the *ex ante* evaluation. The assessment shall focus on the adequacy of the programme strategy to meet the targets set for the Union priorities addressed by the programme. The allocation of financial resources to the measures of the programme shall be balanced and shall be assessed in relation to the possibility to achieve these targets.

Where the Commission considers that a rural development programme is not consistent with any of the criteria described in the first subparagraph, it shall request the Member State to revise the proposed programme accordingly.

4. The Commission may approve a rural development programme before adoption of the Partnership Contract with a Member State in cases where the Commission considers that all the elements of a rural development programme conform to the provisions of this Regulation and those parts of the Partnership Contract pertaining to the EAFRD.

5. Each rural development programme shall be approved by the Commission by means of an implementing act adopted in accordance with the examination procedure referred to in Article 122.

Article 25

Revision

1. Member States may amend rural development programmes, following their adoption, for the remainder of the period. Programme modifications shall take into account the outcome of evaluations and the Commission's syntheses referred to in Article 117, particularly with a view to strengthening or adapting the way in which the programme addresses the Union priorities.
2. Requests for amendment of rural development programmes shall be accompanied by the revised programme and, where appropriate, a revised Partnership Contract.
3. Requests for programme modifications shall be approved in accordance with the following procedures:
 - (a) The Commission shall, by means of implementing acts, decide on requests to amend programmes that concern:
 - (i) a change in the programme strategy through a major reset of quantified targets;
 - (ii) a change in the EAFRD contribution rate of one or more measures;
 - (iii) a change of the entire Union contribution or its annual distribution at programme level;
 - (iv) a transfer of funds between measures implemented under different EAFRD contribution rates.

Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 122.
 - (b) The Commission shall, by means of implementing acts, decide on requests to amend the programme in all other cases. These shall include in particular:
 - (i) introduction or withdrawal of measures or types of operations;
 - (ii) changes in the description of measures, including changes of eligibility conditions;
4. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the criteria defining a major reset of quantified targets referred to in paragraph 3(a)(i) of this Article.

Article 26

Implementing acts

The Commission shall, by means of implementing acts, adopt rules on procedures and timetables for:

- (a) the approval of rural development programmes;
- (b) the submission and approval of proposals for amendments to rural development programmes, including their entry into force and frequency of submission during the programming period.

Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 122.

TITLE IV

Rural development support

Chapter I

Measures

Article 27

Measures

Each rural development measure shall be programmed to contribute specifically to the achievement of one or more Union priorities for rural development.

SECTION 1

INDIVIDUAL MEASURES

Article 28

Knowledge transfer and information actions

1. Support under this measure shall cover vocational training and skills acquisition actions, demonstration activities and information actions. Vocational training and skills acquisition actions may include training courses, workshops and coaching.

Support may also cover short-term farm management exchange and farm visit.

2. Support under this measure shall be for the benefit of persons engaged in the agricultural, food and forestry sector, land managers and other economic actors which are micro-, small or medium-sized enterprises operating in rural areas.

The training or other knowledge transfer and information action provider shall be the beneficiary of the support.

3. Support under this measure shall not include courses of instruction or training, which form part of normal education programmes or systems at secondary or higher levels.

Bodies providing knowledge transfer and information services shall have the appropriate capacities in the form of staff qualifications and regular training to carry out this task.

4. Eligible costs under this measure shall be the costs of organising and delivering the knowledge transfer or information action. In the case of demonstration projects, support may also cover relevant investment costs. Costs for travel, accommodation and per diem expenses of participants as well as the cost of replacement of farmers shall also be eligible.
5. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the further specification of eligible costs, the minimum qualifications of bodies providing knowledge transfer services and the duration and content of farm exchange schemes and farm visits.

Article 29

Advisory services, farm management and farm relief services

1. Support under this measure shall be granted in order to:
 - (a) help farmers, forest holders and SMEs in rural areas benefit from the use of advisory services for the improvement of the economic and environmental performance of their holding or enterprise;
 - (b) promote the setting up of farm management, farm relief and farm advisory services, as well as forestry advisory services;
 - (c) promote the training of advisors.
2. The beneficiary of support provided in paragraph 1(a) and (c) shall be the provider of advice or training. Support under paragraph 1(b) shall be granted to the authority or body selected to set up the farm management, farm relief, farm advisory or forestry advisory service.
3. The authorities or bodies selected to provide advice shall have the appropriate resources in the form of regularly trained and qualified staff and advisory experience and reliability with respect to the fields they advise in. The beneficiaries shall be chosen through calls for proposals. The selection procedure shall be objective and be open to public as well as to private bodies.

When providing advice, advisory services shall respect the non-disclosure obligations referred to in Article 13(2) of Regulation (EU) No HR/xxxx
4. Advice to farmers shall be linked to at least one Union priority and shall cover as a minimum one of the following elements:
 - (a) the statutory management requirements and/or standards for good agricultural and environmental conditions provided for in Chapter 1 of Title VI of Regulation (EU) No HR/xxxx;
 - (b) where applicable, agricultural practices beneficial to the climate and the environment under Chapter 2 of Title III of Regulation (EU) No DP/xxxx;

- (c) the requirements or actions related to climate change mitigation and adaptation, biodiversity, the protection of water and soil, animal disease notification and innovation as laid down in Annex I to Regulation (EU) No HR/xxxx; or
- (d) where relevant, occupational safety standards based on Union legislation.

Advice may also cover other issues linked to the economic, agricultural and environmental performance of the agricultural holding.

5. Advice to forest holders shall cover as a minimum the relevant obligations under Directives 2009/147/EC, 92/43/EEC and 2000/60/EC. It may also cover issues linked to the economic and environmental performance of the forest holding.
6. Advice to SMEs may cover issues linked to the economic and environmental performance of the enterprise.
7. Where justified and appropriate, advice may be partly provided in group, while taking into account the situations of the individual user of advisory services participating.
8. Support under paragraphs 1(a) and (c) shall be limited to the maximum amounts laid down in Annex I. Support under paragraph 1(b) shall be degressive over a maximum period of five years from setting up.
9. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the further specification of the minimum qualifications of the authorities or bodies providing advice.

Article 30

Quality schemes for agricultural products and foodstuffs

1. Support under this measure shall cover new participation by farmers in:
 - (a) quality schemes for agricultural products, cotton or foodstuffs established by Union legislation;
 - (b) quality schemes for agricultural products, cotton or foodstuffs recognised by the Member States as complying with the following criteria:
 - (i) the specificity of the final product under such schemes is derived from clear obligations to guarantee:
 - specific product characteristics, or
 - specific farming or production methods, or
 - a quality of the final product that goes significantly beyond the commercial commodity standards as regards public, animal or plant health, animal welfare or environmental protection;

- (ii) the scheme is open to all producers;
 - (iii) the scheme involves binding product specifications and compliance with those specifications is verified by public authorities or by an independent inspection body;
 - (iv) the scheme is transparent and assures complete traceability of products;
or
- (c) voluntary agricultural product certification schemes recognised by the Member States as meeting the Union best practice guidelines²⁵ for the operation of voluntary certification schemes relating to agricultural products and foodstuffs.
2. Support shall be granted as an annual incentive payment, the level of which shall be determined according to the level of the fixed costs arising from participation in supported schemes, for a maximum duration of five years.
- For the purposes of this paragraph, 'fixed costs' means the costs incurred for entering a supported quality scheme and the annual contribution for participating in that scheme, including, where necessary, expenditure on checks required to verify compliance with the specifications of the scheme.
3. Support shall be limited to the maximum amount laid down in Annex I.
4. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the specific Union quality schemes to be covered by paragraph 1(a).

Article 31

Investments in physical assets

1. 1. Support under this measure shall cover tangible and/or intangible investments which:
- (a) improve the overall performance of the agricultural holding;
 - (b) concern the processing, marketing and/or development of agricultural products covered by Annex I to the Treaty or cotton. The output of the production process may be a product not covered by that Annex;
 - (c) concern infrastructure related to the development and adaptation of agriculture, including access to farm and forest land, land consolidation and improvement, energy supply and, water management ; or

²⁵ Commission Communication – EU best practice guidelines for voluntary certification schemes for agricultural products and foodstuffs, OJ C 341, 16.12.2010, p. 5.

- (d) are non productive investments linked to the achievement of agri- and forest-environment commitments or enhancing the public amenity value of a Natura 2000 area or other high nature value area to be defined in the programme.
2. Support under paragraph 1(a) shall be granted to agricultural holdings. In the case of investments to support farm viability, only farms not exceeding a certain size, to be defined by the Member States in the programme based on the SWOT analysis carried out in relation to the priority “competitiveness of agriculture and farm viability”, shall be eligible.
- Support under paragraph 1(b) shall be limited to SMEs.
3. Support under this measure shall be limited to the maximum support rates laid down in Annex I. These maximum rates may be increased for young farmers, collective investments and integrated projects involving support under more than one measure, investments in areas facing natural constraints as referred to in Article 46(3) and operations supported in the framework of the EIP for agricultural productivity and sustainability in accordance with the support rates laid down in Annex I. However, the maximum combined support rate may not exceed 90%.
4. The limitations provided for in paragraph 3 shall not apply to non-productive investments referred to in paragraph 1(d).

Article 32

Restoring agricultural production potential damaged by natural disasters and introduction of appropriate prevention actions

1. Support under this measure shall cover:
- (a) investments in preventive actions aimed at reducing the consequences of probable natural disasters;
 - (b) investments for the restoration of agricultural land and production potential damaged by natural disasters.
2. Support shall be granted to farmers or groups of farmers. Support may also be granted to public entities where a link between the investment undertaken by such entities and agricultural production potential is established.
3. Support under paragraph 1(b) shall be subject to the formal recognition by the competent public authorities of Member States that a natural disaster has occurred and that it has caused the destruction of at least 30% of the relevant agricultural potential.
4. No support under this measure shall be granted for loss of income resulting from the natural disaster.

Member States shall ensure that overcompensation as a result of the combination of this measure and other national or Union support instruments or private insurance schemes is avoided.

5. Support under paragraph 1(a) shall be limited to the maximum support rate laid down in Annex I. This maximum rate shall not apply to collective projects by more than one beneficiary.
6. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the definition of eligible costs under this measure.

Article 33

Farm and business development

1. Support under this measure shall cover:
 - (a) business start-up aid for:
 - (i) young farmers ;
 - (ii) non-agricultural activities in rural areas;
 - (iii) the development of small farms;
 - (b) investments in non-agricultural activities.
2. Support under paragraph 1(a)(i) shall be granted to young farmers.

Support under paragraph 1(a)(ii) shall be granted to farmers or members of the farm household diversifying into non-agricultural activities and to non-agricultural micro- and small- enterprises in rural areas.

Support under paragraph 1(a)(iii) shall be granted to small farms as defined by Member States.

Support under paragraph 1(b) shall be granted to non- agricultural micro- and small- enterprises in rural areas and to farmers or members of the farm household.
3. Any natural or legal person or a group of natural or legal persons, whatever legal status is granted to the group and its members by national law, may be considered as a member of a farm household, with the exception of farm workers. Where a legal person or a group of legal persons is considered as a member of the farm household, that member must exercise an agricultural activity on the farm at the time of the support application.
4. Support under paragraph 1(a) shall be conditional on the submission of a business plan. Implementation of the business plan has to start within six months from the date of the decision granting the aid.

Member States shall define upper and lower thresholds for allowing agricultural holdings access to support under paragraphs 1(a)(i) and 1(a)(iii) respectively. The lower threshold for support under paragraph 1(a)(i) shall be significantly higher than the upper threshold for support under paragraph 1(a)(iii). Support shall, however, be limited to holdings coming under the definition of micro- and small-enterprises.

5. Support under paragraph 1(a) shall be in the form of a flat rate payment, which may be paid in at least two instalments over a period of maximum five years. Instalments may be degressive. The payment of the last instalment, under paragraph 1(a)(i) and (ii) shall be conditional upon the correct implementation of the business plan.
6. The maximum amount of support is laid down in Annex I. Member States shall define the amount of support under paragraph 1(a)(i) and (ii) also taking into account the socio-economic situation of the programme area.
7. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the conditions under which a legal person may be considered a 'young farmer', the setting of a grace period for the acquisition of occupational skills, the minimum content of business plans, the criteria to be used by Member States for setting the thresholds referred to in paragraph 3.

Article 34

Basic services and village renewal in rural areas

1. Support under this measure shall cover in particular:
 - (a) the drawing up and updating of plans for the development of municipalities and their basic services and of protection and management plans relating to NATURA 2000 sites and other places of high natural value;
 - (b) investments in the creation, improvement or expansion of all types of small scale infrastructure, including investments in renewable energy;
 - (c) broadband infrastructure, including its creation, improvement and expansion, passive broadband infrastructure and provision of access to broadband and public e-government solutions;
 - (d) investments in the setting-up, improvement or expansion of local basic services for the rural population and the related infrastructure;
 - (e) investments by public bodies in recreational infrastructure, tourist information and sign-posting of touristic sites;
 - (f) studies and investments associated with the maintenance, restoration and upgrading of the cultural and natural heritage of villages and rural landscapes, including related socio-economic aspects;

- (g) investments targeting the relocation of activities and conversion of buildings or other facilities located close to rural settlements, with a view to improving the quality of life or increasing the environmental performance of the settlement.
- 2. Support under this measure shall only concern small-scale infrastructure, as defined by each Member State in the programme. However, rural development programmes may provide for specific derogations from this rule for investments in broadband and renewable energy. In this case, clear criteria ensuring complementarity with support under other Union instruments shall be provided.
- 3. Investments under paragraph 1 shall be eligible for support where the relevant operations are implemented in accordance with plans for the development of municipalities and their basic services and shall be consistent with any local development strategy where one exists.
- 4. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the definition of the types of renewable energy infrastructure that shall be eligible for support under this measure.

