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

**6th FINANCIAL REPORT FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL
on the EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT
(EAFRD)
2012 FINANCIAL YEAR**

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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.

There was no change introduced into this general financial framework during 2012.

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

Table 1

(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	59 888	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 (EUR 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 and financial needs for ITER 2011.

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 had been allocated to Rural Development on the basis of Commission Decision 2006/636/EC.

1.2. Draft Budget 2012

The 2012 Draft Budget was adopted by the Commission and proposed to the Budgetary Authority on 20 April 2011.

The Draft Budget for the European Agricultural Fund for Rural Development (EAFRD) under heading 2 of the Financial Framework 2007-2013 totalled EUR 14 612 million in commitment appropriations and EUR 12 658 million in payment appropriations.

Table 2

Budget Item	Commitment appropriations (in €)	Payment appropriations (in €)
05.040501 (Rural dev. programmes)	14 589 123 242	12 650 000 000
05.040502 (Technical assistance)	22 521 200	7 910 000

The Council adopted its position on the 2012 Draft Budget on 25 July 2011. Payment appropriations were reduced by EUR 140 million for EAFRD programmes and by EUR 3 million for technical assistance as compared to the Commission's Draft Budget while commitments remained unchanged. The European Parliament adopted its position on 26 October 2011 whereby it restored the Commission's proposal by

increasing the total amount of payment appropriations by EUR 143 million. The Conciliation procedure resulted in an agreement between the two institutions.

1.3. The adoption of the 2012 Budget

The Draft Budget was approved by the Parliament in a vote on 19 November 2011. The voted budget for the EAFRD in chapter 05 04 amounted to EUR 14 612 million in commitment appropriations and EUR 12 002 million in payment appropriations.

Table 3

Budget Item	Commitment appropriations (in €)	Payment appropriations (in €)
05.040501 (Rural dev. programmes)	14 589 123 242	11 994 891 297
05.040502 (Technical assistance)	22 521 200	7 500 363

1.4. The adoption of the Amending Budget

In October 2012 the Commission adopted the Draft Amending Budget No 6 to the 2012 budget due to a clearly identified lack of available payment appropriations. Therefore additional funding of EUR 1 041 million was requested for rural development programmes. The budgetary authority approved the Amending Budget No. 6 on 12 December 2012 for the total amount requested for EAFRD 2007-2013 programmes. As a result, the total amount of payment appropriations approved by the budget authority for 2012 was EUR 13 043 million.

2. MANAGEMENT OF APPROPRIATIONS

2.1. Management of Commitment appropriations

2.1.1. EAFRD operational programmes

In 2012 the available commitment appropriations for EAFRD programmes amounted in total to EUR 14 589 million. This amount was entirely committed during the year.

Table 4

Management of commitment appropriations in 2012 – EAFRD	Budget Item 05.040501 (amounts in €)
Appropriations at the beginning of 2012	14 589 123 242
Carryover from 2011	-
Appropriations available in 2012	14 589 123 242
Appropriations used in 2012	14 589 123 242

2.1.2. *Technical assistance*

Article 69(2) 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 2012 budget, the initial amount available for this purpose was EUR 22.5 million. Of this, EUR 13 million were redeployed to other items of the budget. At the end of 2012, the total amount committed was EUR 8.4 million.

2.2. **Management of payment appropriations**

2.2.1. *EAFRD operational programmes*

In 2012 the payment appropriations of the voted budget amounted to EUR 11 995 million. In addition, EUR 30.5 million in relation to recoveries were automatically carried over from 2011 and EUR 50.2 million of assigned revenue (recoveries) were collected. The last declaration of expenditure submitted by Member States in November 2012 confirmed an additional need of EUR 1 041 million in payment appropriations. This amount was made available with the Amending Budget No.6.

The total amount paid to Member States for EAFRD programmes in 2012 reached EUR 13 117 million, thus ensuring the full consumption of the payment credits available in the year.

Table 5

Management of payment appropriations in 2012 – EAFRD	Budget Item 05.040501 (amounts in €)
Appropriations at the beginning of 2012	11 994 891 297
Carryover from 2011	30 544 548
Amending budget No. 6	1 041 000 000
Recoveries (assigned revenue)	50 156 378
Appropriations available in 2012	13 116 592 223
Appropriations used in 2012	13 116 592 223

2.2.2. *Technical assistance*

In the 2012 budget, the amount of payment appropriations was EUR 7.5 million. At the end of the year, the total amount of payments was EUR 5.1 million, leaving EUR 2.4 million unused. The unused funds mainly relate to the network facility of the European Innovation Partnership, which is being implemented in 2013.

3. **IMPLEMENTATION OF THE 2012 EAFRD BUDGET**

3.1. **Introduction**

Financial year 2012 represented a consolidation period for all rural development programmes though there is a substantial variability as regards the implementation levels of programmes. For some of them the implementation difficulties remained apparently because of the continued impact of the economic and financial crisis. Nonetheless, it has to be noted that 2012 has shown the highest execution so far for the rural development programmes in this programming period.

3.2. **Implementation of commitment appropriations**

3.2.1. *EAFRD operational programmes*

Table 6 shows the amounts committed per Member State in 2012 and the allocation established by Commission decision 2006/636/EC (modification of April 2010 still in force in 2012).

In 2012, the commitment appropriations available for EAFRD programmes, EUR 14 589 million, coincide with the annual allocation as there was no carryover from the previous year. All the available appropriations were committed (EUR 14 589 million).

