



EUROPEAN COMMISSION

Brussels, 21.10.2011
SEC(2011) 1259 final

COMMISSION STAFF WORKING PAPER

[...]

Accompanying the document

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**4th FINANCIAL REPORT FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL
on the EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT
(EAFRD)
2010 FINANCIAL YEAR**

{COM(2011) 672 final}

TABLE OF CONTENTS

1.	Budget procedure	4
1.1.	Financial framework	4
1.2.	Preliminary Draft Budget (PDB) 2010	5
1.3.	Draft Budget (DB) 2010.....	5
1.4.	Amending Letter (AL) 2010	5
1.5.	The adoption of the 2010 Budget.....	5
2.	Management of appropriations	6
2.1.	Management of Commitment appropriations	6
2.1.1.	EAFRD operational programmes.....	6
2.1.2.	Technical assistance	6
2.2.	Management of payment appropriations.....	6
2.2.1.	EAFRD operational programmes.....	6
2.2.2.	Technical assistance	7
3.	The implementation of the 2010 EAFRD budget	7
3.1.	Introduction	7
3.2.	Implementation of commitment appropriations.....	8
3.2.1.	EAFRD operational programmes.....	8
3.2.2.	Technical assistance	9
3.3.	Implementation of payment appropriations	9
3.3.1.	EAFRD operational programmes.....	9
3.3.2.	Technical assistance	13
3.4.	Analysis of expenditure declared by axis and by measure	13
3.5.	Implementation of EAFRD programmes	15
4.	Control measures.....	18
4.1.	Introduction	18
4.2.	Integrated Administration and Control System (IACS).....	19
5.	Clearance of accounts	20
5.1.	Financial clearance.....	20
5.1.1.	Introduction	20

5.1.2	Financial clearance for financial year 2009	20
5.1.3	Financial clearance for financial year 2008	20
5.2.	Conformity clearance – audits and decisions adopted in 2010	21
5.2.1	Introduction	21
5.2.2	Conformity clearance – audits and decisions adopted in 2010	21
5.3.	Recoveries	22
5.4.	Appeals brought before the Court of Justice against clearance decisions	22
6.	Relations with Parliament and the European Court of Auditors.....	23
7.	Basic rules governing the EAFRD and amendments made in 2010	23
7.1.	General	23
7.2.	Recent modifications.....	23
7.3.	Declarations.....	24
7.4.	Checks	24
7.5.	Clearance of accounts	25

1. BUDGET PROCEDURE

1.1. Financial framework

CAP expenditure is funded within the current financial framework as agreed in the Inter-institutional Agreement between the European Parliament and the Council in May 2006, amended to take into account the Galileo-programme in 2007, the reprogramming of rural development in 2008 and the European Economic Recovery Package (EERP) in 2009. CAP expenditure is part of Heading 2: Preservation and management of natural resources. A specific sub-ceiling has been decided for market related expenditure and direct aids within this heading.

To take account of the transfer of amounts to rural development due to compulsory modulation (including the increase from the CAP Health Check), to the reform of the cotton, tobacco and wine sectors as well as to the voluntary modulation decided for the UK, the expenditure ceiling for market measures and direct aids had to be reduced accordingly.

The CAP amounts included in heading 2 of the financial framework (2007-2013) are:

(In EUR million current prices)

HEADING 2. Preservation and Management of Natural resources	2007	2008	2009	2010	2011	2012	2013
TOTAL ^{a), b)}	55 143	59 193	56 333	59 955	60 338	60 810	61 289
of which :							
- Rural development ^{a), c), d)}	10 902	13 303	14 002	14 364	14 436	14 617	14 817
- Market related expenditure and direct aids, ^{c)}	44 753	44 592	44 887	44 276	44 467	44 710	44 939

a) After reprogramming of rural development (1 469 Mio €).

b) After transfer of EUR 1 600 million to Galileo in 2007 and of EUR 2 000 million to the European Economic Recovery Package in 2009.

c) After transfer into Rural Development of the lower expected expenditure resulting from the reforms of the tobacco, cotton and wine CMOs and from the compulsory and voluntary modulation (UK), art 136 of regulation 73/2009 and reduction due to financing of the EERP (D 237/2010 EU).

d) Including the reinforcement of Rural Development by EUR 1 020 million included in the European Economic Recovery Package, of which EUR 600 million is financed in 2009 within heading 2 while, for 2010, EUR 420 million has been allocated to Rural Development on the basis of Commission Decision 2006/636/EC.

1.2. Preliminary Draft Budget (PDB) 2010

The 2010 Preliminary Draft Budget (PDB) was adopted by the Commission and proposed to the Budgetary Authority on 29 April 2009.

The proposal for the European Agricultural Fund for Rural Development (EAFRD) under heading 2 of the Financial Framework 2007-2013 totalled EUR 13 970 million in commitment appropriations and EUR 12 648 million in payment appropriations (of which EUR 300 million entered in reserve for the European Economic Recovery Package -EERP).

Budget Item	Commitment appropriations (in €)	Payment appropriations (in €)
05.040501 (Rural dev. programmes)	13 947 136 182	* 12 639 000 000
05.040502 (Technical assistance)	22 548 451	9 000 000
*EUR 300 000 000 entered in reserve for the EERP		

1.3. Draft Budget (DB) 2010

The Council adopted the 2010 Draft Budget in July 2009. The payments appropriations for EAFRD programmes were reduced by EUR 98.0 million as compared to the PDB.

1.4. Amending Letter (AL) 2010

In October 2009 the Commission adopted Amending Letter No 2 to the 2010 PDB. Even though the Amending Letter exercise mainly concerns the EAGF, the commitment appropriations for EAFRD programmes were modified to reflect an additional funding for a total net amount of EUR 388.4 million. This net amount relates to the second part of the EERP, the non application of voluntary modulation in Portugal and a minor adjustment of compulsory modulation in Spain. Payment appropriations decreased by EUR 32.8 million to take account of the non application of voluntary modulation in Portugal.

1.5. The adoption of the 2010 Budget

The Council second reading, adopted on 20.11.2009, did not involve any modification of the EAFRD appropriations proposed in the Amending Letter.

The European Parliament adopted the 2010 budget in its plenary session of December 2009.

The voted EAFRD budget amounted to EUR 14 358 million in commitment appropriations and EUR 12 615 million in payment appropriations.

Budget Item	Commitment appropriations (in €)	Payment appropriations (in €)
05.040501 (Rural dev. programmes)	14 335 536 182	12 606 200 000
05.040502 (Technical assistance)	22 548 451	9 000 000

2. MANAGEMENT OF APPROPRIATIONS

2.1. Management of Commitment appropriations

2.1.1. EAFRD operational programmes

In 2010 the available commitment appropriations amounted in total to EUR 14.59 billion. Of this amount, EUR 14.34 billion corresponded to the approved budget and EUR 252 million were appropriations carried over from 2009. The carryover decision, adopted in February 2010, concerned part of the EERP appropriations that could not be committed in 2009 due to the late submission of some revised rural development programmes from the Member States.

