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WORKING PAPER

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WORKING DOCUMENT

From:	Presidency
To:	Working Party on Horizontal Agricultural Questions (CAP Reform)
N° Cion doc.:	9645/18 + COR 1 + ADD 1 9634/18 + COR 1 + ADD 1
Subject:	Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing rules on support for strategic plans to be drawn up by Member States under the Common agricultural policy (CAP Strategic Plans) and financed by the European Agricultural Guarantee Fund (EAGF) and by the European Agricultural Fund for Rural Development (EAFRD) and repealing Regulation (EU) No 1305/2013 of the European Parliament and of the Council and Regulation (EU) No 1307/2013 of the European Parliament and of the Council (eco-schemes and rural development) - Presidency drafting suggestions

Delegations will find in the Annex the Presidency's drafting suggestions on:

- Eco-schemes (Article 28);
- Rural development types of interventions (Articles 64-66, 68-71, 73, 74).

Compared to the Commission proposal, the added text is marked in **bold and underlined** and ~~strikethrough~~ is used for deleted text. Changes compared to the last drafting suggestions proposed by the Romanian Presidency (doc. 10103/19 REV 1 + ADD1) are highlighted in yellow.

PRESIDENCY DRAFTING SUGGESTIONS FOR THE

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

establishing rules on support for strategic plans to be drawn up by Member States under the Common agricultural policy (CAP Strategic Plans) and financed by the European Agricultural Guarantee Fund (EAGF) and by the European Agricultural Fund for Rural Development (EAFRD) and repealing Regulation (EU) No 1305/2013 of the European Parliament and of the Council and Regulation (EU) No 1307/2013 of the European Parliament and of the Council

SUBSECTION 4

SCHEMES FOR THE CLIMATE AND THE ENVIRONMENT

Article 28

Schemes for the climate and the environment

1. Member States **{**shall**}** provide support for voluntary schemes for the climate and the environment ('eco-schemes') under the conditions set out in this Article and as further specified in their CAP Strategic Plans.

2. Member States **{**shall**}** support under this ~~type of intervention~~**Article**~~ genuine~~ farmers **or groups of farmers** who make commitments to observe, on eligible hectares **~~or livestock units~~**, agricultural practices beneficial for the climate and the environment. **If Member States decide to apply point (b) of paragraph 6 of this Article, commitments can be made either on eligible hectares or livestock units.**

3. Member States shall establish the list of agricultural practices beneficial for the climate and the environment. **Those practices shall be designed to meet one or more of the specific environmental- and climate-related objectives laid down in points (d), (e) and (f) of Article 6, and may also contribute to objectives (h) and (i) of the same Article.**

~~4. Those practices shall be designed to meet one or more of the specific environmental- and climate-related objectives laid down in points (d), (e) and (f) of Article 6(1).~~

5. Under this ~~type of interventions~~ **Article**, Member States shall only provide payments covering commitments which:

   (a) go beyond the relevant statutory management requirements and standards of good agricultural and environmental condition **of land** established under Section 2 of Chapter I of this Title;

   (b) go beyond the **relevant** minimum requirements for the use of fertilisers and plant protection products, animal welfare, as well as other **relevant** mandatory requirements established by national and Union law;

(c) go beyond the conditions established for the maintenance of the agricultural area in accordance with point (a) of Article 4(1);

(d) are different from commitments in respect of which payments are granted under Article 65 .

6. Support for **a particular** eco-scheme shall take the form of an annual payment ~~per~~ **for all** eligible hectare**s or for the eligible hectares covered by the eco-schemes. If Member States decide to apply point (b) of this paragraph, support for a particular eco-scheme may also take the form of an annual payment for the livestock units covered by the eco-schemes.** ~~and it~~ **Payments** shall be granted as either:

(a) payments additional to the basic income support as set out in Subsection 2 of this Section*; or

(b) payments compensating ~~beneficiaries~~ **farmers or groups of farmers** for all or part of the additional costs incurred and income foregone **and transaction costs** as a result of the commitments ~~as set pursuant to~~ **made, which shall be calculated in accordance with** Article ~~65~~**76**.