Article 35

Investments in forest area development and improvement of the viability of forests

- 1. Support under this measure shall concern:
 - (a) afforestation and creation of woodland;
 - (b) establishment of agro-forestry systems;
 - (c) prevention and restoration of damage to forests from forest fires and natural disasters, including pest and disease outbreaks and climate related threats;
 - (d) investments improving the resilience and environmental value of forest ecosystems;
 - (e) investments in new forestry technologies and in processing and marketing of forestry products.
- 2. Limitations on ownership of forests provided for in Articles 36 to 40 shall not apply for the tropical or subtropical forests and to the wooded areas of the territories of the Azores, Madeira, the Canary islands, the smaller Aegean islands within the meaning of Council Regulation (EEC) No 2019/93 of 19 July 1993 introducing specific measures for the smaller Aegean islands concerning certain agricultural products²⁶ and the French overseas departments.
- 3. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the conditions for establishing the occurrence of a natural

²⁶ OJ L 184, 27.7.1993, p. 1.

disaster or of pests and diseases outbreaks, and the precise definition of eligible preventive actions.

Article 36

Afforestation and creation of woodland

1. Support under Article 35(1)(a) shall be granted to private land-owners and tenants, municipalities and their associations and shall cover the costs of establishment and an annual premium per hectare to cover the costs of maintenance, including early and late cleanings, for a maximum period of ten years.
2. Both agricultural and non-agricultural land shall be eligible. Species planted shall be adapted to the environmental and climatic conditions of the area. No support shall be granted for the planting of short rotation coppice, Christmas trees or fast growing trees for energy production. In areas where afforestation is made difficult by severe pedo-climatic conditions support may be provided for planting other perennial woody species such as shrubs or bushes suitable to the local conditions. Support shall not exclude use of wood or non-wood materials or other forest goods and services for economic purposes.

Article 37

Establishment of agro-forestry systems

1. Support under Article 35(1)(b) shall be granted to private landowners, tenants, municipalities and their associations and shall cover the costs of establishment and an annual premium per hectare to cover the costs of maintenance for a maximum period of three years.
2. "Agro-forestry systems" shall mean land use systems in which trees are grown in combination with extensive agriculture on the same land. The maximum number of trees to be planted per hectare shall be determined by the Member States taking account of local pedo-climatic conditions, forestry species and the need to ensure agricultural use of the land.
3. Support shall be limited to the maximum support rate laid down in Annex I.

Article 38

Prevention and restoration of damage to forests from forest fires and natural disasters

1. Support under Article 35(1)(c) shall be granted to private, semi public and public forest owners, municipalities, state forests and their associations and shall cover the costs for:

- (a) the establishment of protective infrastructure. In the case of firebreaks support may also cover aid contributing to maintenance costs. No support shall be granted for agricultural related activities in areas covered by agri-environment commitments.
 - (b) local, small scale prevention activities against fire or other natural hazards;
 - (c) establishing and improving forest fire, pest and diseases monitoring facilities and communication equipment;
 - (d) restoring forest potential damaged from fires and other natural disasters including pests, diseases and climate change related events.
2. In the case of preventive actions concerning pests and diseases, the risk of a relevant disaster occurrence must be supported by scientific evidence and acknowledged by scientific public organisations. Where relevant, the list of species of organisms harmful to plants which may cause a disaster must be provided in the programme.

Eligible operations shall be consistent with the forest protection plan established by the Member States. For holdings above a certain size, to be determined by the Member States in the programme, support shall be conditional on the submission of a forest management plan detailing the preventive objectives.

Forest areas classified as medium to high forest fire risk according to the forest protection plan established by the Member States shall be eligible for support relating to forest fire prevention.

3. Support under paragraph 1(d) shall be subject to the formal recognition by the competent public authorities of Member States that a natural disaster has occurred and that it has caused the destruction of at least 30% of the relevant forest potential. This percentage shall be determined on the basis of either the average existing forest potential in the three-year period immediately preceding the disaster or on the average of the five-year period immediately preceding the disaster, excluding the highest and the lowest entry.
4. No support under this measure shall be granted for loss of income resulting from the natural disaster.

Member States shall ensure that overcompensation as a result of the combination of this measure and other national or Union support instruments or private insurance schemes is avoided.

Article 39

Investments improving the resilience and environmental value of forest ecosystems

1. Support under Article 35(1)(d) shall be granted to natural persons, private forest owners, private law and semi-public bodies, municipalities and their associations.

In the case of state forests support may also be granted to bodies managing such forests, which are independent from the state budget.

2. Investments shall be primarily aimed at the achievement of commitments undertaken for environmental aims, ecosystem services and/or which enhance the public amenity value of forest and wooded land in the area concerned, without excluding economic benefits in the long term.

Article 40

Investments in new forestry technologies and in processing and marketing of forestry products

1. Support under Article 35(1)(e) shall be granted to private forest owners, municipalities and their associations and to SMEs for investments enhancing forestry potential or relating to processing and marketing adding value to forestry products. In the territories of the Azores, Madeira, the Canary islands, the smaller Aegean islands within the meaning of Regulation (EEC) No 2019/93 and the French overseas departments support may also be granted to enterprises that are not SMEs.
2. Investments shall be conditional on the submission of a forest management plan for holdings above a certain size, to be determined by the Member States in their programmes.
3. Investments related to the improvement of the economic value of forests shall be at the level of the forestry holding and may include investments for soil and resource friendly harvesting machinery and practices.
4. Investments related to the use of wood as a raw material or energy source shall be limited to all working operations prior to industrial processing.
5. Support shall be limited to the maximum support rates laid down in Annex I.

Article 41

Setting up of producer groups

1. Support under this measure shall be granted in order to facilitate the setting up of producer groups in the agriculture and forestry sectors for the purpose of:
 - (a) adapting the production and output of producers who are members of such groups to market requirements;
 - (b) jointly placing goods on the market, including preparation for sale, centralisation of sales and supply to bulk buyers;
 - (c) establishing common rules on production information, with particular regard to harvesting and availability; and

- (d) other activities that may be carried out by producer groups, such as development of business and marketing skills and organisation and facilitation of innovation processes.
2. Support shall be granted to producer groups which are officially recognised by the Member States' competent authority on the basis of a business plan. It shall be limited to producer groups coming under the definition of micro- small- and medium-sized enterprises.

Member States shall verify that the objectives of the business plan have been reached within five years after recognition of the producer group.

3. The support shall be paid as a flat rate aid in annual instalments for the first five years following the date on which the producer group was recognised on the basis of its business plan. It shall be calculated on the basis of the group's annual marketed production. Member States shall pay the last instalment only after having verified the correct implementation of the business plan.

In the first year Member States may pay support to the producer group calculated on the basis of the average annual value of the marketed production of its members over the three years before they entered the group. In the case of producer groups in the forestry sector, support shall be calculated on the basis of the average marketed production of the members of the group over the last five years before the recognition, excluding the highest and the lowest value.

4. Support shall be limited to the maximum amounts laid down in Annex I.

Article 42

Agri-environment

1. Member States shall make support under this measure available throughout their territories, in accordance with their national, regional or local specific needs and priorities. Inclusion of this measure in rural development programmes shall be compulsory.
2. Agri-environment payments shall be granted to farmers, groups of farmers or groups of farmers and other land-managers who make, on a voluntary basis, agri-environmental commitments on agricultural land. Where duly justified to achieve environmental objectives, agri-environment payments may be granted to other land-managers.
3. Agri-environment payments cover only those commitments going beyond the relevant mandatory standards established pursuant to Chapter I of Title VI of Regulation (EU) No HR/xxxx and other relevant obligations established under Chapter 2 of Title III of Regulation (EU) No DP/xxxx, relevant minimum requirements for fertiliser and plant protection products use as well as other relevant mandatory requirements established by national legislation. All such mandatory requirements shall be identified in the programme.

4. Member States shall endeavour to provide persons undertaking commitments under this measure with the knowledge and information required to implement them, including by operation-related expert advice and/or by making support under this measure conditional to relevant training.
5. Commitments under this measure shall be undertaken for a period of five to seven years. However, where necessary in order to achieve or maintain the environmental benefits sought, Member States may determine a longer period in their rural development programmes for particular types of commitments, including by means of providing for annual extension after the termination of the first five-year period.
6. Payments shall be granted annually and shall compensate beneficiaries for all or part of the additional costs and income foregone resulting from the commitment made. Where necessary they may also cover transaction costs to a value of up to 20% of the premium paid for the agri-environment commitment. Where commitments are undertaken by groups of farmers, the maximum level shall be 30%.
7. Where required for ensuring the efficient application of the measure, Member States may use the procedure referred to in Article 74(3) for the selection of beneficiaries.
8. Support shall be limited to the maximum amounts laid down in Annex I.

No support under this measure may be granted for commitments that are covered under the organic farming measure.
9. Support may be provided for the conservation of genetic resources in agriculture for operations not covered by the provisions under paragraph 1 to 8.
10. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning conditions applicable to commitments to extensify or manage differently livestock farming, to limit fertilisers, plant protection products or other inputs, to rear local breeds in danger of being lost to farming or to preserve plant genetic resources as well as the concerning definition of eligible operations under paragraph 9.

Article 43

Organic farming

1. Support under this measure shall be granted to farmers or groups of farmers who undertake, on a voluntary basis to convert to or maintain organic farming practices and methods as defined in Council Regulation (EC) No 834/2007 of 28 June 2007 on organic production and labelling of organic products²⁷.
2. Support shall only be granted for commitments going beyond the relevant mandatory standards established pursuant to Chapter 1 of Title VI of Regulation

²⁷ OJ L 189, 20.7.2007, p. 1.

(EC) No HR/xxxx, relevant minimum requirements for fertiliser and plant protection products use as well as other relevant mandatory requirements established by national legislation. All such requirements shall be identified in the programme.

3. Commitments under this measure shall be undertaken for a period of five to seven years. Where support is granted for the maintenance of organic farming, Member States may provide in their rural development programmes for annual extension after the termination of the first five-year period.
4. Payments shall be granted annually and shall compensate beneficiaries for additional costs and income foregone resulting from the commitment made. Where necessary they may also cover transaction costs to a value of up to 20% of the premium paid for the commitment. Where commitments are undertaken by groups of farmers, the maximum level shall be 30%.
5. Support shall be limited to the maximum amounts laid down in Annex I.

Article 44

Natura 2000 and Water framework directive payments

1. Support under this measure shall be granted annually and per hectare of UAA or per hectare of forest in order to compensate beneficiaries for costs incurred and income foregone resulting from disadvantages in the areas concerned, related to the implementation of Directives 2009/147/EC, 92/43/EEC and 2000/60/EC.
2. Support shall be granted to farmers and to private forest owners and associations of forest owners respectively. In duly justified cases it may also be granted to other land managers.
3. Support to farmers, linked to Directives 2009/147/EC and 92/43/EEC shall only be granted in relation to disadvantages resulting from requirements that go beyond the good agricultural and environmental condition provided for in Article 91 and Annex II of Council Regulation (EU) No HR/xxxx.
4. Support to farmers, linked to Directive 2000/60/EC shall only be granted in relation to specific requirements that:
 - (a) were introduced by Directive 2000/60/EC, are in accordance with the programmes of measures of the river basin management plans for the purpose of achieving the environmental objectives of that Directive and go beyond the measures required to implement other Union legislation for the protection of water;
 - (b) go beyond the statutory management requirements and the good agricultural and environmental condition provided for in Chapter 1 of Title VI of Regulation (EU) No HR/xxxx and the obligations established under Chapter 2 of Title III of Regulation (EU) No DP/xxxx

- (c) go beyond the level of protection of the Union legislation existing at the time Directive 2000/60/EC was adopted as laid down in Article 4(9) of Directive 2000/60/EC; and
 - (d) impose major changes in type of land use, and/or major restrictions in farming practice resulting in a significant loss of income.
- 5. The requirements referred to in paragraphs 3 and 4 shall be identified in the programme.
- 6. The following areas shall be eligible for payments:
 - (a) Natura 2000 agricultural and forest areas designated pursuant to Directives 2009/147/EC and 92/43/EEC;
 - (b) other delimited nature protection areas with environmental restrictions applicable to farming or forests which contribute to the implementation of Article 10 of Directive 92/43/EEC. These areas shall, per rural development programme, not exceed 5% of the designated Natura 2000 areas covered by its territorial scope;
 - (c) agricultural areas included in river basin management plans according to Directive 2000/60/EC.
- 7. Support shall be limited to the maximum amounts laid down in Annex I.

Article 45

Payments to areas facing natural or other specific constraints

- 1. Payments to farmers in mountain areas and other areas facing natural or other specific constraints shall be granted annually per hectare of UAA in order to compensate farmers for additional costs and income foregone related to the constraints for agricultural production in the area concerned.

Additional costs and income foregone shall be calculated in comparison to areas which are not affected by natural or other specific constraints, taking into account payments pursuant to Chapter III of Title III of Regulation (EU) No DP/xxxx.
- 2. Payments shall be granted to farmers who undertake to pursue their farming activity in the areas designated pursuant to Article 46.
- 3. Payments shall be fixed between the minimum and maximum amount laid down in Annex I.
- 4. Member States shall provide for degressivity of payments above a threshold level of area per holding, to be defined in the programme.
- 5. Member States may grant payments under this measure between 2014 and 2017 to farmers in areas which were eligible under Article 36(a)(ii) of Regulation (EC) 1698/2005 during the 2007-2013 programming period but are no longer eligible

following the new delimitation referred to in Article 46(3). These payments shall be degressive starting in 2014 at 80% of the payment received in 2013 and ending in 2017 at 20%.

6. In Member States which have not completed the delimitation referred to in Article 46(3) before 1 January 2014, paragraph 5 shall apply to farmers receiving payments in areas which were eligible for such payments during the 2007-2013 period. Following completion of the delimitation, farmers in areas that remain eligible shall receive full payments under this measure. Farmers in areas that are no longer eligible shall continue to receive payments in accordance with paragraph 5.

Article 46

Designation of areas facing natural and other specific constraints

1. Member States shall designate areas eligible for payments provided for in Article 45 under the following categories:
 - (a) mountain areas;
 - (b) areas, other than mountain areas, which are affected by significant natural constraints; and
 - (c) other areas affected by specific constraints;

on the basis of paragraphs 2, 3 and 4 of this Article.