The total amount of appropriations available for EAFRD programmes in 2010 was committed (EUR 14.59 billion).

Management of commitment appropriations in 2010 – EAFRD	Budget Item 05.040501 (amounts in €)
Appropriations at the beginning of 2010	14 335 536 182
Carry-over from 2009	252 029 757
Appropriations available in 2010	14 587 656 939
Appropriations used in 2010	14 587 565 939

2.1.2. Technical assistance

Article 69, 2nd paragraph of Council regulation (EC) No 1698/2005 stipulates that 0.25% of the resources for Community support to rural development shall be devoted to technical assistance for the Commission. In the 2010 budget, the amount available for this purpose was EUR 22.5 million. At the end of 2010, the total amount committed was EUR 4.9 million.

2.2. Management of payment appropriations

2.2.1. EAFRD operational programmes

In 2010 the initial payment appropriations amounted to EUR 12.6 billion. In view of the revised payment forecast submitted by the Member States in September 2010, the appropriations were reduced by EUR 1 160 million

through the global transfer procedure. Once the Member States submitted their declarations of expenditure for the third quarter, an additional surplus of EUR 330 million was identified and proposed for reduction in a draft Amending Budget. However, as this Amending Budget was finally not adopted, those payment appropriations remained unused at the end of the year. The unused amount reflects the fact that declarations of expenditure for the third quarter were slightly below the revised forecasts; and the fact that part of the payment requests for the third quarter submitted by several Member States could not be reimbursed because of the exhaustion of the available commitment appropriations. The unused appropriations were carried over to 2011.

The total amount paid to Member States for EAFRD programmes in 2010 reached EUR 11.1 billion.

Management of payment appropriations in 2010 – EAFRD	Budget Item 05.040501 (amounts in €)
Appropriations at the beginning of 2010	12 606 200 000
Global transfer	-1 160 000 000
Appropriations available in 2010	11 446 200 000
Appropriations used in 2010	11 116 180 326
Unused amounts and carry over at the end of 2010	330 019 674

2.2.2. *Technical assistance*

In the 2010 budget, the amount for payment appropriations was EUR 9 million. This amount was reduced by EUR 2.5 million through the global transfer. At the end of the year, the total amount of payments was EUR 4.4 million, leaving EUR 2.1 million unused.

3. **IMPLEMENTATION OF THE 2010 EAFRD BUDGET**

3.1. **Introduction**

Financial year 2010 mostly represented a consolidation period where many rural development programmes attained their cruising speed. However, this was an uneven situation as several programmes showed significant implementation difficulties because of the economic and financial crisis which had an effect on the Member States' ability to provide the national co-financing and might have caused beneficiaries to hesitate to enter into any commitments; the late approval of certain programmes; and the lack of sufficient previous experience of some Member States in the implementation of Rural Development programmes.

3.2. Implementation of commitment appropriations

3.2.1. EAFRD operational programmes

The table below shows the amounts committed per Member State in 2010 and the allocation established by Commission decision 2006/636/EC (modification of April 2010 still in force at the end of the year).

In 2010, the commitment appropriations available for EAFRD programmes amounted to EUR 14.59 billion. This amount included EUR 14.34 billion corresponding to the 2010 allocation as established in Decision 2006/636/EC and EUR 252 million carried over from 2009. All the available appropriations were committed during the year (EUR 14.34 billion).

Commission Decision 2006/636/EC (last version in force end of 2009) vs. the amounts committed end of 2010:			
Budget item: 05.040501 <i>(in €)</i>			
MS	Commission Decision 2006/636/EC – EU funds 2010	Amounts carried over for commitment in 2010	Amounts committed in the budget year 2010
	(a)	(b)	(c=a+b)
AT	586 983 505	0	586 983 505
BE	70 637 509	1 110 000	71 747 509
BG	412 748 664	19 500 000	432 248 664
CY	23 911 507	0	23 911 507
CZ	415 632 774	21 000 000	436 632 774
DE	1 311 256 553	14 229 104	1 325 485 657
DK	85 052 762	0	85 052 762
EE	104 667 353	0	104 667 353
ES	1 400 090 047	49 871 207	1 449 961 254
FI	313 973 134	126 846	314 099 980
FR	1 091 752 155	165 200	1 091 917 355
GR	492 922 509	28 720 000	521 642 509
HU	529 160 494	28 440 000	557 600 494
IE	363 518 252	17 680 000	381 198 252
IT	1 256 577 236	38 596 000	1 295 173 236
LT	253 855 536	0	253 855 536
LU	13 838 190	0	13 838 190
LV	153 226 381	0	153 226 381
MT	10 964 212	0	10 964 212
NL	87 111 293	0	87 111 293
PL	1 935 872 838	0	1 935 872 838
PT	592 619 895	0	592 619 895
RO	1 401 644 651	0	1 401 644 651
SE	280 491 463	13 820 000	294 311 463
SI	134 100 946	0	134 100 946
SK	266 600 239	14 700 000	281 300 239
UK	746 326 084	4 071 400	750 397 484
Total	14 335 536 182	252 029 757	14 587 565 939

3.2.2. *Technical assistance*

The table below shows the commitment appropriations for technical assistance consumed in 2010. The most important part is related to European Network for Rural Development.

<i>Technical assistance – Implementation of commitment appropriations</i>	
Budget Item: 05.040502 <i>(in €)</i>	
Description	Amount committed
Contact point of the European Network for Rural Development (ENRD)	4 061 754
Information technology	219 730
Thematic working groups ENRD	350 754
Experts committee on the evaluation of rural development programmes	200 000
Publications	100 387
Total	4 932 625

3.3. **Implementation of payment appropriations**

3.3.1. *EAFRD operational programmes*

In the 2010 budget the amount for payment appropriations was EUR 12.61 billion. The global transfer reduced this amount by EUR -1.16 billion so that the appropriations of the year finally amounted to EUR 11.45 billion.

At the end of 2010, the total amount paid for EAFRD programmes was EUR 11.12 billion. The difference between the appropriations of the year (EUR 11.45 billion) and the total amount paid is EUR 330 million, which represents an under-execution of 2.88%. It should be noted that the payments made in 2010 increased more than 35% compared to 2009.

