

Measure fiche

Farm and business development

Measure 6

Article 19 of Regulation 1305/2013

This fiche is based on the text of Regulation (EU) No 1305/2013 [EAFRD] and, when relevant, on Regulation (EU) No 1303/2013 [CPR]. Since the Delegated and Implementing Acts supplementing these regulations have not yet been adopted, some modifications to this guidance fiche might be needed after their adoption.

This guidance does not represent a binding legal interpretation of Regulation (EU) No 1305/2013. It is therefore essentially non-binding in nature and complements the related legal acts.

1. RATIONALE OF THE MEASURE

In a situation of an economic slowdown, financially difficult economic circumstances and a rather restricted access to capital for many European rural enterprises, support for the creation and development of new viable economic activities such as new farms run by young people, new businesses and entrants as well as investments in non-agricultural activities is essential for the development and the competitiveness of rural areas. A very important role in this process plays the opportunity for entry of women and young people into the labour market and business management as they are groups at risk of migrating out to urban areas if they do not find appropriate employment in rural areas. At the same time, certain agricultural sectors in the EU continue to face restructuring difficulties and there is a need for consolidating efforts and assets also by transferring holdings and reduction of the number of less or non-efficient agricultural operators. Aging of agricultural farm holders is another issue that needs a policy response ensuring the future of the farmers' profession. Young farmers can bring new skills and energy, new and modern professional management to the farming sector, and can be a smooth provider of innovative management tools and investments in agriculture.

Business integration in rural areas can also be fostered by building-up on local inter-sectorial links, promotion of employment and entrepreneurship, and reduction of seasonality fluctuations in employment. Economic and farm diversification is necessary for growth, employment and sustainable development in rural areas, and thereby contributes to a better territorial balance, both in economic and social terms, increasing directly the farming households' income.

2. WHAT'S NEW IN COMPARISON TO THE PERIOD 2007-2013

The measure "Farm and business development" combines several independently existing measures from the current programming period 2007-2013 supplemented by newly introduced support options. It groups measures 311, 312 and the business part from measure 313 from the current (2007-2013) Axis 3 structure into one single measure. It also covers the whole support provided for the setting up of young farmers under measure 112 and the support to semi-subsistence farming under measure 141 from the current (2007-2013) Axis 1 structure.

The new elements related to measure "Farm and business development" could be summarized as follows:

- Start-up aid (of maximum 70,000 euro) for the development of new non-agricultural activities in rural areas is for the first time introduced in the legal set up, alongside with a requirement for submission of a business plan;
- Implementation of the business plan now has to start within nine months from the date of the decision on granting the aid.
- Thresholds for allowing agricultural holdings to access start up support for young farmers and non-agricultural activities in rural areas are now required to be defined by the Member States.
- Specific conditions could be established and applied for access to support in case a young farmer is not setting up as a sole head of the holding.
- Support for investments in farm diversification activities could now be given to all farmers and their household members, including those located in urban areas;
- Support for investments and development of non-agricultural activities could now be provided also to small-sized rural enterprises (previously this was possible only for rural tourism and service provision; the rest was limited to micro-sized enterprises);
- The business plan shall provide that the young farmer receiving a start-up aid support has to comply with the definition of active farmer under Article 9 of Regulation (EU) No 1307/2013, within 18 months from the date of setting up
- Support for investments in non-agricultural activities could now be provided to natural persons in rural areas (i.e. there is no need for them to set up an enterprise before or at the time of applying for the support);
- Semi-subsistence support is now being replaced by farm development support, and maximum support levels have been doubled up to 15,000 euro;
- New form of support to small farmers eligible for the small farmers' scheme under Pillar I when they transfer completely their holding is introduced;
- Start-up aid is paid at least in two instalments could be degressive over a period of maximum five years, with the final payment for support to young farmers and development of new activities dependent on the correct implementation of the business plan.

3. CONTRIBUTION TO FOCUS AREAS AND CROSS-CUTTING OBJECTIVES

The measure contains three major support options targeting variety of potential beneficiaries: business start-up aid, investments in non-agricultural activities, and annual payments for small farmers. Therefore, the measure serves multiple objectives and can contribute to different rural development priorities and focus areas. The most relevant priorities to which it contributes are as follows:

Priority (2) "Enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and sustainable management of forests", with a focus on:

- (a) improving the economic performance of all farms and facilitating farm restructuring and modernisation, notably with a view to increase market participation and orientation as well as agricultural diversification;
- (b) facilitating entry of adequately skilled farmers into the agricultural sector and in particular generational renewal.