2. In order to be eligible for payments under Article 45, mountain areas shall be characterized by a considerable limitation of the possibilities for using the land and by an appreciable increase in production costs due to:
 - (a) the existence, because of altitude, of very difficult climatic conditions, the effect of which is substantially to shorten the growing season;
 - (b) at a lower altitude, the presence over the greater part of the area in question of slopes too steep for the use of machinery or requiring the use of very expensive special equipment, or a combination of these two factors, where the constraints resulting from each taken separately is less acute but the combination of the two gives rise to an equivalent constraints.

Areas north of the 62nd parallel and certain adjacent areas shall be regarded as mountain areas.

3. In order to be eligible for payments under Article 45, areas, other than mountain areas, shall be considered as affected by significant natural constraints if at least 66% of the UAA meets at least one of the criteria listed in Annex II at the threshold value indicated. Respect of this condition shall be ensured at LAU2 level.

When delimiting the areas concerned by this paragraph, Member States shall undertake a fine-tuning exercise, based on objective criteria, with the purpose of excluding areas in which significant natural constraints in accordance with the first

subparagraph have been documented but have been overcome by investments or by economic activity.

4. Areas other than those referred to in paragraphs 2 and 3 shall be eligible for payments under Article 45 if they are affected by specific constraints and where land management should be continued in order to conserve or improve the environment, maintain the countryside and preserve the tourist potential of the area or in order to protect the coastline.

Areas affected by specific constraints shall comprise farming areas which are homogeneous from the point of view of natural protection conditions and their total extent shall not exceed 10% of the area of the Member State concerned.

5. Member States shall attach to their rural development programmes:
 - (a) the existing or amended delimitation pursuant to paragraphs 2 and 4;
 - (b) the new delimitation of the areas referred to in paragraph 3.

Article 47

Animal welfare

1. Animal welfare payments under this measure shall be granted to farmers who make, on a voluntary basis, animal welfare commitments.
2. Animal welfare payments cover only those commitments going beyond the relevant mandatory standards established pursuant to Chapter 1 of Title VI of Regulation (EU) No HR/xxxx and other relevant mandatory requirements established by national legislation. These relevant requirements shall be identified in the programme.

These commitments shall be undertaken for a renewable period of one year.

3. The area based or other unitary costs based payments shall be granted annually and shall compensate farmers for additional costs and income foregone resulting from the commitment made. Where necessary, they may also cover transaction costs to the value of up to 20% of the premium paid for the animal welfare commitments.

Support shall be limited to the maximum amount laid down in Annex I.

4. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the definition of the areas in which animal welfare commitments shall provide upgraded standards of production methods.

Article 48

Forest-environmental services and forest conservation

1. Support under this measure shall be granted per hectare of forest to private forest owners, forest holders, municipalities and their associations who make forest-environment commitments on a voluntary basis. Bodies managing state owned forests may also benefit from support provided they are independent from the state budget.
2. Payments shall cover only those commitments going beyond the relevant mandatory requirements established by the national forestry act or other relevant national legislation. All such requirements shall be identified in the programme.

These commitments shall be undertaken for a period of between five and seven years. However, where necessary and duly justified, Member States may determine a longer period in their rural development programmes for particular types of commitments.

3. Payments shall compensate beneficiaries for additional costs and income foregone resulting from the commitment made. Support shall be limited to the maximum amount laid down in Annex I.
4. Support may be provided to private entities, municipalities and their associations for the conservation and promotion of forest genetic resources for operations not covered under paragraphs 1, 2 and 3.
5. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the types of activities eligible for support under paragraph 4.

Article 49

Co-operation

1. Support under this measure shall promote forms of co-operation involving at least two entities and in particular:
 - (a) co-operation approaches among different actors in the Union agriculture and food chain, forestry sector and among other actors that contribute to achieving the objectives and priorities of rural development policy, including inter-branch organisations;
 - (b) the creation of clusters and networks;
 - (c) the establishment and operation of operational groups of the EIP for agricultural productivity and sustainability as referred to in Article 87.
2. Co-operation under paragraph 1 shall relate in particular to the following:

- (a) pilot projects;
 - (b) the development of new products, practices, processes and technologies in the agriculture and food and forestry sectors
 - (c) co-operation among small operators in organising joint work processes, sharing facilities and resources;
 - (d) horizontal and vertical co-operation among supply chain actors for the establishment of logistic platforms to promote short supply chains and local markets;
 - (e) promotion activities in a local context relating to the development of short supply chains and local markets;
 - (f) collective approaches to environmental projects and ongoing environmental practices;
 - (g) implementation, in particular by public-private partnerships other than those defined in Article 55(1)(b), of local development strategies addressing one or more of the Union priorities.
3. Support under paragraph 1(b) shall be granted only to newly formed clusters and networks and those which establish a new activity.
- Support for operations under paragraph 2(b) may be granted also to individual actors where this possibility is provided for in the rural development programme.
4. The results of pilot projects and operations by individual actors under paragraph 2(b) shall be disseminated.
5. The following costs, linked to the forms of co-operation referred to in paragraph 1 shall be eligible for support under this measure:
- (a) studies of the area concerned, feasibility studies, and costs for the drawing up of a business plan or local development strategy other than the one referred to in Article 56;
 - (b) animation of the area concerned in order to make a collective territorial project feasible. In the case of clusters, animation may also concern the organisation of training, networking between members and the recruitment of new members;
 - (c) running costs of the co-operation;
 - (d) direct costs of specific projects linked to the implementation of a business plan, a local development strategy other than the one referred to in Article 56 or an action targeted towards innovation;
 - (e) costs of promotion activities.
6. Where a business plan or development strategy is implemented, Member States may grant the aid either as a global amount covering the costs of co-operation and

the costs of the projects implemented or cover only the costs of the co-operation and use funds from other measures or other Union Funds for project implementation.

7. Co-operation among actors located in different regions or Member States shall also be eligible for support.
8. Support shall be limited to a maximum period of seven years except for collective environmental action in duly justified cases.
9. Co-operation under this measure may be combined with projects supported by Union funds other than the EAFRD in the same territory. Member States shall ensure that overcompensation as a result of the combination of this measure with other national or Union support instruments is avoided

Article 50

Risk management

1. Support under this measure shall cover:
 - (a) financial contributions, paid directly to farmers, to premiums for crop, animal and plant insurance against economic losses caused by adverse climatic events and animal or plant diseases or pest infestation;
 - (b) financial contributions to mutual funds to pay financial compensations to farmers, for economic losses caused by the outbreak of an animal or plant disease or an environmental incident;
 - (c) an income stabilisation tool, in the form of financial contributions to mutual funds, providing compensation to farmers who experience a severe drop in their income.
2. For the purpose of paragraph 1 points (b) and (c), ‘mutual fund’ shall mean a scheme accredited by the Member State in accordance with its national law for affiliated farmers to insure themselves, whereby compensation payments are made to affiliated farmers affected by economic losses caused by the outbreak of an animal or plant disease or an environmental incident or experiencing a severe drop in their income.
3. Member States shall ensure that overcompensation as a result of the combination of this measure with other national or Union support instruments or private insurance schemes is avoided. Direct income support received under the European Globalisation Fund²⁸ (hereinafter "EGF") shall also be taken into consideration when estimating the income levels of farmers.

²⁸ Regulation ... OJ L ...

4. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the minimum and maximum duration of the commercial loans to mutual funds referred to in Articles 52(3)(b) and 53(4).

Article 51

Crop, animal, and plant insurance

1. Support under Article 50(1)(a) shall only be granted for insurance contracts which cover for loss caused by an adverse climatic event or by an animal or plant disease or a pest infestation which destroys more than 30 % of the average annual production of the farmer in the preceding three-year period or a three-year average based on the preceding five-year period, excluding the highest and lowest entry.
2. The occurrence of an adverse climatic event or the outbreak of an animal or plant disease or pest infestation has to be formally recognised as such by the competent authority of the Member State concerned.

Member States may, where appropriate, establish in advance criteria on the basis of which such formal recognition shall be deemed to be granted.

3. Insurance payments shall compensate for not more than the total of the cost of replacing the losses referred to in Article 50(1)(a) and shall not require or specify the type or quantity of future production.

Member States may limit the amount of the premium that is eligible for support by applying appropriate ceilings.

4. Support shall be limited to the maximum rate laid down in Annex I.

Article 52

Mutual funds for animal and plant diseases and environmental

incidents

1. In order to be eligible for support the mutual fund concerned shall:
 - (a) be accredited by the competent authority in accordance with national law;
 - (b) have a transparent policy towards payments into and withdrawals from the fund;
 - (c) have clear rules attributing responsibilities for any debts incurred.
2. Member States shall define the rules for the constitution and management of the mutual funds, in particular for the granting of compensation payments to farmers in

the event of crisis and for the administration and monitoring of compliance with these rules.

3. The financial contributions referred to in Article 50(1)(b) may only relate to:
 - (a) the administrative costs of setting up the mutual fund, spread over a maximum of three years in a degressive manner;
 - (b) the amounts paid by the mutual fund as financial compensation to farmers. In addition, the financial contribution may relate to interest on commercial loans taken out by the mutual fund for the purpose of paying the financial compensation to farmers in case of crisis.

No contribution by public funds shall be made to initial capital stock.

4. As regards animal diseases, financial compensation under Article 50(1)(b) may only be granted in respect of diseases mentioned in the list of animal diseases established by the World Organisation for Animal Health and/or in the Annex to Council Decision 90/424/EEC of 26 June 1990 on expenditure in the veterinary field²⁹.
5. Support under paragraph 5(b) and (c) shall be limited to the maximum support rate laid down in Annex I.

Member States may limit the costs that are eligible for support by applying:

- (a) ceilings per fund;
- (b) appropriate per unit ceilings.

Article 53

Income stabilisation tool

1. Support under Article 50(1)(c) may only be granted where the drop of income exceeds 30% of the average annual income of the individual farmer in the preceding three-year period or a three-year average based on the preceding five-year period excluding the highest and lowest entry. Income for the purposes of Article 43(1)(c) shall refer to the sum of revenues the farmer receives from the market, including any form of public support, deducting input costs. Payments by the mutual fund to farmers shall compensate for not more than 70% of the income lost.
2. In order to be eligible for support the mutual fund concerned shall:
 - (a) be accredited by the competent authority in accordance with national law;

²⁹ OJ L 224, 18.8.1990, p. 19.

- (b) have a transparent policy towards payments into and withdrawals from the fund;
 - (c) have clear rules attributing responsibilities for any debts incurred;
3. Member States shall define the rules for the constitution and management of the mutual funds, in particular for the granting of compensation payments to farmers in the event of crisis and for the administration and monitoring of compliance with these rules.
 4. The financial contributions referred to in Article 50(1)(c) may only relate to the amounts paid by the mutual fund as financial compensation to farmers. In addition, the financial contribution may relate to interest on commercial loans taken out by the mutual fund for the purpose of paying the financial compensation to farmers in case of crisis.

No contribution by public funds shall be made to initial capital stock.
 5. Support shall be limited to the maximum rate laid down in Annex I.

Article 54

Implementing acts

The Commission shall adopt implementing acts providing uniform conditions for the implementation of the measures in this section concerning:

- (a) procedures for selection of authorities or bodies offering farm and forestry advisory services, farm management or farm relief services and the degressivity of the aid under the advisory services measure referred to in Article 29 ;
- (b) the assessment by the Member State of the progress of the business plan, payment options as well as modalities for access to other measures for young farmers under the farm and business development measure referred to in Article 33;
- (c) demarcation with other measures, conversion to units other than those used in Annex I, calculation of transaction costs and conversion or adjustment of commitments under the agri-environment measure referred to in Article 42, the organic farming measure referred to in Article 46 and the forest-environmental services and forest conservation measure referred to in Article 48;
- (d) the possibility of using standard assumptions of income foregone under the measures of Articles 42 to 45, 47 and 48 and criteria for its calculation;
- (e) calculation of the amount of support where an operation is eligible for support under more than one measures.

These implementing acts shall be adopted in accordance with the examination procedure referred to in Article 122.

SECTION 2

LEADER

Article 55

LEADER local development

1. LEADER local development shall be :
 - (a) carried out through integrated and multi-sectoral area-based local development strategies (hereinafter "local development strategy") responding to local needs and potential, focusing on specific sub-regional rural territories and including innovative features in a local context;
 - (b) bottom-up by local action groups composed of representatives of the public and private local socio-economic interests, where at the decision making level neither the public sector nor any single interest group shall represent more than 49% of the voting rights.

LEADER local development shall include networking and co-operation activities.

2. The support from the EAFRD to LEADER local development shall be consistent and coordinated with support from the ERDF, ESF and EMFF. This shall be ensured notably through coordinated capacity-building, selection, approval and funding of local development strategies and local action groups.
3. Where the selection committee for the local development strategies referred to in Article 57(2) determines that the implementation of the local development strategy selected requires contributions from more than one Fund, a lead Fund may be designated for the local development strategy.
4. Where a lead Fund is designated, the running costs, animation and networking activities for the local development strategy shall be financed from the lead Fund only. For the other expenditure, separate accounting and tracing in accordance with the rules of the respective Fund shall apply.
5. LEADER local development supported by the EAFRD shall in particular contribute to the Union priority set in Article 5(6).

Article 56

Local development strategies

1. Local development strategies shall contain as a minimum the following elements:

- (a) definition of the area and population covered by the strategy. This area should be coherent and offer sufficient critical mass in terms of human, financial and economic resources to support the viability of the strategy;
 - (b) an analysis of the development needs and potential of the area including a SWOT analysis;
 - (c) a description of the strategy and its objectives, a description of the integrated and innovative character of the strategy and a hierarchy of priorities, including clear and measurable targets. The strategy must be coherent with the rural development programme, and, where applicable, the relevant operational programmes of the ERDF, ESF and EMFF;
 - (d) a description of the process of community engagement and involvement in the development of the strategy;
 - (e) an action plan demonstrating how priorities are translated into actions;
 - (f) a description of the management and monitoring arrangements of the strategy, and specific arrangements for evaluation demonstrating the capacity of the local action group to implement the strategy;
 - (g) the financial plan of the strategy, including, the planned allocation of the EAFRD and, where relevant each of the other Funds (ERDF, ESF and EMFF).
2. Member States shall define criteria for the selection of the local development strategies.