The table below shows the breakdown of payments made in 2010 by declaration period :

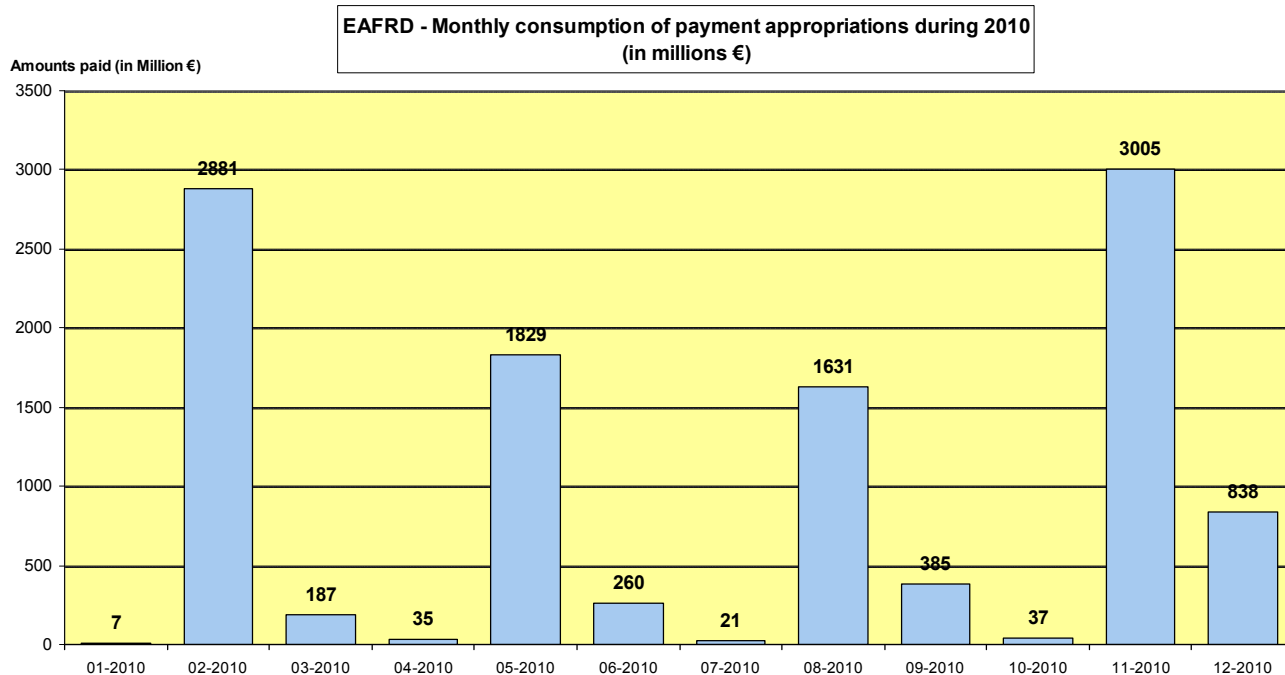
<i>Payments 2010 – EAFRD operational programmes</i>	<i>million €</i>
Reimbursement of payment claims Q3 2009	127.31
Reimbursement of payment claims Q4 2009	2 947.20
Reimbursement of payment claims Q1 2010	2 124.25
Reimbursement of payment claims Q2 2010	2 073.00
Reimbursement of payment claims Q3 2010	3 443.28
Advances	401.15

Total 2010	11 116.18
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The reimbursement of 3rd quarter 2010 for 5 EAFRD programmes was totally or partially on hold at the end of the year because the outstanding commitment appropriations for these programmes were fully exhausted by the payment of previous claims. The table below shows the 5 EAFRD programmes and the corresponding amounts. The payment had to wait until the annual commitments for 2011 were made.

EAFRD Programs– N° CCI	Q3 2010 (in€)
Vlaanderen (2007BE06RPO001)	6 655 665
Bayern (2007DE06RPO004)	29 517 043
Ireland National (2007IE06RPO001)	32 730 873
Bolzano (2007IT06RPO002)	990 232
Luxembourg (2007LU06RPO001)	262 045
Total	70 155 858

The monthly consumption of payment appropriations during the year (January to December 2010) is represented in the graph below. The rhythm of consumption is linked to the calendar for sending the four payment declarations (31 January, 30 April, 31 July and 10 November for the payment claims corresponding respectively to Q4 2009, Q1 2010, Q2 2010 and Q3 2010).



The breakdown per Member State and per declaration period of the amounts paid by the Commission in budget year 2010 is shown in the following table. The amounts from column Q3 2009 relate to the EAFRD programmes that exhausted their commitment appropriations for 2009 and had to wait until 2010 to have their amounts reimbursed with the 2010 commitment appropriations.

Payments effectively made between 01/01/2010 and 31/12/2010							(in €)
MS	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Advances	Grand Total
AT		455 569 614	43 672 108	44 906 450	37 674 070	7 987 420	589 809 662
BE	6 425 513	5 218 982	10 904 604	26 499 701	16 734 243	4 821 180	70 604 223
BG		10 833 902	99 737 836	109 667 733	55 280 536	2 320 500	277 840 508
CY		5 844 859	4 092 969	3 006 340	3 221 705	142 800	16 308 673
CZ		71 116 190	219 606 417	92 176 063	55 446 653	2 940 000	441 285 322
DE	10 634 843	449 653 563	137 650 080	90 433 394	374 027 292	67 702 460	1 130 101 633
DK		22 509 479	11 031 696	8 301 380	9 257 104	9 328 060	60 427 719
EE		11 014 279	52 150 110	12 978 492	16 374 090	635 460	93 152 431
ES	2 506 310	219 017 075	146 477 779	148 788 488	290 719 234	58 741 200	866 250 086
FI	98 743	79 327 737	13 676 425	12 679 542	181 220 600	5 256 020	292 259 068
FR		186 049 035	130 073 442	92 283 874	382 352 635	79 977 240	870 736 226
GR		39 973 082	12 150 331	119 315 280	233 200 744	13 924 680	418 564 116
HU		146 605 566	114 137 436	112 972 138	77 779 633	3 797 360	455 292 132
IE	107 643 643	87 587 253	55 583 262	38 086 416	81 473 859	10 823 820	381 198 252
IT		175 925 287	77 580 985	126 397 795	235 683 411	48 564 040	664 151 518
LT		60 891 489	73 440 397	56 368 010	49 387 045	1 570 380	241 657 321
LU		5 362 753	5 090 031	1 385 947	3 765 284	344 400	15 948 416
LV		33 969 622	45 596 012	25 735 665	51 538 859	928 200	157 768 358
MT		1 937 682	1 439 925	2 877 517	10 853 260	71 400	17 179 784
NL		17 739 157	17 108 137	13 801 790	16 761 310	7 467 320	72 877 714
PL		329 716 307	477 616 176	283 114 658	337 768 509	11 822 300	1 440 037 950
PT		43 519 546	33 409 884	137 575 894	232 644 503	9 078 860	456 228 687
RO		60 250 707	64 728 636	279 349 875	349 034 410	7 118 580	760 482 207
SE		114 003 289	37 089 368	21 201 521	112 977 181	8 918 980	294 190 338
SI		43 330 855	12 979 172	36 286 031	18 819 694	1 100 820	112 516 573
SK		154 336 375	75 990 280	72 653 554	72 766 745	1 924 300	377 671 253
UK		115 891 789	151 235 571	104 153 251	136 518 327	33 841 220	541 640 158
Total	127 309 052	2 947 195 476	2 124 249 066	2 072 996 797	3 443 280 935	401 149 000	11 116 180 326

Of the total amount paid in 2010 EUR 10.72 billion, relates to reimbursements and EUR 401 million to advances.