Priority (3) "Promoting food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture", with a focus on:

- (a) improving competitiveness of primary producers by better integrating them into the agri-food chain through quality schemes, adding value to agricultural products, promotion in local markets and short supply circuits, producer groups and organisations, and inter-branch organisations;

Priority (5) "Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors", with a focus on:

- (c) facilitating the supply and use of renewable sources of energy, of by-products, wastes, residues and other non-food raw material for purposes of the bio-economy;

Priority (6) "Promoting social inclusion, poverty reduction and economic development in rural areas", with a focus on:

- (a) facilitating diversification, creation and development of small enterprises and job creation;

4. SCOPE, TYPE AND LEVEL OF SUPPORT

4.1. Relevant definitions

For the purpose of this measure, certain definitions provided under R 1305/2013 or under the general state aid apply:

- "young farmer" means a person who is no more 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 that holding; [Article 2.1(n) of R 1305/2013]. In case, a young farmer does not set up as sole head of the holding MS shall establish and apply specific conditions equivalent to those required for a young farmer to set up as sole head of the holding.[Article 2.1 of R 1305/2013]

- Member of the farm household - 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.[Article 19(2) of R 1305/2013]
- Enterprise - An enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form (Commission Recommendation 2003/361/EC). This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity.
 - Micro enterprise - Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million;
 - Small enterprise - Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.
- Small farms – R 1305/2013 does not define what a "small farm" is. Two specific cases should be taken into account:
 - For support provided under Article 19(1)(a)iii it is the MS that needs to define what a small farm is as postulated by Article 19(2). The definition can be different than the one under Pillar I of the CAP.

When defining small farms Member States may base themselves on the agricultural structures operating in the programme area and relevant physical parameters (such as land size, number of livestock, etc.). It is possible to introduce several definitions (e.g. distinguishing between agricultural sub-sectors such as crops, livestock, etc.). Measurement can also be done based on Standard Output.

- For support provided under Article 19(1)(c) the definition is the one that applies under Pillar I of the CAP (direct payments; R 1307/2013).

4.2. Types of support and supported operations

4.2.1. Types of support

Support under the measure can be provided in three different forms:

- a) Start-up aid (for young farmers, new non-agricultural activities in rural areas and for the development of small farms);
- b) Tangible and intangible investments as defined by Article 45 from R 1305/2013 (for investments in creation and development of non-agricultural activities in rural areas);
- c) Annual or one-off payments (for farmers eligible for the small farmers scheme under R 1307/2013 who permanently transfer their holding to another farm).

The start-up aid is not limited to the provisions of Article 45 of R 1305/2013 and can well cover some running costs experienced by the supported beneficiary in relation to the implementation of the approved business plan. This covers the whole 3 categories eligible for support under it (young farmers, new non-agricultural activities in rural areas and development of small farms). Member States may set limits of the running costs' element within this type of support.

It is possible to combine some of the different support options under Article 19 within one supported project (i.e. integrated approach), for example, in the following cases:

- (i) young farmer setting up who is simultaneously developing non-agricultural business/activities in rural areas;
- (ii) rural micro- or small- enterprise or a farmer and/or his/her household members who are supported for investments in their existing non-agricultural businesses and at the same time are starting a new to that enterprise activity in a rural area;
- (iii) a small farm in a development process, which in the course of the development period starts a new, or invest in an existing, non-agricultural business/activity;

4.2.2. *Types of supported operations*

The measure objectives can be achieved either by supporting value-added projects or by capitalising on the synergies that exist between rural development tools: therefore, the Farm and business development measure could be used in combination with other measures such as knowledge transfer, advisory services, co-operation, investments in physical assets, etc.

Attention should also be paid to creating the right conditions to stimulate investments. This can be achieved by:

- Ensuring that relevant knowledge, skills and innovative practices are transferred to farmers, their household members or to rural micro- and small-businesses and their associations;
- Fostering cooperation between producers to carry out more efficient and profitable collective investments, e.g. in shared facilities, infrastructures, etc.;
- Developing and stimulating networking and clustering between enterprises and outsourcing their R&D investments and activities;
- Delivering sound administrative capacity of the public authorities to assess and select best projects with most value added;

- Providing financial instruments (national/regional under shared management or EU-level), which have the potential to:
 - Improve access to capital (e.g. loan, guarantee or equity funds, etc.);
 - Foster the measure's leverage effect not only in terms of take up, but also of volume and value of investments, as well territorial/sectoral coverage;
 - Foster the measure's contribution to impacts and targets, as well as its leverage effect by utilising support options provided by the EU-level financial instruments;
 - Improve financial discipline of the final beneficiary;
 - Contribute to creating appropriate financial market behaviour of starting businesses or small businesses;
 - Foster innovation in business development.

By way of example, the following types of operation may be supported:

4.2.3. *Business start-up aid for young farmers*

- Support is provided for facilitating the setting up of the young farmer and the start of its agricultural activities. There are no specifications for what the young farmer should use the support, but it should be linked to his/her business plan.

