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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

SAPARD ANNUAL REPORT – Year 2003

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1. INTRODUCTION

During 2003, all SAPARD beneficiary countries continued the implementation of their programmes. In certain countries, additional measures envisaged were implemented. In addition to reporting on new developments, this report will, in particular, focus on the implementation of SAPARD and absorption in the beneficiary countries, and the progress made towards achieving the objectives set out in the "SAPARD" Regulation[1] and the respective SAPARD programmes.

The most essential monitoring data summarising the EU support in the respective countries have been used in preparation of the annexes designed to provide background data necessary for assessing the progress made towards achieving the objectives set out in the SAPARD Regulation.

2. SAPARD – STATE OF PLAY

2.1 State of Programme Implementation

The main objectives of SAPARD, as outlined in the SAPARD Regulation are:

- to contribute to the implementation of the *acquis communautaire* concerning the common agricultural policy and related policies,
- to solve priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas in the beneficiary countries.

Within the framework of these objectives, each beneficiary country defines their national objectives and priorities on the basis of: a) a needs assessment (SWOT analysis); b) the perspective for accession; c) the resources available and d) the national policies. To achieve the objectives set out in their programme, beneficiary countries can choose to apply one or more of the fifteen different measures specified in the SAPARD Regulation. By analysing how a particular beneficiary country has channelled EU funds into various sectors under the chosen measures, it is possible to make an early assessment of the progress made towards achieving these objectives.

All programmes focus in particular on four key measures: a) investments in food processing and marketing; b) farm investment; c) rural infrastructure and d) diversification of economic activities (Annex A, table I).

These measures relate in particular to the two main objectives, or priority axes, of the programmes: a) restructuring and preparing for the implementation of *acquis* related standards in the agricultural sector and b) promoting sustainable economic development and job creation in rural areas. An overview of the funds allocated and the levels of commitments per measure in each country are provided in Annex B.

Agri-environmental measures are included in all SAPARD programmes in beneficiary countries except for Slovenia[2]. These measures are designed as pilot actions allowing the countries to gain practical experience in implementation of agri-environmental actions prior to

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[1] Council Regulation 1268/1999 on Community support for pre-accession measures for agriculture and rural development in the applicant countries of central and eastern Europe in the pre-accession period (OJ L 161, 26.6.1999, p. 87).

[2] In Slovenia such actions have already been implemented as part of an advanced national scheme.

accession[3]. As regards the first priority axis, which concerns, in particular, investments in agricultural holdings and the food processing industry, emphasis has been placed on the sectors where *acquis* related investments are most demanding.

As regards investments in agricultural holdings, the most essential sectors in terms of requirements for *acquis* related investments are the livestock sectors and, to a certain extent, the wine, fruit and vegetable sectors. Investments in the crop sector are largely focused on rationalisation, mechanisation and the improvement of efficiency. As illustrated by Annex B, a significant share of the investments, with a few exceptions, relate to investments in these sectors.

Data from programme monitoring and the mid-term evaluation reports suggest that investments in the crop sectors have progressed faster than investments in the livestock sectors due to, *inter ali*a, economic problems and a lack of financial resources available for the latter. The Commission is addressing this issue in the context of following up on the annual implementation reports and, where appropriate, the mid-term evaluation reports (MTE). This includes reviewing and, if necessary, adapting the programmes in accordance with the Multi-Annual Financing Agreement (MAFA), with the objective of improving access to the programme for the sectors requiring most support to prepare for accession, and to achieve balanced progress in all sectors covered by this measure.

As regards investments in food processing and marketing, the need for *acquis* related investments to meet *acquis* standards is most pressing within the dairy and meat processing sectors. Meeting EU standards is also important in the fishery, wine, fruit, and vegetable sectors. A significant share of investments under this measure relates to investments in the sectors with a tendency towards a higher activity level in the field of further procession. Investments in first stage processing, and in particular, slaughterhouses, develop at a slower pace. Data from programme monitoring and, where appropriate, the MTE suggest that there is a certain amount of deadweight investment, especially in the further processing sectors. The Commission is addressing these issues in the context of following up on the annual implementation and the MTE with a particular emphasis on reviewing the programmes with the objective of strengthening the focus of the programmes on *acquis* related investments and the preparation for accession.