Table 6

Commission Decision 2006/636/EC (version in force) vs. the amounts committed end of 2012:			
Budget item: 05.040501			<i>(in €)</i>
MS	Commission Decision 2006/636/EC – EU funds 2012	Amounts carried over for commitment in 2012	Amounts committed in the budget year 2012
	(a)	(b)	(c=a+b)
AT	545 968 629	-	545 968 629
BE	75 495 480	-	75 495 480
BG	397 696 922	-	397 696 922
CY	21 783 947	-	21 783 947
CZ	412 672 094	-	412 672 094
DE	1 398 361 509	-	1 398 361 509
DK	98 797 618	-	98 797 618
EE	108 913 401	-	108 913 401
ES	1 255 978 191	-	1 255 978 191
FI	294 408 238	-	294 408 238
FR	1 223 917 557	-	1 223 917 557
GR	669 030 398	-	669 030 398
HU	563 304 619	-	563 304 619
IE	352 271 063	-	352 271 063
IT	1 422 949 382	-	1 422 949 382
LT	250 278 098	-	250 278 098
LU	13 281 368	-	13 281 368
LV	150 188 774	-	150 188 774
MT	10 459 190	-	10 459 190
NL	96 082 449	-	96 082 449
PL	1 857 244 519	-	1 857 244 519
PT	586 692 105	-	586 692 105
RO	1 359 146 997	-	1 359 146 997
SE	277 860 755	-	277 860 755
SI	118 858 866	-	118 858 866
SK	275 025 447	-	275 025 447
UK	752 455 626	-	752 455 626
Total	14 589 123 242	-	14 589 123 242

3.2.2. Technical assistance

Table 7 shows the commitment appropriations for technical assistance consumed in 2012. The most important part relates to European Network for Rural Development.

Table 7

Technical assistance – Implementation of commitment appropriations	
Budget Item: 05.040502	<i>(in €)</i>
Description	Amount committed
Contact point of the European Network for rural Development (ENRD)	3 653 202
Expert groups / Coordination committee / Seminars (ENRD)	733 091
Information technology	484 256
Studies, evaluations and controls	336 912
European innovation partnership (EIP)	2 500 000
Experts committee on the evaluation of rural development programmes	200 000
Publications	448 990
Total	8 356 451

3.3. Implementation of payment appropriations

3.3.1. EAFRD operational programmes

All the payments appropriations made available in the voted and in the amending budget 2012, increased with a carryover and assigned revenue from recoveries by respectively EUR 30.5 million and EUR 50.2 million, were used. Therefore at the end of 2012, the total amount paid for EAFRD programmes was EUR 13 117 million. Payments made in 2012 increased more than 11% compared to 2011.

The table below shows the breakdown of payments made in 2012 by declaration period :

Table 8

Payments 2012 – EAFRD operational programmes million €	
Reimbursement of payment claims Q2 2011	0.24
Reimbursement of payment claims Q3 2011	21.27
Reimbursement of payment claims Q4 2011	4 791.64
Reimbursement of payment claims Q1 2012	2 678.68
Reimbursement of payment claims Q2 2012	2 290.40
Reimbursement of payment claims Q3 2012	3 334.37
Total 2012	13 116.59

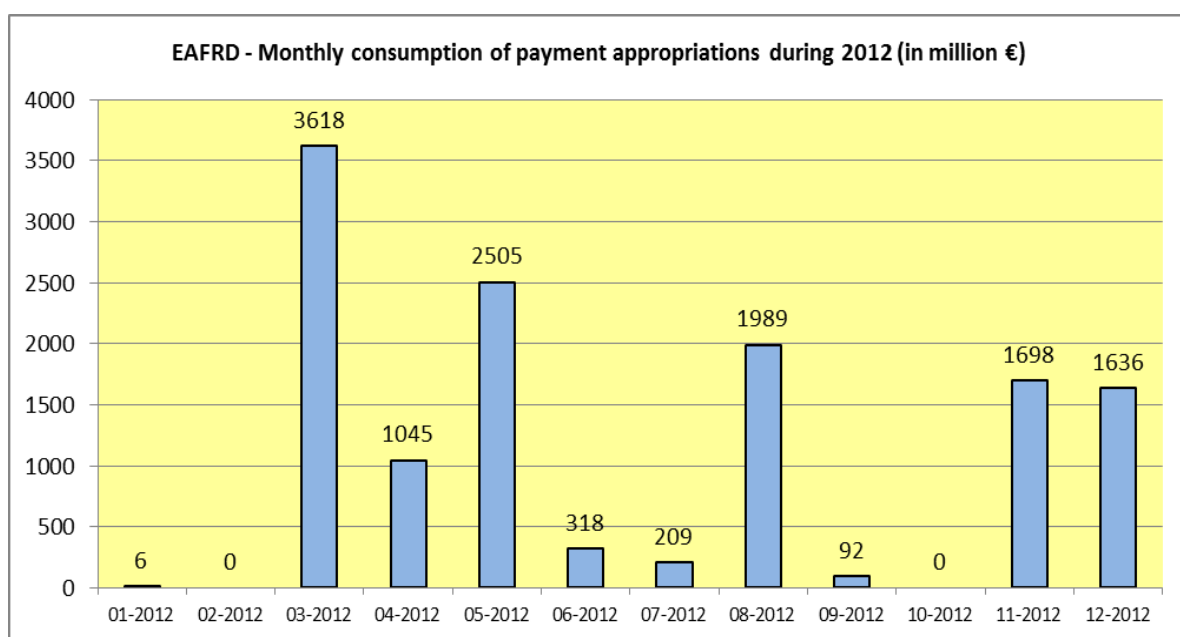
The reimbursement of 3rd quarter 2012 for 85 EAFRD programmes was totally or partially on hold at the end of the year mainly due to lack of available payment appropriations for 2012 (84 programmes), while in one case the outstanding commitment appropriations for the programme were already fully exhausted by the payment of previous claims. These payments had to wait until the annual

commitments for 2013 were made. The total amount of the delayed reimbursements was EUR 102 770 720.

