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Accompanying the document

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

**5th FINANCIAL REPORT FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL
on the EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT
(EAFRD)
2011 FINANCIAL YEAR**

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TABLE OF CONTENTS

COMMISSION STAFF WORKING DOCUMENT	4
1. Budget procedure	4
1.1. Financial framework	4
1.2. Draft Budget (DB) 2011.....	5
1.3. New Draft Budget (DB) 2011	6
1.4. The adoption of the 2011 Budget.....	6
2. Management of appropriations	6
2.1. Management of Commitment appropriations	6
2.1.1. EAFRD operational programmes.....	6
2.1.2. Technical assistance	7
2.2. Management of payment appropriations.....	7
2.2.1. EAFRD operational programmes.....	7
2.2.2. Technical assistance	8
3. implementation of the 2011 EAFRD budget	8
3.1. Introduction.....	8
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	10
3.3.1. EAFRD operational programmes.....	10
3.3.2. Technical assistance	15
3.4. Analysis of expenditure declared by axis and by measure	15
3.5. Implementation of EAFRD programmes	17
4. Control Measures	20
4.1. Introduction.....	20
4.2. Integrated Administration and Control System (IACS).....	21
5. Clearance of accounts	22
5.1. Financial clearance.....	22
5.1.1. Introduction.....	22

5.1.2.	Financial clearance for financial year 2011	22
5.1.3.	Financial clearance for financial year 2010	22
5.1.4.	Financial clearance for financial year 2009 and before	23
5.2.	Conformity clearance – audits and decisions adopted in 2011	23
5.2.1.	Introduction	23
5.2.2.	Conformity clearance – audits and decisions adopted in 2010	23
5.3.	Recoveries	24
5.4.	Appeals brought before the Court of Justice against clearance decisions	24
6.	Basic rules governing the EAFRD and amendments made in 2011	25
6.1.	General	25
6.2.	Recent modifications	25
6.3.	Checks	26
6.4.	Clearance of accounts	27

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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.

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	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 (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.

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 (DB) 2011

The 2011 Draft Budget (DB) was adopted by the Commission and proposed to the Budgetary Authority on 27 April 2010.

The Draft Budget for the European Agricultural Fund for Rural Development (EAFRD) under heading 2 of the Financial Framework 2007-2013 totalled EUR 14 431 million in commitment appropriations and EUR 12 709 million in payment appropriations.

Table 2

Budget Item	Commitment appropriations (in €)	Payment appropriations (in €)
05.040501 (Rural dev. programmes)	14 408 211 311	12 700 000 000
05.040502 (Technical assistance)	22 440 241	8 900 000

The Council adopted its position on the 2011 Draft Budget on 08.07.2010. Payment appropriations for EAFRD programmes were reduced by EUR 98.0 million as

compared to the Commission's DB while commitments remained unchanged. The European Parliament adopted its position on 13.10.2010 whereby it restored the Commission's proposal by increasing payment appropriations by EUR 98.0 million. The Conciliation procedure did not permit to reach an agreement between the two institutions.

1.3. New Draft Budget (DB) 2011

2011 was the first time that the new annual budgetary procedure provided for by the Lisbon Treaty was applied. As a result of the divergent positions of the Council and the European Parliament on the Commission's draft budget, a 21-day conciliation period was open. Following the failure of the Conciliation Committee to reach an agreement by 15.11.2010 on the Budget 2011, the Commission made a new Draft Budget proposal on 26.11.2010.

The new proposal reduced EAFRD payment appropriations by EUR 772.8 million compared to the initial DB.

1.4. The adoption of the 2011 Budget

The Budgetary Authority accepted the Commission's new Draft Budget which was approved by the Parliament in a vote on 15 December 2010. The voted budget for the EAFRD amounted to EUR 14 431 million in commitment appropriations and EUR 11 909 million in payment appropriations.

Table 3

Budget Item	Commitment appropriations (in €)	Payment appropriations (in €)
05.040501 (Rural dev. programmes)	14 408 211 311	11 900 560 364
05.040502 (Technical assistance)	22 440 241	8 339 763

2. MANAGEMENT OF APPROPRIATIONS

2.1. Management of Commitment appropriations

2.1.1. EAFRD operational programmes

In 2011 the available commitment appropriations amounted in total to EUR 14.41 billion.

The total amount of appropriations available for EAFRD programmes in 2011 was committed (EUR 14.41 billion).

Table 4

Management of commitment appropriations in 2011 – EAFRD	Budget Item 05.040501 (amounts in €)
Appropriations at the beginning of 2011	14 408 211 311
Carry-over from 2010	-
Appropriations available in 2011	14 408 211 311
Appropriations used in 2011	14 408 211 311

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 2011 budget, the amount available for this purpose was EUR 22.4 million. At the end of 2011, the total amount committed was EUR 5.4 million.

