



Brussels,

**DRAFT GUIDELINES ON PROGRAMMING FOR INNOVATION AND THE IMPLEMENTATION
OF THE EIP FOR AGRICULTURAL PRODUCTIVITY AND SUSTAINABILITY**

**Programming period 2014-2020
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1. INTRODUCTION

The objective of this document is to provide guidance to Member States (regions) at the stage of programming and implementation on issues related to innovation and the European Innovation Partnership for Agricultural Productivity and Sustainability (EIP).

2. LEGAL BASIS AND OBJECTIVE

2.1 Innovation in the new rural development regulation

Rural development policy has a long-standing record of stimulating innovation. Measures regarding knowledge transfer or investments have been programmed by Member States with the aim to foster innovation, and they will remain available for the programming period 2014 - 2020. Other elements, such as the EIP, are new to the rural development policy. Therefore, these guidelines refer mainly to the EIP and the measures of the proposed Rural Development Regulation that make a reference to the EIP, in particular co-operation (Article 36) and support for investments (Article 18).

The *Commission proposal for a Rural Development Regulation 2014 – 2020* refers to innovation in many places. The aims and means (operational groups) of the EIP are described in Title IV. The new architecture stresses the importance of innovation in the context of programming and the programme implementation. Several measures can be used to stimulate innovation and some of them are specifically targeted towards innovation (see for instance Article 16(4)(b) on support for the use of advice on innovation or Article 28 (1)(d). Of particular importance in this respect is the establishment of the European Innovation Partnership (EIP) for Agricultural Productivity and Sustainability in Article 53.

2.2 Link to overall priorities and objectives

Article 5 of the proposed Rural Development Regulation mentions innovation as part of two focus areas of the first priority:

Fostering knowledge transfer and innovation in agriculture, forestry, and rural areas with a focus on the following areas:

- (a) *fostering innovation, cooperation and the development of the knowledge base in rural areas;*
- (b) *strengthening the links between agriculture, food production and forestry and research and innovation including for the purpose of improved environmental management and performance*

Article 5 also establishes innovation as one of the cross-cutting objectives to which all RD priorities must contribute.

Furthermore, Article 9.1 (b) of the rural development regulation states that:

Specific needs concerning ... innovation shall be assessed across Union priorities for rural development, in view of identifying relevant responses ... at the level of each priority.

Article 9.1 (c) of the rural development regulation also stipulates that *the rural development programme shall include a description of the strategy which shall demonstrate that:*

- (iv) *an appropriate approach towards innovation with a view to achieving the Union priorities for rural development, including the EIP for agricultural productivity and sustainability ... is integrated into the programme;*
- (vi) *measures have been taken to ensure the availability of sufficient advisory capacity on ... actions related to innovation;*

Rural development programmes have to address innovation. Managing authorities can use several measures to do so.

2.3 The EIP for Agricultural Productivity and Sustainability

The proposed Rural Development Regulation introduces the aims of the EIP (Article 61). The EIP is promoting a resource efficient and competitive agricultural and forestry sector working in harmony with the essential natural resources on which it depends. The EIP will build bridges between research and farmers, forest managers, rural communities, businesses, NGOs and advisory services. It will help supply of food, feed and biomaterials, the preservation of the environment and adaptation to and mitigation of climate change.

The regulation also clarifies the ways in which this EIP will become operational (via operational groups as specified in Article 62), and lays down the types of actions to be undertaken by operational groups. The background and the objectives of the EIP are

elaborated in the Communication on the European Innovation Partnership 'Agricultural Productivity and Sustainability' (COM(2012)79 final).

Furthermore, an EIP network is established by Article 53. An EIP network facility shall collect and disseminate information, provide a helpdesk function, and animate discussions in view of encouraging the setting up of operational groups.

3. IDENTIFICATION OF THE CONCEPT

3.1 What is innovation?

Innovation is often described as a new idea that proves successful in practice. The new idea can be a new product, practice, service, production process or a new way of organising things, etc. Such a new idea turns into an innovation only if it is widely adopted and proves its usefulness in practice.

Becoming mainstream will not only depend on the solidity of a creative idea, it also depends on the market possibilities, the willingness of the sector to take it up, cost-effectiveness, knowledge and perceptions, accidental external factors etc. It is impossible to predict how these factors work together to turn a new idea into an innovation. Therefore, one can only determine afterwards whether a new idea has led to a real innovation.

Given the impossibility of defining "innovation" ex-ante, managing authorities cannot programme a measure by declaring operations eligible under the condition that they are "innovative". Consequently, the Rural Development Regulation can only offer measures supporting operations which may be innovative, without making the innovative character of an operation an eligibility criterion. For this reason Article 36(5)(d) refers to eligible costs of actions that are targeted towards innovation, not to eligible costs of innovative actions.

