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European Commission

Annual Activity Report 2021

Directorate-General for Agriculture and Rural Development

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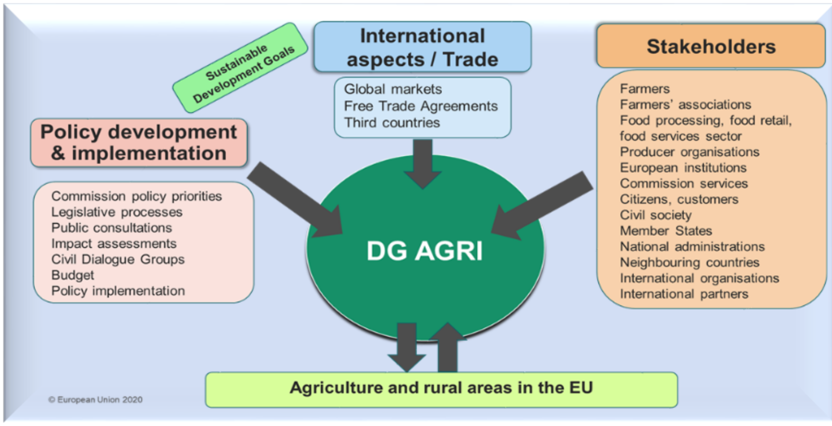
THE DG IN BRIEF

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 (CAP).

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 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 on 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, supervisor 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 DG AGRI's capacity 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 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 IPARD[1]).
- As a research DG, it programmes and monitors agricultural research and participates in the implementation of the Horizon 2020/Horizon Europe (HE) Framework Programmes for Research and Innovation. In addition to R&I topics for agriculture, forestry and rural areas, it implements in particular the new HE soil deal for Europe mission and three large scale R&I partnerships with Member States on agroecology, animal health and agricultural data.
- 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, once adopted, **monitors their implementation** to ensure a harmonised application. The DG is also responsible for various Commission delegated and implementing acts laying down detailed rules as well as their adaptation over time.
- DG AGRI also deals with infringements, control of implementation of the acquis, complaints and Ombudsman inquiries.
- Through its **assurance and audit** activities, DG AGRI verifies the conditions under which payments and controls have been carried out by the Member States and provides assurance on the CAP expenditure.
- DG AGRI contributes to the negotiation and implementation of **international agreements**, and manages the relations with third countries in the area of agriculture in order to expand our two way trade for the benefit of our farmers and food producers.

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 2021, DG AGRI managed a **budget** of around EUR 55.7 billion in voted payment appropriations[2] (which accounts for around 34% of the overall EU budget[3]), out of which MFF subheadings 3.1.11 (EAGF) and 3.2.12 (EAFRD), both executed almost entirely under shared management, accounted for 99.8%. More details can be found in section 2.1.

Regarding its **organisation**, DG AGRI had a staff of around 900[4] in 2021 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 and evaluation of the CAP), resources (including budget and financial management), and legal and procedural matters

[1] Instrument for Pre-Accession Assistance in Rural Development
[2] Funded under policy area 01 (Research and Innovation), policy area 08 (Agriculture and Maritime Policy), policy area 14 (External Action) and policy area 15 (Pre-accession Assistance).
[3] Execution 2021: 25% for CAP.
[4] DG AGRI staff (officials and external staff) on 01/01/21: 921; on 01/01/22: 937.

(including enforcement and internal control). DG AGRI has prepared a reorganisation to reflect changes brought on by the new delivery model of the CAP. The new organisation chart entered into force on 16 January 2022.

Concerning its **implementation**, the CAP has **6.6**[5] **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 systems are described in Section 2 of the AAR.

[5] There were more than 6 million beneficiaries under direct support schemes, around 3.6 million beneficiaries under rural development measures and some 0.10 million beneficiaries of market measures in financial year 2021. 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 6.5 million for both Agricultural Funds, is lower than the sum of the individual figures. The decrease in direct support beneficiaries compared to financial year 2020 (6.2 million) is mostly due to structural adjustments in the European agricultural sector. The small increase in rural development beneficiaries compared to financial year 2020 (3.5 in financial year 2020 and 3.2 million in financial year 2019) is due to the expenditure profile under EAFRD, concentrating most Non-IACS payments at the end of the 2014-2022 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 Treaties[6].

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

In the programming 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 in particular.

- **The European Green Deal**

Concluding the reform of the CAP was the main contribution to the Green Deal in 2021. After numerous trilogues and technical meetings throughout the year, the European Parliament and the Council adopted new CAP legislation on 2 December 2021[7]. In parallel to this negotiation process, the Commission provided intensive assistance to Member States for preparation of their Strategic Plans, in particular by means of support and advice through "Geographical Hubs" (Geo Hubs) and sharing its assessment tools. DG AGRI ensured the implementation of transitional regulations adopted in 2020 providing smooth continuation of the current CAP in 2021 and 2022.

The policy will be an essential tool for contributing to achieving the ambitions of the European Green Deal. Three out of the nine CAP's specific objectives directly concern the environment and climate – covering climate change, management of natural resources, and biodiversity. The Commission will assess Member States' draft CAP Strategic Plans against the CAP's specific objectives in the light of Green Deal targets for 2030 as set out in the Farm to Fork Strategy and the EU Biodiversity Strategy for 2030. Member States will be required to "aim higher" with regard to the environment and climate in the way they use CAP funds as compared to the current policy period and have to take account explicitly and clearly of the analysis, objectives and targets of key EU laws on climate change, energy, water, air, biodiversity and pesticides.

On the basis of continuous monitoring of global and European markets, several market measures were adopted in order to stabilise the situation of different agricultural sectors. In addition, the review of a number of marketing standards has been launched.

[6] Article 17(1) of the Treaty on European Union
[7] Regulation (EU) 2021/2115, Regulation (EU) 2021/2116, Regulation (EU) 2021/2117

With a view to further developing the organic sector, as a tool to contribute to the creation of a sustainable food system, DG AGRI presented an Organic Action Plan in 2021. DG AGRI also initiated the process for strengthening the system of geographical indications (GI) and launched the review the EU agri-food promotion policy. These initiatives all contribute to the policy objectives set out in the Farm to Fork Strategy and its call for a transition to sustainable agricultural practices. They are important to address the challenges ahead, notably in relation to the environmental impact of EU agriculture as well as the need for effective climate mitigation and adaptation actions.

- **A Stronger Europe in the world**

International trade is a key component of the CAP. Accordingly in 2021, DG AGRI pursued trade interests and international outreach with all key trading partners.

In 2021, DG AGRI contributed to the finalisation and implementation of the future relationship framework with the United Kingdom. The EU-UK Trade and Cooperation Agreement provides for tariff- and quota-free trade, including for agri-food products and for appropriate rules of origin, it recognises the equivalence in organics, and ensures level playing field provisions.

The EU further expanded its agri-food trade in 2021. A number of Free Trade Agreements (FTA) have been successfully negotiated and finalised in 2021, which will create new export opportunities for our producers. 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, and the 4th AU-EU Agriculture Ministers' Conference was held in June 2021.

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), in particular to curb the use by other countries of trade distorting agricultural subsidies. 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, with successes in this respect in China, Singapore, Chile and other countries and regions. DG AGRI also reset its relationship with the new US administration to develop a more positive agrifood relationship and improve trade flows.

- **A new push for European Democracy**

On 30 June 2021, the Commission adopted its Communication on the long-term vision for the EU's rural areas. The implementation of the various elements included in the Rural Action Plan started with the launch of the Rural Pact in December 2021. Preparations for the other essential elements, such as the rural observatory, the rural revitalisation platform, the rural proofing process, started in 2021 as well. DG AGRI also endeavoured to increase Member States' capacity to overcome the most common obstacles to broadband rollout to rural areas, to more effectively put the available EU funding to use, and to accelerate progress towards EU connectivity targets.

- **Specific actions on COVID-19**

Regarding the COVID-19 pandemic, DG AGRI has taken the necessary measures to mitigate the impact of the pandemic on the agri-food sector and assist in its recovery. In 2021, the CAP for instance, continued to provide tools to counter market imbalances or producers' cash flow issues for the wine sector (e.g. temporary derogation from EU competition rules, increase of the EU's contribution for measures of the national support programmes, advanced payments for crisis distillation and storage). Some of these wine measures and a reinforcement of sectoral risk management tools have also been prolonged to 2022.

On the international level, DG AGRI continued to address the impacts of the COVID-19 pandemic on nutrition and food security in vulnerable regions and developing countries, with particular attention to Africa[8].

In 2021, DG AGRI continued applying the adapted working methods put in place to respond to the COVID-19 restrictions in 2020 and actively responded to the impact of the COVID-19 pandemic on the CAP assurance through a series of measures.

Considering the prolongation of the exceptional administrative difficulties encountered due to the continuation of the COVID-19 pandemic in 2021 in the Member States, the Commission adopted Commission Implementing Regulation (EU) 2021/725[9], concerning the checks to be performed by the Paying Agencies for claim and calendar year 2021. The Regulation provides rules with realistic and attainable control requirements for the Member States, as well as proposes alternative methods[10] for carrying out the controls by the Member States under the COVID-19 restrictions. 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. With the measures undertaken, DG AGRI continued to have a good basis for assurance for financial year 2021.

[8] See specific objectives 8 and 9 for further details.
[9] Commission Implementing Regulation (EU) 2021/725 of 4 May 2021 derogating in respect of the year 2021 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) No 615/2014 and (EU) 2015/1368 as regards certain administrative and on-the-spot checks applicable within the common agricultural policy OJ L155 of 5.5.2021, p. 8–19..
[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..

B. Key Performance Indicators (KPIs)

The four key indicators which monitor the core aspects of the CAP are:

The CAP Key Performance Indicators	Baseline	Target	Impact/Result
1. Agricultural factor income (see Specific Objective 2)	129.4 (Avg 2017-2019)	To increase	131.9 (2021 estimated)
2. EU commodity prices compared to world prices (see Specific Objective 3)	1.14 (2017)	To bring EU prices closer to the world prices	0.98 (2021)
3. Minimum share of land with specific environmental practices/commitments[11, 12] - Share of agricultural area under greening practices (see Specific Objective 6)	75% (2015)	To maintain	77% (calendar year 2019)
4. Number of young farmers setting up a farm (see Specific Objective 6)	102 150 (2018)	To increase	149 688 (2020)

[11] 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.

[12] 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	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 [(2)]
		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 01 Research and Innovation												
0101	Administrative expenditure	0.05	0.00	0.00	0.05	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 02 European Strategic Investments												
0203	Connecting Europe facility (CEF)	0.26	0.00	0.00	0.26	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 03 Single Market												
0302	Single Market Programme	0.08	0.00	0.00	0.08	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
Title 05 Regional Development and Cohesion												
0502	European Regional Development Fund (ERDF)	0.18	0.00	0.00	0.18	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
0503	Cohesion Fund (CF)	0.08	0.00	0.00	0.08	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 07 Investing in People, Social Cohesion and Values												
0701	Administrative expenditure	0.46	0.00	0.00	0.46	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
Title 10 Migration												
1001	Administrative expenditure	0.20	0.00	0.00	0.20	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
Title 11 Border Management												
1101	Administrative expenditure	0.07	0.00	0.00	0.07	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
Title 14 External Action												
1420	Other Actions	4.24	0.00	0.00	4.24	1.00%	0.04	0.00	0.00	0.00	0.00	0.04
Chapter 20 Administrative Expenditure of the European Commission												
2002	Administrative expenditure	0.00	0.00	0.00	0.00	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
2004	ICT expenditure	0.85	0.00	0.00	0.85	1.00%	0.01	0.00	0.00	0.00	0.00	0.01
Title 08 Agriculture and Maritime Policy and Title 15 Pre-Accession Assistance												
SHARED MANAGEMENT												
080203, 080299	Interventions in Agricultural Markets	2 505.33	0.00	0.00	2 505.33	2.12%	53.03	38.34	0.00	0.00%	0.00	0.00
080205, 080299	Direct payments	37 920.61	0.00	0.00	37 920.61	1.44%	547.31	439.85	0.00	0.00%	0.00	0.00
	EAGF total	40 425.94	0.00	0.00	40 425.94	1.49%	600.33	478.19	95.17	1.42%	573.36	26.97
0803, 080299	Rural development	14 631.74	0.00	20.62	14 652.36	2.85%	417.20	172.22	95.02	1.82%	267.24	149.96
INDIRECT MANAGEMENT												
1502	Pre-accession Measures	180.25	0.00	0.00	180.25	0.18%	0.32	0.00	0.00	0.00%	0.00	0.32
DIRECT MANAGEMENT												
0801	Administrative expenditure	8.38	6.81	4.69	275.21	1.00%	2.75	0.00	0.00	0.00%	0.00	2.75
1501	Instrument for Pre-accession Assistance	0.24										
0803, 080299	Rural development	11.90										
08029902	Completion of previous projects	7.09										
080206	Policy strategy and coordination	247.49										
0820	Other actions	2.24										
Total CAP		55 515.26	6.81	25.31	55 533.76	1.84%	1 020.61	650.41	190.19	1.51%	840.60	180.01
Total DG AGRI		55 521.72	6.81	25.31	55 540.22	1.84%	1 020.68	650.41	190.19	1.51%	840.60	180.07
												0.3%
												0.3%

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 2021.

Footnote (2): *The estimated final amount at risk corresponds to the overall risk at closure in the Annual Management and Performance Report.*

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

In line with the Commission's Internal Control Framework, DG AGRI has assessed its internal control systems 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 a minor deficiency was identified related to control principle 3. 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. 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; necessary improvements and reeinforcements 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[13]:

- **ABB02 – Payments made on Market Measures**: 4 aid schemes comprising 6 Member States (8 elements of reservation): Germany, France, Italy, Spain (for 3 aid schemes), Hungary and Romania;
- **ABB03 – Payments made on Direct Payments**: 14 Paying Agencies, comprising 7 Member States: Cyprus, Croatia, France, Hungary, Italy (8 Paying Agencies), Portugal and Slovakia;
- **ABB04 – Payments made on Rural Development**: 26 Paying Agencies, comprising 17 Member States: Belgium (1 Paying Agency), Bulgaria, Czech Republic, Germany (3 Paying Agencies), Denmark, Spain (3 Paying Agencies), Finland, France (2 Paying Agencies), the United Kingdom (4 Paying Agencies), Croatia, Hungary, Italy (2 Paying Agencies), the Netherlands, Poland, Portugal, Sweden and 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 22 April 2022.

[13] 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, where DG AGRI applies the materiality criteria as described in Annex 5. Considering the conditions described above, for the 2021 financial year this "*de minimis*" threshold has **no impact** on AAR reservations of DG AGRI.

1. KEY RESULTS and progress towards achieving 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

In December 2021, the European Parliament and the Council formally adopted the new CAP regulations for the period 2023-2027[14]. The co-legislators agreed on a new design for the CAP, largely based on the 2018 Commission proposals to simplify and modernise the policy to better respond to the emerging economic, environmental and social challenges. Core of the reform is the introduction of national CAP Strategic Plans that integrate direct support, sector specific support and rural development support in a coherent and strategic framework to respond to those challenges. The Strategic Plans must be evidence-based and focus on supporting viable farm income and resilience across the EU to enhance food security, bolstering environmental and climate action, as well as strengthening the socio-economic fabric of rural areas and addressing societal demands. The new CAP 2023-2027 thus contributes in a significant way to the objectives of the Farm to Fork Strategy.

The policy seeks to modernise agricultural practice by facilitating knowledge exchange, innovation and digitalisation through the Strategic Plans, underpinning all three dimensions of sustainability (economic, environmental and social).

The Strategic Plans must contain strengthened basic requirements for CAP payments (conditionality), filling gaps on the protection of carbon stocks in soils (peatlands and wetlands), water use and irrigation, non-productive areas and landscape features that are paramount in reconciling agriculture and biodiversity. To improve long-term soil health, in principle farmers will be required to carry out beneficial crop rotations. Farmers must also increase their contribution to biodiversity by devoting at least 4% of their arable land to non-productive features and areas, including fallow land. Member States will have significant flexibility to implement the system in ways which suit the particular circumstances of their respective territories while meeting conditionality’s objectives .

[14] Regulation (EU) 2021/2115 of the European Parliament and of the Council of 2 December 2021 establishing rules on support for strategic plans to be drawn up by Member States under the common agricultural policy (CAP Strategic Plans) and financed by the European Agricultural Guarantee Fund (EAGF) and by the European Agricultural Fund for Rural Development (EAFRD) and repealing Regulations (EU) No 1305/2013 and (EU) No 1307/2013.
Regulation (EU) 2021/2116 of the European Parliament and of the Council of 2 December 2021 on the financing, management and monitoring of the common agricultural policy and repealing Regulation (EU) No 1306/2013.
Regulation (EU) 2021/2117 of the European Parliament and of the Council of 2 December 2021 amending Regulations (EU) No 1308/2013 establishing a common organisation of the markets in agricultural products, (EU) No 1151/2012 on quality schemes for agricultural products and foodstuffs, (EU) No 251/2014 on the definition, description, presentation, labelling and the protection of geographical indications of aromatised wine products and (EU) No 228/2013 laying down specific measures for agriculture in the outermost regions of the Union.

Another key element are the new voluntary ‘eco-schemes’ under direct payments representing at least 25% of Member States' direct payments. This new tool aimed at further stimulating the uptake of practices beneficial for the environment and climate will support different types of voluntary actions going beyond conditionality and other relevant obligations – e.g. practices related to better nutrient management, agro-ecology, agro-forestry, carbon farming or animal welfare (among many others). Moreover, environment and climate requirements for rural development and sectoral support in the CAP Strategic Plans also increased.

Strong links with EU environment and climate legislation (Annex XIII of Regulation (EU) 2021/2115) and an obligation for Member States to demonstrate a higher level of ambition in their CAP Strategic Plans than they did in the previous period, are additional safeguards. A fair income for farmers, food security, affordable food prices, and a competitive agricultural sector also remain key priorities of the new CAP, to enhance economic and social sustainability of agriculture. At the same time, the focus of the Strategic Plans is enlarged to also address challenges on food, health and animal welfare that are not only highly important aspects of sustainable food systems, but also close to the heart of citizens.