The table in the next page compares, for each Member State, the EAFRD payments made in 2010 with the payments in 2009. While interim payments in 2010 increased by 30.5% compared to 2009 (EUR 10.72 billion vs. 8.21 billion), total payments increased by 35.4% (EUR 11.12 billion vs. 8.21 billion) due to the impact of the supplementary advances paid during the year.

Payments made to Member States - Comparison 2010 vs 2009							<i>(in €)</i>	
MS	2009			2010			Difference 2010 vs. 2009	
	Interim payments	Prefinancing	Total	Interim payments	Prefinancing	Total	(in €)	(in %)
AT	550 352 330		550 352 330	581 822 242	7 987 420	589 809 662	39 457 332	7.2%
BE	57 909 148		57 909 148	65 783 043	4 821 180	70 604 223	12 695 075	21.9%
BG	127 052 991		127 052 991	275 520 008	2 320 500	277 840 508	150 787 517	118.7%
CY	16 161 768		16 161 768	16 165 873	142 800	16 308 673	146 904	0.9%
CZ	340 175 929		340 175 929	438 345 322	2 940 000	441 285 322	101 109 393	29.7%
DE	930 186 410		930 186 410	1 062 399 173	67 702 460	1 130 101 633	199 915 223	21.5%
DK	53 861 495		53 861 495	51 099 659	9 328 060	60 427 719	6 566 224	12.2%
EE	95 121 150		95 121 150	92 516 971	635 460	93 152 431	-1 968 719	-2.1%
ES	618 592 973		618 592 973	807 508 885	58 741 200	866 250 086	247 657 113	40.0%
FI	191 126 077		191 126 077	287 003 048	5 256 020	292 259 068	101 132 991	52.9%
FR	779 806 772		779 806 772	790 758 986	79 977 240	870 736 226	90 929 454	11.7%
GR	174 132 448		174 132 448	404 639 436	13 924 680	418 564 116	244 431 667	140.4%
HU	497 184 388		497 184 388	451 494 772	3 797 360	455 292 132	-41 892 256	-8.4%
IE	329 171 422		329 171 422	370 374 432	10 823 820	381 198 252	52 026 830	15.8%
IT	356 692 296		356 692 296	615 587 478	48 564 040	664 151 518	307 459 221	86.2%
LT	247 493 642		247 493 642	240 086 941	1 570 380	241 657 321	-5 836 321	-2.4%
LU	12 910 511		12 910 511	15 604 016	344 400	15 948 416	3 037 905	23.5%
LV	104 463 393		104 463 393	156 840 158	928 200	157 768 358	53 304 965	51.0%
MT	3 357 534		3 357 534	17 108 384	71 400	17 179 784	13 822 250	411.7%
NL	36 071 974		36 071 974	65 410 394	7 467 320	72 877 714	36 805 741	102.0%
PL	1 043 825 682		1 043 825 682	1 428 215 650	11 822 300	1 440 037 950	396 212 268	38.0%
PT	235 563 950		235 563 950	447 149 827	9 078 860	456 228 687	220 664 737	93.7%
RO	565 927 879		565 927 879	753 363 627	7 118 580	760 482 207	194 554 328	34.4%
SE	105 868 407		105 868 407	285 271 358	8 918 980	294 190 338	188 321 932	177.9%
SI	100 732 462		100 732 462	111 415 753	1 100 820	112 516 573	11 784 110	11.7%
SK	289 286 329		289 286 329	375 746 953	1 924 300	377 671 253	88 384 924	30.6%
UK	346 343 895		346 343 895	507 798 938	33 841 220	541 640 158	195 296 263	56.4%
Total	8 209 373 256	0.00	8 209 373 256	10 715 031 326	401 149 000	11 116 180 326	2 906 807 070	35.4%

3.3.2. Technical assistance

In the 2010 budget the amount for payment appropriations was € 9 million. The table hereafter presents the payments for technical assistance for a total amount of EUR 4.4 million. The most important part is related to European Network for Rural Development.

Technical assistance – Implementation of payment appropriations	
Budget Item: 05.040502 <i>(in €)</i>	
Description	Amount paid
Seminar on the implementation of rural development programmes	107 687
Contact point of the European Network for Rural Development (ENRD)	3 928 213
Thematic working groups ENRD	205 202
Experts committee on the evaluation of rural development programmes	76 784
Publications	88 516
Total	4 406 402

3.4. Analysis of expenditure declared by axis and by measure

The table below shows the payment claims declared by Member state and by axis/measure for rural development in 2010 (Q4 2009 to Q3 2010), the cumulative declared expenditure from 2007 to 2010 (Q4 2006 to Q3 2010) and also the financial plans of EAFRD programmes (2007-2013; EU27).

In 2010, the expenditure continues to be concentrated in axis 2 (50.9%), followed by axis 1 with 35.4%, axis 3 with 9.10% and axis 4 with 2.5%. This repartition of expenditure still significantly diverges with the repartition in the financial plans for the 2007-2013 programming period (33.6%, 44.4%, 13.3% and 6% for axis 1 to 4 respectively).

Axis 2 measures mainly involve annual payments (e.g. agro-environmental measures) whilst Axis 1, 3 and, to a lesser extent, Axis 4 mainly relate to multi-annual measures that require longer proceedings for their approval and implementation (e.g. investment projects).

Compared with the average for the first 3 years (2007-2009), the expenditure in 2010 is more balanced among axes and the share of each axis tends to get closer to the share in the financial plans. For instance, Axis 2 decreases from 57.8% in 2009 to 50.0% in 2010 while Axis 1 increases from 32.0% in 2009 to 35.4% in 2010.