The monthly consumption of payment appropriations during the year (January to December 2012) 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 2011, Q1 2012, Q2 2012 and Q3 2012) in accordance to article 16(2) of Regulation (EC) No 883/2006.

The graph shows that the usual rhythm of monthly payments was influenced by the lack of cash available to make effective payments. It imposed a delay on some reimbursements in the first part of 2012 (January to April) and at the end of the year.

Graph 1



The breakdown per Member State and per declaration period of the amounts paid by the Commission in budget year 2012 is shown in table 9. The amounts in columns Q2 2011 and Q3 2011 relate to the EAFRD programmes that exhausted their commitment appropriations for 2011 and had to wait until 2012 to have their amounts reimbursed with the 2012 commitment appropriations.

Table 9

Payments effectively made between 01/01/2012 and 31/12/2012 per declaration of expenditure							(in €)
MS	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Grand Total
AT			339 835 564	139 697 338	31 933 696	24 465 055	535 931 653
BE	238 128	14 772 928	11 497 842	12 178 694	26 270 648	3 539 841	68 498 081
BG			210 676 032	15 967 518	31 326 369	48 822 491	306 792 409
CY			5 200 274	7 073 565	4 091 052	3 492 786	19 857 677
CZ			133 105 261	171 801 664	72 562 804	41 516 606	418 986 335
DE		1 870 550	556 278 613	202 150 446	111 758 291	438 968 630	1 311 026 530
DK			21 975 476	13 263 700	11 468 475	15 933 448	62 641 099
EE			24 066 138	63 537 223	21 450 274	20 189 518	129 243 153
ES			317 102 417	176 116 735	174 349 826	153 550 836	821 119 814
FI			80 176 727	19 803 782	21 646 087	180 696 236	302 322 832
FR			380 108 903	133 274 883	95 288 904	324 499 156	933 171 846
GR			31 953 736	33 894 975	90 847 036	174 118 800	330 814 548
HU			120 237 858	155 121 913	85 933 968	80 089 047	441 382 786
IE		3 625 235	120 969 428	47 070 974	30 903 725	123 113 611	325 682 973
IT			637 934 482	175 523 320	207 667 437	286 707 609	1 307 832 848
LT			93 784 089	42 016 806	45 213 902	54 252 517	235 267 314
LU		1 000 617	3 086 330	4 951 958	779 461	544 375	10 362 740
LV			68 803 133	61 997 513	36 064 210	46 363 800	213 228 656
MT			3 334 714	1 793 606	2 072 027	1 742 217	8 942 564
NL			28 774 676	15 583 856	31 663 289	26 269 263	102 291 084
PL			534 909 344	594 250 418	465 694 607	432 184 275	2 027 038 643
PT			194 440 253	83 985 605	160 262 095	240 591 316	679 279 269
RO			461 201 200	203 648 532	214 138 413	222 931 759	1 101 919 904
SE			75 751 485	42 729 762	31 580 078	143 133 180	293 194 504
SI			37 311 422	25 154 920	43 676 243	15 923 162	122 065 747
SK			110 295 335	30 906 538	74 518 791	57 222 411	272 943 075
UK			188 825 347	205 179 330	167 239 518	173 509 942	734 754 138
Total	238 128	21 269 330	4 791 636 079	2 678 675 574	2 290 401 225	3 334 371 887	13 116 592 223

The total amount paid in 2012 EUR 13 117 million relates to reimbursements only. No advances were paid in 2012.

Table 10 on the next page compares, for each Member State, the EAFRD payments made in 2012 with the payments in 2011. The total payments increased by 11.2% (EUR 13.12 billion vs. 11.79 billion).