4.2.4. *Business start-up aid for non-agricultural activities in rural areas*

- Support is provided for the start-up of a non-agricultural activity in a rural area (new for the enterprise or natural person receiving the support), among which some examples could be listed:
 - Rural tourism activities or activities linked to territorial economic development, including rural accommodation, tourism service provision, catering, transport, shops (non-Annex I products), restaurants, cafes, etc.
 - Construction, re-construction or establishment of workshops, factories, premises and facilities for various activities such as repair of machinery; production and/or processing of non-agricultural goods and materials, electricity, energy, gas, steam and hot water supply businesses, sewage and refuse disposal, sanitation and similar activities; renewable energy producers and inter-linked activities, etc.;
 - Processing and marketing resulting in non-Annex I products as output (no matter the input);
 - Social service provision including construction, re-construction and/or modernization of premises and area for carrying out the activities (childcare, eldercare, healthcare, care for disabled people, educational farms, etc.);
 - Provision of services to all economic sectors, including agriculture and forestry, or to the rural population;
 - Development of crafts and handicraft activities;

- IT activities, computer-based and electronic activities, e-commerce, etc.;
- Architectural and engineering activities, accounting, book keeping and auditing services, technical services, industrial cleaning, veterinary activities, etc.

4.2.5. *Business start-up aid for the development of small farms*

- Start-up support provided to small farms (as defined by Member States) for ensuring their sustainable development and growth. All relevant activities that may ensure this development foreseen also in the business plan could be supported. This covers also investments on the small farm related to its development (in size), including in physical assets, trees/livestock, potentially agricultural land, machinery, equipment, etc.

4.2.6. *Investments in creation and development of non-agricultural activities*

Support is provided for investments in non-agricultural activities, among which could be listed as examples:

- Rural tourism activities or activities linked to territorial economic development, including rural accommodation, tourism service provision, shops, restaurants, local supply and food, etc.
- Catering, transport, road safety services, services for protected areas, security services, gardens/park management services, etc.
- Construction, re-construction or establishment of workshops, factories, plants, premises and facilities for various purposes such as repair of machinery; production and/or processing of non-agricultural goods and materials, plastics, electricity, energy, gas, steam and hot water supply businesses, sewage and refuse disposal, sanitation and similar activities; renewable energy production and inter-linked activities, etc.;
- Processing and marketing of non-Annex I products (no matter the input);
- Social service provision including construction, re-construction and/or modernization of premises and area for carrying out the activities (childcare, eldercare, healthcare, care for disabled people, educational farms, etc.);
- Provision of services to all economic sectors, including agriculture and forestry, or to the rural population;
- Development of crafts and handicraft activities;
- Investments in leisure, recreational and sport activities developed by private businesses;
- IT activities, computer-based and electronic activities, e-commerce, etc.;
- Architectural and engineering activities, accounting, book keeping and auditing services, technical services, industrial cleaning, veterinary activities, etc;

4.2.7. *Annual payments or one-off payments for farmers eligible for the small farmers scheme under R DP/2013 who permanently transfer their holding to another farm*

Support is provided to farm holders who permanently transfer their holding to another farm and who are eligible under the small farmers' scheme under Pillar I.

4.3. Beneficiaries

4.3.1. *Start-up aid for setting up of young farmers*

Beneficiaries under that this support are persons or groups of persons - whether natural or legal persons - complying with the definition of young farmer set out in Article 2.1(n) of R 1305/2013.

In general, there are two scenarios for a young farmer to set up in an agricultural holding:

- 1) Young farmer could set up alone as sole head of the holding;
- 2) Young farmer does not set up as sole head of the holding.

1) *Young farmer sets up as sole head of the holding*

The beneficiary should comply with the definition of young farmer set out in Art.2.1(n) of R 1305/2013.. In this case, a young farmer shall also respect the thresholds defined by the MS for allowing agricultural holdings to have access to support and shall have control over the holding.

2) *Young farmer is not setting up as sole of the holding*

As the entry of young farmers into the sector results in an increase in the competitiveness and performance of the agricultural sector, the cooperation among young farmers - as one of the tools to increase the competitiveness of the sector - is to be supported.

In this case, when a young farmer is not setting up for the first time as a head of the agricultural holding, two options are possible:

- a) Young farmer is setting up with other young farmer(s) to operate a common holding together;
- b) Young farmer is setting up with non-young farmer(s) to operate an agricultural holding.

In these situations, MS should establish and apply specific conditions for having access to support and these conditions shall be equivalent to those required for a young farmer setting up as sole head of a holding.

The thresholds defined by the MS allowing an agricultural holding to have access to support shall be individually respected by the beneficiaries.

MS should ensure that in all cases the control over the holding shall be held by young farmers, regardless whether the farm is operated only by young farmers or with the participation of non-young farmers.