2.2. **Management of payment appropriations**

2.2.1. *EAFRD operational programmes*

In 2011 payment appropriations amounted to EUR 11.9 billion of the voted Budget plus EUR 330 million of unused appropriations carried over from 2010. In view of the last declaration of expenditure submitted by Member States in 2011, a surplus of EUR 433 million was identified in November. This amount was made available for other policies through Amending Budgets 6 and 7 (EUR 395 million and 38 million respectively). At the year end, the unused appropriations were EUR 34.4 million, of which EUR 30.5 million in relation to recoveries were automatically carried over to 2012.

The total amount paid to Member States for EAFRD programmes in 2011 reached EUR 11.8 billion.

Table 5

Management of payment appropriations in 2011 – EAFRD	Budget Item 05.040501 (amounts in €)
Appropriations at the beginning of 2011	11 900 560 364
Carryover from 2010	330 019 674
Amending budgets 6 and 7	-432 979 875
Recoveries (assigned revenue)	30 866 483
Appropriations available in 2011	11 828 466 646
Appropriations used in 2011	11 794 000 249
Unused amounts at the end of 2011	34 466 397
Automatic carry over (recoveries) at the end of 2011	30 544 548

2.2.2. *Technical assistance*

In the 2011 budget, the amount for payment appropriations was EUR 8.3 million. This amount was reduced by EUR 2.3 million through the global transfer. At the end of the year, the total amount of payments was EUR 3.9 million, leaving EUR 2.1 million unused.

3. IMPLEMENTATION OF THE 2011 EAFRD BUDGET

3.1. Introduction

Financial year 2011 mostly represented a consolidation period with almost all rural development programmes at cruising speed. However, this was an uneven situation as several programmes showed implementation difficulties apparently because of the impact of the economic and financial crisis..

3.2. Implementation of commitment appropriations

3.2.1. *EAFRD operational programmes*

Table 6 shows the amounts committed per Member State in 2011 and the allocation established by Commission decision 2006/636/EC (modification of April 2010 still in force in 2011).

In 2011, the commitment appropriations available for EAFRD programmes, EUR 14.41 billion, coincide with the annual allocation as there was no carryover from the previous year. All the available appropriations were committed (EUR 14.41 billion).

Table 6

Commission Decision 2006/636/EC (version in force) vs. the amounts committed end of 2011:			
Budget item: 05.040501			<i>(in €)</i>
MS	Commission Decision 2006/636/EC – EU funds 2011	Amounts carried over for commitment in 2011	Amounts committed in the budget year 2011
	(a)	(b)	(c=a+b)
AT	556 070 574	-	556 070 574
BE	73 167 519	-	73 167 519
BG	398 058 913	-	398 058 913
CY	22 402 714	-	22 402 714
CZ	406 640 636	-	406 640 636
DE	1 365 559 200	-	1 365 559 200
DK	91 231 467	-	91 231 467
EE	104 639 066	-	104 639 066
ES	1 227 613 000	-	1 227 613 000
FI	298 490 092	-	298 490 092
FR	1 169 090 147	-	1 169 090 147
GR	665 568 186	-	665 568 186
HU	547 603 625	-	547 603 625
IE	351 698 528	-	351 698 528
IT	1 403 606 589	-	1 403 606 589
LT	248 002 433	-	248 002 433
LU	13 287 289	-	13 287 289
LV	148 781 700	-	148 781 700
MT	10 347 884	-	10 347 884
NL	90 406 648	-	90 406 648
PL	1 860 573 543	-	1 860 573 543
PT	582 642 601	-	582 642 601
RO	1 357 854 634	-	1 357 854 634
SE	278 775 513	-	278 775 513
SI	124 076 091	-	124 076 091
SK	263 028 387	-	263 028 387
UK	748 994 332	-	748 994 332
Total	14 408 211 311	-	14 408 211 311

3.2.2. *Technical assistance*

Table 7 shows the commitment appropriations for technical assistance consumed in 2011. The most important part is related 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)	4 201 627
Thematic working groups ENRD	360 000
Information technology	302 940
Studies	188 300
Experts committee on the evaluation of rural development programmes	200 000
Publications	97 844
Total	5 350 711

3.3. Implementation of payment appropriations

3.3.1. EAFRD operational programmes

In the 2011 budget the amount for payment appropriations was EUR 11.9 billion. This initial amount increased with a carryover and assigned revenue from recoveries by respectively EUR 330 million and EUR 31 million, while Amending Budgets 6 and 7 reduced it by EUR 433 million. Hence, the appropriations of the year finally amounted to EUR 11.8 billion.

At the end of 2011, the total amount paid for EAFRD programmes was EUR 11.79 billion. Payments made in 2011 increased more than 6% compared to 2010.