Table 10

Payments made to Member States - Comparison 2012 vs 2011								
<i>(in €)</i>								
MS	2011			2012			Difference 2012 vs. 2011	
	Interim payments	Prefinancing	Total	Interim payments	Prefinancing	Total	(in €)	(in %)
AT	560 505 171	-	560 505 171	535 931 653	-	535 931 653	-24 573 517	-4,4%
BE	74 909 464	-	74 909 464	68 498 081	-	68 498 081	-6 411 383	-8,6%
BG	123 262 579	-	123 262 579	306 792 409	-	306 792 409	183 529 830	148,9%
CY	17 962 016	-	17 962 016	19 857 677	-	19 857 677	1 895 660	10,6%
CZ	448 149 474	-	448 149 474	418 986 335	-	418 986 335	-29 163 139	-6,5%
DE	1 152 971 166	-	1 152 971 166	1 311 026 530	-	1 311 026 530	158 055 364	13,7%
DK	49 994 154	-	49 994 154	62 641 099	-	62 641 099	12 646 945	25,3%
EE	106 899 928	-	106 899 928	129 243 153	-	129 243 153	22 343 224	20,9%
ES	981 011 118	-	981 011 118	821 119 814	-	821 119 814	-159 891 304	-16,3%
FI	282 478 090	-	282 478 090	302 322 832	-	302 322 832	19 844 743	7,0%
FR	740 672 381	-	740 672 381	933 171 846	-	933 171 846	192 499 465	26,0%
GR	414 332 054	-	414 332 054	330 814 548	-	330 814 548	-83 517 506	-20,2%
HU	432 685 163	-	432 685 163	441 382 786	-	441 382 786	8 697 623	2,0%
IE	348 090 588	-	348 090 588	325 682 973	-	325 682 973	-22 407 615	-6,4%
IT	1 103 141 274	-	1 103 141 274	1 307 832 848	-	1 307 832 848	204 691 574	18,6%
LT	248 716 280	-	248 716 280	235 267 314	-	235 267 314	-13 448 966	-5,4%
LU	13 287 289	-	13 287 289	10 362 740	-	10 362 740	-2 924 549	-22,0%
LV	159 845 406	-	159 845 406	213 228 656	-	213 228 656	53 383 250	33,4%
MT	7 372 000	-	7 372 000	8 942 564	-	8 942 564	1 570 564	21,3%
NL	55 781 898	-	55 781 898	102 291 084	-	102 291 084	46 509 185	83,4%
PL	1 753 101 711	-	1 753 101 711	2 027 038 643	-	2 027 038 643	273 936 933	15,6%
PT	488 207 992	-	488 207 992	679 279 269	-	679 279 269	191 071 277	39,1%
RO	894 923 044	-	894 923 044	1 101 919 904	-	1 101 919 904	206 996 859	23,1%
SE	276 259 926	-	276 259 926	293 194 504	-	293 194 504	16 934 578	6,1%
SI	111 811 978	-	111 811 978	122 065 747	-	122 065 747	10 253 769	9,2%
SK	345 897 828	-	345 897 828	272 943 075	-	272 943 075	-72 954 753	-21,1%
UK	601 730 275	-	601 730 275	734 754 138	-	734 754 138	133 023 863	22,1%
Total	11 794 000 249	-	11 794 000 249	13 116 592 223	-	13 116 592 223	1 322 591 975	11,2%

3.3.2. Technical assistance

In the 2012 budget the amount for payment appropriations was EUR 7.5 million. The table hereafter presents the payments for technical assistance for a total amount of EUR 5.1 million. The most important part is related to European Network for Rural Development A significant part of the unused appropriations concerns the network facility of the European Innovation Partnership for which no payment could be made because the commitments were made late in the year; thus postponing the effective implementation to 2013.

Table 11

Technical assistance – Implementation of payment appropriations	
Budget Item: 05.040502 <i>(in €)</i>	
Description	Amount paid
Contact point of the European Network for Rural Development (ENRD)	3 502 642
Expert groups / Coordination committee / Seminars (ENRD)	601 045
Information technology	470 465
Experts committee on the evaluation of rural development programmes	59 298
Studies, evaluations and controls	188 300
Publications	259 964
Total	5 081 714

3.4. Analysis of expenditure declared by axis and by measure

Table 12 shows the payment claims declared by Member state and by axis/measure for rural development in 2012 (Q4 2011 to Q3 2012), the cumulative declared expenditure from 2007 to 2012 (Q4 2006 to Q3 2012) and also the financial plans of EAFRD programmes (2007-2013; EU27).

In 2012, the expenditure continues to be concentrated in axis 2 (45.6%), followed by axis 1 with 32.3%, axis 3 with 15.3% and axis 4 with 5.4%. This repartition of expenditure still diverges somewhat with the repartition in the financial plans for the 2007-2013 programming period (33.1%, 45.2%, 13.4% and 6.3% 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).

The expenditure in 2012 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 47.9% in 2011 to 45.6% in 2012 while Axis 1 and 4 increase from 31.7% and 4.3% in 2011 to 32.3% and 5.4% in 2012 respectively.