As regards LEADER local development the selection criteria shall give priority to local development strategies that include co-operation activities.

- 3. The local development strategies shall be selected by a selection committee set up for this purpose by the managing authority. Where relevant, the selection committee shall include representatives from the authorities managing the ERDF, ESF and EMFF.
- 4. The selection of all local development strategies shall be completed by 31 December 2015 at the latest.
- 5. The decision to select a local development strategy shall fix the allocations of the EAFRD and, where applicable, identify the allocations of the ERDF, ESF and the EMFF. It shall also describe, if applicable, the roles of the authorities responsible for the implementation of the relevant rural development programme and those of the programmes of the ERDF, ESF and EMFF for all implementation tasks relating to the strategy.
- 6. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the definition of the area and population covered by the strategy referred to in paragraph 1(a).

Article 57

LEADER local action groups

1. Local action groups shall design and implement LEADER local development strategies.

Member States shall define the respective roles of the local action group, and the authorities responsible for the implementation of the relevant rural development programmes, and where applicable, the respective programmes of the ERDF, ESF and EMFF for all implementation tasks relating to the strategy.

2. The Managing Authority shall ensure that the local action groups either select one partner within the group as an administrative and financial lead, or come together in a legally constituted common structure.
3. The tasks of local action groups shall be the following:
 - (a) to build the capacity of local actors to develop and implement local operations;
 - (b) to define criteria for the selection of projects and draw up a non-discriminatory and transparent selection procedures for the implementation of a local development strategy which avoids conflicts of interest, and which ensures that at least 50% of the votes in project selection decisions are from the non public sector partners, providing for the possibility of appeal against decisions made and allowing selection by written procedure;
 - (c) to ensure coherence with the LEADER local development strategy when selecting projects by prioritising them according to their contribution to meeting the strategies objectives and targets;
 - (d) to elaborate and publish calls for operations or an ongoing operation submission procedure;
 - (e) to receive applications for support and assess them;
 - (f) to select operations and fix the amount of support; these projects shall then be transmitted to the Managing Authority for a final eligibility check;
 - (g) to monitor the implementation and carry out specific evaluation arrangements as regards the local development strategy.
4. Local action groups may also perform additional tasks delegated to them by the Managing Authority and/or the Paying Agency.

Article 58

Support from the EAFRD for LEADER local development

1. Support from the EAFRD for the LEADER local development strategy shall cover:
 - (a) preparatory support;
 - (b) implementation of operations under the local development strategies;
 - (c) preparation and implementation of cooperation activities;
 - (d) running costs and animation for the territory up to the limit of 25% of the total public expenditure incurred within the local development strategy.
2. Local action groups may request the payment of an advance from the competent paying agency if such possibility is provided for in the rural development programme. The amount of the advances shall not exceed 50% of the public support related to the running costs.

Article 59

Preparatory support

1. Support under Article 58(1)(a) shall cover:
 - (a) a “Leader start-up kit” consisting of capacity building actions for groups who did not implement Leader in the 2007-2013 programming period and support for small pilot projects;
 - (b) capacity building, training and networking with a view to preparing and implementing a local development strategy.
2. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the definition of the eligible costs of the activities under paragraph 1.

Article 60

LEADER co-operation activities

1. The support referred to in Article 58(1)(c) shall be granted to:
 - (a) inter-territorial or transnational co-operation projects;

“Inter-territorial co-operation” means co-operation within a Member State.
“Transnational co-operation” means co-operation between territories in several Member States and with territories in third countries.

- (b) preparatory technical support for inter-territorial and transnational co-operation projects, on condition that local action groups can demonstrate that they are envisaging the implementation of a concrete project.
- 2. Apart from other LEADER local action groups, the partners of a LEADER local action group under the EAFRD may be:
 - (a) a local public-private partnership on a rural territory that is implementing a local development strategy within or outside the Union;
 - (b) a local public-private partnership on a non rural territory that is implementing a local development strategy.
- 3. In cases where co-operation projects are not selected by the local action groups, Member States shall establish a system of ongoing application for co-operation projects.
They shall make public the national or regional administrative procedures concerning the selection of transnational co-operation projects and a list of eligible costs at the latest two years after the date of approval of their rural development programmes.
Approval of co-operation projects shall take place no later than four months after the date of submission of the project.
- 4. Member States shall communicate to the Commission the approved transnational co-operation projects.

Article 61

Running costs and animation

- 1. Running costs referred to in Article 58(1)(d) are costs linked to the management of the implementation of the local development strategy through the local action group.
- 2. Costs for the animation of the territory referred to in Article 58(1)(d) are costs to cover actions to inform about the local development strategy as well as project development tasks.
- 3. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the definition of the eligible costs of the activities under paragraph 2.

Chapter II

Financial Instruments and common provisions for several measures

SECTION 1

FINANCIAL INSTRUMENTS

Article 62

Financial instruments

1. Notwithstanding Article 95(5)(a) and in addition to non-repayable direct assistance, the EAFRD may support financial instruments under a rural development programme, including when organised through funds of funds, in order to contribute to the achievement of the targets of the rural development programme.
2. For the purpose of this Section, the definitions and principles on financial instruments as laid down in the Financial Regulation shall apply.
3. Financial instruments may be combined with non-repayable direct assistance, interest rate subsidies or guarantee fee subsidies as part of the same operation.
4. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 to set additional specific rules on eligibility of expenditure for financial instruments, to specify the types of activities, which shall not be supported through financial instruments, and to set out detailed rules concerning the combination of support provided to beneficiaries through non-repayable direct assistance and financial instruments, including the combination of financial instruments with interest rate subsidies and guarantee fee subsidies, as well as the form of calculation of the related eligible expenditure.

Article 63

Implementation principles

1. In implementing Article 62, managing authorities may support financial instruments which are:
 - (a) created at national or regional level based on standard terms and conditions as laid down by the Commission, by means of implementing acts adopted in accordance with the examination procedure referred to in Article 122;
 - (b) already existing or newly created at national or regional level which are designed to achieve the intended purpose and which respect the applicable Union and national rules.

These financial instruments should be managed by or under the responsibility of the managing authorities.

2. The managing authority shall implement financial instruments by:
 - (a) Investing in the capital of existing or newly created legal entities, dedicated to implement financial instruments consistent with the objectives of this Regulation, which will undertake implementation tasks; or
 - (b) Entrusting implementation tasks to:
 - (i) the European Investment Bank, the European Investment Fund or any subsidiaries established by the European Investment Bank;
 - (ii) international financial institutions in which a Member State is a shareholder or financial institutions established in a Member State aiming at the achievement of public interest under the control of a public authority;
 - (iii) a body governed by public or private law selected in accordance with applicable Union and national rules;
 - (c) Undertaking directly implementation tasks, in the case of financial instruments consisting of loans or guarantees
3. The entities referred to in paragraph 2(b)(i) and (ii), when implementing financial instruments through funds of funds, may further entrust part of the implementation to financial intermediaries provided that these entities ensure under their responsibility that the intermediaries satisfy the criteria laid down in Articles 57 and 131 (1), (1a) and (3) of the Financial Regulation. Intermediaries shall be selected on the basis of open, transparent, proportionate and non-discriminatory procedures, avoiding conflicts of interests.
4. The Commission shall not become partner or shareholder in the legal entities or the financial institutions implementing the financial instruments.
5. The entities referred to in paragraph 2(b) may open fiduciary accounts in their name and on behalf of the managing authority. The assets held on such fiduciary accounts shall be managed in accordance with the principle of sound financial management, follow appropriate prudential rules and have appropriate liquidity.
6. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 to lay down specific rules regarding certain types of financial instruments set up at national or regional level, as well as the products that may be delivered through such instruments; lay down detailed rules concerning funding agreements; the role and responsibility of the entities to which the implementation tasks are delegated; as well as specific rules concerning the management costs and fees; the specific requirements regarding the transfer and management of assets managed by the entities to whom the implementation tasks are delegated, conversion of assets between euro and national currencies.

Article 64

Declarations of expenditure including expenditure for Financial Instruments

1. As regards the financial instruments referred to in Article 62, the declaration of expenditure in accordance with Article 33 of Regulation (EU) No HR/xxxx shall include the total amount of the public contribution paid to the financial instrument.
2. The amount declared in accordance with paragraph 1 shall be adjusted in the subsequent declarations of expenditure, to take account of the difference between the support from the Union and the national contribution previously paid to the financial instrument concerned and the amounts effectively invested in beneficiaries, over a pre-defined period of maximum two years, including management costs or fees.
3. By way of derogation from Article 93(6) and Article 33 of Regulation (EU) No HR/xxxx, as regards financial instruments referred to under Article 63(2)(c) the declaration of expenditure shall include the total amount of the payments effected by the managing authority for investments in beneficiaries in accordance with Article 65(1)(a) and (b).
4. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 laying down specific rules concerning the withdrawal of payments to financial instruments and possible consequences in respect of declarations of expenditure.

Article 65

Eligible expenditure at closure

1. At the closure of the programme, the eligible expenditure of the financial instrument shall be the total amount effectively paid by the financial instrument within the eligibility period indicated in Article 93(1) corresponding to:
 - (a) payments for investments in beneficiaries;
 - (b) resources committed for guarantee contracts, whether outstanding or already come to maturity, in order to honour possible guarantee calls for losses, calculated according to a prudent ex ante risk assessment, covering a multiple amount of underlying loans or other risk-bearing instruments for investments in beneficiaries;
 - (c) capitalised interest rate subsidies or guarantee fee subsidies, due to be paid for a period not exceeding 10 years, used in combination with financial instruments, paid out into an escrow account specifically set up for that purpose, for effective disbursement after the eligibility period indicated in Article 93(1), but in respect of loans or other risk bearing instruments disbursed for investments in beneficiaries within the eligibility period indicated in Article 93(1);

- (d) reimbursement of management costs incurred or payment of management fees of the financial instrument;
2. In the case of equity-based instruments and micro-credit, capitalised management costs or fees due to be paid for a period not exceeding five years after the eligibility period indicated in Article 93(1), in respect of investments in beneficiaries which occurred within that eligibility period and which cannot be covered by the provisions of Articles 66 and 67 may be considered as eligible expenditure when paid into a escrow account specifically set up for that purpose.
 3. The eligible expenditure determined in accordance with paragraphs 1 and 2 shall not exceed the total amount of the support from the EAFRD paid to the financial instrument, plus the corresponding national co-financing.
 4. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the conditions for the establishment of a system of capitalisation of remaining annual instalments for interest rate subsidies and guarantee fee subsidies.

Article 66

Interest and other gains generated by support paid from the programme to financial instruments

1. Support from the programme paid to financial instruments referred to under Article 64 shall be placed in interest-bearing accounts domiciled within financial institutions in Member States or invested on a temporary basis according to the principle of sound financial management.
2. Interest and other gains attributable to support from the programme paid to financial instruments referred to under Article 64 shall be used for the same purposes as the initial support from the programme within the same financial instrument.
3. The managing authority must ensure the traceability of the resources foreseen in paragraphs 1 and 2.

Article 67

Re-use of resources attributable to the support paid from the programme until closure of the programme

1. Capital resources paid back to the financial instruments from investments or from the release of the resources committed for guarantee contracts, which are attributable to the support from the programme, shall be re-used for further investments through the same or other financial instruments, in line with the aims of the programme.

2. Gains and other earnings or yields, such as interest, guarantee fees, dividends, capital gains or any other income receipts generated by investments, attributable to the support from the programme to the financial instrument, shall be used for the following purposes, where applicable, up to the amounts necessary:
 - (a) reimbursement of management costs incurred and payment of management fees of the financial instrument;
 - (b) preferential remuneration of investors operating under the market economy investment principle, who provide counterpart resources to the support from the EAFRD to the financial instrument or who co-invest at the level of investments;
 - (c) further investments through the same or other financial instruments, in line with the aims of the programme.
3. The Managing Authority and the implementing bodies must ensure the traceability of the resources foreseen in paragraphs 1 and 2.

Article 68

Use of legacy resources after closure of the programme

Member States shall adopt the necessary measures to ensure that the capital resources and gains and other earnings or yields attributable to the support from the programme to financial instruments are used in line with the aims of the rural development programme for a period of at least 10 years after the closure of the rural development programme.

Article 69

Report on Implementation of Financial Instruments

1. By 31 January each year, the managing authority shall send to the Commission a specific report covering the operations comprising financial instruments.
2. The report referred to in paragraph 1 shall include, for each financial instrument, the following information:
 - (a) identification of the rural development programme and the measures from which support from the EAFRD is provided;
 - (b) description of the financial instrument and implementation arrangements;
 - (c) identification of the bodies to whom implementation tasks have been entrusted;
 - (d) amounts of the support from the EAFRD and national co-financing paid to the financial instrument and the corresponding amount included in statements of expenditure submitted to the Commission;

- (e) amounts of the support from the EAFRD and national co-financing paid by the financial instrument;
 - (f) revenues of and repayments to the financial instrument;
 - (g) multiplier effect of investments made by the financial instrument and value of investments and participations;
 - (h) contribution of the financial instrument to the achievement of the targets and indicators of the rural development programme and of the measure(s) concerned.
3. The Commission shall adopt implementing acts providing uniform conditions concerning monitoring and the provision of monitoring information to the Commission on the implementation of financial instruments. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 122.

SECTION 2

COMMON PROVISIONS FOR SEVERAL MEASURES

Article 70

Investments

1. In order to be eligible for EAFRD support investment operations shall be preceded by an assessment of the expected environmental impact in accordance with legislation specific to that kind of investment where the investment is likely to have negative effects on the environment.
2. Eligible expenditure shall be limited to:
 - (a) the construction, acquisition, including leasing, or improvement of immovable property;
 - (b) the purchase or lease purchase of new machinery and equipment including computing software up to the market value of the asset;
 - (c) general costs linked to expenditure referred to in points (a) and (b), such as architect, engineer and consultation fees, feasibility studies, the acquisition of patents or licenses.
3. In the case of irrigation, only investments that lead to a reduction of previous water use by at least 25% shall be considered as eligible expenditure. By way of derogation, in the Member States that adhered to the Union from 2004 onwards investments in new irrigation installations can be considered eligible expenditure in cases where an environmental analysis provides evidence that the investment concerned is sustainable and has no negative environmental impact.

