



European
Commission

Annual Activity Report 2020

Directorate-General
for Agriculture and Rural Development

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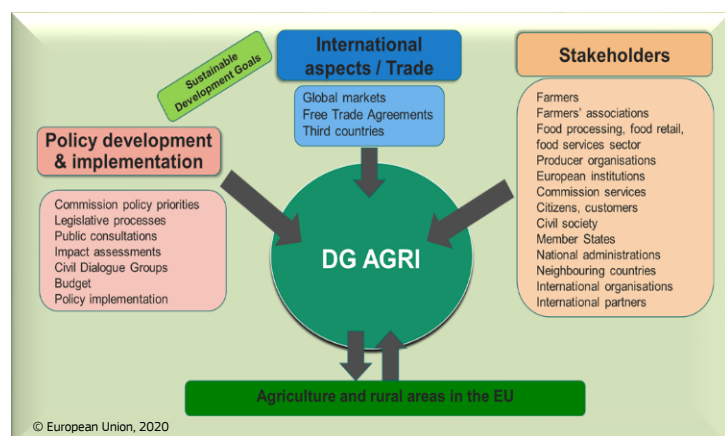
THE DG IN BRIEF

The **mission** of the Directorate-General for Agriculture and Rural Development (DG AGRI) is to promote the sustainable development of Europe's agriculture and to ensure the well-being of its rural areas through the implementation of the common agricultural policy.

The importance of agriculture for society extends beyond its role as a source of safe and healthy food or the promotion of jobs in farming, agri-food industries and associated sectors. Agriculture has a direct impact on the viability of rural areas, the scenic value of landscapes, climate change, water quality, eco-system services as well as Europe's heritage. Therefore, the **Common Agricultural Policy** (CAP) offers various complementary tools and instruments ensuring that agriculture best meets European citizen's demands.

The CAP is a genuinely European policy as Member States pool resources to operate a single common policy with a single European budget. Article 39 of the **Treaty of the Functioning of the European Union** (TFEU) sets out the CAP objectives: to increase agricultural productivity; to ensure a fair standard of living for the agricultural community; to stabilise markets; to assure the availability of supplies; to ensure that supplies reach consumers at reasonable prices.

Fulfilling these objectives in the light of changing internal and external challenges requires formulating **political priorities** which reflect the specific needs at a given point in time. This is the case for the key strategic orientation at EU level as well as for the key aims any EU policy intends to achieve. In order to adapt the CAP to new emerging challenges, the European Commission plays a leading role as policy initiator, executor of the policy and manager of the EU budget. In order to deliver on its mission, DG AGRI interacts in an open and transparent way with a large set of **stakeholders** (see graph). The other European institutions (in particular Council and Parliament as co-legislators), national administrations (as managers of the policy under shared management) and the EU-wide organised stakeholders play an important role in the capacity of DG AGRI to promote the sustainable development of Europe's agriculture and to ensure the well-being of its rural areas.



The competences in the field of agriculture are **shared between the Union and the Member States**. In that context, DG AGRI has a large scope of activities:

The competences in the field of agriculture are **shared between the Union and the Member States**. In that context, DG AGRI has a large scope of activities:

- The CAP is financed through two funds: the **European Agricultural Guarantee Fund** (EAGF) and the **European Agricultural Fund for Rural Development** (EAFRD).

- DG AGRI also contributes to the **Instrument for Pre-accession assistance** (through IPARD¹).
- As a research DG, it programmes and monitors agricultural research and participates in the implementation of the Horizon 2020 Framework Programme for Research and Innovation (future Horizon Europe).
- The overall policy conception and formulation of the CAP is based on **policy and economic analysis**, evaluation and impact assessments.
- DG AGRI prepares **legislative proposals** and **monitors their implementation** to ensure a harmonised application. The DG manages various Commission regulations laying down detailed implementing rules as well as their adaptation over time.
- DG AGRI also deals with infringements, control of implementation of the acquis, complaints and Ombudsman inquiries.
- By its **audit** activities, DG AGRI verifies the conditions under which payments and controls have been carried out by the Member States.
- DG AGRI contributes to the negotiation of **international agreements**, contributes to the implementation of such agreements and manages the relations with third countries in the area of agriculture.

DG AGRI operates in three different **management modes**: Shared management (interventions in agricultural markets, direct support, rural development), indirect management (pre-accession measures) as well as direct management (other activities such as studies, promotion, information and communication).

In 2020, DG AGRI managed a **budget** of around EUR 56.9 billion in voted payment appropriations (which accounts for around 36% of the overall EU budget²), split between nine activity areas³. The three major activity areas ABB02, ABB03 and ABB04 (all executed under shared management mode) accounted in total for EUR 56.2 billion. More details can be found in Section 2.1.

Regarding its **organisation**, DG AGRI had a staff of around 900⁴ in 2020 and was made up of 10 directorates. 7 operational directorates were responsible for managing agricultural market measures, direct support, rural development and pre-accession assistance, research and innovation, international relations and audit. 3 directorates were in charge of policy strategy and coordination (covering the design, implementation, enforcement and evaluation of the Common Agricultural Policy (CAP)), resources (including budget and financial management), and legal and procedural matters (including internal control). In line with the Commission's allocation of portfolios and supporting services, the State Aid unit was transferred to DG COMP on 1 January 2020. The number of units in DG AGRI was thus

¹ Instrument for Pre-Accession Assistance in Rural Development

² Execution 2020: 35.17% for CAP

³ Administrative expenditure (ABB01), Interventions in agricultural markets (ABB02), Direct support (ABB03), Rural development (ABB04), Pre-accession measures (ABB05), International aspects (ABB06), Audit (ABB07), Horizon 2020 — Research and innovation (ABB09) and Policy strategy and coordination (ABB08).

⁴ DG AGRI staff (officials and external staff) on 01/01/20: 959; on 01/01/21: 921

reduced to 45. On 1 April 2020, Wolfgang Burtscher took up office as Director-General of DG AGRI.

Concerning its **implementation**, the CAP has **6.7⁵ million beneficiaries**, supported under a variety of **different schemes**. Implementation takes place predominantly in shared management where DG AGRI relies on Member States' cooperation in taking all necessary measures to achieve the CAP objectives and ensure effective as well as legal and regular implementation of the various support schemes. The natural cycle of agricultural activities shapes the controls to be carried out and the frequency of payments to beneficiaries. Paying Agencies account for payments to beneficiaries on an annual basis in their accounting and declaration to the Commission. Expenditure declarations from the Member States are cleared by the Commission via an **annual financial clearance of accounts** exercise, combined with **conformity clearance procedure**. The details of the CAP management and control system are described in Section 2 of the AAR.

⁵ There were approximately 6.2 million beneficiaries under direct support schemes, around 3.5 million beneficiaries under rural development measures and some 0.10 million beneficiaries of market measures in financial year 2020. As a majority of beneficiaries of payments under rural development measures are also beneficiaries of direct payments (but are only counted once when considering total beneficiary numbers), the total number of beneficiaries, up to 6.7 million for both Agricultural Funds, is lower than the sum of the individual figures. The small decrease in direct support beneficiaries compared to financial year 2019 (6.3 million) is mostly due to structural adjustments in the European agricultural sector. The increase in rural development beneficiaries compared to financial year 2019 (3.2 million) is due to the expenditure profile under EAFRD, concentrating most Non-IACS payments at the end of the 2014-2020 programming period (investments, Leader, cooperation...).

EXECUTIVE SUMMARY

This Annual Activity Report is a management report of the Director-General of DG AGRI to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties⁶.

A. Key results and progress towards the achievement of the Commission's general objectives and DG's specific objectives (executive summary of Section 1)

In the period 2020-2024, the activities of DG AGRI will focus on the contribution of the Common Agricultural Policy (CAP) to three political priorities of the von der Leyen Commission.

- **The European Green Deal**

Several initiatives and strategies, put forward in 2020, have a considerable impact on the development of the CAP. The **European Green Deal** sets out the path to make Europe the first climate-neutral continent by 2050. It maps a new, sustainable and inclusive growth strategy to boost the economy, improve health and quality of life, care for nature, while leaving no one behind. In order to advance in this direction, in 2020 the European Commission adopted the **Farm to Fork Strategy**, the **EU 2030 Biodiversity Strategy** and the **2030 Climate Target Plan**. These key strategic documents comprehensively address the challenges of creating sustainable food systems, recognise the inextricable links between healthy people, healthy societies and a healthy planet, facilitate the shifting to healthier and sustainable diets and advance in bringing nature back into our lives.

Discussions of the CAP reform legislative proposals between the three institutions continued in 2020. In October 2020, the Council agreed on a general approach; the European Parliament mandate was adopted at the same time. Trilogues and preparatory technical meetings have been ongoing. To provide for smooth continuation of the CAP in 2021 and 2022, two transitional regulations were adopted by the co-legislators in 2020.

In addition, DG AGRI supported Member States in the preparation of their CAP Strategic Plans through consultation and advice of the "Geographical Hubs" (Geo Hubs). Furthermore, in the framework of a **structured dialogue**, the Commission made recommendations to the Member States on the nine specific objectives of the CAP that were aimed to assist in the drafting of the Member States' national CAP Strategic Plans. The recommendations pay

⁶ Article 17(1) of the Treaty on European Union

particular attention to addressing the **Green Deal targets** and those stemming from the Farm to Fork Strategy and the Biodiversity Strategy for 2030.

Several market measures were adopted in order to stabilise the different sectors and to provide sufficient flexibility. In addition, the process for reviewing a number of marketing standards has been launched.

Equally, DG AGRI initiated the process for strengthening the system of geographical indications (GI). With a view to further developing the organic sector, as a tool to contribute to the creation of a sustainable food system, DG AGRI is preparing an Organic Action Plan.

Important challenges remain ahead, notably in relation to the environmental impact of the CAP as well as climate mitigation and adaptation. Nevertheless, in relation to the uptake of environmental and climate measures in 2020, the 2023 targets of the Rural Development Programmes (2014-2020) have already been met. These measures compensate farmers and other land managers for voluntarily committing themselves for several years at a time to practices that are beneficial for the environment and climate.

- **A Stronger Europe in the world**

DG AGRI contributed significantly to the negotiations on the future relationship with the United Kingdom. The EU-UK Trade and Cooperation Agreement provides for a tariff and quota free deal for EU agri-food trade and rules of origin, it recognises the equivalence in organics, and ensures a level playing field.

The EU further expanded its agri-food trade. In this context, a number of Free Trade Agreements (FTA) have been successfully negotiated in 2020. At the same time, the EU further enhanced its policy cooperation with developing countries. For instance, progress has been achieved in the implementation of the joint African Union-EU Rural Transformation Agenda.

DG AGRI also continued its active involvement in key international fora bearing on agri-food policy, and contributed to the work linked to the reform of the World Trade Organisation (WTO). Furthermore, DG AGRI continued to pursue its proactive engagement to protect Europe's food heritage and promote its high quality agri-food products and standards in non-EU countries.

- **A new push for European Democracy**

In 2020, the Commission adopted the report on the Impact of Demographic Change that highlights the specific challenges that rural areas face related to demographic developments, in particular ageing and lack of generational renewal. It also refers to the regional and local dimension and addresses the quality of life, infrastructure and access to services, and the related rural/urban divide in some areas.

During 2020, stakeholders showed a high level of interest in the different consultation events that feed into the development of the long-term vision for rural areas. The online public consultation for the long-term vision for rural areas organised in the last quarter of

2020 received more than 2 300 replies. Numerous outreach activities have been organised, involving many stakeholders, including under the European Network of Rural Development, that contribute to and enrich the foresight exercise to be carried out for the Vision.

B. Key Performance Indicators (KPIs)

The four key indicators that monitor the core aspects of the Common Agricultural Policy (CAP) are:

The CAP Key Performance Indicators	Baseline	Target	Impact/Result
1. Agricultural factor income	126.5 (Avg 2017-2019)	To increase	124.2 (2020 estimated)
2. EU commodity prices compared to world prices	1.13 (2017)	To bring EU prices closer to the world prices	1.16 (2020)
3. Minimum share of land with specific environmental practices/commitments^{7, 8} - Share of agricultural area under <u>greening</u> practices	75% (2015)	To maintain	79% (calendar year 2019)
4. Number of young farmers setting up a farm	102 150 (2018)	To increase	125 800 (2020)

⁷ Commitments under this measure have been undertaken for a period of five to seven years as laid down in Regulation (EC) No 1305/2013. The legislative procedure regarding the Commission's legislative proposals on the CAP beyond 2020 has not been concluded in time to allow Member States and the Commission to prepare all elements necessary to apply the new legal framework and the CAP Strategic Plans as from 1 January 2021, as initially proposed by the Commission. Regulation (EU) 2020/2220 provide for the continued application of the rules of the current CAP framework covering the period 2014 to 2020 until the date of application of the new legal framework covering the period starting on 1 January 2023.

⁸ In addition to the share of agricultural area under greening practices, this KPI consists of the following indicators: Share of area under organic farming; % of agricultural land under management contracts supporting biodiversity and/or landscapes; % of forest area/other wooded land under management contracts supporting biodiversity; % of agricultural land under management contracts to improve water management; % of forestry land under management contracts to improve water management; % of agricultural land under management contracts to prevent soil erosion and to improve soil management; % of forestry land under management contracts to prevent soil erosion and to improve soil management; % of LU concerned by investments in livestock management in view of reducing greenhouse gas and/or ammonia emissions; % of agricultural land under management contracts targeting reduction of greenhouse gas and/or ammonia emissions.

On much of the farmland, "greening" requirements apply at the same time as other environmental practices/commitments. In those cases, the contracts funded by rural development policy build on the environmental benefits of the greening requirements. Likewise, the area figures concerned by rural development support overlap with each other. To avoid double counting, these figures have not been added up.

The key indicator linked to the achievement of the internal control objectives is:

5. Risk remaining to the EU budget after all corrections have been carried out

	Payments made	Pre-financing paid	Cleared pre-financing	Relevant expenditure ¹	Adjusted error rate	Estimated amount at risk at payment	Average financial corrections	Average recoveries	Average recoveries and corrections (in % of relevant expenditure)	Corrective capacity	Estimated final amount at risk
	million EUR	million EUR	million EUR	million EUR	%	million EUR			%	million EUR	million EUR
1	2	3	4	5	6	7	8a	8b	8	9	10
				= 2 - 3 + 4		= 5 x 6				= 5 x 8	= 7 - 9
Title 04 Employment, social affairs and inclusion											
0401	Administrative expenditure	0.13	0.00	0.00	0.13	1.00%	0.00	0.00	0.00%	0.00	0.00
Title 09 Communications networks, content and technology											
0903	Connecting Europe facility (CEF)	0.27	0.00	0.00	0.27	1.00%	0.00	0.00	0.00%	0.00	0.00
Title 13 Regional and urban policy											
1303	European regional development fund	0.19	0.00	0.00	0.19	1.00%	0.00	0.00	0.00%	0.00	0.00
1304	Operational technical assistance	0.08	0.00	0.00	0.08	1.00%	0.00	0.00	0.00%	0.00	0.00
Title 17 Health and food safety											
1704	Food and feed safety, animal health, animal welfare and plant health	0.19	0.00	0.00	0.19	1.00%	0.00	0.00	0.00%	0.00	0.00
Title 18 Migration and home affairs											
1801	Administrative expenditure	0.23	0.00	0.00	0.23	1.00%	0.00	0.00	0.00%	0.00	0.00
Title 05 Agriculture and rural development											
SHARED MANAGEMENT											
0502	Interventions in Agricultural Markets	2 573.81	0.00	0.00	2 561.45	2.43%	62.37	43.34	0.00%	0.00	0.00
0503	Direct payments	41 571.75	0.00	0.00	41 396.35	1.57%	650.93	411.11	0.00%	0.00	0.00
	EAGF total	44 145.56	0.00	0.00	43 957.80	1.62%	713.30	454.45	1.25%	548.01	165.28
0504	Rural development	14 569.25	0.00	0.13	14 569.38	2.92%	425.13	197.64	101.38	2.05%	299.02
0507	Audit	200.36	0.00	0.00	200.36	0.00%	0.00	0.00	0.00%	0.00	0.00
INDIRECT MANAGEMENT											
0505	Pre-accession Measures	77.01	12.60	0.00	64.41	0.00%	0.00	0.00	0.00%	0.00	0.00
DIRECT MANAGEMENT											
0501	Administrative expenditure	9.79									
0502	Interventions in agricultural markets	0.00									
0504	Rural development	9.62	7.12	6.39	49.17	1.00%	0.49	0.00	0.00%	0.00	0.49
0506	International aspects	4.38									
0508	Policy strategy and coordination	26.10									
0509	Horizon 2020 - Research and innovation	0.00									
	Total CAP	59 042.08	19.72	6.52	59 028.87	1.93%	1 138.92	652.09	197.28	1.43%	847.03
	Total DG AGRI	59 043.17	19.72	6.52	59 029.96	1.93%	1 138.93	652.09	197.28	1.43%	847.03
											0.5%
											0.5%

Footnote (1): relevant expenditure includes the payments made, subtracts the new pre-financing paid out and adds the previous pre-financing actually cleared during financial year 2020. For ABB02 and ABB03 the payments made following the lifting of payment suspensions is considered to be error free and have therefore been deducted from the relevant expenditure (EUR 12.36 Mio for ABB02 and EUR 175.40 Mio for ABB03).

C. Key conclusions on Financial management and Internal control (executive summary of Section 2.1)

In accordance with the governance arrangements of the European Commission, DG AGRI conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The financial regulation requires that the organisational structure and the internal control systems used to implement the budget be set up in accordance with these principles. DG AGRI has assessed its internal control system during the reporting year and has concluded that it is effective and the components and principles are present and functioning well overall, but some improvements are needed as one minor deficiency was identified. Please refer to AAR Section 2.1.3 for further details.

In addition, DG AGRI has systematically examined the available control results and indicators, including those for supervising entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by the internal auditor and the European Court of Auditors (ECA). These elements have been assessed to determine their impact on management's assurance about the achievement of the control objectives. Please refer to Section 2.1 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and

necessary improvements and reinforcements are being implemented. The Director-General, in his capacity as Authorising Officer by Delegation, has signed the Declaration of Assurance, albeit qualified by the following reservations:

- **ABB02 – Payments made on Market Measures:** 3 aid schemes comprising 8 Member States (11 elements of reservation): Belgium, Germany (for 2 aid schemes), Italy, Spain, France, Portugal (for 2 aid schemes), the United Kingdom (for 2 aid schemes), Romania;
- **ABB03 – Payments made on Direct Payments:** 17 Paying Agencies, comprising 9 Member States: Austria, Bulgaria, Finland, France, Greece, Italy (9 Paying Agencies), Portugal, Romania, Slovakia;
- **ABB04 – Payments made on Rural Development:** 28 Paying Agencies, comprising 19 Member States: Austria, Belgium (2 Paying Agencies), Bulgaria, Czech Republic, Germany (1 Paying Agency), Denmark, Estonia, Spain (3 Paying Agencies), Finland, France (2 Paying Agencies), the United Kingdom (3 Paying Agencies), Greece, Croatia, Italy (4 Paying Agencies), Poland, Portugal, Romania, Sweden, Slovakia.

D. Provision of information to the Commissioner

In the context of the regular meetings during the year between the DG and the Commissioner on management matters, the main elements of this report and assurance declaration, including the reservation(s) envisaged, have been brought to the attention of Commissioner Wojciechowski, responsible for Agriculture, on 20 April 2021.

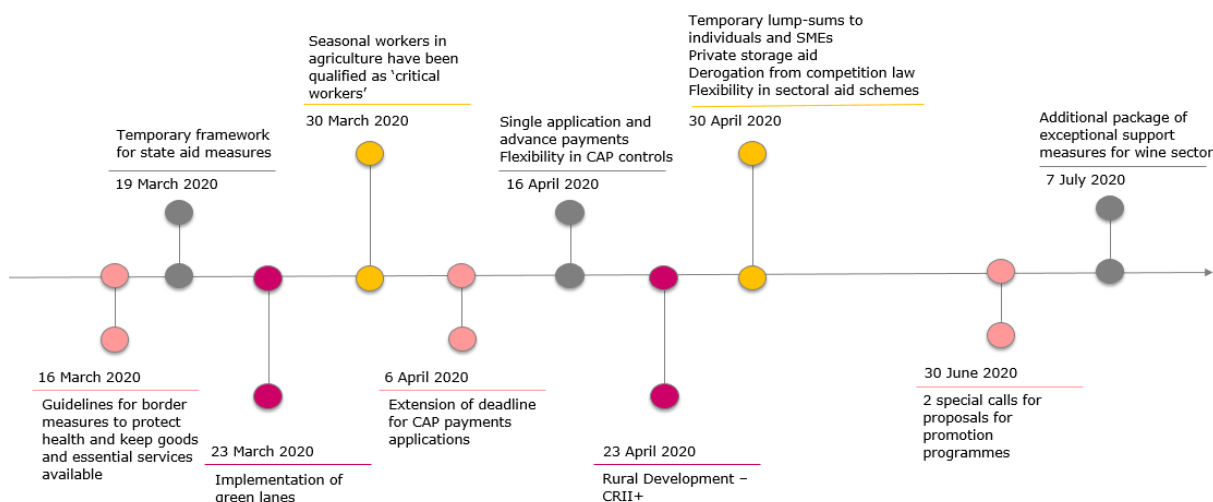
E. Specific actions on COVID-19

In 2020, Europe was strongly impacted by the COVID-19 pandemic. The Commission has proposed a strong and coordinated response to the health crisis as well as to the impact on Europe's economy and society. COVID-19 has also posed challenges as regards performance, control, audit and assurance in relation to the 2020 EU budget. In an exercise coordinated at corporate level, all Commission services have promoted the consistent and rigorous protection of the EU budget ensuring that appropriate mitigating measures were put in place.

Thanks to the long-standing solid policy framework of the CAP as well as the good cooperation established over the years across the EU, the agricultural sector proved to be sufficiently resilient to deal with the COVID-19 crisis. In a strong and coordinated European response, the Commission showed leadership in initiating a number of measures, thereby preventing that a health crisis evolved in a food crisis, and ensuring that the food chain has successfully kept safe, high quality and affordable food on citizens' tables.

The adopted measures at EU level provided for the simplification of, or derogation from, certain rules and procedures relevant for key agricultural activity areas and increased flexibility in their implementation.

Overview of COVID-19 related measures taken in the field of agriculture in 2020



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On the international level, DG AGRI endeavoured to address the impacts of the COVID-19 pandemic on nutrition and food security in Africa and deployed special EU COVID-related assistance in the Western Balkans.

Looking ahead, the long-term vision for rural areas will explore opportunities such as those offered by new developments arising from the COVID-19 pandemic.

DG AGRI adapted its working methods to respond to the COVID-19 restrictions in 2020 and addressed the impact of the COVID-19 pandemic on the CAP assurance through a series of measures.

As shown in the schema above, the Commission adopted Regulation (EU) No 2020/532⁹ which provides rules with realistic and attainable control requirements for the Member States. The amended rules were limited in time and scope and proposed alternative methods¹⁰ to carry out the controls by the Member States under the COVID-19 restrictions and as such continued to provide a good basis for assurance. It is also important to note that, for financial year 2019, the large part of the expenditure related to the claim year 2019 and thus the COVID-19 restrictions had a minor effect on the controls. Furthermore, the Certification Bodies continued to do their audit work whilst also using alternative methods, as the Paying Agencies, and reported to DG AGRI on their findings as in previous years.

Moreover, DG AGRI has implemented a new type of audits – remote audits, to address the travel restrictions. This option is limited in time (i.e. the movement restriction period) but it provides a solid basis for audit coverage and audit conclusions.

⁹ Commission Implementing Regulation (EU) 2020/532 of 16 April 2020 derogating in respect of the year 2020 from Implementing Regulations (EU) No 809/2014, (EU) No 180/2014, (EU) No 181/2014, (EU) 2017/892, (EU) 2016/1150, (EU) 2018/274, (EU) 2017/39, (EU) 2015/1368 and (EU) 2016/1240 as regards certain administrative and on-the-spot checks applicable within the common agricultural policy – OJ L119 of 17.4.2020.

¹⁰ Possibility to replace physical inspections and on-the-spot checks under Direct Payments, Rural Development and markets support measures with alternative control evidence, such as geo-tagged photos, satellite images, documents, video meetings, etc.

1. Key results and progress towards the achievement of the Commission's general objectives and DG's specific objectives

General objective "A European Green Deal"

Specific objective 1: Modernised and simplified Common Agricultural Policy framework is put in place and implemented

The legislative proposals of the Common Agricultural Policy (CAP) for the period 2021-2027 confirmed **the need to simplify and modernise the CAP, to better respond to the emerging economic, environmental and social challenges that the agricultural sector is facing** and which are only reinforced by the current crisis arising from the COVID-19 pandemic. Due to ongoing negotiations between the European Parliament (EP) and the Council of the EU, the provisional start date of the proposed CAP reform has been pushed back to 1 January 2023. To provide for a smooth continuation of the CAP while the negotiations of the reform are ongoing, two transitional regulations were adopted by the co-legislators in 2020 allowing for the current (2014-2020) legal framework to cover the period until the end of 2022¹¹.

The EP and the Council agreed in October 2020 their respective negotiating positions on the reform of the CAP enabling the start of the trilogues. The Commission has since played its full role in the CAP trilogue negotiations, as an honest broker between the co-legislators and as a driving force for greater sustainability to deliver on the European Green Deal objectives. Moreover, in the ongoing trilogues, the Commission aims to uphold the Union's high ambitions linked to its international climate commitments.

DG AGRI supported Member States in the preparation of their CAP Strategic Plans through consultation and advice of the "Geographical Hubs" (Geo Hubs) bringing together DG AGRI experts from different areas to cooperate and deliver joint support to Member States. The Geo Hubs answered questions from Member States in relation to the draft CAP Strategic Plan Regulation and provided valuable assistance and guidance in the preliminary work linked to the SWOT analysis and the needs assessment (i.e. ensure the quality and necessary updates of management systems). Furthermore, activities of the European Network for Rural Development (ENRD) supported the Member States in the preparation of the CAP Strategic Plans.

¹¹ [Flexibility Regulation \(EU\) 2020/127](#) of 29/01/21; [Transitional Regulation \(EU\) 2020/2220](#) of 23/12/20

**EU added value:
Structured dialogue
with MS for the
preparation of CAP
Strategic Plans**

The European Commission put in place a **structured dialogue** with Member States already in the preparatory phase of the CAP Strategic Plans. In this context, the Commission issued **recommendations to the Member States** on the nine specific objectives of the CAP¹². These recommendations, accompanied by a communication¹³; aim to ensure that the future CAP Strategic Plans contribute ambitiously to the European Green Deal targets. They were based on a thorough analysis of the agricultural sector and rural areas of the Member States and aim to assist in the drafting of the national CAP Strategic Plans by identifying the key areas on which each EU country should focus. When preparing the recommendations, DG AGRI closely cooperated with other DGs and consulted Member States.

The recommendations cover **economic, environmental, climate, societal and health aspects** of agriculture and rural areas. Member States are invited to set explicit national values for the different Green Deal targets stemming from the Farm to Fork Strategy and the Biodiversity Strategy for 2030. The national values will translate the common ambition of each of the Green Deal targets into specific aspirations at national level. These are quantified EU level targets related to the use and risks of pesticides, sales of antimicrobials, nutrient losses (reducing excessive use of fertilisers), area under organic farming, high-diversity landscape features on agricultural land and access to fast broadband internet in rural areas.

With regard to the spending programmes under the EU Budget support from the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD), both funds aim to further improve the sustainable development of farming, food and rural areas and contribute to achieving the current and future CAP objectives and thereby the Commission general objectives. Details on the performance of these two funds can be found in the Programme Statements.

Specific objective 2: Support viable farm income and resilience across the Union to enhance food security through the CAP

In response to the COVID-19 pandemic, the Commission adopted measures to support private storage aid for dairy (skimmed milk powder, butter, cheese) and meat (beef, sheep and goat meat) products, in order to stabilise the markets by temporarily reducing available supply. In addition, temporary derogations from EU competition rules allowed farmers and their associations in the milk, potatoes for processing, flower and wine sectors to collectively take certain market stabilisation measures to address the severe market imbalance. Furthermore, increased flexibility was provided, through exceptional market measures, in the implementation of market support programmes for wine, fruits and vegetables, table olives and olive oil, and the apiculture sector in order to rebalance the markets and reorient funding priorities to measures to offset the impact of the pandemic. As regards the wine sector, these exceptional measures have been prolonged to 2021.

¹²https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cap-strategic-plans_en

¹³ COM(2020) 846 final

Increased flexibility was also provided in the implementation of the EU school fruit, vegetables and milk scheme, to make up for the period in which schools were closed and the scheme could not be implemented as planned. Furthermore, the Commission published two special calls for proposals for promotion programmes in 2020.

In the context of the Farm to Fork Strategy, a roadmap has been published for consultation of the public on the contingency plan for food supply and food security.

Also in response to the COVID-19 pandemic, further flexibility was given to Member States under both pillars of the CAP (including extension of deadline for CAP payment applications, higher rates of advance payments to increase farmers' cash flow, specific measures within rural development programmes). In addition, countries were given the possibility to amend their rural development programmes in order to provide exceptional temporary support under EAFRD, and greater flexibility in the use of financial instruments under rural development and simplification of procedural requirements were introduced.