Table 12

EAFRD declared expenditure 2012 (Q4 2011-Q3 2012) & Total cumulative expenditure (Q4 2006 to Q3 2012)						
compared with Financial Plans*						
EAFRD Axis / Measure	Declared expenditure 2012 (Q4 2011 to Q3 2012)		Cumulative declared expenditure (Q4 2006 to Q3 2012)		Financial Plans 2007-2013	
	(million €)	(%)	(million €)	(%)	(million €)	(%)
111 Vocational training and information actions	124,4	0,9%	261,8	0,7%	954,3	1,0%
112 Setting up of young farmers	391,8	3,0%	1312,4	3,3%	2 877,3	3,0%
113 Early retirement	330,8	2,5%	1371,7	3,5%	2 510,2	2,6%
114 Use of advisory services	24,3	0,2%	38,3	0,1%	277,5	0,3%
115 Setting up of management, relief and	8,5	0,1%	10,6	0,0%	64,0	0,1%
121 Modernisation of agricultural holdings	1692,9	12,8%	5040,4	12,7%	11 582,0	12,0%
122 Improvement of the economic value of forest	45,5	0,3%	121,3	0,3%	514,4	0,5%
123 Adding value to agricultural and forestry...	764,6	5,8%	1649,9	4,2%	5 622,7	5,8%
124 Cooperation for development of new products	36,2	0,3%	39,6	0,1%	325,1	0,3%
125 Infrastructure related to the development ...	557,7	4,2%	1189,3	3,0%	4 782,3	5,0%
126 Restoring agricultural production potential	86,3	0,7%	184,0	0,5%	601,4	0,6%
131 Meeting standards based on Community...	5,7	0,0%	49,9	0,1%	70,5	0,1%
132 Participation of farmers in food quality...	17,1	0,1%	31,9	0,1%	150,0	0,2%
133 Information and promotion activities	19,8	0,1%	26,9	0,1%	172,5	0,2%
141 Semi-subsistence farming	63,9	0,5%	472,0	1,2%	883,9	0,9%
142 Producer groups	37,0	0,3%	81,3	0,2%	234,2	0,2%
143 Direct Payment (BG + RO)	3,6	0,0%	2,3	0,0%	15,8	0,0%
144 Holdings undergoing restructuring	64,3	0,5%	68,4	0,2%	197,5	0,2%
Axis 1	4 274,4	32,3%	11 952,1	30,2%	31 835,5	33,1%
211 Natural handicap payments to farmers in ...	1025,0	7,7%	4 160,9	10,5%	6 555,0	6,8%
212 Payments to farmers in areas with handicaps...	1038,0	7,8%	4 325,5	10,9%	7 341,8	7,6%
213 Natura 2000 payments and payments linked ..	39,6	0,3%	85,5	0,2%	633,5	0,7%
214 Agri-environment payments	3231,0	24,4%	12 030,1	30,4%	22 745,3	23,6%
215 Animal welfare payments	95,4	0,7%	207,9	0,5%	716,5	0,7%
216 Non-productive investments	91,7	0,7%	124,0	0,3%	570,3	0,6%
221 First afforestation of agricultural land	201,9	1,5%	829,1	2,1%	2 068,7	2,1%
222 First establishment of agroforestry systems...	0,3	0,0%	0,0	0,0%	11,7	0,0%
223 First afforestation of non-agricultural land	25,3	0,2%	65,5	0,2%	267,2	0,3%
224 Natura 2000 payments	5,7	0,0%	11,9	0,0%	67,5	0,1%
225 Forest-environment payments	9,2	0,1%	20,3	0,1%	193,7	0,2%
226 Restoring forestry potential and ...	204,2	1,5%	559,1	1,4%	1 573,8	1,6%
227 Non-productive investments	74,8	0,6%	185,5	0,5%	749,2	0,8%
Axis 2	6 041,93	45,6%	22 605,41	57,0%	43 494,16	45,2%
311 Diversification into non-agricultural activities	191,1	1,4%	339,0	0,9%	1 274,5	1,3%
312 Business creation and development	258,6	2,0%	373,7	0,9%	2 091,2	2,2%
313 Encouragement of tourism activities	116,7	0,9%	225,3	0,6%	1 252,2	1,3%
321 Basic services for the economy and rural ...	629,9	4,8%	771,5	1,9%	3 408,2	3,5%
322 Village renewal and development	647,2	4,9%	1148,8	2,9%	3 345,6	3,5%
323 Conservation and upgrading of the rural....	159,2	1,2%	339,7	0,9%	1 253,7	1,3%
331 Training and information	13,2	0,1%	29,9	0,1%	113,6	0,1%
341 Skills acquisition, animation and implement...	12,2	0,1%	51,7	0,1%	129,7	0,1%
Axis 3	2 028,00	15,3%	3 279,6	8,3%	12 868,7	13,4%
411 Implementing local development strategies...	30,6	0,2%	53,4	0,1%	553,1	0,6%
412 Implementing local development strategies...	5,0	0,0%	5,8	0,0%	165,7	0,2%
413 Implementing local development strategies....	530,9	4,0%	552,8	1,4%	4065,2	4,2%
421 Implementing cooperation projects	15,3	0,1%	12,4	0,0%	267,1	0,3%
431 Running the local action group, acquiring ...	132,0	1,0%	265,4	0,7%	1002,5	1,0%
Axis 4	713,8	5,4%	889,8	2,2%	6 053,6	6,3%
511 Technical Assistance	179,2	1,4%	463,0	1,2%	1537,3	1,6%
611 BG RO Direct Payments	-0,5	0,0%	437,8	1,1%	459,4	0,5%
Grand total	13 236,9	100,0%	39 627,8	100,0%	96 248,7	100,0%

*Member States declare their expenditure quarterly. However for year n, Q4 declarations are submitted in January of year n+1. Consequently, the corresponding reimbursements by the Commission to the Member States in year n go from Q4 of year n-1 until Q3 of year n.

3.5. Implementation of EAFRD programmes

Graph 2 on the next page presents the financial implementation rate of rural development programmes per Member State: payments from the beginning of the programming period to 2012, including Q4 2012 that is reimbursed in financial year 2013, compared with the 2007-2012 commitments according to the financial plan. The average EAFRD financial implementation rate for all EAFRD programmes is 78%.