~~7. Member States shall ensure that interventions under this Article are consistent with those granted under Article 65.~~

~~8. The Commission is empowered to adopt delegated acts in accordance with Article 138 supplementing this Regulation with further rules on the eco-schemes.~~

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* To be considered for a recital: "incentivising and remunerating the provision of ecosystem services through agricultural practices beneficial to the environment and climate".

CHAPTER IV

TYPES OF INTERVENTIONS FOR RURAL DEVELOPMENT

SECTION 1

TYPES OF INTERVENTIONS

Article 64

Types of interventions for rural development

The types of interventions under this Chapter shall ~~be the following~~ **consist in payments or support with regard to**:

(a) environmental, climate and other management commitments;

(b) natural or other area-specific constraints;

(c) ~~A~~**a**rea-specific disadvantages resulting from certain mandatory requirements;

(d) investments;

(e) installation of young farmers**, development of small farms** and rural business start-up;

(f) risk management tools;

(g) cooperation;

(h) knowledge exchange and information.

Article 65

Environmental, climate and other management commitments

1. Member States ~~may grant payments for environmental, climate and other management commitments~~ **shall include agri-environment-climate commitments among the interventions in their CAP Strategic Plans and may include other management commitments therein. The payments for those commitments shall be granted** under the conditions set out in this Article and as further specified in the~~ir~~ CAP Strategic Plans.

~~2. Member States shall include agri-environment-climate commitments in their CAP Strategic Plans.~~

~~3. Member States may make support under this type of interventions available throughout their territories, in accordance with their national, regional or local specific needs.~~

4. Member States shall only grant payments to farmer**s** ~~and~~ **or** other beneficiaries who undertake, on a voluntary basis, management commitments which are considered to be beneficial to achieving **one or more of** the specific objectives set out in Article 6~~(1)~~.

5. Under this ~~type of interventions~~ **Article**, Member States shall only provide payments covering commitments which:

   (a) go beyond the relevant statutory management requirements and standards of good agricultural and environmental condition established under Section 2 of Chapter I of this Title;

   (b) go beyond the **relevant** minimum requirements for the use of fertiliser and plant protection products, ~~animal welfare,~~ as well as other **relevant** mandatory requirements established by national and Union law;

   (ba) go beyond the relevant minimum requirements for animal welfare, as well as other relevant mandatory requirements established by national and Union law;

   (c) go beyond the conditions established for the maintenance of the agricultural area in accordance with point (a) of Article 4(1);

   (d) are different from commitments in respect of which payments are granted under Article 28.

6. Member States shall ~~compensate~~ **determine the payments to be made to farmers and other** beneficiaries ~~for~~ **on the basis of the additional** costs incurred and income foregone resulting from the commitments made**, taking into account the targets set. These payments shall be granted annually and**~~. Where necessary, they~~ may also cover transaction costs. In duly justified cases, Member States may grant support as a flat-rate or as a one- off payment per unit. ~~Payments shall be granted annually.~~

7. Member States may promote and support collective schemes and result-based payments schemes to encourage farmers **or other beneficiaries** to deliver a significant enhancement of the quality of the environment at a larger scale ~~and~~ **or** in a measurable way.

8. Commitments shall be undertaken for a period of five to seven years. However, where necessary in order to achieve or maintain certain environmental benefits sought, Member States may determine a longer period in the CAP Strategic Plan for particular types of commitments, including by means of providing for their annual extension after the termination of the initial period.

~~In exceptional and duly justified cases,~~ **For animal welfare commitments, for commitments for the conservation, sustainable use and development of genetic resources, for conversion to organic farming,** ~~and~~ for new commitments directly following the commitment performed in the initial period~~,~~ **or in other duly justified cases,** Member States may determine a shorter period **of at least one year** in their CAP Strategic Plans.

8a. Member States shall ensure that a revision clause is provided for operations undertaken under the type of intervention referred to in this Article in order to ensure their adjustment in the case of amendments to the relevant mandatory standards, requirements or obligations referred to in paragraph 5 beyond which the commitments have to go or to ensure compliance with point (d) of the same paragraph. If such adjustment is not accepted by the beneficiary, the commitment shall expire and reimbursement shall not be required in respect of the period during which the commitment was effective.