The **Study on improving crisis prevention and management criteria and strategies in the agricultural sector**¹⁴ concluded that crisis prevention and management systems need to be flexible to cope with a wide variety of crisis cases, and have to be integrated across farm, national and European levels. Effective coordination across all levels is essential. Crisis management often requires interactions at EU level, but national actors are key in implementing crisis management actions. Risk management tools constitute the first line of defence during a crisis as they provide the necessary liquidity support to affected producers and reduce the need for ad-hoc public aid. The slow uptake of insurance, mutual funds and income stabilisation tools across the sector is identified as a potential gap in effective crisis management responses. These risk management tools are key elements in an overall strategy to cope with extreme events, but are challenging to implement. Increased market orientation and globalisation may have rendered some crisis management instruments less efficient. Gains could be achieved by exploring new instruments and/or improving the implementation of existing ones.

The Commission adopted a number of legal provisions and provided the technical guidance to enable Member States to take advantage of freely available satellite data (the Copernicus programme) to monitor areas claimed for aid as an alternative to carry out often costly on-the-spot checks. Several Member States have decided to introduce **'checks by monitoring'** for part of the aid schemes and/or areas as from 2019. This choice of the monitoring approach will equally deliver on the assurance. The monitoring approach is expected to offer great potential for simplification of administrative and control-related tasks, but also for monitoring of the CAP's performance in a much wider sense. This conclusion is also in line with the ECA recommendations in Special Report 04/2020¹⁵.

**Example of efficiency:
Checks by monitoring**

¹⁴ https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cmef/sustainability/improving-crisis-prevention-and-management-criteria-and-strategies-agricultural-sector-pilot-project_en

¹⁵ ECA Special Report 04/2020 - Using new imaging technologies to monitor the Common Agricultural Policy: steady progress overall, but slower for climate and environment monitoring

Specific objective 3: Enhance market orientation and increase competitiveness, including greater focus on research, innovation, technology and digitalisation

Research and innovation are recognised as a key enabler for the green and digital transition of our society as set by the policy priorities of the Commission. In the research and innovation area, DG AGRI has ensured programming and implementation of the Research and Innovation framework programmes (Horizon 2020, Horizon Europe (HE)) and contributed to the building of the overall HE governance. In particular, DG AGRI has been co-chairing and coordinating the programming of Cluster 6 "Food, Bioeconomy, Natural Resources, Agriculture and Environment" research actions in terms of the strategic planning as well as the first Work Programme for 2021-22 addressing in particular Farm to Fork, biodiversity and climate targets through a co-creation process involving a large number of Commission services, national authorities and many external stakeholders. Furthermore, DG AGRI has been ensuring the secretariat of the Mission Board for HE Mission "Caring for Soil is Caring for Life", including the organisation of Mission Board meetings, outreach actions and coordination with concerned DGs and stakeholders. DG AGRI has been also actively preparing the HE partnerships in the area of agroecology, animal health and welfare, and agriculture of data.

DG AGRI has been in charge of the implementation of the European Innovation Partnership for Agricultural Productivity and Sustainability (EIP-AGRI) as unique instrument bridging two policies: Horizon 2020 and the CAP. The activities carried out by EIP-AGRI as well as the EIP-AGRI interactive innovation projects (Operational groups funded under the Rural development programmes and Multi-actor projects funded under Horizon 2020) had again direct impact on farmers and other key innovation stakeholders in terms of uptake of new technologies, products and processes. It is to be noted that by end 2020, already 2 000 EIP Operational Groups projects have been successfully launched. Through seminars and workshops reaching more than 400 direct participants, focus groups gathering around 100 experts, as well as other activities organised in 2020 mostly remotely due to the pandemics, research and innovation projects' results and available knowledge in many fields were brought close to and exchanged with farmers, facilitating thus the uptake of innovations on the ground and fostering the Agricultural Knowledge and Innovation Systems (AKIS) in general.

In the area of digitalisation, DG AGRI has been contributing to the Digital Europe Programme and has been involved in the field of digitalisation in agriculture and rural areas linked to the data strategy as concerns Agricultural Data Space as well as the White Paper on Artificial Intelligence (AI) as regards Testing and Experimentation Facilities on AI.

The Commission closely monitored the functioning of the markets for agricultural products and reinforced its dialogue with stakeholders after the COVID-19 outbreak through periodic and ad-hoc virtual meetings with representatives from the entire agri-food chain to monitor the impact of logistical bottlenecks, regional shortages of workers and supplies and other disruptors of the supply chain.

The Evaluation **of the CAP measures applicable to the wine sector**¹⁶ concluded that the national support programmes have played a key role in improving the competitiveness of EU wine producers and products, in particular increasing demand from third countries. The measures in the national support programmes are generally relevant to the needs of the sector, especially because they offer a range of tools that can be adapted to the various levels of development of EU local supply chains (i.e. restructuring and conversion, investment, and promotion). Among the needs that are not sufficiently addressed by the EU's wine policy figure survival or adaptation of the smallest operators, the need for a better-trained workforce, renewal of businesses between generations, environmental issues, and adaptation to market demand for lower alcohol wines and sustainable products. There could also be a higher degree of coherence between the EU's wine policy and EU public health objectives but overall, the EU's wine policy is fully consistent with EU economic, social and CAP objectives.

Considerable efficiency gains could be achieved through automation of production, compilation and dissemination of data in the **Agri-food Data Portal**. This encompasses price, trade and production data for the main agricultural sectors (through new apps), monthly price data, 48 new interactive CAP Context Indicators dashboards, 3 new interactive CAP thematic indicators dashboards and the setting-up of an FADN (Farm accountancy data network) page allowing for direct access to all farm economic data produced by FADN.

**Example of efficiency:
Agri-food Data Portal**

Specific objective 4: Improve the farmers' position in the value chain notably through the CAP

Following a request from the EP in a statement linked to the adoption of the Directive on Unfair Trading Practices (UTP), an in-depth analysis of the extent and effects of national and international buying alliances on the economic functioning of the food supply chain (FSC) was carried out and the results were published in May 2020. Moreover, in line with the recommendations of the ECA, the Commission undertook some adaptations in secondary legislation on support programmes to producer organisations in the sector of fruits and vegetable to avoid the risk of overcompensation and to improve their functioning.

In line with the Commission's Farm to Fork strategy and Intellectual Property Action Plan, both adopted in 2020, the Commission launched an impact assessment with a view to **strengthen the system of geographical indications (GI)**. This initiative aims at improving sustainable production of GI products, improving enforcement, empowering GI producer groups, reducing internet theft, better tailoring schemes to producers in all EU regions and speeding up registration procedures, reviewing ways to promote and protect the EUs' traditional foods. Further development of EU quality schemes would allow strengthening cooperation between producers, increasing their bargaining position in the

¹⁶ https://ec.europa.eu/info/news/eu-wine-policy-contributes-maintaining-reputation-and-competitiveness-eu-wine-2020-oct-26_en

value chain, and therefore generating more value added. The initiative is marked for REFIT¹⁷ and supported by Better Regulation tools.

At the same time, the Commission continued with legislative simplification and administrative burden reduction that will in particular benefit the producers of GI spirit drinks. Adoption of related delegated and implementing acts is planned for Q1/2021.

**EU added value:
A new database
for Geographical
indications was
launched**

To improve public access to GI data for stakeholders, trade mark practitioners and enforcement authorities, **GIview Portal** was launched in November 2020. This is a user interface portal on GI and a result of a shared project of DG AGRI and the EU Intellectual Property Office (EUIPO). It is in the form of a public searchable database on the internet, offering comprehensive information on all GI. It ensures transparency, and it makes available not only all the information included in eAmbrosia - the EU register of GI (3 300) - but also, for the first time, all the entries of GI protected under international agreements (34 agreements, 40 000 instances), whether this is a third country GI protected in the EU or an EU GI protected in a third country. It responds to a clear need from enforcement authorities and producers to have better and easier access to GI information. It will also give GI right-holders access to the EUIPO's IP Enforcement Portal, ensuring direct contact with anti-fraud police and customs.

Specific objective 5: In line with the Farm to Fork Strategy, improve the response of EU agriculture to societal demands on food and health, including safe, nutritious and sustainable food, food waste, as well as animal welfare through the CAP

The Commission adopted the **Farm to Fork Strategy** that is at the heart of the European Green Deal, aiming to make food systems fair, healthy and environmentally friendly. It comprehensively addresses the challenges of sustainable food systems and recognises the inextricable links between healthy people, healthy societies and a healthy planet. The Strategy is also central to the Commission's agenda to achieve the United Nations' Sustainable Development Goals (SDGs).

A comprehensive action plan addressing all parts of the food system, from farm to fork, is being rolled out from 2020. The **Recommendations** to Member States on their future CAP Strategic Plans were the first major deliverable of this action plan.

In 2020, DG AGRI launched work on a number of actions listed in the Farm to Fork Action Plan, with a view to their completion in the coming years. The **[evaluation of the impact of the EU agricultural promotion policy](#)**¹⁸ in internal and third countries markets has been completed. This will feed into the upcoming review of the EU promotion policy for agricultural and food products with a view to stepping up its contribution to sustainable production and consumption.

¹⁷ Regulatory Fitness and Performance Programme

¹⁸ [SWD\(2020\) 399 final](#)

The EP requested the Commission to analyse the contribution of the CAP reform proposal to the EU environmental, climate and biodiversity protection commitments in order to fully align it to the goals set in the European Green Deal. In this context, the Commission services have analysed the links between the CAP reform proposals and the Green Deal, and identified the potential obstacles and/or gaps jeopardising the ambition level of the Green Deal in the agricultural sector in a Staff Working Document¹⁹.

Together with DG SANTE, DG AGRI organised the Farm to Fork 2020 virtual conference gathering European stakeholders willing to engage and help shape the EU's path towards sustainable food systems. With an average of over 9 500 viewers per day, the Farm to Fork 2020 conference brought together all key players including public authorities, academia and actors in the food value chain – from farmers, food manufacturers, retailers, hospitality and food services to consumers – to discuss the move towards sustainable food systems.

The Farm to Fork Strategy announced a review of **EU marketing standards** with a view to enhance their contribution to sustainability. Moreover, the evaluation of marketing standards finalised in 2020 showed that technical modernisation and simplification could be achieved through their revision. To this extent, an [inception impact assessment](#) with regard to EU marketing standards and Breakfast Directives, prepared in the course of 2020, was published in January 2021.

In 2020, the Commission also adopted additional specific rules on the evaluation of the **EU school fruit, vegetables and milk scheme**, to improve the quality of Member States' evaluation reports and provide more robust evidence for the reform of the legislative framework of the EU school scheme in 2023, linked to the Farm to Fork Strategy.

Recent production and market trends show the importance that organics has gained over the last decade. **Organic farming** responds to a specific consumer demand for sustainable food products, promoting more sustainable farming practices and contributing to the protection of the environment and improved animal welfare. The Farm to Fork Strategy and the Biodiversity Strategy set a very ambitious target for the development of the organic sector, as a tool to contribute to the creation of a sustainable food system, while at the same time contributing to the preservation of the biodiversity.

The Commission is working on an **Organic Action Plan** that aims at boosting consumption to trigger an increase of surfaces. Moreover, it is also important to present organics as a model for conventional agriculture to move a step forward in the transition to sustainability. Following the better regulation process, a public consultation was conducted in 2020. More than 800 citizens and stakeholders have replied and submitted, in most of the cases, ideas on how to better shape the future development of the organic sector.

¹⁹ [SWD\(2020\) 93 final](#)

The Ag-Press network (comprising over 1 000 members) has enabled DG AGRI to keep national and local **journalists specialised in food and farming** directly informed of key developments, deepening their understanding of the CAP. Since the COVID-19 pandemic, DG AGRI has organised a series of dedicated **webinars** for Ag-Press journalists to present selected "hot topics" such as COVID-related support measures and the Farm to Fork strategy. These webinars raised the attractiveness of the Ag Press network for its members while helping DG AGRI maintain a high level of media engagement over the past months.

**Example of
efficiency:
Ag-Press
network**

Specific objective 6: Contribute to addressing climate change, protecting natural resources and preserving biodiversity through the CAP

The CAP supports farmers applying agricultural practices that are beneficial for the environment and climate, under the conditions laid down in the CAP reform in 2013. The European Agricultural Guarantee Fund (**EAGF**) supports farm income through direct payments. 30% of those payments are linked to farmers' delivering three sustainable agricultural practices, which are beneficial to soil quality, biodiversity and the environment (crop diversification, the maintenance of permanent grassland and the preservation of ecological areas on farms). The European Agricultural Fund for Rural Development (**EAFRD**) supports farmers in their transition to a green and sustainable production system. By compensating the costs or income forgone of implementing beneficial practices for the environment and climate, farmers find in this EU fund a way to stay in the market and deliver public goods to the society. The Rural Development Programmes (2014-2020) include targets to be achieved by 2023. For the targets related to environment and climate objectives, they have already been accomplished in 2020 in relation to the uptake of environmental and climate measures. This shows the interest of the farming community in engaging with sustainable practices.

The latest available figures show an increase in the total share of the Union's agricultural area covered by practices that are beneficial for the environment from 75% in 2015 to 79% in 2019. Furthermore, the area under organic farming increased from 8,0% in 2018 to 8,5% in 2019. In addition to basic conditions for payments ('cross-compliance'), the CAP finances a wide range of practices in farming and sustainable forest management that are important for delivering benefits in terms of soil, water, air and biodiversity. The share of agricultural land under commitments specifically targeting reduction of Greenhouse gas and/or ammonia emissions increased from 2% in 2018 to almost 3% in 2019. The share of agricultural land under management commitments beneficial for soil management increased from 11,9% in 2018 to 14,1% in 2019. Also the share of agricultural land under management commitments for water management increased from 12,1% in 2018 to 14,2% in 2019, while the share of agricultural land under management commitments for supporting biodiversity conservation or restoration increased from 14,9% in 2018 to 17,7% in 2019.

Trends on certain environmental indicators with linkages to agricultural production are positive, such as the decrease of ammonia emissions by 26 % from 1990 to 2018 or the reduction in estimated soil erosion by water by 9.5% on average over the past decade.

Nevertheless, a number of measures linked to farmland biodiversity did not show the desired impact, as was also found by the ECA²⁰, which raised concerns about the protection of wild pollinators as well²¹. Moreover, the decline in greenhouse gas emissions from EU agriculture has stagnated in recent years, and even risen in some Member States – whether from livestock or soil management.

This need for a much higher ambition is also reflected in the Farm to Fork Strategy, adopted in 2020, which aims to strengthen the contribution of the CAP to tackling climate change, protect the environment and preserve biodiversity. To translate this ambition into action, the Commission issued recommendations to Member States on the future CAP Strategic Plans on 18 December 2020. The Commission services published an assessment, which concluded that the 2018 CAP reform proposal is compatible with the Green Deal and its associated strategies such as the Farm to Fork Strategy and the Biodiversity Strategy. It identified that the proposals have the potential to accommodate the Green Deal's ambitions. However, this depends on various conditions, notably the need to maintain key provisions of the proposal in the final CAP legislation as agreed by the Council and the European Parliament. In the ongoing trilogues, the Commission aims to uphold the Union's high ambitions linked to its international climate commitments.

In preparation of the UNFCCC 26th Conference of the Parties (COP 26) to be held in Glasgow in October 2021, DG AGRI participated in the international climate change negotiations and technical meetings for issues related to agriculture. The main aim of these meetings is to contribute to further implementing mitigation and adaptation measures in agriculture at global level, in accordance with the Koronivia Joint Work on Agriculture.

In October 2020, the European Commission adopted an **EU Strategy to reduce methane emissions**²². This strategy sets out measures to cut methane emissions in Europe and internationally. It presents actions in the energy, agriculture and waste sectors, which account for around 95% of methane emissions associated with human activity worldwide. Concerning agriculture, the Commission will improve reporting of emissions through better data collection, and promote opportunities to reduce emissions with support from the Common Agricultural Policy.

Specific objective 7: Preparation and implementation of the EU Forest Strategy and fostering sustainable forestry through the CAP

The roadmap for the EU Forest Strategy was published in October 2020, and a consultation period to allow feedback from stakeholders was open until 5 December 2020. Nearly 300 replies were received, with a wide-ranging set of profiles: 40% by EU citizens, 19% by NGOs, 11% from academia, 9 % from business organisations, around 5% respectively from other profiles such as public authorities. In addition, an open public consultation questionnaire was prepared to be launched in January 2021; it will last for 12 weeks.

²⁰ ECA Special Report 13/2020: Biodiversity on farmland: CAP contribution has not halted the decline

²¹ ECA Special Report 15/2020: Protection of wild pollinators in the EU: Commission initiatives have not borne fruit

²² COM(2020) 663 final, 14.10.2020

At the meeting of the Standing Forestry Committee (December 2020), a dedicated discussion on the new EU Forest Strategy with Member States took place. Stemming from the roadmap, the discussion addressed priorities and possible gaps in the areas of action, potential initiatives adding EU value, and governance. The Commission also gave feedback on its approach and views to the EP Resolution on the new EU Forest Strategy adopted in October 2020.

A EUROPEAN GREEN DEAL - Key external communication activities in 2020

THREE ONLINE CONFERENCES

- Farm to Fork Strategy, together with DG SANTE (15-16 October 2020)
- Strengthening GIs (25-26 November 2020)
- Agricultural markets Outlook (16-17 December 2020)

THREE AG-PRESS WEBINARS:

- Covid-related support measures (4 May 2020)
- Farm to Fork Strategy (24 May 2020)
- Agricultural markets outlook and farmers of the future (14 December 2020)



FACTSHEETS, WEBPAGES, NEWS ITEMS AND SOCIAL MEDIA covering the CAP Strategic Plans or the link between the CAP and the Green Deal. © European Union, 2021

General objective "A stronger Europe in the world"

Specific objective 8: Contribute to the successful conclusion of (ongoing) negotiations on international agreements, ensure the effective implementation of existing agreements (incl. maintenance of trade flows and market openness) and build a strategic relationship with Africa in the agri-food sector

In 2020, DG AGRI continued to play a key role in the EU's **external trade** and **cooperation** as regards the agri-food sector and the global agri-food value chain.

Despite the specific challenges brought by the COVID-19 pandemic to conducting international relations, DG AGRI engaged proactively and vigorously in defending the rules-based global order and multilateralism, as well as in promoting the quality and sustainability of the EU's agriculture and food around the world. DG AGRI did so primarily through active involvement in key **international and multilateral fora** bearing on agri-

food policy, such as the Food and Agriculture Organisation of the United Nations (FAO), the Organisation for Economic Co-operation and Development (OECD) and the agricultural work streams in G7 and G20. DG AGRI also contributed to the regular work, the negotiations as well as the reform of the World Trade Organisation (WTO). This work took place in the context of DG AGRI's commitment to global frameworks such as the United Nations' 2030 Agenda for Sustainable Development.

2020 saw the launch of the EU's Farm to Fork Strategy that required DG AGRI to actively engage with our trading partners in order to ensure the fulfilment of its very ambitious objectives. DG AGRI also contributed to successful **negotiations** with bilateral and multilateral partners (i.e. FTA with Vietnam; agreement on GI with China; decisive progress for FTA with Chile; agreement with Mexico; clarification of outstanding issues with Mercosur).

In line with these efforts, the EU's agri-food exports continued to grow in 2020. This was particularly the case in the EU's neighbourhood, which accounted for more than 1/3 of EU agri-food exports, despite trade barriers.

Further afield, the EU-African Union (AU) cooperation on agriculture advanced swiftly. Under the joint [AU-EU Rural Transformation Agenda](#), we have achieved progress for a number of actions, specifically: African-European farmers' exchanges; the launch of the first Agri-food business platform in Ghana (via a hybrid event in June 2020) and protection of African GI (e.g. Cabrito de Tete from Mozambique) as part of our support to the pan-African GI Strategy. DG AGRI took on the role of co-chair at one of the working groups of the AU-FAO Task Force on the impacts of the COVID 19 pandemic on nutrition and food security in Africa.

A major focus of DG AGRI's international work in 2020 was the negotiations concerning the future relationship with the **United Kingdom**, and DG AGRI contributed intensively to these negotiations, securing a tariff and quota free deal for EU agri-food trade. Rules of origin were agreed in line with most recent FTAs. Also beneficial are the mutual recognition of equivalence in organics and simplified certification for wine. For already protected GI, the status quo is preserved by the Withdrawal Agreement. Agricultural subsidies are carved out from the Level Playing Field provisions, allowing the EU to keep full autonomy in the design of the future CAP. DG AGRI also contributed to the implementation of the Protocol on Ireland/Northern Ireland.

For the split of WTO import **quotas** between the EU and UK, DG AGRI made good progress by concluding agreements with Norway and Cuba and finalising negotiations with several others. From an EU internal perspective, a series of amendments to Commission Implementing Regulations were adopted in relation to the changes in WTO import quotas. Moreover, Delegated and Implementing Regulations have been adopted with regard to rules for the administration of import and export tariff quotas.

On the trade defence front, activity increased considerably in 2020. For instance, DG AGRI was involved in the WTO Panel proceedings in the case DS577 "United States — Ripe olives

from Spain", as well as in antidumping or countervailing proceedings launched by Canada, Colombia and others on some agricultural products.

The Commission has continued to work on drafting the mandate that will authorise the negotiation of fully-fledged **equivalency agreements in organics** as required in Regulation 2018/848. At the same time, an intensive work on the supervision of the activities of Control bodies certifying operators in third countries for the purpose of the exports to the EU has been carried out.

Specific objective 9: Promote Europe's high quality agri-food standards worldwide (incl. strengthening the system of geographical indications)

In 2020, DG AGRI continued to pursue its proactive engagement to protect Europe's food heritage and promote its high quality agri-food products and standards in non-EU countries, including through its bilateral agreements. The DG endeavoured to implement its **promotion policy** for EU agri-food products around the world. The implementation was, however, largely affected by the impact of the COVID-19 pandemic. Nevertheless, two calls for proposals were published in January 2020 under the annual work programme for promotion policy, announcing 9 different priority topics. In comparison to the 2019 calls, the number of applications increased by 23.6% and the number of Member States participating in the applications more than doubled. Furthermore, several measures at the Commission's own initiative were implemented for a number of regions, such as promotion campaigns, online promotion seminars or the production of market entry handbooks (Annex 2 provides further details).

The Geneva Act of the Lisbon Agreement on Appellations of Origin and Geographical Indications²³ entered into force on 26 February 2020. With its accession to the Geneva Act, the EU reinforced its commitment to promote food quality and traceability at the international level.

DG AGRI reinforced its dynamic monitoring of the implementation of the legal protection of EU Geographical Indication terms on the American continent. This was done particularly in response to aggressive action by certain actors contesting the EU approach on GI. DG AGRI also pursued the **protection of EU GI** across the world, e.g. AGRI helped complete the terms of reference for EU financial assistance to phase out and rebrand the designation "cognac" in Armenia.

Another important example is DG AGRI closing negotiation provisionally with Uzbekistan in March 2020 on Geographical Indications in the framework of the overall (still ongoing) negotiations for an Enhanced Partnership and Cooperation Agreement (EPCA) with the Central Asian country. At the entry into force of the agreement, 172 EU GI will be protected

²³ The Geneva Act was adopted on 20 May 2015. It allows the international registration of geographical indications and appellations of origin through a single registration procedure with WIPO, and permits the accession to the Act by certain intergovernmental organizations, including the European Union and the African Intellectual Property Organization (OAPI).

against conflicting trademarks, and after a transition period of 5 years, these GI will be protected at the level of the EPCA.

DG AGRI also contributed to the organisation of a series of webinars under the EU's "More than Food" promotion campaign in the Gulf Cooperation Council (GCC) countries. These events were organised for GCC importers, retailers and EU exporters and highlighted the outstanding quality and safety standards of EU agri-food products.

Specific objective 10: Prepare countries for future EU membership: competitive agri-food sector, safer food, rural growth, more sustainable natural resources and modern administration

In 2020, DG AGRI continued providing advice to the administrations of the candidate countries and potential candidates for aligning their legislation with the CAP and its future implementation, incl. through regular subcommittee meetings. In addition, we were associated to the special COVID-related assistance deployed by the EU in the Western Balkans and contributed to the Economic and Investment Plan for the Western Balkans proposed by the Commission, including the guidelines for implementing the Green Agenda in the region.

More specifically, in 2020, DG AGRI continued implementing IPA II rural development programmes (IPARD II) in Albania, Montenegro, North Macedonia, Serbia and Turkey, and intensified preparations for IPARD III.

There are currently 21 measures entrusted for budget implementation tasks. Compared to 2019, this is an increase by 23%. Countries were planning originally to submit two additional applications for entrustment of budget implementation tasks in the course of the year. However, these plans changed due to the COVID-19 pandemic. Instead, countries mobilised all reduced capacities to continue implementation under the already entrusted measures. Six calls were launched in 2020 in all IPARD countries.

Compared to the end of 2019, the number of economic entities performing modernisation projects in the agri-food sector under IPARD (number of contracts) has increased by 44%. This is a considerable increase, given the difficult circumstances. However, towards the end of the year, it became clear that countries (with the exception of North Macedonia) will not be able to fully spend their 2017 allocations for IPARD before expiration of the N+3 years for budget implementation. Therefore, at the request of the four countries, DG AGRI granted an extension for budget implementation by another year. Requests were substantiated by action plans to remedy the situation in 2021.

In the spring, DG AGRI discussed with the countries a list of measures, which could be taken to alleviate the difficulties caused by the COVID-19 context. Some were implemented

immediately. Few others required modification of the Sectoral Agreement²⁴. This process is largely completed.

In 2020, DG AGRI dedicated a significant amount of time to preparations for IPARD III²⁵. In collaboration with our counterparts in the countries, we were revising guidelines for IPARD II programmes, to be used for IPARD III. Those guidelines outline the structure and expected content of the programmes.

General objective "A new push for European democracy"

Specific objective 11: A long-term vision for rural areas is developed and put in place in order make the most of their potential and support them in facing up to their own unique set of issues, including demographic change

The Commission has launched the preparation for the long-term vision for rural areas in 2020, including a foresight exercise, public consultation, a thorough internal analysis and reinforced inter-service coordination. The European Commission is working with rural people and stakeholders as well as with local and regional authorities to develop the vision, which will support rural areas in achieving their potential. A 12-week online consultation allowed gathering inputs from people living in rural areas, economic players in rural areas, and interested parties from all occupations. This consultation, launched in the autumn of 2020, is a crucial element for the development of the vision. Discussions with stakeholders have also taken place and a specific thematic group has been set up in the European Network for Rural Development (ENRD) [portal](#)²⁶. To further engage with stakeholders, a [workshop package](#) translated to all EU languages has been put at the disposal of groups of rural citizens to explore their ideal vision for the future of their own rural area.

The Communication on the long-term vision for rural areas will be adopted in the first half of 2021. It will embrace all relevant aspects for the future of rural areas, take into account challenges from demographic change to connectivity, low income or limited access to services, and explore opportunities such as those offered by climate change mitigation or new technology.

Existing sources of evidence were gathered, analysed, and fed into the process, e.g. evaluations, work undertaken by other bodies (such as OECD and World Bank), publications and reports by JRC, Eurostat and a number of EU projects, and relevant findings from preparatory actions, pilot projects, as well as thematic work on Smart Villages. The evaluation of the CAP's impact on territorial development of rural areas' socioeconomic

²⁴ Agreement between the EU, represented by the Commission and each of the Beneficiary Countries

²⁵ IPARD III will be operational in 2022

²⁶ The ENRD supports the effective implementation of EU Member States' Rural Development Programmes (RDs) by generating and sharing knowledge, as well as through facilitating information exchange and cooperation across rural Europe. For more information about ENRD or ENRD projects, see also https://enrd.ec.europa.eu/projects-practice_en or https://enrd.ec.europa.eu/news-events/events/award-ceremony-rural-inspiration-awards-2021_en.

aspects was launched in 2020. It is expected to play an important role in developing the vision.

A specific foresight exercise was also a key element for the vision. Its main purpose was to identify how rural areas might evolve and the trends and influences which will shape how rural areas would be in 2040. This exercise is being conducted through the thematic work undertaken by the ENRD, in cooperation with DG AGRI and the JRC. The JRC report on the foresight exercise in Q1/2021 and the main conclusions will be considered in the Communication.

In addition to all analytical work and public consultations, the Conference of the ENRD on long-term vision for rural areas in March 2021 will close the consultation process and further provide stakeholders' input into the Communication.

Specific objective 12: Attract young farmers and promote employment, growth, social inclusion and local development in rural areas

The business start up support for young farmers facilitates the setting up of young farmers and the structural adjustment of their holdings by providing cash flow and financial security during the first five years of farming. The support is conditional to the correct implementation of a business plan and to minimum requirements in terms of training and skill acquisition.

For the programming period 2014-2020, it is foreseen to support more than 175 000 young farmers. According to latest available information, 126 000 young farmers or some 72% of the above-mentioned target have already benefited from this support. Compared to the results stemming from the previous Annual Implementation Reports (60% of the target achieved), significant progress in 2020 towards the achievement of the target can be noted.

DG AGRI also continued to support the exchanges of good practices in promoting generational renewal through the ENRD. This work will be continued through the future EU CAP Network.

The CAP aims to facilitate job creation and maintenance of jobs via supporting investments in rural businesses and infrastructure and skills acquisition through innovation support, training and advice while paying attention to the particular nature of agricultural activity, which results from the social structure of agriculture and from structural and natural disparities between the various agricultural regions. There are also certain challenges linked to a development gap in rural areas, which are often less well served by essential infrastructure and services (e.g. broadband, often limited access to public transport, remote health care services, etc.) and need to be prioritised also through the use of other non-CAP instruments. Rural Development supports all entities operating in rural areas in order to foster sustainable and inclusive growth in the EU and to address the rural/urban divide described in the [Commission Report on the impact of demographic change](#).