The reform provides tools to further improve the fairness of the distribution of direct payments, such as obligatory redistribution of support to smaller and medium sized farms, possible capping of payments to large farms, and dedicated support to ensure the continuation of farming by younger generations. With the Strategic Plans, Member States are encouraged to provide support to strengthen cooperation among producers, thereby ensuring greater fairness in the supply chain. An important new element is the social conditionality mechanism, linking the granting of direct support to farmers to their respect for specific EU rules on the protection of farm workers.

In 2021, in parallel to the legislative process, DG AGRI intensified its assistance to Member States' preparation of their strategic plans, in the form of a structured dialogue, relying on country teams[15] created within the Directorate-General for Agriculture and Rural Development as well as on colleagues of some other Directorates-General. This assistance included making available its internal assessment tools. DG AGRI also published an indicative list of practices that eco-schemes could support. DG AGRI successfully ensured the necessary secondary legislation, and technical tools were put in place to enable Member States to submit their draft CAP strategic plans by the end of the year and the assessment of these plans to start in January 2022. At the same time, the Commission ensured the smooth continuation and implementation of the current 2014-2022 legislation.

Activities of the European network for rural development (ENRD) (future EU CAP network) included supporting the Member States in delivering these tasks.

The modification of the Common Market Organisation (CMO) of agricultural products (Regulation (EU) 2021/2117), while preserving the market orientation of the CAP, further

[15] ‘Geographical hubs’

reinforces the farmers' position in the food chain, with several improvements for instance concerning the possibilities to derogate from competition rules for agreements between producers and other actors in the food chain for the purpose of sustainability. It brings a longer regulatory perspective to wine growers as well as new market opportunities with the possibility to market de-alcoholised wines and additional margins for innovation by allowing new hybrid varieties to be protected by PDOs (Protected Designations of Origin) and PGIs (Protected Geographical Indications).

Example of efficiency: Analytical databank on isotopic data to combat fraud in the wine sector

A screening exercise performed by DG AGRI on the tools in place for wine control revealed deficiencies in the functioning of the wine analytical databank on isotopic data. The wine sector is highly vulnerable to fraud as most of EU production is based on certified quality schemes (PDO/PGI), attracting significant value added. The main suspected violations are usurpation of origin, i.e. selling conventional wine as if it was PDO/PGI, as well as addition of water and sugar. The economic impact of fraud in the wine sector is estimated at EUR 1.3 billion per year, 3.3% of the sector's sales. This recurrence involves a certain reputational damage to the wine sector itself. The amendment to Regulation 2018/274 aims at providing better protection against wine frauds by including deadlines for Member States to provide screening results and consequently proceed to release or destroy the suspicious shipment. It further contains improvements to refocus the databank on wines with geographical indications and to improve the transparency by drafting annual reports on the tool uptake.

A report to the European Parliament and Council on the performance of the current CAP[16] was published in December 2021, summarising the performance of the CAP during 2014-2020. Since it coincides with the approval of the CAP for 2023-2027, the report will underpin the assessment of CAP Strategic Plans. It will also feed into the debate on future policy developments, including on the challenges and ambitions stemming from the Green Deal.

An **evaluation of the information policy** on the CAP [17] shows that the information actions on the CAP increase understanding of the policy and improve perception among stakeholders and EU citizens, but also acknowledges scope to further improve the information measures and adapt them to the new CAP and to societal demands. The evaluation contributed to the reflections on the definition of information activities for the 2021–2025 period and informed the preparation of a Commission report to the European Parliament and Council on the implementation of CAP information measures.

The application as from May 2021 of the production and labelling provisions of the new Spirit Drinks Regulation (EU) 2019/787 has been accompanied by major achievements during 2021. Labelling provisions have been clarified through amending Delegated Regulations and Guidelines in order to grant a clear and streamlined legislative framework

[16] Report from the Commission to the European Parliament and the Council on the implementation of the common monitoring and evaluation framework including an assessment of the performance of the common agricultural policy 2014-2020 (COM(2021) 815 final)
[17] Evaluation of the information policy on the CAP (SWD(2021) 980)

to support the continuous development of this sector which contributes significantly to the favourable trade balance of the EU agri-food sector.

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

In light of growing uncertainties linked to the impact of climate change and environmental degradation on food production, as well as risks related to public health, cyber threats or geopolitical shifts threatening the functioning of the food supply chain, an EU contingency plan for food supply and food security was adopted in 2021. The plan will be rolled out by the European Food Security Crisis preparedness and response Mechanism (EFSCM), launched by the Commission in 2022 and immediately operational in response to the crisis linked to the Russian war of aggression against Ukraine.

While agricultural markets largely recovered from the disturbances caused by the COVID-19 pandemic, the Commission continued to monitor the impacts of the pandemic in the agricultural sectors. As most affected production sector, the exceptional measures to support the wine sector adopted in 2020 were extended to 2021 and most of them were also reconducted to 2022. This has largely supported the recovery of the wine market during 2021.

In the aftermath of the spring frost in April 2021 which affected particularly the wine and fruit and vegetables sectors, the Commission adopted measures to further support the sectoral risk management tools and to mitigate the impact of the production losses in the future support to Producers Organisations of fruits and vegetables.

The conclusions of the High Level Group on Sugar (July 2019) recommended to the European Commission to initiate a comprehensive review of the possible strategies for improving the market resilience of the sector. In this context, the European Commission conducted a study on the adaptation strategies of the sugar supply chain after the end of the sugar quotas. The report of the study was finalised end of 2021 and the results were published in January 2022.

In the course of 2021, energy prices increased dramatically, followed by prices for other commodities. This has knock-on effects on the food sector, which is exposed to energy costs both directly and indirectly (from fertilisers to transport and freight). Farmers see their input prices increase (energy and fertilisers represent around 18% of production costs). Consumers are confronted with food price inflation (+4.3% in December on a year to year basis).

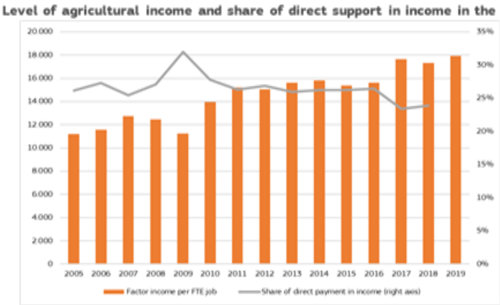
In 2021, the Commission issued a Communication on rising energy prices[18] that includes a toolbox for action and support. Further action was taken in 2022, i.e. the Commission adopted the Communication "REPowerEU: Joint European Action for more affordable, secure and sustainable energy"[19] as well as the Communication "Safeguarding food security and

[18] COM(2021) 660 final of 13 October 2021
[19] COM(2022)108 final of 8 March 2022

[reinforcing the resilience of food systems"](#)[20], responding to the consequences of the Russian invasion of Ukraine. The latter communication was piloted by DG AGRI and sets out a range of actions to support agriculture and food security in both Ukraine, food importing countries, and EU farmers as well as to address challenges of food affordability,_or food sustainability. Among others, the Communication underlines that CAP Strategic Plans provide for opportunities to enhance long-term resilience of farming, for example by supporting reduction of fertiliser use through precision farming, or the development of biogas.

An **evaluation of the mandatory indication of the country of origin**[21] published in August 2021 concluded that mandatory country-of-origin labelling provides for the meaningful information to consumers and for control of compliance by competent authorities. The effect of the country-of-origin labelling rules on market and trade dynamics was marginal, with the cost of adaptation absorbed in the supply chain and not transferred to consumers. Although the evaluation did not detect systemic issues with enforcement of the rules, it identified differences in the quality of controls between EU Member States. The evaluation also indicated that consumers' low understanding of the terms and definitions used on labels leaves room for improvement. In addition, growing demand for environmental care pushes for continuous efforts to better understand the environmental and market impact of origin labelling rules.

Level of agricultural income and share of direct support in income in the EU



Source: Directorate-General for Agriculture and Rural Development based on AgriData

DG AGRI continued to ensure the implementation of a consistent system of direct payments to farmers. The delivery modes related to direct support and applicable until claim year 2022 are in place at all levels (EU and national), which ensures that income support is delivered to farmers in a consistent, efficient and regular way as well as in a timely manner. Agricultural factor income per worker[22] increased by 15% between 2013 and 2019; nevertheless the income gap agriculture and the rest of the economy remains considerable in real terms. The legal framework for the direct payments future policy is in place. It builds on the aim to further improve the fairness and targeting of direct payments towards the CAP objectives.

An **evaluation of the CAP's impact on viable food production**[23] published in May 2021 concluded that direct income support strongly contributes to stabilising farm income, with direct payments and support to areas facing natural constraints playing an important role. Over 6 million beneficiaries received direct income support in the EU-28[24], enabling

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[20] COM(2022)133 final of 23 March 2022

[21] Evaluation of the mandatory indication of the country of origin or place of provenance for fresh, chilled and frozen meat of swine, sheep, goats and poultry (SWD(2021) 218)

[22] See result indicator 2.2.

[23] Evaluation of the impact of the CAP measures towards the general objective "viable food production" with a focus on income, competitiveness and price stability (SWD(2021) 105)

[24] Evaluations covering the period 2014-2020 include the United Kingdom as a member of the European Union (EU-28), as during this period Union law continued to be applicable to and in the United Kingdom (even after withdrawal, by virtue of the transitional arrangements, with a few limited exceptions).

farmers to cope better with agricultural price decreases. Direct income support represents around 25% of EU farm income (2014-2018 average). However, despite a steady and continuous improvement, the income gap between agricultural and non-agricultural income remains considerable.

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

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. This has been done through strategic planning, R&I roadmap development as well as the first Work Programmes for 2021-2022 and 2023-2024 addressing in particular F2F, biodiversity and climate targets through an intense co-creation process. This involved a large number of Commission services, national authorities and many external stakeholders. Furthermore, DG AGRI ensures the role of Mission Manager and the secretariat of the Mission Board for HE Mission "A soil Deal for Europe". This included the organisation of Mission Board meetings, outreach actions and coordination with DGs and stakeholders concerned, as well as the preparation of a mission implementation plan which was adopted through a Commission Communication[25]. 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 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 a direct impact on farmers and other key innovation stakeholders in terms of uptake of new innovations, technologies, products and processes. By end 2021, already 2 197 EIP Operational Groups projects have been successfully launched and completed whereby farmers found innovative solutions for their challenges. Through seminars and workshops reaching more than 500 direct participants, focus groups as well as other activities organised in 2021 (mostly remotely due to the COVID-19 pandemic), research and innovation projects' results and available knowledge in many fields were brought to farmers. This facilitated the uptake of innovations on the ground and fostered the Agricultural Knowledge and Innovation Systems (AKIS) in general.

In the area of digitalisation, DG AGRI has developed capacities with Member States to programme the digitalisation component under this cross-cutting objective of the CAP and promoted synergies with other EU programmes. It has contributed to the development of

[25] COM(2021) 609 final

Digital Europe Programme, including the Common European Agriculture Data Space, Testing and Experimentation Facilities for Artificial Intelligence (AI), Digital Innovation Hubs and digital skills. It has followed the development of strategic and legal initiatives under the Headline Ambition of a Digital Age and tailored them to the needs of agriculture and rural areas. This includes the Coordinated Plan for AI, the Digital Decade Policy Programme, the Declaration on Digital Principles and the Data Act.

The Commission closely monitored the functioning of the markets for agricultural products and continued its reinforced dialogue with stakeholders after the COVID-19 outbreak through periodic and ad-hoc virtual meetings with representatives from the entire agri-food chain. This included the organisation of numerous meetings of the different sectorial market observatories, which were given a stronger legal base in the amendment on the CMO agreed by the co-legislators.

An **evaluation of the CAP's impact on viable food production** published in May 2021 concluded that market measures, EU quality schemes and various rural development measures contributing to productivity growth also have a role in supporting farm income by limiting downward price volatility and improving competitiveness. In the period 2013-2019 (EU-27), total factor productivity of EU agriculture increased by 6%. EU-28 labour productivity improved by 24% from 2014 to 2020.

EU added value: Financial instruments

Financial instruments (FI) supported by the EAFRD are a key tool for providing access to finance for the farming sector, agri-food industry and the rural economy. They allow, by leveraging private capital and by their revolving nature, to complement the rural development budget. They may provide favourable conditions with which the difficult access to capital, especially for young farmers and smaller farms, may be overcome. In this context, they also contribute for achieving the objectives of the green and digital transitions. Financial instruments (FI) supported by the EAFRD are a key tool for providing access to finance for the farming sector, agri-food industry and the rural economy. They allow, by leveraging private capital and by their revolving nature, to complement the rural development budget. In the current programmes, by involving more than EUR 860 million total public support, it is expected to generate more than EUR 2 billion total financing to farmers, processors and rural businesses. By the end of 2021, almost half of the programmed amounts have already been declared to the Commission, which suggests a well running process. The majority of the supported farms are of micro-small scale. Young farmers also benefit from easier access to financing. In this context, FI also contribute ~~for~~ to achieving the objectives of the green and digital transitions. See also chapter 2.1.1.2.6 for further information.

The EAFRD also makes an important contribution to supporting broadband infrastructure and various ICT solutions in rural areas. This has a positive effect on the quality of life of EU citizens.

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

A report on the state of transposition and implementation of the Unfair Trading Practices Directive[26] was adopted and presented to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. By the end of 2021, 26 Member States had notified complete or partial transposition of the Directive into national law. Providing mandatory rules in all Member States will contribute to enhancing the protection of farmers as well as that of small and medium sized suppliers in the food supply chain.

Many amendments to the revised CMO Regulation provide new tools and improvements to the position of farmers in the food supply chain: extended provisions concerning contacts (value sharing clauses in particular), new possibilities of private supply management, derogation to competition for agreements aiming at higher levels of sustainability in the food chain, etc. In complement to these legislative measures and to further improve transparency in the food chain, a first forum for best practices in the agri-food supply chain was organised on 2 December 2021.

During 2021, the legality of the register of geographical indications (GIs) continued to be ensured. At the end of the year, the register included 3 452 names of wine, spirit drinks and foods protected as GIs. The Union also protected 1 628 names of non-EU countries based on bilateral agreements.

In line with the Commission's Farm to Fork Strategy and the Intellectual Property Action Plan, the Commission concluded in 2021 an impact assessment with a view to strengthen the system of geographical indications (GIs). This initiative aims at improving sustainable production of GI products, enforcement, empowering GI producer groups, reducing internet theft, better tailoring schemes to producers in all EU regions and speeding up registration procedures, as well as reviewing ways to promote and protect the EU's traditional foods. Further development of EU quality schemes would allow strengthening cooperation between producers, increasing their bargaining position in the value chain, and therefore generating more added value. A public consultation of 12 weeks ran in spring 2021, and the Impact Assessment Report was finalised in autumn 2021. The draft legislative proposal is envisaged to be adopted in the first quarter of 2022.

Furthermore, an **evaluation of geographical indications (GIs) and traditional specialities guaranteed (TSGs)**[27], published in December 2021, concluded that GIs and TSGs offer a wide range of benefits for stakeholders, including a fair return and fair competition for farmers and producers. While they are not applied systematically in all Member States, and face low consumer awareness and understanding in some Member

[26] Directive (EU) 2019/633 of the European Parliament and of the Council of 17 April 2019 on unfair trading practices in business-to-business relationships in the agricultural and food supply chain
[27] Evaluation of Geographical Indications and Traditional Specialities Guaranteed protected in the EU (SWD(2021) 427)

States, they do provide a clear EU added value. GIs and TSGs ensure the integrity of the internal EU market and provide common standards for trade with third countries.

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. Related delegated and implementing acts entered into force on 1 August 2021.

Example of efficiency: Notifications of standard and temporary amendments to the product specifications for geographical indications (GI), adopted by Member States' authorities

Based on Commission implementing legislation for wine GI adopted in 2019, smaller amendments to the product specifications for GI (called standard amendments) have since been adopted by Member States' authorities and notified to the Commission (previously they were approved by the Commission). By end of 2021, around 700 product specifications have been amended in this way, providing clear economy and efficiency gains to producers (as well as to Member States' authorities and Commission services). Standard amendments have later also been introduced for food and spirit drinks GI. Due to COVID-19, certain GI producers have no longer been able to comply with certain requirements in the product specifications. The possibility to temporarily amend these specifications has helped them to overcome difficulties caused by the pandemic.

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

As part of the Commission's Farm to Fork Strategy that aims to accelerate the transition to a sustainable food system, a number of key initiatives were carried out during 2021. Very significantly, the adoption of the new CAP regulations provides for a support scheme for agriculture and rural areas that is much better placed to help agriculture in its transition to sustainability.

In the context of the Farm to Fork Strategy, a combined evaluation roadmap/Inception Impact Assessment was published in 2021 for citizens' information and consultation on the review of the EU school fruit, vegetables and milk scheme, as well as for the revision of EU marketing standards for agricultural products, for which also the public consultation was carried out from June to August 2021.

In the area of agricultural marketing standards, the Commission will work to ensure that those standards continue to fulfil their role and remain relevant for stakeholders in modern supply chains. Some technical modernisation and simplification also covering further sustainability elements for specific sectors were and currently are being considered to bring efficiency gains and contribute to the Farm to Fork sustainability objectives in all three dimensions.

To reach the target of the 25% of EU agricultural land under organic farming by 2030 as spelled out both in the Farm to Fork Strategy and the Biodiversity Strategy, as well as in support of a significant increase in organic aquaculture, the European Commission in 2021 presented the Organic Action Plan for the Development of Organic Production[28]. This Action Plan aims at increasing the consumption and production of organic products and at enhancing further the sustainability of organic production. It foresees a series of actions in particular aiming at stimulating consumption at European level and at the same time to boost organic production and to increase surfaces, while maintaining fair prices for operators. It will also develop a set of actions facing the environmental challenges put forward by the European Green Deal. Implementation of this Action Plan is in full swing.

A substantial body of secondary legislation associated with the new Organic Regulation (EU) 2018/848, entering into application on 1 January 2022, was adopted in 2021. The new secondary legislation comprises a number of implementing and delegated acts on different issues covered by the legislation, including production and labelling rules, control rules and trade rules. It harmonises and clarifies several aspects of the organic legislation while simplifying certain control rules to attract small famers to the scheme.

Since 2021, DG AGRI, with DG SANTE, DG ENV and DG MARE[29], is involved in the preparation of the legislative proposal for a framework for a sustainable food system. This initiative aims at accelerating and facilitating the transition towards sustainable food systems and ensuring that all foods placed on the EU market become increasingly sustainable. This framework law should also create a framework for a labelling scheme on the sustainability of food products to ensure that consumers can make informed choices when it comes to food consumption and thus contribute to the transition process.