3.2 "Linear" and "Interactive" Innovation

Familiar concepts of innovation include one-way ("linear") and interactive ("system") innovation. Linear innovation stands for a science and research driven approach, with new ideas resulting from research brought into practice through one-way (linear) knowledge transfer. Change and innovation are expected to be engineered, predictable and would be planned rationally.

In interactive "system" innovation, building blocks for innovations are expected to come from science, but also from practice and intermediaries, including farmers, advisory services, NGOs, researchers, etc. as actors in a bottom-up process. Interactive innovation includes existing (sometimes tacit) knowledge which is not always purely scientific. The innovations generated with an interactive approach tend to deliver solutions that are well adapted to circumstances and which are easier to implement since the participatory process is favourable to speeding up the introduction, dissemination, and acceptance of the new ideas.

Both innovation approaches are equally valid while having different programming implications. The linear approach is based on information actions, linear advising methods and training. The interactive model relies mainly on co-operation, sharing of knowledge and intermediating advisory methods. This approach fosters the development of first research results into practical applications and the creation of ideas via interaction between actors.

Article 36 provides for stimulating interactive innovation as it supports the setting up and the implementation of the actions of Operational Groups. Support may be used for testing out new ideas through projects which adapt existing techniques/practices to new geographical/environmental contexts. Article 36 also provides support for networks, bringing together a variety of actors who - by sharing needs and knowledge - may support the implementation of the EIP, including initiating and supporting actions of Operational Groups. The EIP, as a bottom up instrument, mainly aims at supporting innovation following the interactive approach.

3.3 EIP operational groups

The EIP aims at a flexible and open system for the creation of a multiplicity of operational groups. As mentioned above, Article 61(3) of the draft Rural Development Regulation states that the EAFRD will contribute to the aims of the EIP by supporting "operational groups". Operational groups are meant to bring together innovation actors such as farmers, researchers, advisors, businesses, environmental groups, consumer interests groups or other NGOs to advance innovation in the agricultural sector (Articles 62 and 63). The forming of operational groups shall take place on initiative of the innovation actors. No specific conditions are laid down as regards the size, the composition and the specific undertakings of a respective operational group.

An operational group is meant to be "operational" and tackle a certain (practical) problem or opportunity that may lead to an innovative solution. Therefore, operational groups have to draw up a plan, describing their specific project and the expected results of the project. Furthermore, the operational groups have to disseminate the results of their project, in particular through the EIP network. The exact format of a project plan depends on the actors involved and the problem or opportunity to be tackled.

Managing authorities will provide for the establishment of operational groups financed under their responsibility with eligibility conditions and selection criteria (Article 49 - see point 5.1 Targeting) allowing to specify the subject, focus, and composition of operational groups. Moreover, managing authorities may specify in the programme how to combine the implementation of Article 36 with Articles 15, 16, 18, 20 and 27 or other measures². It is recommended to keep eligibility conditions simple and controllable.

² See points 4.2 and 5.1

3.3 Operational group as a beneficiary?

The beneficiary of support under Article 36 is the operational group. As a consequence Member States will have to be able to identify operational groups (also in order to be able to recover money if necessary). The draft regulation does not lay down any rule in this respect. However, sound financial management would implicate that operational groups either have a legal identity – the form would be depending on the national legislation concerned – or have a documented rule attributing liability among the members of the operational group. The latter would mean that, for instance, a managing authority could ask for a document in which the members of an operational group spell out who will be responsible for what part of the received funds before any support is paid out.

The above attribution of liability will be relatively straightforward for projects where just the operational costs of co-operation are covered. When the financed project comprises an investment, the document should spell out, in addition, who will be liable, who will provide the private co-financing and who will be the owner of the investment once the project is finalised and the investment still has a value. Such documented rules are needed to avoid disputes in case the money needs to be recovered. Furthermore, finding money among the members of an operational group becomes easier if private co-financing and the allocation of returns is put on clear grounds.

3.4 Operational groups and Leader Local Action Groups (LAGs)

Operational groups and LAGs have in common that they capture ideas from interested actors and foster the setting up of projects. However, LAGs act on the basis of a comprehensive local development strategy. LAGs will approve several projects to implement this strategy. In contrast, an EIP operational group builds itself around a concrete innovation project, targeted towards finding a solution for a specific issue while not necessarily being bound to a specific territory or an upfront fixed strategy. Project implementation may take less than 7 years.