Different measures from rural development continued to contribute to this objective, including investments (providing for basic services), cooperation and knowledge exchange

and information, promoting innovation and access to training and advice. All these measures can also contribute to address the challenges faced by groups that need specific support (e.g. seasonal workers, semi-subsistence farmers, people with migration background, Roma, the elderly, youth, children or persons with disabilities in rural areas, or people in rural areas affected by depopulation.)

DG AGRI ensures the implementation of a system of schemes / interventions to attract young farmers in agriculture and facilitate business development in rural areas, inter alia linked to developing local processing capabilities especially targeting small and medium sized farms. The delivery modes related to those supports are in place at all levels (EU and national). The generational renewal is addressed through an enhanced and more flexible system of incentives for young farmers.

In 2020 DG AGRI has finalised the evaluation of the impact of the CAP on generational renewal, local development and jobs in rural areas, which examines the relevance, coherence, effectiveness, efficiency and EU added value of the various CAP measures and instruments affecting generational renewal in rural areas, due for publication in Q1/2021.

The results of the **pilot project on Smart eco-social villages**²⁷, best practices to build future development strategies, are a contribution to the development of Smart Villages in the EU. A definition has been proposed as follows: Smart Villages are communities in rural areas that use innovative solutions to improve their resilience, building on local strengths and opportunities. They rely on a participatory approach to develop and implement their strategy to improve their economic, social and/or environmental conditions, in particular by mobilising solutions offered by digital technologies. Smart Villages benefit from cooperation and alliances with other communities and actors in rural and urban areas.

**EU added value:
Contributing to
close the rural /
urban digital
gap**

The training of the **Broadband Competence Offices** of the Member States has been reinforced to further empower them to play an active role in the preparation of the Recovery and Resilience Plans, thus accelerating investments in broadband in the context of the obligation to allocate 20% of the funds to digitalisation. The BCOs are increasingly a reliable reference and an enabling condition for broadband investment.

²⁷ https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cmef/rural-areas/smart-eco-social-villages-pilot-project_en

Executive agencies

CHAFEA

2020 marked the fifth year of implementation of the reformed policy for promotion of EU agricultural products. Based on a strategy established at European level, it aims to help the sector's professionals break into international markets and make consumers more aware of the efforts made by European farmers to provide quality products.

Information and promotion programmes consist of operations implemented by proposing organisations. They can take form of "simple" programmes (evaluated by CHAFEA, managed by the competent national authorities under shared management), or "multi" programmes (managed by CHAFEA).

43 simple programmes with participants from 11 Member States and with total EU co-financing of EUR 93 962 874 have been proposed to the Commission services for co-financing, and 26 multi proposals with total EU co-financing of EUR 85 662 553 were awarded. Participants from 16 Member States will implement the multi programmes. 76,8% of the budget of the simple call is dedicated to programmes targeting 26 different third countries.

Following the outbreak of COVID-19 which caused market disturbance in several agricultural sectors (fresh fruit and vegetables, dairy products, wine, horticultural products, potatoes for processing), two additional calls for proposals, one for multi and one for simple programmes, were published on 30 June 2020 with a total budget of 5 million EUR per call. The main objective of the calls was to restore normal market conditions in the affected sectors. Despite the short period available for preparation of proposals, 33 simple and 8 multi applications were submitted. 9 simple and 6 multi proposals were awarded co-financing, all targeting the internal market.

As part of the measures on the initiative of the Commission, CHAFEA organised numerous events, such as promotion seminars or communication campaigns. Despite the high number of postponements/cancellations due to the COVID-19 pandemic, CHAFEA showed responsiveness in adapting the plans accordingly, in a constantly evolving situation from March on. Similarly, campaign activities were also progressively adapted in order to respond to local conditions in China, Japan, Canada, the Middle East, Mexico, Vietnam and Singapore. CHAFEA also produced or updated seven Market Entry Handbooks (Colombia, Vietnam, Singapore, Thailand, Malaysia, South Africa, USA) and started preparations for six more.

REA

The Research Executive Agency (REA) has been implementing its mandate since 2014. In 2020, REA managed 193 projects of Societal Challenge 2 funded by DG AGRI and it performed its tasks in an effective, efficient and cost-effective way.

For the operational budget 2020, 100% of the budget co-delegated to REA, both in commitment and payment appropriations, was consumed.

Despite the COVID-19 pandemic, REA succeeded in carrying out evaluations and grant preparations according to plan. In total, 54 new grants funded by AGRI were signed. The Time-To-Grant (TTG) performance was fully satisfactory for all calls. The Time-To-Pay (TTP) performance for all types of payments was in line with KPI's, including time-to-pay for experts. REA has further continued the policy feedback (PF) mechanism exercise with very good outcomes.

2. Modern and efficient administration and internal control

2.1 Financial management and internal control²⁸

Assurance is provided on the basis of an objective examination of evidence of the effectiveness of risk management, control and governance processes.

This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. The results are explicitly documented and reported to the Director-General.

This section covers the control results and other relevant elements that support management's assurance. It is structured into (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of internal control systems, and resulting in (d) Conclusions on the assurance.

This section is for reporting the control results and other relevant elements that support management's assurance. It is structured into (2.1.1) Control results, (2.1.2) Audit observations and recommendations, (2.1.3) Assessment of the effectiveness of internal control systems, and resulting in (2.1.4) Conclusions on the assurance.

2.1.1 Control results

This section reports and assesses the elements identified by management which support the assurance on the achievement of the internal control objectives²⁹. The DG's assurance building and materiality criteria are outlined in AAR Annex 5. Annex 6 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems.

In line with the 2018 Financial Regulation, DG AGRI's assessment for the new reporting requirement is as follows:

- Cases of "confirmation of instructions" (new FR art 92.3) - no such cases for the DG;
- Cases of financing not linked to costs (new FR art 125.3) - no such cases for the DG;
- Financial Framework Partnerships >4 years (new FR art 130.4) - no such cases for the DG;
- Cases of flat-rates >7% for indirect costs (new FR art 181.6) - no such cases for the DG;
- Cases of "Derogations from the principle of non-retroactivity [of grants] pursuant to Article 193 FR" (new Financial Regulation Article 193.2) - no such cases for the DG.

²⁸ The UK is no longer a member of the Union since 1 February 2020. However, in accordance with Article 127 of the Withdrawal Agreement, Union law remained applicable in the UK until the end of the transition period on 31 December 2020. During the transition period any reference to Member States in applicable Union law was to be read as including the UK.

²⁹ 1) Effectiveness, efficiency and economy of operations; 2) reliability of reporting; 3) safeguarding of assets and information; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 36.2). The 2nd and/or 3rd Internal Control Objective(s) (ICO) only when applicable, given the DG's activities.

EFFECTIVENESS (The control results and benefits)

A) Legality and regularity of the transactions

DG AGRI is using internal control processes to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions it is responsible for, taking into account the multiannual character of programmes and the nature of the payments concerned.

2.1.1.1. Payments executed in 2020 for the CAP

In 2020, total EU outturn on payment appropriations³⁰ in respect of Title 05 'Agriculture and Rural Development', under DG AGRI responsibility was EUR 59 042.08 million. Of this, EUR 58 915.17 million (99.79% of CAP budget³¹) was under shared management. Payments executed under the EAGF (shared management) amounted to EUR 44 145.56 million. Payments executed under the EAFRD (shared management) amounted to EUR 14 569.25 million. Direct management and indirect management accounted altogether for only around 0.21% of total EU expenditure under DG AGRI responsibility.

The table below shows the payment appropriations executed broken down by activity and by management mode:

Title 05	Agriculture and rural development	Shared management (EUR)	Direct management (EUR)	Indirect management (EUR)	Total (EUR)	% of CAP budget
0501	Administrative expenditure		9 793 048		9 793 048	0.02%
0502	Interventions in agricultural markets	2 573 813 479	-		2 573 813 479	4.36%
0503	Direct aids	41 571 749 519			41 571 749 519	70.41%
0504	Rural development	14 569 248 053	9 623 836		14 578 871 889	24.69%
0505	Instrument for Pre-accession Assistance			77 005 335	77 005 335	0.13%
0506	International aspects		4 384 110		4 384 110	0.01%
0507	Audit	200 361 384			200 361 384	0.34%
0508	Policy strategy and coordination		26 099 553		26 099 553	0.04%
0509	Horizon 2020 - Research and innovation		-		-	0.00%
Total		58 915 172 436	49 900 547	77 005 335	59 042 078 318	100.00%
% of Title 5		99.79%	0.08%	0.13%	100.00%	

Table: 2.1.1.1-1

The detailed financial data and the draft annual accounts are presented in Annex 3. Annex 7 to this report sets out in detail the management and control systems in place for shared management funds and demonstrates how assurance is obtained with regard to legality and regularity in respect of each of the three principal ABB activities for which the Directorate-General is responsible, ABB02, ABB03 and ABB04, which together account for 99.4%³² of the CAP spending in 2020.

³⁰ Including assigned revenue.

³¹ This percentage is calculated on the total payments executed in financial year 2020 (actual payments. Title 05), also including audit budget (0507).

³² This percentage is calculated on the total payments executed in financial year 2020.

The principal conclusions in respect of each of these are summarised in sub-section 2.1.1.2.2 below (ABB02 – Market Measures, ABB03 – Direct Payments and ABB04 – Rural Development).

2.1.1.2 Control effectiveness as regards legality and regularity

The control systems set up under shared management in DG AGRI and in the Member States are explained in more detail in Part 2 (on the functioning of the Paying Agencies and the role of the Certification Bodies) and Part 3 (which deals separately with each of the ABBs) of Annex 7.

The following sections describe the key elements which are taken into consideration for building assurance at Commission level as regards the legality and regularity of operations at Paying Agency level.

2.1.1.2.1 Control framework as regards legality and regularity

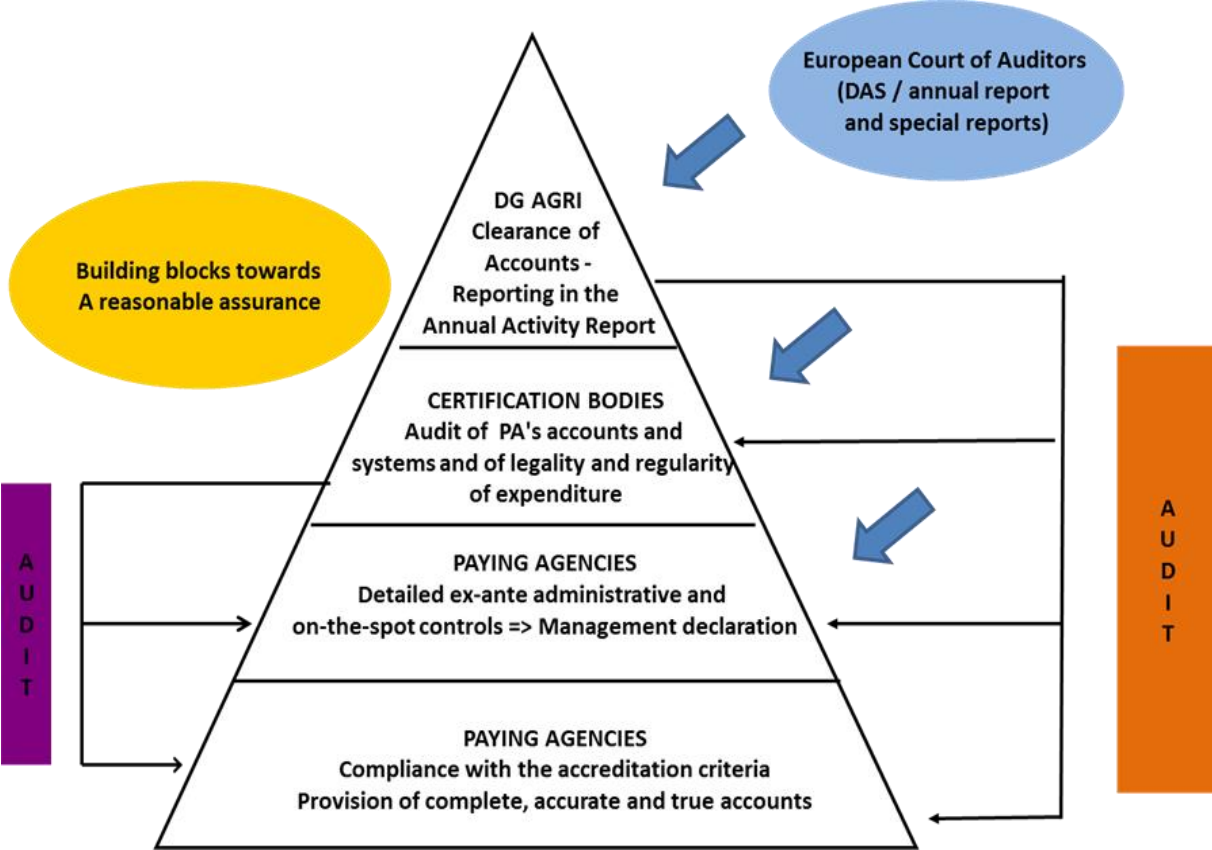
With 6.7 million beneficiaries of the CAP, EAGF and EAFRD expenditure is implemented under **shared management** through a comprehensive management and control system (described in detail in Annex 7 of the report) which is designed to ensure the legality and regularity of the underlying transactions at the level of the final beneficiaries. Where the Commission implements the budget under shared management, implementation tasks are shared with the Member States. The latter are required to take all the necessary measures to ensure that actions financed from the EU budget are implemented correctly and effectively and in accordance with EU rules. They are obliged to have systems in place which prevent, detect and correct irregularities and fraud. The CAP legislation provides that they shall accredit **Paying Agencies** which are dedicated bodies responsible for the management and control of Union funds, notably payments to beneficiaries and financial reporting to the Commission. There were 76 such Paying Agencies at the end of 2020. **Certification Bodies** designated by Member States shall provide every year an opinion covering the completeness, accuracy and veracity of the annual accounts of the Paying Agency concerned, the proper functioning of its internal control system and the **legality and regularity** of the expenditure declared to the Commission.

The **EAGF** (1st pillar) is funded almost completely by the EU budget. It is managed on an annual basis and commitment and payment appropriations match (almost entirely non-differentiated appropriations). Aid measures and schemes are legislated at EU level via EU-wide rules.

The **EAFRD** (2nd pillar) programmes are co-funded by the EU and national budgets. They are managed on the basis of national or regional **multiannual programmes** where measures can be tailored at national and regional level in order to meet specific objectives. The appropriations are differentiated in order to reconcile the principle of annuality with the need to manage multi-annual operations.

However, a single set of specific financial management, control rules and assurance on legality and regularity apply to both pillars of the CAP³³. The results of controls under the responsibility of the Paying Agencies (control data and statistics) are provided to the Commission in respect of the financial year, which is being reported upon. An adjusted error rate (which extrapolates Member States' reported error rates, as validated and adjusted by DG AGRI on the basis of all available information, to the non-controlled population – see Annex 5) is calculated in respect of the 2020 expenditure. Since 2015, in the framework of the annual financial clearance exercise, the Certification Bodies have been auditing, at the level of each Paying Agency, the legality and regularity of the expenditure and expressed an opinion thereon. This audit evidence serves as a basis for DG AGRI's adjustments of the error rates reported by the Paying Agencies. The opinion of the Certification Bodies on legality and regularity is, where the audit work of the Certification Bodies is done in accordance with the applicable regulations and guidelines, the key element of the assurance model of the CAP expenditure. In parallel, annual accounts are declared by the Paying Agencies, certified by the Certification Bodies and are cleared (financial clearance procedure) by the Commission, without prejudice to future net financial corrections to be decided by the Commission resulting from DG AGRI own audit activities pursuant to the conformity procedure.

The following flow chart sets out the CAP shared management assurance model:



³³ Regulation (EU) No 1306/2013 of the European Parliament and of the Council on the financing, managing and monitoring of the common agricultural policy (OJ. L 347 of 20/12/2013).

The Commission has set up processes designed to ensure the adequate management of the risks related to the legality and regularity of the underlying transactions, taking into account the annual nature of the payments and the very large number of beneficiaries. The assurance objective is to ensure that the remaining risk to the EU budget does not exceed 2%.

The Commission is of the view that the corrective capacity in the years after the year of expenditure of its net financial corrections imposed on Member States and of the amounts recovered from beneficiaries by the Member States and reimbursed to the EU budget must also be considered. It is not until this corrective capacity has been taken into account that the picture of the risk to the EU budget is complete and it is possible to assess the remaining financial risk to the EU budget (estimated final amount at risk).

As the three principal ABB activities (ABBO2 – Market Measures, ABBO3 – Direct Payments and ABBO4 – Rural Development) are dealt with under shared management with the Member States, the Commission (DG AGRI) cannot, on its own, reduce the level of error. While DG AGRI is fully assuming its responsibilities, the detection and correction of errors is first and foremost in the hands of the Member States. The latter are responsible for the management and controls at beneficiary level and, as repeatedly pointed out by the European Court of Auditors, they are primarily responsible for the errors which occur. They are also responsible for implementing the necessary actions to remedy control system deficiencies identified by the Certification Bodies and/or the Commission. In cases where Member States fail to implement action plans in due time, the Commission may decide to reduce or suspend its payments, to prevent further risks to the EU budget.

DG AGRI carried out 58 audits³⁴ and opened 49 conformity procedures after desk audits in 2020 for the Member States in order to check that EU rules, and in case of the EAFRD also national rules, are complied with by the Paying Agencies when making payments to beneficiaries or recovering undue payments. As a result of the conformity clearance procedures, the Commission imposes net financial corrections on the Member States by which they reimburse to the EU budget the amounts corresponding to those corrections.

Under the **single audit approach**, the conformity audits take as a starting point the work of the respective Certification Body when assessing compliance of the CAP management and control systems at national level. In 2020, in parallel with the single audits, DG AGRI also carried out 15 audits only focusing on different Certification Bodies to check their audit strategy and sampling. Overall, the quality of the Certification Bodies' audit work and consequently the level of reliance on their opinion on legality and regularity of the expenditure is a key element in the overall CAP assurance building.

³⁴ Due to the restrictions following the COVID-19 pandemic in 2020 DG AGRI was at first not in a position to carry any audits and then when restrictions allowed converted the large majority of its audits into remote audits without missions due to travel restrictions.

It is recalled that Article 36(5) of the Financial Regulation 2018/1046³⁵ states:

"If, during implementation, the level of error is persistently high, the Commission shall identify the weaknesses in the control systems, analyse the costs and benefits of possible corrective actions and take or propose appropriate action, such as simplification of the applicable provisions, improvements of the control systems and re-design of the programme or delivery systems."

The following sections, and Annex 7 of this report, present in detail the weaknesses found in the control systems, remedial actions being taken and describe how the multiannual control system of the CAP protects the EU financial interests.

DG AGRI, together with the other DGs managing EU funds under shared management and DG Budget, is also involved in the implementation of the **EU legal framework on prevention and avoidance of conflict of interests in shared management**. The provisions of the Financial Regulation (Article 61), in force since 2 August 2018, include in their scope financial actors in national authorities at any level, involved in EU-budget implementation and acts preparatory thereto and specifically refers to shared management. This encompassing EU concept of conflict of interests has triggered further Commission initiatives to monitor and audit its correct implementation by Member States authorities. DG AGRI has supported the initiatives for a comprehensive implementation of relevant obligations in the management and control systems of the Member States under the CAP together with DG Budget. During 2018 and 2019, Member States' authorities responsible for managing and auditing EU funds have received guidance and discussed with the European Commission measures taken to deal with conflict of interests and exchanged best practices. Following this, further guidance has been prepared by the Commission services. The Guidance document on avoidance and management of conflicts of interest under the Financial Regulation was adopted on 7 April 2021 and published in the Official Journal on 9 April 2021³⁶.

DG AGRI has presented the provisions of Article 61 of the Financial Regulation to all Member States' Paying Agencies, Competent Authorities and Certification Bodies to ensure that the new provisions are well understood and recommended them to further check their control and/or audit procedures to cover situations of conflict of interests. Paying Agencies also have to respect specific rules on conflict of interests as part of their continued compliance with the accreditation criteria which are set out in Annex I of Regulation (EU) 907/2014.

In addition, DG AGRI has also jointly audited with DG REGIO and DG EMPL specific allegations of conflict of interests in the Czech Republic for EAFRD investment projects. While the conformity procedure is ongoing, DG AGRI is not reimbursing to the Czech

³⁵ Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union.

³⁶ Guidance on the avoidance and management of conflicts of interest under the Financial Regulation (2021/C 121/01), EUR-Lex - 52021XC0409(01) - EN - EUR-Lex (europa.eu).

authorities the amounts related to EAFRD projects that could be potentially affected by the alleged conflict of interests.

To conclude, at this stage DG AGRI considers that it has taken the necessary measures to address the issue of conflict of interests, including in relation to the Czech Republic, and will continue to do so (see also Annex 7, section 3.3.3.5.2).

Since 2019, **allegations of misuse of CAP funds** concerning some Member States have been brought to the attention of DG AGRI. Whenever there are allegations of particular malpractices in individual Member States, DG AGRI works closely together with DG Budget, OLAF, and other Commission services to look into these cases very carefully. If the allegations relate to fraud, OLAF is the responsible body to investigate them. If the allegations relate to issues outside the CAP rules, for example land that is taken by force, then this is a rule of law issue and the judicial system of the Member State should act, while the Commission services can assist the Member State, if necessary. In case of fraud risks related to deficiencies in the CAP management and control systems of the Member State concerned, DG AGRI can and will audit the systems and/or can request and monitor the implementation of a corrective Action Plan to remedy the situation and to protect the EU budget e.g. in the case of Slovakia (see Annex 7, sections 2.1.4, 3.2.3 and 3.3.3 on audits, suspensions and Paying Agency under probation), as a precautionary measure, DG AGRI interrupted the payments for part of the Rural Development investment measures for the last three quarters of 2020. Moreover, as requested by DG AGRI, the Slovak Competent Authority put the Paying Agency's accreditation under probation as of 15 October 2020. A plan to remedy deficiencies in the accreditation criteria has been drawn up.

DG AGRI adapted its working methods to respond to the **COVID-19 restrictions** in 2020 and addressed the impact of the COVID-19 crisis on the CAP assurance through a series of measures.

The Commission adopted Regulation (EU) No 2020/532³⁷ which provides rules with realistic and attainable control requirements for the Member States. The amended rules were limited in time and scope and proposed alternative methods³⁸ to carry out the controls by the Member States under the COVID-19 restrictions and as such continued to provide a good basis for assurance. It is also important to note that, for financial year 2020, the vast majority of the expenditure related to the claim year 2019 and thus, the COVID-19 restrictions had a minor effect on the controls. Moreover, in case the amended control rules as provided for in the Regulation were applied in relation to financial year 2020 expenditure, the Member State should take responsibility and confirm in the Management Declaration for financial year 2020 that overpayments to beneficiaries were prevented and that the recovery of undue amounts has been instigated based on the verification of all

³⁷ COMMISSION IMPLEMENTING REGULATION (EU) 2020/532 of 16 April 2020 derogating in respect of the year 2020 from Implementing Regulations (EU) No 809/2014, (EU) No 180/2014, (EU) No 181/2014, (EU) 2017/892, (EU) 2016/1150, (EU) 2018/274, (EU) 2017/39, (EU) 2015/1368 and (EU) 2016/1240 as regards certain administrative and on-the-spot checks applicable within the common agricultural policy – JO L119 of 17.4.2020.

³⁸ Possibility to replace physical inspections and on-the-spot checks under Direct Payments, Rural Development and markets support measures with alternative control evidence, such as geo-tagged photos, satellite images, documents, video meetings, etc.

necessary information. In addition to the sound financial management principles still to be respected by the Member States, the Certification Bodies continued to do their audit work whilst also using alternative methods, as the Paying Agencies, and reported to DG AGRI on their findings as in previous years.

Moreover, DG AGRI has implemented a new type of audits – remote³⁹ audits, to address the travel restrictions. This option is limited in time (i.e. the movement restriction period) but it provides a solid basis for audit coverage and audit conclusions.

To provide more detail on the Regulation adopted, it is underlined that it was mostly applicable for claim year 2020 for IACS measures and for other measures for calendar year 2020, i.e. the period and expenditure (IACS claim year 2019 is paid in financial year 2020) covered by this AAR is for the large majority part not affected by the restrictions linked to the COVID-19 pandemic. This is because the vast majority of the controls for the EAGF and EAFRD IACS expenditure should be and were done already in 2019, i.e. before the COVID-19 restrictions were put in place. In addition, it is to be noted that expenditure for financial year 2020 can be audited by DG AGRI until year 2022 ("24 month rule"⁴⁰).

In conclusion, DG AGRI considers that there is sufficient information available in order to make a solid assessment of the legality and regularity of the CAP expenditure and the amount at risk for the CAP for financial year 2020. DG AGRI used all the resources and tools above to meet these new challenges and still had a solid basis for obtaining assurance on the CAP expenditure.

2.1.1.2.2 Assessment of the amount at risk for Shared management

Given the annual declaration cycle and financial clearance of accounts procedure, the necessary information on the results of the controls carried out for financial year 2020 is received in sufficient time to be used in the AAR for that year. In line with the detailed materiality criteria set out in Annex 5, reservations are made as a general rule for the Paying Agencies for which the annual adjusted error rate exceeds 2%. However, for those for which the adjusted error rate falls between 2% and 5%, the existence of sufficient mitigating factors may justify not making a reservation. Full details are presented in Annex 7 - Part 3.

³⁹ See footnote 34.

⁴⁰ In accordance with the provisions of Article 52(4) of Regulation (EU) No 1306/2013, the conformity clearance covers expenditure incurred up to 24 months before the Commission officially notifies the Member State of its audit findings (i.e. the receipt by the Member State of the Letter of findings in its national language).

ABB02 – Market Measures

Market measures, at EUR 2 573.81 million, accounted for 4.36% of the CAP budget in 2020. The market measures split over 9 sectors, the most important of which are wine and fruit and vegetables:

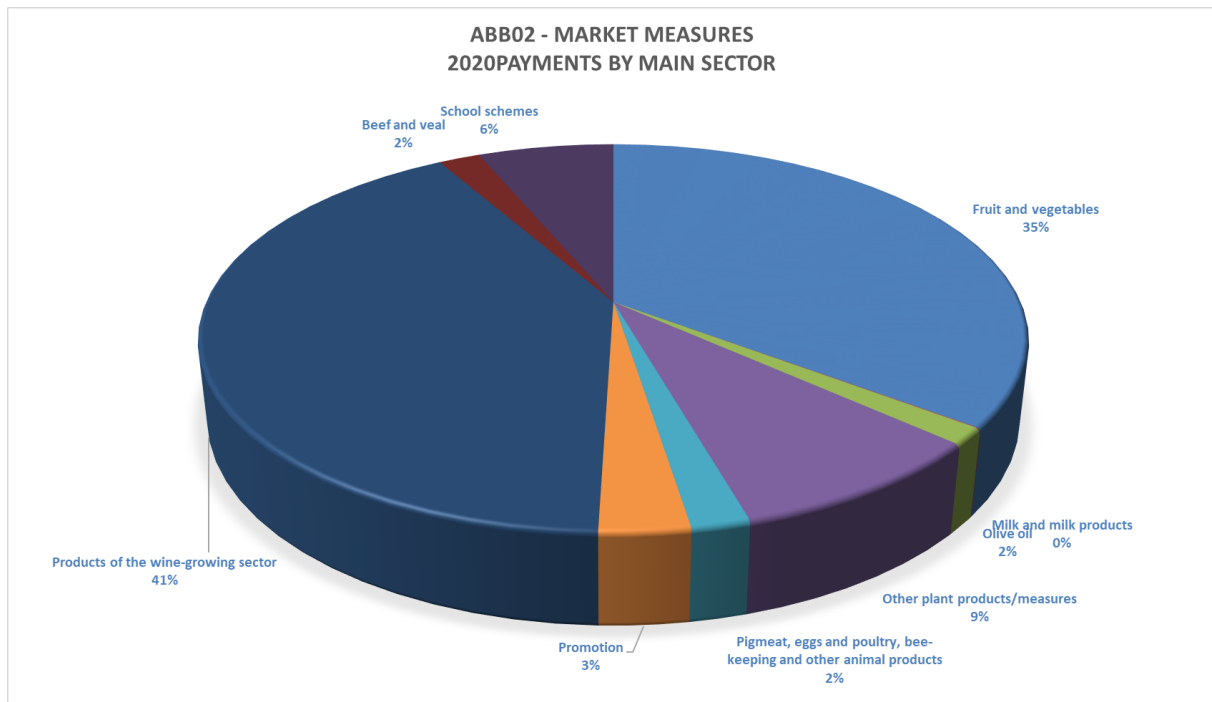


Chart 2.1.1.2.2-1

The following table sets out the expenditure in 2020 for ABB02 by budget article (sector). A measure-by-measure approach has been taken for assurance purposes in order to estimate, as precisely as possible, the adjusted error rates and amounts at risk.