The group that contributes in particular towards achieving the second priority axis consists of investments in rural infrastructure and the diversification of economic activities with an emphasis on investments in local infrastructure, communication networks and job creation.

As to the investments in rural infrastructure, the most important activities relate to investments in local roads, water supply and sewage systems with the level of investments depending on the situation in their respective rural communities and the objectives set out.

With regard to the investments in diversification in economic activities, the most important activities relate to investments in improvement and development of rural tourism facilities, small and medium sized food processing enterprises and local service providers.

As regards agri-environment measures, the progress made in preparing for the implementation of this measure varies as beneficiary countries have either focused efforts on improving efficiency in the implementation of already accredited measures with a view to increasing absorption, or have concentrated on preparing the post-accession agri-environment measures. In the Czech Republic and Slovakia, Commission decisions conferring management of aid for

[3] Such actions will constitute an obligatory element of post-accession rural plan development.

agri-environmental measures were taken on 19/02/2003 and 14/08/2003 respectively. By the end of 2003, the Czech Republic contracted 36 projects committing a total of €524 380 of SAPARD funds. The first payment made to the Czech Republic in January 2004 totalled €124 756.

2.2 Monitoring of programme implementation

In 2003, 19 Monitoring Committee meetings were held. The main topics of discussion and decisions were as follows: a) monitoring the implementation of SAPARD programmes by using previously agreed monitoring indicators; b) approving modifications to be introduced in the SAPARD programmes; c) examining the MTE reports and d) approving the annual implementation reports prior to submitting them to the Commission.

Monitoring of commitments

Each country has been monthly communicating the commitments of the SAPARD Agency made to its final beneficiaries. This information has proved useful for benchmarking, the early warning of a lack of progress and the potential risk of cancellation of unused appropriations. This has enabled the Commission to address such issues at an early stage by advising the countries on ways of ensuring more effective implementation.

Programme modifications

In 2003, 9 SAPARD programmes have been amended by 12 Commission decisions. The amendments took into account the results of the practical implementation and prepared further measures for the conferral of management. (Annex D, table I).

Mid-Term Evaluation (MTE)

By the end of 2003, every beneficiary country, except for Romania, had submitted their MTE reports[4]. The Commission is considering the implications of the evaluation with a view to assessing the programme.

Rural Credit Window

Due to the difficulties faced by farmers and rural businesses in gaining access to suitable credit facilities for co-financing their projects, the Commission adopted a decision regarding the financing of the PHARE SME Facility for 2003. A new feature under this facility is the creation of a Rural Sub-Window with the purpose of strengthening the financial sector's capacity to provide financial services to farmers and rural businesses which when implemented will improve access to credits for farmers and small and medium sized enterprises in rural areas.

2.3 Changes in Legal Frameworks

Regulation 696/2003 increased the limits on the intensity of aid under Sapard in the case of exceptional natural disasters[5].

Regulation 188/2003[6] provided detailed rules for cases of exceptional natural disasters and introduced new deadlines for the cancellation of appropriations, ensuring that all beneficiary

[4] Romania submitted their report on 17/05/2004.
[5] OJ L 99, 17.4.2003, p. 24.

countries are treated equally by extending the time limit. The 2000 and 2001 allocations were extended to 2004 and 2005 respectively. The 2002 and 2003 allocations were extended 2006.

These changes were described in the 2002 report.

2.4 AFA 2003

The AFA 2003 was put forward in early 2003 in order to make available appropriations to the beneficiary countries as early as possible. It also modifies the previous AFA and MAFA ,covers the Community contribution under the 2003 budget (€560 million), adjusts the provisions concerning the submission of applications for payment from the Commission, aligns its public procurement procedures with those in the Financial Regulation 1605/2002[7] , clarifies that public procurement procedures will be transparent, non-discriminatory and will not give rise to conflicts of interest and clarifies the definition of “irregularities”, “fraud” and the conditions for co-financing general costs[8] for a given project.