4. In the case of agricultural investments, the purchase of agricultural production rights, payment entitlements, animals, annual plants and their planting shall not be eligible for investment support. However, in case of restoration of agricultural production potential damaged by natural disasters in accordance with Article 32(1)(b), expenditure for the purchase of animals may be eligible expenditure.
5. Beneficiaries of investment related support may request the payment of an advance of up to 50% of the public aid related to the investment from the competent paying agencies if that option is included in the rural development programme.
6. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the conditions under which other costs connected with leasing contracts, second hand equipment and simple replacement investments may be considered as eligible expenditure.

Article 71

Durability of investment related operations

1. Without prejudice to the rules relating to the freedom of establishment and the free provision of services within the meaning of Articles 49 and 56 of the Treaty, an investment operation shall pay back the EAFRD contribution if within five years of the final payment to the beneficiary or within the time period defined in the relevant state aid rules, it is subject to:
 - (d) the cessation or relocation of a productive activity;
 - (e) a change in ownership of an item of infrastructure which gives to a firm or a public body an undue advantage ; or
 - (f) a substantial change affecting its nature, objectives or implementation conditions which would result in undermining its original objectives.
2. Amounts unduly paid in respect to the operation shall be recovered by the Member State.
3. Paragraphs 1 and 2 shall not apply to contributions to or by financial instruments or to any operation which undergoes cessation of a productive activity due to a non-fraudulent bankruptcy.
4. Paragraphs 1 to 3 shall not apply to beneficiaries of investment support who, after completion of the investment operation, become eligible for and receive support under the EGF in order to set up a new agricultural or non-agricultural activity, where the investment concerned is directly linked to the type of production identified as affected under the EGF.

Article 72

Rules for area related payments

1. The number of hectares to which a commitment pursuant to Articles 42, 43 and 48 applies may vary from year to year where:
 - (a) this possibility is provided for in the rural development programme;
 - (b) the commitment in question does not apply to fixed parcels; and
 - (c) the achievement of the commitment's environmental objective is not jeopardised.
2. Where all or part of the land under commitment or the entire holding is transferred to another person during the period for which a commitment given as a condition for the grant of assistance runs, the commitment may be taken over for the remainder of the period by that other person or terminated.
3. Where a beneficiary is unable to continue to comply with commitments given because the holding is re parcelled or is the subject of public land consolidation measures or land consolidation measures approved by the competent public authorities, Member States shall take the measures necessary to allow the commitments to be adapted to the new situation of the holding. If such adaptation proves impossible, the commitment shall expire.
4. Reimbursement of the aid received shall not be required in cases of *force majeure*.
5. Paragraph 2 as regards cases of transfer of the entire holding and paragraph 4 shall also apply to commitments under Article 47.
6. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning conditions applicable in case of partial transfer of a holding, the definition of other situations in which reimbursement of the aid shall not be required, and the definition of categories of *force majeure*.

Article 73

Revision clause

A revision clause shall be provided for commitments undertaken pursuant to Articles 42, 43, 47 and 48 in order to ensure their adjustment in the case of amendments of the relevant mandatory standards, requirements or obligations referred to in those Articles beyond which the commitments have to go. Commitments undertaken pursuant to Articles 42, 43, 47 and 48 which extend beyond the current programming period shall contain a revision clause in order to allow for their adjustment to the legal framework of the following programming period.

If such adjustment is not accepted by the beneficiary, the commitment shall expire.

Article 74

Project selection

1. The Managing Authority of the rural development programme shall define selection criteria for operations under all measures following consultation with the Monitoring Committee. Selection criteria shall aim to ensure equal treatment of applicants, better use of financial resources and targeting of measures in accordance with the Union priorities. In defining selection criteria the principle of proportionality shall be taken into account in relation to small grants.
2. The Member State authority responsible for project selection shall ensure that projects are selected in accordance with the selection criteria referred to in paragraph 1 and according to a transparent and well documented procedure. Application of selection criteria shall not be compulsory in the case of the measures referred to in Articles 42 to 45, 47 and 48 except where available funds are not sufficient to cover all eligible applicants.
3. Where appropriate, the beneficiaries may be selected on the basis of calls for proposal, applying criteria of economic and environmental efficiency.

Article 75

Rural area definition

For the purposes of this Regulation the Managing Authority shall define "rural area" at programme level.

Chapter III

Technical Assistance and Networking

Article 76

Funding technical assistance

1. In accordance with Article 6 of Regulation (EU) No HR/xxxx the EAFRD may use up to 0,25% of its annual allocation to finance preparatory, monitoring, administrative support, evaluation and control actions, including the costs for setting up and operating the European Network for Rural Development referred to in Article 77, the [EIP] Network referred to in Article 78 and the European Evaluation Network for Rural Development referred to in Article 79, at the Commission's initiative and/or on its behalf.

The EAFRD may also finance the actions provided for in Article 41(2) of Regulation (EU) No XXXX/XXXX [quality regulation], in relation to Union quality scheme indications and symbols.

Those actions shall be carried out in accordance with Article 53(2) of Regulation (EC, Euratom) No 1605/2002 and any other provisions of that Regulation and of its implementing provisions applicable to this form of execution of the budget.

2. A sum of 30 million euro shall be withdrawn from the allocation referred to in paragraph 1 and used to finance the prize for innovative, local cooperation referred to in Article 81.
3. At the initiative of the Member States up to 4% of the total amount of each rural development programme may be devoted to preparation, management, control actions, monitoring and evaluation, including appropriately resourced external technical assistance, and information activities on programme assistance as well as costs related to preparatory work for the delimitation of areas facing natural constraints referred to in Article 46(3).

Costs relating to the certification body referred to in Article 9 of Regulation (EU) No HR/xxxx shall not be eligible under this paragraph.

Within the 4% limit an amount shall be reserved for establishing and operating the National Rural Network referred to in Article 81.

4. The Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the further definition of control actions that shall be eligible for support under paragraph 2.

Article 77

European Network for Rural Development

1. A European Network for Rural Development for the networking of national networks, organisations, and administrations active in the field of rural development at Union level shall be put in place in accordance with Article 76(1).
2. Networking through the European Network for Rural Development shall aim to:
 - (a) increase the involvement of stakeholders in the implementation of rural development`
 - (b) improve the quality of rural development programmes`
 - (c) play a role in informing the broader public on the benefits of rural development policy.
3. The tasks of the network shall be to:
 - (d) collect, analyse and disseminate information on action in the field of rural development;
 - (e) collect, consolidate and disseminate at Union level good rural development practices;

- (f) set up and run thematic groups and/or workshops with a view to facilitating the exchange of expertise and to supporting implementation and monitoring and further development of rural development policy;
 - (g) provide information on developments in the rural areas of the Union and in third countries;
 - (h) organise meetings and seminars at Union level for those actively involved in rural development;
 - (i) support the national networks and transnational co-operation initiatives;
 - (j) specifically for local action groups:
 - (i) create synergies with the activities carried out on national and/or regional level by the respective networks with regard to capacity building actions and exchange of experience; and
 - (ii) cooperate with the networking and technical support bodies for local development set up by the EFRD, the ESF and the EMFF as regards their local development activities and transnational co-operation.
4. The Commission shall, by means of implementing acts, set out the organisational structure and operation of the European Network for Rural Development Network. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 122.

Article 78

EIP Network

1. A EIP Network shall be put in place to support the EIP for agricultural productivity and sustainability referred to in Article 86, in accordance with Article 76(1). It shall enable the networking of operational groups, advisory services and researchers
2. The tasks of the EIP Network shall be to:
 - (a) provide a help desk function and provide information to key actors concerning the EIP;
 - (b) animate discussions at the level of the programme in view of encouraging the setting up of operational groups;
 - (c) screen and report on research results and knowledge relevant to the EIP;
 - (d) collect, consolidate and disseminate good practice relevant to innovation;
 - (e) organise conferences and workshops and disseminate information in the field of the EIP.

3. The Commission shall, by means of implementing acts, set out the organisational structure and operation of the EIP Network. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 122.

Article 79

European Evaluation Network for Rural Development

1. A European Evaluation Network for Rural Development shall be put in place to support the evaluation of rural development programmes in accordance with Article 76(1). It shall enable the networking of those involved in the evaluation of rural development programmes.
2. The aim of the European Evaluation Network for Rural Development shall be to facilitate the exchange of expertise and good practices on evaluation methodologies, to develop evaluation methods and tools, to provide support on evaluation processes, and on data collection and management.
3. The Commission shall, by means of implementing acts, set out the organisational structure and operation of the European Evaluation Network for Rural Development. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 122.

Article 80

National rural network

1. Each Member State shall establish a national rural network, which groups the organisations and administrations involved in rural development. The partnership referred to in Article 7 shall also be part of the national rural network.

Member States with regional programmes may submit for approval a specific programme for the establishment and the operation of their national rural network.
2. Networking by the national rural network shall aim to:
 - (f) increase the involvement of stakeholders in the implementation of rural development;
 - (g) improve the quality of rural development programmes;
 - (h) inform the broader public and potential beneficiaries on rural development policy;
 - (i) foster innovation in agriculture
3. EAFRD support under Article 76(3) shall be used:
 - (a) for the structures needed to run the network;

- (b) for the preparation and implementation of an action plan containing at least the following:
 - (i) network management;
 - (ii) involvement of stakeholders in support of programme design;
 - (iii) support for monitoring, in particular through collection and sharing of relevant feed-back, recommendations and analysis notably from the Monitoring Committees. Local action groups shall also be supported by the national rural network for the monitoring and evaluation of the Local Development Strategies;
 - (iv) provision of training activities for programme implementing bodies and local action groups in the process of formation;
 - (v) collection of examples of projects covering all priorities of the rural development programmes;
 - (vi) ongoing studies and analysis;
 - (vii) networking activities for Local Action Groups and in particular technical assistance for inter-territorial and transnational co-operation, facilitation of co-operation among local action groups and the search of partners for the measure referred to in Article 42;
 - (viii) facilitation of exchanges of practice and experience among advisers and/or advisory services;
 - (ix) networking activities for innovation;
 - (x) a communication plan including publicity and information concerning the rural development programme in agreement with the Managing Authorities and information and communication activities aimed at a broader public.
 - (xi) provision to participate in and contribute to the activities of the European Rural Development Network;
 - (c) The setting up of a pre-selection board of independent experts and the process of pre-selection of applications for the prize for innovative, local cooperation referred to in Article 81.
4. The Commission shall, by means of implementing acts, adopt rules for the establishment and operation of national rural networks. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 122.

Chapter IV

Prize for innovative, local cooperation

Article 81

Prize for innovative, local cooperation

The funds referred to in Article 76(2) shall be used for financing the award of a prize to cooperation projects involving at least two partners located in different Member States that realise an innovative, local concept.

Article 82

Call for proposals

1. Starting at the latest in 2015 and every year thereafter the Commission shall launch a call for proposals in view of awarding the prize referred to in Article 81. The last call of proposals shall be launched no later than in 2019.
2. The call of proposals shall indicate a theme for the proposals which shall be related to one of the Europe 2020 priorities for smart, sustainable and inclusive growth. The theme shall also be appropriate for implementation through cooperation at transnational level.
3. The call for proposals shall concern both Local Action Groups as referred to in Article 57 and individual entities cooperating for the purpose of the specific project.

Article 83

Selection procedure

1. Applications for the prize shall be submitted by applicants in all Member States to the respective National Rural Network, which will be responsible for pre-selecting applications.
2. National Rural Networks shall set up, from within their members, a pre-selection board of independent experts in order to pre-select applications. Pre-selection of applications shall be done on the basis of the exclusion, selection and award criteria defined in the call for proposals. Each National Rural Network shall pre-select no more than ten applications and shall transmit them to the Commission.
3. The Commission shall be responsible for the selection of fifty winning projects among the applications pre-selected in all the Member States. The Commission shall set up an ad hoc steering group composed of external independent experts.

This steering group shall select the winning applications on the basis of the exclusion, selection and award criteria defined in the call for proposals.

4. The Commission shall decide on the list of projects to which the prize is awarded by means of an implementing act.

Article 84

Financial Prize – conditions and payment

1. In order for projects to be eligible for the prize, the time required for their completion shall not exceed two years from the date of adoption of the implementing act awarding the prize. The time frame of realisation of the project must be defined in the application.
2. The prize shall be granted in the form of a lump sum payment. The amount of the payment shall be determined by the Commission in line with criteria defined in the call for proposals and taking into account the estimated cost of realisation of the project indicated in the application. The maximum prize per project shall not exceed 100 000 euro.
3. Member States shall pay the award to winning applicants after verifying that the project has been completed. The relevant expenditure shall be reimbursed by the Union to Member States in accordance with the provisions of Section 3 of Chapter II of Title IV of Regulation (EU) No HR/xxxx. Member States may decide to pay fully or partly the sum of the prize to the winning applicants before having verified the completion of the project but they shall, in this case, bear the responsibility for the expenditure until the completion of the project is verified.

Article 85

Implementing Acts

The Commission shall by means of implementing acts lay down detailed provisions on the procedure and timetables for the selection of projects and rules on the setting up of the steering group of independent experts referred to in Article 83(3). Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 122.