Overall assessment of risk for ABB02 - Market Measures									
Budget item	Sector	Expenditure (1) EUR	Expenditure covered by statistics		Expenditure for which no control statistics are available				
			Expenditure(1) EUR	Risk EUR	No statistics available EUR	Measures risk assessed by auditors		ABB02 error rate applied* 2.43	
						Expenditure(1)	Risk	Expenditure(1)	Risk
050201	Cereals	-	-	-	-	-	-	-	-
050202	Rice	-	-	-	-	-	-	-	-
050203	Non-annex I products	-	-	-	-	-	-	-	-
050204	Food Aid	-	-	-	-	-	-	-	-
050205	Sugar	-	-	-	-	-	-	-	-
050206	Olive Oil	35 136 212	33 929 035	-	1 207 177	-	-	1 207 177	29 393
050207	Textile Plants	-	-	-	-	-	-	-	-
050208	Fruit and Vegetables	902 681 854	902 681 854	30 272 870	-	-	-	-	-
050209	Wine (2)	1 056 621 169	784 923 677	15 881 556	271 697 492	-	-	271 697 492	6 615 452
050210	Promotion (shared management only)	76 716 204	73 092 402	432 420	3 623 802	3 623 803	13 796	-	-
050211	Other plant products and POSEI	227 749 244	227 749 244	412 712	-	-	-	-	-
050212	Milk and Milk Products	985 341	-	-	985 341	-	-	985 341	23 992
050213	Beef and Veal	49 531 794	-	-	49 531 794	49 531 794	494 389	-	-
050214	Sheepmeat and goatmeat	-	-	-	-	-	-	-	-
050215	Pigmeat, eggs, poultry & apiculture	49 965 015	-	-	49 965 015	36 478 557	527 860	13 486 458	328 376
050218	School scheme	162 063 143	162 063 143	7 334 892	-	-	-	-	-
	Total	2 561 449 976	2 184 439 354	54 334 449	377 010 622	89 634 154	1 036 045	287 376 468	6 997 213
					Expenditure	Amount at risk	% coverage	Error rate	
Expenditure covered by control statistics					2 184 439 354	54 334 449	85.28%		
Expenditure for which there are no statistics but for which risk assessment carried out					89 634 154	1 036 045	3.50%		
Risk for expenditure covered by statistics and by risk assessment					2 274 073 508	55 370 494	88.78%		
*Error rate used on expenditure covered by statistics and risk assessed									2.43%
Extrapolated risk for non-risk assessed expenditure					287 376 468	6 997 213			
ABB02 - shared management - monthly declaration					2 561 449 976	62 367 707			
Suspension of payments						-			
Reimbursement of suspension of payments (3)					12 363 503				
ABB02 - shared management - payments made					2 573 813 480	62 367 707			2.43%
ABB02 - direct management - payments made on Promotion measures - direct payments by the Union						-			
Total ABB 02 - payments made					2 573 813 480	62 367 707			2.43%

Footnote: ⁽¹⁾ Monthly declaration of expenditure affected by Paying Agencies.
⁽²⁾ There are still payments and reimbursements made to Member States for measures from previous claim years. No control statistics are available on these measures, hence the average error rate is applied only on payments made but not on reimbursements.
⁽³⁾ For ABB02 there was a reimbursement of EUR 12.36 Mio to PL following a lift of suspension of payments.

Table: 2.1.1.2.2-1

Control statistics are available in respect of 85.28%⁴¹ of the expenditure covering EUR 2 184.4 million. For a further EUR 89.634 million for which no statistics were available, DG AGRI's auditors have considered that they have assurance on the basis of an examination of all available information on the schemes concerned and have used their judgement to estimate the maximum amount at risk in that expenditure.

Both the quantitative (where control statistics were available) and the qualitative approaches are set out in Annex 7 – Part 3.1 (ABB02).

This assessment process led to a number of adjustments proposed by DG AGRI to the error rates calculated by the Member States, based on the assessment of the Certification Bodies and its own audits.

As a result, in 26 cases the adjusted error rate is above (or equal) 2%. In line with its materiality criteria in Annex 5, **7 cases – where the error rate is above (or equal) 5%** and the amount at risk is above DG AGRI *de minimis* threshold of EUR 1 million – were automatically **subject to a reservation**.

Each case, where the adjusted error rate was between 2% and 5%, was examined, in order to determine if risk mitigation conditions existed and otherwise if a reservation should be made. In **4 cases**, a reservation was made (Belgium and Germany for fruit and vegetables sector; France and Portugal for wine sector).

⁴¹ Share of gross expenditure, this figure does not take into consideration the amount of EUR 60.963 million reimbursed under the exceptional temporary measure in the milk and milk products and EUR 0.001 for the market measure “cereals”.

Finally, for 15 cases, the amount at risk is below DG AGRI *de minimis* threshold of EUR 1 million as established in Annex 5, therefore no reservation was necessary.

The results of this analysis are set out for each case in Annex 7 – Part 3.1 (ABBO2).

The overall outcome of this exercise is that 11 reservations are necessary at measure level:

- Fruit and Vegetables: Operational programmes for producer organisations (Belgium, Germany, the United Kingdom, Italy and Portugal),
- Wine sector (Germany, France and Portugal),
- EU School Scheme (Spain, the United Kingdom and Romania).

Annex 7 provides information on the corrective actions, which are envisaged in each case that a reservation is made.

The following table summarises the situation at Member State level for ABBO2 expenditure under shared management. Annex 7 – Part 3.1 (ABBO2) provides the full details per main sector.

Member State	N° of Aid schemes subject to reservation	Relevant Expenditure ⁽¹⁾ in 2020	Reservations (by aid schemes) - shared management	Adjusted error rate	Amount under reservation EUR	Amount at Risk EUR	2020 Expenditure managed by Paying Agencies with reservation
AT	0	22 297 991		1.09%		243 567	
BE	1	60 757 563	F&V Producer organisations	1.92%	1 096 946	1 165 057	54 400 762
BG	0	18 385 997		4.24%		778 948	
CY	0	5 922 036		0.08%		4 698	
CZ	0	16 537 129		0.44%		73 213	
	2	117 255 765		3.63%		4 253 783	
DE	Breakdown of reservation in DE by measure		F&V Producer organisations		1 628 189		49 363 026
			Wine		2 603 999		37 907 472
DK	0	12 212 484		0.34%		40 933	
EE	0	1 476 002		0.41%		6 049	
ES	1	599 856 460	School scheme	1.28%	1 568 950	7 696 199	12 670 860
FI	0	6 472 509		0.05%		3 324	
FR	1	550 550 908		1.41%		7 751 892	
FR20			Wine		3 720 631		153 544 998
GB	2	41 009 320		11.84%		4 857 244	
	Breakdown of reservation in GB by measure		F&V Producer organisations		1 848 918		36 978 352
			School scheme		2 618 400		2 792 970
GR	0	59 444 793		1.27%		753 803	
HR	0	13 060 508		1.86%		243 304	
HU	0	40 210 993		0.84%		338 862	
IE	0	59 337 708		0.83%		494 389	
IT	1	677 513 904		3.92%		26 551 548	
			F&V Producer organisations		20 299 431		274 753 128
LT	0	3 343 880		-		0	
LU	0	556 096		-		0	
LV	0	3 048 185		0.00%		0	
MT	0	343 587		6.13%		21 078	
NL	0	22 582 510		0.31%		70 964	
PL	0	25 553 025		0.44%		113 030	
PT	2	107 897 611		3.03%		3 270 788	
	Breakdown of reservation in IT by measure		F&V Producer organisations		1 448 802		14 488 023
			Wine		1 543 967		54 517 022
RO	1	65 671 410	School scheme	4.19%	2 018 733	2 751 789	20 187 286
SE	0	11 874 662		0.44%		51 804	
SI	0	7 022 209		0.24%		17 081	
SK	0	11 254 730		7.24%		814 362	
Total	11	2 561 449 976					
Suspension of payments		0					
Reimbursement of suspension of payments (2)		12 363 503					
Total ABBO2 - payments made		2 573 813 479		2.43%	40 396 967	62 367 707	711 603 898

Table: 2.1.1.2.2-2

The total amount at risk for ABBO2 – Market measures is estimated at EUR 62.367 million corresponding to an error rate of 2.43%.

Table 2.1.1.2.2-2 indicates the expenditure managed by the Member States for which a reservation is issued. It is emphasised that of this amount, **the amount at risk for the expenditure under reservation is EUR 40.397 million.**

ABB03 – Direct Payments

Direct payments constitute the largest area of expenditure in the CAP (70.41%) and amounted to EUR 41 571.75 million in 2020. The Basic payment scheme, greening and the Single area payment scheme account for 80% of this amount.

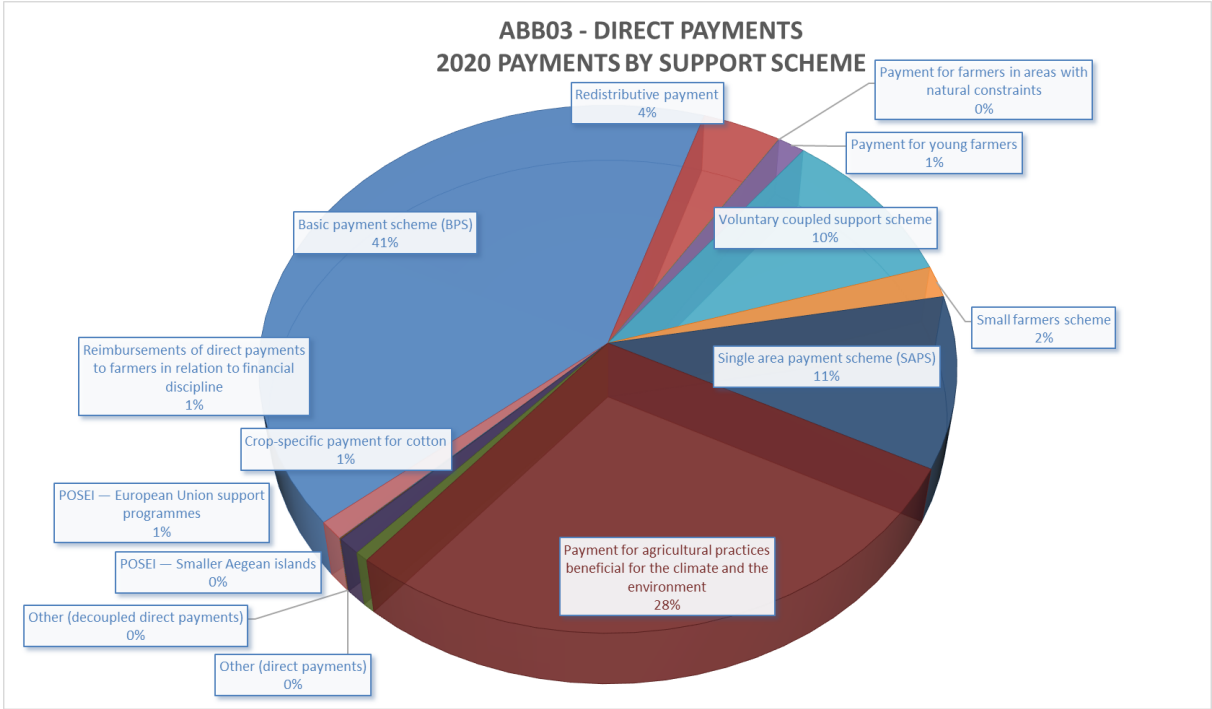


Chart 2.1.1.2.2-2

Control data and statistics have been provided by each Paying Agency in respect of 99.8% of the expenditure for the ABB activity.

DG AGRI has examined the data sent on a case-by-case basis and, based on the assessment of the Certification Bodies and its own audits, has made adjustments to the error rates resulting from the Paying Agency data where the latter was considered to reflect only part of the error existing in the expenditure. Thus, account has been taken of the opinions of the Certification Bodies and the DG AGRI auditors in respect of the audits carried out in the past three years. Annex 7 – Part 3.2 (ABB03) explains how the adjustments proposed were determined.

The results of the calculations have been extrapolated to the entire expenditure of the ABB in order to cover the remaining expenditure for which control statistics were not provided.

As a result, an adjusted error rate of 1.57% has been calculated with 21 Paying Agencies having an error above 2% (no Paying Agency above 5%).

For the 21 Paying Agencies with an error rate between 2% and 5%, an examination was carried out of any risk mitigating factors which indicated that the EU budget was protected

for the past (conformity clearance procedure, culminating in a financial correction, underway) and that it is protected for the future (the deficiencies have been addressed by the Paying Agency). In 2 cases (Croatia and Spain (1 Paying Agency)), it was considered that, given the mitigating factors present (see Part 3.2.5 of Annex 7), it would not be necessary to make a reservation.

In 2 cases (Germany (1 Paying Agency), FR19 – POSEI), as the amount at risk is below DG AGRI *de minimis* threshold, no reservation is required. Annex 7 – Part 3.2.5 (ABB03) sets out the reasoning for these cases.

As regards reservations from 2019, in 6 cases (Cyprus, Denmark, Spain (3 Paying Agencies) and Sweden), it was not considered necessary to carry over reservations from the 2019 AAR with regard to 2020 expenditure. The reasons for each decision are detailed in Annex 7 – Part 3.2.

The overall outcome of this exercise is that 17 reservations are necessary at Paying Agency level: Austria, Bulgaria, Finland, France, Greece, Italy (9 Paying Agencies), Portugal, Romania and Slovakia.

The following table presents the situation at Member State level for ABB03. Annex 7 – Part 3.2 provides the full picture per Paying Agency.

Member States	Relevant Expenditure ⁽¹⁾ 2020	N° of Paying Agencies	N° of Paying Agencies under Reservation	Adjusted Error Rate	Amount at Risk	Amount at Risk Covered by Reservation	2020 Expenditure managed by Paying Agencies with a Reservation
AT	691 597 292	1	1	4.62%	31 957 609	31 957 609	691 597 292
BE	481 846 241	2	0	0.47%	2 249 723	0	0
BG	781 855 246	1	1	2.61%	20 386 214	20 386 214	781 855 246
CY	48 132 857	1	0	0.90%	434 169	0	0
CZ	855 831 835	1	0	1.22%	10 444 247	0	0
DE	4 768 122 546	13	0	0.44%	20 798 044	0	0
DK	814 076 872	1	0	0.41%	3 346 136	0	0
EE	142 535 529	1	0	1.74%	2 476 033	0	0
ES	5 129 188 800	17	0	0.86%	44 348 139	0	0
FI	523 449 607	1	1	2.15%	11 271 135	11 271 135	523 526 814
FR	6 909 822 851	2	1	2.16%	149 274 037	149 229 843	6 769 719 273
GB	3 161 734 619	4	0	0.62%	19 600 516	0	0
GR	1 982 608 996	1	1	2.23%	44 181 048	44 181 048	1 982 608 996
HR	317 353 165	1	0	2.30%	7 292 312	0	0
HU	1 267 539 219	1	0	1.84%	23 345 152	0	0
IE	1 201 193 657	1	0	1.07%	12 806 743	0	0
IT	3 602 895 888	9	9	3.08%	111 028 930	111 028 930	3 605 833 352
LT	480 491 609	1	0	1.44%	6 909 327	0	0
LU	32 841 037	1	0	0.18%	58 940	0	0
LV	277 306 476	1	0	0.97%	2 682 630	0	0
MT	5 117 419	1	0	0.41%	21 071	0	0
NL	666 189 888	1	0	1.14%	7 564 211	0	0
PL	3 402 200 970	1	0	0.80%	27 264 908	0	0
PT	680 268 823	1	1	3.00%	20 399 140	20 399 140	680 268 011
RO	1 926 302 539	1	1	2.64%	50 778 877	50 778 877	1 925 989 256
SE	686 817 853	1	0	1.19%	8 197 943	0	0
SI	133 868 529	1	0	1.65%	2 212 861	0	0
SK	449 015 347	1	1	2.14%	9 598 587	9 598 587	449 015 347
Total	41 420 205 714	69					
	-23 859 550	Amounts reimbursed to DG AGRI by Coordinating Bodies					
	175 403 355	Reimbursement of suspension of payment ⁽²⁾					
Total ABB 03 - Payments made	41 571 749 519	69	17	1.57%	650 928 683	448 831 383	17 410 413 588

Footnote: ⁽¹⁾ Monthly declaration of expenditure affected by Paying Agencies.
⁽²⁾ Suspension of payment for France amounts to EUR 175.40 million was lifted. Since it is considered risk free it is not part of the relevant expenditure when calculating the error rate.

Table: 2.1.1.2.2-3

The total amount at risk for ABB03 - Direct payments is estimated at EUR 650.929 million corresponding to an error rate of 1.57%.

Table 2.1.1.2.2-3 indicates the expenditure managed by the Paying Agencies for which a reservation is issued. It is emphasised that of this amount, **the amount at risk for the expenditure under reservation is EUR 448.831 million.**

ABB04 – Rural Development

In 2020, EUR 14 578.87 million was paid to Member States in respect of rural development which represents 24.69% of the CAP spending. Expenditure paid in 2020 under the 2007-2013 programming period amounted to EUR 0.15 million as balance payments. Expenditure paid and financed under the 2014-2020 programming period, amounted to EUR 14 578 million. Of this, EUR 14 569.48 million was paid as interim payments and an amount of EUR 9.62 million was paid in respect of technical assistance. Reimbursements have also been made by Member States in relation to the programming period 2000-2006 (budget item 05040114 see table below).

Payments reimbursed by DG AGRI to the Member States in 2020					
Management type	Chapter	Budget item	Description	Payments (EUR)	
Shared Management	0504	05040114	Completion of rural development financed by the EAGGF Guarantee Section - Programming period 2000 to 2006	-382 531	
		050452 ⁽¹⁾	Completion of rural development financed by the EAGGF Guidance section and the transitional instrument for rural development for the new Member States financed by the EAGGF Guarantee Section - Programming period 200 to 2006	-	
		05040501	Rural development programmes 2007-2013		150 000
			Reimbursements following Court cases		150 000
			Final balance 2007-2013		-
		05046001	Promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector		14 569 480 584
			Interim payments for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020		14 569 480 584
Pre-financing for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020			-		
Sub-Total Shared Management			14 569 248 053.22		
Direct Management	0504	05040206	Completion of Leader (2000 to 2006)	-	
		05040502	Operational technical assistance 2007-2013	-	
		05046002	Operational technical assistance 2014-2020	9 623 836	
		Sub-Total Direct Management		9 623 836	
Grand Total 0504				14 578 871 889	

Table: 2.1.1.2.2-4

Control statistics have been provided by each Paying Agency in respect of 96% of the expenditure financed under the Rural Development Programmes, amounting to EUR 13 956.63 million.

The following chart sets out 2020 expenditure declared by Member States for the Rural Development Programmes divided among the IACS and Non-IACS measures (see Annex 7 - 3.3.2 for more information).

ABB04 - RURAL DEVELOPMENT PROGRAMMES
PAYMENTS REIMBURSED TO MEMBER STATES IN FINANCIAL YEAR 2020

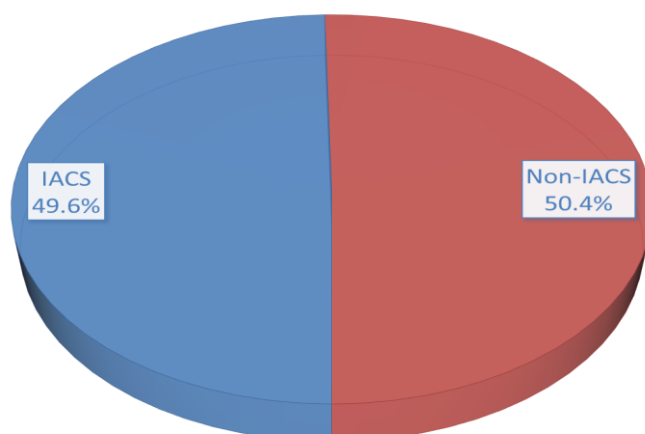


Chart 2.1.1.2.2-3

DG AGRI has examined the data sent on a case-by-case basis and has made adjustments to the error rates resulting from the Paying Agency data where the latter was considered to reflect only part of the error existing in the expenditure, based on the assessment of the Certification Bodies and its own audits. Thus, account has been taken of the opinions of the Certification Bodies for the majority part of the adjustments and the DG AGRI auditors in respect of the audits carried out in the past three years. Annex 7 – Part 3.3 (ABB04) explains in detail the assessment process and how the adjustments proposed were determined.

As a result of the adjustments made, 37 out of 71 Paying Agencies have an adjusted error rate above 2% (of which 8 were above 5%: Belgium (one Paying Agency), Estonia, France (one Paying Agency), the United Kingdom (one Paying Agency), Italy (one Paying Agency), Sweden, Portugal and Slovakia).

In line with its materiality criteria in Annex 5, all the **8 cases where the error rate is above 5%** were automatically **subject to a reservation**.

For the remaining 29 Paying Agencies with an error rate between 2% and 5%, DG AGRI examined the situation for each Paying Agency concerned to determine if risk mitigation conditions existed rendering it unnecessary to make a reservation. In 2 cases, it was considered that, given the mitigating factors present, it would not be necessary to make reservations: Germany (two Paying Agencies). For 7 Paying Agencies (Germany (one Paying Agency), Italy (one Paying Agency), Malta, Spain (four Paying Agencies)), the amount at risk is below DG AGRI's *de minimis* threshold of EUR 1 million as established in Annex 5 (materiality criteria), therefore no reservation was necessary. For the remaining 20 Paying Agencies, a reservation was deemed necessary.

As regards reservations from 2019, in 5 cases (Cyprus, Germany (one Paying Agency), Hungary, Ireland, Lithuania), it was not considered necessary to carry over reservations from the 2019 AAR with regard to 2020 expenditure. The reasons for each decision are detailed in Annex 7 – Part 3.3.

In total, 16 reservations from 2019 are repeated in 2020 as the deficiencies persist, while 12 new reservations are introduced (Belgium (two Paying Agencies), Bulgaria, Czech Republic, the United Kingdom (two Paying Agencies), Germany (one Paying Agency), Greece, Spain (one Paying Agency), Italy (two Paying Agencies), Poland)

The overall outcome of this exercise is that 28 reservations are necessary at Paying Agency level: Austria, Belgium (2 Paying Agencies), Bulgaria, Czech Republic, Germany (1 Paying Agency), Denmark, Estonia, Spain (3 Paying Agencies), Finland, France (2 Paying Agencies), the United Kingdom (3 Paying Agencies), Greece, Croatia, Italy (4 Paying Agencies), Poland, Portugal, Romania, Sweden and Slovakia.

The following table presents the situation at Member State level for ABB04 for the interim payments in financial year 2020. Annex 7 – Part 3.3 (ABB04) provides the picture per Paying Agency:

Member States	Interim Payments FY2020	N° of Paying Agencies	N° of Paying Agencies under reservation	Adjusted error rate	Amount at risk	Amount at risk covered by reservation	Payments managed by Paying Agencies in 2020 with a reservation
AT	573 115 163.23	1	1	3.20%	18 320 322	18 320 322	583 144 867
BE	88 584 036.81	2	2	6.11%	5 413 705	5 413 705	88 682 757
BG	303 027 095.95	1	1	2.42%	7 339 281	7 339 281	303 261 377
CY	22 041 064.11	1	0	0.98%	216 366	0	0
CZ	404 124 381.90	1	1	2.82%	11 400 823	11 400 823	402 915 425
DE	1 356 476 457.41	14	1	1.52%	20 598 867	4 061 123	100 860 234
DK	95 833 669.10	1	1	2.98%	2 855 107	2 855 107	98 580 366
EE	101 341 371.63	1	1	7.40%	7 495 911	7 495 911	101 340 682
ES	1 221 601 179.53	18	3	1.96%	23 898 141	13 969 131	386 026 304
FI	305 132 362.76	1	1	2.98%	9 091 227	9 091 227	305 132 101
FR	1 934 227 582.74	2	2	3.61%	69 896 389	69 896 389	1 937 101 450
GB	767 049 392.88	4	3	3.02%	23 116 559	20 602 114	638 897 603
GR	528 268 504.08	1	1	3.74%	19 778 462	19 778 462	528 268 503
HR	359 224 920.57	1	1	3.00%	10 759 612	10 759 612	359 238 418
HU	565 477 930.63	1	0	1.71%	9 673 206	0	0
IE	333 834 915.17	1	0	1.01%	3 358 902	0	0
IT	1 526 134 447.76	9	4	1.72%	26 175 215	10 835 830	287 951 656
LT	189 905 804.72	1	0	1.95%	3 705 791	0	0
LU	14 153 119.41	1	0	0.76%	107 818	0	0
LV	149 973 725.22	1	0	0.36%	533 405	0	0
MT	18 058 041.61	1	0	3.62%	654 337	0	0
NL	129 324 062.93	1	0	1.94%	2 514 597	0	0
PL	1 206 122 592.20	1	1	2.08%	25 115 693	25 115 693	1 206 112 432
PT	579 760 865.66	1	1	6.06%	35 109 616	35 109 616	579 784 443
RO	1 151 121 192.97	1	1	3.07%	35 365 321	35 365 321	1 133 334 441
SE	326 138 276.00	1	1	8.88%	28 949 011	28 949 011	326 414 101
SI	125 726 537.71	1	0	0.41%	517 968	0	0
SK	193 701 889.64	1	1	11.96%	23 168 432	23 168 432	200 173 842
Grand Total	14 569 480 584.33	71	28	2.92%	425 130 081	359 527 109	9 567 221 003

Table: 2.1.1.2.2-5

As regards the interim payments for the **2014-2020 Rural Development Programmes** paid in 2020, the adjustments made by DG AGRI led to an adjusted error rate of 2.92%, as presented in the table above, corresponding to an **amount at risk of EUR 425.13 million.**

Table 2.1.1.2.2-5 indicates the total expenditure managed by the Paying Agencies for which a reservation is issued. It is emphasised that of this amount, **the amount at risk for the expenditure under reservation is EUR 359.53 million.**

When taking into account all payments made by DG AGRI in 2020 for ABB04, the overall situation is as follows:

Payments reimbursed by DG AGRI to the Member States in 2020							
Management type	Chapter	Budget item	Description	Payments (EUR)	Error rate (%)	Amount at risk (EUR)	
Shared Management	0504	05040114	Completion of rural development financed by the EAGGF Guarantee Section - Programming period 2000 to 2006	-382 531	0.00%	-	
		050452 ⁽⁵⁾	Completion of rural development financed by the EAGGF Guidance section and the transitional instrument for rural development for the new Member States financed by the EAGGF Guarantee Section - Programming period 200 to 2006	-	-	-	
		05040501	Rural development programmes 2007-2013 Reimbursements following Court cases Final balance 2007-2013	150 000 150 000	0.00%	-	
		05046001	Promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector Interim payments for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020 Pre-financing for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	14 569 480 584 14 569 480 584 -	2.92% 2.92% 0.00%	425 130 081 425 130 081 -	
		Sub-Total Shared Management			14 569 248 053.22	2.92%	425 130 081
		Direct Management	05040206	Completion of Leader (2000 to 2006)	-	-	-
			05040502	Operational technical assistance 2007-2013	-	-	-
05046002	Operational technical assistance 2014-2020		9 623 836	1.00%	96 238		
Sub-Total Direct Management			9 623 836	1.00%	96 238		
Grand Total 0504				14 578 871 889	2.92%	425 226 320	

Table: 2.1.1.2.2-6

The adjusted error rate for payments made for ABB04 is 2.92% and the amount at risk is estimated at EUR 426.89 million.

Finally, for the purpose of estimating the **risk at payment** for ABB04 (expenditure in shared management), account has to be taken of all amounts reimbursed by the Commission, excluding the pre-financing, including the cleared pre-financing amounts and the closure balances paid in 2020 i.e. **the relevant expenditure. This results in an overall estimated amount at risk at payment of EUR 425.13 million corresponding to an adjusted error rate of 2.92%** (see table 2.1.1.2.2-15 for the details).

Overall assessment on the functioning of the management and control systems

Article 74 of the Financial Regulation⁴² requires the Director-General to report in his Annual Activity Report on whether, except as otherwise specified in any reservations, he has reasonable assurance that, inter alia, the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

In this chapter, the previous sections set out the situation with regard to the functioning of the management and control systems for ABB02 – Market Measures, ABB03 – Direct Payments and ABB04 – Rural Development expenditure.

In delivering the conclusions in each case, DG AGRI has based itself on the four level structure of management and control, which is described in Annex 7 - Part 1 and on the reports and indicators, which emanate from those levels. **For financial year 2020,**

⁴² Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union.

DG AGRI shared the management of the CAP expenditure with 76 Paying Agencies in 28 Member States and reports extensively in Annex 7 - Part 2 on the annual management declarations, which are delivered by those Paying Agencies as well as on the opinion delivered by the Certification Bodies. Furthermore, there are 3-yearly reports by the Competent Authorities on the Paying Agencies' continued compliance with the accreditation criteria⁴³. DG AGRI also, via its various forms of follow-up including on-the-spot audits, checks that the Paying Agencies respect the strict accreditation criteria which regulates them as well as the quality of the work carried out by the Certification Bodies.

KEY INDICATORS FOR LEGALITY AND REGULARITY – EAGF AND EAFRD FINANCIAL YEAR 2020		
ASSURANCE DERIVING FROM THE FUNCTIONING OF THE PAYING AGENCIES		
Accreditation of Paying Agencies (as of 16/10/2020)	Fully accredited	71
	Provisional accreditation ⁴⁴	1
	On probation	5
	Total	77
Certificates and reports of Certification Bodies on functioning of Paying Agencies' internal control systems	Received	76
	Not received	0
	Effective ⁴⁵	75
	Not effective	1
Management Declarations signed by the directors of Paying Agencies	Received	76
	Not received	0
	Unqualified	73 ⁴⁶
	Qualified with reservation	3
Opinions of Certification Bodies on the Management Declarations	Received	76
	Not received	0
	Unqualified	69
	Qualified ⁴⁷	7

Table: 2.1.1.2.2-7

DG AGRI also carries out conformity clearance audit missions, which check the management and control systems in individual Paying Agencies and provide valuable information on how effectively those systems protect the EU funds, which they are responsible for disbursing.

⁴³ Such reports were due in June 2019.