The Commission's intention to review the EU agri-food promotion policy was announced in the Farm to Fork Strategy in 2020, with the objective of increasing the promotion policy's support to sustainable agricultural production and consumption, and in line with the evolving diets. In relation to meat, that review should focus on how the EU can use its promotion programme to support the most sustainable, carbon-efficient methods of livestock production. This review was launched in February 2021 with the publication of a review roadmap, building on the **evaluation of the impact of the promotion policy**[30] completed in 2020 which concluded that the policy had a broadly positive effect in terms

[28] COM(2021) 141
[29] Cf Annex 14 for acronyms.
[30] Evaluation of the EU agri-food promotion policy (SWD(2020) 399)

of effectiveness, efficiency, relevance, coherence and EU added value, but needed to be better aligned with evolving societal needs and political priorities.

DG AGRI organised an online public consultation on the review of the promotion policy (March to June 2021) that gathered over 7 500 responses. An online stakeholders' conference (12-13 July 2021) to discuss the different policy options of the review was also organised, with the participation of 540 international experts, civil society and agricultural sector representatives, public authorities and international organisations. The conference was livestreamed and followed by more than 3 000 viewers. These initiatives will inform an impact assessment that will accompany any legislative proposals for a new promotion policy expected in the course of 2022.

A Commission report on the implementation of the promotion policy since 2016 was published on 11 February 2021[31] highlighting the positive contribution that the promotion policy could make to the objectives of the Farm to Fork strategy, incentivising and rewarding the transition towards more sustainable food systems and more plant-based diets.

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

Achieving a higher environmental ambition and supporting climate change mitigation and adaptation is the cornerstone of the new CAP. The CAP Strategic Plans will be crucial to guarantee that the new CAP can successfully contribute to address climate change, the protection of natural resources and biodiversity. In this respect, DG AGRI assisted Member States in designing the new green architecture in the CAP Strategic Plans' strategy, ahead of their submission and approval.

EU added value: European Network for Rural Development

Furthermore, the ENRD continued to be a key platform for involving a broad range of stakeholders and for sharing information on preparation for the upcoming policy. Following the adoption of the legal framework, the EU CAP Network will take over this role, and become a key facilitator for exchanges, covering all aspects of the CAP Strategic Plans.

The legislative initiative to **convert the Farm Accountancy Data Network (FADN) in Farm Sustainability Data Network (FSDN)** has started in 2021 with the publication of a roadmap and the related public consultation[32]. The aim is to include in the survey information to assess environmental and social sustainability beside the current content based on farm economics. Adoption of the revised Council Regulation 1217/2009 is foreseen within the first half of 2022.

[31] Commission Report to the European Parliament and Council on the application of Regulation (EU) No 1144/2014 (COM(2021) 49 final)

[32] https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12951-Conversion-to-a-Farm-Sustainability-Data-Network-FSDN-_en

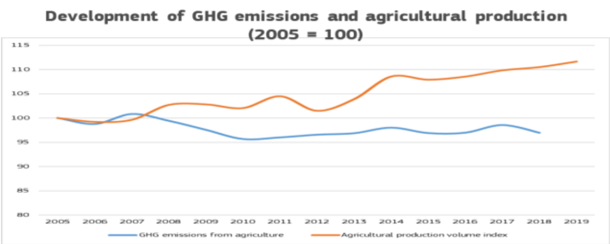
The EAFRD contributes to climate adaptation and mitigation, through adequate prevention and restoration measures, complemented with risk management tools. Furthermore, support is available to the forestry sector, bioeconomy and carbon farming. Via the afforestation measure, agricultural land is being converted into forest, helping sequestering carbon and increasing biodiversity. The Biodiversity Strategy sets the main principles for the years to come, to which the EAFRD is and will be contributing.

DG AGRI cooperated with other Commission's services, in particular DG CLIMA and DG ENV, as regards the follow-up to the Green Deal, as well as in the implementation of specific actions and initiatives, such as the adoption of the Fit for 55 package (July 2021), the EU Soil Strategy (November 2021) and the Communication on Sustainable Carbon Cycles (December 2021), which sets out short- to medium-term actions to support carbon farming and upscale this green business model to better reward land managers for carbon sequestration, in line with relevant ECA findings[33].

In the context of the Taxonomy Regulation (EU) 2020/852, DG AGRI cooperated in the development of the delegated acts establishing the environmental sustainability criteria related to climate change mitigation and adaptation in the agriculture, forestry and bioenergy sectors. The Taxonomy Climate Delegated Act was adopted in April 2021 and covers both the forestry and bioenergy sectors but not yet agriculture, which is planned to be addressed in 2022. The Taxonomy Regulation provides for a general framework for the development of an EU-wide classification system for environmentally sustainable economic activities to facilitate sustainable investments.

On the international side, DG AGRI participated, as part of the EU negotiation team, in the 26th Conference of the Parties (COP 26) of the UNFCCC, held in Glasgow from 31 October to 13 November 2021. Agriculture issues were discussed in the Koronivia Joint Work on Agriculture (KJWA), which covers a range of interrelated topics such as soil, livestock, nutrient and water management, food security and the socioeconomic impacts of climate change across agriculture. The conclusions reached at COP26 contain explicit references to greenhouse gas reduction in agriculture, sustainable agricultural production and the links between climate change and animal welfare.

An **evaluation of the CAP's impact on climate change and greenhouse gas emissions**[34] published in June 2021 concluded that the CAP has helped reducing GHG emissions[35], improving the climate footprint per unit of agricultural output. Mitigation is mainly achieved by protecting existing carbon stocks, notably thanks to the maintenance of permanent grasslands supported by extensive livestock grazing systems. There is potential to further



Source: Directorate-General for Agriculture and Rural Development based on European Environmental Agency data and on CAP Agrifood data portal, CAP Indicators, Data explorer

[33] Special report 16/2021: Common Agricultural Policy and climate: Half of EU climate spending but farm emissions are not decreasing
[34] Evaluation of the CAP's impact on climate change and greenhouse gas emissions (SWD(2021) 115)
[35] See result indicator 6.1.

increase carbon storage in EU soils. In terms of climate adaptation, it is mainly achieved through support towards diversity of crops and farming systems, investment support for adaptation to new climate conditions, limiting soil erosion and improving resilience to floods. However, better targeting of CAP support would lead to an increase in efficiency.

An **evaluation of the impact of the CAP on natural resources**[36] published in December 2021 concluded that the CAP provides EU added value by setting a higher level of ambition than might be available under a purely national approach, requiring minimum levels of financial support, and supporting knowledge sharing across Member States. However, the potential of the CAP in addressing sustainable management of natural resources was not fully exploited over 2014-2020. Member States did not allocate sufficient funding to the most targeted measures, and/or chose a minimalistic approach for cross-compliance and greening conditions. The evaluation reaffirms the continued relevance of the CAP's objective to address sustainable management of natural resources and acknowledges the CAP's potential to effectively address sustainable management objectives by providing extensive protection through cross-compliance, greening obligations and more targeted voluntary commitments under rural development support. The evaluation also concluded that the CAP can prevent land abandonment and slow down specialisation of farming systems, contributing to the maintenance of diversified land use, farming and permanent grasslands.

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

A New EU Forest Strategy was adopted in July 2021, as a flagship initiative of the European Green Deal. The strategy provides the framework for the forests to deliver on their share to our environmental ambition, but also to secure livelihoods in rural areas and support a sustainable forest bioeconomy, by securing growing, healthy, and resilient forests in the EU.

Multifunctional forests are at the core of the new EU Forest Strategy. It makes significant commitments for ensuring EU forests' contribution to our biodiversity and climate goals thereby reflecting recent ECA findings[37], and as defined in the Biodiversity Strategy and the European Climate Law as well as in the related Fit for 55 package, while addressing the contribution of forests in the EU to the new and greener growth model enshrined in the Green Deal, supporting the social and economic roles of forests and the associated livelihoods, in particular for rural areas and forest owners, workers and managers. Sustainable Forest Management is the concept that the strategy continues to support and build on, as the best way to ensure forests' multifunctionality and their fair contribution to the global sustainability agenda. With the new EU Forest Strategy, the Commission also wants to ensure an adequate injection of EU funds to forests and the forest-based sector, where the CAP plays a crucial role.

[36] Evaluation of the impact of the CAP on biodiversity, soil and water (natural resources) (SWD(2021) 424)
[37] Special Report 21/2021: EU funding for biodiversity and climate change in EU forests: positive but limited results

Complementary to the new Strategy, the 8th Ministerial Conference on the Protection of Forests in Europe took place in Bratislava on 14-15 April 2021, in the context of FOREST EUROPE, the Pan-European voluntary high-level political process for dialogue and cooperation on forest policies in Europe, which develops common strategies for its signatories (46 countries, including all EU Member States, and the European Union) on how to protect and sustainably manage their forests. The main conference milestone was the signature of two Ministerial documents by the Ministers responsible for forest policies: the Ministerial Declaration "The Forest We Want", which sets the views for European Forests for 2030, and the Ministerial Resolution "Adapting the pan-European forests to climate change". Commissioner Wojciechowski signed the two Ministerial documents on behalf of the EU, adhering to the commitments agreed therein.

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Key external communication activities in 2021

In 2021, DG AGRI fully delivered on the communication objectives linked to its political priorities, with an array of tools ranging from conferences to grants, including podcasts and videos, web content, social media and media activities. It promoted new initiatives or tools through the various channels of external communication, addressing a targeted or a wider audience as necessary. DG AGRI also closely monitored and evaluated the impact of such activities. A detailed description of the external communication actions undertaken in 2021 to achieve the delivery of the different specific objectives can be found in Annex 2.

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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 2021, 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 prolonged 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 products 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 regular work and negotiations in the WTO, in particular on curbing farm subsidies and on reforming the organisation, as part of preparations of the 12th WTO Ministerial Conference scheduled for early December 2021 (which was in the end postponed). 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.

In the context of the EU's Farm to Fork Strategy, DG AGRI continued to actively engage with the EU's trading partners in order to ensure the fulfilment of the Strategy's very ambitious objectives and our partners' understanding of its global goals. DG AGRI also contributed to successful **negotiations** with bilateral and multilateral partners, including an agreement on GI with China that entered into force in March 2021; reaching an agreement at technical level on all agricultural-related elements for a modernized Free Trade Agreement (FTA), notably on inclusion of protection of agri-food GIs in a modernized deal, as well as on amending the existing Wine and Spirits Agreement with Chile; significant progress in the FTA with New Zealand; clarification of outstanding issues with Mercosur, progress in FTA negotiations with Australia and Indonesia; and concentrated efforts to ensure proper implementation and enforcement of existing FTAS, in particular those with Canada, the Andean Community, Japan, Korea, Singapore, Vietnam and South Africa.

In line with these efforts, the EU's **agri-food exports** continued to grow in 2021. 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**, DG AGRI has made progress for a number of actions, particularly on the support for new Geographical Indication (GI) projects (incl. the launch of a web-based platform and publication of a GI manual), the launch of agrifood business platforms in leading African countries as a way to encourage EU investment in the African agrifood sector, as well as the International Digital Council for Food and Agriculture, whose Terms of Reference were agreed end of April 2021.

A major focus of DG AGRI's international work in 2021 was the conclusion of 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 geographical indications, the status quo is preserved by the EU-UK Withdrawal Agreement. DG AGRI also contributed to the implementation of the Protocol on Ireland/Northern Ireland and in particular to the talks with the UK about possible trade facilitation for goods entering Northern Ireland from Great Britain that are destined for sale to end consumers in Northern Ireland.

Furthermore, the trade regime under the CMO (rules concerning Tariff Rate Quotas and licences), extensively reviewed in 2020, was adapted several times in 2021 to cater for the needs of Brexit and of specific concerns of partners in some sectors. With a view to facilitate trade, DG AGRI engaged in 2021 in the first steps of the integration to the customs single window environment of the related agricultural procedures.

For the apportionment of WTO import **quotas** between the EU and UK following the latter's withdrawal, DG AGRI made good progress by concluding agreements with Norway, Cuba and Thailand and finalising negotiations with the US, Argentina, Australia, New Zealand, Indonesia and several others. From an EU internal perspective, a series of Delegated and Implementing Acts were adopted with regard to changes in WTO import quotas and their administration.

On the **trade defence** front, activity increased considerably in 2021. For instance, DG AGRI was instrumental in the WTO Panel proceedings in the cases DS577 "United States — Ripe olives from Spain" and DS591 "Colombia – Anti-Dumping Duties on Frozen Fries from Belgium, Germany and the Netherlands", as well as in antidumping or countervailing proceedings launched by Canada on wheat gluten and refined sugar, or South Africa on frozen fowls. In part thanks to AGRI's expertise and input, the Commission was successful in some of these cases.

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, thereby strengthening the international dimension of organics This will enhance transparency, increase legal certainty for operators, and ensure reciprocity in terms of equivalency recognition. Negotiating directives have been obtained from the Council to start negotiations with a set of priority third countries in which the EU would like to maintain or secure market access and with which it currently has administrative arrangements in place[38]. At the same time, 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.

DG AGRI represented the European Union interests in three different International Commodity Bodies, i.e. the International Olive Council, the International Grains Council and the International Sugar Organisation throughout 2021.

Regarding the international level of the COVID-19 pandemic, DG AGRI continued to address the COVID-19 impacts on nutrition and food security in vulnerable regions and developing countries, with particular attention to Africa (where the issue of cooperation was also covered at the AU-EU Agriculture Ministers' Conference).

In the course of 2021, the EU has also made voluntary submissions to the WTO of ad hoc reports on COVID-19 measures adopted by the EU and its Member States in order to provide transparent information to other WTO Members. The reports included a list of measures approved by the European Commission and Member States' measures under EU

[38] Council Decision (EU) 2021/1345 of 28 June 2021 authorising the opening of negotiations with Argentina, Australia, Canada, Costa Rica, India, Israel, Japan, New Zealand, South Korea, Tunisia and the United States with a view to concluding agreements on trade in organic products

state aid rules, which the Commission approved under the Temporary Framework to support the economy in the context of the COVID-19 outbreak.

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

In 2021, 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. Despite the adverse impact of the COVID-19 pandemic on the implementation of several promotion programmes, two calls for proposals were published in January 2021 in line with the annual work programme objectives and topics. Furthermore, several measures at the Commission's own initiative were implemented, such as promotion campaigns, online promotion seminars or the production of market entry handbooks.

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 actively engaged in technical discussions with the Russian authorities in order to defend the European GIs of wines and spirits after Russia adopted laws on wines and alcohol in July 2021; and similarly in Singapore, China, Canada and the Andean community and other regions where usurpation of EU names is endemic.

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

DG AGRI continued implementing in 2021 IPA[39] II rural development programmes (IPARD II) in Albania, Montenegro, North Macedonia, Serbia and Turkey. There are currently 21 measures entrusted for budget implementation tasks. Countries have made good progress in funding projects supporting farms in production, as well as establishments in primary processing. Albania and North Macedonia have spent all of their 2018 budgets (which, with the N+3 de-commitment rule, had to be spent by the end of 2021) and did not ask for the extension of deadline for automatic de-commitment to N+4. Montenegro, Serbia and Turkey submitted such requests and extensions were granted.

In 2021, DG AGRI worked with the countries in further addressing weaknesses in the implementation of the programmes. DG AGRI and the countries concerned have also dedicated a lot of time in 2021 to preparations for IPARD III, and most of the work has been done by the end of the year. Most of the respective legal basis is in place (under the leadership of DG NEAR), except for the Financial Framework Partnership (FFPA) or Sectoral

[39] Instrument for Pre-accession Assistance

and Financing Agreements. Work on the templates of these three documents has advanced in 2021 and is expected to be finalised in spring 2022.

All five countries have drafted IPARD III programmes in the course of 2021. Inter-service consultations on IPARD III programmes for North Macedonia and Serbia ended in 2021; for the Albanian and Turkish programmes, they will end in January 2022. Preparation of IPARD III programme in Montenegro is lagging behind. However, all five IPARD III programmes should be adopted in spring 2022.

Furthermore, DG AGRI continued in 2021 providing advice to the administrations of **candidate countries** and potential candidates for aligning their legislation with the CAP and its future implementation, incl. through regular subcommittee meetings. Particular attention was paid to help countries further address weaknesses in implementation.

As regards the COVID-19 pandemic, DG AGRI, in collaboration with the beneficiary countries, particularly in the Western Balkans, worked towards streamlining the management and control system in order to adapt it to the challenging circumstances caused by this pandemic (particularly the uncertainty of the investment climate, difficulties with the follow-up of implementation and staffing constraints in assessing and processing applications).

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 adopted its Communication on the long-term vision for the EU's rural areas on 30 June 2021, after a year of thorough analytical, foresight and stakeholder engagement work, culminating with the Rural vision week that assembled 600 people on-line end of March 2021. DG AGRI organised and participated in a wide range of events to promote the vision and took part in interinstitutional dialogues. Implementation of the various elements included in the Rural Action Plan started with one of the main elements – the Rural Pact which was launched on 20 December 2021. The Commission also announced a high-level Rural Pact conference for June 2022. Preparations for the other essential elements, such as the rural observatory, the rural revitalisation platform, the rural proofing process, started in 2021, the two latter benefiting from thematic groups launched under the European network for rural development. Commission DGs involved in the Rural Action Plan are working on their respective flagship initiatives and actions planned.

An **evaluation of the impact of the CAP on territorial development of rural areas**[40] published in December 2021 concluded that poverty and land abandonment would be more pronounced in the absence of the CAP; however, administrative burden limits the efficiency of CAP support in rural areas. While the CAP is effective in strengthening farm viability and

[40] Evaluation of the impact of the CAP on territorial development of rural areas: socioeconomic aspects (SWD(2021) 394)

supporting the maintenance of farms in rural areas, the uneven distribution of support limits the CAP's effectiveness in reducing economic disparities between farmers and different areas. CAP support has a significant spill-over effect into the wider rural economy, especially in less developed regions, and generates gross-value added and employment in rural areas across the EU as well as contributes to generational renewal. There is room for improvement regarding coherence and synergies with other EU funds, as well as national and regional policies. While direct payments are delivered with a relatively low administrative burden, they are not particularly targeted towards the social aspects of territorial development or the needs of vulnerable or socially-excluded rural groups.