The table below shows the breakdown of payments made in 2011 by declaration period :

Table 8

Payments 2010 – EAFRD operational programmes million €	
Reimbursement of payment claims Q3 2010	72.44
Reimbursement of payment claims Q4 2010	3 969.73
Reimbursement of payment claims Q1 2011	2 270.04
Reimbursement of payment claims Q2 2011	2 184.26
Reimbursement of payment claims Q3 2011	3 297.53
Total 2010	11 794.00

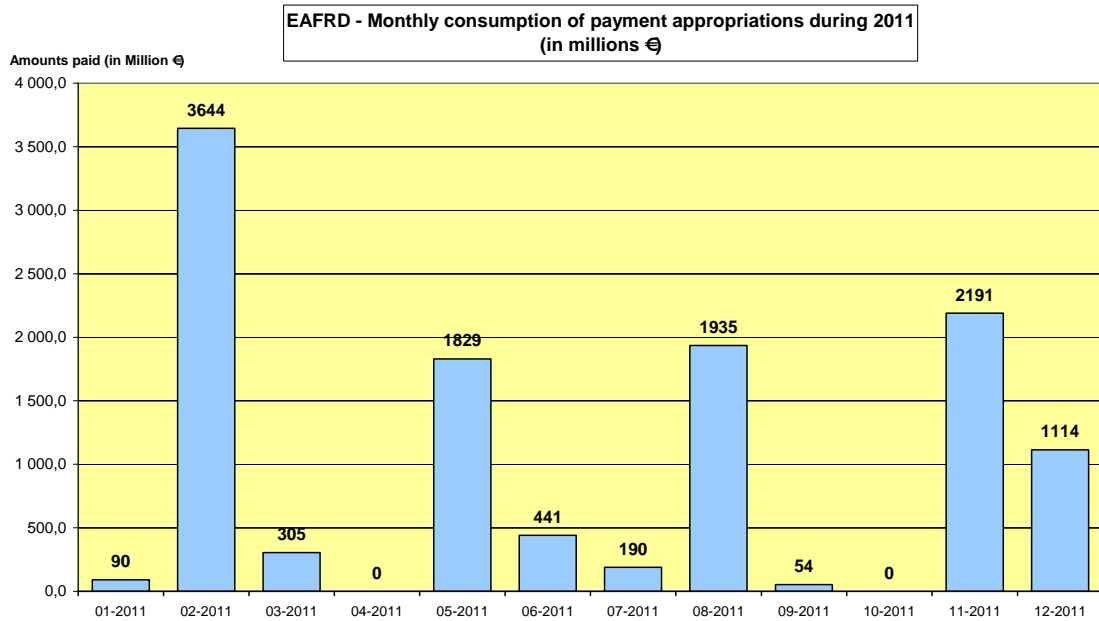
The reimbursement of 3rd quarter 2011 for 4 EAFRD programmes was totally or partially on hold at the end of the year because the outstanding commitment appropriations for these programmes were fully exhausted by the payment of previous claims. The payment had to wait until the annual commitments for 2012 were made. Table 9 shows the 4 EAFRD programmes concerned and the corresponding amounts.

Table 9

EAFRD Programs– N° CCI	Q2 2011 (in €)	Q3 2011 (in €)	Total
Vlaanderen (2007BE06RPO001)	238 128	14 772 928	15 011 056
Bayern (2007DE06RPO004)		1 870 550	1 870 550
Ireland National (2007IE06RPO001)		3 625 235	3 625 235
Luxembourg (2007LU06RPO001)		1 000 617	1 000 617
Total	238 128	21 269 330	21 319 620

The monthly consumption of payment appropriations during the year (January to December 2011) 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 2010, Q1 2011, Q2 2011 and Q3 2011) in accordance to article 16(2) of Regulation (EC) No 883/2006.

Graph 1



The breakdown per Member State and per declaration period of the amounts paid by the Commission in budget year 2011 is shown in table 10. The amounts from column Q3 2010 relate to the EAFRD programmes that exhausted their commitment appropriations for 2010 and had to wait until 2011 to have their amounts reimbursed with the 2011 commitment appropriations.