⁴⁴ IT27 – Sardinia had provisional accreditation in financial year 2020. No expenditure was declared, and therefore no clearance package was submitted.

⁴⁵ Effective means very good, good or adequate.

⁴⁶ 12 out of 73 with observations.

⁴⁷ The qualifications vary and may be for one population or all populations.

**Conformity audit missions carried out in EAGF and EAFRD in financial years 2018-2020
(from 16/10/2017 until 15/10/2020)**

	ABB-specific audit missions ¹				Non-ABB specific audit missions	Total number of audit missions
	ABB 02	ABB 03 ²	ABB 04 ³	Sub-total		
Number audit missions	56	90	88	211	91	302
Member States covered⁴	All Member States, except CZ, MT, NL	All Member States	All Member States except FI, MT	All Member States	All Member States except FI, HR, HU, IE, LU, SE, SI, SK	All Member States
	(25 Member States)	(28 Member States)	(26 Member States)	(28 Member States)		

Table: 2.1.1.2.2-8

¹ If an audit covers more than one ABB, it is allocated to all ABBs covered by the audit scope. However, each audit is counted only once in the sub-total.

² Excluding audits on cross-compliance.

³ Concerns only EAFRD, thus excluding the EAGGF Guidance section.

⁴ Including the UK, see footnote 28.

In the past 3-year period, DG AGRI has carried out **302** conformity audit missions to Member States, of which **211** audits targeted the 3 main ABBs (audits targeting more than one ABBs are counted only once). Audits carried out in respect of ABB03 included 14 audits specifically on entitlements. 1 audit was carried out for ABB05 (IPARD). The other **91** audits carried out in this period were not specific to a particular ABB area, including:

- 17 audits on cross-compliance;
- 17 audits in relation to information system security;
- 1 audit on direct expenditure;
- 3 audits on debt management;
- 2 pre-accession related audits; and
- 50 specific audits on the review of the work on the Certification Bodies to check the quality of their audit work and the reliability of their opinions on legality and regularity of the expenditure.

Conformity audit missions carried out in EAGF and EAFRD financial year 2020 (from 16/10/2019 until 15/10/2020)

	ABB-specific audit missions ¹				Non-ABB specific audit missions	Total number of audit missions
	ABB 02	ABB 03 ²	ABB 04 ³	Sub-total		
Number audit missions	12	17	16	45	23	68
Member States covered⁴	10 Member States: BE, DE, ES, FR, GR, IE, IT, PT, RO, SK	12 Member States: CZ, DE, DK, FI, FR, GB, GR, IE, LT, NL, PT, SK	10 Member States: BE, DE, ES, GB, HU, IE, IT, PL, RO, SE	All Member States, except AT, CY, EE, HR, LU, LV, MT, SI	12 Member States: AT, CZ, DE, DK, ES, FR, IT, LT, NL, PT, RO, SK	All Member States, except CY, EE, HR, LU, LV, MT, SI
	(10 Member States)	(12 Member States)	(10 Member States)	(20 Member States)		
Expenditure 2020 million EUR						
- total ⁵	2 573.8	41 571.7	14 569.2	58 714.8		
- covered ⁶	655.6	27 155.1	12 212.7	40 023.4		

Table: 2.1.1.2.2-9

¹ If an audit covers more than one ABB, it is allocated to all ABBs covered by the audit scope. However, each audit is counted only once in the sub-total.

² Excluding audits on cross-compliance.

³ Concerns only EAFRD, thus excluding the EAGGF Guidance section.

⁴ Including the UK, see footnote 28.

⁵ Payments made (DG AGRI Annual Accounts - Annex 3).

⁶ Based on expenditure declared by the Paying Agency (x-table data) during the 24 months prior to the date of DG AGRI's letter of finding/closure letter.

DG AGRI carried out **68** audits⁴⁸, which includes **45 conformity audits** targeting the three ABBs areas (audits covering more than one ABB area are counted only once) in the period under financial year 2020. Apart from that, **23** other audits were carried out covering areas not specific to a particular ABB. They included:

- 4 audits on information system security;
- 2 audits on cross-compliance;
- 2 audits on debt management; and
- 15 audits on the Certification Bodies as regards legality and regularity.

Those audits also result, through the ensuing conformity clearance procedures, where deficiencies in the management and control systems are detected, in net financial corrections. It is noted that audits carried out in 2019 and 2020 will also cover the 2018 expenditure ("24 month rule"⁴⁹).

⁴⁸ Due to the restrictions following the COVID-19 pandemic in 2020 DG AGRI was at first not in a position to carry any audits and then when restrictions allowed converted the large majority of its audits into remote audits without missions due to travel restrictions. See footnote 34.

⁴⁹ In accordance with the provisions of Article 52(4) of Regulation (EU) No 1306/2013, the conformity clearance covers expenditure incurred up to 24 months before the Commission officially notifies the Member State of its audit findings (i.e. the receipt by the Member State of the Letter of findings in its national language).

The Paying Agencies are required to send statistical data reporting on the outcome of the controls, which they have performed and this enables DG AGRI to calculate the level of error detected at Paying Agency level. The following table shows the percentage of expenditure for which the Member States send statistical data on the results of the controls carried out.

Expenditure under shared management (EUR)		Expenditure covered by control statistics (EUR)	% ABB covered by control statistics	% Fund covered by control statistics	% CAP covered by control statistics
ABB02	2 561 449 976	2 184 439 354	85%	99%	
ABB03	41 571 749 519	41 494 029 365	99.8%		
ABB04	14 569 248 053	13 956 630 858	96%	96%	
CAP	58 702 447 548	57 635 099 577			98%

Table: 2.1.1.2.2-10

As mentioned in sub-section 2.1.1.2.1, the Certification Bodies also assess the proper functioning of the Paying Agencies' internal control system and give an opinion on the legality and regularity of the expenditure declared to the Commission.

In addition, DG AGRI carries out a thorough validation and evaluation of the data. Consequently, it takes into account all available relevant information, notably the assessment of the Certification Bodies and the results of its own audit findings and where relevant those of the European Court of Auditors. This process is explained in detail in Annex 5 (materiality criteria) as well as in Annex 7 – Parts 3.1 (Market Measures), 3.2 (Direct Payments) and 3.3 (Rural Development).

This allows DG AGRI to make adjustments on a case-by-case basis at the appropriate level (Paying Agency for ABB03 and ABB04 and measure level per Member State for ABB02) in order to arrive at its best estimate, using its professional judgement, of the "real" level of error in each case – **the adjusted error rate**.

The fact that DG AGRI adjusts the Member States' error rates does not mean that the data sent by the latter are unreliable. The adjustments are made because the Commission, the Certification Bodies and European Court of Auditors find deficiencies when they audit the management and control systems in the Member States. The impact of such deficiencies is that Member States may not have detected all errors – that is why the Commission tops-up the figures reported to establish the error rate. See also Explanatory Box: 3.2.3.2-3 in Annex 7.

Following this assessment stage and taking into account the adjusted error rate, the Paying Agencies for ABB03 and ABB04 and market measures per Member State for ABB02, are classified into four categories in accordance with the level of assurance that they provide as to the legality and regularity of payments made during the reporting year.

These categories are set out in the following table (2.1.1.2.2-11) which summarises the situation for each of the ABB activities:

Impact on the Declaration of Assurance (based on the functioning of systems, materiality and legality and regularity criteria)	Coverage											
	Number of aid schemes/Paying Agencies				as % of aid schemes/Paying Agencies				Payments to aid schemes/Paying Agencies in question as % of expenditure FY2020			
	ABB02	ABB03	ABB04	Total	ABB02	ABB03	ABB04	Total	ABB02	ABB03	ABB04	Total
Reasonable assurance (= adjusted error rate below 2% or under 'de minimis')	108	50	41	199	67.5%	72.5%	57.7%	66.3%	59.3%	56.6%	32.7%	50.8%
Reasonable assurance with low risk (= adjusted error rate between 2% and 5%, with mitigating factors, no reservation)	41	2	2	45	25.6%	2.9%	2.8%	15.0%	12.9%	1.4%	1.6%	2.0%
Limited assurance with medium risk (= adjusted error rate between 2% and 5%, no mitigating factors, with reservation)	5	17	19	41	3.1%	24.6%	26.8%	13.7%	22.9%	42.0%	55.9%	44.6%
Limited assurance with high risk (= adjusted error rate above 5%, with reservation)	6	0	9	15	3.8%	0.0%	12.7%	5.0%	4.9%	0.0%	9.8%	2.6%
Grand Total	160	69	71	300	100%	100%	100%	100%	100%	100%	100%	100%

Table: 2.1.1.2.2-11

All market measures/Paying Agencies falling under the categories 'limited assurance – medium risk' and 'limited assurance – high risk' in the above table are subject to a reservation. Therefore, reservations are necessary in respect of:

- ABB02: 11 elements comprising 3 market measures in 8 Member States.
- ABB03: 17 Paying Agencies in 9 Member States.
- ABB04: 28 Paying Agencies in 19 Member States.

Tables 2.1.1.2.2-12, 2.1.1.2.2-13 and 2.1.1.2.2-14 set out the situation underlying the above table 2.1.1.2.2-11 on the risk assessments for each of the three ABB activities. These tables show for ABB02, ABB03 and ABB04, the classification of expenditure, following management assessment, into four categories of the level of assurance that they provide as to the legality and regularity of payments made during the reporting year.

ABB02: Classification of expenditure, following management assessment, into four categories of the level of assurance that they provide as to the legality and regularity of payments made during the reporting year

ABB02:		Total payments in 2020 per level of assurance (shared management only)								2020			
Member State	Reasonable assurance		Reasonable assurance with low risk		Limited assurance with medium risk		Limited assurance with high risk		Total relevant expenditure ⁽¹⁾	N° of Aid schemes/Paying Agencies	Amount at risk	Adjusted error rate	AAR 2020 reservations
	Expenditure ⁽¹⁾	N° of Aid schemes/Paying Agencies	Expenditure ⁽¹⁾	N° of Aid schemes/Paying Agencies	Expenditure ⁽¹⁾	N° of Aid schemes/Paying Agencies	Expenditure ⁽¹⁾	N° of Aid schemes/Paying Agencies					N° of Paying Agencies
AT	18 956 657	5	3 341 334	1		0		0	22 297 991	6	243 567	1.09%	0
BE	6 207 113	4	149 688	1	54 400 762	1			60 757 563	6	1 165 057	1.92%	1
BG	1 421 036	2	16 964 961	3		0		0	18 385 997	5	778 948	4.24%	0
CY	5 922 036	5		1					5 922 036	6	4 698	0.08%	0
CZ	16 537 129	5	0	1		0		0	16 537 129	6	73 213	0.44%	0
DE	29 985 267	4	0	1	49 363 026	1	37 907 472	1	117 255 765	7	4 253 783	3.63%	2
DK	12 212 484	4	0	1		0		0	12 212 484	5	40 933	0.34%	0
EE	1 476 002	2		1					1 476 002	3	6 049	0.41%	0
ES	504 946 307	5	82 239 293	1		0	12 670 860	1	599 856 460	7	7 696 199	1.28%	1
FI	6 472 509	4		1					6 472 509	5	3 324	0.05%	0
FR	268 393 185	5	128 612 725	2	153 544 998	1		0	550 550 908	8	7 751 892	1.41%	1
GB	610 876	1	627 122	2			39 771 322	2	41 009 320	5	4 857 244	11.84%	2
GR	47 874 867	8	11 569 925	2		0		0	59 444 793	10	753 803	1.27%	0
HR	5 105 242	2	7 955 266	2					13 060 508	4	243 304	1.86%	0
HU	34 225 397	5	5 985 596	2		0		0	40 210 993	7	338 862	0.84%	0
IE	59 337 708	5		1					59 337 708	6	494 389	0.83%	0
IT	374 621 332	6	28 139 445	1	274 753 128	1		0	677 513 904	8	26 551 548	3.92%	1
LT	3 343 880	3		1					3 343 880	4		0.00%	0
LU	556 096	2	0	1		0		0	556 096	3	0	0.00%	0
LV	3 048 185	5	0	1					3 048 185	6	0	0.00%	0
MT	0	0	343 587	3		0		0	343 587	3	21 078	6.13%	0
NL	22 042 810	5	539 701	1					22 582 510	6	70 964	0.31%	0
PL	21 504 180	3	4 048 844	3		0		0	25 553 025	6	113 030	0.44%	0
PT	28 007 161	4	10 885 405	1	54 517 022	1	14 488 023	1	107 897 611	7	3 270 788	3.03%	2
RO	26 375 666	4	19 108 459	1		0	20 187 286	1	65 671 410	6	2 751 789	4.19%	1
SE	11 874 662	3	0	1					11 874 662	4	51 804	0.44%	0
SI	6 332 638	5	689 571	1		0		0	7 022 209	6	17 081	0.24%	0
SK	2 823 794	2	8 430 936	3					11 254 730	5	814 362	7.24%	0
Total - monthly declaration	1 520 214 219	108	329 631 859	41	586 578 937	5	125 024 962	6	2 561 449 976				
Lift of suspension of payments									12 363 503				
ABB02 - shared management - payments made									2 573 813 479	160	62 367 707	2.43%	11

Footnote: ⁽¹⁾ Monthly declaration of expenditure affected by Paying Agencies. Suspension of payment for Poland amounts to EUR 12 363 503 was lifted. Since it is considered risk free it is not part of the relevant expenditure when calculating the error rate.

ABB03: Classification of expenditure, following management assessment, into four categories of the level of assurance that they provide as to the legality and regularity of payments made during the reporting year

ABB03:		Total payments in 2020 per level of assurance								2020			
Member State	Reasonable Assurance		Reasonable Assurance with Low Risk		Limited Assurance with Medium Risk		Limited Assurance with High Risk		Total Relevant Expenditure ⁽¹⁾	Total N° of Paying Agencies	Amount at Risk	Adjusted Error Rate	AAR 2020 reservations
	Expenditure ⁽¹⁾	N° of Paying Agencies	Expenditure ⁽¹⁾	N° of Paying Agencies	Expenditure ⁽¹⁾	N° of Paying Agencies	Expenditure ⁽¹⁾	N° of Paying Agencies					N° of Paying Agencies
AT					691 597 292	1			691 597 292	1	31 957 609	4.62%	1
BE	481 846 241	2							481 846 241	2	2 249 723	0.47%	0
BG					781 855 246	1			781 855 246	1	20 386 214	2.61%	1
CY	48 132 857	1							48 132 857	1	434 169	0.90%	0
CZ	855 831 835	1							855 831 835	1	10 444 247	1.22%	0
DE	4 768 122 546	13							4 768 122 546	13	20 798 044	0.44%	0
DK	814 076 872	1							814 076 872	1	3 346 136	0.41%	0
EE	142 535 529	1							142 535 529	1	2 476 033	1.74%	0
ES	4 862 202 718	16	266 986 082	1					5 129 188 800	17	44 348 139	0.86%	0
FI					523 449 607	1			523 449 607	1	11 271 135	2.15%	1
FR	138 707 924	1			6 771 114 928	1			6 909 822 851	2	149 274 037	2.16%	1
GB	3 161 734 619	4							3 161 734 619	4	19 600 516	0.62%	0
GR					1 982 608 996	1			1 982 608 996	1	44 181 048	2.23%	1
HR			317 353 165	1					317 353 165	1	7 292 312	2.30%	0
HU	1 267 539 219	1							1 267 539 219	1	23 345 152	1.84%	0
IE	1 201 193 657	1							1 201 193 657	1	12 806 743	1.07%	0
IT					3 602 895 888	9			3 602 895 888	9	111 028 930	3.08%	9
LT	480 491 609	1							480 491 609	1	6 909 327	1.44%	0
LU	32 841 037	1							32 841 037	1	58 940	0.18%	0
LV	277 306 476	1							277 306 476	1	2 682 630	0.97%	0
MT	5 117 419	1							5 117 419	1	21 071	0.41%	0
NL	666 189 888	1							666 189 888	1	7 564 211	1.14%	0
PL	3 402 200 970	1							3 402 200 970	1	27 264 908	0.80%	0
PT					680 268 823	1			680 268 823	1	20 399 140	3.00%	1
RO					1 926 302 539	1			1 926 302 539	1	50 778 877	2.64%	1
SE	686 817 853	1							686 817 853	1	8 197 943	1.19%	0
SI	133 868 529	1							133 868 529	1	2 212 861	1.65%	0
SK					449 015 347	1			449 015 347	1	9 598 587	2.14%	1
Subtotal	23 426 757 799	50	584 339 247	2	17 409 108 667	17	0	0	41 420 205 714				
Amounts reimbursed to DG AGRI by Coordinating Bodies									-23 859 550				
Reimbursement of suspension of payment (2)									175 403 355				
TOTAL expenditure									41 571 749 519	69	650 928 683	1.57%	17

Footnote: (1) Monthly declaration of expenditure effected by Paying Agencies. Suspension of payment for France amounts to EUR 175.40 million was lifted. Since it is considered risk free it is not part of the relevant expenditure when calculating the error rate.

ABB04: Classification of expenditure, following management assessment, into four categories of the level of assurance that they provide as to the legality and regularity of payments made during the reporting year

ABB04:		Total payments in 2020 per level of assurance								2020			
Member State	Reasonable assurance		Reasonable assurance with low risk		Limited assurance with medium risk		Limited assurance with high risk		Total payments ⁽¹⁾	Total N° of Paying Agencies	Amount at risk	Adjusted error rate	AAR 2020 reservations
	Payments ⁽¹⁾	N° of Paying Agencies	Payments ⁽¹⁾	N° of Paying Agencies	Payments ⁽¹⁾	N° of Paying Agencies	Payments ⁽¹⁾	N° of Paying Agencies					N° of Paying Agencies
AT					573 115 163	1			573 115 163	1	18 320 322	3.20%	1
BE					39 500 387	1	49 083 649	1	88 584 037	2	5 413 705	6.11%	2
BG					303 027 096	1			303 027 096	1	7 339 281	2.42%	1
CY	22 041 064	1							22 041 064	1	216 366	0.98%	0
CZ					404 124 382	1			404 124 382	1	11 400 823	2.82%	1
DE	1 019 374 370	11	236 242 254	2	100 859 833	1			1 356 476 457	14	20 598 867	1.52%	1
DK					95 833 669	1			95 833 669	1	2 855 107	2.98%	1
EE							101 341 372	1	101 341 372	1	7 495 911	7.40%	1
ES	835 571 941	15			342 519 966	2	43 509 273	1	1 221 601 180	18	23 898 141	1.96%	3
FI					305 132 363	1			305 132 363	1	9 091 227	2.98%	1
FR					1 915 250 031	1	18 977 552	1	1 934 227 583	2	69 896 389	3.61%	2
GB	128 691 242	1			612 543 867	2	25 814 284	1	767 049 393	4	23 116 559	3.02%	3
GR					528 268 504	1			528 268 504	1	19 778 462	3.74%	1
HR					359 224 921	1			359 224 921	1	10 759 612	3.00%	1
HU	565 477 931	1							565 477 931	1	9 673 206	1.71%	0
IE	333 834 915	1							333 834 915	1	3 358 902	1.01%	0
IT	1 238 212 320	5			204 033 391	3	83 888 737	1	1 526 134 448	9	26 175 215	1.72%	4
LT	189 905 805	1							189 905 805	1	3 705 791	1.95%	0
LU	14 153 119	1							14 153 119	1	107 818	0.76%	0
LV	149 973 725	1							149 973 725	1	533 405	0.36%	0
MT	18 058 042	1							18 058 042	1	654 337	3.62%	0
NL	129 324 063	1							129 324 063	1	2 514 597	1.94%	0
PL					1 206 122 592	1			1 206 122 592	1	25 115 693	2.08%	1
PT							579 760 866	1	579 760 866	1	35 109 616	6.06%	1
RO					1 151 121 193	1			1 151 121 193	1	35 365 321	3.07%	1
SE							326 138 276	1	326 138 276	1	28 949 011	8.88%	1
SI	125 726 538	1							125 726 538	1	517 968	0.41%	0
SK							193 701 890	1	193 701 890	1	23 168 432	11.96%	1
Total	4 770 345 074	41	236 242 254	2	8 140 677 358	19	1 422 215 898	9	14 569 480 584	71	425 130 081	2.92%	28

Other payments

Shared management	05040114	Completion of rural development financed by the EAGGF Guarantee Section - Programming period 2000 to 2006	-	382 531.11		0	0.00%	
	05046001	Pre-financing for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020		-		0	0.00%	
	05040501	Final balance 2007-2013		150 000		0	0.00%	
	05040114	Completion of the European Agricultural Guidance and Guarantee Fund, Guidance Section - Objective 1 regions (2000 to 2006)		0		0	0.00%	
	05040502	Operational technical assistance 2007-2014						
Total shared management				14 569 248 053		425 130 081	2.92%	
Direct management	05046002	Operational technical assistance 2014-2020		9 623 836		96 238	1.00%	
Total direct management				9 623 836		96 238	1.00%	
Total ABB 04				14 578 871 889		425 226 320	2.92%	

Footnote: (1) Interim payments for programming period 2014-2020

In the context of the protection of the EU budget, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level.

For DG AGRI, the estimated overall risk at payment⁵⁰ for the 2020 expenditure is EUR 1 138.93 million. This is the AOD's best, conservative estimation of the amount of *relevant expenditure*⁵¹ during the year (EUR 59 029.96 million) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

This expenditure will be subsequently subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in successive years. When applied to the 2020 *relevant expenditure*, the conservatively estimated corrective capacity⁵² of 1.43% results in an amount of EUR 847.03 million. This is the amount of errors that the DG conservatively estimates will be identified and corrected by controls planned to be carried out in succeeding years. The difference between the overall risk at payment and the corrective capacity leads to the estimated final amount at risk of EUR 291.90 million when all corrections will have been applied. The estimated final amount at risk used by DG AGRI corresponds to the estimated overall risk at closure used by other DGs for expenditure where the Commission cannot apply corrections after the closure of the multiannual programmes.

In 2020, the estimated overall risk at payment has slightly increased compared to 2019 (1.89%), however, the adjusted error rate for the CAP as a whole is for the second year below the materiality level, at 1.93%. This comes as a result of the over the past years downward trend of the level of errors for the two CAP pillars, EAGF 1.62% and EAFRD 2.92% (in 2019, EAGF: 1.63% and EAFRD: 2.70%) and is underpinned by the continuous improvements to the management and control systems in the Member States, in which IACS plays a significant role both for direct payments and the EAFRD area and animal related measures. In fact, the overall figure of 1.93% covers different error rates for the two CAP funds and the low error rate for direct payments (more than 70% of the expenditure) of 1.57% is the main reason for the overall error rate of 1.93%.

The level of conservatively estimated future corrections decreased slightly compared to the previous year (1.77% in 2019), in line with the improvements in the management and control system in the Member States and the future financial corrections the Commission still expects to apply.

⁵⁰ In order to calculate the weighted average error rate (AER), the *adjusted* error rates have been used.

⁵¹ For the purpose of calculating the final risk, "*relevant expenditure*" during the year = payments made (including balance payments at closure of programmes 2007-2013), minus new pre-financing paid out, plus previous pre-financing cleared. "Expenditure" in the text of the report and its annexes corresponds to payments reimbursed by the Commission.

⁵² The corrective capacity is calculated as the 3/5 years historic average of recoveries and financial corrections, which is the best available indication of corrective capacity of the ex-post controls systems implemented by DG AGRI and the Member States. See sub-section 2.1.1.3 for further detailed explanation.

The estimated final amount at risk for the CAP is EUR 291.90 million or 0.5% of the relevant expenditure (slight increase from 0.12% in 2019), which confirms the stable trend described above.

Table 2.1.1.2.2-15 - Estimated final amount at risk

		Payments made	Prefinancing paid	Cleared prefinancing	Relevant expenditure ¹	Adjusted error rate	Estimated amount at risk at payment	Average financial corrections	Average recoveries	Average recoveries and corrections (in % of relevant expenditure)	Corrective capacity	Estimated final amount at risk
		million EUR	million EUR	million EUR	million EUR	%	million EUR			%	million EUR	million EUR
	1	2	3	4	5	6	7	8a	8b	8	9	10
					= 2 - 3 + 4		=5 x 6				=5 x 8	=7 - 9
Title 04 Employment, social affairs and inclusion												
0401	Administrative expenditure	0.13	0.00	0.00	0.13	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 09 Communications networks, content and technology												
0903	Connecting Europe facility (CEF)	0.27	0.00	0.00	0.27	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 13 Regional and urban policy												
1303	European regional development fund	0.19	0.00	0.00	0.19	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
1304	Operational technical assistance	0.08	0.00	0.00	0.08	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 17 Health and food safety												
1704	Food and feed safety, animal health, animal welfare and plant health	0.19	0.00	0.00	0.19	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 18 Migration and home affairs												
1801	Administrative expenditure	0.23	0.00	0.00	0.23	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 05 Agriculture and rural development												
SHARED MANAGEMENT												
0502	Interventions in Agricultural Markets	2 573.81	0.00	0.00	2 561.45	2.43%	62.37	43.34	0.00	0.00%	0.00	0.00
0503	Direct payments	41 571.75	0.00	0.00	41 396.35	1.57%	650.93	411.11	0.00	0.00%	0.00	0.00
	EAGF total	44 145.56	0.00	0.00	43 957.80	1.62%	713.30	454.45	95.90	1.25%	548.01	165.28
0504	Rural development	14 569.25	0.00	0.13	14 569.38	2.92%	425.13	197.64	101.38	2.05%	299.02	126.12
0507	Audit	200.36	0.00	0.00	200.36	0.00%	0.00	0.00	0.00	0.00%	0.00	0.00
INDIRECT MANAGEMENT												
0505	Pre-accession Measures	77.01	12.60	0.00	64.41	0.00%	0.00	0.00	0.00	0.00%	0.00	0.00
DIRECT MANAGEMENT												
0501	Administrative expenditure	9.79										
0502	Interventions in agricultural markets	0.00										
0504	Rural development	9.62	7.12	6.39	49.17	1.00%	0.49	0.00	0.00	0.00%	0.00	0.49
0506	International aspects	4.38										
0508	Policy strategy and coordination	26.10										
0509	Horizon 2020 - Research and innovation	0.00										
Total CAP		59 042.08	19.72	6.52	59 028.87	1.93%	1 138.92	652.09	197.28	1.43%	847.03	291.89
Total DG AGRI		59 043.17	19.72	6.52	59 029.96	1.93%	1 138.93	652.09	197.28	1.43%	847.03	291.90
												0.5%
												0.5%

Footnote (1): relevant expenditure includes the payments made, subtracts the new pre-financing paid out and adds the previous pre-financing actually cleared during financial year 2020. For ABB02 and ABB03 the payments made following the lifting of payment suspensions is considered to be error free and have therefore been deducted from the relevant expenditure (EUR 12.36 Mio for ABB02 and EUR 175.40 Mio for ABB03).

Table: 2.1.1.2.2-15

2.1.1.2.3 Assessment of the amount at risk for Indirect management

Taking IPARD I and IPARD II together, for the EUR 77.01 million in indirect management under the pre-accession programmes, the maximum amount at risk is estimated at EUR 0 indicating an estimated adjusted error rate for relevant expenditure of 0.00%.

Title 05	Agriculture and rural development	Payments made (EUR)	Prefinancing paid (EUR)	Cleared prefinancing (EUR)	Relevant expenditure (EUR)	Adjusted error rate	Amount at risk (EUR)
0505	Instrument for Pre-accession Assistance	77 005 335	12 600 000	-	64 405 335	0.00%	-
Total		77 005 335				0.00%	-

Table: 2.1.1.2.3-1

Details regarding indirect management can be found in Annex 7 – Part 8.

2.1.1.2.4 Assessment of the amount at risk for direct management

For the EUR 49.90 million managed directly by DG AGRI, the maximum amount at risk is estimated at EUR 0.499 million with an error rate of 1%. Table 2.1.1.2.4-1 shows the expenditure spent for each budget item under direct management, as well as the estimated amount at risk.

Title 05	Agriculture and rural development	Direct management payments made (EUR)	Error rate	Amount at risk at payment (EUR)
0501	Administrative expenditure	9 793 048	1.00%	97 930
0502	Interventions in agricultural markets	-	-	-
0504	Rural development	9 623 836	1.00%	96 238
0506	International aspects	4 384 110	1.00%	43 841
0508	Policy strategy and coordination	26 099 553	1.00%	260 996
0509	Horizon 2020 - Research and innovation	-	-	-
Total		49 900 547	1.00%	499 005

Table: 2.1.1.2.4-1

2.1.1.2.5 Budget implementation tasks entrusted to other DGs and Agencies

The Commission supervises the implementation of the EU programmes entrusted to other DGs and Executive Agencies in line with the requirements of Council Regulation (EC) No 58/2003. The framework of such supervision is defined in the Act of Delegation and further detailed in the Memorandum of Understanding and in the supervision strategies agreed upon at Director level.

Despite the pandemic, the agencies progressed well in the implementation of the work program, and key performance indicators remained very good. A specific risk assessment addressed the risks linked to the pandemic, and the necessary mitigating actions have been taken.

As regards the programme delegation under the next MFF, the College decided on the new mandates of the future executive agencies. Following this decision, REA will implement new research and other activities while certain activities will be transferred to other agencies. The agricultural promotion, currently delegated to CHAFEA, will be transferred to REA and

CHAFEA will be closed. This transition is intensively prepared by both agencies via workshops, action plans and regular contacts with the concerned parent DGs and agencies.

Based on the AARs presented by both Executive Agencies REA and CHAFEA, there are no identified reservations or critical risks.

Details regarding the budget implementation tasks entrusted to other DGs and Agencies can be found in Annex 7 – Part 9.