EAFRD declared expenditure 2010 (Q4 2009-Q3 2010) & Total cumulative expenditure (Q4 2006 to Q3 2010)						
compared with Financial Plans						
EAFRD Axis / Measure	Declared expenditure 2010 (Q4 2009 to Q3 2010)		Cumulative declared expenditure (Q4 2006 to Q3 2010)		Financial Plans 2007-2013	
	(million €)	(%)	(million €)	(%)	(million €)	(%)
111 Vocational training and information actions	78.9	0.7%	156.5	0.6%	1 089.2	1.1%
112 Setting up of young farmers	345.9	3.2%	838.1	3.1%	2 887.5	3.0%
113 Early retirement	351.7	3.3%	1 040.1	3.8%	2 853.0	3.0%
114 Use of advisory services	11.0	0.1%	19.7	0.1%	440.1	0.5%
115 Setting up of management, relief and	2.5	0.0%	4.0	0.0%	93.5	0.1%
121 Modernisation of agricultural holdings	1 728.3	16.2%	3 537.9	12.9%	10 667.0	11.1%
122 Improvement of the economic value of forest	32.5	0.3%	80.1	0.3%	653.7	0.7%
123 Adding value to agricultural and forestry...	585.3	5.5%	1 016.0	3.7%	5 647.3	5.9%
124 Cooperation for development of new products	12.4	0.1%	18.0	0.1%	349.3	0.4%
125 Infrastructure related to the development ...	406.3	3.8%	753.9	2.7%	5 129.4	5.3%
126 Restoring agricultural production potential	49.1	0.5%	104.9	0.4%	477.5	0.5%
131 Meeting standards based on Community...	2.9	0.0%	45.0	0.2%	103.9	0.1%
132 Participation of farmers in food quality...	9.5	0.1%	16.5	0.1%	294.1	0.3%
133 Information and promotion activities	8.0	0.1%	12.9	0.0%	206.4	0.2%
141 Semi-subsistence farming	130.9	1.2%	391.0	1.4%	993.9	1.0%
142 Producer groups	23.2	0.2%	56.2	0.2%	327.9	0.3%
143 Direct Payment (BG + RO)	1.1	0.0%	1.7	0.0%	131.8	0.1%
144 Holdings undergoing restructuring	-	0.0%	-	0.0%	17.0	0.0%
Axis 1	3 779.3	35.4%	8 092.6	29.5%	32 362.5	33.6%
211 Natural handicap payments to farmers in ...	1 003.8	9.4%	3 163.9	11.5%	6 240.9	6.5%
212 Payments to farmers in areas with handicaps...	1 026.7	9.6%	3 269.3	11.9%	7 241.4	7.5%
213 Natura 2000 payments and payments linked ..	23.0	0.2%	55.7	0.2%	476.7	0.5%
214 Agri-environment payments	2 897.4	27.1%	8 960.3	32.6%	22 231.3	23.1%
215 Animal welfare payments	62.4	0.6%	143.1	0.5%	543.0	0.6%
216 Non-productive investments	34.6	0.3%	54.7	0.2%	591.1	0.6%
221 First afforestation of agricultural land	179.9	1.7%	636.6	2.3%	2 295.0	2.4%
222 First establishment of agroforestry systems...	-	0.0%	-	0.0%	16.4	0.0%
223 First afforestation of non-agricultural land	18.9	0.2%	37.2	0.1%	347.8	0.4%
224 Natura 2000 payments	3.7	0.0%	7.0	0.0%	102.0	0.1%
225 Forest-environment payments	4.9	0.0%	13.1	0.0%	271.4	0.3%
226 Restoring forestry potential and ...	132.4	1.2%	323.6	1.2%	1 609.7	1.7%
227 Non-productive investments	49.4	0.5%	113.5	0.4%	808.9	0.8%
Axis 2	5 437.2	50.9%	16 778.0	61.1%	42 775.5	44.4%
311 Diversification into non-agricultural activities	100.1	0.9%	165.2	0.6%	1 488.9	1.5%
312 Business creation and development	107.2	1.0%	149.8	0.5%	2 208.8	2.3%
313 Encouragement of tourism activities	78.6	0.7%	127.5	0.5%	1 291.0	1.3%
321 Basic services for the economy and rural ...	219.9	2.1%	320.4	1.2%	3 120.2	3.2%
322 Village renewal and development	330.0	3.1%	487.3	1.8%	3 107.9	3.2%
323 Conservation and upgrading of the rural....	104.7	1.0%	194.8	0.7%	1 314.6	1.4%
331 Training and information	9.6	0.1%	16.9	0.1%	147.5	0.2%
341 Skills acquisition, animation and implement...	17.4	0.2%	35.2	0.1%	150.0	0.2%
Axis 3	967.4	9.1%	1 497.2	5.5%	12 829.0	13.3%
411 Implementing local development strategies...	16.8	0.2%	26.4	0.1%	471.9	0.5%
412 Implementing local development strategies...	1.5	0.0%	2.3	0.0%	167.0	0.2%
413 Implementing local development strategies...	155.5	1.5%	212.5	0.8%	3 877.5	4.0%
421 Implementing cooperation projects	2.6	0.0%	3.3	0.0%	278.6	0.3%
431 Running the local action group, acquiring ...	93.3	0.9%	121.5	0.4%	959.8	1.0%
Axis 4	269.8	2.5%	366.0	1.3%	5 754.7	6.0%
511 Technical Assistance	124.6	1.2%	288.0	1.0%	1 876.9	2.0%
611 BG RO Direct Payments	98.7	0.9%	438.2	1.6%	645.6	0.7%
Grand total	10 677.0	100.0%	27 460.0	100.0%	96 244.2	100.0%

3.5. Implementation of EAFRD programmes

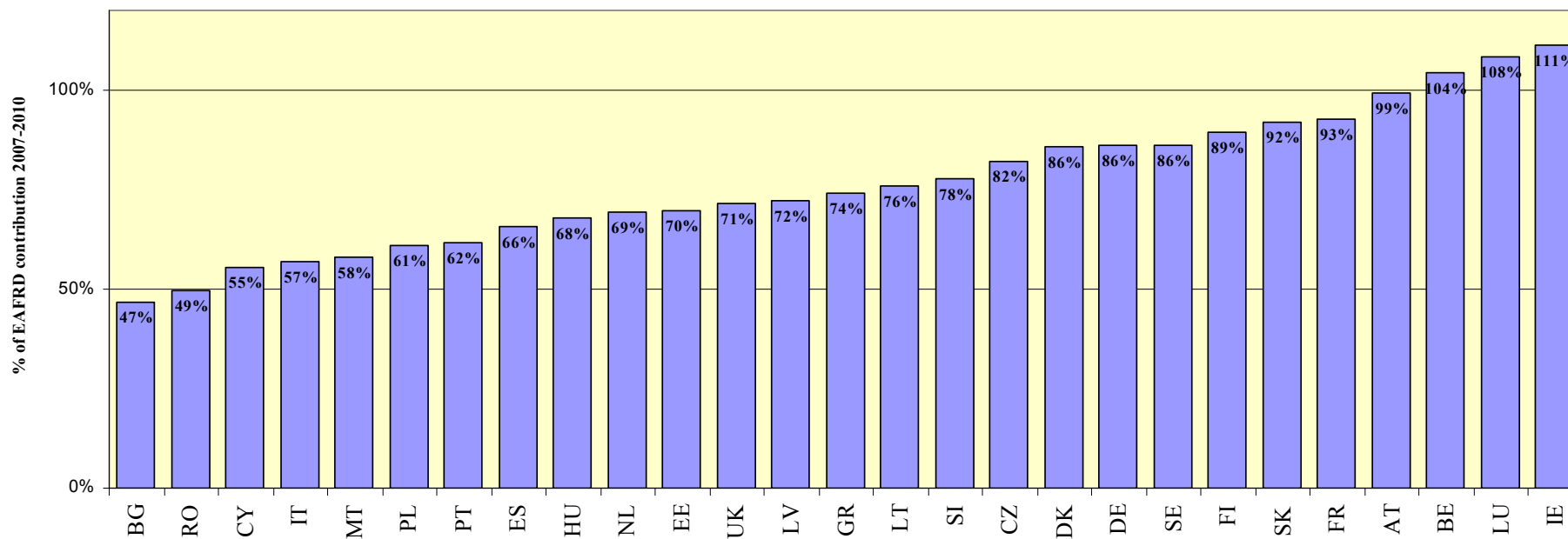
Graph 1 on the next page presents the financial implementation rate of rural development programmes (from the beginning to 2010, including Q4 2010) compared with the 2007-2010 appropriations. The average EAFRD financial implementation rate for all EAFRD programmes is 72.4%.