TITLE V

EIP for agricultural productivity and sustainability

Article 86

Aims

1. The EIP for agricultural productivity and sustainability shall:
 - (a) promote a resource efficient, productive and low emission agricultural sector, working in harmony with the essential natural resources on which farming depends;
 - (b) help deliver a steady supply of food, feed and biomaterials, both existing and new ones;
 - (c) improve processes to preserve the environment, adapt to climate change and mitigate it;
 - (d) build bridges between cutting-edge research knowledge and technology and farmers, businesses and advisory services.
2. The EIP for agricultural productivity and sustainability shall seek to achieve its aims by:
 - (a) creating added value by better linking research and farming practice and encouraging the wider use of available innovation measures;
 - (b) promoting the faster and wider transposition of innovative solutions into practice; and
 - (c) informing the scientific community about the research needs of farming practice.
3. The EAFRD shall contribute to the aims of the EIP for agricultural productivity and sustainability through support, in accordance with Article 49, of the EIP operational groups referred to in Article 87 and the EIP Network referred to in Article 78.

Article 87

Operational groups

1. EIP Operational groups shall form part of the EIP for agricultural productivity and sustainability. They shall be set up by interested actors such as farmers, researchers, advisors and businesses involved in the agriculture and food sector.

2. Operational groups shall establish internal procedures that ensure transparency in their operation and avoid situations of conflict of interest.

Article 88

Tasks of operational groups

1. Operational groups shall draw up a plan that contains the following:
 - (d) a description of the innovative project to be developed, tested, adapted or implemented;
 - (e) a description of the expected results and the contribution to the EIP objective of enhancing productivity and sustainable resource management.
2. In implementing their innovative projects operational groups shall:
 - (a) make decisions on the elaboration and implementation of innovative actions; and
 - (b) implement innovative actions through measures financed through the Rural Development Programmes.
3. Operational groups shall disseminate the results of their project, in particular through the EIP network.

TITLE VI

Financial provisions

Article 89

Resources and their distribution

1. The total amount of Union support for rural development under this Regulation for the period from 1 January 2014 to 31 December 2020 its annual breakdown and the minimum amount to be concentrated in less developed regions shall be fixed by the European Parliament and the Council, on a proposal from the Commission in accordance with the multiannual financial framework for the years 2014 to 2020 and the Interinstitutional Agreement on cooperation in budgetary matters and on sound financial management for the same period.
2. 0,25% of the resources referred to in paragraph 1 shall be devoted to technical assistance for the Commission as referred to in Article 76(1).
3. For the purpose of their programming and subsequent inclusion in the general budget of the Union, the amounts referred to in paragraph 1 shall be indexed at [x%] per year.
4. The Commission shall, by means of an implementing act, make an annual breakdown by Member State of the amounts referred to in paragraph 1, after deduction of the amount referred to in paragraph 2, and taking into account:
 - (a) objective criteria linked to the objectives referred to in Article 4; and
 - (b) past performance.

This implementing act shall be adopted in accordance with the examination procedure referred to in Article 122.

5. In addition to the amounts referred to in paragraph 4, the Member States shall take into account for the purpose of programming the funds transferred to the EAFRD in application of Article 7(2) of Regulation (EU) No DP/xxx.

Article 90

Fund contribution

1. The decision approving a rural development programme shall set the maximum contribution from the EAFRD to the programme. The decision shall clearly identify, where necessary, the appropriations allocated to the less developed regions.

2. The EAFRD contribution shall be calculated on the basis of the amount of eligible public expenditure.
3. The programmes shall establish a single EAFRD contribution rate applicable to all measures. Where applicable, a separate EAFRD contribution rate shall be established for less developed regions, and for outermost regions and the smaller Aegean islands within the meaning of Regulation (EEC) No 2019/93. The maximum EAFRD contribution rate shall be:
 - (a) 75% of the eligible public expenditure in the less developed regions ;
 - (b) 85% of the eligible expenditure in the outermost regions and the smaller Aegean islands within the meaning of Regulation (EEC) No 2019/93;
 - (c) 50% of the eligible public expenditure in the other regions.

The minimum EAFRD contribution rate shall be 20%.

4. By way of derogation from paragraph 3, the maximum EAFRD contribution shall be:
 - (a) 80% for the measures referred to in Articles 28, 41 and 49, for the LEADER local development referred to in Article 55 and for operations under Article 33(1)(a)(i). It may be increased to 90% for the programmes of less developed, the outermost regions and the smaller Aegean islands within the meaning of Regulation (EEC) No 2019/93;
 - (b) 100% for projects receiving funding under Article 91.
5. By way of derogation from the ceilings set out in paragraphs 3 and 4(a), the EAFRD contribution may be increased up to a maximum of 95% of eligible public expenditure in the less developed regions and the outermost regions and smaller Aegean islands within the meaning of Regulation (EEC) No 2019/93, and 85% of eligible public expenditure in other regions. These rates shall apply to the eligible expenditure newly declared in each certified declaration of expenditure submitted during the period in which a Member State complies with one of the following conditions:
 - (a) Financial assistance is made available to it under Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism³⁰ or, is made available by other euro-area Member States before the entry into force of that Regulation;
 - (b) medium-term financial assistance is made available to it in accordance with Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments³¹;

³⁰ OJ L 118, 12.5.2010, p. 1.

³¹ OJ L 53, 23.2.2002, p. 1.

- (c) financial assistance is made available to it in accordance with the Treaty establishing the European Stability Mechanism.

The derogation shall cease to apply once the Member State does no longer meet any of the conditions set out in points (a), (b) or (c) of the first subparagraph. The Member State shall then send the Commission a proposal for modification of the programme including a new financing plan in conformity with paragraphs 3 and 4(a).

- 6. At least 5% of the total EAFRD contribution to the rural development programme shall be reserved for Leader.
- 7. An expenditure co-financed by the EAFRD shall not be co-financed by way of a contribution from the Structural Funds, the Cohesion Fund or any other Union financial instrument.
- 8. Public expenditure on aid to enterprises shall comply with the aid limits laid down in respect of State aid, unless this Regulation provides otherwise.

Article 91

Funding for projects with a significant contribution to innovation

The funds transferred to the EAFRD in application of Article 7(2) of Regulation (EU) No DP/xxx shall be reserved for projects which provide a significant contribution to innovation relevant to agricultural productivity and sustainability.

Article 92

Forms of support

The EAFRD shall provide support in the form of non-repayable direct assistance, repayable direct assistance, financial instruments, or a combination thereof.

Article 93

Eligibility of expenditure

- 1. Expenditure shall be eligible for a EAFRD contribution if the relevant aid is actually paid by the paying agency between 1 January 2014 and 31 December 2022. Co-financed operations completed before the eligibility starting date shall not be eligible.

Expenditure incurred by the beneficiary in view of a modification of a programme shall be eligible from the date of the reception by the Commission of the request for modification of the programme. Member States shall bear the responsibility for expenditure between the date on which their request for a programme modification

is received by the Commission and the date of the decision approving the modification.

By way of derogation from the second sub-paragraph, in cases of emergency measures due to natural disasters, the rural development programmes may provide that eligibility of expenditure relating to programme changes may start from the date when the natural disaster occurred.

2. Expenditure shall be eligible for a EAFRD contribution only where incurred for operations decided upon by the Managing Authority of the programme in question or under its responsibility, in accordance with selection criteria referred to in Article 74.

Operations, shall not be selected for support by the EAFRD where they have been physically completed or fully implemented before the application for funding under the Rural Development Programme is submitted to the Managing Authority, irrespective of whether all related payments have been made by the beneficiary.

With the exception of general costs as defined in Article 70(2)(c), in respect of investment operations under measures falling within the scope of Article 42 of the Treaty, only expenditure which has been incurred after an application has been submitted to the competent authority shall be considered eligible.

Member States may provide in their programmes that expenditure shall only be eligible after the application for support has been approved by the competent authority.

3. The rules on eligibility of expenditure shall be set at national level, subject to the special conditions laid down by this Regulation for certain rural development measures.
4. Paragraphs 1, 2 and 3 shall not apply to Article 76(1).
5. Payments by beneficiaries shall be supported by invoices and documents proving payment. Where this cannot be done, payments shall be supported by documents of equivalent probative value, except for forms of support under Article 96(1)(b), (c) and (d).
6. An operation may receive support from one or more Funds and from other Union instruments, provided that an expenditure item is only supported by one Fund or instrument. Expenditure included in a payment application for reimbursement by one of the Funds shall not receive support from another Fund or Union instrument, nor support from the same Fund under another Rural Development Programme.

Article 94

Eligibility of operations depending on location

1. Operations co-financed by the EAFRD shall be located in the area covered by the rural development programme under which they are co-financed (hereinafter referred to as the 'programme area').
2. By way of derogation from paragraph 1, the Managing Authority may accept that an operation is implemented outside the programme area but within the Union, provided that all of the following conditions are satisfied:
 - (a) The operation is for the benefit of the programme area;
 - (b) The total amount allocated under the Rural Development Programme to operations located outside the programme area does not exceed [5-10%] of the EAFRD contribution at programme level; and
 - (c) The Monitoring Committee has approved the operation or type of operation concerned;
 - (d) The obligations of the authorities for the rural development programme referred to in Article 101(2) of regulation are fulfilled by the authorities responsible for the rural development programme under which that operation is co-financed or they enter into agreements with authorities in the Member State in which the operation is implemented to ensure that these obligations are carried out satisfactorily by such authorities.
3. For operations other than productive investment or investment in infrastructure, expenditure may be incurred for actions which take place outside the programme area but within the Union, provided that the conditions of paragraphs 2(a), (c) and (d) are fulfilled.
4. Expenditure may be incurred outside the Union, in relation to operations concerning promotional activities, research and innovation, education, training and capacity building provided that the obligations defined in paragraph 2(a) and under Article 101(2) are fulfilled.

Article 95

Eligible expenditure

1. Where running costs are covered by support under this regulation the following types of costs shall be eligible:
 - operating costs;
 - personnel costs;
 - training costs;

costs linked to public relations;

financial costs;

networking costs.

2. Depreciation costs of means or infrastructure support used for an operation which are not specifically financed under the operation may be considered as eligible expenditure incurred by the beneficiaries under the following conditions:
 - (e) The expenditure is eligible in accordance with the eligibility rules defined by the Member State;
 - (f) The amount of expenditure is duly justified by supporting documents having equivalent probative value to invoices; and
 - (g) Public support has not contributed towards the acquisition of the depreciated assets.
3. Studies shall only be eligible expenditure where they are linked to a specific operation under the programme or the specific objectives and targets of the programme.
4. VAT shall not be eligible for a EAFRD contribution.
5. The following costs shall not be eligible for a EAFRD contribution:
 - (h) interest on debt, without prejudice to Article 62;
 - (i) the purchase or in kind contribution of land not built on, and land built on where the land is necessary for the implementation of the operation, for an amount exceeding 10% of the total eligible expenditure on the operation concerned. In exceptional and duly justified cases, a higher percentage may be permitted by the Managing Authority for operations concerning environmental conservation.
6. Net revenue directly generated by an operation during its implementation, which has not been taken into account at the time of the approval of the operation, shall be deducted from the eligible expenditure of the operation in the final payment claim submitted by the beneficiary.

Article 96

Simplified costs and contributions in kind

1. Payments by beneficiaries shall be reimbursed on the basis of the eligible cost of operations, determined in the following ways:
 - (a) expenditure actually incurred together with, where applicable, in-kind contributions and depreciation;

- (b) standard scales of unit costs;
 - (c) lump sums not exceeding 100.000 euro of public contribution;
 - (d) flat-rate financing determined by the application of a percentage to defined types of eligible costs.
2. These options may be combined only where each of them covers a different category of eligible costs or where they are used for different projects forming part of an operation or for successive phases of an operation.
3. Where an operation or part of it is implemented exclusively through a procurement of works, goods or services, only paragraph 1(a) shall apply. Where the procurement procedure within an operation or a part of it is limited to certain categories of costs, all the options referred to in paragraph 1 may be applied.
4. The costs referred to in paragraph 1(b), (c) and (d) shall be established in advance in one of the following ways:
- (a) a fair, equitable and verifiable calculation method based on:
 - i) statistical data or other objective information; or
 - ii) the verified historical data of individual beneficiaries or the application of their usual cost accounting practices;
 - (b) methods and corresponding scales of unit costs, lump sums and flat rates applicable in other Union policies for a similar type of operation and beneficiary; or
 - (c) methods and corresponding scales of unit costs, lump sums and flat rates applied under schemes funded entirely by the Member State for a similar type of operation and beneficiary; or
 - (d) rates established by this Regulation.
5. Without prejudice to Article 95(5)(b), contributions in kind of a public or private beneficiary, namely the provision of works, goods or services for which no cash payment supported by invoices or documents of equivalent probative value is made, may be eligible expenditure provided that the eligibility rules of the Member State allow for it and that the following conditions are fulfilled:
- (a) the EAFRD and national contribution granted to an operation which includes contributions in kind shall not exceed total eligible expenditure, excluding contributions in kind, at the end of the operation;
 - (b) the contributions are not made in respect of financial engineering actions referred to in Article 62;
 - (c) the value and delivery of the contribution can be independently assessed and verified.

- (d) the value attributed to in kind contributions does not exceed the costs generally accepted on the market in question;
- (e) in the case of provision of land or real estate, the value is certified by an independent qualified expert or duly authorised official body. Contributions in kind made in the form of land can be counted towards eligible expenditure up to the limit established in Article 95(5) paragraph (b);
- (f) in the case of in kind contributions in the form of unpaid work, the value of that work is determined taking into account the verified time spent and the rate of remuneration for equivalent work.

Article 97

Flat rate financing

1. Where the implementation of an operation gives rise to indirect costs, they may be calculated as a flat rate in one of the following ways:
 - (a) 20% of the eligible direct costs where the flat rate is calculated on the basis of a fair, equitable and verifiable calculation method or a method applied under schemes funded entirely by the Member State for a similar type of operation and beneficiary;
 - (b) 20% of the eligible staff costs;
 - (c) a flat rate of up to 60% of eligible direct costs, based on existing methods and corresponding rates applicable in other Union policies for a similar type of operation and beneficiary.
2. Indirect costs shall be eligible for support under the measures of Articles 28, 29, 32, 34, 38 and 49.