2.1.1.2.6 Financial instruments

Financial instruments (FI) are a key tool for providing access to finance for the farming sector and the rural economy. Through their leverage effect and revolving factor, they can also complement the rural development budget. The EAFRD already met the target of doubling the use of FIs as compared to the 2007-2013 programming period.

By the end of 2020:

- 33 Rural Development Programmes (RDPs) in 13 Member States have programmed financial instruments, with a total EAFRD allocation of EUR 609 million.
- The amount declared to the Commission equals EUR 185 million.
- 19 Paying Agencies declared expenditure for FIs under the respective RDPs.

Under the technical assistance programme fi-compass, in total, 34 cases of targeted coaching on financial instruments for EAFRD managing authorities were carried out in the period 2016-2020, 4 of which were done in 2020. In the same period, four EU-wide conferences were undertaken with 561 attending participants in total, as part of the 22 conferences on EAFRD-supported financial instruments organised in the period 2015-2020. In 2020, a study assessing the gaps in financing agriculture and agro-food sectors in 24 Member States was finalised and published, and the 24 national reports were widely disseminated. The activities related to dissemination of information were adapted to the new way of online working during the COVID-19 pandemic period and were provided through social media, webinars, specific brochures, websites, communication newsletters, etc.

The Commission continued the discussions with the Council and the EP on the new CAP proposal where FIs will continue to play an important part to foster investments in agriculture and rural areas, and which also introduced further legal and implementation simplifications. Contributions were also made to the launch of the Just Transition Mechanism, the Recovery and Resilience Fund as well as to the various work streams of InvestEU such as the Sustainability Proofing Guidelines (taxonomy), the Climate and Environmental Tracking, product fiches, etc.

2.1.1.3 How DG AGRI protects the EU budget

2.1.1.3.1 Corrective capacity

Protection of the EU budget via net financial corrections

According to the CAP legal framework, financial corrections imposed by the Commission on Member States upon completion of a conformity procedure have always been net corrections since the first clearance of accounts decision in 1976 and will continue to be net corrections for both European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD) as:

- the corrected amounts are actually reimbursed by the Member States to the EU budget; and
- the amounts received are treated as assigned revenue to the EU budget. They are used to finance CAP expenditure as a whole without being earmarked for any particular Member State.

Every year the Commission adopts around 3 conformity ad-hoc decisions on a package of individual financial corrections. **In 2020, the Commission adopted 3 such decisions published in the Official Journal⁵³**, covering 92 individual net financial corrections for a total amount of **EUR 501.751 million**, with a total financial impact of **EUR 37.830 million**. The negative net financial impact for the EAGF in ad-hoc decision 63 was due to reimbursements following judgments by the European Court of Justice.

Net financial corrections decided in 2020 (and net financial impact)				
million EUR				
Commission Conformity Decisions		EAGF	EAFRD	Total
ad-hoc 62	(EU)2020/201	82.859 (82.859)	36.189 (36.189)	119.048 (119.048)
ad-hoc 63	(EU)2020/859	117.027 (-161.193)	19.110 (18.924)	136.137 (-142.269)
ad-hoc 64	(EU)2020/1734	190.585 (23.787)	55.981 (37.264)	246.566 (61.051)
Total		339.960 (-54.547)	111.280 (92.377)	501.751 (37.830)

Table 2.1.1.3.1-1

The amount of financial corrections adopted in a given year does not necessarily correspond to the amount executed in the same year. For further details, see Annex 7 – Part 4.

Does the amount of financial corrections decided in a given year correspond to the expenditure of the same year?

In general, there is a time-lag between the expenditure which is incurred in the Member State, the Commission's detection of the error and the decision and eventual execution of

⁵³ Decision (EU)2020/201 of 12 February 2020, OJ L 42, 14.2.2020, p.17. Decision (EU)2020/859 of 16 June 2020, OJ L 195, 19.6.2020, p.59. Decision (EU)2020/1734 of 18 November 2020, OJ L 390, 20.11.2020, p.10.

the financial corrections. In addition, very often a financial correction covers two or more expenditure years.

Protection of the EU budget via Recoveries

It is not only the Commission which acts to recover ineligible expenditure from the Member States and thus protect the EU budget. Member States also take steps to recover amounts from beneficiaries.

Under shared management, it is entirely the responsibility of the Member State to recover from beneficiaries. Amounts paid to beneficiaries which the Member States themselves have identified as being ineligible shall be recovered from the beneficiaries and reimbursed to the EU budget. Annex 7 – Part 5 explains the legal framework and provides detailed information on recovered amounts.

Corrective Capacity

What is the corrective capacity?

Recoveries and net financial corrections are effective mechanisms for correcting the errors made by the Member States and protecting the EU budget and should be considered in any comprehensive assessment of the overall control system.

However, these mechanisms apply ex-post and imply contradictory procedures that might take time to complete. Therefore, **the full picture of the actual financial risk to the EU budget for a given annual expenditure**, as a result of Member States' insufficient management and control of EU funds, but after the implementation of the ex-post corrective mechanisms, is not known until some years later. However, failing to consider these amounts of future corrections would result in an incomplete view of the real risk to the EU budget.

The estimate of the amounts of future corrections and the corrective capacity is taken up as an essential element in considering the effectiveness of the control system in protecting the EU budget. It is to be considered when assessing the remaining EU financial risk that still affects a given expenditure once all corrective actions will have been completed - i.e. the estimated final amount at risk.

How is the corrective capacity calculated in respect of net financial corrections?

As in previous years, DG AGRI uses a historical average of the net financial corrections executed for calculating its corrective capacity. To take into account that 2015, 2016 and 2017 amounts of financial corrections included significant amounts related to backlog cases⁵⁴ and to avoid overestimating the corrective capacity, DG AGRI since 2016 used an average of the five previous years instead of the three previous years used in 2014 and

⁵⁴ Backlog cases refer to conformity clearance enquiries, which had been opened before 1 January 2014 and had been pending for a considerable period and therefore also covered several financial years and thus resulted in substantial financial corrections being decided during the period where DG AGRI made an effort to close all such old cases.

2015, as it was considered to give a better assessment of what financial corrections can be expected to be made in respect of the reporting year of the AAR (i.e. 2020 expenditure). The corresponding figures for each of the years 2014 to 2019 were already published in previous DG AGRI AARs. As of the 2019 AAR, DG AGRI went back to the method established in 2014 for EAGF, i.e. using a three year average since the complete exclusion of the years with backlog cases (i.e. 2016 and 2017) will give a better and more prudent estimate of future financial corrections. For EAFRD a 5 year average continues to be used in view of the multi-annual programming for EAFRD and since the amount of financial corrections is more stable over time and in any event better reflects the evolution over a programming period.

Using the **executed amounts**, i.e. the amounts actually reimbursed to the EU budget in the years concerned, instead of the decided amounts, takes into account payments in annual instalments and deferrals and is the best way to reflect how these net corrections are actually protecting the EU budget. This approach of using the executed amounts is used also for 2020 as it best reflects the actual impact on the EU budget and allows comparability with figures from previous years.

DG AGRI continues to exclude corrections in respect of cross-compliance infringements from its calculation of the corrective capacity for net financial corrections as these infringements are not "errors" as regards eligibility and are therefore not included in the estimates of the error rate. However, as the amounts of financial corrections for deficiencies in the cross-compliance controls and sanctions are significant, they are disclosed separately (see Annex 7 - 4.2.2-2).

Similar to the AAR 2017, 2018 and 2019 calculation of the corrective capacity, for this year's calculation DG AGRI carefully reviewed the individual corrections for market measures ABB02 and has excluded factors from the past years that would no longer be relevant for current measures, in order to come to the best, but conservative, estimate of the expected corrective capacity average to be applied to the reporting year's relevant expenditure, so as to get the related estimated future corrections⁵⁵.

The table below shows the 3-year average for EAGF (ABB 02 with the above-mentioned deductions and ABB 03) and the 5-year average for EAFRD.

DG AGRI corrective capacity from financial corrections executed 2016/2018-2020				
million EUR				
	ABB02	ABB03	ABB04	Total
2016			226.396	
2017			303.807	
2018	48.139	548.407	139.456	736.002
2019	51.822	506.832	170.883	729.537
2020	30.052	178.095	147.640	355.787
Total	130.013	1.233.334	988.182	1.821.326
3/5-year average	43.338	411.111	197.636	652.085

Table: 2.1.1.3.1-2

⁵⁵ The corrections excluded refer exclusively to ABB02 (market measures) and are those which concern aid schemes which no longer exist, notably, export refunds, food for the most deprived, sugar restructuring, historic wine plantation rights, certain irregularities and aid for fruit and vegetables producer groups with historically high financial corrections as the measure is now under EAFRD and with limited expenditure.

Consequently, the corrective capacity from financial corrections executed to be used for the estimating of the final amount at risk is:

DG AGRI corrective capacity from financial corrections executed – 2016/2018-2020				
				million EUR
	ABBO2	ABBO3	ABBO4	Total
Historical average	43.338	411.111	197.636	652.085

Table 2.1.1.3.1-3

How is the corrective capacity calculated in respect of recoveries?

The corrective capacity for recoveries is calculated on the basis of an average of the previous five years. DG AGRI also excludes recovered amounts in respect of cross-compliance infringements from its calculation of the corrective capacity for recoveries (the total recoveries are disclosed in Annex 7, Part 5). Since the entry into force of Commission Implementing Regulation (EU) No 908/2014, the Paying Agencies are required to record the budget code of the amounts recovered. However, this requirement is only applicable to new debt cases (as per Article 41(5) of the Commission Delegated Regulation (EU) No 907/2014). Consequently, since the Paying Agencies are still presently reporting old debts cases, it is still not possible to provide a breakdown of recovered amounts at ABB level and this is why the corrective capacity from recoveries continues to be reported at Fund level.

DG AGRI corrective capacity from recoveries 2016 – 2020			
			million EUR
	EAGF	EAFRD	Total
2016	82.604	135.613	218.217
2017	100.202	83.204	183.406
2018	97.683	97.032	194.715
2019	121.132	106.495	227.627
2020	77.904	84.545	162.449
Total	479.524	506.889	986.413
5-year average	95.905	101.378	197.283

Table 2.1.1.3.1-4

Conclusion corrective capacity

The total corrective capacity in respect of the EAGF and EAFRD funds in shared management is calculated to be EUR 849.368 million. This amount is DG AGRI's best estimate of what will be recovered to the EU budget via net financial corrections and recoveries in respect of 2020 expenditure.

DG AGRI corrective capacity 2020			
			million EUR
	EAGF	EAFRD	Total
2020	550.354	299.014	849.368

Table 2.1.1.3.1-5

Benefits of control

The quantifiable benefits of the delivery costs in the Member States (see Table 2.1.1.4-2 in the section "Economy") mainly relate to the detection and correction by Member States of undue amounts claimed and the recoveries by Member States from beneficiaries after

payment. When assessing the effectiveness of detecting and correcting undue claimed amounts, Member States have reported, in their control statistics, an amount of EUR 490.69 million of undue claimed amounts detected and corrected prior to payments (see table 2.1.1.3.1-6). Furthermore, Member States recovered (annual average for the period 2016-2020) an amount of EUR 197.28 million from beneficiaries.

In order to protect the EU financial interests, the Commission applies net financial corrections to Member States following DG AGRI's audit work. Taking into account the corrective capacity of DG AGRI estimated at EUR 652.085 million, the total quantifiable benefits consequently amount to EUR 1 340.06 million. This represents 2.32% of the expenditure paid in respect of the three ABBs.

	Average Financial Corrections¹ (EUR million)	Undue claimed amounts detected and corrected by Member States prior to payment² (EUR million)	Member States' recoveries from beneficiaries after payment¹ (EUR million)	Total (EUR million)	Total in % of 2020 expenditure
ABB02	43.34	70.84	95.90	867.51	1.98%
ABB03	411.11	246.31			
EAGF	454.45	317.15			
ABB04	197.64	173.54	101.38	472.55	3.34%
Total	652.09	490.69	197.29	1 340.106	2.32%

¹ See corrective capacity.

² As reported in the 2020 control statistics.

Table: 2.1.1.3.1-6

Also, there are a number of benefits resulting from the controls operated throughout the various control stages which cannot be precisely quantified. This includes notably (but not exclusively) the deterrent effects of controls as well as the increased level of assurance resulting from, for instance, improvements in the management and control systems implemented at DG AGRI request and DG AGRI's adjustments to the error rates reported by Member States. Furthermore, the delivery costs also cover assistance to the beneficiaries of the CAP and is a prerequisite to ensuring that the CAP is delivered.

2.1.1.3.2 Interruptions, reductions and suspensions

In 2020, DG AGRI continued to apply the interruptions and reductions/suspensions of monthly payments (EAGF) and interim payments (EAFRD) in order to safeguard the EU financial interests. The Commission powers for this preventive mechanism were significantly reinforced with the entry into force of the CAP Horizontal Regulation (EU) No 1306/2013 (and the Common Provisions Regulation (EU) No 1303/2013) in December 2013.

Under EAGF, the reductions made in 2020 concerned 21 Member States and a total amount of EUR 46 082 630.82. There were no reductions in the monthly payments due to deficiencies in the control system in 2020. The reductions concerned overruns of ceilings, deadlines and other eligibility issues. There were also reimbursements of reductions lifted

in the framework of the clearance procedure concerning a total amount of EUR 198 489 422.36. There were 82 operations in total.

There were two suspensions of payments for deficiencies in the control system concerning two Member States and a total amount of EUR 187 766 858.31.

Under EAFRD, the interruptions and reductions/suspensions of EAFRD payments concerned 4 out of 115 RDPs from the 2014-2020 programming period.

Further details concerning interruptions and reductions/suspensions applied on EAGF and EAFRD payments in 2020 are presented in Annex 7 to the present report.

B) *Fraud prevention, detection and correction*

DG AGRI has developed and implemented its own anti-fraud strategy (AGRI AFS) since September 2012, based on the methodology provided by OLAF. It has been updated four times, last in September 2020 with a view to align it to the most recent Commission anti-fraud strategy (CAFS) adopted in April 2019 and in particular to the action plan of the CAFS. Its implementation is monitored on an on-going basis and reported to the management once a year. In October 2020, DG AGRI has also revised and adopted its internal rules for the handling of allegations of fraud and other irregularities and of OLAF cases.

A central aspect of the AGRI AFS is a robust implementation of OLAF's financial recommendations, which almost all aim at recovery of funds from final beneficiaries. Such recoveries are enacted by the CAP Paying Agencies in the Member States. It is also to be noted that such specific follow-up stems directly from the CAFS (Action Point 60).

As from the second half of 2018, DG AGRI has implemented a centralised procedure for the transmission of OLAF final reports to the Paying Agencies and the monitoring of their implementation, which allows for a more reliable follow-up. The experiences with this new approach are positive: The CAP Paying Agencies now report in a timely manner within specific deadlines and communicate details of the recovery procedures which, in the past, they did not always do in a systematic way (registration number of the claim in the debtors' ledger and the Irregularities Management System, exact amount of the claim). This now allows for a greatly improved monitoring of recoveries following OLAF recommendations.

Following the closure of investigations in 2020, OLAF has issued 9 financial recommendations for recoveries of CAP funds from individual beneficiaries. DG AGRI is in the process of following up these recommendations with the competent authorities in the Member States concerned, as only these are responsible to enact recoveries from beneficiaries. 5 recommendations transmitted to the Member States are still under analysis by the relevant authorities in the Member States. 3 financial recommendations received by DG AGRI late in 2020 are pending transmission while awaiting translation into national languages. In one case, the authority in a Member State has disagreed with the findings and conclusions of the OLAF investigation and has refused to enact recovery from the beneficiary. This issue is under discussion with OLAF.

OLAF recommendations issued in previous years (2016-2019) have mostly been implemented by the Member States. However, the amounts recommended by OLAF for recovery have actually not been recovered in all cases from beneficiaries. In some cases, beneficiaries have appealed recovery orders in court and have obtained (partial) success; in other cases, beneficiaries had become insolvent. In only two instances, DG AGRI disagreed with OLAF recommendations: One investigation report was found to be inconclusive and was not transmitted to the Member State concerned. In the other case, OLAF had recommended the application of a financial correction against a Member State because of alleged weaknesses in its administration and control environment for CAP funds, but DG AGRI was precluded by the rules on the conformity clearance from launching such a procedure as the relevant facts lay too far in the past.

From a more general perspective, in the period of the 5 years between 2016 and 2020, OLAF has issued 59 final reports to DG AGRI with financial recommendations, mostly for recoveries from final beneficiaries. The sum of all 59 recommendations from OLAF is EUR 226 986 285.09. As mentioned above, the overwhelming majority of the financial recommendations for recoveries from final beneficiaries has been transmitted by DG AGRI to the Member States for implementation in line with the principles of shared management.

DG AGRI constantly monitors the recovery procedures carried out by the Member States to ensure they are implemented in a timely and diligent manner also through the application of the so-called 50/50 rule after 4 years have elapsed without recovery (or 8 years in case of judicial challenges). Situations in which the recovery is not possible remain therefore limited to successful judicial challenges or cases of insolvency declared in line with national laws as described above.

In conclusion, the results achieved during the year thanks to the anti-fraud measures in place can be summarised as follows: the risk of fraud against CAP funds continues to be low. Since its inception, the AGRI AFS has heavily relied on capacity building in the relevant authorities of the Member States to prevent, detect and correct fraud and other serious irregularities as foreseen for a budget implemented under shared management. To this end, all Member States (and candidate countries) have received specific training in this area in the past as well as written guidance. The effectiveness of this approach appears to be reflected in the relatively low number of cases of (suspected) fraud detected and reported by Member States. That fraud against the CAP budget is not widespread, is also underlined by the circumstance that – at 31 December 2020 – there were merely 44 on-going OLAF investigations into allegations of fraud against the CAP budget (the majority in relation to the EAFRD).

On the basis of the available information, DG AGRI has reasonable assurance that the anti-fraud measures in place are effective overall.

Details regarding the objective on minimisation of the risk of fraud through application of effective anti-fraud measures can be found in Annex 7 – Part 11 (see Table 11.1).

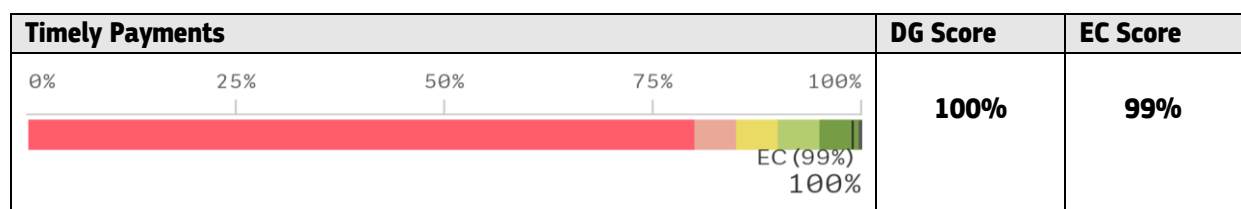
C) Other control objectives: safeguarding of assets and information, reliability of reporting

DG AGRI has set up a full range of measures to ensure the adequate safeguarding of Information Systems:

- An IT Governance is in place. It includes an IT Governance Framework, the list of the DG AGRI IT Governance roles and an annual IT Master Plan that describes the IT investments and activities for N and N+1. It is presented to the DG AGRI Senior Management and approved by the Director-General. Twice a year, the DG AGRI Information Systems are subject of a Steering Committee meeting when progress is assessed and priorities and activities are re-defined with more precision in regard to the recent circumstances. The Information Systems are also registered in GovIS2, the EC centralised repository of Information Systems. The IT Master Plan reports also on the implementation of the IT budget during the previous year. In 2020, 98.99% of the IT budget that was made available has been implemented.
- The DG AGRI Information Systems are also subject to security measures. They are protected from unauthorized access through advanced access rights mechanisms that deactivate users who move from one organisational entity to another or when they are inactive during a long period. New versions of the software are deployed on the Production servers after approval of the related System Owner and by a different team than the developer's team who cannot change directly the software and neither the data. Following the repeal of this Decision and the adoption of the Commission Decision (EU, Euratom) 2017/46, the first two processes of the IT Security Risk Management methodology (ITSRM²) - System Security Characterisation and Primary Asset - for all DG AGRI Information Systems have been performed by mid-2020, and the development of security plans that include complete risk assessments has been planned for 2021 for those at risk. The DG AGRI LISO intervenes each time security incidents occur. Quarterly reports are provided to the responsible DG AGRI Director and to the DG AGRI Security Committee.
- In 2020, DG AGRI IT Management was subject of an IAS risk assessment.
- As a measure for more synergies and efficiencies, the EC IT Governance decided in the past to centralise all the local computer rooms to the DG DIGIT Data Centre. All the DG AGRI Information Systems were migrated in 2020 from the computer room in L130 to the DG DIGIT Data Centre in Luxembourg. They are now co-hosted in the DG DIGIT Data Centre with the Information Systems of other DGs and Services. DG AGRI co-finances the hosting.
- In the framework of the European strategy for data and the Data Strategy@EC, and with the aim to reap the full benefits of the DG AGRI data-rich environment, DG AGRI put in place in 2020 a Data Governance@DG AGRI, mainly made up of a DG AGRI Data Governance Board and a Working Group, as well as a DG AGRI Data Management Work Programme to be set up and to be implemented.
- The recommendations of DG BUDG with regard to the DG AGRI local financial Information System (AGREX), provided in 2017, are subject to a follow-up with DG BUDG.

In 2020, Recommendations 1, 4, 5 and 7 were closed. Recommendation 2 on the introduction of EAGF in the accrual accounting workflow is currently being addressed by a dedicated BUDG – AGRI working group.

EFFICIENCY (the Time-to-... indicators and other efficiency indicators)



As far as timely payments are concerned, DG AGRI shows an excellent rate of 100% which is above Commission average. The large part of its budget is operated under shared management, but there is also a small budget under direct management.

Shared management

99.1%⁵⁶ of DG AGRI's total expenditure is executed under shared management mode. The table below shows DG AGRI's performance for EAFRD and EAGF:

	2017	2018	2019	2020
EAFRD average time to pay*	34 days	31 days	24 days	19 days
EAGF average time to pay**	N/A	N/A	N/A	N/A
EAFRD % of payments made on time	100	100	100	100
EAGF % of payments made on time	100	100	100	100
* Deadline is 45 days. Due to lack of budget, DG AGRI was obliged to pay in two tranches the quarter Q3/2020; the date taken into account for the calculation is the date of the execution of the payment of the first tranche.				
** According to the legislation in force, the payments are executed on the 3 rd working day of each month.				

As regards Member States, for financial year 2020 all Paying Agencies were accredited⁵⁷.

Indicator	2016	2017	2018	2019	2020
% of Paying Agencies accredited	100%	100%	100%	100%	100%

DG AGRI merged the two units dealing with financial issues for Pillars I and II into one. The new unit is implementing synergies in several fields, which are resulting in increased efficiency, and some economies such as:

- Increasing convergence of IT financial tools for EAGF and EAFRD
- In-depth sharing of experiences between EAGF and EAFRD teams
- The synergies created have been useful in particular for the preparation of the financial structure of the CAP reform.

Example of efficiency in shared management: Synergies in financial management

⁵⁶ This percentage is calculated on the total payments executed in financial year 2020 (actual payments).

⁵⁷ The accreditation for Paying Agencies DE17, IT01, IT26, SE01 and SK01 were under probation during the FY.

Direct management

Time to inform and Time to grant

In accordance with Article 194(2)(a) of the Financial Regulation⁵⁸, applicants shall be informed of the outcome of the evaluation of their application within a maximum of six months from the final date for submission of complete proposals. In accordance with Article 194(2)(b) of the Financial Regulation, grant agreements shall be signed with applicants within a maximum of three months from the date of informing applicants that they have been successful.

DG AGRI has informed applicants of the outcome of the evaluation on average within five months of the final date for submission of proposals. As next step, DG AGRI signed the respective grant agreements within two to three months from the date of informing successful applicants.

Time to pay

Article 116(1) of the Financial Regulation fixes the time limits for payments for contribution agreements, contracts and grant agreements.

For direct management, the **performance** regarding payments remained excellent with 99.76% processed within the binding deadlines imposed by the Financial Regulation. The percentage of transactions not paid in time has been further reduced by 71% compared to 2019; this confirms the positive trend since 2016.

Financial year	2017	%	2018	%	2019	%	2020	%
Number of payments	914	100%	928	100%	881	100%	847	100%
Payment on time	898	98.2%	920	99.1%	874	99.2%	845	99,76%
Payment delayed	16	1.8%	8	0.9%	7	0.8%	2	0,24%

Monitoring of timing indicators in days	2017	2018	2019	2020
N° of days between receipt of invoice and "pass for payment"	10	8	7	8
N° of days between receipt of invoice and "bank date"	14	13	12	12

Conclusion on the control efficiency

In view of the indicators mentioned above, DG AGRI considers that the relative level of efficiency of the controls operated is adequate.

⁵⁸ Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union.

ECONOMY (The estimated cost of controls)

For the EAGF and the EAFRD, the two main funds managed by DG AGRI representing 99.7%⁵⁹ of the CAP budget (Title 05), the following indicators can be reported:

Indicator	2020
Cost of management and control of the Commission (as a % of 2020 payment appropriations executed by the Commission for shared management)	0.1%
Cost of management and control of the Member States –i.e. the 'delivery cost' (as a % of 2020 total public expenditure)	3.4%

Table: 2.1.1.4-1

The annual overall **Commission** cost for managing the management and control systems in place for shared management is estimated at around **EUR 58.03 million** or 0.1% of total payments in 2020. A comparison of the results indicates that the results are in line with the results obtained for earlier reporting exercises (financial years 2016-2019).

DG AGRI considers this overall cost to be very reasonable and very cost effective.

The costs have been calculated using the common methodology developed by the Commission to measure the cost of controls. The data used result from a survey performed in the services and updated for 2017. They relate, for nearly one third, to the staff involved in audit activities. The remaining costs relate to staff in the operational directorates and to staff involved in the financial management of the funds. In addition, staff responsible for evaluation, legal affairs, IT systems and general management overheads are also included in the calculation, following an apportionment estimated by the units concerned.

The detailed figures (only at Commission level) are reported in Annex 7 - Part 7 (see Table 7.1 on Overview of the estimated cost of controls at European Commission (EC) level).

The **delivery costs at the level of the Member States** and ABBs are related to all the activities of the Paying Agencies for managing and controlling the CAP expenditure, from providing to all potential beneficiaries the necessary means to lodge an application and including controls, payments, accounts and their reporting to the Commission.

DG AGRI carries out a survey on the delivery cost in the Paying Agencies every two years. For the preparation of the 2019 Annual Activity Report, DG AGRI requested an update of information from Member States in order to provide a more recent estimation of the delivery cost. After the publication of the 2019 Annual Activity Report, some of the data reported by the Member States have been updated. This update is used for the financial year 2020 and also led to the revision of the management and control costs reported in the 2019 Annual Activity Report, as shown in the table below⁶⁰. On the basis of this latest

⁵⁹ This percentage is calculated on the total payments executed in financial year 2020 (Title 05).

⁶⁰ On the basis of updated information, the overall delivery cost of managing and controlling CAP expenditure for the Member States is estimated at around EUR 2 253.9 (compared to EUR 2 268.1 million used for the 2019 AAR),

update, the overall delivery cost of managing and controlling CAP expenditure for the Member States is estimated at around EUR 2 253.9 million (same amount as the updated amount for financial year 2019), corresponding to 3.4% of the CAP expenditure for financial year 2020 (3.5% for financial years 2019 and 2018, and 3.9% for financial year 2017). As indicated in the table 2.1.1.4-2, the % of delivery costs in 2020 expenditure is at a lower level than in 2019 (3.5%). The delivery costs are borne by the Member States.

Activity	2019 updated		2020	
	Member States Management and Control Costs ¹ (EUR million)	in % of 2019 expenditure	Member States Management and Control Costs (EUR million)	in % of 2020 expenditure
Market measures ABB02	257.1	10.8%	257.1	10.0%
Direct payment ABB03	849.1	2.1%	849.1	2.0%
Rural development ABB04	1 147.7	5.4% ²	1 147.7	5.2% ⁴
Total	2 253.9	3.5%³	2 253.9	3.4%⁶

⁽¹⁾ As provided by Member States for the 2019 AAR, after update.

⁽²⁾ In % of 2019 expenditure including total public expenditure.

⁽³⁾ In % of 2019 total public expenditure.

⁽⁴⁾ In % of 2020 expenditure including total public expenditure.

⁽⁵⁾ In % of 2020 total public expenditure.

Table 2.1.1.4-2

A series of IT developments have already been completed and others are planned in 2021 to **increase the efficiency** of the workflows for the annual financial clearance for EAGF/EAFRD, as well as for IPARD. These developments aim at **automatizing processes** from the submission of documents by the Member States/Candidate Countries through the SFC2014 front-office platform to the automatic generation of financial clearance decisions. Following the automatic generation of financial clearance decisions for Member States already available, the automatic generation of a financial clearance decision for IPARD was implemented in 2020. Some operations that were previously done manually by the auditors were/are being automatized, thus increasing efficiency and reducing the risk of human error.

Example of efficiency in shared management: Workflows for the annual financial clearance

Under the same endeavour, DG AGRI has been exploring the possibility to move towards a fully electronic submission of audit-related documents to Member States, including the receipt of a legally valid **electronic acknowledgment of receipt** from the Permanent Representations. An exceptional way for such an electronic acknowledgment of receipt via e-mail is being used during the COVID-19 pandemic.

corresponding to 3.5% of the CAP expenditure for financial year 2019 (which is no changed compared to the 3.5% reported in the 2019 AAR).