Table 10

Payments effectively made between 01/01/2011 and 31/12/2011						(in €)
MS	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Grand Total
AT		415 520 171	79 421 389	37 383 559	28 180 052	560 505 171
BE	6 655 665	20 205 051	9 304 872	28 334 942	10 408 934	74 909 464
BG		31 127 912	36 560 060	27 906 988	27 667 619	123 262 579
CY		808 015	4 586 345	7 789 936	4 777 720	17 962 016
CZ		134 278 841	183 214 787	80 002 343	50 653 503	448 149 474
DE	29 517 043	499 934 389	148 213 403	92 909 203	382 397 129	1 152 971 166
DK		18 495 694	11 236 246	10 317 646	9 944 567	49 994 154
EE		14 950 290	55 551 590	16 363 799	20 034 250	106 899 928
ES		351 338 439	168 599 414	191 438 702	269 634 563	981 011 118
FI		71 295 302	17 200 587	12 689 302	181 292 899	282 478 090
FR		191 982 200	106 491 239	122 960 384	319 238 557	740 672 381
GR		135 376 823	40 730 996	169 596 687	68 627 549	414 332 054
HU		101 803 302	153 963 033	112 292 708	64 626 120	432 685 163
IE	32 730 873	127 976 742	57 099 836	24 422 704	105 860 433	348 090 588
IT	990 232	544 420 549	176 085 598	167 769 673	213 875 222	1 103 141 274
LT		95 153 270	57 452 452	49 102 237	47 008 321	248 716 280
LU	262 045	4 422 746	5 452 242	1 953 947	1 196 309	13 287 289
LV		50 597 292	33 825 961	35 182 165	40 239 987	159 845 406
MT		814 311	3 045 772	1 277 842	2 234 075	7 372 000
NL		25 772 466	3 367 208	11 878 089	14 764 135	55 781 898
PL		501 922 071	423 762 728	464 420 777	362 996 136	1 753 101 711
PT		105 970 964	81 218 413	82 631 901	218 386 715	488 207 992
RO		117 074 704	113 205 528	134 899 503	529 743 309	894 923 044
SE		82 331 109	36 841 843	25 829 260	131 257 713	276 259 926
SI	2 280 860	40 363 416	17 279 226	38 024 200	13 864 277	111 811 978
SK		145 712 107	62 562 117	82 828 784	54 794 821	345 897 828
UK		140 080 274	183 770 831	154 052 762	123 826 408	601 730 275
Total	72 436 718	3 969 728 448	2 270 043 718	2 184 260 043	3 297 531 322	11 794 000 249

The total amount paid in 2011 EUR 11.79 billion relates to reimbursements only. No advances were paid in 2011.

Table 11 in the next page compares, for each Member State, the EAFRD payments made in 2011 with the payments in 2010. The total payments increased by 6% (EUR 11.79 billion vs. 11.12 billion).

Table 11

Payments made to Member States - Comparison 2011 vs 2010 (in €)								
MS	2010			2011			Difference 2011 vs. 2010	
	Interim payments	Prefinancing	Total	Interim payments	Prefinancing	Total	(in €)	(in %)
AT	581 822 242	7 987 420	589 809 662	560 505 171	-	560 505 171	-29 304 491	-5,0%
BE	65 783 043	4 821 180	70 604 223	74 909 464	-	74 909 464	4 305 241	6,1%
BG	275 520 008	2 320 500	277 840 508	123 262 579	-	123 262 579	-154 577 929	-55,6%
CY	16 165 873	142 800	16 308 673	17 962 016	-	17 962 016	1 653 343	10,1%
CZ	438 345 322	2 940 000	441 285 322	448 149 474	-	448 149 474	6 864 152	1,6%
DE	1 062 399 173	67 702 460	1 130 101 633	1 152 971 166	-	1 152 971 166	22 869 533	2,0%
DK	51 099 659	9 328 060	60 427 719	49 994 154	-	49 994 154	-10 433 565	-17,3%
EE	92 516 971	635 460	93 152 431	106 899 928	-	106 899 928	13 747 497	14,8%
ES	807 508 885	58 741 200	866 250 085	981 011 118	-	981 011 118	114 761 033	13,2%
FI	287 003 048	5 256 020	292 259 068	282 478 090	-	282 478 090	-9 780 978	-3,3%
FR	790 758 986	79 977 240	870 736 226	740 672 381	-	740 672 381	-130 063 845	-14,9%
GR	404 639 436	13 924 680	418 564 116	414 332 054	-	414 332 054	-4 232 062	-1,0%
HU	451 494 772	3 797 360	455 292 132	432 685 163	-	432 685 163	-22 606 969	-5,0%
IE	370 374 432	10 823 820	381 198 252	348 090 588	-	348 090 588	-33 107 664	-8,7%
IT	615 587 478	48 564 040	664 151 518	1 103 141 274	-	1 103 141 274	438 989 756	66,1%
LT	240 086 941	1 570 380	241 657 321	248 716 280	-	248 716 280	7 058 959	2,9%
LU	15 604 016	344 400	15 948 416	13 287 289	-	13 287 289	-2 661 127	-16,7%
LV	156 840 158	928 200	157 768 358	159 845 406	-	159 845 406	2 077 048	1,3%
MT	17 108 384	71 400	17 179 784	7 372 000	-	7 372 000	-9 807 784	-57,1%
NL	65 410 394	7 467 320	72 877 714	55 781 898	-	55 781 898	-17 095 816	-23,5%
PL	1 428 215 650	11 822 300	1 440 037 950	1 753 101 711	-	1 753 101 711	313 063 761	21,7%
PT	447 149 827	9 078 860	456 228 687	488 207 992	-	488 207 992	31 979 305	7,0%
RO	753 363 627	7 118 580	760 482 207	894 923 044	-	894 923 044	134 440 837	17,7%
SE	285 271 358	8 918 980	294 190 338	276 259 926	-	276 259 926	-17 930 412	-6,1%
SI	111 415 753	1 100 820	112 516 573	111 811 978	-	111 811 978	-704 595	-0,6%
SK	375 746 953	1 924 300	377 671 253	345 897 828	-	345 897 828	-31 773 425	-8,4%
UK	507 798 938	33 841 220	541 640 158	601 730 275	-	601 730 275	60 090 117	11,1%
Total	10 715 031 327	401 149 000	11 116 180 327	11 794 000 249	-	11 794 000 249	677 819 922	6,1%