9. Where support under this ~~type of interventions~~ **Article** is granted to agri-environment-climate commitments, commitments to convert to or maintain organic farming practices and methods as defined in Regulation (EC) No 834/2007 and forest environmental and climate services, Member States shall establish a payment per hectare. **In duly justified cases or for other commitments, Member States may apply other units than hectares.**

~~10. Member States shall ensure that persons carrying out operations under this type of interventions have access to the knowledge and information required to implement such operations.~~

~~11. Member States shall ensure that interventions under this Article are consistent with those granted under Article 28.~~

Article 66

Natural or other area-specific constraints

1. Member States may grant payments for natural or other area-specific constraints under the conditions set out in this Article and as further specified in their CAP Strategic Plans with the view of contributing to the achievement of **one or more of** the specific objectives set out in Article 6~~(1)~~.

2. ~~These~~**Any such** payments shall be granted to ~~genuine~~ farmers in respect of areas designated pursuant to Article 32 of Regulation (EU) No 1305/2013.

   By way of derogation from the first subparagraph, in duly justified cases Member States may redesignate the areas subject to natural or other area-specific constraints according to the conditions provided for in Article 32 of Regulation (EU) No 1305/2013.[*]

3. Member States may only grant payments under this ~~type of interventions~~ **Article** in order to compensate beneficiaries for all or part of the additional costs and income foregone related to the natural or other area-specific constraints in the area concerned.

4. Additional costs and income foregone as referred to in paragraph 3 shall be calculated in respect of natural or other area-specific constraints, in comparison to areas which are not affected by natural or other area-specific constraints.

5. Payments shall be granted annually per hectare of **agricultural** area.

[*] Recital (40) should be adapted accordingly.

Article 67

Area-specific disadvantages resulting from certain mandatory requirements

1. Member States may grant payments for area-specific disadvantages imposed by requirements resulting from the implementation of Directives 92/43/EEC and 2009/147/EC or Directive 2000/60/EC under the conditions set out in this Article and as further specified in their CAP Strategic Plans with the view of contributing to the achievement of **one or more of** the specific objectives set out in Article 6~~(1)~~.

2. ~~These~~**Any such** payments ~~may~~**shall** be granted to farmers~~,~~ **or other beneficiaries**~~, forest holders and other land managers~~ in respect of areas with disadvantages referred to in paragraph 1. **In the forestry sector payments shall only be granted to forest holders, forest managers and their associations.**

3. When ~~defining~~**determining** areas with disadvantages Member States may include the following areas:

   (a) Natura 2000 agricultural and forest areas designated pursuant to Directives 92/43/EEC and 2009/147/EC;

   (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, provided that these areas do not exceed 5 % of the designated Natura 2000 areas covered by territorial scope of each CAP Strategic Plan;

   (c) agricultural areas included in river basin management plans pursuant to Directive 2000/60/EC.

4. Member States may only grant payments under this ~~type of interventions~~ **Article** in order to compensate beneficiaries for all or part of the additional costs and income foregone related to the area-specific disadvantages in the area concerned**, including any transaction costs.**

5. Additional costs and income foregone as referred to in paragraph 4 shall be calculated:

   (a) in respect of constraints arising from Directives 92/43/EEC and 2009/147/EC, in relation to disadvantages resulting from requirements that go beyond the relevant standards of good agricultural and environmental condition established under Section 2 of Chapter 1 of this Title of this Regulation as well as the conditions established for the maintenance of the agricultural area in accordance with point (a) of Article 4(1) of this Regulation;

(b) in respect of constraints arising from Directive 2000/60/EC, in relation to disadvantages resulting from requirements that go beyond the relevant statutory management requirements, with the exception of SMR ~~2~~**1** as referred to in Annex III, and standards of good agricultural and environmental condition established under Section 2 of Chapter I of this Title as well as the conditions established for the maintenance of the agricultural area in accordance with point (a) of Article 4(1) of this Regulation.

6. Payments shall be granted annually per hectare of area.

Article 68

Investments

1. Member States may grant support for investments under the conditions set out in this Article and as further specified in their CAP Strategic Plans.