Additional resources totalling €3,9 million were made available to the beneficiary countries in 2004 through an amendment to the AFA 2003 (Annex C, table I).

2.5 Execution in 2003 – Financial and Budgetary Issues

For budget appropriations available and financial execution in 2003 see Annex C, table II.

2.5.1 Commitment appropriations

SAPARD budgetary allocations for commitments in the 2003 budget were set at €564 million of which €560 million was allocated to programme line B7-010, and €4 million to the administrative management line B7-010A.

On 23/12/2003, €3,9 million, the amount not used by the Commission for administrative purposes under Article 7(4) of the SAPARD Regulation (line B7-010A), was made available to programme line B7-010 and was carried over to 2004. No appropriations were carried over from 2002 and no appropriations lapsed in 2003.

2.5.2 Payments appropriations

Appropriations for payments were set at €428,9 million for budget line B7-010 (after a global transfer of €10 million), and €4 million (of which €3,9 million was carried over to 2004) for line B7-010A.

No appropriations were carried over from 2002. €169,4 million of payment appropriations was not used in 2003 and lapsed. The major reason for this was that Romania, for which the conferral decision was granted in July 2002, did not apply for reimbursement of any incurred expenditure chargeable to the 2003 budget, and that the uptake of funds in Poland was lower than expected, especially during the first half of the year. The share of these countries in the total appropriations is around 61%.

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6 OJ L 27, 1.2.2003, p. 14.

7 On the Financial Regulation applicable to the general budget of the European Communities (OJ L 248, 16.9.2002, p. 1).

8 General costs for a given project comprise costs for architects, engineers, consultants, and legal fees, costs of feasibility studies for preparing and/or implementing the project, and costs for acquisition of patents and licences, directly related to that project.

Payments for administrative support totalling €82 900 were made towards 3 seminars. Total payments for the programmes made in 2003 amounted to €263 378 761.

Second instalment of payments on account was made to 4 countries in 2003 (Annex C, table III).

Payments to reimburse the actual expenditure as set out in the expenditure applications for payments were made as indicated in Annex C, table III. For Poland and Slovakia this was the first time that payments other than the payment on account were made.

In addition, first payment applications were received from Hungary (in July and October for €0,3 million) and Romania (in November 2003 for €0,5 million). These claims remained outstanding at the end of 2003 due to a lack of necessary documentation.

Global commitments to the beneficiary countries made by the end of 2003 amounted to €2 183 billion and covered the AFA 2000 – 2003.

Payments made by the Commission to the beneficiary countries from the beginning of the programme to the end of 2003 amounted to €417,6 million, of which €207,6 million represented payments on account and €210 million reimbursement payments based on expenditure declarations (Annex C, table IV).

3. ACTIVITIES IN RELATION TO CONFERRAL OF MANAGEMENT, AUDITS AND CONTROLS

3.1 Update on the Conferral of Management

By the end of 2002, every beneficiary country was in a position to implement some of the measures under SAPARD. In 2003, the Commission's services focussed on the so-called "second wave" of conferral of management covering the remaining measures or a part of those measures.

Decisions were adopted for 6 countries (Annex D, table II). At the end of 2003, in 8 countries, the measures covered by a conferral of management decision represented more than 90% of the budget allocated to SAPARD.

The conferral audits carried out also aimed at preparing the remaining decisions for Estonia, Hungary and Slovenia, which were adopted in 2004.

After the first wave of conferral of management, a monitoring of the existing systems was achieved by conducting on-the-spot checks in Hungary, Poland and Romania. Recommendations for improvements were addressed to the authorities concerned.

3.2 Clearance of accounts decision

All countries except for Hungary and Romania have declared expenditure for 2002.

The Commission's services have carried out their own verifications of the information provided before clearing the accounts. Various audit missions were conducted in the SAPARD Agencies, National Funds and Certifying Bodies of all countries, except for Romania where a desk check was performed.