3.3.2. Technical assistance

In the 2011 budget the amount for payment appropriations was €8.3 million. The table hereafter presents the payments for technical assistance for a total amount of EUR 3.9 million. The most important part is related to European Network for Rural Development.

Table 12

Technical assistance – Implementation of payment appropriations	
Budget Item: 05.040502 (in €)	
Description	Amount paid
Contact point of the European Network for Rural Development (ENRD)	3 449 516
Thematic working groups ENRD	166 690
Information technology	159 739
Experts committee on the evaluation of rural development programmes	37 009
Publications	100 809
Total	3 913 763

3.4. Analysis of expenditure declared by axis and by measure

Table 13 shows the payment claims declared by Member state and by axis/measure for rural development in 2011 (Q4 2010 to Q3 2011), the cumulative declared expenditure from 2007 to 2011 (Q4 2006 to Q3 2011) and also the financial plans of EAFRD programmes (2007-2013; EU27).

In 2011, the expenditure continues to be concentrated in axis 2 (47.9%), followed by axis 1 with 31.7%, axis 3 with 14.6% and axis 4 with 4.3%. This repartition of expenditure still diverges somewhat 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 4 years (2007-2010), the expenditure in 2011 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 50.9% in 2010 to 47.9% in 2011 while Axis 3 and 4 increase from 9.1% and 2.5% in 2010 to 14.6% and 4.3% in 2011 respectively.