For the sake of clarity, an explanation has been provided in the above mentioned term "control over the holding" which later on shall be defined by a MS in its Rural development programme. Please see to Art. 2.2 of the Delegated Act of R 1305/2013 (to be completed after the official adaptation of the legal act):^[1]

"For the purpose of this Article, natural person having control over the legal person means a natural person who, independently of any participation in the capital of the legal person, is capable of exercising effective and long-term control over the legal person in terms of decisions related to management, benefits and financial risks. The effective and long-term control may be exercised by

(a) either being the manager or co-manager of the legal person, , provided that his/her decisions cannot be blocked by a person who is not a young farmer;

(b) or otherwise being able to take these decisions either alone or together with other young farmers within the meaning of the first subparagraph of Article 2.1(n) of EARDF Regulation (EU) No1305/2013.

Where a legal person is solely or jointly controlled by another legal person, the requirements laid down in the second sub-paragraph shall apply to any natural person having control over that other legal person.

For the purpose of this measure, MS shall also define the term – "setting up as a head of the holding", taking into the conditions set out in the basic and delegated acts. The period of time to elapse between setting up and granting the aid shall also be described by MS in their RDP.

a) Young farmer sets up with other young farmer(s)

It is possible to support several young persons wishing to set up and operate a common agricultural holding together provided that:

- All beneficiaries individually fulfil the conditions to be recognised as a young farmer;
- All beneficiaries individually respect the thresholds defined by the MS allowing agricultural holding to have access to support and
- Control over the holding is held by young farmers.

All beneficiaries are individually entitled to the amount defined in the respective rural development programme though not exceeding the limits set up in Annex I of R 1305/2013.

b) Young farmer sets up with non-young farmer(s)

In case a young farmer sets up a holding together with non-young farmer(s) and if it is considered so by a MS - taking into the specific conditions and policy preferences of that MS - several rules are to be respected:

- The threshold defined by the MS allowing an agricultural holding to have access to support shall be individually respected by the beneficiary(ies);

^[1] This explanation takes also into account the judgment of the Court of Justice of the European Union in Case C-592/11.

- Control over the holding should be held by young farmer(s).

In this case, only the beneficiary(ies) who comply(s) with the definition of young farmers is/are entitled to receive the business start-up aid;

For reasons of concentration of limited available resources and in order to avoid deadweight, in the case of support provided for the setting up of young farmers and for development of small farm, MS shall define upper and lower thresholds for allowing agricultural holdings an access to support under the two support options. The lower threshold for support to young farmers has to be higher than the upper threshold for access to support under the development of small farms. In other words, the starting entry point for a young farmer is a farm of a size bigger than the size that a small development farm under Article 19(1)(a)iii should have. The thresholds shall be defined in Standard Output or its equivalent.

Although the legislation does not require an achievement of growth by the farms benefiting from support there is no doubt that improvement of the structural situation of these farms should be achieved, which is also in line with the experience from 2007-2013. Therefore, Member States are to define appropriate expected growth results by the beneficiaries. The targets should be clearly set. They should correspond to the support provided and should be achievable within a five-year period.

If a farm has mid- to long- term objectives that go beyond the 5-year durability period, it will be up to the MA to evaluate whether it has to commit itself to approving that objectives taking also into account the controllability and verifiability issue.

Support is limited to farms that fall within the definition of micro- and small- enterprises at the time of applying for support (Commission Recommendation 2003/361/EC; see point 4.1 of this measure fiche).

The business plan shall provide that the young farmer has to comply with the definition of active farmer under Article 9 of Regulation (EU) No 1307/2013, within months from the date of setting up. The implementation of the business plan should start within nine months from the date of the decision to grant the aid. The minimum elements to be described in the business plan are set out in Article 5.1 of the Delegated Act of R 1305/2013. It does not preclude, however a MS to introduce some additional requirements.

4.3.2. Start-up aid for non-agricultural activities in rural areas

Beneficiaries under this support option are:

- farmers or members of the farm household diversifying into non-agricultural activities in rural areas,
- non-agricultural micro-, small enterprises in rural areas; and
- natural persons in rural areas.

It must be noted that support could be provided to existing businesses or to new start-ups. If support is provided to existing businesses it could only be provided for activities that the beneficiary has never carried out by the time of applying for support.

The territorial scope of the new activity, which is the rural area as defined by the MA, remains an eligibility condition which applies to all beneficiaries. The rural area location of the beneficiaries is also an eligibility condition.

Natural persons who are beneficiaries under the measure could commit to set up a new enterprise or continue working, for example, as self-employed (e.g., in the case of crafts). MS should try to establish clear eligibility rules in relation to this.

Farms of all sizes located in rural areas are eligible for support.

4.3.3. Start-up aid for the development of small farms

The start-up aid for the development of small farms should be given only to small farms. MS have to provide in their RDP the definition of a "small farm" that applies to that support option. This could be the same definition as under Pillar I of the CAP (under the "small farmers" scheme of the direct payment regulation) or could well be a different definition which serves the purpose of the RDP, its targets and objectives. In both cases, MS have to base themselves on the existing agricultural economic structures in the programme area and the SWOT analysis (alongside the ex-ante evaluation of the RDP) should have determined whether such support is really needed.