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

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 and in the Long Term Vision for Rural Areas. Different measures from rural development 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).

2021 was the last year of the contract for the Broadband Competence Offices (BCOs) Support Facility. BCOs are a Network with an annual work programme designed by the support facility in collaboration with DGs AGRI, CNECT and REGIO, with COMP associated, to increase Member States' capacity to overcome the most common obstacles to broadband rollout to rural areas, to more effectively put the available EU funding to use, and to accelerate progress towards EU connectivity targets, contributing to close the rural/urban digital divide. The tender for a new service contract was closed in 2021, and the new contract will be awarded in the first semester of 2022.

An **evaluation of the impact of the CAP on generational renewal**[41] published in April 2021 concluded that the CAP's impact on generational renewal is mostly positive, but remains limited notably in regions lacking basic infrastructure and services. The CAP on its own is not sufficient to address main entry barriers into farming, such as access to land and access to capital. The measures included in the CAP are supporting the economic sustainability of young farmers, but the full potential of such measures is not exploited.

[41] Evaluation of the impact of the CAP on generational renewal, local development and jobs in rural areas (SWD(2021) 78)

Executive agencies

The year 2021 was the sixth year of implementation of the EU agri-food promotion policy (Regulation (EU) No. 1144/2014). The promotion policy implementation activities successfully transitioned from CHAFEA (Consumers, Health, Agriculture and Food Executive Agency) to REA (Research Executive Agency) by end April 2021, ensuring business continuity throughout the transition process and without major disruptions to service delivery.

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

In 2022, a total of 52 simple programmes with participants from 11 Member States and with a total EU co-financing of EUR 85 852 297 have been selected. Over 58 % of the budget of the simple call is dedicated to promotion programmes targeting 34 different third countries. In addition, 33 multi programme proposals with a total EU co-financing of EUR 86 982 481 were awarded. Participants from 18 Member States will implement the selected multi programmes in the course of the next three years.

Furthermore, REA organised numerous events, such as EU pavilions at trade fairs, online promotion seminars or campaigns. The COVID-19 pandemic heavily impacted the organisation of Commission own initiative activities outside the EU. Despite the high number of postponements and cancellations by event organizers, REA showed responsiveness in adapting the plans in an evolving situation. Similarly, campaign activities were also adapted in order to respond to evolving local COVID restrictions in China, Japan, the Middle East, Mexico, Vietnam, Singapore, South Korea, Thailand and Indonesia.

As regards research activities, REA has been implementing its mandate since 2014. On 1 April 2021, REA started its new mandate covering Horizon Europe and the H2020 legacy. Despite the continuing challenges imposed by the COVID-19 pandemic, REA succeeded in carrying out evaluations and grant preparations according to plan. Considering its reorganisation, REA worked very well and has been ready to take on additional tasks like procurement (for the EU Missions).

For the H2020 legacy, REA managed 224 projects of Societal Challenge 2 funded by DG AGRI and including the Green Deal Call projects. In total, 37 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, including time-to-pay for experts. REA performed its tasks in an effective, efficient and cost-effective way.

For Horizon Europe, the first evaluations of HE Cluster 6 2021 calls were completed, including evaluation of the 2021 Soil Mission call. Regarding operational budget, REA focused on 100% execution in view of year-end. As 2021 was the first year of the new programming period, the limited number of pre-financing payments reduced REA’s room for manoeuvre in last-minute budget spending.

REA has revised its internal organisational setup for feedback to policy (F2P) and support to missions, further continuing the F2P mechanism exercise with very good outcomes.

2. MODERN AND EFFICIENT ADMINISTRATION AND INTERNAL CONTROL

2.1. Financial management and internal control

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 is for reporting the control results and other relevant elements that support management's 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 objectives (ICO)[42]. 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.

EFFECTIVENESS OF CONTROLS

A) Legality and regularity of the transactions

DG AGRI uses internal control processes to ensure sound management of risks relating to the legality and regularity of the underlying transactions it is responsible for, taking into

[42] 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.

account the multiannual character of programmes and the nature of the payments concerned.

DG AGRI's portfolio consists of segments with a relatively low error rate, i.e. direct payments, and a few segments with a relatively high error rate, i.e. rural development. This is, respectively, due to the complexities of some measures, despite the efforts made in the related controls systems.

Through recoveries and financial corrections, DG AGRI has in place an effective mechanism for correcting errors. During the reporting year, the benefit at *ex ante* level[43] control amounts to EUR 528.45 million, whilst recoveries and financial corrections following the results of ex post controls and audits amounted to EUR 840.60 million. Apart from the amount presented above, Member States made self-corrections in their annual accounts amounting to EUR 2 million, i.e. an amount already deducted from the relevant expenditure (for more details see Annex 7).

DG AGRI's relevant expenditure, its estimated overall risk at payment, estimated future corrections and estimated final amount at risk[44] are set out in Table X: Estimated risk at payment and at closure (see Annex 9).

The estimated overall risk at payment for 2021 expenditure amounts to EUR 1 020.68 million, representing 1.84 % of the DG’s total relevant expenditure for 2021. This is the AOD's best, conservative estimate of the amount of relevant expenditure during the year not in conformity with the contractual and regulatory provisions applicable at the time the payment was made.

This expenditure will subsequently be subject to ex-post controls and audits and a proportion of the underlying errors will be detected and corrected in subsequent years. The conservatively estimated future corrections for 2021 expenditure amount to EUR 840.60 million.

The difference between the overall risk at payment and the corrective capacity results in the estimated final amount at risk of EUR 180.07 million, representing 0.3% of the DG’s total relevant expenditure for 2021. 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 and used in the Commission Annual Management and Performance Report. This final amount at risk is decreased compared to the previous year mainly due to the continuous improvement of the Member States’ management and control systems.

For an overview at Commission level, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated in the AMPR.

[43] These are the administrative and on-the-spot controls performed by the Member States before payment.
[44] The estimated final amount at risk corresponds to the overall risk at closure in the Annual Management and Performance Report.

DG AGRI	Relevant expenditure	Estimated risk (error rate %) *at payment*		Estimated future corrections and deductions		Estimated risk (error rate %) *at closure*	
(1)	*(2)*	*(3)*		*(4)*		*(5)*	
	m EUR	*m EUR*	*%*	*m EUR*	*%*	*m EUR*	*%*
Direct management	279.34	2.79	1.00%	0.00	0.00%	2.79	1.00%
Market measures ABB02	2 505.33	53.03	2.12%	35.53	1.42%	17.49	0.07%
Direct payments ABB03	37 920.61	547.31	1.44%	537.83	1.42%	9.48	0.02%
Rural Development ABB04	14 652.36	417.20	2.85%	267.24	1.82%	149.96	1.02%
Indirect management	180.25	0.32	0.18%	0.00	0.00%	0.32	0.18%
Total without contribution to EA's operating budget	**55 537.89**	***1020.65***	***1.84%***	***840.60***	***1.51%***	**180.05**	***0.32%***
REA	2.33	0.02	1.00%	0.00	0.00%	0.02	1.00%
Total of DG's contributions	**2.33**	**0.02**	**1.00%**	**0.00**	**0.00%**	**0.02**	**1.00%**
Total DG	**55 540.22**	***1020.68***	***1.84%***	***840.60***	***1.51%***	***180.07***	***0.32%***

2.1.1.1. Payments executed in 2021 for the CAP

In 2021, total EU outturn on payment appropriations[45] in respect of Title 08 'Agriculture and Maritime Policy' and Title 15 'Pre-Accession', under DG AGRI responsibility was EUR 55 515.26 million. Of this, EUR 55 057.67 million (99.18% of CAP budget[46]) was under shared management. Payments executed under the EAGF (shared management) amounted to EUR 40 425.94 million. Payments executed under the EAFRD (shared management) amounted to EUR 14 631.74 million. Direct management and indirect management accounted altogether for only around 0.82% of total EU expenditure under DG AGRI responsibility.

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

[45] Including assigned revenue.
[46] This percentage is calculated on the total payments executed in financial year 2021 (actual payments. Title 08 and 15).

Title 08 and 15	Agriculture and rural development	Shared management (EUR)	Direct management (EUR)	Indirect management (EUR)	Total (EUR)
0801	Administrative expenditure		8 379 795		**8 379 795**
080203, 080299	Interventions in agricultural markets	2 505 328 860			**2 505 328 860**
080205, 080299	Direct aids	37 920 607 689			**37 920 607 689**
0803, 080299	Rural development	14 631 735 531	11 900 393		**14 643 635 923**
1501, 1502	Instrument for Pre-accession Assistance		236 925	180 251 532	**180 488 457**
08029902	Completion of previous projects		7 092 662		**7 092 662**
080206	Policy strategy and coordination		247 485 346		**247 485 346**
0820	Other actions		2 239 664		**2 239 664**
Total		**55 057 672 080**	**277 334 784**	**180 251 532**	**55 515 258 397**

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 99.2%[47] of the CAP spending in 2021.

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 6.6 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

[47] This percentage is calculated on the total payments executed in financial year 2021.

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 2021. **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 multiannual operations.

However, a single set of specific financial management, control rules and assurance on legality and regularity apply to both pillars of the CAP[48]. 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 2021 expenditure. The Certification Bodies are auditing, at the level of each Paying Agency, the legality and regularity of the expenditure and express 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[49] to be decided by the Commission resulting from DG AGRI own audit activities pursuant to the conformity procedure.

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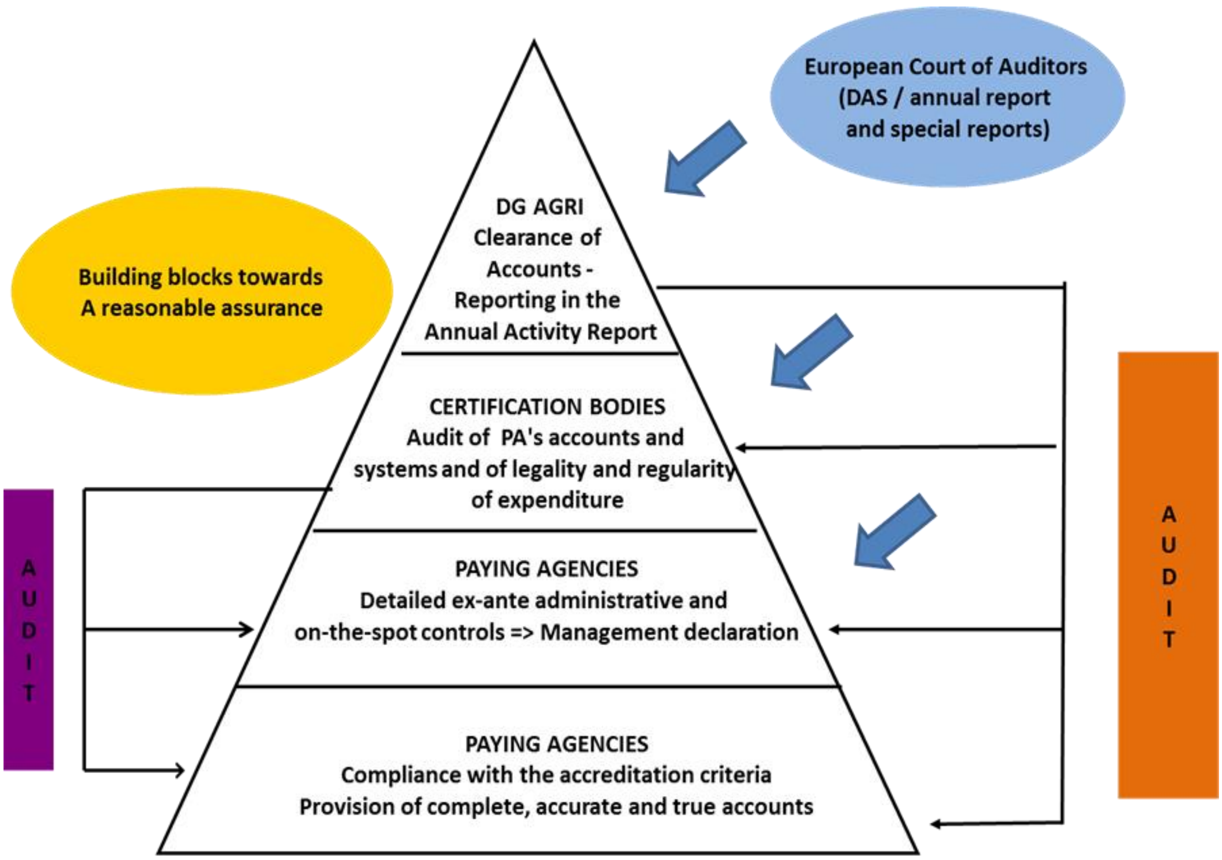
[48] Regulation (EU) No 1306/2013 of the European Parliament and of the Council on the financing, managing and monitoring of the common agricultural policy (OJ. L 347 of 20/12/2013) is still applicable for financial year 2021.

[49] Net financial corrections are explained in part 4.2 of Annex 7

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



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 (ABB02 – Market Measures, ABB03 – Direct Payments and ABB04 – 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 89 audits[50] and opened 37 conformity procedures after desk audits in 2021 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 2021, in parallel with the single audits, DG AGRI also carried out 11 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.

It is recalled that Article 36(5) of the Financial Regulation 2018/1046[51] 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) 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. Following the discussions between the Member States and the European Commission, the Guidance document on avoidance and management of conflicts of interest under the

[50] Due to prolongued restrictions following the COVID-19 pandemic in 2021, DG AGRI converted the majority of its audits into remote audits without missions. Where restrictions were lifted or temporarily eased in some Member States, DG AGRI carried out audit missions in 2021.

[51] 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

Financial Regulation was adopted on 7 April 2021 and published in the Official Journal on 9 April 2021[52].

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[53].

As part of the review of the Paying Agencies' compliance with the accreditation criteria and the Certification Bodies' work on the assessment of the Paying Agencies' internal control system, DG AGRI audits cover the conflict of interest control requirement. Related issues arising from recent audits to ES05, IT26, IT27, BG01 and GR01 were followed up in 2021.

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 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 BUDG, 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 audits 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.

For example, 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 and consequentely suspended payments declared under EAFRD Non-IACS measures in calendar year 2020. The interruption and subsequent suspension of these

[52] 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).
[53] Regulation (EU) No 907/2014 is still applicable for financial year 2021.

payments increased in the first two quarters of year 2021. As of August 2022, the Slovak authorities suspended the payments to projects related to these measures.

The Paying Agency's accreditation was put under probation for a period of 12 months as of 15 October 2020. The Paying Agency's financial year 2020 accounts were not proposed for clearance due to serious deficiencies that undermined the functioning of the internal control system.

Following the results of the accreditation audit mission carried out by DG AGRI in September 2021, an extension of the probation period for 4 months (until 15 February 2022) was recommended to allow for the full implementation of the accreditation action plan. However, the accreditation of the Paying Agency was restored as from 15 October 2021. The Paying Agency continues with the implementation of a Transformation Plan including 5 accreditation corrective actions that were considered by the Commission as still ongoing when accreditation was restored.

The assessment of the implementation of the accreditation corrective actions is followed up through the implementation of the Transformation Plan and the related conformity enquiry. The remaining financial impact of the deficiencies as regards financial year 2021 expenditure will be determined at the finalisation of the audit. In the meantime, the Union budget is protected by the mechanism of suspension of payments.

In 2021, DG AGRI continued applying its adapted working methods to respond to the prolongued **COVID-19 restrictions** and actively responded to the impact of the COVID-19 pandemic on the CAP assurance through a series of measures.

Considering the prolongation of the exceptional administrative difficulties encountered due to the continuation of the COVID-19 pandemic in 2021, the Commission adopted Commission Implementing Regulation (EU) 2021/725[54] in addition to Regulation (EU) 2020/532[55], concerning the checks to be performed by the Paying Agencies for claim and calendar year 2021. The Regulations provided rules with realistic and attainable control requirements for the Member States, as well as proposed alternative methods[56] to carry out the controls by the Member States under the COVID-19 restrictions. Moreover, in case the amended control rules as provided for in the Regulations were applied in relation to financial year 2021 expenditure, the Member State should take responsibility and confirm in the Management Declaration for financial year 2021 that overpayments to beneficiaries

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[54] Commission Implementing Regulation (EU) 2021/725 of 4 May 2021 derogating in respect of the year 2021 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) No 615/2014 and (EU) 2015/1368 as regards certain administrative and on-the-spot checks applicable within the common agricultural policy OJ L155 of 5 May 2021, p. 8–19.

[55] 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 April2020.

[56] 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.

were prevented and that the recovery of undue amounts has been instigated based on the verification of all 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 continued conducting remote audits, in order to address the travel restrictions and on-the-spot audit missions, where possible depending on the restrictions in place.

Whilst claim year 2020 (financial year 2021) was affected by the restrictions linked to the COVID-19 pandemic, Member States were able to conduct their checks in line with the applicable legal basis (also by using alternative methods for checking like geo-tagged photos) and the Certification Bodies' were able to audit and deliver an opinion on the legality and regularity of expenditure. In addition, it is recalled that expenditure for financial year 2021 can be audited by DG AGRI until year 2023 ("24 month rule"[57]).

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 2021. DG AGRI used all the resources and tools above to respond to these 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 2021 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.