Conclusion on the cost effectiveness of the Member States' controls

DG AGRI considers that the delivery costs as presented in Table 2.1.1.4-2 represent a reasonable amount, especially when taking into account the high number of CAP beneficiaries (6.7 million beneficiaries in 2020), the relatively small size of most payments to individual beneficiaries, the necessity of protecting the EU financial interests and the overall performance of the policy. Still, DG AGRI considers there is possibly some scope for improving the cost-effectiveness at the level of the Member States, for certain ABB activities e.g. by use of simplified cost options and new technologies.

Overall, the CAP support is delivered to beneficiaries in a way that protects the EU financial interests as confirmed by the Director-General's conclusion that he has assurance for more than 98% of the resources assigned to him, with the remaining overall financial risk, after all corrective actions will have taken place, being significantly below materiality (see sub-section 2.1.4.3 of this report).

CONCLUSIONS ON THE COST-EFFECTIVENESS OF CONTROLS

Based on the most relevant key indicators and control results, DG AGRI has assessed the effectiveness, efficiency and economy of the control system and reached a positive conclusion on the cost-effectiveness of controls.

Just like in 2019, the DG AGRI control environment and control strategy have remained stable. In view of the result indicators mentioned above, DG AGRI considers that the relative level of cost-effectiveness, economy and efficiency of the controls operated is adequate.

2.1.2 Audit observations and recommendations

This section sets out the observations, opinions and conclusions reported by auditors – including the limited conclusion of the Internal Auditor on the state of internal control. Summaries of the management measures taken in response to the audit recommendations are also included, together with an assessment of the likely material impact of the findings on the achievement of the internal control objectives, and therefore on management's assurance.

2.1.2.1 Internal Audit Service (IAS)

In 2020, the IAS finalised two audits and seven follow-up audits involving DG AGRI:

<i>Title</i>	<i>Final report / Closure note</i>
Limited review of the management of State aid in the field of agriculture	10/03/2020
Audit on the financial management of the 2014-2020 European Agricultural Fund for Rural Development (EAFRD)	6/10/2020
Follow-up audit on the management of IPARD II in DG AGRI	07/02/2020
Follow-up audit on the control strategy for the CAP 2014-2020	18/06/2020
Follow-up audit on the management of the fruit and vegetables regime in DG AGRI (3 follow-up audits)	25/03/2020, 20/10/2020 and 15/01/2021
Follow-up audit on the processes for managing and sharing data on agri-environmental-climate issues in DG AGRI, DG CLIMA and DG ENV	13/08/2020
Follow-up on the management of State aid in the field of agriculture	18/12/2020

For neither of the two audits, did the IAS issue any 'critical' or 'very important' recommendations, but only 'important' recommendations. DG AGRI accepted all recommendations and prepared the respective action plans.

For the limited review on the management of State aid in the field of agriculture, DG AGRI was concerned by one 'important' recommendation. As a consequence of the transfer of the State aid unit from DG AGRI to DG COMP as from 1 January 2020, the remaining recommendations were for DG COMP.

For the follow-up audits, the IAS concluded that all remaining open recommendations were adequately and effectively implemented, and were closed.

DG AGRI management closely monitors the implementation of the audit recommendations and the respect of the action plans agreed with the IAS for all audits. By 31 January 2021, in relation to all past IAS audits from 2020 and before, all recommendations due by 31/12/2020 at the latest have been followed-up by the IAS and have been closed. Two 'important' recommendations remain open, both stemming from the audit on the financial management of the 2014-2020 European Agricultural Fund for Rural Development (EAFRD); they are due by 30/06/2021 and 31/12/2021 respectively.

IAS conclusion on the state of the internal control

Apart from its participation in the peer review process and in line with its mission charter, the contribution of the IAS to the 2020 AAR process consists of providing a limited conclusion on the state of internal control for each DG.

The limited conclusion on the state of internal control draws on the audit work of previous years and lists all 'critical' and 'very important' IAS recommendations which have not been implemented.

On this basis, the Internal Auditor concluded in February 2021 that the internal control systems in place for the audited processes in DG AGRI are effective.

Conclusion on IAS audits and recommendations

DG AGRI is taking action to implement the recommendations addressed to the Directorate-General. The follow-up of IAS audit recommendations is a well-established element of internal control in DG AGRI, which includes regular requests for updates for all open recommendations throughout the year, regardless of their qualification or implementation deadlines, as well as reporting to the senior management on the progress made.

DG AGRI's management therefore considers that the current state of play regarding the follow-up of IAS recommendations does not lead to assurance-related concerns and concludes that it has **reasonable assurance**.

2.1.2.2 European Court of Auditors: 2019 Annual Report

In the ECA's **2019 Annual Report**, the activities relevant for DG AGRI are considered together with other policy areas relevant to "Natural Resources" (MFF heading 2) under one single chapter, Chapter 6. The level of error estimated by the ECA for "Natural Resources" was 1.9%, for the first time below the materiality threshold of 2% and significantly lower than in previous year (2.4%). Moreover, EAGF direct payments, the prevailing part of the CAP expenditure, remained free of material error for the fourth year in a row.

DG AGRI appreciates that the audit conclusion of the Court was again consistent with the error rates reported by DG AGRI in its 2019 AAR (1.89% for the whole CAP). The low error rate in CAP spending contributed to keeping the overall level of error low, despite a higher error rate in other areas under MFF heading 2. Market measures are considered together with rural development, environment, climate and fisheries as higher risk spending areas. Most spending in these areas is reimbursement-based and subject to complex eligibility conditions, which the Court found increases the risk of errors. The error rate for this part of the expenditure was found to be material by the Court.

As in the previous years' Annual Reports, the Court underlines the positive contribution from the Integrated Administration and Control Systems (IACS), including the Land Parcel Identification System (LPIS), to limit the level of error in EAGF direct payments. Regarding the Certification Bodies, the Court considers that there is still room for improvement in certain areas, similar to those identified by the Commission, but notes in the report that their inclusion since 2015 in the CAP assurance pyramid is a positive development.

The Court issued one recommendation concerning the CAP anti-fraud policies and procedures. The recommendation relates to the need of more frequent update of the CAP fraud risks, analysis of Member States' fraud prevention measures and dissemination of the best practices in the use of the Arachne tool. The timeline for implementation of this recommendation is 2021 and the Commission is already taking the necessary steps to implement it.

The Commission considers that the fraud risk analysis is an ongoing process, based on various information sources, as for example OLAF investigation reports, Commission's own audit work and other information related to alleged fraud cases.

The Commission also included actions concerning the Member States' fraud prevention measures in the Action Plan accompanying the Commission Anti-Fraud Strategy (COM(2019)196 final). The CAP assurance model, which includes the accredited Paying Agencies and the annual audit work carried out by the Certification Bodies, covers also checks related to the measures in place in the Paying Agencies to prevent and detect fraud. Where deficiencies are identified, the Commission protects the EU budget by carrying out audits and applying financial corrections.

Through presentations and working groups, the Commission is continuously encouraging more Member States to use ARACHNE for EAFRD for the current programming period (2014-2020). For the new programming period (2021-2027), the Commission has proposed the mandatory use of ARACHNE as a single data-mining tool for all CAP funding

(including direct payments). It would enable more efficient controls on the aid applications/payment claims for issues such as conflict of interest and genuine farmer. The tool could also be very useful to check circumvention of rules. The political negotiations in this respect are ongoing.

2.1.2.3 European Court of Auditors: report on the performance of the EU budget

The ECA published for the first time a **report on the performance of the EU budget** which looks at the results and progress of EU programmes at the end of 2019 in each main policy area of the multiannual financial framework.

The Report on Performance is generally positive on the performance of the current CAP and acknowledges that, overall, the CAP is on track to meet its targets. The ECA, however, is also of the view that the Commission's reporting on the CAP performance provides little quantified information about the results and impact of the CAP, and argues that the Commission presents an overly positive narrative by focusing on outputs rather than results.

Overall, the ECA finds it positive that the programme statement indicators describe the economic, environmental and social context of the CAP, and that the Commission uses various data sources to inform the indicators. Moreover, the ECA acknowledged that DG AGRI mitigated the risk of unreliable data by carrying out automated quality checks on data received from Member States. At the same time, according to the ECA, a key weakness is that the performance indicators for the 2014-2020 period are not based on a detailed intervention logic for providing CAP financial support.

The Commission recognises that substantial challenges remain in enhancing the performance of the CAP. Any policy seeking to address the numerous challenges faced by the agriculture sector and rural areas needs to take account of the fact that economic and environmental objectives can be achieved only if addressed jointly. Effective farm policies need to reflect multi-layer relationships between instruments and objectives rather than applying a simplified intervention logic, in order to capture both the tensions and the opportunities created by all types of modern farming practices in terms of economic and environmental efficiency.

2.1.2.4 European Court of Auditors: Special Reports

There are no recommendations regarding financial management and internal control stemming from **ECA 2020 Special Reports**. An overview of the ECA Special Reports delivered in 2020 can be found in Annex 7 - Part 12.

Follow-up of open recommendations

DG AGRI management closely monitors the implementation of the audit recommendations stemming from ECA annual and special reports or those from Council and the European Parliament issued in the course of the discharge procedure. By the end of 2020, 22 recommendations remained open for which DG AGRI is chef de file. Moreover, in 2020,

there were no substantially overdue (> 12 months) recommendations stemming from the ECA Special reports for which DG AGRI is chef de file.

Conclusion on ECA audits and recommendations

The 2021-25 strategy of the European Court of Auditors and the ECA's 2021+ work programme suggestions and recommendations on agriculture are welcome and contribute to important improvements in the CAP. However, the workload related to the large number of ECA's special reports and other products, on one hand, and to the follow-up activities on the other, becomes a key concern for the affected services as it is often at the expense of operational activities such as policy-making or policy implementation.

Considering the ECA's Strategy 2021-25 and their 2021+ work programme, DG AGRI estimated the resources used to prepare and follow up on ECA products in 2020 for the second time. These estimates indicate a major investment on the side of DG AGRI, amounting to approximately 14,40 FTEs, or 1,65% of total AGRI FTE, on ECA activities in 2020, from the preparatory stages of an audit to the follow-up and monitoring activities, which is a slight increase compared to results of the 2018 exercise that amounted to approximately 13,77 FTEs, or 1,5% of total FTE of DG AGRI.

DG AGRI is taking action to implement the recommendations that were addressed to the Directorate-General and which have been accepted. Some recommendations were addressed to the Member States, and DG AGRI accepts recommendations within the limits of its competencies, provided by the legal framework under shared management. The follow-up of ECA audit recommendations is a well-established element of internal control in DG AGRI, which includes yearly requests for updates for all open recommendations, regardless of their qualification or implementation deadlines.

DG AGRI's management therefore considers that the current state of play regarding the follow-up of ECA recommendations does not lead to assurance-related concerns and concludes that it has **reasonable assurance**.

2.1.3 Assessment of the effectiveness of internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement.

DG AGRI uses the organisational structure and the internal control systems suited to achieving its policy and internal control objectives in accordance with the internal control principles and has due regard to the risks associated with the environment in which it operates.

The internal control **self-assessment** for 2020 was carried out following the methodology established in the *"Implementation Guide of the Internal Control Framework of the Commission"* and is based on the following main sources of information:

- The assessment of the internal control of the AGRI **monitoring indicators** and the specific actions implemented by the services contributing to each principle;
- The review of the **management supervision reports** submitted by Directors and Heads of Unit on the qualitative assessment of the operational performance of the services during the year 2020, but also on the difficulties encountered (e.g. impact of COVID crisis on work and staff) and on certain internal control principles such as ethics, exceptions to procedures or non-compliance events, follow-up of IAS/ECA recommendations and business continuity;
- The evaluation of IAS and ECA **audit findings and follow-up of recommendations** (see Section 2.1.2), especially recommendations that may highlight systemic problems with internal controls;
- The results of the **risk assessment exercises, including the targeted risk assessment due to the COVID-19 pandemic** conducted in summer 2020;
- The analysis of registered **non-compliance and exception cases** that may reveal underlying deficiencies;
- The ex-ante scrutiny of the new and modified **internal procedures**.

Moreover, during the year 2020, DG AGRI revised its **Anti-Fraud Strategy** to align it with the revised Commission Anti-Fraud Strategy. The new version includes a section on conflicts of interests and a section on fraud risks related to the COVID-19 pandemic.

In addition, the annual results of the six standard **financial indicators** (see Annex 4 for more information) are in general very good. For all these indicators, DG AGRI reached good results for the targets set at Commission level. In particular, for the indicator 'timely payments', which concerns the budget in shared management (99.1%⁶¹ of DG AGRI's total expenditure), but also a small budget under direct management, DG AGRI achieved 100% compared to the EC average of 99%.

The **IAS limited conclusion** on the state of internal control and audit recommendations in DG AGRI for the year 2020 was positive as IAS concluded that '*the internal control systems in place for the audited processes are effective*'.

More detailed information on the control system are reported in Annex 8.

2.1.3.1 Conclusions on the internal control system

Based on the methodology and information sources described above, DG AGRI has assessed its internal control system during the reporting year and has concluded that it is effective and that **the components and principles are present and functioning well overall**, but **some improvements are needed** for the following principle:

Under Principle 3 "Establishes structure, authority and responsibility", the assessment noted a minor deficiency as the list of sensitive functions has not yet been updated. This

⁶¹ This percentage is calculated on the total payments executed in financial year 2020 (provisional).

deficiency is mitigated by the regular exchange between the Director-General and the HR Business Correspondent (BC) on appointments and mobility issues and the close follow-up of the Director-General of staff issues. In addition, mid-August 2020, central services provided new guidelines reviewing substantially the way sensitive functions should be managed. Therefore, DG AGRI will review the list of sensitive functions, applying the new guidelines, once the upcoming reorganisation of DG AGRI will be implemented in 2022.

This minor deficiency has a modest impact on the presence and functioning of the principles, considering the extent of the problem and the presence of compensating controls. Therefore, it is possible to conclude that the deficiency found **does not affect** negatively the functioning of the internal control system in DG AGRI.

No critical weaknesses were found in any of the components that could jeopardise the achievement of operational, financial or control objectives and prevent the Director-General from signing his declaration of assurance.

2.1.4 Conclusions on assurance

This section reviews the assessment of the elements already reported above (in Sections 2.1.1, 2.1.2 and 2.1.3), and the sub-conclusions already reached. It draws an overall conclusion to support the declaration of assurance and whether it should be qualified with reservations.

2.1.4.1 Review of the elements supporting assurance

The information reported in Part 2 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG AGRI.

The Commission gives the highest priority to the exercise of its responsibilities for implementing the budget under Article 317 of the Treaty for the Functioning of the European Union (TFEU).

DG AGRI has assessed the effectiveness of its key internal control systems during the reporting year (Part 2.1.3) and identified areas for improvements, although in no case the weaknesses identified were of a nature to call into question the reasonable assurance.

In addition, DG AGRI has systematically examined the available control results and indicators, including the results of the assessment of the Certification Bodies and its own audits, those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives (Part 2).

Follow-up of 2019 reservations

In the 2019 AAR, DG AGRI issued reservations at the level of Paying Agency or measure. This led to a total of 45 reservations.

Member States were requested to submit action plans to remedy the weaknesses underlying the reservations where necessary. Those action plans were then assessed to check whether they would, if properly implemented, actually remedy the identified deficiencies in due time.

Member States are responsible for the actual implementation of an action plan. DG AGRI monitors the implementation on the basis of the reporting done by Member States, i.e. verifies that the Member State is providing its progress report in a complete manner and on time. The Certification Bodies are also requested to report on progress on action plans. The Assurance and Audit Directorate of DG AGRI offers its opinion and checks on the spot at appropriate times the implementation of an action plan in accordance with its audit work programme.

In the framework of the establishment of the Annual Activity Report, DG AGRI assessed the effectiveness of the remedial actions that have already been taken by the Member States. The detailed conclusions are available in Annex 7 for reservations issued under shared management for ABB02, ABB03 and ABB04.

The risk for the EU budget is systematically covered by the conformity clearance procedures and the net financial corrections.

Sound Financial Management

With 99.79% of the CAP budget⁶² being implemented in shared management, its sound management is based on Member States' compliance with the rules set down in the legislation, which is then audited by DG AGRI. The CAP legislation imposes compulsory administrative structures (Paying Agencies) in the Member States with strict accreditation criteria applying in particular to control and payment functions. Annual accounts are required to be sent to the Commission and the Certification Body is required to certify them. The Certification Body is required to certify whether it has gained reasonable assurance that the accounts transmitted to the Commission are true, complete and accurate and to give an opinion on the legality and regularity of the expenditure.

The Paying Agencies carry out ex-ante administrative checks on each payment as well as on-the-spot checks for at least 5% of beneficiaries of Direct Payments and Rural Development expenditure. For Market Measures, the level of checks is higher with up to 100 % control rates required for certain schemes. The CAP legislation also imposes strict payment deadlines on the Paying Agencies. Those, which do not respect these deadlines, are subject to penalties where a significant part of payments are made late.

⁶² This percentage is calculated on the total payments executed in financial year 2020.

Weaknesses detected by DG AGRI via its own audits are systematically subject to net financial corrections through the clearance of accounts procedures in order to protect the EU financial interests.

Resources used for the intended purposes

While deficiencies are found in the management and control systems of some Paying Agencies, no audit observations have come to light that significant resources have been diverted from the intended purpose. In particular, while DG AGRI identified a number of deficiencies and errors, in most cases these errors concerned formal and procedural mistakes while the funds were still effectively used for the stated objectives.

Legality and regularity

Part 2 sets out in detail the processes in place to ensure the management of the risk relating to legality and regularity of the funds managed under the CAP. It demonstrates that overall the risk at payment is below 2% and that when taking into account the corrective capacity, i.e. the estimated amount related to the CAP expenditure in 2020 that will be reimbursed by Member States to the EU budget by net financial corrections as well as by the recoveries effected by the Member States, there is sufficient assurance that the remaining risk to the EU budget is significantly below 2%.

In the framework of shared management, the detection and correction of errors is the direct responsibility of the Member States. Each time deficiencies are found in the management and control system, conformity procedures are opened and, at the same time, Member States are requested to take remedial action. The latter are closely monitored, failures to implement them may lead to interruption, reduction or suspension of the EU payments for the measure concerned.

DG AGRI has thoroughly examined all relevant available information, notably the Certification Bodies' opinions on legality and regularity of the expenditure, and used its professional judgement to identify as precisely as possible the amounts at risk for the EU budget. The adjusted error rates presented therefore take into account the Certification Body audit results as reported subject to the professional judgement of the DG AGRI auditors.

Despite the uncertainty caused by Covid-19 and particularly the challenges that auditors are currently facing in carrying-out the audit work, DG AGRI still had a solid basis for obtaining assurance on the CAP expenditure.

Three reservations are made on each of the ABB activities in shared management, covering 57 reservations at Paying Agency level or Member States. This careful examination enables the Director-General to consider that he has reasonable assurance as to the legality and regularity of the expenditure effected in 2020 with a qualification in respect of the three reservations made for ABB activities as detailed in the following section.

2.1.4.2 Conclusion on assurance and reservations

The Director-General for Agriculture and Rural Development considers it necessary to enter three reservations⁶³ in respect of 2020 expenditure in shared management with the Member States.

No	Title	Type	2020 amount at risk under reservation (million EUR)	ABB amount covered (million EUR)
1	ABB02 – Payments made on Market Measures: 3 aid schemes comprising 8 Member States (11 elements of reservation): Belgium, Germany (for 2 aid schemes), Spain, France, the United Kingdom (for 2 aid schemes), Italy, Portugal (for 2 aid schemes) and Romania.	Financial	EUR 40.40 million	Expenditure in 2020 was EUR 2 573.81 million
2	ABB03 – Payments made on Direct Payments: 17 Paying Agencies, comprising 9 Member States: Austria, Bulgaria, Finland, France, Greece, Italy (9 Paying Agencies), Portugal, Romania, Slovakia	Financial	EUR 448.83 million	Expenditure in 2020 was EUR 41 571.75 million
3	ABB04 – Payments made on Rural Development: 28 Paying Agencies, comprising 19 Member States: Austria, Belgium (2 Paying Agencies), Bulgaria, Czech Republic, Germany (1 Paying Agency), Denmark, Estonia, Spain (3 Paying Agencies), Finland, France (2 Paying Agencies), the United Kingdom (3 Paying Agencies), Greece, Croatia, Italy (4 Paying Agencies), Poland, Portugal, Romania, Sweden, Slovakia	Financial	EUR 359.53 million	Expenditure in 2020 was EUR 14 569.48 million

Table: 2.1.4.2-1

⁶³ As from 2019, a 'de minimis' threshold for financial reservations is introduced. Quantified AAR reservations, related to residual error rates above the 2% materiality threshold, are deemed not substantial for segments representing less than 5% of a DG's total payments and with a financial impact below EUR 5 million. In such cases, quantified reservations are no longer needed. The implementation of this 'de minimis' threshold applies at the level of the AAR reservations, i.e. not at all affecting the detailed reservations at the level of the Paying Agency/aid scheme. Considering the conditions described above, for the 2020 financial year this "de minimis" threshold has **no impact** on AAR reservations of DG AGRI.

2.1.4.3 Overall Conclusion

In order to assess the overall risk relating to the legality and regularity of transactions, DG AGRI has calculated an adjusted error rate for the annual expenditure and the resulting amount at risk.

Direct management

Title 05	Agriculture and rural development	Direct management payments made (EUR)	Error rate	Amount at risk at payment (EUR)
0501	Administrative expenditure	9 793 048	1.00%	97 930
0502	Interventions in agricultural markets	-	-	-
0504	Rural development	9 623 836	1.00%	96 238
0506	International aspects	4 384 110	1.00%	43 841
0508	Policy strategy and coordination	26 099 553	1.00%	260 996
0509	Horizon 2020 - Research and innovation	-	-	-
Total		49 900 547	1.00%	499 005

Table 2.1.4.3-1

For the EUR 49.90 million managed directly by DG AGRI, the maximum amount at risk is estimated at EUR 0.499 million indicating an adjusted error rate of 1.00%.

Indirect management

Title 05	Agriculture and rural development	Payments made (EUR)	Prefinancing paid (EUR)	Cleared prefinancing (EUR)	Relevant expenditure (EUR)	Adjusted error rate	Amount at risk (EUR)
0505	Instrument for Pre-accession Assistance	77 005 335	12 600 000	-	64 405 335	0.00%	-
Total		77 005 335				0.00%	-

Table 2.1.4.3-2

For the EUR 77.01 million in indirect management under the pre-accession programmes, the maximum amount at risk is estimated at EUR 0 indicating an estimated adjusted error rate for relevant expenditure of 0.00%.

Shared management

Title 05	Agriculture and rural development	Shared management payments made (EUR)	Adjusted error rate	Amount at risk (EUR)
0502	Interventions in agricultural markets	2 573 813 479	2.42%	62 367 707
0503	Direct aids	41 571 749 519	1.57%	650 928 683
0504	Rural development	14 569 248 053	2.92%	425 130 081
0507	Audit	200 361 384	0.00%	-
Total		58 915 172 436	1.93%	1 138 426 471

Table 2.1.4.3-3

The amount at risk for the funds under shared management is estimated at EUR 1 138.42 million, corresponding to an adjusted error rate of 1.93%. This amount at risk is the Director-General's best, conservative estimate of the amount of expenditure authorised in 2020, which may relate to underlying transactions made by the Member States which are not in conformity with the applicable regulatory provisions. This overall

adjusted error rate is below materiality, however the Director-General in order to ensure that there is sufficient assurance for all ABBs and to identify the areas where improvements should still be done is also making reservations.

Reservations are targeted at the Paying Agencies or aid schemes where the specific deficiencies have been identified. In total, there are 56 targeted reservations (11 for Market Measures, 17 for Direct Payments and 28 for Rural Development) in respect of 2020 expenditure. In all cases, there is a follow-up: conformity clearance procedures to ultimately protect the EU budget, monitoring of the implementation of remedial actions to be taken by Member States and, where necessary, interruption or reduction/ suspension of payments to the Member States. This systematic and precisely targeted approach enables the Director-General to state that he has sufficient assurance that the situation is under control for all Member States and Paying Agencies: there are some problems in the payments to the beneficiaries, but they have been identified, are being tackled and ultimately the EU budget is protected.

CAP

The overall situation for the CAP is as follows:

	Payments made	Prefinancing paid	Cleared prefinancing	Relevant expenditure ¹	Adjusted error rate	Estimated amount at risk at payment	Average financial corrections	Average recoveries	Average recoveries and corrections (in % of relevant expenditure)	Corrective capacity	Estimated final amount at risk
	million EUR	million EUR	million EUR	million EUR	%	million EUR			%	million EUR	million EUR
1	2	3	4	5	6	7	8a	8b	8	9	10
				= 2 - 3 + 4		= 5 x 6				= 5 x 8	= 7 - 9
Title 04 Employment, social affairs and inclusion											
0401	Administrative expenditure	0.13	0.00	0.00	0.13	1.00%	0.00	0.00	0.00%	0.00	0.00
Title 09 Communications networks, content and technology											
0903	Connecting Europe facility (CEF)	0.27	0.00	0.00	0.27	1.00%	0.00	0.00	0.00%	0.00	0.00
Title 13 Regional and urban policy											
1303	European regional development fund	0.19	0.00	0.00	0.19	1.00%	0.00	0.00	0.00%	0.00	0.00
1304	Operational technical assistance	0.08	0.00	0.00	0.08	1.00%	0.00	0.00	0.00%	0.00	0.00
Title 17 Health and food safety											
1704	Food and feed safety, animal health, animal welfare and plant health	0.19	0.00	0.00	0.19	1.00%	0.00	0.00	0.00%	0.00	0.00
Title 18 Migration and home affairs											
1801	Administrative expenditure	0.23	0.00	0.00	0.23	1.00%	0.00	0.00	0.00%	0.00	0.00
Title 05 Agriculture and rural development											
SHARED MANAGEMENT											
0502	Interventions in Agricultural Markets	2 573.81	0.00	0.00	2 561.45	2.43%	62.37	43.34	0.00%	0.00	0.00
0503	Direct payments	41 571.75	0.00	0.00	41 396.35	1.57%	650.93	411.11	0.00%	0.00	0.00
	EAGF total	44 145.56	0.00	0.00	43 957.80	1.62%	713.30	454.45	95.90	1.25%	548.01
0504	Rural development	14 569.25	0.00	0.13	14 569.38	2.92%	425.13	197.64	101.38	2.05%	299.02
0507	Audit	200.36	0.00	0.00	200.36	0.00%	0.00	0.00	0.00%	0.00	0.00
INDIRECT MANAGEMENT											
0505	Pre-accession Measures	77.01	12.60	0.00	64.41	0.00%	0.00	0.00	0.00%	0.00	0.00
DIRECT MANAGEMENT											
0501	Administrative expenditure	9.79									
0502	Interventions in agricultural markets	0.00									
0504	Rural development	9.62	7.12	6.39	49.17	1.00%	0.49	0.00	0.00%	0.00	0.49
0506	International aspects	4.38									
0508	Policy strategy and coordination	26.10									
0509	Horizon 2020 - Research and innovation	0.00									
	Total CAP	59 042.08	19.72	6.52	59 028.87	1.93%	1 138.92	652.09	197.28	1.43%	847.03
	Total DG AGRI	59 043.17	19.72	6.52	59 029.96	1.93%	1 138.93	652.09	197.28	1.43%	847.03
											0.5%
											0.5%

Footnote (1): relevant expenditure includes the payments made, subtracts the new pre-financing paid out and adds the previous pre-financing actually cleared during financial year 2020. For ABB02 and ABB03 the payments made following the lifting of payment suspensions is considered to be error free and have therefore been deducted from the relevant expenditure (EUR 12.36 Mio for ABB02 and EUR 175.40 Mio for ABB03).

Copy of Table: 2.1.1.2.2-15

For both EAGF and EAFRD, action plans by Member States have proven to be an effective tool to remedy the weaknesses identified in management and control systems. The Commission will continue to encourage and support Member States in their implementation in all areas of the CAP, and to reduce or suspend payments in cases where Member States fail in implementing them.

The overall CAP adjusted error rate is for the second year below materiality at 1.93%.

For Direct Payments, the adjusted error rate, already below the materiality threshold in the past three years, remained at 1.57% in 2020. The number of Paying Agencies under reservation is the same as last year (17), and the estimated amount at risk is at the same

level. The overall result confirms that, even in continued challenging circumstances with higher inherent risks, the Integrated Administration and Control System (IACS), when implemented in accordance with applicable rules and guidelines, limits effectively the risk of irregular expenditure.

Rural Development remains an area which merits closer scrutiny with an error rate of 2.92% albeit remaining below 3% (for comparison, it was 2.70% in 2019, 3.20% in 2018 and 3.37% in 2017). Although the error rate has declined over recent years, taking into account the need to balance legality and regularity with the achievements of policy objectives while bearing in mind the delivery costs, it cannot be expected with any real certainty that an error rate for payments to beneficiaries below 2% would be attainable with reasonable efforts for Rural Development. However, when taking into account the corrective capacity, there is assurance that the remaining final risk to the EU budget is below materiality.

With the adjusted error rate for the CAP being below materiality at 1.93%, it allows the Director-General to conclude with sufficient assurance that the risk at payment is below materiality. Furthermore, for the overall CAP expenditure, the corrective capacity from net financial corrections by the Commission and recoveries by the Member States is estimated at EUR 847.03 million or 1.43% of 2020 expenditure. This allows the Director-General to conclude with sufficient assurance that, the remaining overall financial risk to the EU budget, after all corrective action will have taken place, is well below materiality at 0.5%.