Graph 1 shows that most Member States have absorbed more than 60% of the 2007-2010 appropriations.

The ranking would be slightly different in terms of absorption rate, i.e. payments made from the beginning to 2010 (including Q4 2010) compared with the 2007-2013 allocation to be paid until end of 2015. The average absorption rate for all EAFRD programmes is 39.5%.

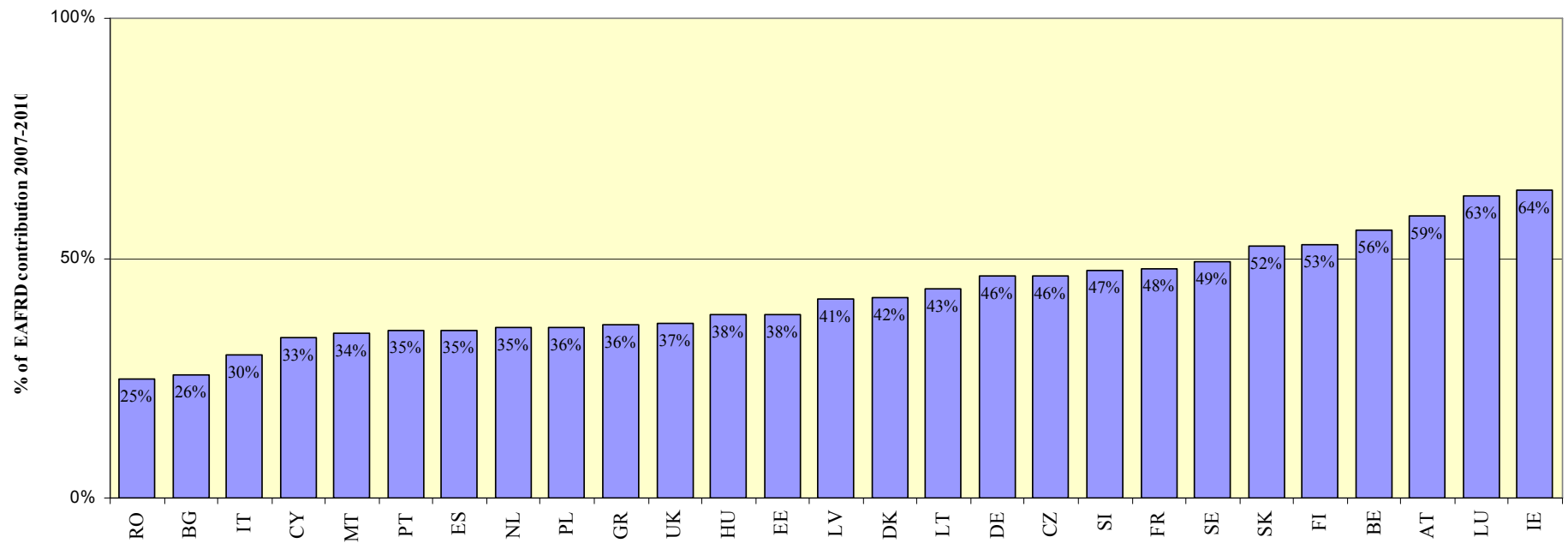
Graph 2 reflects the absorption rate per Member State. Up to 2010, most Member States have absorbed more than 30% of their 2007-2013 allocation.

Graph 1- Financial implementation rate of RD programmes by Member State *
 (% of the EAFRD 2007-2010 payments, including payment claims Q4 2010, compared with 2007-2010 commitments)



* - Payment claims Q4 2010 are included in the graph as they are paid in early 2011.

Graph 2 - Absorption rate of RD programmes by Member State *
 (% of the EAFRD 2007-2010 payments, including payment claims Q4 2010, compared with 2007-2013 allocation)



* - Payment claims Q4 2010 are included in the graph as they are paid in early 2011.

4. CONTROL MEASURES

4.1. Introduction

The EU legislation provides for a comprehensive system of management and controls which relies on four levels:

- (a) compulsory administrative structure at the level of Member States, centred around the establishment of paying agencies and an accreditation authority at high level which is competent for issuing and withdrawing the agency's accreditation. The decision for issuing the accreditation is based on a detailed review by an external audit body;
- (b) detailed systems for controls and dissuasive sanctions to be applied by those paying agencies. Article 9(1) of Regulation (EC) No 1290/2005¹ provides for the general obligation of Member States to ensure that transactions financed by the EAGF and the EAFRD are carried out and executed correctly, to prevent and deal with irregularities and to recover amounts unduly paid. In complement to this general obligation, for each aid scheme there is a system of controls and dissuasive sanctions of final beneficiaries which reflects the specific features of the scheme and the risk involved in its administration.
- (c) ex-post controls by independent audit bodies on the paying agencies' annual accounts and the functioning of their internal control procedures (under Regulation (EC) No 885/2006²) and by special departments on aid measures other than direct payments covered by the IACS (checks based on Regulation (EC) No 485/2008³);
- (d) clearance of accounts through the Commission (both annual financial clearance and multi-annual conformity clearance).

These four levels establish a comprehensive system for the management and control of agricultural expenditure. It includes, on the one hand, all the necessary building blocks to guarantee a sound administration of the expenditure at Member States' level and, on the other hand, allows the Commission to counter the risk of financial losses as a result of any deficiencies in the set-up and operation of those building blocks through the clearance of accounts procedure.

Council Regulation (EC) No 1698/2005⁴, as amended, contains the rules on support for rural development by EAFRD; Commission Regulations (EC) No 1974/2006⁵ and (EC) No 1975/2006⁶, as amended, lay down the rules for the application and control of rural development support measures.

¹ OJ L 209, 11.08.2005, p. 1.

² OJ L 171, 23.6.2006, p. 90–110.

³ OJ L 143, 3.6.2008, p. 1–9.

⁴ OJ L277, 21.10.2005, p 1

⁵ OJ L368, 23.12.2006, p.15

⁶ OJ L 368, 23.12.2006 p.74

The control rules provided by Regulation (EC) No 1975/2006 take into account the characteristics of the measures under Axis 2 i.e. timing for the submission of the payment claims aligned with the deadline set for the first pillar, payments made after the finalization of the controls, cross-compliance respect, and a detailed sanction system. As of 1/01/2011, the rules are laid down in Regulation (EC) No 65/2011.

4.2. Integrated Administration and Control System (IACS)

EAFRD : Axis II - Council Regulations and (EC) No. 1122/2009⁷ which contain the rules on the IACS are also applicable to rural development support under Axis 2 as far as area - and animal - related measures are concerned.