[57] 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 2 505.33 million, accounted for 4.51% of the CAP budget in 2021. The market measures split over 9 sectors, the most important of which are wine and fruit and vegetables:

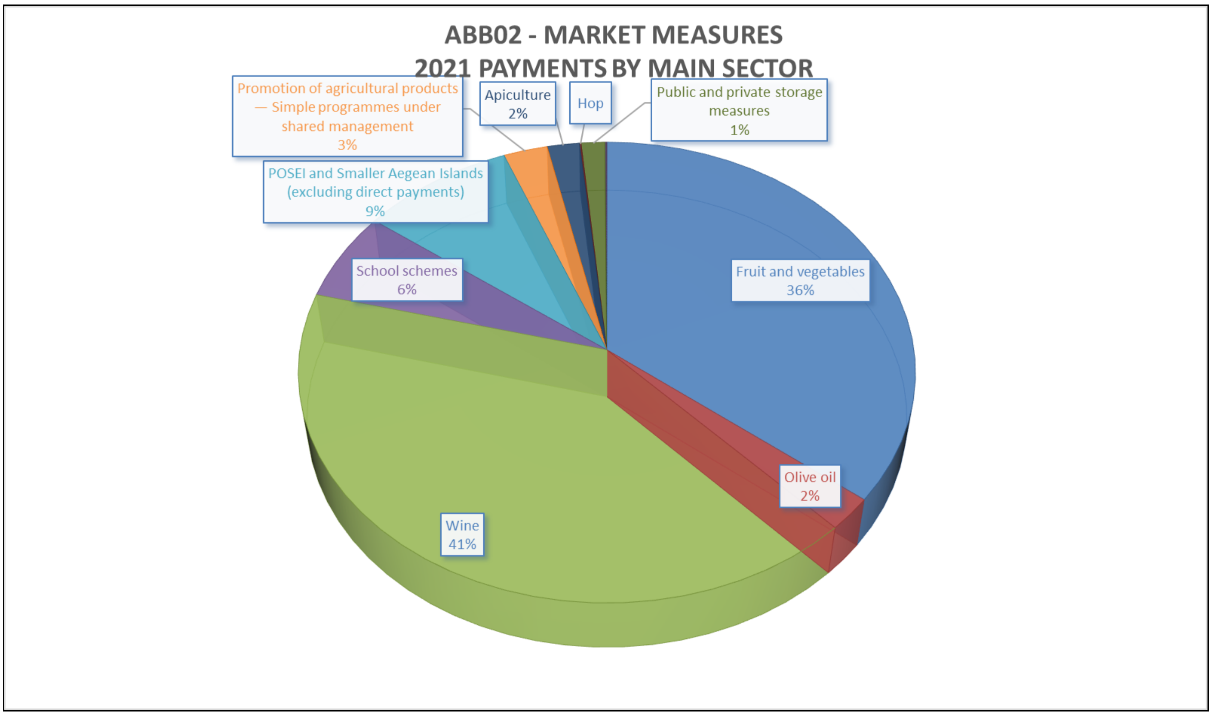

Chart 2.1.1.2.2-1

The following table sets out the expenditure in 2021 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 2.12 %	
						Expenditure(1)	Risk	Expenditure(1)	Risk
08 02 03 01	POSEI and Smaller Aegean Islands	221 010 575	221 010 575	4 372 865	-			-	-
08 02 03 02	Promotion (shared management only)	63 492 938	63 492 938	2 192 122	-				
08 02 03 04	School scheme	156 248 835	156 248 835	2 531 090	-			-	-
08 02 03 05	Olive Oil	57 553 262	57 553 262	-	-			-	-
08 02 03 06	Fruit and Vegetables	891 431 300	891 431 300	27 791 933	-			-	-
08 02 03 07	Wine (2)	1 029 753 018	965 952 525	12 884 216	63 800 493	42 813 538	2 307 925	20 986 955	444 195
08 02 03 08	Apiculture	46 633 930			46 633 930	46 633 930	446 671	-	-
08 02 03 09	Hops	2 277 000	2 277 000		-			-	-
08 02 03 10	Public and Private storage	34 331 705			34 331 705	34 331 705		-	-
08 02 99	Completion of previous programmes	2 596 297			2 596 297			2 596 297	54 951
	Total	**2 505 328 860**	**2 357 966 435**	**49 772 226**	**147 362 425**	**123 779 173**	**2 754 595**	**23 583 252**	**499 146**
						Expenditure	Amount at risk	% coverage	Error rate
Expenditure covered by control statistics						2 357 966 435	49 772 226	94.12%	
Expenditure for which there are no statistics but for which risk assessment carried out						123 779 173	2 754 595	4.94%	
Risk for expenditure covered by statistics and by risk assessment						2 481 745 608	52 526 821	99.06%	
*Error rate used on expenditure covered by statisitcs and risk assessed									2.12%
Extrapolated risk for non-risk assessed expenditure						23 583 252	499 146		
ABB02 - shared management - monthly declaration						2 505 328 860	53 025 967		
ABB02 - shared management - payments made						**2 505 328 860**	**53 025 967**		**2.12%**
ABB02 - direct management - payments made on Promotion measures - direct payments by the Union							-		
Total ABB 02 - payments made						**2 505 328 860**	**53 025 967**		**2.12%**

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 statistcs are available on these measures, hence the average error rate is applied only on payments made but not on reimbursements.

Table: 2.1.1.2.2-1

Control statistics are available in respect of 94.12% of the expenditure covering EUR 2 357.97 million. For a further EUR 0.124 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 made 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 31 cases the adjusted error rate is above (or equal) 2%. In line with its materiality criteria in Annex 5, **3 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, as established in Annex 5 (materiality criteria), 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 **5 cases**, a reservation was made (Germany, Italy and Spain for fruit and vegetables sector; Spain for wine sector and POSEI).

Finally, for **23 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 (ABB02).

The overall outcome of this exercise is that 8 reservations are necessary at measure level:

- Fruit and Vegetables: Operational programmes for producer organisations (France, Germany, Spain and Italy),
- Wine sector (Spain and Hungary),
- Wine crisis distillation (Romania),
- POSEI (Spain).

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 ABB02 expenditure under shared management. Annex 7 – Part 3.1 (ABB02) provides the full details per main sector.

Member State	N° of Aid schemes subject to reservation	Relevant Expenditure[1] in 2021	Reservations (by aid schemes) - shared management	Adjusted error rate	Amount under reservation EUR	Amount at Risk EUR	2021 Expenditure managed by Paying Agencies with reservation
AT	0	23 950 771		1.12%		268 791	
BE	0	58 613 121		0.07%		43 944	
BG	0	24 356 439		1.77%		430 821	
CY	0	5 375 277		0.32%		17 352	
CZ	0	17 115 998		3.13%		535 989	
DE	1	124 999 046	F&V Producer organisations	1.61%	1 767 887	2 010 350	57 804 579
DK	0	9 751 871		0.05%		5 002	
EE	0	1 596 285		0.40%		6 322	
ES	3	610 770 125		2.98%		18 229 319	
	Breakdown of reservation in ES by measure		Wine		4 117 525		201 360 275
			F&V Producer organisations		10 297 912		282 214 423
			POSEI scheme		2 897 372		65 973 662
FI	0	8 686 644		2.07%		179 520	
FR	1	543 874 552		2.21%		12 036 827	
FR20			F&V Producer organisations		7 476 355		125 808 779
GR	0	50 483 062		0.81%		408 897	
HR	0	12 973 883		0.19%		25 033	
HU	1	34 152 873	Wine	4.13%	1 077 397	1 411 937	16 490 530
IE	0	8 870 353		3.44%		304 960	
IT	1	682 901 397	F&V Producer organisations	1.51%	6 434 146	10 327 595	263 831 054
LT	0	4 474 831		0.04%		1 813	
LU	0	599 740		9.63%		57 752	
LV	0	2 451 683		-		0	
MT	0	97 158		22.15%		21 518	
NL	0	51 724 971		0.85%		439 655	
PL	0	31 534 432		3.29%		1 036 182	
PT	0	101 827 220		0.70%		711 796	
RO	1	61 801 527	Wine	4.93%	2 307 925	3 045 719	22 972 705
SE	0	13 363 738		7.02%		938 123	
SI	0	6 803 365		0.02%		1 047	
SK	0	12 178 497		4.35%		529 703	
Total	**8**	**2 505 328 860**					
Total ABB02 - paymens made		**2 505 328 860**		**2.12%**	**36 376 519**	**53 025 967**	**1 036 456 006**

Footnote: [1] Monthly declaration of expenditure affected by Paying Agencies.

Table: 2.1.1.2.2-2

The total amount at risk for ABB02 – Market measures is estimated at EUR 53.03 million corresponding to an error rate of 2.12%.

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 36.38 million.**

ABB03 – Direct Payments

Direct payments constitute the largest area of expenditure in the CAP (68.31%) and amounted to EUR 37 920.61 million in 2021. The Basic payment scheme, greening and the Single area payment scheme account for 80% of this amount.

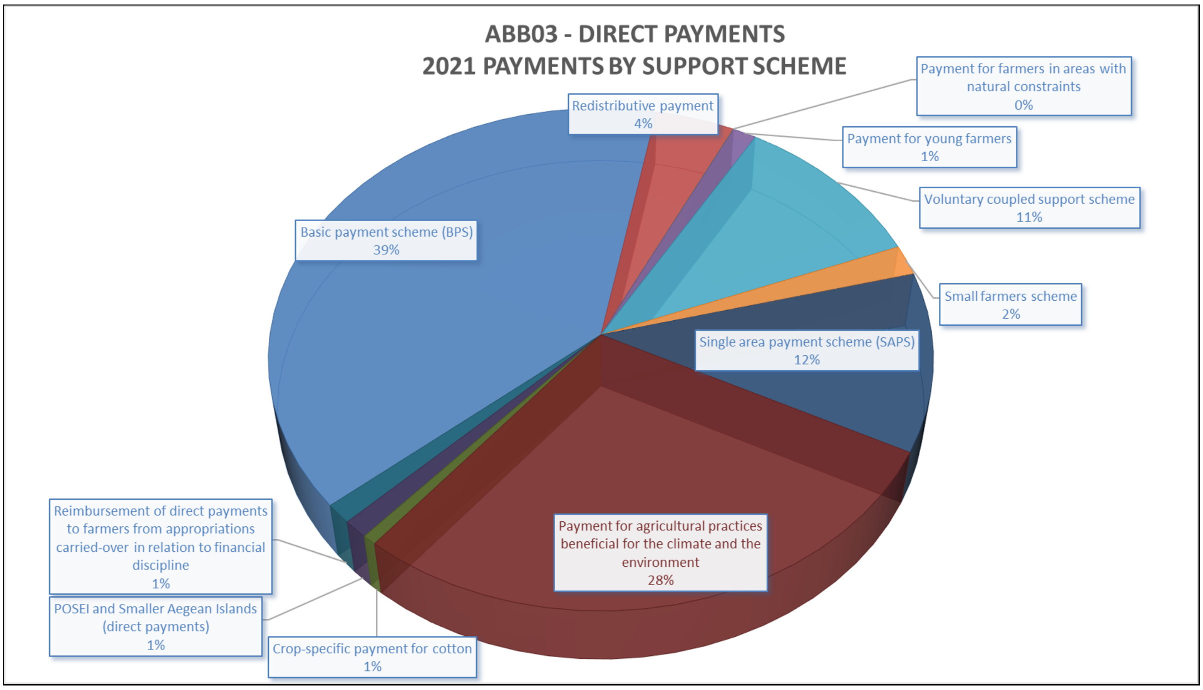

Chart 2.1.1.2.2-2

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 1.44% has been calculated with 15 Paying Agencies[58] having an error above 2%.

For the 15 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,

[58] Including the reservation for France for the POSEI expenditure under ABB03.

underway) and that it is protected for the future (the deficiencies have been addressed by the Paying Agency).

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

As regards reservations from 2020, in 6 cases (Austria, Bulgaria, Finland, France, Greece and Romania), it was not considered necessary to carry over reservations from the 2020 AAR with regard to 2021 expenditure. The reasons for each decision are detailed in Annex 7 – Part 3.2.

The overall outcome of this exercise is that 14 reservations are necessary at Paying Agency level: Cyprus, Croatia, France (POSEI), Hungary, Italy (8 Paying Agencies), Portugal 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] 2021	N° of Paying Agencies	N° of Paying Agencies under Reservation	Adjusted Error Rate	Amount at Risk	Amount at Risk Covered by Reservation	2021 Expenditure managed by Paying Agencies with a Reservation
AT	683 324 114	1	0	0.36%	2 446 331	0	0
BE	498 639 486	2	0	0.26%	1 281 740	0	0
BG	843 155 562	1	0	1.69%	14 215 055	0	0
CY	47 315 248	1	1	3.44%	1 629 200	1 629 200	47 312 880
CZ	852 297 702	1	0	0.87%	7 451 170	0	0
DE	4 615 144 863	13	0	0.45%	20 987 704	0	0
DK	798 490 516	1	0	0.71%	5 694 563	0	0
EE	165 447 146	1	0	1.32%	2 184 456	0	0
ES	5 056 981 655	17	0	1.14%	57 564 667	0	0
FI	517 274 235	1	0	0.66%	3 409 223	0	0
FR	6 807 765 730	2	1	1.60%	109 006 145	1 681 184	6 669 630 890
GR	1 990 884 209	1	0	1.20%	23 977 095	0	0
HR	347 724 137	1	1	2.38%	8 278 408	8 278 408	347 722 302
HU	1 276 372 046	1	1	2.92%	37 255 024	37 255 024	1 276 372 046
IE	1 180 915 413	1	0	0.50%	5 852 057	0	0
IT	3 556 649 935	9	8	2.49%	88 557 502	87 977 515	3 537 113 484
LT	510 168 758	1	0	0.64%	3 254 676	0	0
LU	34 269 802	1	0	0.22%	74 714	0	0
LV	294 678 759	1	0	1.34%	3 941 360	0	0
MT	5 054 043	1	0	0.16%	7 878	0	0
NL	651 306 999	1	0	1.04%	6 769 265	0	0
PL	3 319 733 594	1	0	1.91%	63 501 936	0	0
PT	756 404 877	1	1	3.15%	23 844 082	23 844 082	756 409 657
RO	1 885 160 615	1	0	1.83%	34 444 315	0	0
SE	672 956 188	1	0	1.44%	9 682 676	0	0
SI	132 502 720	1	0	1.49%	1 969 233	0	0
SK	384 721 957	1	1	2.54%	9 770 396	9 770 396	384 724 458
Total	**37 885 340 309**	**65**					
	-6 115 897	Amounts reimbursed to DG AGRI by Coordinating Bodies					
	41 383 278	DECISION (EU) 2021/871 [2]		0.62%	256 576		
Total ABB 03 - Payments made	**37 920 607 689**	**65**	**14**	**1.44%**	**547 307 451**	**170 435 810**	**13 019 285 717**

Footnote: [1] Monthly declaration of expenditure affected by Paying Agencies.

[2] Commission implementing decision (EU) 2021/871 on the clearance of the accounts of the paying agencies of the United Kingdom concerning expenditure financed by the European Agricultural Guarantee Fund (EAGF) for financial year 2020 and on the reimbursement of appropriations related to financial discipline, carried over from financial year 2020

Table: 2.1.1.2.2-3

The total amount at risk for ABB03 - Direct payments is estimated at EUR 547.31 million corresponding to an error rate of 1.44%.

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 170.44 million.**

ABB04 – Rural Development

In 2021, EUR 14 643.64 million was paid to Member States in respect of rural development which represents 26.38% of the CAP spending. All of this expenditure was paid and financed under the 2014-2022 programming period. Of this, EUR 14 631.93 million was paid as interim payments and an amount of EUR 11.9 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 08029901 see table below).

Payments reimbursed by DG AGRI to the Member States and the UK in 2021

Management type	Chapter	Budget item	Description	Payments (EUR)
Shared Management	0803	080299010056001	Completion of rural development financed by the EAGGF Guarantee Section - Programming period 2000 to 2006	-190 720
		080301	**Promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector**	**14 631 926 251**
			Interim payments for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	14 631 923 160
			Reimbursements following Court cases	3 091
		Sub-Total Shared Management		14 631 735 530.83
Direct management		080302	Operational technical assistance	4 072 087
		08039902	Operational technical assistance prior to 2021	7 828 306
		Sub-Total Direct Management		11 900 393
Grand Total 0803				**14 643 635 923**

Table: 2.1.1.2.2-4

Control statistics have been provided by each Paying Agency in respect of 97% of the expenditure financed under the Rural Development Programmes, amounting to EUR 14 241.18 million.

The following chart sets out 2021 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).

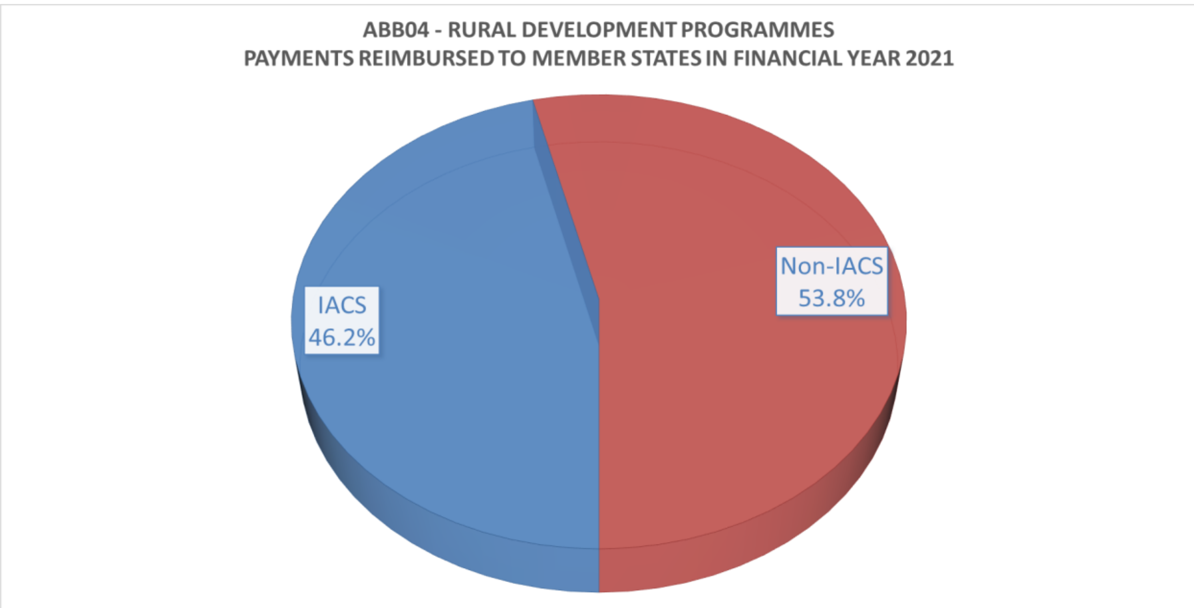

Chart 2.1.1.2.2-3

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, 35 out of 71 Paying Agencies have an adjusted error rate above 2% (of which 9 were above 5%: Bulgaria, Germany (one Paying Agency), Denmark, Spain (one Paying Agency), the United Kingdom (three Paying Agencies), Portugal and Slovakia).

All the 9 **cases where the error rate is above 5%** and the amount at risk is above DG AGRI *de minimis* threshold of EUR 1 million, as established in Annex 5 (materiality criteria), were automatically **subject to a reservation**.