Article 98

Verifiability and controllability of measures

1. Member States shall ensure that all the rural development measures they intend to implement are verifiable and controllable. To this end the Managing Authority and the Paying Agency of each rural development programme shall provide an ex-ante assessment of the controllability and verifiability of the measures to be included in the rural development programme. The Managing Authority and Paying Agency shall also undertake the assessment of controllability and verifiability of measures during the implementation of the rural development programme. Ex ante assessment and assessment during the implementation period should take into account the results of controls in the previous and current programming period. Where the assessment reveals that the requirements of verifiability and controllability are not met, the measures concerned should be adjusted accordingly.

2. Where aid is granted on the basis of standard costs or additional costs and income foregone, Member States shall ensure that the relevant calculations are adequate and accurate and established in advance on the basis of a fair, equitable and verifiable calculation. To this end, a body that is independent from the authorities responsible for the calculations and possesses the appropriate expertise shall provide a certificate confirming the adequacy and accuracy of the calculations. That certificate shall be included in the rural development programme.

Article 99

Advances

1. Payment of advances shall be subject to the establishment of a bank guarantee or an equivalent guarantee corresponding to 100% of the amount of the advance. As regards public beneficiaries, advances shall be paid to municipalities, regional authorities and associations thereof, as well as to public law bodies.

A facility provided as a guarantee by a public authority shall be considered equivalent to the guarantee referred to in the first subparagraph, provided that the authority undertakes to pay the amount covered by that guarantee should entitlement to the advance paid not be established.

2. The guarantee may be released when the competent paying agency establishes that the amount of actual expenditure corresponding to the public contribution related to the operation exceeds the amount of the advance.

TITLE VII

Management, control and publicity

Article 100

Responsibilities of the Commission

To ensure, in the context of shared management, sound financial management in accordance with Article 317 of the Treaty, the Commission shall carry out the measures and controls laid down in Regulation (EU) No HR/xxxx.

Article 101

Responsibilities of the Member States

1. Member States shall adopt all the legislative, statutory and administrative provisions in accordance with Article 57(1) of Regulation (EU) No HR/xxxx in order to ensure that the Union's financial interests are effectively protected.
2. Member States shall designate, for each rural development programme, the following authorities:
 - (a) the Managing Authority, which may be either a public or private body acting at national or regional level, or the Member State itself when it carries out that task, to be in charge of the management of the programme concerned;
 - (b) the accredited paying agency within the meaning of Article 7 of Regulation (EU) No HR/xxxx;
 - (c) the certification body within the meaning of Article 9 of Regulation (EU) No HR/xxxx.
3. Member States shall ensure for each rural development programme that the relevant management and control system has been set up ensuring a clear allocation and separation of functions between the Managing Authority and other bodies. Member States shall be responsible for ensuring that the systems function effectively throughout the programme period.
4. Member States shall clearly define the tasks of the managing authority, the Paying Agency and, under LEADER, the local action groups referred to in Article 57 as regards to the application of eligibility and selection criteria and the project selection procedure.

Article 102

Managing Authority

1. The Managing Authority shall be responsible for managing and implementing the programme in an efficient, effective and correct way and in particular for:
 - (a) ensuring that there is an appropriate secure electronic system to record, maintain, manage and report statistical information on the programme and its implementation required for the purposes of monitoring and evaluation and, in particular, information required to monitor progress towards the defined objectives and priorities;
 - (b) providing the Commission, on a quarterly basis, with relevant indicator data on operations selected for funding, including key characteristics of the beneficiary as well as the project;
 - (c) ensuring that beneficiaries and other bodies involved in the implementation of operations:
 - (i) are informed of their obligations resulting from the aid granted, and maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation;
 - (ii) are aware of the requirements concerning the provision of data to the Managing Authority and the recording of outputs and results;
 - (d) ensuring that the ex ante evaluation referred to in Article 114 conforms to the evaluation and monitoring system and accepting and submitting it to the Commission;
 - (e) ensuring that the ongoing evaluation system referred to in Article 115 is in place, that the ex post programme evaluations referred to in Article 116 is conducted within the time limits laid down in this Regulation ensuring that such evaluations conform to the monitoring and evaluation system and submitting them to the Monitoring Committee and the Commission;
 - (f) providing the Monitoring Committee with the information and documents needed to monitor implementation of the programme in the light of its specific objectives and priorities;
 - (g) drawing up the annual progress report, including aggregate monitoring tables, and, after approval by the Monitoring Committee, submitting it to the Commission;
 - (h) ensuring that the paying agency receives all necessary information, in particular on the procedures operated and any controls carried out in relation to operations selected for funding, before payments are authorised;
 - (i) ensuring publicity for the programme, including through the National Rural Network, by informing potential beneficiaries, professional organisations, the

economic and social partners, bodies involved in promoting equality between men and women, and the non-governmental organisations concerned, including environmental organisations, of the possibilities offered by the programme and the rules for gaining access to programme funding as well as by informing beneficiaries of the Union contribution and the general public on the role played by the Union in the programme.

2. The Member State or the managing authority may designate one or more intermediate bodies including local authorities, regional development bodies or non-governmental organisations, to carry out the management and implementation of rural development operations.

When a part of its tasks is delegated to another body, the Managing Authority shall retain full responsibility for the efficiency and correctness of management and implementation of those tasks. The Managing Authority shall ensure that appropriate provisions are in place to allow the other body to obtain all necessary data and information for execution of these tasks.

3. Where a thematic sub-programme, as referred to in Article 22, is included in the rural development programme, the Managing Authority may designate one or more intermediate bodies, including local authorities, local action groups or non-governmental organisations, to carry out the management and implementation of that strategy. Paragraph 2 shall apply in this case.

The managing authority shall ensure that operations and outputs of this thematic sub-programme are identified separately for the purposes of the monitoring and evaluation system referred to in Article 103.

TITLE VIII

Monitoring and evaluation

Chapter I

General provisions

SECTION 1

ESTABLISHMENT AND OBJECTIVES OF A MONITORING AND EVALUATION SYSTEM

Article 103

Monitoring and evaluation system

A common monitoring and evaluation system shall be drawn up in co-operation between the Commission and the Member States and shall be adopted by the Commission by means of implementing acts adopted in accordance with the examination procedure referred to in Article 122.

Article 104

Objectives

The monitoring and evaluation system shall aim:

- (a) to demonstrate the progress and achievements of rural development policy and assess the impact, effectiveness, efficiency and relevance of rural development policy interventions;
- (b) to contribute to better targeted support for rural development;
- (c) to support a common learning process related to monitoring and evaluation.

SECTION 2 TECHNICAL PROVISIONS

Article 105

Common indicators

1. A list of common indicators relating to the initial situation as well as to the financial execution, outputs, results and impact of the programme and applicable to each programme shall be specified in the monitoring and evaluation system provided for in Article 103 to allow for aggregation of data at Union level.
2. The common indicators shall be linked to the structure and objectives of the rural development policy framework and shall allow assessment of the progress, efficiency and effectiveness of policy implementation against objectives and targets at Union, national and programme level.

Article 106

Electronic Information System

1. Key information on the implementation of the programme, on each operation selected for funding, as well as on completed operations, needed for monitoring and evaluation, including the key characteristics of the beneficiary and the project, shall be recorded and maintained electronically.
2. The Commission shall ensure that there is an appropriate secure electronic system to record, maintain and manage key information and report on monitoring and evaluation.

Article 107

Provision of information

Beneficiaries of support under rural development measures and local action groups shall undertake to provide to the Managing Authority and/or to appointed evaluators or other bodies delegated to perform functions on its behalf, all the information necessary to permit monitoring and evaluation of the programme, in particular in relation to meeting specified objectives and priorities.

Chapter II Monitoring

Article 108

Monitoring procedures

1. The Managing Authority and the Monitoring Committee provided for in Article 109 shall monitor the quality of programme implementation.
2. The Managing Authority and the Monitoring Committee shall carry out monitoring of each rural development programme by means of financial, output and target indicators.

Article 109

Monitoring Committee

1. For each rural development programme a Monitoring Committee shall be set up within a maximum of three months following the decision approving the programme.

Each Monitoring Committee shall draw up its rules of procedure within the institutional, legal and financial framework of the Member State concerned and adopt them in agreement with the Managing Authority in order to perform its duties in accordance with this Regulation.

2. Each Monitoring Committee shall be chaired by a representative of the Member State or of the Managing Authority.

Its composition shall be decided by the Member State and shall include the partners referred to in Article 7. Each member of the Monitoring Committee shall have a voting right.

Commission representatives shall participate in the work of the Monitoring Committee in an advisory capacity.

3. Member States with regional programmes may establish a national Monitoring Committee to coordinate the implementation of these programmes in relation to the National Framework and the uptake of financial resources.
4. A Member State may set up a joint Monitoring Committee for rural development programmes co-financed by the EAFRD and operational programmes co-financed by the ERDF, ESF, Cohesion Fund or the EMFF.

Article 110

Responsibilities of the Monitoring Committee

1. The Monitoring Committee shall satisfy itself as to the performance of the rural development programme and the effectiveness of its implementation . To that end, the Monitoring Committee:
 - (a) shall be consulted and issue an opinion, within four months of the decision approving the programme, on the selection criteria for financed operations. The selection criteria shall be revised according to programming needs;
 - (b) shall meet at least once a year and shall regularly review the progress of programme implementation, in particular the progress made towards achieving the specific targets of the programme in relation to the Union priorities and the milestones defined in the performance framework, on the basis of the documents submitted by the Managing Authority;
 - (c) shall examine the activities and outputs related to ongoing evaluation of the programme;
 - (d) shall examine actions in the programme relating to the fulfilment of *ex ante* conditionalities;
 - (e) shall participate in the National Rural Network to exchange information on programme implementation;
 - (f) shall consider and approve the annual implementation reports before they are sent to the Commission;
 - (g) may propose to the Managing Authority any adjustment or review of the programme aimed at achieving its objectives and priorities or improving its management, including its financial management. This may in particular relate to the conclusions and recommendations of evaluation activities, including ongoing evaluation;
 - (h) shall be consulted and issue an opinion on all changes to the rural development programme.

Article 111

Annual implementation report

1. Each year, the Managing Authority shall draw up and, following approval by the Monitoring Committee, send the Commission an annual implementation report.
2. By 30 April 2016 and by 30 April each subsequent year until and including 2023, the Member State shall submit to the Commission an annual implementation report on implementation of the rural development programme in the previous calendar year. The report submitted in 2016 shall cover the financial years 2014 and 2015.

3. Annual implementation reports shall include information *inter alia* on financial commitments and expenditure by measure; output and target indicators for both selected and completed operations; the milestones defined in the performance framework; actions taken to fulfil the ex-ante conditionalities; issues affecting the performance of the programme, including the achievement of targets and milestones and the corrective measures taken; a summary of the activities undertaken in relation to the ongoing evaluation plan, and any proposed modifications of the plan.
4. The annual implementation report submitted in 2017 shall cover, in addition to the information set out in paragraph 3, an assessment of the effectiveness of targeting within the programme; a description of the implementation of any sub-programmes included within the programme; an assessment of progress made in ensuring an integrated approach to use of the EAFRD and other EU financial instruments to support the territorial development of rural areas, including through local development strategies; the findings from the ongoing evaluation, particularly in relation to the expectations of fulfilling the targets for each priority, and the follow-up given to recommendations from ongoing evaluation, and recommendations for any adjustments to the programme.
5. The annual implementation report submitted in 2019 shall cover, in addition to the information set out in paragraph 3, a description of the implementation of any sub-programmes included within the programme; an assessment of progress made in ensuring an integrated approach to use of the EAFRD and other EU financial instruments to support the territorial development of rural areas, including through local development strategies; progress towards achieving the objectives of each priority and of the programme as a whole, including assessment of the net contribution of the programme to changes in indicator values; the programme's contribution to achieving the Union's priorities of promoting smart, sustainable and inclusive growth; information on the follow-up given to the findings and recommendations of ongoing evaluation.
6. The Commission shall examine and approve annual implementation reports.
7. A report shall be admissible with a view to applying Article 32 of Regulation (EU) No xxx/xxxx if it contains all the elements referred to in paragraphs 3, 4 and 5 of this Article or defined by the Commission in accordance with paragraph 11 and enables the appraisal of cumulative progress towards targets at the level of inputs, outputs and, where applicable results, including progress towards targets set in relation to common target indicators. The Commission shall inform the Member State within 15 working days from the date of receipt of the annual implementation report if it is not admissible, failing which it shall be deemed admissible.
8. The Commission shall inform the Member State of its opinion on the annual implementation report within two months of the receipt of the report. If the Commission does not provide an opinion within this deadline, the report shall be deemed to be approved.
9. The Commission may issue recommendations to address any issues which affect the implementation of the rural development programme. Where such

recommendations are made, the managing authority shall inform the Commission within three months of the corrective measures taken.

10. A citizen's summary of the contents of the annual implementation report shall be drawn up by the Member State and made available on the internet.
11. The Commission shall, by means of implementing acts, adopt rules for the application of this Article concerning the detailed elements to be contained in annual implementation reports. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 122.

Article 112

Annual review meeting

1. An annual review meeting shall be organized every year from 2016 up to and including 2022 between the Commission and the Member State to examine the performance of each Member State's rural development programme or programmes, taking account of the annual implementation report and the Commission's observations and recommendations where applicable.
2. The annual review meeting may cover more than one rural development programme.
3. The annual review meeting shall be chaired by the Commission.
4. The Member State shall ensure that appropriate follow up is given to any comments of the Commission following that meeting.

Chapter III Evaluation

Article 113

General provisions

1. Rural development programmes shall be subject to ex ante, ongoing and ex post evaluations in accordance with Articles 114, 115 and 116.
2. The evaluations shall aim to improve the quality, efficiency and effectiveness of the implementation of rural development programmes and demonstrate their achievements.
3. The Commission shall, by means of implementing acts, provide for the elements to be contained in the ex ante and ex post evaluation reports and establish the minimum requirements for ongoing evaluation. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 122.

4. The evaluations referred to in paragraph 1 shall be carried out by independent evaluators.
5. Member States shall ensure that the evaluations conform to the common evaluation approach agreed in accordance with Article 103, shall organise the production and gathering of the requisite data, and shall supply the various pieces of information provided by the monitoring system to the evaluators.
6. The evaluation reports shall be made available by the Member States on the internet and by the Commission on the Union website.