A fully operational IACS consists of: a computerised database, an identification system for agricultural parcels and farmers claiming aid, a system for identification and registration payment entitlements, aid applications and integrated controls system (claim processing, on-the-spot checks and sanctioning mechanisms) and a system for identifying and registering animals where applicable. The IACS is fully automated and provides highly efficient controls by maximising the use of computerised and remote controls.

This system foresees a 100% administrative control covering the eligibility of the claim, complemented by administrative cross-controls with standing databases ensuring that only areas or animals that fulfil all eligible requirements are paid premium and by a minimum 5% of on-the-spot checks to check the existence and eligibility of the area or the animals claimed. If the on-the-spot controls reveal a high number of irregularities, additional controls must be carried out. The sample of transactions is determined on a risk and/or random basis.

The use of standing databases, which are appropriately updated, is well adapted to the schemes whereby aids are directly paid to the farmers and based on the surfaces or on the number of animals, in that the risk can be reduced to the lowest levels.

For the financial year 2010, the IACS covers around 49.8% of payments made under the EAFRD for measures including inter alia, agri-environment and animal welfare measures, less-favoured areas and areas with environmental restrictions and afforestation of agricultural land. The Commission services verify the effectiveness of Member States' IACS and homogenous implementation by means of both on-the-spot auditing and general supervision based on annually supplied financial and statistical data. The Commission continues to consider that the IACS is generally an effective control system for limiting the risk of error or irregular expenditure, provided that it is properly applied.

⁷ OJ L 316, 2.12.2009, p.65

5. CLEARANCE OF ACCOUNTS

5.1. Financial clearance

5.1.1. Introduction

The financial clearance covers the accounts and control systems set up by the paying agencies. Within this framework, DG AGRI pays particular attention to the certification bodies' conclusions and recommendations (where weaknesses are found), following their reviews of the paying agencies' management and control systems. As part of this review, the DG AGRI departments also cover aspects relating to the accreditation criteria for the paying agencies and protecting the financial interests of the EU as regards the advances paid, securities obtained and intervention stocks.

The Commission adopts an annual clearance of accounts decision clearing the paying agencies' annual accounts on the basis of the certificates and reports from the certification bodies, but without prejudice to any subsequent decisions to recover expenditure which proves not to have been in accordance with the EU rules. The Commission must clear the accounts and adopt its clearance decision by 30 April of the year following the financial year in question.

5.1.2. Financial clearance for financial year 2009

At the end of November 2010, the Commission adopted three further decisions clearing the 2009 annual accounts of 8 Paying Agencies, which had been initially disjoined, in respect of their expenditure funded by the European Agricultural Guarantee Fund (EAGF), the European Agricultural Fund for Rural Development (EAFRD) and the Temporary Rural Development Instrument (TRDI).

The outstanding accounts of 4 paying agencies (EAFRD) were cleared by a Commission Decision adopted in April 2011.

By means of these decisions, it cleared amounts of EUR 1 121 million for the EAFRD (around 14% of total annual expenditure) and EUR 3 million for the TRDI (around 7%). Consequently, all the accounts have now been cleared for financial year 2009.

5.1.3. Financial clearance for financial year 2008

The two remaining paying agencies for which the 2008 accounts are still outstanding are Bayern (Germany) for EAFRD and OPEKEPE (Greece) for both EAGF and EAFRD. The total amount concerned is 351 EUR million for EAFRD (5.8% of total expenditure for the financial year in question).

These accounts will be cleared in the course of 2011.

5.2. Conformity clearance – audits and decisions adopted in 2010

5.2.1. Introduction

It is primarily the Member States' responsibility to satisfy themselves that transactions are carried out and executed correctly. Where Member States fail to meet this requirement, the Commission applies financial corrections to protect the financial interests of the EU.

The conformity clearance relates to the legality and regularity of transactions. It is designed to exclude expenditure from EU financing which has not been effected in compliance with EU rules, thus shielding the EU budget from expenditure that should not be charged to it (financial corrections). In contrast, it is not a mechanism by which irregular payments to beneficiaries are recovered, which according to the principle of shared management is the sole responsibility of Member States.

Financial corrections are determined on the basis of the nature and gravity of the infringement and the financial damage caused to the EU. Where possible, the amount is calculated on the basis of the loss actually caused or on the basis of an extrapolation. Where this is not possible, flat-rates are used which take account of the severity of the deficiencies in the national control systems in order to reflect the financial risk for the EU.

Where undue payments are or can be identified as a result of the conformity clearance procedures, Member States are required to follow them up by recovery actions against the final beneficiaries. However, even where this is not possible because the financial corrections only relate to deficiencies in the Member States' management and control systems, financial corrections are an important means to improve these systems and thus to prevent or detect and recover irregular payments to final beneficiaries. The conformity clearance thereby contributes to the legality and regularity of the transactions at the level of the final beneficiaries.

5.2.2. Conformity clearance – audits and decisions adopted in 2010

Audits

In 2010, 37 conformity missions were carried out in respect of the EAFRD of which all enquiries for Axis 2 in EU 27 included the agri-environment measures.

Conformity decisions

During the financial year 2010, three conformity decisions were adopted which had a financial impact in the year. These decisions resulted in the exclusion from EU financing of EAFRD expenditure:

- Decision 2009/721/EC of 24 September 2009 – 31st Decision excluding EUR 350 800.
- Decision 2010/152/EC of 11 March 2010 – 32nd Decision excluding EUR 39 244.

- Decision 2010/399/EC of 15 July 2010 – 33rd Decision excluding EUR 69 466.32.

5.3. Recoveries

Regarding financial year 2010, Member States reported the information about irregularity cases by 1 February 2011. The Member States recovered EUR 21.7 million during financial year 2010, and the outstanding amount still to be recovered from beneficiaries at the end of that financial year was EUR 31.6 million. The amounts recovered can be reused by the Member States under the same rural development programme. Regulation (EC) No 1290/2005 introduced an automatic clearing mechanism for non recovered irregular payments after 4 years or, in case the recovery is challenged in national courts, 8 years after the establishment of the irregularity. The financial consequences of non recovery are shared by the Member State concerned and the EU on a 50 %-50 % basis. Since under EAFRD, these provisions are applicable only after the closure of the rural development programme, this automatic clearance mechanism did not apply on the cases reported by the Member States for financial year 2010.

5.4. Appeals brought before the Court of Justice against clearance decisions

Judgments handed down

In the financial year 2010 no judgements have been handed down by the Court in appeals brought by the Member States against clearance decisions with regard to EAFRD.

New appeals

In the financial year 2010 3 new appeals were brought by the Member States against clearance decisions:

- T-486/09 brought by Republic of Poland on 4 December 2009.
- T-215/10 brought by Hellenic Republic on 11 May 2010.
- T-453/10 brought by Northern Ireland Department of Agriculture and Rural Development on 24 September 2010.