Table 13

EAFRD declared expenditure 2011 (Q4 2010-Q3 2011) & Total cumulative expenditure (Q4 2006 to Q3 2011) compared with Financial Plans*						
EAFRD Axis / Measure	Declared expenditure 2011 (Q4 2010 to Q3 2011)		Cumulative declared expenditure (Q4 2006 to Q3 2011)		Financial Plans 2007-2013	
	(million €)	(%)	(million €)	(%)	(million €)	(%)
111 Vocational training and information actions	105,3	0,9%	261,8	0,7%	1 023,3	1,1%
112 Setting up of young farmers	474,3	3,9%	1 312,4	3,3%	2 809,5	2,9%
113 Early retirement	331,6	2,7%	1 371,7	3,5%	2 600,7	2,7%
114 Use of advisory services	18,6	0,2%	38,3	0,1%	355,5	0,4%
115 Setting up of management, relief and	6,6	0,1%	10,6	0,0%	94,5	0,1%
121 Modernisation of agricultural holdings	1 502,4	12,3%	5 040,4	12,7%	11 117,4	11,6%
122 Improvement of the economic value of forest	41,2	0,3%	121,3	0,3%	596,7	0,6%
123 Adding value to agricultural and forestry...	634,0	5,2%	1 649,9	4,2%	5 634,5	5,9%
124 Cooperation for development of new products	21,7	0,2%	39,6	0,1%	333,5	0,3%
125 Infrastructure related to the development ...	435,4	3,6%	1 189,3	3,0%	4 999,6	5,2%
126 Restoring agricultural production potential	79,1	0,6%	184,0	0,5%	477,6	0,5%
131 Meeting standards based on Community...	5,0	0,0%	49,9	0,1%	81,0	0,1%
132 Participation of farmers in food quality...	15,4	0,1%	31,9	0,1%	237,4	0,2%
133 Information and promotion activities	13,9	0,1%	26,9	0,1%	192,7	0,2%
141 Semi-subsistence farming	81,1	0,7%	472,0	1,2%	966,1	1,0%
142 Producer groups	25,1	0,2%	81,3	0,2%	323,5	0,3%
143 Direct Payment (BG + RO)	0,6	0,0%	2,3	0,0%	131,8	0,1%
144 Holdings undergoing restructuring	68,4	0,6%	68,4	0,2%	186,7	0,2%
Axis 1	3 859,5	31,7%	11 952,1	30,2%	32 162,1	33,4%
211 Natural handicap payments to farmers in ...	997,0	8,2%	4 160,9	10,5%	6 247,3	6,5%
212 Payments to farmers in areas with handicaps...	1 056,2	8,7%	4 325,5	10,9%	7 242,9	7,5%
213 Natura 2000 payments and payments linked ..	29,8	0,2%	85,5	0,2%	456,7	0,5%
214 Agri-environment payments	3 077,0	25,3%	12 030,1	30,4%	22 537,0	23,4%
215 Animal welfare payments	64,8	0,5%	207,9	0,5%	547,4	0,6%
216 Non-productive investments	69,3	0,6%	124,0	0,3%	576,1	0,6%
221 First afforestation of agricultural land	192,5	1,6%	829,1	2,1%	2 194,8	2,3%
222 First establishment of agroforestry systems...	0,0	0,0%	0,0	0,0%	18,7	0,0%
223 First afforestation of non-agricultural land	28,3	0,2%	65,5	0,2%	330,6	0,3%
224 Natura 2000 payments	4,9	0,0%	11,9	0,0%	98,4	0,1%
225 Forest-environment payments	7,3	0,1%	20,3	0,1%	227,0	0,2%
226 Restoring forestry potential and ...	235,5	1,9%	559,1	1,4%	1 660,2	1,7%
227 Non-productive investments	72,0	0,6%	185,5	0,5%	758,4	0,8%
Axis 2	5 834,5	47,9%	22 605,4	57,0%	42 895,5	44,6%
311 Diversification into non-agricultural activities	173,8	1,4%	339,0	0,9%	1 388,5	1,4%
312 Business creation and development	223,9	1,8%	373,7	0,9%	2 070,1	2,2%
313 Encouragement of tourism activities	97,7	0,8%	225,3	0,6%	1 222,4	1,3%
321 Basic services for the economy and rural ...	451,1	3,7%	771,5	1,9%	3 210,4	3,3%
322 Village renewal and development	661,6	5,4%	1 148,8	2,9%	3 252,1	3,4%
323 Conservation and upgrading of the rural....	144,9	1,2%	339,7	0,9%	1 375,4	1,4%
331 Training and information	13,0	0,1%	29,9	0,1%	131,7	0,1%
341 Skills acquisition, animation and implement...	16,4	0,1%	51,7	0,1%	147,5	0,2%
Axis 3	1 782,4	14,6%	3 279,6	8,3%	12 798,1	13,3%
411 Implementing local development strategies...	27,0	0,2%	53,4	0,1%	500,8	0,5%
412 Implementing local development strategies...	3,5	0,0%	5,8	0,0%	162,3	0,2%
413 Implementing local development strategies....	340,3	2,8%	552,8	1,4%	3 927,1	4,1%
421 Implementing cooperation projects	9,1	0,1%	12,4	0,0%	278,0	0,3%
431 Running the local action group, acquiring ...	143,9	1,2%	265,4	0,7%	970,2	1,0%
Axis 4	523,8	4,3%	889,8	2,2%	5 838,3	6,1%
511 Technical Assistance	175,1	1,4%	463,0	1,2%	1 904,1	2,0%
611 BG RO Direct Payments	-0,3	0,0%	437,8	1,1%	645,6	0,7%
Grand total	12 175,0	100,0%	39 627,8	100,0%	96 243,8	100,0%

* Amount of 419 228,61 € was effectively decommitted for Portugal end of 2011 .