MS may define differently "small farms". Such definition could also be consistent with the existing sub-sectorial agricultural structures in the programme area, if such a differentiation is necessary. For example, in cereal production farm sizes are much higher compared to farms in fruit&veg sector, or in the wine sector, or in certain livestock production. However, when MS define such sub-sectorial definitions of small farms they must keep in mind the implications this will have for the support provided for the setting up of young farmers as the upper threshold under the development scheme should be below the lower threshold of the young farmers scheme. Thus, a sub-sectorial approach here would definitely lead to a sectorial approach in the young farmers scheme, unless upper thresholds for all sub-sectors in the development scheme are (estimated in) the same (way).

Thresholds may be defined by MS for criteria of production potential, measured in Standard Output or its equivalent. The use of Standard Output may facilitate those willing to have a more streamlined and uniform approach in the programme area.

Although the legislation does not require an achievement of growth by the farms benefiting from support there is no doubt that improvement of the structural situation of these farms should be achieved, which is also in line with the experience from 2007-2013. Therefore, Member States are to define appropriate expected growth results by the beneficiaries. The targets should be clearly set. They should correspond to the support provided and should be achievable within a five-year period.

If a farmer is to change his/her product specialization after the grant decision (e.g. from crop production to livestock) then this should form part of the business plan submitted by that farmer.

If a farm has mid- to long- term objectives that go beyond the 5-year durability period, it will be up to the MA to evaluate whether it has to commit itself to approving that objectives taking also into account the controllability and verifiability issue.

4.3.4. *Investments in creation and development of non-agricultural activities*

Beneficiaries under this support option are:

- Non-agricultural micro- and small- enterprises in rural areas;

Non-agricultural micro- and small- enterprises should be operational in rural areas and the benefit of the support should be for rural areas.¹

- Natural persons in rural areas;

Natural persons who are beneficiaries under the measure should be living in a rural area, which could be proven, for example, by their registration. They could commit to set up a new enterprise or continue working, for example, as self-employed (e.g., in the case of crafts). MS should try to establish clear eligibility rules in relation to this.

- Farmers or members of the farm household diversifying into non-agricultural activities

Farms and/or their household members may be eligible beneficiaries no matter whether these are located in urban or in a rural area.

4.3.5. *Annual or one-off payments to farmers eligible for the small farmers scheme under R 1307/2013 who permanently transfer their holding to another farm*

Beneficiaries under that provision are small farmers eligible for the small farmers scheme under Regulation (EU) 1307/2013 at the time of submitting the support for application for at least one year, who permanently transfer their entire holding and the corresponding payment entitlements to another farm. MS should define "small farmers" in accordance with the rules under Regulation (EU) 1307/2013.

The definitions of a "small farm" applied under Article 19(1)(c) and Article 19(1)(a)iii do not need to be the same.

4.4. Eligible expenditure and remarks on administrative/financial management

4.4.1. *Eligible expenditure under start-up aid [Article 19(1)(a)]*

There are no restrictions of the costs that could be covered under Article 19(1)(a) as long as the maximum amounts defined in Annex II of of R 1305/2013 and respectively the relevant ones for the programme area as defined in the RDP are respected for each of the start-up aid category.

The start-up aid should be provided in accordance with the business plan submitted by the beneficiary and the costs that this business plan foresees. MS should be able to check the reasonableness of the cost under each business plan for those applications selected for

¹ It is to be noted that enterprises sometimes can be registered only in the main town of a municipality, which is urban area. Therefore, a distinction should be made between location of an enterprise and place of undertaking economic activities, and place of registration. MS should careful analyse these cases when setting up eligibility conditions.

support. Running costs linked to the supported activity could also be covered. The start-up aid for young farmers and development of small farms could also be used for purchase of land or other assets that facilitate the implementation of the business plan and are linked to the supported activity, without any limitations applying to this. Start-up aid could also cover the purchase of ownership rights, livestock, physical assets, machinery, etc.; purchase of agricultural land or renting of such; improvement of existing farm buildings; seasonal agricultural activities within the period of setting up; general costs linked to any of the investments, etc. MS are free to define further what costs should be eligible or not under the start-up aid categories.

4.4.2. *Eligible expenditure under investments in creation and development of non-agricultural activities [Article 19(1)(b)]*

The eligible expenditure under this support option is defined by Article 45 "Investments" of R 1305/2013. The forms of grants are defined in Article 67 from R 1303/2013, while the specific eligibility rules for grants are defined by Article 69 from R 1303/2013.

Other eligibility issues

- The Commission is empowered to adopt delegated acts concerning the conditions under which other costs connected with leasing contracts, second hand equipment may be considered to be eligible expenditure and specifying the types of renewable energy infrastructure that are to be eligible for support (Article 45(6) of R 1305/2013).