Overall conclusion

Management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director-General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by reservations.

2.1.5 Declaration of Assurance and reservations

Declaration of Assurance

*I, the undersigned, **Mihail Dumitru**, Deputy Director-General of the Directorate-General for Agriculture and Rural Development, deputising for Wolfgang Burtscher,*

Director-General of the Directorate-General for Agriculture and Rural Development,

In my capacity as authorising officer by delegation,

Declare that the information contained in this report gives a true and fair view⁶⁴.

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the Internal Audit and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

However, the following reservations should be noted:

- **ABB02 – Payments made on Market Measures:** 3 aid schemes comprising 8 Member States (11 elements of reservation): Belgium, Germany (for 2 aid schemes), Spain, France, the United Kingdom (for 2 aid schemes), Italy, Portugal (for 2 aid schemes), Romania;
- **ABB03 – Payments made on Direct Payments:** 17 Paying Agencies, comprising 9 Member States: Austria, Bulgaria, Finland, France, Greece, Italy (9 Paying Agencies), Portugal, Romania, Slovakia;
- **ABB04 – Payments made on Rural Development:** 28 Paying Agencies, comprising 19 Member States: Austria, Belgium (2 Paying Agencies), Bulgaria, Czech Republic, Germany (1 Paying Agency), Denmark, Estonia, Spain (3 Paying Agencies), Finland, France (2 Paying Agencies), the United Kingdom (3 Paying Agencies), Greece, Croatia, Italy (4 Paying Agencies), Poland, Portugal, Romania, Sweden, Slovakia.

Brussels, 22 April 2021

(e-signed)

Mihail Dumitru, deputising for Wolfgang Burtscher

⁶⁴True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

Reservation 1 ABB02 - Expenditure on Market Measures: 3 aid schemes comprising 8 Member States (11 elements of reservation): Belgium, Germany (for 2 aid schemes) Spain, France, the United Kingdom (for 2 aid schemes), Italy, Portugal (for 2 aid schemes), Romania

DG	Agriculture and Rural Development
Title of the reservation, including its scope	Expenditure on Market Measures for fruit and vegetables operational programmes for producer organisations in Belgium, Germany, Italy, Portugal, the United Kingdom; for wine sector in Germany, France, Portugal and for EU School Scheme in Spain, the United Kingdom and Romania.
Domain	Shared Management – European Agricultural Guarantee Fund
Programme in which the reservation is made and total (annual) amount of this programme	ABB02: Market Measures Payments made for this ABB in 2020 amount to EUR 2 573.81 million. Reservations have been made concerning 8 Member States and the respective error rates can be seen in the tables in Annex 7 – Part 3.1.
Reason for the reservation	<p>The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity).</p> <p>In the case of the 5 reservations for <u>fruit and vegetables operational programmes</u>, deficiencies have been identified by the DG AGRI audit services in the checks on the eligibility of the operational programmes carried out by the Member States concerned (Italy, the United Kingdom, Portugal) resulting in ineligible expenditure. Furthermore, deficiencies were found in the quality in the on-the-spot checks (Belgium, the United Kingdom, Portugal). In Germany, the Member State reported an error rate above materiality and the Certification Body found deficiencies.</p> <p>In the <u>wine sector</u>, the Certification Bodies and DG AGRI audits found deficiencies and the Member States reported a high error rate (France, Portugal). In Germany, the Certification Body identified deficiencies related to the increase of funding rate under the temporary conditions due to the COVID-19 pandemic.</p> <p>Under the <u>EU school scheme</u>, the Certification Body identified deficiencies and DG AGRI identified deficiencies in access to the aid and the selection of aid applicants in Spain. In Romania, DG AGRI identified deficiencies as regards the checks to establish the eligibility to the aid and the checks on the reasonableness of costs for a cost-based system. The United Kingdom reported a high error rate and the Certification Body also identified deficiencies.</p>
Materiality criterion/criteria	DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases.

	<p>In the cases where the error rate is above 5% (15) they were automatically subject to reservation (7) except where (in 8 out of the 15 cases) the amount at risk was below DG AGRI's <i>de minimis</i> threshold of EUR 1 million established in its materiality criteria (Annex 5); in all cases, the high adjusted error rate was determined further to assessment and adjustment of the error rate by DG AGRI based on Certification Body and DG AGRI audits.</p> <p>In 4 cases where the adjusted error rate was between 2% and 5%, it was considered necessary to make a reservation where the amount at risk was above the <i>de minimis</i> threshold (Belgium, Germany, France, Portugal).</p> <p>In 3 cases (Bulgaria and Italy- Wine sector, Greece- Olive oil scheme), it was considered that it was not necessary to carry over reservations from the 2019 AAR with regard to 2020 expenditure. The reasons for each decision are detailed in Annex 7 – Part 3.1. In total, 4 reservations from 2019 are repeated in 2020 as deficiencies persist, while 7 new reservations are introduced (Belgium, Germany- Fruit and vegetables operational programmes, Germany, France and Portugal- Wine sector, Romania and the United Kingdom- EU school scheme).</p> <p>The overall outcome of this exercise is that reservations for 3 aid schemes (11 elements of reservation) are necessary.</p> <p>Further details may be found at Annex 7 – Part 3.1 (ABB02).</p>
Quantification of the impact (= actual "exposure")	The amount at risk for the expenditure under reservation is EUR 40.40 million.
Impact on the assurance	<p>The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAGF for Market Measures.</p> <p>However, the average annual amount of net corrections executed over the past three years for Market Measures and considered for the corrective capacity is EUR 43.338 million. While these amounts refer to expenditure incurred in years prior to 2020, there are conformity procedures underway in respect of the deficient management and control systems which are subject to reservation. Thus, the Director-General can be confident that the EU budget is ultimately sufficiently protected by the corrective capacity of the Commission's net financial corrections.</p>
Responsibility for the weakness	The concerned Member States are responsible for the proper implementation of the Market Measures concerned in their territory. The Commission supervises them in this respect, notably through audits carried out on the spot and, through strict monitoring, a follow-up of the implementation of milestones where action plans are required.
Responsibility for the corrective action	<p><u>At Commission level</u></p> <ul style="list-style-type: none"> For 8 of the reservations (Belgium, the United Kingdom, Italy, Portugal- operational programmes for producer organisations, Spain, Romania- EU school scheme, France, Portugal- wine

	<p>sector), high error rates resulting in reservations derive from deficiencies which have been identified by the DG AGRI audit services during their audits. The Certification Bodies findings are also followed up in the conformity clearance exercise for 2020. Therefore, the corrective actions necessary have already been identified and notified to the Member States concerned.</p> <ul style="list-style-type: none"> • For operational programme of producer organisations and EU school scheme in the United Kingdom, following the withdrawal of United Kingdom from the Union, future corrective action will not be requested since the United Kingdom is not expected to have expenditure for EU market measures as of financial year 2021. • DG AGRI monitors action plan implementation closely and follows them up with the Member State, including on the spot where necessary. • DG AGRI provides further guidance and support to the national authorities where necessary. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented. • Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension/reduction of payments in line with Article 41(2) of Regulation (EU) No 1306/2013. <p><u>At Member State level</u></p> <ul style="list-style-type: none"> • The Member State is responsible for implementing the necessary corrective actions within an appropriate time schedule, including addressing the findings from the Certification Body.
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Reservation 2 ABB03 – Direct Payments: 17 Paying Agencies, comprising 9 Member States: Austria, Bulgaria, Finland, France, Greece, Italy (9 Paying Agencies), Portugal, Romania, Slovakia

DG	Agriculture and Rural Development
Title of the reservation, including its scope	Expenditure on Direct Payments for 17 Paying Agencies, comprising 9 Member States: Austria, Bulgaria, Finland, France, Greece, Italy (9 Paying Agencies), Portugal, Romania, Slovakia
Domain	Shared Management – European Agricultural Guarantee Fund
Programme in which the reservation is made and total (annual) amount of this programme	<p>ABB03: Direct Payments</p> <p>Payments made for this ABB in 2020 amount to EUR 41 571.75 million. Reservations have been made for 17 Paying Agencies with material error rates which can be seen in the tables in Annex 7 – Part 3.2.</p>
Reason for the reservation	<p>The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity).</p> <p>For Austria, DG AGRI identified deficiencies in allocation of payment entitlements and in the administrative checks for animal-based voluntary coupled support measures. The Certification Body also reported findings.</p> <p>For Bulgaria, the Member State reported high error-rates for voluntary coupled support measures, the Young farmer scheme, Small farmers' scheme and Cotton. A DG AGRI audit identified deficiencies in the performance of on-the-spot checks of sufficient quality. The Certification Body also reported findings.</p> <p>In Finland, DG AGRI identified deficiencies in the LPIS and in performance of on-the-spot checks of sufficient quality, which also had an effect on the payment entitlements. The Certification Body also reported findings.</p> <p>For France, the Certification Body identified deficiencies. DG AGRI (for Corsica) also identified deficiencies in performance of on-the-spot checks of sufficient quality for permanent grassland which also had an effect on the establishment of payment entitlements. DG AGRI (for mainland France) also identified deficiencies in performance of on-the-spot checks of sufficient quality, payment entitlements and animal-based voluntary coupled support measures.</p> <p>In Greece, DG AGRI identified weaknesses in the performance of on-the-spot checks of sufficient quality for pasture land. The Certification Body also reported findings.</p> <p>In Italy, DG AGRI identified weaknesses affecting all the Italian Paying Agencies (9 Paying Agencies are under reservation) in particular with</p>

	<p>regard to the correct recording of permanent grassland in the LPIS and the fixing of payment entitlements. The Certification Body also reported findings for 2 Paying Agencies.</p> <p>For Portugal, DG AGRI identified weaknesses in the performance of on-the-spot checks of sufficient quality, fixing payment entitlements and establishment and management of the national reserve. The Certification Body also reported findings.</p> <p>In Romania, DG AGRI found weaknesses in the definition of land laying fallow and in relation to checks for animal-based voluntary coupled support measures. The Certification Body also reported findings.</p> <p>For Slovakia, the opinion of the Certification Body identified weaknesses in the accreditation criteria.</p>
<p>Materiality criterion/criteria</p>	<p>DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases.</p> <p>No Paying Agency had an adjusted error rate above 5%.</p> <p>For the 21 Paying Agencies with an error rate between 2% and 5%, (Austria, Bulgaria, Croatia, Finland, France, France-POSEI, Germany (1 Paying Agency), Greece, Spain (1 Paying Agency), Italy (9 Paying Agencies), Portugal, Romania, Slovakia) an examination was carried out of any risk mitigating factors.</p> <p>In 4 out of the 21 cases, it was considered that it would not be necessary to make reservations, either given the mitigating factors present (Croatia and Spain, 1 Paying Agency) or because the amount at risk is below <i>de minimis</i> threshold (Germany, 1 Paying Agency and France-POSEI). Further details may be found at Annex 7 – Part 3.2 ABB03.</p> <p>In 6 cases (Cyprus, Denmark, Spain (3 Paying Agencies, Sweden), it was considered that it was not necessary to carry over reservations from the 2019 AAR with regard to 2020 expenditure. The reasons for each decision are detailed in Annex 7 – Part 3.2. In total, 11 reservations from 2019 are repeated in 2020 as deficiencies persist, while 6 new reservations are introduced (Bulgaria, Finland, France, Italy (two Paying Agencies), Slovakia).</p> <p>The overall outcome of this exercise is that 17 reservations are necessary at Paying Agency level.</p>
<p>Quantification of the impact (= actual "exposure")</p>	<p>The amount at risk for the expenditure under reservation is EUR 448.83 million.</p>
<p>Impact on the assurance</p>	<p>Whereas the estimated level of error for ABB03 Direct Payments is below materiality level for some Paying Agencies the estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAGF for Direct Payments.</p> <p>In addition, the average annual amount of net corrections executed over the past three years for direct aid was EUR 411.111 million. While</p>

	<p>these amounts refer to expenditure incurred in years prior to 2020, there are conformity procedures underway in respect of the deficient management and control systems which are subject to reservation. Thus, the Director-General can be confident that the EU budget is ultimately sufficiently protected by the corrective capacity of Commission's net financial corrections.</p>
<p>Responsibility for the weakness</p>	<p>The concerned Member States and Paying Agencies are responsible for the proper implementation of the Direct Payments schemes concerned in their territory. The Commission supervises them in this respect, notably through audits carried out on-the-spot and through strict monitoring a follow-up of the implementation of milestones where action plans are required.</p>
<p>Responsibility for the corrective action</p>	<p><u>At Commission level</u></p> <ul style="list-style-type: none"> • For all of the Paying Agencies concerned by the reservations, the deficiencies had already been identified by the DG AGRI audit services during their audits on the spot. The Certification Bodies findings are also followed up in the conformity clearance exercise for 2020. Therefore, the corrective actions necessary have already been identified and notified to the Member States concerned. • DG AGRI monitors action plan implementation closely and follows them up with the Member State, including on the spot where necessary. • DG AGRI provides further guidance and support to the national authorities where necessary. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented. • Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension/reduction of payments in line with Article 41(2) of Regulation (EU) No 1306/2013. <p><u>At Member State level</u></p> <ul style="list-style-type: none"> • The Member State is responsible for implementing the necessary corrective actions within an appropriate time schedule, including addressing the findings from the Certification Body. • The Member State is required to report regularly on progress milestones in line with the agreed schedule.

Reservation 3 ABB04 – Rural Development: 28 Paying Agencies comprising 19 Member States: Austria, Belgium (2 Paying Agencies), Bulgaria, Czech Republic, Germany (1 Paying Agency), Denmark, Estonia, Spain (3 Paying Agencies), Finland, France (2 Paying Agencies), the United Kingdom (3 Paying Agencies), Greece, Croatia, Italy (4 Paying Agencies), Poland, Portugal, Romania, Sweden, Slovakia

DG	Agriculture and Rural Development
Title of the reservation, including its scope	Expenditure on Rural Development for 28 Paying Agencies, comprising 19 Member States: (Austria, Belgium (2 Paying Agencies), Bulgaria, Croatia, Czech Republic, Germany (1 Paying Agency), Denmark, Estonia, Spain (3 Paying Agencies), Finland, France (2 Paying Agencies), the United Kingdom (3 Paying Agencies), Greece, Croatia, Italy (4 Paying Agencies), Poland, Portugal, Romania, Sweden, Slovakia.
Domain	Shared Management – European Agricultural Fund for Rural Development
Programme in which the reservation is made and total (annual) amount of this programme	ABB04: Rural Development Payments made for this ABB in 2020 amount to EUR 14 578.87 million. Reservations have been made concerning 29 Paying Agencies and their respective error rates can be seen in the tables in Annex 7 – Part 3.3.
Reason for the reservation	The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity). For Austria , deficiencies were found by DG AGRI in organic farming measure and several other IACS measures and by the Certification Body both for IACS and Non-IACS measures. In Belgium (Flanders) , DG AGRI identified deficiencies in several Non-IACS measures, and the Member State reported a high error rate for IACS measures. In Belgium (Wallonia) , DG AGRI based on a Certification Body finding for financial year 2019 identified deficiencies in Non-IACS measures. The Certification Body identified deficiencies for financial year 2020 both for IACS and Non-IACS measures. For Bulgaria , the Certification Body identified deficiencies both for IACS and Non-IACS measures. DG AGRI also identified deficiencies in IACS measure 14, and the Member State reported a high error rate for IACS measures. For Czech Republic , following allegations of conflict of interests, a coordinated audit was carried out by DG AGRI with DG REGIO and DG EMPL in 2019. DG AGRI identified deficiencies for Non-IACS and the

	<p>Member State reported a high error rate for IACS measures.</p> <p>For Germany (Thüringen), the Certification Body identified deficiencies in the IACS and Non-IACS measures. The Member State reported a high error rate for IACS measures.</p> <p>For Denmark, the Certification Body detected deficiencies in IACS and Non-IACS measures and the Member State has reported a high error rate for Non-IACS measures.</p> <p>For Estonia, the Member State has reported high error rates for IACS measures.</p> <p>For Spain (Andalucía), the Member State has reported high error rates for IACS and Non-IACS measures.</p> <p>For Spain (Aragon), deficiencies were found by DG AGRI under one IACS and several Non-IACS measures. The Certification Body identified deficiencies for IACS measures.</p> <p>For Spain (Cataluña), for several Non-IACS measures, deficiencies were detected by DG AGRI in the checks on the reasonableness of costs and eligibility of the applicant. Deficiencies in IACS and Non-IACS measures were identified by the Certification Body and the Member State has reported a high error rate for IACS measures.</p> <p>For Finland, DG AGRI identified deficiencies in the LPIS maximum eligible area and the Member State itself has reported a high error rate. The Certification Body has found deficiencies for the IACS and Non-IACS measures.</p> <p>For France (ODARC), deficiencies were found in the IACS measures both the Certification Body and by DG AGRI. The Member State has reported high error rates for IACS measures. The Certification Body detected deficiencies in the Non-IACS measures.</p> <p>For France (ASP), the Certification Body found deficiencies in IACS and Non-IACS measures. DG AGRI identified deficiencies, including late on-the-spot checks, in IACS measures. In the Non-IACS measures, DG AGRI identified deficiencies concerning public procurement, the checks on reasonableness of costs affecting the investment measures of private beneficiaries, verification of payment claims, quality of on the spot controls and <i>in situ</i> visits. The Member State has reported a high error rate for Non-IACS measures.</p> <p>In United Kingdom (Northern Ireland), for IACS and Non-IACS measures, the Member State reported a high error rate and the Certification Body found deficiencies. DG AGRI identified deficiencies in one IACS measure.</p> <p>For United Kingdom (England), the Certification Body identified deficiencies in Non IACS measures also supported by DG AGRI findings. The Certification Body and DG AGRI identified deficiencies in the IACS measures.</p> <p>For United Kingdom (Wales), deficiencies were detected by the Certification Body in the IACS and Non-IACS measures. DG AGRI</p>
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identified deficiencies in IACS measures and in the administrative checks on active farmer.

For **Croatia**, deficiencies were found in the IACS and Non-IACS measures by the Certification Body. The Member State has reported a high error rate for IACS measures. DG AGRI identified deficiencies for the Non-IACS investment measure 4.

For **Greece**, the Member State has reported high error rates for IACS measures. The Certification Body identified deficiencies in IACS measures. DG AGRI identified deficiencies in one IACS measure and several Non-IACS measures (transitional expenditure).

For **Italy (AGREA)**, DG AGRI identified deficiencies in the correct recording of the maximum eligible area in LPIS for IACS measures, one IACS measure and several Non-IACS measures.

For **Italy (ARPEA)**, deficiencies were found in IACS measures by DG AGRI the correct recording of MEA in LPIS for IACS measures and one IACS measure. For several Non-IACS measures, deficiencies were found by DG AGRI on the quality of the on the spot controls and selection procedures.

In **Italy (OPR Lombardia)**, deficiencies were found by DG AGRI regarding the correct recording of MEA in LPIS for IACS measures and one IACS measure. The Member State reported a high error rate for IACS measures.

For **Italy (ARCEA)**, deficiencies were by found DG AGRI regarding the correct recording of MEA in LPIS for IACS measures and one IACS measure. The Member State reported a high error rate for IACS measures. For the Non-IACS measures, the Certification Body found further deficiencies.

In **Poland**, the Certification Body identified deficiencies in IACS and Non-IACS measures. The Member State has reported a high error rate for IACS measure 10. DG AGRI also identified deficiencies in the Non-IACS measures such as verification of payment claims and eligibility criteria.

For **Portugal**, deficiencies were found by DG AGRI and the Certification Body in the functioning of controls under IACS and Non-IACS measures. The Member State has reported high error rates for IACS and Non-IACS measures.

For **Romania**, deficiencies were found by DG AGRI in cross-checks with areas covered by support measure, to avoid unjustified payments in relation to the definition of maximum eligible area and in the animal welfare measure. For the Non-IACS measures, DG AGRI detected deficiencies in public procurement, reasonableness of costs and eligibility checks. The Certification Body identified further deficiencies in the IACS and Non-IACS measures.

For **Sweden**, deficiencies for IACS and Non-IACS measures were identified both by the Certification Body and DG AGRI.

For **Slovakia**, deficiencies were found for one IACS measure. The Member State reported a high error rate for IACS measures. Deficiencies

	<p>were detected by the Certification Body and DG AGRI in cross-checks and on-the-spot checks for several IACS measures. For the Non-IACS measures, both the Certification Body and DG AGRI identified serious deficiencies.</p>
<p>Materiality criterion/criteria</p>	<p>DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases.</p> <p>37 out of the 71 Paying Agencies have an adjusted error rate above 2% (of which 8 were above 5%: Belgium (one Paying Agency) Estonia, France (one Paying Agency), the United Kingdom (one Paying Agency), Italy (one Paying Agency), Portugal, Sweden, Slovakia).</p> <p>In line with its materiality criteria in Annex 5, all 8 cases where the error rate is above 5% were automatically subject to a reservation.</p> <p>For 29 Paying Agencies with an error rate between 2% and 5%, an examination was carried out of any risk mitigating factors. In 2 cases (Germany (2 Paying Agencies)), it was considered that, given the mitigating factors present it would not be necessary to make reservations. For 7 Paying Agencies (Germany (1 Paying Agency), Malta, Spain (4 Paying Agencies), Italy (1 Paying Agency)), the amount at risk is below DG AGRI's <i>de minimis</i> threshold of EUR 1 million as established in Annex 5 (materiality criteria), therefore no reservation was necessary. For the remaining 20 Paying Agencies, a reservation was deemed necessary.</p> <p>In 5 cases (Cyprus, Germany (one Paying Agency), Hungary, Ireland, Lithuania) it was considered that it was not necessary to carry over reservations from the 2019 AAR with regard to 2020 expenditure. The reasons for each decision are detailed in Annex 7 – Part 3.3. In total, 165 reservations from 2019 are repeated in 2020 as deficiencies persist while 12 new reservations are introduced (Belgium (two Paying Agencies), Bulgaria, Czech Republic, Germany (1 Paying Agency), the United Kingdom (2 Paying Agencies), Italy (2 Paying Agencies), Greece, Poland, Spain (1 Paying Agency).</p> <p>The overall outcome of this exercise is that 28 reservations are necessary at Paying Agency level.</p> <p>Further details may be found in Annex 7 – Part 3.3 ABB04.</p>
<p>Quantification of the impact (= actual "exposure")</p>	<p>The amount at risk for the expenditure under reservation is EUR 359.53 million.</p>
<p>Impact on the assurance</p>	<p>The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAFRD.</p> <p>However, DG AGRI considers that consideration shall also be given to the corrective capacity of the net financial corrections applied to claw back undue expenditure to the EU budget. The average annual amount of net corrections executed over the past five years for Rural Development is around EUR 197.636 million. While these amounts refer</p>

	to expenditure incurred in years prior to 2020, there are conformity procedures underway in respect of the deficient management and control systems which are subject to reservation. Thus, the Director-General can be confident that the EU budget is ultimately sufficiently protected by the corrective capacity of Commission's net financial corrections.
Responsibility for the weakness	The concerned Paying Agencies are responsible for the proper implementation of the rural development programmes in their territory. The Commission supervises them in this respect, notably through audits carried out on the spot and through strict monitoring a follow-up of the implementation of milestones where action plans are required.
Responsibility for the corrective action	<p><u>At Commission level</u></p> <ul style="list-style-type: none"> • For all of the Paying Agencies concerned by the reservations, the deficiencies had already been identified by the DG AGRI audit services during their audits on the spot. The Certification Bodies findings are also followed up in the conformity clearance exercise for 2020. Therefore, the corrective actions necessary have already been identified and notified to the Member States concerned. • DG AGRI monitors action plan implementation closely and follows them up with the Member State, including on the spot where necessary. • DG AGRI provides further guidance and support to the national authorities where necessary. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented. • Where necessary DG AGRI will interrupt payments as provided by Article 36(7) of Regulation (EU) No 1306/2013. • Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension/reduction of payments in line with Article 41(2) of Regulation (EU) No 1306/2013. <p><u>At Member State level</u></p> <ul style="list-style-type: none"> • The Member State is responsible for implementing the necessary corrective actions within an appropriate time schedule, including addressing the findings from the Certification Body. • The Member State is required to report regularly on progress milestones in line with the agreed schedule.

2.2 Modern and efficient administration – other aspects

2.2.1 Human resource management

In 2020, work in the area of human resources was heavily influenced by the COVID-19 pandemic. Despite the disruptions and the shift to a new way of working, the HR BC team ensured proper and efficient management of AGRI's human resources. The team supported and advised managers and staff, notably regarding crisis-related issues. Internal communication became even more important and DG AGRI stepped up its efforts to communicate efficiently and timely and to keep colleagues engaged. This included the organisation of a virtual, interactive staff meeting with AGRI's new Director-General.

In spite of the high resilience shown by staff to deal with the consequences of the COVID-19 pandemic - which allowed to maintain the output both in quantity and quality - there are more and more signs that many colleagues are suffering from the current situation, in particular parents with young children and home-schooling, but also people who live alone. A number of initiatives have been taken to raise awareness among managers to help and support their staff.

Work advanced well on AGRI's local HR strategy. Several workshops with the participation of staff have contributed to the final text, to be adopted early 2021. Despite the challenging circumstances of the pandemic, data drawn from pulse surveys 13 and 14 show an increase of AGRI's staff engagement index from 71% to 72%.

The ongoing reform of the CAP shall ultimately be reflected in a new organisation chart by 2022. AGRI has engaged in preliminary discussions on the new structure of the DG and has prepared a staff consultation process to take place in 2021.

DG AGRI has prepared a specialised competition for 'administrators' in view of recruiting experts to deliver on the CAP priorities. After long delays in EPSO's planning, it was finally published in February 2021.

Given the strong commitment to gender equality, 4 female middle managers were appointed in 2020, increasing DG AGRI's female representation at middle management level to 50%. The third edition of AGRI's dedicated middle management training programme ran until June 2020; the fourth edition was prepared and launched at the end of the year. Last but not least, a "360° feedback exercise" for AGRI managers was launched.

2.2.2 Digital transformation and information management

Digital transformation

Main IT achievements during 2020 exploited the potential of digitalisation to transform DG AGRI in line with the European Commission Digital Strategy and the Corporate Modernisation Plan. They contributed to the progressive and sustainable transformation of DG AGRI by:

- End-to-end streamlining of its processes;
- Accommodating user needs and experiences with IT ecosystem;
- Leveraging the value of data with analytics and insights;
- Building digital solutions by co-financing or co-development.

Detailed information about the different activities can be found in Annex 9.

Information management

DG AGRI traditionally manages a large amount of data, namely as a result of the CAP design, implementation and monitoring. The use of data will further increase with the CAP post-2020, where the focus on performance and the links with the Farm to Fork and Biodiversity Strategies will bring new types of data into the picture.

To keep pace with these changes and ensure the alignment of DG AGRI with the Data Strategy@EC process, DG AGRI has put in place in 2020 a reinforced data governance by setting up a dedicated Data Governance Board (senior management level) with the aim of becoming a truly data-driven DG, exploiting the full potential of the data and providing 'state-of-the-art' data services to the stakeholders.

A specific Data Management Work Programme 2021-22 supports the implementation aspects, with actions covering the corporate data strategy (data inventory and catalogue, definition of data policies) as well as the local data initiatives such as data dissemination ([Agri-Food Data Portal](#)) and analytics.

Data protection

DG AGRI continued to contribute to the objectives set by the Action Plan on Data Protection. Numerous actions have been undertaken in 2020 to ensure compliance with the rules. Detailed information about these actions can be found in Annex 9.

Document management

In line with the principles of the new Decision on Records Management and Archives and the Digital Preservation Strategy, DG AGRI has started the archiving of its electronic records, following the applicable retention periods, with a view to eliminating the records or transferring them to the Historical Archives for a long-term preservation. In 2020, the DMOs started working with the units, which did not have paper files and were therefore perfect candidates to proceed with the electronic archiving. In 2021, all other DG AGRI services will be gradually involved in the archiving of their electronic records. In December, the Director-General asked managers to ensure smooth archiving procedures in their units.

In 2020, DG AGRI continued its activities linked to the visibility of HAN files. DMOs continued to raise awareness on data sharing principles and, at the same time, reminded DG AGRI colleagues on the need of using security markings in protecting the sensitive information. Thanks to these efforts, more than 40% of the files created in 2020 have visibility to the Commission. There is also an increase in use of security markings; it comes to approximately 10% of all documents created in 2020.

Following on the specific circumstances related to the COVID-19 pandemic and mass-teleworking, SG has modified some procedures related to use of handwritten signatures on documents. In November 2020, the Qualified Electronic Signature (QES) tool has been implemented in Ares allowing a range of AGRI managers to sign documents electronically with a high level of security.

2.2.3 Sound environmental management

Although the COVID-19 pandemic has disrupted the way we usually work together, telework has proven highly effective in DG AGRI, with additional benefits such as less time spent commuting and reduced CO2 emissions. Additionally, it proved that quasi-paperless work is possible. The lockdown inevitably decreased missions, and telework has naturally reduced physical meetings. DG AGRI continued to promote corporate EMAS campaigns. The local environmental actions we had planned, such as the follow-up to the waste mountain, could not take place but we switched to 'virtual' as quickly as possible and focused on the telework situation. This resulted in the AGRI online workshops "Zero waste lifestyle at home", "Tips and tricks during lockdown" (including 'green' tips), the creation of the "AGRI café", a sharepoint with different categories including Green@home and zero waste lifestyle and, last but not least, a flyer with tips and tricks for a greener Christmas.