3.5. Implementation of EAFRD programmes

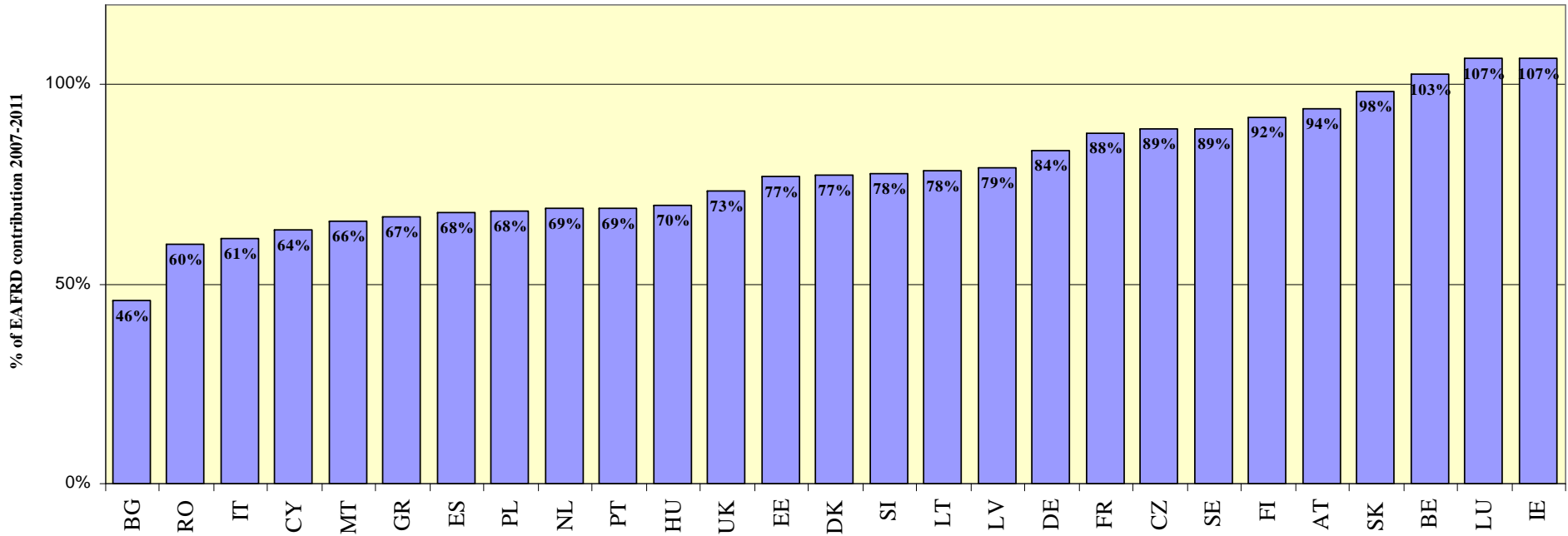
Graph 1 on the next page presents the financial implementation rate of rural development programmes (from the beginning to 2011, including Q4 2011) compared with the 2007-2011 appropriations. The average EAFRD financial implementation rate for all EAFRD programmes is 74.7%.

Graph 1 shows that most Member States have absorbed more than 65% of the 2007-2011 appropriations.

The ranking would be slightly different in terms of absorption rate, i.e. payments made from the beginning to 2011 (including Q4 2011) compared with the total 2007-2013 allocation to be paid until end of 2015. The average absorption rate for all EAFRD programmes is 51.9%.

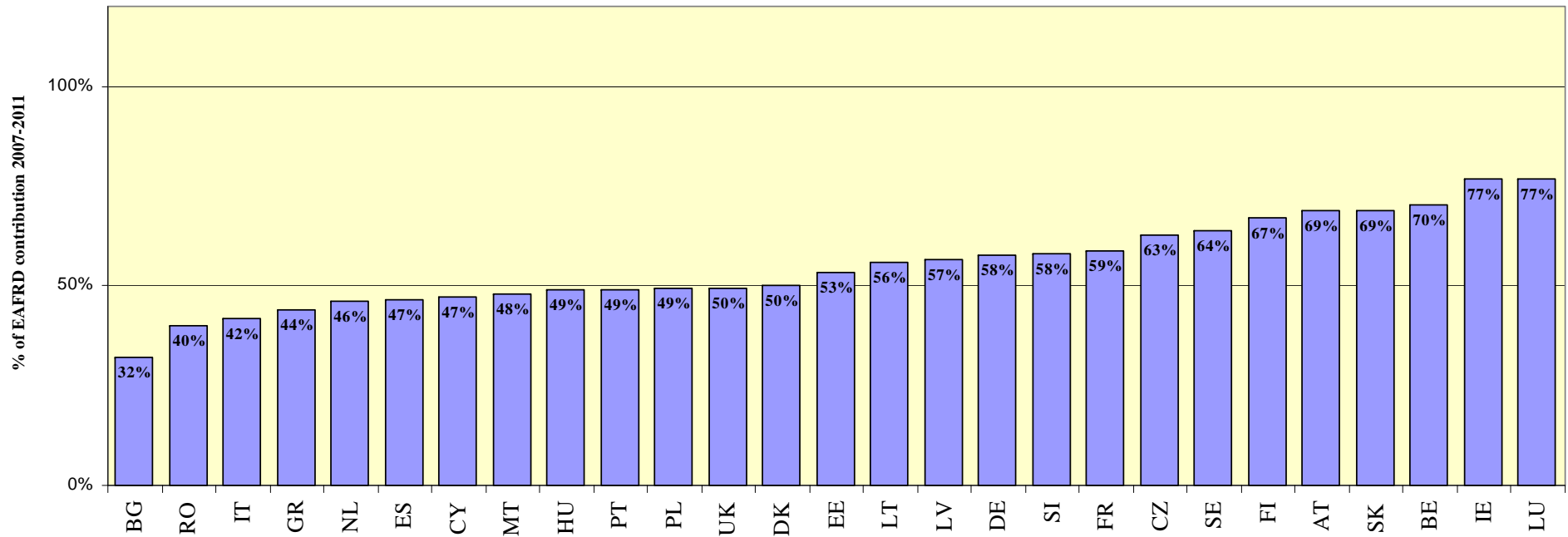
Graph 2 reflects the absorption rate per Member State. Up to 2011, most Member States have absorbed more than 45% of their 2007-2013 allocation.