2. Member States may only grant support under this ~~type of interventions~~ **Article** for **those** tangible and/or intangible investments~~, which~~ **that** contribute to achieving **one or more of** the specific objectives set out in Article 6. ~~Support to the forestry sector shall be based on a forest management plan or equivalent instrument.~~

For holdings above a certain size, to be determined by the Member States in their CAP Strategic Plan, support to the forestry sector shall be conditional on the presentation of the relevant information from a forest management plan or equivalent instrument in line with sustainable forest management as understood by the Ministerial Conference on the Protection of Forests in Europe of 1993.

3. Member States shall establish a list of ineligible investments and categories of expenditure, including at least the following:

~~(a) purchase of agricultural production rights;~~

(b) purchase of payment entitlements;

(c) purchase of land **for an amount exceeding 10% of the total eligible expenditure for the operation concerned,** with the exception of land purchase for environmental conservation ~~or~~ **and** land purchase by young farmers through the use of financial instruments;

(d) purchase of ~~animals~~ **livestock**, **with the exception of endangered breeds as defined in Article 2(24) of Regulation (EU) No 2016/1012,** annual plants and their planting other than for the purpose of restoring agricultural or forestry potential following natural disaster and catastrophic events;

(e) interest rate on debt, except in relation to grants given in the form of an interest rate subsidy or guarantee fee subsidy;

(f) investments in irrigation which are not consistent with the achievement **and maintenance** of good status of water bodies, as laid down in Article 4(1) of Directive 2000/60/EC, including expansion of irrigation affecting water bodies whose status has been defined as less than good in the relevant river basin management plan **for reasons related to quantity**;

(g) investments in large**-scale** infrastructure~~s~~**, as determined by the Member States,** not being part of **community-led** local development strategies **set out in Article 26 of Regulation [CPR], except for broadband, renewable energy and flood and coastal protection**;

(h) investments in afforestation which are not consistent with climate and environmental objectives in line with sustainable forest management principles, as developed in the Pan-European Guidelines for Afforestation and Reforestation.

Points (a), (b), (d) and (g) of the first subparagraph shall not apply where support is provided through financial instruments.

{By way of derogation from point (f) investments in irrigation may be made eligible if an ex-ante environmental analysis shows that there will be no significant negative environmental impact from the investment. Such an environmental impact analysis shall be carried out by the competent authority or be approved by it.}

4. Member States shall limit the support to the maximum rate of 75 % of the eligible costs.

The ~~maximum~~ support rate may be increased **to a maximum of 100%** for the following investments:

(a) afforestation and non-productive investments linked to **one or more of** the specific environmental- and climate-related objectives set out in points (d), (e) and (f) of Article 6~~(1)~~**, including investments aimed at protecting livestock against predation**;

(b) investments in basic services in rural areas**, as determined by the Member States**;

(c) investments in the restoration of agricultural or forestry potential following natural disasters or catastrophic events and investments in appropriate preventive actions in forests and in the rural environment;

(d) non-productive investments supported through community-led local development strategies set out in Article 26 [CPR] and Operational Group projects of the European Innovation partnership for agricultural productivity and sustainability as referred to in point (a) of Article 71;

(e) non-productive investments in off farm agricultural and forestry infrastructure, land consolidation and improvement.

5 Where Union law imposes new requirements on farmers, support may be granted for investments to comply with those requirements for a maximum of 24 months from the date on which they become mandatory for the agricultural holding.

Article 69

*Installation of young farmers**, development of small farms** and rural business start-up*

1. Member States may grant support for the installation of young farmers**, development of small farms** and rural business start-up under the conditions set out in this Article and as further specified in their CAP Strategic Plans with the view of contributing to the achievement of **one or more of** the specific objectives set out in Article 6.

2. Member States may only grant support under this ~~type of interventions~~ **Article** to help:

(a) the installation of young farmers who fulfil the conditions **provided for by the Member State in its CAP Strategic Plan in accordance with** ~~included in the definition set out in~~ point (e) of Article 4(1);

aa) the development of small farms, as determined by the Member States;

(b) the start-up of rural business linked to agriculture and forestry or farm household income diversification **in a non-agricultural activity**;

(c) the business start-up of non-agricultural activities in rural areas**, as determined by the Member States** ~~being part of local development strategies~~.