For the remaining 26 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 3 cases, it was considered that, given the mitigating factors present, it would not be necessary to make reservations: Germany (two Paying Agencies) and Spain (one Paying Agency). For 6 Paying Agencies (Germany (one Paying Agency), Italy (one Paying Agency), Luxembourg, Spain (three Paying Agencies)), the amount at risk is below DG AGRI's *de minimis* threshold of EUR 1 million, therefore no reservation was necessary. For the remaining 17 Paying Agencies, a reservation was deemed necessary.

As regards reservations from 2020, in 11 cases (Austria, Belgium (one Paying Agency), Estonia, Germany (one Paying Agency), Greece, Italy (three Paying Agencies), Spain (two Paying Agencies), Romania), it was not considered necessary to carry over reservations from the 2020 AAR with regard to 2021 expenditure. The reasons for each decision are detailed in Annex 7 – Part 3.3.

In total, 17 reservations from 2020 are repeated in 2021 as the deficiencies persist, while 9 new reservations are introduced (Germany (three Paying Agencies), Hungary, Italy (one Paying Agency), The Netherlands, Spain (two Paying Agencies), the United Kingdom (one Paying Agency).

The overall outcome of this exercise is that 26 reservations are necessary at Paying Agency level: Belgium (1 Paying Agency), Bulgaria, Czech Republic, Germany (3 Paying Agencies), Denmark, Spain (3 Paying Agencies), Finland, France (2 Paying Agencies), the United Kingdom (4 Paying Agencies), Croatia, Hungary, Italy (2 Paying Agencies), the Netherlands, Poland, Portugal, Sweden and Slovakia.

The following table presents the situation at Member State level for ABB04 for the interim payments in financial year 2021. Annex 7 – Part 3.3 (ABB04) provides the picture per Paying Agency:

Member States	Interim Payments FY2021	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 2021 with a reservation
AT	580 737 161.47	1	0	1.78%	10 344 016	0	0
BE	83 200 227.84	2	1	2.65%	2 208 379	1 906 890	45 894 390
BG	354 656 383.63	1	1	5.11%	18 113 895	18 113 895	354 648 649
CY	22 254 454.71	1	0	1.58%	351 927	0	0
CZ	357 112 490.26	1	1	2.23%	7 980 043	7 980 043	357 078 537
DE	1 354 081 524.38	14	3	2.30%	31 153 189	15 690 314	388 903 415
DK	116 711 723.60	1	1	5.08%	5 934 650	5 934 650	116 923 864
EE	105 817 560.22	1	0	1.63%	1 728 256	0	0
ES	1 149 326 191.77	18	3	1.84%	21 095 850	10 230 004	254 253 260
FI	428 004 596.89	1	1	2.96%	12 675 614	12 675 614	428 156 277
FR	1 914 589 371.78	2	2	4.20%	80 470 221	80 470 221	1 932 526 271
GB	634 015 484.57	4	4	7.27%	46 139 259	46 139 259	637 067 540
GR	635 813 399.78	1	0	1.67%	10 588 123	0	0
HR	382 157 088.31	1	1	3.11%	11 876 353	11 876 353	382 293 424
HU	576 581 181.99	1	1	3.81%	21 959 100	21 959 100	577 375 459
IE	344 652 687.50	1	0	0.84%	2 877 972	0	0
IT	1 470 890 084.30	10	2	1.63%	23 991 544	4 816 365	169 817 541
LT	188 998 052.22	1	0	0.61%	1 157 297	0	0
LU	17 433 586.51	1	0	4.57%	796 487	0	0
LV	124 088 703.79	1	0	0.47%	588 651	0	0
MT	14 960 087.22	1	0	0.41%	61 718	0	0
NL	163 189 480.24	1	1	3.34%	5 446 129	5 446 129	163 085 848
PL	1 419 014 313.55	1	1	2.04%	28 957 842	28 957 842	1 419 048 804
PT	400 670 363.10	1	1	5.47%	21 908 227	21 908 227	400 809 075
RO	1 215 176 317.83	1	0	0.84%	10 181 315	0	0
SE	319 709 014.62	1	1	4.88%	15 603 141	15 603 141	318 238 376
SI	119 116 597.38	1	0	0.91%	1 078 654	0	0
SK	138 965 030.82	1	1	15.37%	21 353 332	21 353 332	146 840 390
Grand Total	**14 631 923 160.28**	**72**	**26**	**2.85%**	**416 621 184**	**331 061 378**	**8 092 961 121**
Footnote:	**[1] The relevant expenditure includes the interim payments for programming period 2014-2020.**						

Table: 2.1.1.2.2-5

As regards the interim payments for the **2014-2022 Rural Development Programmes** paid in 2021, the adjustments made by DG AGRI led to an adjusted error rate of 2.85%, as presented in the table above, corresponding to an **amount at risk of EUR 416.62 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 331.06 million.**

When taking into account all payments made by DG AGRI in 2021 for ABB04, the overall situation is as follows:

Payments reimbursed by DG AGRI to the Member States and the UK in 2021						
Management type	Chapter	Budget item	Description	Payments (EUR)	Error rate (%)	Amount at risk (EUR)
Shared Management	0803	080299010056001	Completion of rural development financed by the EAGGF Guarantee Section - Programming period 2000 to 2006	-190 720	0.00%	-
		080301	**Promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector**	**14 631 926 251**	**2.85%**	**416 621 184**
			Interim payments for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	14 631 923 160	2.85%	416 621 184
			Reimbursements following Court cases	3 091	0.00%	-
		Sub-Total Shared Management		14 631 735 530.83	2.85%	416 621 184
Direct management		080302	Operational technical assistance	4 072 087	1.00%	40 721
		08039902	Operational technical assistance prior to 2021	7 828 306	1.00%	78 283
		Sub-Total Direct Management		11 900 393	1.00%	119 004
Grand Total 0803				**14 643 635 923**	**2.85%**	**416 740 188**

Table: 2.1.1.2.2-6

The adjusted error rate for payments made for ABB04 is 2.85% and the amount at risk is estimated at EUR 416.74 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 2021 i.e. **the relevant expenditure**. **This results in an overall estimated amount at risk at payment of EUR 417.20 million corresponding to an adjusted error rate of 2.85%** (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 Regulation[59] 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 2021, **DG AGRI shared the management of the CAP expenditure with 76 Paying Agencies in 27 Member States and the UK and reports extensively in Annex 7 - Part 2 on the annual management declarations, which are delivered**

[59] 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.

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 criteria[60]. 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 2021		
ASSURANCE DERIVING FROM THE FUNCTIONING OF THE PAYING AGENCIES		
Accreditation of Paying Agencies (as of 16/10/2021)	Fully accredited Provisional accreditation On probation Total	70 0 6[61] 76
Certificates and reports of Certification Bodies on functioning of Paying Agencies' internal control systems	Received Not received Effective[62] Not effective	76 0 76 0
Management Declarations signed by the directors of Paying Agencies	Received Not received Unqualified Qualified with reservation	76 0 74[63] 2[64]
Opinions of Certification Bodies on the Management Declarations	Received Not received Unqualified Qualified[65]	76 0 73[66] 3[67]

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.

[60] The last report was submmited in June 2019. The next report will be submmited in June 2022, covering financial years 2019, 2020 and 2021.
[61] Out of the 6 Paying Agencies (DE17, IT01, IT26, MT01, SE01 and SK01) under probation at the beginning of financial year 2021, 2 of them (IT01 and MT01) still remain under probation at the time of this report.
[62] Effective means very good, good or adequate.
[63] 7 out of 74 with observations.
[64] BG01 and SK01.
[65] The qualifications vary and may be for one population or all populations.
[66] 9 out of 73 with emphasis of matter.
[67] DE18, IT26 and SK01 – all for high error rates in EAFRD Non-IACS expenditure.

Conformity audit missions carried out in EAGF and EAFRD in financial years 2019-2021 (from 16/10/2018 until 15/10/2021)

	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	55	63	70	188	87	275
Member States covered[4]	All Member States, except DK, HR, LU, LT, MT, SI	All Member States except CY, LU, SI	All Member States except EE, LU, MT, SI	All Member States except LU and SI	All Member States except HR, PL, SE, SI	All Member States except SI
	(20 Member States)	(24 Member States)	(23 Member States)	(25 Member States)		

[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 for Rural Development (ABB04)

Table: 2.1.1.2.2-8

In the past 3-year period, DG AGRI has carried out **275** conformity audit missions to Member States, of which **188** audits targeted the 3 main ABBs (audits targeting more than one ABBs are counted only once). Audits carried out in respect of ABB03 included 9 audits specifically on payment entitlements. The other **87** audits carried out in this period were not specific to a particular ABB area, including:

- 19 audits on cross-compliance;
- 17 audits in relation to information system security;
- 7 audits on debt management and accreditation;
- 1 pre-accession related audits; and
- 43 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 covering all ABBs.

Conformity audit missions carried out in EAGF and EAFRD financial year 2021 (from 16/10/2020 until 15/10/2021)

	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	22	18	25	65	32	97
Member States covered[4]	All Member States except: BG, CY, DE, DK, EE, HR, LU, LT, LV, MT, PT, SI, SK	All Member States except: AT, BE, CY, CZ, DK, EE, FL, IE, LU, LT, LV, MT, NL, SE, SI	All Member States except: BE, BG, CY, DE, EE, GR, IE, LU, LV, MT, NL, PL, PT, RO, SI	All Member States, except CY, LU, MT, SI	13 Member States: BE, BG, CY, DE, EE, ES, FI, GR, HU, IT, LU, RO, SK	All Member States, except MT, SI
	(14 Member States)	(12 Member States)	(12 Member States)	(24 Member States)		
Expenditure 2021 million EUR						
- total[5]	2 505.3	37 920.6	14 631.7	55 057.7		
- covered[6]	850.69	20 824.25	8 393.60	30 068.54		

[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 for Rural Development (ABB04).
[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.

Table: 2.1.1.2.2-9

DG AGRI carried out **97** audits[68], which includes **65 conformity audits** targeting the three ABBs areas (audits covering more than one ABB area are counted only once) in the period under financial year 2021. Apart from that, **32** other audits were carried out covering areas not specific to a particular ABB. They included:

- 6 audits on information system security;
- 10 audits on cross-compliance;
- 5 audits on debt management and accreditation; and
- 11 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 2022 and 2023 will also cover the 2021 expenditure ("24 month rule"[69]).

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	2 505 328 860	2 357 966 435	94%	98%	
ABB03	37 920 607 689	37 450 308 505	98.8%		
ABB04	14 631 735 531	14 241 182 080	97%	97%	
CAP	**55 057 672 080**	**54 049 457 020**			**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).

[68] Due to the restrictions following the COVID-19 pandemic that continued in 2021, part of DG AGRI audits were performed as remote audits. Where movement restrictions were lifted, physical missions were carried out.

[69] 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).

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 FY2021			
	ABB02	ABB03	ABB04	Total	ABB02	ABB03	ABB04	Total	ABB02	ABB03	ABB04	Total
Reasonable assurance (= adjusted error rate below 2% or under 'de minimis')	112	51	43	206	69.1%	78.5%	59.7%	68.9%	51.6%	65.6%	41.4%	58.5%
Reasonable assurance with low risk (= adjusted error rate between 2% and 5%, with mitigating factors, no reservation)	42	0	3	45	25.9%	0.0%	4.2%	15.1%	7.0%	0.0%	3.5%	1.3%
Limited assurance with medium risk (= adjusted error rate between 2% and 5%, no mitigating factors, with reservation)	5	14	18	37	3.1%	21.5%	25.0%	12.4%	34.8%	34.4%	43.2%	36.7%
Limited assurance with high risk (= adjusted error rate above 5%, with reservation)	3	0	8	11	1.9%	0.0%	11.1%	3.7%	6.6%	0.0%	11.9%	3.5%
Grand Total	**162**	**65**	**72**	**299**	**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: 8 elements comprising 4 market measures in 6 Member States.
- ABB03: 14 Paying Agencies in 7 Member States.
- ABB04: 26 Paying Agencies in 17 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 2021 per level of assurance (shared management only) 2021

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 2021 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	23 940 555	6	10 216	1					23 950 771	7	268 791	1.12%	0
BE	58 517 182	5	95 939	1					58 613 121	6	43 944	0.07%	0
BG	15 469 861	3	8 886 578	2					24 356 439	5	430 821	1.77%	0
CY	5 375 277	4							5 375 277	4	17 352	0.32%	0
CZ	12 737 131	5	4 378 867	1					17 115 998	6	535 989	3.13%	0
DE	67 154 206	6	40 260	1	57 804 579	1			124 999 046	8	2 010 350	1.61%	1
DK	9 751 871	4							9 751 871	4	5 002	0.05%	0
EE	1 596 285	2							1 596 285	2	6 322	0.40%	0
ES	40 874 347	2	20 347 419	3	549 548 359	3			610 770 125	8	18 229 319	2.98%	3
FI	5 163 031	4	3 523 613	2					8 686 644	6	179 520	2.07%	0
FR	404 766 998	8	13 298 776	1			125 808 779	1	543 874 552	10	12 036 827	2.21%	1
GR	45 547 084	7	4 935 977	2					50 483 062	9	408 897	0.81%	0
HR	12 172 491	5	801 392	2					12 973 883	7	25 033	0.19%	0
HU	11 074 349	4	6 587 995	2			16 490 530	1	34 152 873	7	1 411 937	4.13%	1
IE	5 150 385	4	3 719 968	2					8 870 353	6	304 960	3.44%	0
IT	402 315 262	6	16 755 081	2	263 831 054	1			682 901 397	9	10 327 595	1.51%	1
LT	4 389 188	5	85 643	1					4 474 831	6	1 813	0.04%	0
LU	22 223	1	577 517	1					599 740	2	57 752	9.63%	0
LV	2 451 683	4							2 451 683	4		0.00%	0
MT	0		97 158	2					97 158	2	21 518	22.15%	0
NL	49 562 735	4	2 162 236	2					51 724 971	6	439 655	0.85%	0
PL	8 128 478	3	23 405 954	3					31 534 432	6	1 036 182	3.29%	0
PT	88 893 653	7	12 933 567	2					101 827 220	9	711 796	0.70%	0
RO	6 966 147	4	31 862 675	3			22 972 705	1	61 801 527	8	3 045 719	4.93%	1
SE	612 008	2	12 751 730	3					13 363 738	5	938 123	7.02%	0
SI	6 753 899	5	49 466	1					6 803 365	6	1 047	0.02%	0
SK	3 995 689	2	8 182 808	2					12 178 497	4	529 703	4.35%	0
Total - monthly declaration	**1 293 382 018**	**112**	**175 490 836**	**42**	**871 183 993**	**5**	**165 272 013**	**3**	**2 505 328 860**				
ABB02 - shared management - payments made									**2 505 328 860**	**162**	**53 025 967**	**2.12%**	**8**

Footnote: [1] Monthly declaration of expenditure affected by Paying Agencies.

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 2021 per level of assurance 2021

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 [2]	Adjusted Error Rate	AAR 2021 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	683 324 114	1							683 324 114	1	2 446 331	0.36%	0
BE	498 639 486	2							498 639 486	2	1 281 740	0.26%	0
BG	843 155 562	1							843 155 562	1	14 215 055	1.69%	0
CY					47 315 248	1			47 315 248	1	1 629 200	3.44%	1
CZ	852 297 702	1							852 297 702	1	7 451 170	0.87%	0
DE	4 615 144 863	13							4 615 144 863	13	20 987 704	0.45%	0
DK	798 490 516	1							798 490 516	1	5 694 563	0.71%	0
EE	165 447 146	1							165 447 146	1	2 184 456	1.32%	0
ES	5 056 981 655	17							5 056 981 655	17	57 564 667	1.14%	0
FI	517 274 235	1							517 274 235	1	3 409 223	0.66%	0
FR	136 754 416	1			6 671 011 313	1			6 807 765 730	2	109 006 145	1.60%	1
GR	1 990 884 209	1							1 990 884 209	1	23 977 095	1.20%	0
HR					347 724 137	1			347 724 137	1	8 278 408	2.38%	1
HU					1 276 372 046	1			1 276 372 046	1	37 255 024	2.92%	1
IE	1 180 915 413	1							1 180 915 413	1	5 852 057	0.50%	0
IT	20 883 875	1			3 535 766 061	8			3 556 649 935	9	88 557 502	2.49%	8
LT	510 168 758	1							510 168 758	1	3 254 676	0.64%	0
LU	34 269 802	1							34 269 802	1	74 714	0.22%	0
LV	294 678 759	1							294 678 759	1	3 941 360	1.34%	0
MT	5 054 043	1							5 054 043	1	7 878	0.16%	0
NL	651 306 999	1							651 306 999	1	6 769 265	1.04%	0
PL	3 319 733 594	1							3 319 733 594	1	63 501 936	1.91%	0
PT					756 404 877	1			756 404 877	1	23 844 082	3.15%	1
RO	1 885 160 615	1							1 885 160 615	1	34 444 315	1.83%	0
SE	672 956 188	1							672 956 188	1	9 682 676	1.44%	0
SI	132 502 720	1							132 502 720	1	1 969 233	1.49%	0
SK					384 721 957	1			384 721 957	1	9 770 396	2.54%	1
Subtotal	**24 866 024 670**	**51**	**0**		**13 019 315 639**	**14**	**0**	**0**	**37 885 340 309**				
Amounts reimbursed to DG AGRI by Coordinating Bodies									**-6 115 897**				
Commission implementing decision (EU) 2021/871 on the clearance of the accounts of the paying agencies of the United Kingdom									**41 383 278**		**256 576**	**0.62%**	
TOTAL expenditure									**37 920 607 689**	**65**	**547 307 451**	**1.44%**	**14**

Footnote: **(1) Monthly declaration of expenditure effected by Paying Agencies. FR POSEI scheme adjusted error rate is 12.5% with EUR 1.68 million amount at risk under reservation.**

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 2021 per level of assurance** **2021**