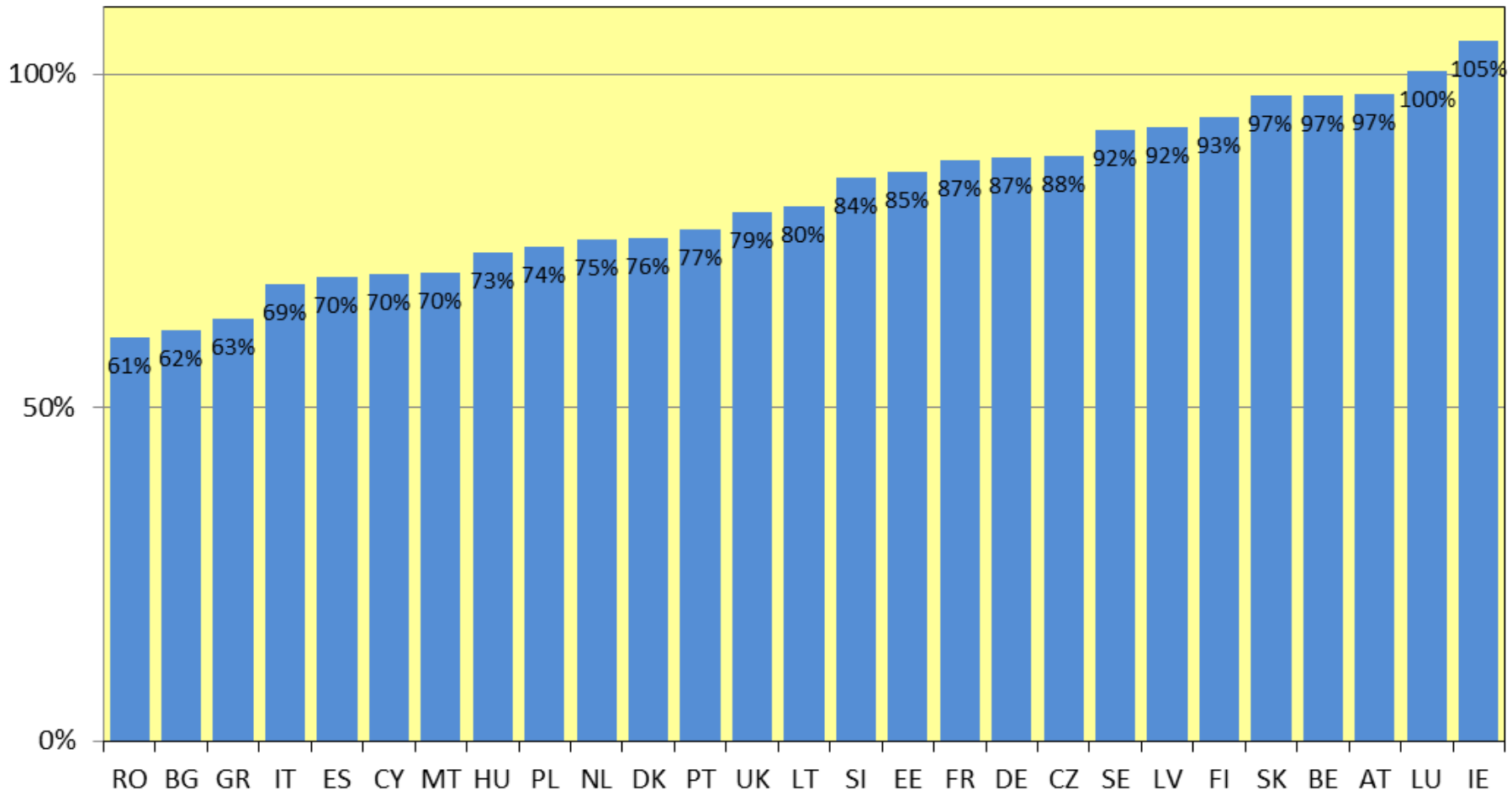
Graph 2 shows that most Member States have absorbed more than 75% of the 2007-2012 commitments.

The ranking would be slightly different in terms of absorption rate, i.e. payments made from the beginning of the programming period to 2012 (including Q4 2012) compared with the total 2007-2013 allocation to be paid until end of 2015. The average absorption rate for all EAFRD programmes is 66%.