**Graph 1- Financial implementation rate of RD programmes by Member State *
 (% of the EAFRD 2007-2011 payments, including payment claims Q4 2011, compared with 2007-2011 commitments)**



* - Payment claims Q4 2011 are included in the graph as they are paid in early 2012.

Graph 2- Absorption rate of RD programmes by Member State *
 (% of the EAFRD 2007-2011 payments, including payment claims Q4 2011, compared with 2007-2013 allocation)



* - Payment claims Q4 2011 are included in the graph as they are paid in early 2012.

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.

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 25, 28.01.2011 p.8-23

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 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 of 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 2011, the IACS covers around 44.9% 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 L30, 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, 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 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 will be 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 are disjoined are: 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.

5.1.3. Financial clearance for financial year 2010

In January 2012, the Commission adopted one further decision clearing the 2010 annual accounts of 4 Paying Agencies, which had were 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). Corresponding conformity enquiries

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

In April 2011, the Commission adopted one further decision clearing the remaining disjoined accounts for the financial year 2009.

Concerning the financial year 2008, further clearance decisions were adopted in February 2011 and in February 2012 clearing all remaining disjoined accounts for the financial year, except of one. The remaining paying agency for which the 2008 EAFRD accounts are currently still outstanding is OPEKEPE (Greece). The total amount concerned is EUR 224 million for EAFRD (3,7% of the total expenditure for the financial year in question).

These accounts will be cleared in the course of 2012.

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 2011, 7 desk audits and 28 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 2011, two 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 2010/668/EU of 4 November 2010 – 34th Decision excluding EUR 20,266,856.96.
- Decision 2011/244/EC of 15 April 2011 – 35th Decision excluding EUR 51,481,168.98.

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 2011, 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 2011 three new appeals were brought by the Member States against clearance decisions:

- T-3/11 brought by Portuguese Republic on 4 January 2011
- T-294/11 brought by Hellenic Republic on 9 June 2011
- T-335/11 brought by Republic of Bulgaria on 23 June 2011

Appeals pending

The situation as at 31 December 2011 with regard to appeals pending is shown, together with the amounts concerned, in the annex.

Table14

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
T-588/10	GR	-16,480,990.57
TOTAL		-32,554,921.38

6. BASIC RULES GOVERNING THE EAFRD AND AMENDMENTS MADE IN 2011

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.L); as last amended by Regulation (EC) No 473/2009 of 25 May 2009 (OJL 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 679/211 of 14 July 2011 (OJ L 185, 15.7.2011, p.57.).
- Commission Regulation (EU) No 65/2011 of 27 January 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 25, 28.01.2011, p.8); as last amended by Regulation (EU) No 147/2011 of 20 February 2012 (OJL 48, 21.2.2012, p. 7.).

6.2. Recent modifications

Commission had made its proposal in 2010 (COM(2010) 537) to align Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) to the Lisbon Treaty. This proposal also included some simplification aspects and minor policy changes. Inter-institutional negotiations at the horizontal level on the alignment of agricultural

legislation became in halt by the end of 2011, so the proposal for rural development was not adopted.

Implementing regulation for rural development, Commission Regulation (EC) No 1974/2006 was amended by Commission Implementing Regulation (EU) No 679/2011. This amendment introduced demarcation lines for the support for renewable energy production, introduced a new revision clause for multiannual commitments to adapt their content to post-2013 legislative framework and restricted the extension of these commitments to end 2013 in order to avoid overlapping with the new programming period, clarified the decision making in Leader approach, enlarged the scope of advances for Local Action Groups, clarified the minor changes in the situation of holdings in case of transfer of land and clarified the rules for financial engineering and for advances to investment operations.

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, was recast by Commission Regulation (EU) No 65/2011. This recast clarified and simplified the text of the regulation and took onboard certain amendments deemed necessary on the basis of practical experience.

6.3. 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 1368/2011 of 21 December 2011 (OJ L 341, 22.12.2011, p. 33-37).*
- 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 679/2011 of 14 July 2011*(OJ L 185, 15.7.2011, p. 57–61).

- 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.

6.4. 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 (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 Regulation (EC) No 1034/2008 of 21 October 2008 (OJ L 279, 22.10.2008, p. 13).