In theory, a LAG could initiate an operational group if the LAG members or a subgroup of the LAG find a joint interest in pursuing a specific issue, and if the project objectives are in line with the aims of the EIP.

3.5 EIP network

Article 53 of the draft Rural Development Regulation introduces the EIP network. The EIP network facility - “Service Point” - will provide a help desk function at EU level; it will gather and disseminate information, animate discussions, screen and report on research results, facilitate the sharing of information on good practices, and bring together innovation actors in focus groups, seminars, and workshops. In order to ensure those functions, a dedicated facility team and service point is established in Brussels. The EIP network will act at EU level.

The EIP "Service Point" will make efforts to connect with networks at national, regional and/or local levels.

Each Member State has to establish a national rural network (Art 55) and these networks have to provide for innovation support services (Art 55 (3) (b) (iv)). Member States are

welcome to set up specialised EIP networks but there is no obligation to do so. Technical assistance under Article 51 of the rural development regulation can be used to co-finance such networking activities.

4. PROGRAMMING

4.1 Analysis of the situation and identification of needs

Innovation in agriculture is a horizontal priority of the rural development policy. Innovation should lead to the achievement of other priorities and focus areas. Innovation could help to achieve, for instance, improvements in soil management, increased resource efficiency, restoring and preserving biodiversity and ecosystems, or a better integration of producers into the food chain.

Creating favourable conditions for innovation would require a coherent approach towards programming in view of encouraging and facilitating the occurrence of innovation and the use of available instruments. Programming authorities would follow standard programming procedures (SWOT analysis, consultation, determination of measures and ex ante assessment) and describe their approach towards innovation.

4.2 Determination of appropriate operations

As stipulated in Articles 61 and 62, the EIP has its focus on agricultural and forestry issues it involves a wide range of actors in pursuit of this focus. Therefore, projects trying to develop new non-agricultural or forestry innovations would not be eligible under the EIP.

As it is the case for other priorities and focus areas, programming authorities are free to select those measures that are most likely to deliver on the priorities. For innovation, the following measures seem particularly suitable:

- Article 36, co-operation measure (see below)
- Article 15, knowledge transfer and information actions
- Article 16, advisory services
- Article 18, investments in physical assets
- Article 20, farm and business development
- Article 27, investments in new forestry technologies and in processing and marketing of forest products
- Article 28, setting up of producer groups

The co-operation measure (Article 36) plays a key role in the implementation of the EIP. Support can be given both for the establishment and operation of operational groups of the EIP (Article 36(1)(c)), and for the implementation of their projects through the actions mentioned under Article 36(2) (a) to (ja), for instance for the development of new products or practices, or for pilot projects, for supply chain cooperation, for joint

environmental project approaches or climate change actions, for cooperation in biomass provision or renewable energy, for forest management and much more.

Article 36(6) stipulates that, where a business plan or a development strategy is implemented, a project of an operational group can be funded in total under Article 36 ("*as a global amount*"). This means that a funding decision under this article could integrate the "running costs of the co-operation" of an operational group as well as direct costs of the project carried out by the operational group, and combine it with support under other measures such as training (Art.15), advice (Art.16) etc. If a managing authority opts for paying combined projects in a global amount under Article 36(6), the maximum amount or rate of support of the measures covered under other Articles as well as the respective EU eligibility criteria should be respected.

Article 18(3) of the draft Rural Development Regulation provides for increased aid intensity for operations supported in the framework of the EIP. This requires the involvement of an operational group (see Article 62 of the draft Regulation). An operation not carried out by an operational group is not considered as being supported "in the framework of the EIP", even if the objectives of the operation are similar to those of the EIP.

4.3 Animating innovative actions and establishing operational groups

Raising awareness and animating the participation in innovative actions are key for the successful implementation of the EIP. Managing authorities should pay particular attention to the difficulties in finding partners and establishing operational groups. Therefore, "**innovation brokers**" could have an important role in discovering innovative ideas, facilitating the start-up of operational groups, notably by acting as a go-between who connects innovation actors (farmers, researchers, NGO's, etc.). An innovation broker animates bottom-up initiatives, helps to refine innovative ideas, and provides support for finding partners and funding. Their main task is to help prepare a solid project proposal on which all actors of the operational group want to engage and agree that it will bring what they expect to be an innovative solution or opportunity. If through the innovation brokering a good project plan is developed, it will have a better chance of passing a selection process for innovation projects with good result, from whatever funding source.