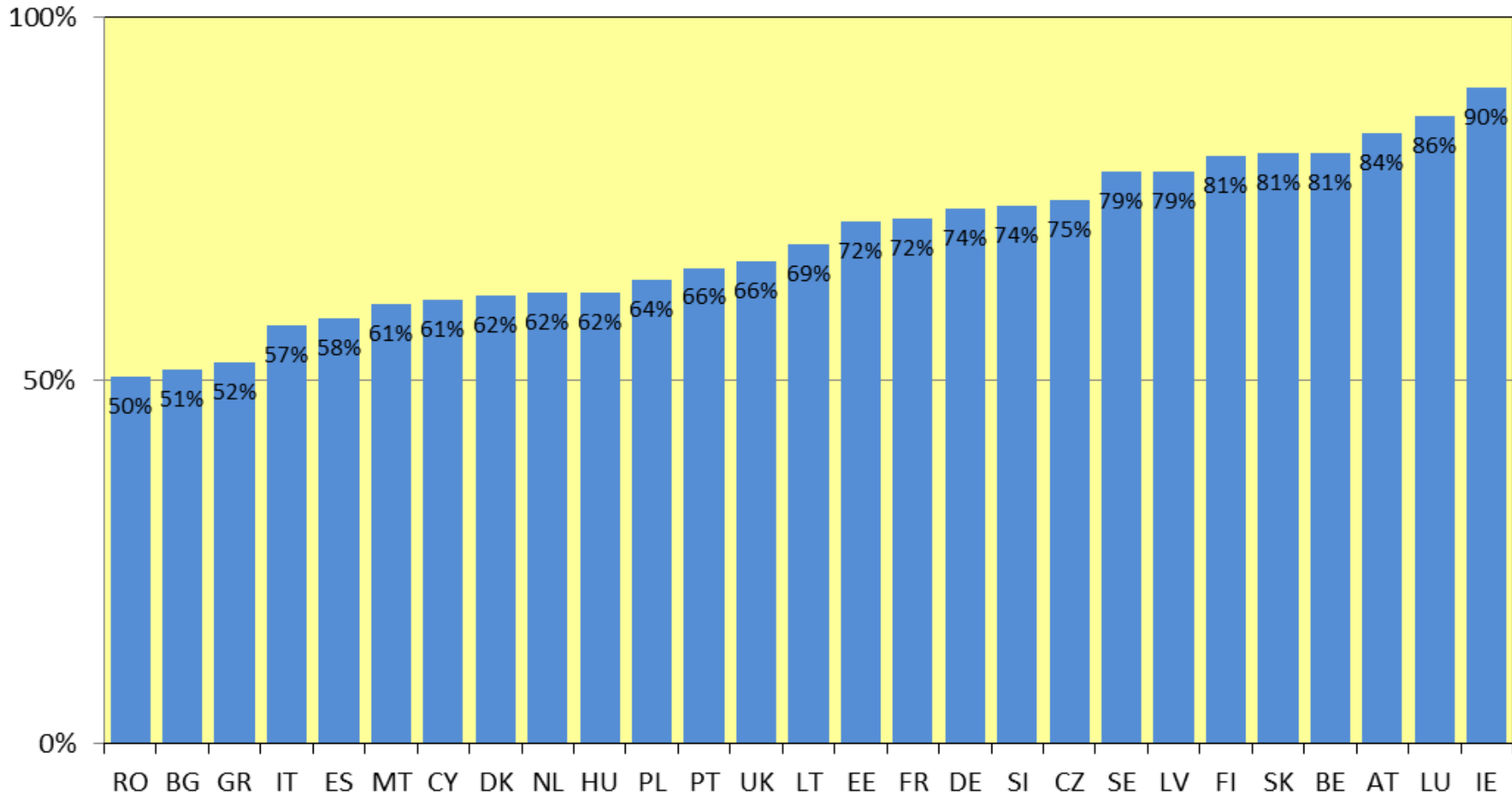
Graph 3 reflects the absorption rate per Member State. Up to 2012, most Member States have absorbed more than 60% of their 2007-2013 allocation.

Until the end of 2012 the application of the N+2 rule has resulted in relatively small decommitments for three rural development programmes. Those decommitments amount in total to EUR 7.4 million and relate to years 2008 and 2009. Decommitments in relation to year 2010 will be made in 2013.

Graph 2 - Financial implementation rate of RD programs by Member State (% of the EAFRD payments including payment claims Q4 2012 compared with 2007-2012 commitments)



Graph 3 - Absorption rate of RD programs by Member State (% of the EAFRD payments including payment claims Q4 2012 compared with 2007-2013 allocation)



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 (EU) No 65/2011⁶, as amended, lay down the rules for the application and control of rural development support measures.

The control rules provided by Commission Regulation (EU) No 65/2011 take into account the characteristics of the measures under Axis 2 i.e. timing for the

¹ OJ L 209, 11.8.2005, p. 1

² OJ L 171, 23.6.2006, p. 90–110

³ OJ L 143, 3.6.2008, p. 1–9

⁴ OJ L 277, 21.10.2005, p.1

⁵ OJ L 368, 23.12.2006, p.15

⁶ OJ L 25, 28.1.2011 p.8-23

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.

4.2. Integrated Administration and Control System (IACS)

Council Regulation (EC) No 73/2009⁷ and Commission Regulation (EC) No 1122/2009⁸ 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 areas or on the number of animals, in that the risk can be reduced to the lowest levels.

For the financial year 2012, the IACS covers around 43% 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 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 30, 31.1.2009, p. 16

⁸ 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 the protection of 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 2011

In April 2012, the Commission adopted a decision clearing the 2011 annual accounts for EAFRD. In this decision, the accounts of 9 paying agencies have been excluded and were subject to a further review, and a subsequent clearance decision when the specific issues communicated by the Commission services in the letter sent to the Member States (according to Article 10(3) of Regulation (EC) No 885/2006) have been resolved. The paying agencies for which the accounts were disjoined were: Baden-Württemberg, Bayern, Rheinland-Pfalz and Thüringen (Germany), ODARC and ASP (France), PARDF (Romania), Andalucia (Spain) and SGRPID (United Kingdom).

This decision cleared an amount of EUR 9.627 million and disjoined an amount of EUR 2.551 million until a later Decision. The net financial impact resulted in a payment of EUR 4,3 million to the Member States.

The accounts of the paying agencies Baden-Württemberg, Bayern, Rheinland-Pfalz, Thüringen (Germany) and SGRPID (United Kingdom) are currently proposed for clearance in a Commission Implementing Decision envisaged to be adopted in March 2013.

5.1.3. Financial clearance for financial year 2010

In February 2012, the Commission adopted one further decision clearing the 2010 annual accounts of the paying agencies Baden-Württemberg, Bayern, Helaba and Rheinland-Pfalz (Germany) which had been initially disjoined, in respect of their expenditure funded by the European Agricultural Fund for Rural Development (EAFRD).