Appeals pending

The situation as at 31 December 2010 with regard to appeals pending is shown, together with the amounts concerned, in the table below:

Appeals against clearance of accounts decisions pending on 31 December 2010 (for EAFRD)		
Case number	Member State	Challenged amount (EUR)
T-214/07	GR	-67 732.00
T-86/08	GR	-1 331 047.00
T-232/08	LU	-964 488.00
T-486/09	PL	-11 077 828.30
T-215/10	GR	-18 523 716.00
T-453/10	GB	-1 230 832.24
TOTAL		-33 195 643.54

6. RELATIONS WITH PARLIAMENT AND THE EUROPEAN COURT OF AUDITORS

The relevant information about the relations with the Parliament and the European Court of Auditors is available in "section 11" of the Commission staff working document accompanying the 2010 financial report on the EAGF.

7. BASIC RULES GOVERNING THE EAFRD AND AMENDMENTS MADE IN 2010

7.1. General

Basic legislation

- Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 277, 21.10.2005, p.1.); *as last amended by Regulation (EC) No 473/2009 of 25 May 2009 (OJ L 144, 9.6.2009, p.3.).*
- Commission Regulation (EC) No 1974/2006 of 15 December 2006 laying down detailed rules for the application of Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 368, 23.12.2009, p.15); *as last amended by Regulation 482/2009 of 8 June 2009 (OJ L 145, 10.6.2009, p.17.).*
- Commission Regulation (EC) No 1975/2006 of 7 December 2006 laying down detailed rules for the implementation of Council Regulation (EC) No 1698/2005, as regards the implementation of control procedures as well as cross-compliance in respect of rural development support measures (OJ L 368, 23.12.2006, p.74); *recasted by Regulation (EC) No 65/2009 of 27 January 2011 (OJ L 25, 28.1.2011, p.8).*

7.2. Recent modifications

The Treaty on the Functioning of the European Union (TFEU) makes a clear distinction between the powers delegated to the Commission to adopt non-legislative acts (delegated acts) of general application to supplement or amend certain non-

essential elements of the legislative act as laid down in Article 290 on one hand, and the powers conferred on the Commission to adopt implementing acts under Article 291, on the other.

The alignment exercise of Regulation (EC) No 1698/2005 on new rules of the Treaty was based on a classification on the basis of the new philosophy- a sorting between measures of implementing nature and measures of delegated nature- of the current Commission implementing powers which were adopted on the basis of Regulations (EC) No 1974/2006 and No 1975/2006.

Following this exercise, a proposal for amendment of Regulation (EC) No 1698/2005 has been presented to the European Parliament and to the Council. In the same context some simplification proposals like the reduction of the strategic reporting requirements, facilitating more tailor-made use of advisory services and the lighter follow-up of non-compliances of cross-compliance were introduced, as well as other elements like the extension of the coverage of producer groups, enlarging the eligibility of Natura 2000 to the stepping stones areas and the introduction of the incentive element for agricultural aid schemes.

Commission Regulation (EC) No 1975/2006 laying down detailed rules for the implementation of Council Regulation (EC) No 1698/2005, as regards the implementation of control procedures as well as cross-compliance in respect of rural development support measures, lays down the detailed control rules for rural development.

Regulation (EC) No 1975/2006 had many cross-references to Regulation (EC) No 796/2004 laying down the control rules for direct payment schemes. As this regulation had been recast and replaced by Regulation (EC) No 1122/2009, there was a need to update these cross-references. Furthermore, as part of the Commission Staff Working Paper on Simplification it was indicated that the rural development control regulation would be recast and the rules laid down would be clarified and simplified. Therefore a total recast of this regulation was carried out resulting to Commission Regulation (EC) No 65/2011.

7.3. Declarations

- Commission Regulation (EC) No 883/2006 of 21 June 2006 laying down detailed rules for the application of Council Regulation (EC) No 1290/2005 as regards the keeping of accounts by the paying agencies, declarations of expenditure and revenue and the conditions for reimbursing expenditure under EAGF and EAFRD (OJ L 171, 23.6.2006, p. 1); *as last amended by Commission Regulation (EC) No 482/2009 of 8 June (OJ L145, 10.6.2009, p. 17).*

7.4. Checks

- Council Regulation (EC) No 73/2009 of 19 January 2009 (OJ L30, 31.1.2009, p. 16) establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for farmers, amending Regulations (EC) No 1290/2005, (EC) No 247/2006, (EC) No 378/2007

and repealing Regulation (EC) No 1782/2003 *as last amended by Regulation (EU) No 360/2010 of 27 April 2010 (OJ L 106, 28.4.2010, p. 1).*

- Commission Regulation (EC) No 1122/2009 of 30 November 2009 (OJ L 316, 2.12.2009, p. 65) laying down detailed rules for the implementation of Council Regulation (EC) No 73/2009 as regards cross-compliance, modulation and the integrated administration and control system, under the direct support schemes for farmers provided for that Regulation, as well as for the implementation of Council Regulation (EC) No 1234/2007 as regards cross-compliance under the support scheme provided for the wine sector and repealing Commission Regulation (EC) No 796/2004 of 21 April 2004 (OJ L 141, p. 18); *as last amended by Regulation (EU) No 173/2011 of 23 February 2011 (OJ L 49, 24.2.2011, p. 16).*
- Council Regulation (EC) No 1698/2005 of 20 September 2005 (OJ L 277, 21.10.2005, p. 1) on support for rural development by the European Agricultural Fund for Rural Development (EAFRD); *as last amended by Regulation (EC) No 473/2009 of 25 May 2009 (OJ L 144, 9.6.2009, p. 3).*
- Commission Regulation (EC) No 1974/2006 of 15 December 2006 (OJ L 368, 23.12.2006, p. 15) laying down detailed rules for the application of Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD); *as last amended by Regulation (EC) No 108/2010 of 8 February 2010 (OJ L 36, 9.2.2010, p.4).*
- Commission Regulation (EC) No 1975/2006 of 7 December 2006 (OJ L 368, 23.12.2006, p. 74) laying down detailed rules for the implementation of Council Regulation (EC) No 1698/2005, as regards the implementation of control procedures as well as cross-compliance in respect of rural development support measures; *as last amended by Regulation (EC) No 484/2009 of 9 June 2009 (OJ L 145, 10.6.2009, p. 25).*

7.5. Clearance of accounts

- Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the common agricultural policy (OJ L 209, 11.8.2005, p. 1); *as last amended by Regulation (EC) No 473/2009 of 25 May 2009 (OJ L 144, 9.6.2009, p. 3).*
- Commission Regulation (EC) No 885/2006 of 21 June 2006 laying down detailed rules for the application of Council Regulation (EC) No 1290/2005 as regards the accreditation of paying agencies and other bodies and the clearance of the accounts of the EAGF and of the EAFRD (OJ L 171, 23.6.2006, p. 90); *as last amended by Regulation (EC) No 1034/2008 of 21 October 2008 (OJ L 279, 22.10.2008, p. 13).*