According to Article 13 from the provisional Delegated Act of R 1305/2013 (DA) in the case of leasing, other costs connected with the leasing contract, such as lessor's margin, interest refinancing costs, overheads and insurance charges, shall not be eligible expenditure.

Member States shall set out in their rural development programmes the conditions under which the purchase of second-hand equipment may be regarded as eligible expenditure.

As regards investments in energy infrastructure a number of provisions apply such as compliance with minimum standards for energy efficiency for supported investments that consume or produce energy; requirement for heat production when energy installations are placed, thresholds for the maximum proportions of cereals and other starch rich crops, sugars and oil crops used for bioenergy production, etc. [Article 13 of provisional DA to the EAFRD].

Investments supported under Articles 19(1)(a)ii and 19(1)(b) should not result in the creation of an agricultural activity or in support of an activity, which output is an Annex I product listed in the TFEU. From this perspective the provision of services to agriculture could be considered a non-agricultural activity if the service provider (including a farmer or member of the farmer's household) maintains a proper record keeping of all services carried out to third parties as a proof for the activity. The supported investment should be mainly used for the provision of services to third parties.

4.4.3. *Eligible expenditure under the annual payments to small farmers participating in the small farmers scheme under R DP/2013 who permanently transfer their holding to another farm*

The eligible expenditure under this support option equals to 120% of the annual payment that the beneficiary received under the small farmers scheme under R 1307/2013. The support shall be paid from the date of the transfer until 31 December 2020 or calculated in respect of that period and paid in the form of a one-off payment.

4.4.4. *Alternative to the grant options for implementation of Article 19*

- MS are also encouraged to make use of **financial instruments** (loans, guarantees, equity) to foster the uptake of investment operations and start-up activities. Financial instruments can be used for implementing operations under Article 19(1)(a) and Article 19(1)(b).

The setting up and the implementation of financial instruments is defined by Title IV of R 1303/2013 and its respective secondary legislation (DA/IA). Eligibility conditions and rules defined in R 1305/2013, respectively the RDP, should be respected.

A preliminary guidance on the set up, use and implementation of financial instruments is provided in the *Guidance document on financial instruments for ESIF MA* and it will be further elaborated following the adoption of the legal framework as well as developed under the Technical Assistance Platform.

4.4.5. *Remarks on administrative/financial management*

- Alongside the use of receipts and invoices, Member States are also encouraged to make use of standard costs where appropriate. Experience of MS in previous programming periods has shown that, even though schemes are actually administered on the basis of receipts and invoices, the system can be combined with the use of standard costs where these are used as a check / limit to ensure that expenditure claimed on foot of invoices is in line with what is regarded as reasonable expenditure. If the cost on the invoice exceeds the amount laid down in the standard costs, it is accepted up to the amount of the standard costs only. Receipts/invoices below the standard costs are paid in full assuming everything is in order.
- Start-up aid under Article 19(1)(a) is to be paid in at least two installments over a period of maximum five years. Installments may be degressive. The payment of the last installment under Article 19(1)(a)i and Article 19(1)(a)ii [i.e. start-up aid for young farmers and for non-agricultural activities in rural areas] shall be conditional upon the correct implementation of the business plan.

4.5. Targeting and principles with regard to the setting of selection criteria

Member **States**, when designing measures and targeting support, should take into account the issues of deadweight and displacement. In particular, Member States should design their measures in a way that shows a clear relationship between objectives (potentially quantifiable), specific sectorial or sub-sectorial needs and funding, and in a way that

stimulates the provision of support to innovative investments as well as investments for which it is difficult for the investor to raise capital. Measures' scope and supported interventions should be targeted.

The simple opening of the measure to all potential investments and investors without attention to be paid to the specific needs of the programme area has to be avoided.

In the case of project selection, MS have to take into account the stage in which the project is (at the time of the application) and whether the beneficiary has the potential to develop/finalise the project on its own. **MS should** set up appropriate selection criteria stimulating also the selection of new and innovative projects.

Detailed principles and rules related to eligibility conditions and selection criteria can be found in the "*Guidelines on eligibility conditions and selection criteria*".

4.6. Links with other legislation

MS have to identify the way by which they ensure that no double funding is presented as well as other appropriate arrangements ensuring the most efficient use of the ESI Funds.

4.7. Aid intensity/amount of support

Support under this measure shall be limited to the maximum support rates laid down in Annex II of R 1305/2013 or should be set in accordance to the general State aid rules.

- The support rates for start-up activities under Article 19(1)(a) are the following:

- Maximum 70,000 euro per young farmer under Article 19(1)(a)i
- Maximum 70,000 euro per beneficiary under Article 19(1)(a)ii

MS shall define the amount of support under the above two categories also taking into account the socio-economic situation of the programme area. This means that proportionality between the amount of support and the average income levels in the programme area has to be ensured.