By means of this decision, a total amount of EUR 370 million was cleared for the EAFRD financial year 2010 (3% of the total annual expenditure). The net financial impact of this decision resulted in a payment of EUR 0,5 million to the Member State.

The four remaining paying agencies for which the 2010 EAFRD accounts are still outstanding are Région Wallonne (Belgium), ARBEA (Italy), Ministry of Agriculture (Luxembourg) and APA (Slovakia).

The accounts of the paying agency APA (Slovakia) are currently proposed for clearance in a Commission Implementing Decision envisaged to be adopted in March 2013. Corresponding conformity enquiries for the remaining three paying agencies are being further pursued. The total amount concerned is EUR 439 million (4 % of total expenditure for the financial year in question).

5.1.4. Financial clearance for financial year 2009 and before

All EAFRD accounts for the financial years 2007 and 2009 have been cleared.

Concerning the financial year 2008, the only remaining paying agency for which the 2008 EAFRD accounts are currently still outstanding is OPEKEPE (Greece). The total amount concerned is EUR 224 million. These accounts are currently proposed for clearance in a Commission Implementing Decision envisaged to be adopted in March 2013.

5.2. Conformity clearance – audits and decisions adopted in 2011

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 2012, 2 desk audits and 22 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

In 2012, three conformity decisions were adopted which had a financial impact by excluding from EU financing of EAFRD a total of EUR 66.9 million:

- Decision 2012/89/EU of 14/02/2012 – 37th Decision, financial impact of EUR 7.5 million,
- Decision 2012/336/EU of 22/06/2012 – 38th Decision, financial impact of EUR 3.9 million.
- Decision EU 2012/500/EU of 6/09/2012 – 39th Decision, financial impact of EUR 55.4 million.

5.3. Recoveries

Regarding financial year 2011, the Member States reported the information about irregularity cases by 1 February 2012. The Member States recovered EUR 37.9 million during financial year 2011, and the outstanding amount still to be recovered from beneficiaries at the end of that financial year was EUR 63.2 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 2011.

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

Judgments handed down

In 2012, one judgement has been handed down by the Court in appeals brought by the Member States against clearance decisions with regard to EAFRD. The Court rejected appeals brought in the following case:

- judgement of 13 December 2012 in cases T-588/10 brought by Greece

New appeals

In 2012 no new appeals were brought by the Member States against clearance decisions.

Appeals pending

The situation as at 31 December 2012 with regard to appeals pending is shown, together with the amounts concerned, in the annex.

Table 13

Appeals against clearance of accounts decisions pending on 31 December 2011 (for EAFRD)		
Case number	Member State	Challenged amount (EUR)
T-294/11	GR	-12 165 835.99
T-3/11	PT	-213 224.74
T-335/11	BG	-3 694 870.08
TOTAL		-16 073 930.81

6. BASIC RULES GOVERNING THE EAFRD AND AMENDMENTS MADE IN 2012

6.1. 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, 23.12.2006, p.15); as last amended by Regulation 679/2011 of 14 July 2011 (OJ L 185, 15.7.2011, p.57.).
- Commission Regulation (EU) No 65/2011 of 27 January 2011 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 25, 28.01.2011, p.8); as last amended by Regulation (EU) No 937/2012 of 12 October 2012 (OJ L 180, 13.10.2012, p. 1.).

6.2. Recent modifications

Commission Regulation (EU) 65/2011 was modified three times in 2012. Modification by Regulation (EU) No 147/2012 moved some definitions to be

applicable throughout the regulation, simplified some control rules for animal-related measures and changed partially the order of reductions and exclusions. Commission Regulation (EU) No 645/2012 postponed the deadline for submission of area and animal-related measures in Portugal from 15 May 2012 to 11 June 2012 due to the update of the Land Parcel Identification System (LPIS) in Portugal. Commission Regulation (EU) No 937/2012 introduced, for the sake of simplification and in order to improve administrative efficiency, that the interest should be due only from a reasonable payment deadline for the debtor indicated in the recovery order.

6.3. 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 Implementing Regulation (EU) No 1353/2011 of 20 December 2011 (OJ L 338, 21.12.2011, p. 35–35)

6.4. 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 Commission Implementing Regulation (EU) No 313/2012 of 12 April 2012 (OJ L 203, 09.08.2011, p. 10), OJ L 103, 13.4.2012, p. 17–20
- 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 Commission Implementing Regulation (EU) No 129/2013 of 14 February 2013 (OJ L 44, 15.2.2013, p. 2–3)
- 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 (EU) No 1312/2011 of the European Parliament and of the Council of 19 December 2011 (OJ L 339, 21.12.2011, p. 1–3)
- 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 Commission Implementing Regulation (EU) No 335/2013 of 12 April 2013 (OJ L 105, 13.4.2013, p. 1–3)

- Commission Regulation (EU) No 65/2011 of 27 January 2011 (OJ L 25, 28.1.2011, p. 8–23) 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 Commission Implementing Regulation (EU) No 937/2012 of 12 October 2012 (OJ L 280, 13.10.2012, p. 1–2)

6.5. 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 Regulation (EU) No 121/2012 of the European Parliament and of the Council of 15 February 2012 (OJ L 44, 16.2.2012, p. 1–3)
- 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 Commission Implementing Regulation (EU) No 375/2012 of 2 May 2012 (OJ L 118, 3.5.2012, p. 4)