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 2021 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	580 737 161	1							580 737 161	1	10 344 016	1.78%	0
BE	37 203 341	1			45 996 886	1			83 200 228	2	2 208 379	2.65%	1
BG							354 656 384	1	354 656 384	1	18 113 895	5.11%	1
CY	22 254 455	1							22 254 455	1	351 927	1.58%	0
CZ					357 112 490	1			357 112 490	1	7 980 043	2.23%	1
DE	697 576 775	9	267 471 819	2	260 969 261	2	128 063 669	1	1 354 081 524	14	31 153 189	2.30%	3
DK							116 711 724	1	116 711 724	1	5 934 650	5.08%	1
EE	105 817 560	1							105 817 560	1	1 728 256	1.63%	0
ES	649 039 551	14	246 046 227	1	254 240 414	3			1 149 326 192	18	21 095 850	1.84%	3
FI					428 004 597	1			428 004 597	1	12 675 614	2.96%	1
FR					1 914 589 372	2			1 914 589 372	2	80 470 221	4.20%	2
GB					31 915 393	1	602 100 092	3	634 015 485	4	46 139 259	7.27%	4
GR	635 813 400	1							635 813 400	1	10 588 123	1.67%	0
HR					382 157 088	1			382 157 088	1	11 876 353	3.11%	1
HU					576 581 182	1			576 581 182	1	21 959 100	3.81%	1
IE	344 652 688	1							344 652 688	1	2 877 972	0.84%	0
IT	1 301 023 842	8			169 866 242	2			1 470 890 084	10	23 991 544	1.63%	2
LT	188 998 052	1							188 998 052	1	1 157 297	0.61%	0
LU	17 433 587	1							17 433 587	1	796 487	4.57%	0
LV	124 088 704	1							124 088 704	1	588 651	0.47%	0
MT	14 960 087	1							14 960 087	1	61 718	0.41%	0
NL					163 189 480	1			163 189 480	1	5 446 129	3.34%	1
PL					1 419 014 314	1			1 419 014 314	1	28 957 842	2.04%	1
PT							400 670 363	1	400 670 363	1	21 908 227	5.47%	1
RO	1 215 176 318	1							1 215 176 318	1	10 181 315	0.84%	0
SE					319 709 015	1			319 709 015	1	15 603 141	4.88%	1
SI	119 116 597	1							119 116 597	1	1 078 654	0.91%	0
SK							138 965 031	1	138 965 031	1	21 353 332	15.37%	1
Total	**6 053 892 118**	**43**	**513 518 046**	**3**	**6 323 345 734**	**18**	**1 741 167 262**	**8**	**14 631 923 160**	**72**	**416 621 184**	**2.85%**	**26**

Other payments							
Shared management	080299010056001	Completion of rural development financed by the EAGGF Guarantee Section - Programming period 2000 to 2006	-190 720		0	0.00%	
	080301	Reimbursement following Court cases	3 091				
Total shared management			14 631 735 531		416 621 184	2.85%	
Direct management	080302	Operational technical	4 072 087		40 721	1.00%	
	08039902	Operational technical assistance prior to 2021	7 828 306		78 283	1.00%	
Total direct management			**11 900 393**		**119 004**	**1.00%**	
Total ABB 04			**14 643 635 923**		**416 740 188**	**2.85%**	
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 payment*[70] for the 2021 expenditure is EUR 1 020.68 million. This is the AOD's best, conservative estimation of the amount of *relevant expenditure*[71] during the year (EUR 55 540.22 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 2021 *relevant expenditure*, the conservatively estimated corrective capacity[72] of 1.51% results in an amount of EUR 840.60 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 180.07 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 (and in the Commission AMPR) for expenditure where the Commission cannot apply corrections after the closure of the multiannual programmes.

In 2021, the estimated overall risk at payment has slightly decreased compared to 2020 and the adjusted error rate for the CAP as a whole is for the third year below the materiality level, at 1.84% (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 1.49% and EAFRD 2.85% (in 2020, EAGF: 1.62% and EAFRD: 2.92%) 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 1.84% covers different error rates for the two CAP funds and the low error rate for direct payments (more than 69% of the expenditure) of 1.44% is the main reason for the overall error rate of 1.84%.

The level of conservatively estimated future corrections of 1.51% is very close to the previous year's estimate (1.43% in 2020), 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.

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

[71] 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.

[72] 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[73] for the CAP is EUR 180.01 million or 0.3% of the relevant expenditure (slight decreased from 0.5% in 2020), which confirms the stable trend described above.

[73] The estimated final amount at risk corresponds to final amount at closure in the Annual Management and Performance Report.

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 [(2)]
		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 01 Research and Innovation												
0101	Administrative expenditure	0.05	0.00	0.00	0.05	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 02 European Strategic Investments												
0203	Connecting Europe facility (CEF)	0.26	0.00	0.00	0.26	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 03 Single Market												
0302	Single Market Programme	0.08	0.00	0.00	0.08	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
Title 05 Regional Development and Cohesion												
0502	European Regional Development Fund (ERDF)	0.18	0.00	0.00	0.18	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
0503	Cohesion Fund (CF)	0.08	0.00	0.00	0.08	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 07 Investing in People, Social Cohesion and Values												
0701	Administrative expenditure	0.46	0.00	0.00	0.46	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
Title 10 Migration												
1001	Administrative expenditure	0.20	0.00	0.00	0.20	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
Title 11 Border Management												
1101	Administrative expenditure	0.07	0.00	0.00	0.07	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
Title 14 External Action												
1420	Other Actions	4.24	0.00	0.00	4.24	1.00%	0.04	0.00	0.00	0.00	0.00	0.04
Chapter 20 Administrative Expenditure of the European Commission												
2002	Administrative expenditure	0.00	0.00	0.00	0.00	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
2004	ICT expenditure	0.85	0.00	0.00	0.85	1.00%	0.01	0.00	0.00	0.00	0.00	0.01
Title 08 Agriculture and Maritime Policy and Title 15 Pre-Accession Assistance												
SHARED MANAGEMENT												
080203, 080299	Interventions in Agricultural Markets	2 505.33	0.00	0.00	2 505.33	2.12%	53.03	38.34	0.00	0.00%	0.00	0.00
080205, 080299	Direct payments	37 920.61	0.00	0.00	37 920.61	1.44%	547.31	439.85	0.00	0.00%	0.00	0.00
	EAGF total	40 425.94	0.00	0.00	40 425.94	1.49%	600.33	478.19	95.17	1.42%	573.36	26.97
0803, 080299	Rural development	14 631.74	0.00	20.62	14 652.36	2.85%	417.20	172.22	95.02	1.82%	267.24	149.96
INDIRECT MANAGEMENT												
1502	Pre-accession Measures	180.25	0.00	0.00	180.25	0.18%	0.32	0.00	0.00	0.00%	0.00	0.32
DIRECT MANAGEMENT												
0801	Administrative expenditure	8.38	6.81	4.69	275.21	1.00%	2.75	0.00	0.00	0.00%	0.00	2.75
1501	Instrument for Pre-accession Assistance	0.24										
0803, 080299	Rural development	11.90										
08029902	Completion of previous projects	7.09										
080206	Policy strategy and coordination	247.49										
0820	Other actions	2.24										
Total CAP		55 515.26	6.81	25.31	55 533.76	1.84%	1 020.61	650.41	190.19	1.51%	840.60	180.01
Total DG AGRI		55 521.72	6.81	25.31	55 540.22	1.84%	1 020.68	650.41	190.19	1.51%	840.60	180.07
												0.3%
												0.3%

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 2021.

Footnote (2): *The estimated final amount at risk corresponds to the overall risk at closure in the Annual Management and Performance Report.*

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 180.25 million in indirect management under the pre-accession programmes, the maximum amount at risk is estimated at EUR 0.32 million indicating an estimated adjusted error rate for relevant expenditure of 0.18%.

Title 15	Agriculture and rural development	Payments made (EUR)	Prefinancing paid (EUR)	Cleared prefinancing (EUR)	Relevant expenditure (EUR)	Adjusted error rate	Amount at risk (EUR)
1502	Instrument for Pre-accession Assistance	180 251 532	-	-	180 251 532	0.18%	322 587
Total		**180 251 532**				**0.18%**	**322 587**

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 277.33 million managed directly by DG AGRI, the maximum amount at risk is estimated at EUR 2.77 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.

Titles 08 and 15	Agriculture and rural development	Direct management payments made (EUR)	Error rate	Amount at risk at payment (EUR)
0801	Administrative expenditure	8 379 795	1.00%	83 798
1501	Instrument for Pre-accession Assistance	236 925	1.00%	2 369
0803, 080299	Rural development	11 900 393	1.00%	119 004
08029902	Completion of previous projects	7 092 662	1.00%	70 927
080206	Policy strategy and coordination	247 485 346	1.00%	2 474 853
0820	Other actions	2 239 664	1.00%	22 397
Total		**277 334 784**	**1.00%**	**2 773 348**

Table: 2.1.1.2.4-1

2.1.1.2.5 Budget implementation tasks entrusted to other DGs and Agencies

For the period 2021-2027, the Commission has set a new landscape of Union programmes requiring a revision of the distribution of portfolios among executive agencies. Based on the cost-benefit analysis carried out in accordance with Article 3(1) of Regulation (EC) No 58/2003, the new mandates of the executive agencies have been defined in the single establishment act and the delegation instruments.

The European Research Executive Agency (REA) started its third mandate from 1 April 2021. The agency's portfolio went through an important transformation due to a reshuffling of programmes between agencies and the delegation of new activities. REA has been entrusted with the implementation of several parts under the research programme Horizon Europe (successor of Horizon2020). The emphasis remains on research activities, with the addition of the Agricultural Promotion Measures Programme. Newly delegated programmes included a transfer of the management of open projects from their predecessor programmes.

During the year, REA made important efforts to integrate the new activities into the Agency's overall control system and ensure a harmonisation of the work processes. REA's intensive preparatory work, which started already mid-2020, ensured a smooth transition of the promotion activity from CHAFEA.

Despite all the challenges, REA progressed well in the implementation of the work programmes. Key performance indicators remain at very high levels, for both newly delegated and continued activities.

Based on the AAR presented by REA, 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 2021:

- 32 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 291 million.
- 25 Paying Agencies declared expenditure for Fis under the respective RDPs.

Investment and stand-alone working capital support provided by the EAFRD financial instruments guaranteed the survival and business continuation of many farms during the COVID-19 pandemic. Overall, financial instruments are more and more in demand by managing authorities and continue to get embedded into their policy toolkit.

Under the technical assistance programme fi-compass, in total, 38 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 2021. In the same period, 7 EU-wide conferences were undertaken with 974 attending participants in total, as part of the 29 conferences on EAFRD-supported financial instruments organised in the period 2015-2021. In 2021, 5 new case studies featuring the implementation of EAFRD financial instruments in 5 Member States were prepared and published, bringing the total number of analysed and published EAFRD case studies to 14. 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. Moreover, in 2021, a new activity was initiated, covering 3 fi-compass Podcast Episodes featuring financial instruments in action and the new rules for implementing EAFRD financial instruments under the Member States' CAP Strategic Plans, alongside 3 videos.

The Commission concluded the discussions with the Council and the EP on the new CAP proposal and continued discussions on its secondary legislation, where Fis will continue to play an important part to foster investments (including in green and digital transition) in agriculture and rural areas, and which also introduced further legal and implementation simplifications. Contributions were also made to the operations of the Just Transition Mechanism, the launch of the Recovery and Resilience Fund (February 2021) as well as to finalisation and launch of various work streams of InvestEU such as the Sustainability Proofing Guidance , the Climate and Environmental Tracking guidance, product fiches, the InvestEU contribution agreement template, 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 <u>net</u> corrections since the first clearance of accounts decision in 1976 and will continue to be <u>net</u> 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. Following the withdrawal of the United Kingdom from the European Union, two decisions are adopted each time, one for the Member States and one for the United Kingdom. **In 2021, the Commission adopted 3 pairs of such decisions, published in the Official Journal**[74], covering 85 individual net financial corrections for a total amount of **EUR 685.459 million**, with a total financial impact of **EUR 604.079 million**.

[74] Decision EU 2021/261 of 17 February 2021, OJ L 59/10, 19.2.2021 (ad-hoc 65 MS).
Decision EU 2021/262 of 17 February 2021, OJ L 59/33, 19.2.2021 (ad-hoc 65 UK).
Decision EU 2021/987 of 16 June 2021, OJ L 218/3, 18.6.2021 (ad-hoc 66 UK).
Decision EU 2021/988 of 16 June 2021, OJ L 218/9, 18.6.2021 (ad-hoc 66 MS).
Decision EU 2021/2019 of 17 November 2021, OJ L 413/3, 19.11.2021 (ad-hoc 67 UK).
Decision EU 2021/2020 of 17 November 2021, OJ L 413/10, 19.11.2021 (ad-hoc 67 MS).

Net financial corrections decided in 2021 (and net financial impact[75])				
				million EUR
Commission Conformity Decisions		**EAGF**	**EAFRD**	**Total**
ad-hoc 65	EU 2021/261	142.859 (66.766)	2.89 (2.711)	145.749 (69.477)
ad-hoc 65 UK	EU 2021/262	5.833 (5.833)		5.833 (5.833)
ad-hoc 66	EU 2021/988	199.437 (199.271)	33.632 (28.936)	233.069 (228.207)
ad-hoc 66 UK	EU 2021/987	0.109 (0.109)	6.183 (6.183)	6.292 (6.292)
ad-hoc 67	EU 2021/2020	223.813 (223.637)	41.204 (41.150)	265.017 (264.787)
ad-hoc 67 UK	EU 2021/2019	29.000 (28.984)	0.499 (0.499)	29.499 (29.483)
Total		**601.050 (524.600)**	**84.409 (79.479)**	**685.459 (604.079)**

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 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.

[75] Net financial impact after taking account of other financial corrections on the same expenditure.

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. As a general principle a 5-year average was considered appropriate to provide a solid estimation on the expected corrective capacity. However, in the AAR 2019 and 2020, DG AGRI used 3-year average for EAGF and 5-year average for EAFRD. This calculation method was applied as 2015 and 2016 amounts of financial corrections in particular included significant amounts related to backlog cases[76] and to avoid overestimating the corrective capacity.

For 2021, DG AGRI applied a methodology for calculation using a 3-year average for EAGF – Market Measures (ABB02) and a 5-year average for EAGF – Direct Payments (ABB03) and for EAFRD (ABB04). The 5-year average for ABB03 gives a more stable and realiastic estimation of the future financial corrections, since the "outlier" years (2015 and 2016 with the backlog cases) are no longer included in the calculation. As regards ABB02, it is not appropriate to use the 5-year average. The amount of corrections for 2017 was exceptionally high, thus not representative of the average corrections applied for ABB02. Such high corrections for ABB02 are not expected in the future.

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 2021 as it best reflects the actual impact on the EU budget and allows comparability with figures from previous years.

[76] 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.

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 previous years’ 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 corrections[77]. The table below shows the 3-year average for EAGF – Market Measures (ABB02) and the 5-year average for EAGF – Direct Payments (ABB03) and for EAFRD (ABB04).

DG AGRI corrective capacity from financial corrections executed 2017/2019-2021

million EUR

	ABB02	ABB03	ABB04	Total
2017		517.097	303.807	
2018		548.407	139.456	
2019	51.822	506.832	170.883	729.537
2020	30.052	178.095	147.640	355.787
2021	33.147	448.828	99.310	581.285
Total	115.021	2 199.259	861.096	
3/5-year average	**38.340**	**439.852**	**172.219**	**650.411**

Table: 2.1.1.3.1-2

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 – 2017/2019-2021

million EUR

	ABB02	ABB03	ABB04	Total
Historical average	38.340	439.852	172.219	650.411

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

[77] 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.

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 2017 – 2021

million EUR

	EAGF	EAFRD	Total
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
2021	78.930	103.825	182.755
Total	475.850	475.101	950.951
5-year average	**95.170**	**95.020**	**190.190**

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 840.601 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 2021 expenditure.

DG AGRI corrective capacity 2021

million EUR

	EAGF	EAFRD	Total
2021	573.362	267.239	840.601

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 528.45 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 190.19 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 650.41 million, the total quantifiable benefits consequently amount to EUR 1 369.05 million. This represents 2.37% of the expenditure paid in respect of the three ABBs.

	Average Financial Corrections[1] (EUR million)	Undue claimed amounts detected and corrected by Member States prior to payment[2] (EUR million)	Member States' recoveries from beneficiaries after payment[1] (EUR million)	Total (EUR million)	Total in % of 2021expenditure
ABB02	38.34	68.68	**95.17**	**924.90**	**2.29%**
ABB03	439.85	282.86			
EAGF	**478.19**	**351.54**			
ABB04	172.22	176.91	**95.02**	444.15	3.04%
Total	**650.41**	**528.45**	**190.19**	**1369.05**	**2.37%**

[1] See corrective capacity.
[2] As reported in the 2021 control statistics.

Table: 2.1.1.3.1-6

Also, based on Certification Bodies' findings, Member States made self-corrections in the annual declaration (i.e. correcting in the annual accounts the amounts declared during the year in the annual to reduce the amounts finally reimbursed from the EU budget) an amount of EUR 2 million. As these amounts are already deducted from the relevant amount of payments they are not included in the corrective capacity.

In addition, 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 2021, 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 are laid down in the CAP Horizontal Regulation (EU) No 1306/2013 (and the Common Provisions Regulation (EU) No 1303/2013).

Under EAGF, the reductions made in 2021 concerned 20 Member States and a total amount of EUR 2 230 712.91. The reductions concerned overruns of ceilings, deadlines and other eligibility issues.

As regards suspensions for EAGF, there were no new suspensions of payments imposed for deficiencies in the management and control system.

Under EAFRD, interruptions and reductions/suspensions of EAFRD payments due to deficiencies in the management and control system concerned 3 out of 115 Rural Development Programmes from the 2014-2022 programming period.

Further details concerning interruptions and reductions/suspensions applied on EAGF and EAFRD payments in 2021 are presented in Annex 7.

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. DG AGRI has contributed to the Commission anti-fraud strategy (CAFS) by aligning the AGRI AFS to the CAFS.

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).

The centralised procedure developed in DG AGRI for the transmission of OLAF final reports to the Paying Agencies and the monitoring of their implementation, works well and allows for a reliable follow-up. The fact that the CAP Paying Agencies report in a timely manner within specific deadlines and communicate details of the recovery procedures allows for an accurate monitoring of recoveries following OLAF recommendations.Following the closure of investigations in 2021, OLAF has issued 16 financial recommendations for recoveries of CAP funds from individual beneficiaries. This is an increase compared to 2020 (9 financial recommendations), however 5 out of the 16 related to the same Member State and therefore the trend remains relatively stable. 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. 7 recommendations already transmitted to the Member States are still under analysis by the relevant authorities in the Member States in view of starting recovery procedures. 9 financial recommendations received by DG AGRI late in 2021 were processed early 2022.