- Maximum 15,000 euro per small farm under Article 19(1)(a)iii
- The aid intensity rates that apply under Article 19(1)(b) are defined by the general State-aid rules. Two specific cases could be envisaged:
 - Support is granted under the "*de minimis*" rule [maximum 200,000 euro per beneficiary for a period of 3 years]²;
 - Support is granted in accordance with an approved State aid scheme, which sets the aid intensity rate for the respective operations.

² To be noted that the general State aid rules are currently in a reform process. The "*de minimis*" level could therefore be subject to changes following the reform.

When support is granted under the "*de minimis*" rule MS can define the aid intensity in accordance with their policy objectives, i.e. it could vary and be up to 100%. According to the Commission's opinion when support is provided to profit-generating operations within the limits of the "*de minimis*" rules, the aid intensity should be set in a way requiring the beneficiary to contribute to the funding of the supported operation. Such contribution should be at least 10 percentage points.

The general State aid rules apply ("*de minimis*", Block-exemption regulation) also to investments in processing, marketing, and/or development of Annex I products into non-Annex I products, i.e. when the output is not listed in Annex I of the TFEU. The same applies for investments in the provision of services to agriculture.

The support under Article 19 related to the provision of services to agriculture should not be used by farm holdings as a way for circumventing the agricultural State-aid rules and the provisions of Article 17 (especially as regards the purchase of agricultural machinery and equipment). Therefore, the same aid rates as in Article 17 should apply for that cases with the caveat that the limits of Annex II for Article 19 apply.

Beneficiaries of investment related support provided, for example, under Article 19(1)(b) of R 1305/2013, may request the payment of an advance of up to 50% of the public aid related to the investment from the competent bodies, if that option is included in the rural development programme. The RDP should define the applicable rate. When paying advances MS should take into account the principles of sound financial management and should avoid situations where the majority of the declared to the Commission expenditure under a measure relates to advances paid out for projects that have not even started. Over-contracting and payment of advances based on it should be avoided.

According to Article 63 of R 1305/2013, the payment of advances is subject to the establishment of a bank guarantee or an equivalent guarantee corresponding to 100% of the amount of the advance. 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.

4.8. Co-financing rate(s)

The EAFRD contribution rate applicable to investment operations is defined in Article 59 of R 1305/2013.

4.9. Focus on specific issues and demarcation lines

4.9.1. Rural area definition

For the purpose of this measure and in accordance with Article 50 of the R 1305/2013, MS shall define "rural area" at programme level. The definition must form part of the approved RDP.

4.9.1. Processing with Annex I and non-Annex I products

Under Article 19 processing of all types of input (Annex I or non-Annex I) is eligible as long as the output from the supported activity is a non-Annex I product.

4.9.2. *Mobile trade shops*

Support to mobile trade shops must be carefully examined by MA if it is to be provided. If the beneficiary is a rural micro- and/or small enterprise [e.g. under Article 19(b)] it can be allowed to visit and trade also in urban places. However, support should not be provided for setting up of permanent trading facilities in urban areas except when the beneficiary is a farmer or a member of the farm household diversifying its agricultural activities (in which case it is legally possible to be funded as long as the predominantly sold products are non-Annex I ones).

Start-up aid for non-agricultural activities under Article 19(1)(a)ii can only be given to mobile trade shops that operate in rural areas only, and to beneficiaries located in rural areas only.

4.9.3. *Re-allocation of economic activities*

It is possible that a single enterprise requests an investment support for re-allocating its activities to a (another part of the) rural area. In such cases, the MS should check the location of the facilities of the applicant and whether it has already received support from other EU funds (e.g. the ERDF) for similar operations (e.g. reallocation of activities to a declining industrial zone). If such support has been previously provided to the applicant, it should be checked whether the rules on durability of investments or other relevant rules under the ERDF have been respected. As a matter of principle, premium hunting attempts by potential beneficiaries should be blocked.

4.9.4. *Demarcation with Article 18*

Renewable energy production

In case of investment support for on-farm renewable energy plants with a **capacity of production exceeding the annual self-consumption** of the beneficiary, general state aid rules (e.g. De minimis, Environmental state aid rules, Block Exemption Regulation) shall apply as this constitutes processing of agricultural products into non-Annex I products. Such production is therefore eligible for support under Article 19 of R 1305/2013.

If the bioenergy produced is for **self-consumption**, the investment in a renewable energy plant on farm should be supported under Article 18 of R 1305/2013.³

Energy efficiency requirements linked to renewable energy:

Member States shall establish minimum criteria for energy efficiency for supported investments.

Investments in installations for the primary purpose of electricity production from biomass are excluded from support if they do not utilize a minimum percentage of heat energy, to be determined by the Member States. This is in line with the objectives of the EU to improve energy efficiency and to promote combined heat and power. In fact, the energy efficiency of combined heat and power plants (co-generation) or of those for heat only is higher than the efficiency of those plants generating power only.