3. Member States shall set conditions for the submission and the content of a business plan~~-~~ **to apply in order for beneficiaries to receive support under this Article**.

4. Member States shall grant support in the form of lump sums **or financial instruments or a combination of both**. Support shall be limited to the maximum amount of **aid of** EUR 100 000 and may be ~~combined with financial instruments~~ **differentiated in accordance with objective criteria**.

Article 70

Risk management tools

1. Member States ~~shall~~ **may** grant support for risk management tools under the conditions set out in this Article and as further specified in their CAP Strategic Plans**, based on their assessment of needs following the SWOT analysis**.

2. ~~Member States shall grant s~~**S**upport **granted** under this ~~type of interventions~~ **Article** ~~in order to~~ **shall** promote risk management tools, which help ~~genuine~~ farmers manage production and income risks related to their agricultural activity which are outside their control**.** ~~and which~~ **It shall** contribute to achieving **one or more of** the specific objectives set out in Article 6.

3. Member States may grant **support for different types of risk management tools in line with their assessment of needs and,** in particular**,** ~~the following support~~ **for**:

(a) financial contributions to premiums for insurance schemes;

(b) financial contributions to mutual funds, including the administrative cost of setting up;

4. **When providing support under paragraph 3,** Member States shall establish the following eligibility conditions:

(a) the types and coverage of eligible ~~insurance schemes and mutual funds~~ **risk management tools**;

(b) the methodology for the calculation of losses and triggering factors for compensation;

(c) the rules for the constitution and management of the mutual funds **and, where relevant, other eligible risk management tools**.

5. Member States shall ensure that support is granted only for covering losses **which exceed a threshold** of at least 20% of the average annual production or income 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.

6. Member Sates shall limit the support to the maximum rate of 70% of the eligible costs.

7. Member States shall ensure that overcompensation as a result of the combination of the interventions under this Article with other public or private risk management schemes is avoided.

Article 71

Cooperation

1. Member States may grant support for cooperation under the conditions set out in this Article and as further specified in their CAP Strategic Plans to**:**

(a) prepare and ~~to~~ implement Operational Group ~~projects~~ **operations** of the European Innovation Partnership for agricultural productivity and sustainability as referred to in Article 114**;** ~~and~~

(b) prepare and implement LEADER, referred to as community-led local development in Article 25 of Regulation (EU) [CPR]* ~~,~~**;**

(c) ~~and to~~ promote **and support** quality schemes **and their use by farmers**~~,~~**;**

* The Presidency also proposes to amend recital (45) as follows: "[…] community supported agriculture; **all** actions within the scope of LEADER; and the setting up of producers groups and producer organisations […]".

(d) **support** producer organisations or producer groups**;**

(e) **support** other forms of cooperation.

2. Member States may only grant support under this ~~type of interventions~~**Article** to promote forms of cooperation which involves at least two ~~entities~~ **actors** and which contributes to achieving **one or more of** the specific objectives set out in Article 6.

By way of derogation of the first subparagraph, support for pilot projects or the development of new products, practices, processes and technologies including those related to the environment in the agricultural, food and forestry sectors may be granted also to individual actors where this possibility is provided for in the CAP Strategic Plan. Member States shall ensure that the results of any projects and activities which are carried out by individual actors are made public.

3. Member States may cover under this ~~type of interventions~~ **Article** the costs related to all aspects of the cooperation.

4. Member States may grant the support as an overall amount covering the cost of cooperation and the cost of the ~~projects and~~ operations implemented**, including investment costs,** or they may cover only the cost**s** of the cooperation and use funds from other types of intervention, national or Union support instruments for project implementation.

Where support is paid as an overall amount, Member States shall ensure that the relevant rules and requirements for similar operations covered under other types of interventions for rural development as set out in Articles 65, 66, 67, 68, 69, 70 and 72 of this Regulation are respected.