The Commission decision of 31/10/2003 has cleared the 2002 accounts of all beneficiary countries. This decision has been taken without prejudice to the subsequent decisions that aim to exclude the expenditure not yet executed in compliance with MAFA.

3.3 Conformity Clearance decision

A compliance audit enquiry began in September, with five audits carried out by the end of the year. The accredited agencies and the local bodies responsible for the management and control of the SAPARD measures implemented in Bulgaria, Estonia, Lithuania, Latvia and Slovenia were subject to an overall verification of the implemented procedures. Selected samples of payment files were also examined and some final beneficiaries were inspected on the spot.

The auditors focussed particularly on specific requirements of MAFA that were considered to present a higher degree of risk as regards: a) the principles of sound financial management and, in particular, economy and cost-effectiveness; b) double funding or overlapping of funding; c) expenditure not eligible for Community co-financing under SAPARD; d) eligibility criteria set out in the rural development programmes for each measure; e) the extent and quality of controls; f) the changes in staff considered as “key personnel”; g) public procurement and h) specific allegations.

The weaknesses detected were addressed to the authorities concerned in the form of a letter of observation. The application of possible financial corrections to the expenditure affected will be evaluated at the end of the present enquiry.

3.4 Threat of possible de-commitment not materialised

The new deadlines for the cancellation of appropriations would be applied from the end of 2004. Recent developments suggest that there will be no cancellations.

3.5 Work carried out in relation to the Court of Auditors

Throughout 2003, the Court of Auditors continued closely monitoring the execution of SAPARD. The main observation made in the Annual Report 2002 was the slow implementation, and as a result the amount of unused budget payment appropriations which lapsed. In 2003, the Court also started working on a special SAPARD report which was finally presented to the Commission on 19/02/2004.

3.6 Information on OLAF activities concerning SAPARD irregularity communications from beneficiary countries

In 2003, all beneficiary country, except Romania and Hungary, received payments from the Commission which obliged them to report on the irregularities.14 cases of irregularities where brought to the attention of OLAF.A timely forwarding of the information in Estonia prevented an irregularity of an obvious conflict of interest. The experience shows the majority of irregularities arise from the incorrect application of the legislation governing the public contracts, or the provision of wrong documentation.

Working together with notified beneficiary countries, OLAF initiated various inquiries.

4. SEMINARS

A seminar on developing and promoting local initiatives in the beneficiary countries was held in Pardubice, Czech Republic, in May. It provided a forum for the exchange of views on the implementation of SAPARD, especially the work involving NGOs. The Member States and beneficiary countries, exchanged views on involving local partners in developing efficient partnerships at local level and with central governments to support the implementation of SAPARD.

A second series of workshops on evaluation was to assist each beneficiary country with the task of managing their MTE exercises was held for all countries, except for Slovenia. They provided reinforced Commission Guidelines on MTE, ensured that the evaluation exercise would be undertaken in a comprehensive and timely fashion and addressed specific queries raised by the evaluators.

5. POST-ACCESSION TRANSITION

As 8 out of 10 beneficiary countries became Members States in May 2004, the Commission has taken certain actions to facilitate transition from the SAPARD to post-accession Rural Development instruments:

- The organisation of a seminar on “Post-Accession Rural Development Instruments” in March 2003, where guidelines for the transition from SAPARD to these instruments were presented.
- The preparation of the legal framework on the basis of the Act of Accession Articles 32(5) and 33(5) that mainly addresses the following issues:
    - Rules facilitating the transition from SAPARD to the programming instruments available to the Member States. These rules define when the new Member States must stop contracting under SAPARD as well as the way to deal with projects contracted under SAPARD but for which funding was not sufficient.
    - Rules on the continuation of the application of the AFA and MAFA in the new Member States until closure of the SAPARD programmes, including certain necessary adaptations of these agreements to take into account the new status of these countries.

The above provisions were adopted by the Commission in 2004.