Ideally, innovation brokers should have a good connection to and a thorough understanding of the agricultural world as well as well-developed communication skills for interfacing and animating. The regulation offers the following possibilities for funding actions of innovation brokers:

- (a) Innovation networking under the National Rural Development Network – Art 55(2)

Article 55(2) of the draft Rural Development Regulation mentions the fostering of innovation as one of the aims of networking that may be supported via technical assistance. Accordingly, the National Rural Development Network could install or contract a service that assumes the function of innovation brokerage.

(b) Cooperation - Article 36

The costs of using an innovation broker to set up an operational group and prepare a project proposal (i.e. by finding participants etc.) could be covered under article 36 (5) (b).

(c) Support for setting up of advisory services with a particular focus on innovation - (Art 16(1)(b))

Innovation brokerage could also be offered by (a branch of existing) advisory services which focus in particular on finding innovative ideas, connecting partners, and providing support for the preparation of project proposals. As effective mediation and innovation brokerage in agriculture is often linked to a good knowledge of the sector, a close connection and interaction with other agricultural services is useful.

If the project gets funded under rural development, facilitation of the operational group project once it is running can be provided for under Article 36 (5) (c). The innovation broker could also provide organisational support and become the facilitator of the project, but this would not automatically be the case.

4.4 Monitoring

The draft Regulation requires Member States to monitor the implementation of the rural development policy via a common monitoring and evaluation system. This common system will lay down what information the Member States have to provide and, therefore, it defines a certain framework for the presentation of programmes.

In view of keeping the monitoring obligations light only minimal information needs to be required for EIP related projects funded by Art 36. See for more information the specific monitoring tables.

5. TARGETING AND IMPLEMENTATION

5.1 Targeting

Rural development programmes have to deliver on the priorities and focus areas that are listed in Article 5 of the proposed regulation, through the choice of measures but also through the application of eligibility and selection criteria. Choices will have to be made based on a SWOT analysis.

While the EU-level eligibility conditions are relatively general, fine-tuning may be achieved through defining further eligibility conditions and project selection criteria within a given rural development programme. Selection criteria are established on the basis of Article 49 of the proposed Rural Development Regulation which provides for introducing those criteria for most measures, including investment aid and co-operation. Selection criteria could be used allowing managing authorities to prioritise support to certain types of projects or areas of action, or to certain compositions of operational groups. Selection criteria do not limit eligibility but are used to "rank" project proposals according to their specific quality and/or correspondence to specific objectives.

Where innovation is expected to result from bottom-up initiative, funding of cooperation would be pursued without determining specific project themes in the call for proposals. Of course, the calls must stipulate that projects themes are well described and justified in the applications and that they fall into the scope of the EIP as defined by article 61. Selection criteria could, nevertheless, prioritise certain types of action, for instance interactive innovation projects, or projects that interlink research and practice. In the latter case, the criteria could require operational groups to be pre-dominantly composed of farmers and researchers, possibly with some additional intermediate actors such as advisors that could multiply the use of results.

In view of allowing a sufficiently flexible and open handling of matters, it may be useful to publish calls that define upfront specific themes together with calls that leave the specification of the themes to the applicants.

In general, to encourage co-creation and interactivity during the implementation of innovation projects, selection criteria could put emphasis on the targeted composition of the project partnership in view of getting sufficient involvement of key actors with different types of knowledge to reach the project objective and spread its results. Furthermore, the selection might take into account how the project objectives are targeted to problems and / or opportunities.

Finally, selection criteria may specify certain requirements as to the dissemination of project results via courses, networks, advising or permanent databases.

5.2 Calls for proposals

EIP projects will have to fit into the programming logic which means they will have to address a certain focus area and priority. Member States and regions may opt to launch calls for EIP projects per individual focus area. Alternatively, common calls can be launched in one go for all focus areas for which EIP actions are supported. This would give managing authorities more flexibility in ensuring the commitment of budgets (and later on expenditure) as money foreseen for one focus area could – temporarily – be allocated to another focus area for which there are more applications.

In general it would help the potential operational groups if intended calls for proposals are announced far in advance. This will allow the preparation by the groups and will improve the quality of the proposals. Ideally, innovation brokerage services would be available already during the time leading up to the call for proposals. For instance, a managing authority could announce a call for proposals (with specific eligibility and selection criteria) in a year's time and ask for expression of interest to provide brokerage services for this call immediately.

5.3 Transparency, Simplicity, and Verifiability

Selection criteria chosen according to Article 49 should be well documented and established according to a transparent procedure, ensuring equal treatment of applicants and an adequate use of financial resources.

Eligibility and selection criteria should be verifiable, for instance by referring to easy-to-prove characteristics of beneficiaries or types of actions, to tangible deliverables such as databases or services such as advisory activities or vocational training

Managing authorities would have a strong interest in avoiding excessively complex or too narrowly defined eligibility criteria, not the least in view of avoiding financial errors. Cases of non-compliance with eligibility criteria lead to severe financial consequences (100% correction).