In the case of LEADER, referred to as Community-led Local Development in Article 25 of [CPR], by way of derogation from the first subparagraph, support for all costs eligible for preparatory support under Article 28(1)(a) [CPR] and for implementing selected strategies under Article 28(1)(b) and (c) [CPR] shall only be granted as an overall amount under this Article and Member States shall ensure that the relevant Union rules and requirements for similar operations covered under the type of interventions for investments as set out in Article 68 of this Regulation are respected.

5. ~~Where support is paid as an overall amount, Member States shall ensure that Union rules and requirements pertaining to similar actions covered under other types of interventions are respected. This paragraph does not apply to LEADER, referred to as community-led local development in Article 25 of Regulation (EU) [CPR].~~

6. Member States shall not support through this type of interventions cooperation solely involving research bodies.

7. In the case of cooperation in the context of farm succession, Member States may grant support only to farmers having reached the retirement age **or farmers that will reach that age by the end of the operation,** as ~~set under~~**determined by the Member State in accordance with its** national legislation.

8. Member States shall limit support to a maximum of seven years except for **LEADER and** collective environment and climate actions in duly justified cases to achieve the specific environmental- and climate-related objectives set out in points (d), (e) and (f) of Article 6~~(1)~~.

Article 72

Knowledge exchange and information

1. Member States may grant support for ~~agricultural, forestry and rural business~~ knowledge exchange and information **in agricultural, forestry, and rural businesses and communities, as well as for the protection of nature, environment and climate, including environmental education and awareness actions,** under the conditions set out in this Article and as further specified in their CAP Strategic Plans.

2. **Support u**~~U~~nder this ~~type of interventions~~ **Article** ~~Member States~~ may cover costs of any relevant action to promote innovation, ~~access to~~ training and advice**, drawing up and updating of plans, studies, as well as** ~~and~~ exchange and dissemination of knowledge and information which contribute to achieving **one or more of** the specific objectives set out in Article 6.

Support for advisory services shall only be granted for advisory services that comply with the third paragraph of Article 13.

3. ~~Member States shall limit the support to a maximum of 75% of the eligible costs.~~[**]

~~By way of derogation from the first subparagraph, i~~**I**n the case of setting-up of ~~farm~~ advisory services, Member States may grant support in the form of a fixed amount of maximum EUR 200 000. **They shall ensure that support is limited in time.**

~~4. By way of derogation from paragraph 3, in outermost regions and other duly justified cases Member States may apply a higher rate or a higher amount than that set in in that paragraph to achieve the specific objectives set out in Article 6.~~

~~5. In the case of support to the setting-up of farm advisory services, Member States shall ensure that the support is limited in time.~~

~~6. Member States shall ensure that actions supported under this type of interventions be based on and be consistent with the description of the AKIS provided in the CAP Strategic Plan in accordance with point (i) of Article 102(a).~~

SECTION 2

Elements applying to several types of interventions

Article 73

Selection of operations

1. The Managing Authority of the CAP Strategic Plan**, authorities at regional level** or ~~other~~ designated intermediate bodies shall define selection criteria for interventions relating to the following types of interventions: investments, installation of young farmers and rural business start-up, cooperation, knowledge exchange and information, after consultation of the Monitoring Committee referred to in Article 111. Selection criteria shall aim to ensure equal treatment of applicants, better use of financial resources and targeting of the support in accordance with the purpose of the interventions.

Member States may decide to not apply selection criteria for investment interventions clearly targeting environmental purposes or realised in connection with restoration activities.

** No limitation to aid intensity is foreseen anymore.

By way of derogation from the first sub-paragraph, in duly justified cases another selection method may be established after consultation of the Monitoring Committee referred to in Article 111.

2. The responsibility of the Managing Authority**, authorities at regional level or designated intermediate bodies** set out in the paragraph 1 shall be without prejudice to the tasks of the Local Action Groups set out in Article 27 of Regulation (EU) [CPR].

3. Paragraph 1 shall not apply where support is provided in the form of financial instruments.

4. **Member States may decide not to apply s**~~S~~election criteria ~~may not be defined~~ for operations that have received a Seal of Excellence certification under Horizon 2020 or Horizon Europe or have been selected under Life +, provided that such operations are consistent with the CAP Strategic Plan.