Article 114

Ex ante evaluation

1. Ex ante evaluation shall form part of drawing up each rural development programme and shall aim to optimise the links between needs established, programme targets, the contribution to the Union's goals of smart, sustainable and inclusive growth and the allocation of budgetary resources. Member States shall ensure that the ex ante evaluator is engaged from an early stage in the process of development of the rural development programme, including the development of the analysis referred to in Article 23(1)(b), the design of the programme's intervention logic and the establishment of the programme's targets.
2. Ex ante evaluation shall incorporate the requirements of Strategic Environmental Assessment.
3. Ex ante evaluation shall be carried out under the responsibility of the Member State. Ex ante evaluations shall be submitted to the Commission at the same time as the rural development programme, together with an executive summary.

Article 115

Ongoing evaluation

1. Member States shall establish a system of ongoing evaluation for each rural development programme and ensure that appropriate evaluation capacity is available.

An ongoing evaluation plan shall be established for each rural development programme. It shall be submitted with the rural development programme, and shall be updated and modified as necessary.

The ongoing evaluation system shall, inter alia, cover the examination of progress of the programme in relation to its targets, assessment of the net contribution of the programme, improvement of the quality of the programmes and their implementation, examination of proposals for substantive programme modifications and ensuring that all necessary statistical data are provided in good time for the

annual implementation reports referred to in Article 111 and the ex-post evaluations referred to in Article 116.

2. Ongoing evaluation shall be organised on the initiative of the Managing Authorities in co-operation with the Commission. It shall be organised on a multi-annual basis and cover the period 2014 to 2022.

Article 116

Ex post evaluation

In 2023, an ex post evaluation report shall be prepared by the Member States for each of their rural development programmes. This report shall be submitted to the Commission by 31 December 2023 at the latest.

Article 117

Syntheses of evaluations

Syntheses at Union level of the ex ante and ex post evaluation reports shall be undertaken under the responsibility of the Commission.

The syntheses of the evaluation reports shall be completed at the latest by 31 December of the year following the submission of the relevant evaluations.

TITLE IX

Competition provisions

Article 118

Rules applying to undertakings

Support under this Regulation shall only be granted to forms of co-operation between undertakings which comply with the competition rules as they apply by virtue of Articles 143 to 146 of the Regulation (EU) No sCMO/xxx.

Article 119

State aid

1. Save as otherwise provided for in this Title, Articles 107, 108 and 109 of the Treaty shall apply to support for rural development by Member States.
2. Articles 107, 108 and 109 of the Treaty shall not apply to payments made by Member States pursuant to, and in conformity with, this Regulation, within the scope of Article 42 of the Treaty and to additional national financing referred to in Article 120.

Article 120

Additional national financing

Payments made by the Member States in relation to operations falling within the scope of Article 42 of the Treaty and intended to provide additional financing for rural development for which Union support is granted, shall be notified by Member States and approved by the Commission in accordance with this Regulation as part of the programming referred to in Article 21. When assessing these payments, the Commission shall apply, by way of analogy, the criteria established for the application of Article 107 of the Treaty. The Member State concerned shall not put its proposed additional financing for rural development into effect until it has been approved.

TITLE X

Commission powers, transitional and final provisions

Chapter I

Commission powers

Article 121

Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.
2. The power to adopt delegated acts referred to in Articles 6, 20, 25, 28, 29, 30, 32, 33, 34, 35, 42, 47, 48, 56, 59, 61, 62, 63, 64, 65, 70, 72, 76 and 126 shall be conferred on the Commission for an indeterminate period of time from the date of entry into force of this Regulation.
3. The delegation of power referred to in Articles 6, 20, 25, 28, 29, 30, 32, 33, 34, 35, 42, 47, 48, 56, 59, 61, 62, 63, 64, 65, 70, 72, 76 and 126 may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the powers specified in that decision. It shall take effect the day following the publication of the decision in the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.
4. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.
5. A delegated act adopted pursuant to Articles 6, 25, 28, 29, 30, 32, 33, 34, 35, 42, 47, 48, 56, 59, 61, 62, 63, 64, 65, 70, 72, 76 and 126 shall enter into force only if no objection has been expressed either by the European Parliament or the Council within a period of two months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by two months at the initiative of the European Parliament or of the Council.

Article 122

Committee procedure

1. The Commission shall be assisted by the Rural Development Committee. That Committee shall be a committee within the meaning of Regulation (EU) No 182/2011.

2. Where reference is made to this paragraph, Article 5 of Regulation (EU) No 182/2011 shall apply.

Chapter II

Common provisions

Article 123

Exchange of information and documents

The Commission, in collaboration with the Member States, shall establish an information system to permit the secure exchange of data of common interest between the Commission and each Member State. The Commission shall, by means of implementing acts, adopt rules for the operation of that system. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 122.

Article 124

General CAP provisions

Regulation (EU) No HR/xxxx and the provisions adopted pursuant to it shall apply in relation to the measures set out in this Regulation.

Article 125

Repeal

Regulation (EC) No 1698/2005 is repealed.

Regulation (EC) No 1698/2005 shall continue to apply to operations implemented pursuant to programmes approved by the Commission under that Regulation before 1 January 2014.

Article 126

Transitional provisions

1. In order to facilitate the transition from the system established by Regulation (EC) No 1698/2005 to the system established by this Regulation, the Commission shall be empowered to adopt delegated acts in accordance with Article 121 concerning the conditions under which support approved by the Commission under Regulation

(EC) No 1698/2005 may be integrated into support provided for under this Regulation, including for technical assistance and for the ex-post evaluations.

Article 127

Entry into force and application

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

It shall apply from 1 January 2014.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at ,

For the European Parliament
The President

For the Council
The President

		75%	Of the amount of eligible investment in outermost regions
		65%	Of the amount of eligible investment in the smaller Aegean islands
		40%	Of the amount of eligible investment in other regions
			The above rates may be increased by 20% for operations supported in the framework of the EIP
32(5)	Restoring agricultural production potential damaged by natural disasters and introduction of appropriate prevention actions	80%	Of the amount of eligible investment costs for prevention operations carried out by individual farmers.
33(6)	Farm and business development	70.000 70.000 15.000	Per young farmer under 33(1)(a)(i) Per enterprise under 33(1)(a)(ii) Per small farm under 33(1)(a)(iii)
37(3)	Establishment of agro-forestry systems	80%	<u>Of the amount of eligible investment for the establishment of agro-forestry systems</u>
40(5)	Investments in new forestry technologies and in processing and marketing of forestry products	50% 75% 65% 40%	Of the amount of eligible investment in less developed regions Of the amount of eligible investment in outermost regions Of the amount of eligible investment in the smaller Aegean islands Of the amount of eligible investment in other regions
41(4)	Setting up of producer	10%,	<u>For marketed production up to EUR 1</u>

	groups	10%, 8%, 6%, 4% 5% 5% 4% 3% 2% 100.000	<u>000 000</u> As a percentage of marketed production during the first five years following recognition, for the 1 st , 2 nd , 3 rd , 4 th and 5 th year respectively. <u>For marketed production exceeding EUR 1 000 000As a percentage of marketed production during the first five years following recognition, for the 1st, 2nd, 3rd, 4th and 5th year respectively.</u> Maximum amount per year in all cases.
42(8)	Agri-environment	600(*) 900(*) 450(*) 200(*)	Per ha per year for annual crops Per ha per year for specialised perennial crops Per ha per year for other land uses Per Livestock Unit (“LU”) per year for local breeds in danger of being lost to farmers
43(5)	Organic farming	600(*) 900(*) 450(*)	Per ha per year for annual crops Per ha per year for specialised perennial crops Per ha per year for other land uses
44(7)	Natura 2000 and Water framework directive payments	500 200 50	Per ha per year maximum in the initial period not exceeding five years Per ha per year maximum Per ha per year minimum for Water framework directive payments
45(3)	Payments to areas facing natural or other specific constraints	25 250(*) 300(*)	Minimum per ha per year Maximum per ha per year Maximum per ha per year in mountain areas as defined in Article 46(2)

47(3)	Animal welfare	500	Per LU
48(3)	Forest-Environmental services and forest conservation	200(*)	Per ha per year
51(5)	Crop, animal and plant insurance	65%	Of the insurance premium due
52(5)	Mutual fund for animal and plant diseases and environmental incidents	65%	Of the eligible costs.
53(5)	Income stabilisation tool	65%	Of the eligible costs

* These amounts may be increased in exceptional cases taking into account specific circumstances to be justified in the rural development programmes.

ANNEX II

Biophysical criteria for the delimitation of areas facing natural constraints

CRITERION	DEFINITION	THRESHOLD
CLIMATE		
Low temperature	Length of growing period (number of days) defined by number of days with daily average temperature > 5°C (LGP ₁₅) OR	≤ 180 days OR
	Thermal-time sum (degree-days) for growing period defined by accumulated daily average temperature > 5°C	≤ 1500 degree-days
Dryness	Ratio of the annual precipitation (P) to the annual potential evapotranspiration (PET)	P/PET ≤ 0.5
SOIL		
Poor drainage	Areas which are water logged for significant duration of the year (lack of gaseous oxygen in soil for root growth or land not accessible for tillage)	Poorly drained soil OR Gleyic colour pattern <40 cm
Texture and stoniness	Relative abundance of clay, silt, sand, organic matter (weight %) and coarse material (volumetric %) fractions	≥ 15% of topsoil volume is coarse material, including rock outcrop with boulder OR
		Topsoil texture class sand, loamy sand defined as (silt% + (2x clay%) ≤ 30%) OR
		Topsoil texture class heavy clay (≥60% clay) OR
		Organic soil (organic matter ≥30%) OR
		Vertisol, or soil with vertic horizon, or soil with <i>vertic</i> properties within 100cm of the soil surface
Shallow rooting depth	Depth (cm) from soil surface to coherent hard rock or hard pan	≤ 30 cm
Poor chemical properties	Presence of salts, exchangeable sodium in the topsoil, soil acidity	Salinity: ≥ 4 deci-Siemens per metre (dS/m) OR

		Sodicity: ≥ 6 Exchangeable sodium percentage (ESP) OR
		pH ≤ 5
SOIL AND CLIMATE		
Excess soil moisture	Number of days at Field capacity	≥ 230 days
TERRAIN		
Steep slope	Change of elevation with respect to planimetric distance (%)	$\geq 15\%$

ANNEX III

Indicative list of measures and operations of particular relevance to thematic sub-programmes referred to in Article 14

Young farmers:

Business start-up aid for young farmers setting up for the first time in an agricultural holding

Investments in physical assets

Knowledge transfer and information actions

Advisory services, farm management and farm relief services

Co-operation

Investments in non-agricultural activities

Small farms:

Business start-up aid for the development of small farms

Investments in physical assets

Quality schemes for agricultural products and foodstuffs

Knowledge transfer and information actions

Advisory services, farm management and farm relief services

Co-operation

Investments in non-agricultural activities

Setting up of producer groups

Leader

Mountain areas:

- Payments to areas facing natural or other specific constraints
- Agri-environment operations
- Co-operation
- Investments in physical assets
- Farm and business development in rural areas
- Quality schemes for agricultural products and foodstuffs
- Establishment of agro-forestry systems

Basic services and village renewal in rural areas

Knowledge transfer and information actions

Advisory services, farm management and farm relief services

Setting up of producer groups

Leader

Short supply chains:

Co-operation

Setting up of producer groups

Leader

Quality schemes for agricultural products and foodstuffs

Basic services and village renewal in rural areas

Investments in physical assets

Knowledge transfer and information actions

Advisory services, farm management and farm relief services

ANNEX IV

Performance framework and allocation of performance reserve

1. Each rural development programme shall establish a performance framework by setting milestones for each Union priority for rural development. Partnership contracts shall contain a summary of the milestones established under the rural development programmes, together with the methodology and how the key principles are applied to ensure consistency of the approach across rural development programmes

2. Milestones are easily verifiable intermediate targets for the achievement of a Union priority for rural development, expressing the intended pace of progress towards the targets set for the end of the period. In particular, milestones can be linked to financial commitments, expenditure and outputs and certain important administrative steps necessary to implement projects or programmes. Outputs or results are required for the 2018 milestones.

3. Milestones shall be at least (key principles):

- relevant: They shall capture essential intermediate targets of a Union priority for rural development .
- transparent: The set targets must be objectively verifiable; the information necessary to do so must be publicly available.
- easy to verify: Milestones should be set in a way which does not impose too large a burden on enterprises, citizens or Member States while meeting the other key principles.
- linked to the rural development monitoring system: milestone indicators in the performance framework of rural development policy will be generally selected from the list of common indicators referred to in Article 105 of the Rural Development Regulation.

4. Milestones shall be set for the end of 2016 and for the end of 2018 for each Union priority for rural development. It may be considered appropriate to set several milestone indicators to assess different aspects of a priority. In such cases, a priority within a rural development programme will be assessed as having attained a satisfactory performance for the purposes of allocating the performance reserve if at least 50% of the milestones to be attained for that priority by the end of 2018 are achieved.

5. Member States shall propose the attribution of the amount of the performance reserve as defined in Article 20.4 not later than 30 June 2019. The proposal will include a summary of the achievement of milestones for the priorities of all rural development programmes in line with the methodology set out in the partnership contract.

6. If a performance bonus is available following the review, the Member State shall submit to the Commission not later than 30 September 2019 a duly justified proposal on its allocation to its best performing rural development programmes or, in cases where a Member State has only one rural development programme, to the best performing Union priorities for rural development. The justification of the proposal shall include a comparison of the performance of all rural development programmes and/or priorities in that Member State.

7. The performance bonus cannot be allocated to a Union priority for rural development that has not achieved a satisfactory level of performance in relation to its milestones (see paragraph 4 above).

8. If progress reports covering the required information on the achievement of milestones are submitted to the Commission with a delay, the decision of the Commission on the allocation of the performance reserve and the performance bonus can be postponed by the length of the delay.