5.4 Termination and adjustment of Projects

The nature of the projects supported under Article 36 is such that it may involve a series of payments over several years. Managing authorities can carry out these (interim) payments on the basis of invoices, equivalent documents or calculations of standard costs (see Article 67 (4) of the rural development regulation).

The operational groups concerned may realise during project implementation that the idea that was to be tested and developed does not deliver on its promise and that it is better to stop or adjust the project. In case interim deliverables show that the initial project plan should be adjusted in line with the project objectives, the adjustment of the project plan and continued funding may be agreed within the limits of the initially agreed budget of the project. In case a project is stopped, managing authorities would reimburse the costs made this far, and, if the operational group followed properly the established project plan, there would be no financial consequences for the beneficiary with one exception as referred to in Article 61 of the Common Provision Regulation (see below). In this respect managing authorities are invited to reflect on the usefulness of setting stages in the project implementing phase when the operational group would be asked to assess interim deliverables in order to check whether the project is developing according to plan or whether it is better to adjust or even stop the project. Such a procedure does justice to the fact that success of innovation projects can never be guaranteed while ensuring that no further funding is granted once the experience gained through the respective project provides evidence that an envisaged approach does not work.

Article 61 (1) of the proposal for a Regulation of the European Parliament and of the Council laying down common provisions XXX/2013 applies if the project comprises an investment in infrastructure or a productive investment: If a project implemented by an operational group comprises an investment in infrastructure or a productive investment, the fund contribution has to be repaid if the investment ceases or is relocated, changes ownership, or has a substantial change affecting its nature within five years after final payment to the beneficiary.

5.5 Non-eligible expenditure

Starting from the idea that innovation is a new idea that would eventually be broadly applied or find a market, and taking into account the impossibility of defining "innovative" upfront, it would nevertheless seem reasonable that Managing Authorities exclude certain types of actions from funding which evidently not lead to innovative outcomes. This concerns, for instance, the intention to form an operational group for the purpose of comparing the performance of machines, such as combine harvesters, which are readily available on the market. Obviously, such exclusion would not apply to

projects that accommodate the introduction of a new technology, even if available on the market, to the specific adjustment requirements of existing production systems (e.g. milking robots are widely available on the market, however, they still require numerous adaptations to established farming system to ensure their usefulness).

5.6 Funding research under Rural Development

The EIP is meant to build bridges between research and practice. Alone-standing research as such cannot be financed. However, researchers can have a role in operational groups. Article 63(1)(a) describes the work of operational groups as “the innovative project to be developed, tested, adapted or implemented”. This means that operational groups may try out ideas that have been developed already – potentially by researchers – and researchers may be involved as one of the actors during the implementation of the group's project. Innovation brokers may collect innovative ideas from farmers and entrepreneurs and get researchers involved in operational groups to test out these ideas.

5.7 Controls

The rural development regulation imposes two types of controls on the operational groups: it should be controlled whether (1) operational groups have a plan describing their project and expected results and (2) the results of the projects are disseminated.

However, the application of other eligibility criteria and selection criteria established by Member States will also be subject to controls.

6. LINKS TO OTHER POLICIES

Horizon 2020

European Research policy will become more practice oriented in the period 2014-2020. It will in particular pay more attention to linking up to practice, for instance via multi-actor projects.

As the work on the implementation of the new research policy is progressing, further thought is being given to how to ensure synergies between the research and rural development policy and on how to ensure complementarity of activities in both policy fields. The EIP network will definitely play an important role in this regard as it can help connecting operational groups under rural development with Horizon 2020 research consortia on specific topics. Also, interactive and practice-oriented formats under Horizon 2020, such as thematic networks and multi-actor projects, may provide innovative ideas to operational groups.

In order to be eligible for support under Research policy, projects have to involve partners from at least 3 Member States. This cross border eligibility condition is likely to prove clear delimitation with regard to projects funded under rural development.

Structural Funds policies

Under the structural funds policy, Member States or regions are asked to draft a Smart Specialisation Strategy. It is very well possible that Member States or regions would

target (parts of) the agriculture sector as a priority. In that case funding possibilities under the regional policy might become available and care should be taken to ensure complementarity of funding and to increase synergies.

Other policies

Within the 1st pillar there may be links in particular with the policies in the fruit and vegetable and wine sector. Furthermore, there are links with national and regional policies on innovation, with the EIP and the knowledge and information centres etc. Care should be taken to ensure complementarity of funding and to increase synergies.