5. Operations shall not be selected for support where they have been physically completed or fully implemented before the application for funding under the CAP Strategic Plan is submitted ~~to the Managing Authority~~, irrespective of whether all related payments have been made. **Member States shall set the starting date of eligibility of costs.**

6. All or part of an operation may be implemented outside of the Member State concerned, including outside the Union, provided that the operation contributes to the objectives of the CAP Strategic Plan.

Article 74

General rules for financial instruments

1. Support in the form of financial instruments as laid down in Article 52 of Regulation (EU) [CPR] may be granted under the types of interventions referred to in Articles 68, 69, 70, 71 and 72 of this Regulation.

~~1~~**2**. Where support is granted in the form of financial instruments ~~as laid down in Article 52 of Regulation (EU) [CPR]~~, the definitions of 'financial instrument', 'financial product', 'final recipient', 'holding fund', 'specific fund', 'leverage effect', ~~,~~'multiplier ratio', 'management costs' and 'management fees' as laid down in Article 2 of Regulation (EU) [CPR] and the provisions of Section 2 of Chapter II of Title V of that Regulation shall apply.

In addition, the provisions laid down in paragraphs 2 to 5 shall apply.

~~2. Where support under the types of interventions of this Chapter is granted in the form of financial instruments as laid down in Article 52 of Regulation (EU) [CPR], Member States shall respect the requirements set out in the following paragraphs.~~

3. In accordance with Article 52(2) of Regulation (EU) [CPR] and by way of derogation from Article ~~62~~**<u>68</u>**(2) of this Regulation, working capital, standalone or as part of an operation, may be eligible expenditure.

   For activities falling within the scope of Article 42 TFEU, working capital may be eligible expenditure with a gross grant equivalent of up to EUR 200 000 over any period of three fiscal years, without prejudice to any support rates laid down in this Regulation.

4. Where an operation receives a combination of support in the form of financial instruments and grants, the maximum applicable support rate shall apply to the combined support provided to the operation and the combined eligible expenditure declared by the Member State shall not exceed 100% of the eligible cost of the operation.

5. Eligible expenditure of a financial instrument shall be the total amount of CAP Strategic Plan contributions paid, or, in the case of guarantees, set aside as agreed in guarantee contracts, by the financial instrument within the eligibility period, where that amount corresponds to:

   (a) payments to, or for the benefit of, final recipients, in the case of loans, equity and quasi-equity investments;

   (b) resources set aside as agreed in guarantee contracts, whether outstanding or already come to maturity, in order to honour possible guarantee calls for losses, calculated based on a multiplier ratio covering a multiple amount of underlying disbursed new loans or equity investments in final recipients;

   (c) payments to, or for the benefit of, final recipients where financial instruments are combined with any other Union contribution in a single financial instrument operation in accordance with Article 52(5) of Regulation (EU) [CPR];

   (d) payments of management fees and reimbursements of management costs incurred by the bodies implementing the financial instrument.

   For the purposes of point (b) of this paragraph, the multiplier ratio shall be established in a prudent ex-ante risk assessment and agreed in the relevant funding agreement. The multiplier ratio may be reviewed, if justified by subsequent changes in market conditions. Such a review shall not have retroactive effect.

For the purposes of point (d) of this paragraph, management fees shall be performance based. Where bodies implementing a holding fund and/or specific funds, in accordance with Article 53(3) of Regulation (EU) [CPR], are selected through a direct award of contract, the amount of management cost and fees paid to these bodies that ~~can~~ **may** be declared as eligible expenditure shall be subject to a threshold of [up to 5%] of the total amount of CAP Strategic Plan contributions disbursed to final recipients in loans, equity or quasi-equity investments or set aside as agreed in guarantee contracts.

This threshold shall not apply where the selection of bodies implementing financial instruments is made through a competitive tender in accordance with the applicable law and the competitive tender establishes the need for higher level of management costs and fees.

Where arrangement fees, or any part thereof, are charged to final recipients, they shall not be declared as eligible expenditure.