³ See the Measure fiche on Article 18 for further details.

Member States shall establish thresholds for the maximum proportions of food and feed crops (excluding waste, residues and by-products) used for bioenergy production, including biofuels, for different types of installations.⁴ The limitation on the use of food and feed crops for bioenergy production should apply to individual installations. Member States should consider the overall contribution of bioenergy derived from food and feed crops to their national renewable energy targets when setting these limitations. The Commission recently proposed changes to the Renewable Energy Directive (2009/28/EC) and the Fuel Quality Directive (98/70/EC), which limit the contribution of biofuels produced from food and feed crops to the renewable energy targets.⁵

Processing and marketing

The main difference between operations that can be supported under Article 17 and Article 19 is in the fact that under Article 17 the input of the processing/marketing/development shall always be an Annex I product, i.e. agricultural product. Nonetheless, even though the same type of operations may be financed under both instruments, the same support rates under non-agricultural state aid rules apply in case the output is a non-Annex I product. In this context, it is up to the MS to decide which instrument to activate.

It should also be noted that the scope of Article 19 is broader in that it also covers any diversification activity, while, under Article 17, support is limited to processing/marketing/development of agricultural products.

Farm shops

In the specific case of on-farm shops, if sales are totally limited to agricultural produce, support for their setting up shall be provided only under Article 17(1)(b), with support rates subject to the maximum amounts fixed in Annex II of R 1305/2013. This limitation applies also in the cases when the nature of the on-farm shop determines it to be agriculturally oriented.⁶ It must be noted that the support provided under Articles 19(1)(a)i and 19(1)(a)iii (i.e. start-up aid for young farmers or development of small farms) may be used by the beneficiaries to support the setting up or the development of a farm shop, although these are better placed under Article 17.

On the other hand, if the nature of the shop is non-agricultural, support could be provided under Article 19(1)(a)ii or Article 19(1)(b): in both cases, general State aid rules would apply in terms of aid ceilings.

⁴ This requirement is aimed to incentivise the utilisation of non-food and feed crop-based biomass, such as waste and residues, as well as ligno-cellulosic biomass.

⁵ Practical examples concern the utilisation of feed stocks in biogas installations, where a maximum percentage of silage maize or other food and feed crops shall be set. Member States shall also utilise this provision in order to regulate, for instance, the utilisation of edible plant oil for the on-farm production of biodiesel.

⁶ A typical example is when the farm shop sales also coffee/tea for its customers or farm visitors, or very small souvenirs, alongside its agricultural produce. In such cases, the nature of the shop could be considered agriculturally oriented.

4.9.5. Demarcation with Article 36

While under Article 19 product and enterprise development can be supported at the level of the individual holding or enterprise, Article 35 shall only concern co-operation activities between at least two actors.

In this context MS must pay attention to the case of supporting partnerships of (non-agricultural) enterprises with a leading partner. In particular, it should be kept in mind that the function of payments executed by the competent paying agency cannot be delegated (even to a leading partner of such partnership).

5. OUTPUT INDICATORS

See the working paper "Monitor tables".

6. VERIFIABILITY AND CONTROLLABILITY

Reference should be made to the *"Guidelines on verifiability and prevention of errors"*.

7. TRANSITIONAL ARRANGEMENTS

As regards the:

- setting up of young farmers when the premium is paid in several instalments,
- support for semi-subsistence farming

provided in the current programming period, it is possible to make commitments until the exhaustion of the current funds. As regards payments from 1 January 2014 onwards these are possible for the two measures by the end of the commitment period, with no changes in the conditions for the beneficiaries.

In 2014, Member States may continue to undertake grant decisions under the old rules until the adoption of their new programmes by using the funds from the 2014-2020 envelope.

8. BEST PRACTISES

An extensive set of good practices are collected by the SEGIRA study:

http://ec.europa.eu/agriculture/analysis/external/employment/index_en.htm

These are analysed in the Commission Staff Working Document "A view on employment, growth and innovation in rural areas" [SWD(2012) 44 final]:

http://ec.europa.eu/agriculture/publi/reports/ruralemployment/swd-2012-44_en.pdf

Examples of good IT projects were collected in the context of the Study on availability of access to computer networks in rural areas:

http://ec.europa.eu/agriculture/analysis/external/networks/index_en.htm

which are analysed in the Commission SWD accompanying the Communication to the Council and the EP on "Better access for rural areas to modern ICT"[SEC(2009) 254 dated 3.3.2009]:

http://ec.europa.eu/agriculture/rurdev/employment/ict/sec2009_254_en.pdf

More examples can be found in the ENRD website:

http://enrd.ec.europa.eu/policy-in-action/rdp_view/en/view_projects_en.cfm