OLAF recommendations issued in previous years (2017-2021) 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 one case a conformity audit procedure has been concluded and a financial correction imposed as the Member State decided not to start the recovery procedures on the basis of the OLAF report.

From a more general perspective, in the period of the 5 years between 2017 and 2021, OLAF has issued a total of 61 final reports to DG AGRI with financial recommendations, mostly for recoveries from final beneficiaries. The sum of all 61 recommendations from OLAF is EUR 252 350 710.17. 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 as appropriate. 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 2021 – there were merely 57 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

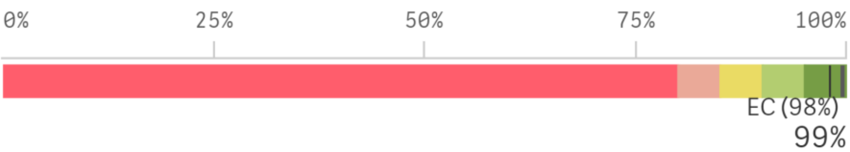
DG AGRI has set up a full range of measures to ensure the adequate safeguarding of Information Systems:

- 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 2021, 97% 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 adoption of the Commission Decision (EU, Euratom) 2017/46, security plans are being elaborated for all DG AGRI Information Systems at risk, according to the ITSRM methodology[78]. 6 security plans have been elaborated in 2021, and they have been reviewed positively by DIGIT. The DG AGRI Local Informatics Security Officer (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 the context of the incremental development of the centralised c-LISO service in the European Commission, key benefits offered and rationalisation of resources, DG AGRI expressed its interest end of 2021 to join the c-LISO services. The onboarding process is going on.

- 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 from the local computer room to the DG DIGIT Data Centre and the local computer room has been definitely closed down in 2021. Disaster recovery relies now on the DG DIGIT Data Centre.
- Given the proven efficiency of this model, development and maintenance of the Information Systems are provided through "Time&Means" contracts, with the large majority of Service Providers providing services remotely, as required by the Corporate Management Board. For such contracts, DG AGRI reuses Framework Contracts shared by other Directorates-General. DG AGRI collaborates with other DGs, also by reusing digital solutions developed by other Directorates-General and by developing digital ecosystems in cooperation with them.

EFFICIENCY OF CONTROLS

Timely Payments	AGRI Score	EC Score
		**98%**

[78] IT Security Risk Management Methodology.

This indicator measures the amounts paid on time. As far as timely payments are concerned, DG AGRI shows an excellent rate of 99%. The large part of its budget is operated under shared management, but there is also a small budget under direct management.

Shared management

99.18%[79] 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	2021
EAFRD average time to pay*	34 days	31 days	24 days	19 days	25 days
EAGF average time to pay**	N/A	N/A	N/A	N/A	N/A
EAFRD % of payments made on time	100	100	100	100	100
EAGF % of payments made on time	100	100	100	100	100
* Deadline is 45 days.					
** According to the legislation in force, the payments are executed on the 3rd working day of each month.					

As regards Member States, for financial year 2021 all Paying Agencies were accredited[80] although 6 of them on probation.

Indicator	2016	2017	2018	2019	2020	2021
% of Paying Agencies accredited	100%	100%	100%	100%	100%	100%

Example of efficiency in shared management: Financial flows

Since the creation of a single unit in DG AGRI for the financial management of the EAGF and the EAFRD in 2017, efforts continue to obtain efficiency gains and economy of scale, with a focus on greater convergence and rationalisation of the IT tools used, as well as – to the extent possible - on the preparation of the financial management of the new CAP. The latest reviews of the CAP legislation go in the same direction, for instance reducing the administrative burden of payment deadlines control in EAGF and reducing the number of pre-financing transactions under EAFRD or the creation of a common budget nomenclature for both pillars (which should allow an economy in reporting).

Further standardisation of EAGF financial flows will be sought in collaboration with DG BUDG. This should lead to efficiency gains in financial reporting and rationalisation of IT tools at the level of the Commission.

[79] This percentage is calculated on the total payments executed in financial year 2021 (actual payments).
[80] The accreditation for Paying Agencies IT01 and MT01 were under probation in financal year 2021. The probation for DE17, IT26, SE01 and SK01 was lifted during the financial year.

Direct management

Time to inform and Time to grant

In accordance with Article 194(2)(a) of the Financial Regulation[81], 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 99.58% processed within the binding deadlines imposed by the Financial Regulation.

Financial year	2017	%	2018	%	2019	%	2020	%	2021	%
Number of payments	914	100%	928	100%	881	100%	847	100%	721	100%
Payment on time	898	98.2%	920	99.1%	874	99.2%	845	99,76%	718	99.58%
Payment delayed	16	1.8%	8	0.9%	7	0.8%	2	0,24%	3	0.42%

Monitoring of timing indicators in days	2017	2018	2019	2020	2021
N° of days between receipt of invoice and "pass for payment"	10	8	7	8	7
N° of days between receipt of invoice and "bank date"	14	13	12	12	11

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.

ECONOMY OF CONTROLS

For the EAGF and the EAFRD, the two main funds managed by DG AGRI representing 99.7%[82] of the CAP budget (Title 08), the following indicators can be reported:

[81] 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.
[82] This percentage is calculated on the total payments executed in financial year 2021 (Title 08).

Indicator	2021
Cost of management and control of the Commission (as a % of 2021 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 2021 total public expenditure)	3.6%

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 62.20 million** or 0.1% of total payments in 2021. A comparison of the results indicates that the results are in line with those obtained for earlier reporting exercises (financial years 2016-2020).

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 AGRI's estimated cost of controls at 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 2021 Annual Activity Report, DG AGRI carried out a new survey. DG AGRI has adapted its methodology to the Member States, in order to take into account the COVID-19 pandemic and the increased use of alternative methods for control such as geo-tagged photos and documentary evidence, but without changing the overall method applied in the calculation. Before launching the survey, DG AGRI has also organised an information session for the Member States. On the basis of this latest survey, and also taking into account the budget of the Member States and the UK[83] for financial year 2021, the overall delivery cost of managing and controlling CAP expenditure for the Member States is estimated at around EUR 2 256.3 million, corresponding to 3.6% of the CAP expenditure for financial year 2021 (3.4% for financial year 2020, 3.5% for financial years 2019 and 2018). As indicated in table 2.1.1.4-2, the % of delivery costs in 2021 expenditure is at a slightly higher level than in 2020 (3.4%). This variation may partly be

[83] As of 1 February 2020, the United Kingdom is no longer a member of the European Union. In accordance with Article 137(1) second subparagraph of the Withdrawal Agreement between the EU and the UK, as from claim year 2020 the EU market measures and direct payment legislation does not apply to the UK.

due to the improved data reported by the Member States following DG AGRI's information session. The delivery costs are borne by the Member States.

Activity	2020		2021	
	Member States Management and Control Costs[1] (EUR million)	in % of 2020 expenditure	Member States Management and Control Costs[2] (EUR million)	in % of 2021 expenditure
Market measures ABB02	257.1	10.0%	240.4	9.6%
Direct payment ABB03	849.1	2.0%	783.2	2.1%
Rural development ABB04 (3)	1 147.7	5.2%	1 232.7	5.7%
Total (4)	**2 253.9**	3.4%	**2 256.3**	3.6%

(1) As provided by Member States in 2019 and 2020

(2) As provided by Member States in 2021

(3) In % of 2021 expenditure including total public expenditure

(4) In % of 2021 CAP expenditure (including total public expenditure)

Table 2.1.1.4-2

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 (6.5 million beneficiaries in 2021), 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 a momentum for improving the cost-effectiveness at the level of the Member States after the COVID-19 pandemic and in particular when designing the delivery systems for the new CAP. For example, new technologies have been successfully used during the COVID-19 pandemic to replace the traditional on-the-spot controls and this trend should continue in the future. Another example are simplified cost options, which are now used by an increasing number of Paying Agencies.

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 its control system and reached a positive conclusion on the cost-effectiveness of the controls for which it is responsible.

Just like in 2020, 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 2021, the IAS finalised two audits and three follow-up audits involving DG AGRI.

Title	***Final report / Closure note***
Audit on DG AGRI's support, monitoring and checks of the work of Certification Bodies	05/08/2021
Audit on DG AGRI's monitoring and supervision arrangements regarding the Land Parcel Identification System (LPIS)	26/10/2021
Follow-up of the audit on the approval process of the 2014-2022 Rural Development Plans (RDPs) in DG AGRI	27/01/2021
Follow-up of the audit on the implementation of payments and corrections in DG AGRI (Shared management)	29/01/2021
Follow-up of the audit on the financial management of the 2014-2022 European Agricultural Fund for Rural Development in DG AGRI	12/10/2021

As a result of the two audits, IAS did not issue any "critical" recommendation, but reported one "very important" recommendation for the audit on DG AGRI's monitoring and supervision arrangements regarding the Land Parcel Identification System (LPIS) quality assessment (QA) exercise. This very important recommendation pointed at some significant weaknesses in the monitoring and follow-up by DG AGRI of Member States reports on the LPIS quality assessment and of the related remedial action plans (RAP). The recommendation notably called for improving current analysis performed of the LPIS QA exercise and for a better communication and reporting of its results. The recommendation also underlined the need to perform an annual assessment and a systematic follow up of the RAP based on agreed criteria and working arrangements.

In addition, this recommendation requested some improvements in terms of internal communication and coordination to increase efficiency and synergies.

DG AGRI accepted all recommendations (important and very important) and submitted the respective action plans that were assessed as satisfactory to mitigate the risks identified by the IAS. These action plans are implemented as planned. There are no overdue critical or very important IAS audit recommendation or delays in the implementation of the agreed recommendations. The only very important recommendation that is open at the end of 2021 is the one from the audit on LPIS that is due for 30/06/22.

At the end of 2021, all recommendations covered by the IAS follow-up audits have been 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. DG AGRI has not rejected any recommendations during the year.

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 2021 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 2022 that the internal control systems in place for the audited processes in DG AGRI are effective, except for the observation giving rise to the 'very important' recommendation on monitoring and follow-up of the LPIS QA.

Conclusion on IAS audits and recommendations

DG AGRI is taking action to implement the recommendations that were 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.

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: 2020 Annual Report

In the ECA's **2020 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 2%, **for the second time close to the materiality threshold of 2%** and significantly lower than before 2019 (2.4%). Moreover, EAGF direct payments, the prevailing part of the CAP expenditure, remained free of material error for the fifth 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 2020 AAR (1.93% for the whole CAP and 1.57% for direct payments). In other words, **there is assurance for more than 98% of the CAP expenditure and** this excellent result proves that the CAP has a solid governance structure**.**

The EAGF direct payments expenditure amounted to EUR 41.6 billion last year, which accounts for 69% of spending under the MFF heading 2. For the transactions examined, the ECA reported that the paying agencies had properly updated the LPIS and, with one exception, detected and corrected any over-declaration remaining after their administrative checks. The ECA reported no material error for direct payments.

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 estimated to be material by the Court, which is also in line with DG AGRI's conclusions, but this has to be interpreted in the wider context of the policy. Under the current CAP legislative framework, in pursuing lower levels of error, it is necessary to balance legality and regularity with the achievement of policy objectives while bearing in mind the delivery costs.

As in the previous years, the Court underlines the positive contribution from the Integrated Adminstration and Control Systems (IACS), including the Land Parcel Identification System (LPIS), to limit the level of error in EAGF direct payments. The ECA reiterated that the preliminary cross-checks on direct aid applications carried out by Paying Agencies operate as an effective management and control system to ensure that these payments are not affected by material error (the preliminary cross-checks alert farmers to certain errors in their applications, enabling them to correct overlaps and double declarations at an early stage, without facing sanctions).

Similarly, the ECA also found that the checks by monitoring are a good tool for preventing overpayments, by providing farmers with more opportunities to rectify their claims before they are finalised. This is indeed a very good example of how technology can be applied to make management and control systems more effective and keep the error rate low.

Regarding the Certification Bodies, the ECA acknowledged their contribution to DG AGRI in providing an opinion on the regularity of expenditure. DG AGRI continued to take the results of their work into account in the 2020 AAR, which was directly linked to the level of reliance placed on their work.

The ECA did not make any recommendation for improvements to DG AGRI in its annual report of 2020. Moreover, the ECA noted that the Commission had implemented in full the recommendation to monitor progress made by paying agencies in supporting farmers not yet using the GSAA and to promote best practices, which was included in the 2017 ECA annual report and targeted for implementation in 2020.

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

The ECA published on 15 November 2021, for the second time in a row, a stand-alone **"Annual Report on Performance"** which focuses on the performance of spending programmes under the EU budget for the financial year 2020.

Each year, the Annual Report on Performance (ARP) examines a different aspect of the performance framework. The main audit question the ECA selected for last year's report was how the Commission and the co-legislators have used the lessons learnt from previous multiannual financial framework (MFF) periods to improve the design and performance of spending programmes for the 2021-2027 period.

The ECA found that the Better Regulation framework is helpful in identifying lessons learnt and for ensuring that they are applied in the design of future programmes. According to the ECA, the "evaluate first" principle was applied fairly consistently, though not always. The auditors recommended that the Commission should improve its impact assessments and clearly identify relevant follow-up actions arising from evaluations.

The ECA highlighted that the Commission had taken into account the lessons learnt from the relevant evaluations and audits but only to a limited extent in relation to measuring the CAP's contribution to climate action. The report stressed that a more realistic way of estimating the contribution to climate action of direct payments made to farmers would be required.

The ECA also flagged that not all the thematic aspects of the CAP were sufficiently covered by evaluations for the purpose of the Impact Assessment that accompanied the CAP reform proposals in 2018. The Commission clarified that this was a result of the time needed to obtain all the necessary CAP implementation data before a robust evaluation could be carried out. Therefore, not all evaluations relating to the previous MFF were finalised and available for the impact assessment that accompanied the CAP proposals adopted in 2018.

The Commission explained that carrying out evaluations too early, for example after only one year of implementation, risks that the evaluation would have shortcomings and limit the lessons that can be learnt. During the 2014-2022 period, DG AGRI has conducted more than 20 thematic evaluations on various aspects of the CAP that assessed its performance. Concerning the new CAP, the legal framework has been adopted and the rules will become applicable in the beginning of 2023 after a transition period of two years. This means that the first data on results and performance by Member States of the new CAP will only become available in February 2025.

2.1.2.4 European Court of Auditors: Special Reports

There are no recommendations regarding financial management and internal control stemming from **ECA 2021 Special Reports**. An overview of the ECA Special Reports delivered in 2021 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 discharge requests from Council and the European Parliament issued in the course of the discharge procedure. By the end of 2021, 26 recommendations stemming from the ECA's special reports remained open for which DG AGRI is chef de file. In 2021, 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 2021-2025 strategy of the European Court of Auditors and the ECA's 2022+ work programme suggestions and recommendations on agriculture are welcome and contribute to important improvements in the CAP. However, the workload generated by the large number of ECA's special reports and other products is becoming a matter of concern. These concerns are further magnified when ECA related activities coincide with periods of high workload as their follow-up is often at the expense of operational activities such as policy-making or policy implementation.

In 2021, there was one Corporate Management Board meeting and two meetings of the Group of Resource Directors (GDR) devoted to the modalities of interaction with the European Court of Auditors taking into account the ECA's 2021-2025 strategy and the 2022+ work programme. As the ECA confirms its focus on performance auditing on strategic and cross cutting issues, the Commission, while appreciating such reorientation, is working closely with the ECA so that the performance audits can bring more added value to the decision making process and to the implementation of the EU policies, within the framework of the political choices made by the legislators.

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

DG AGRI management therefore considers that the current state of play and timely follow-up of ECA recommendations is a well-established process that does not lead to assurance-related concerns and in conjunction with the absence of significant delays justify the conclusion on its **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 2021** 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 DG AGRI internal control **monitoring indicators** and the specific actions implemented by the services contributing to each internal control 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 2021 and on certain internal control aspects related to ethics, exceptions to procedures or non-compliance events, follow-up of IAS/ECA recommendations, data protection 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**;
- 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**.

In addition, the annual results of the ten standard **financial indicators** (see Annex 4 for more information) are in general very good. For all indicators but one, 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 (99.3%[84] of DG AGRI's total expenditure), but also a small budget under direct management, DG AGRI achieved 99% which is above the EC average.

The assessment also considered the IAS limited conclusion on the state of internal control and audit recommendations in DG AGRI for the year 2021.

The IAS concluded that the internal control systems in place for the audited processes are effective in DG AGRI, except for the observations giving rise to one 'very important' recommendation, which needs to be addressed by 30/06/22 in line with the agreed action plan (see section 2.1.2). DG AGRI considers that this pending recommendation, which concerns the Land Parcel Identification System (LPIS), has no impact on the assurance.

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

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** as a minor deficiency was identified related to Principle 3:

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

[84] This percentage is calculated on the total payments in policy areas 01 / 08 / 14 / 15 – AGRI part, executed in financial year 2021.

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, in August 2020, central services provided new guidelines reviewing substantially the way sensitive functions should be managed. In light of those new guidelines and taking into account the results of the reorganisation of the DG, a review of sensitive functions will be carried out in 2022.

This minor deficiency has a low impact on the presence and functioning of the principles, considering the extent of the problem and the compensating controls in place. 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 the assurance

In conclusion, based on the elements reported above, 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.

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. 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 2020 reservations

In the 2020 AAR, DG AGRI issued reservations at the level of Paying Agency or measure. This led to a total of 56 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 Annexes 7 and 9 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 99.18% of the CAP budget[85] 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

[85] This percentage is calculated on the total payments executed in financial year 2021.

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.

In general, 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 on the spot 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.

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 2021 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 facing in carrying out the audit work, DG AGRI continues to have a solid basis for obtaining assurance on the CAP expenditure.

Three reservations are made on each of the ABB activities in shared management, covering 48 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 2021 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 reservations[86] (i.e for ABB02, ABB03 and ABB04) in respect of 2021 expenditure in shared management with the Member States.

No	Title	Type	2021 amount at risk under reservation (million EUR)	ABB amount covered (million EUR)
1	**ABB02 – Payments made on Market Measures:** **4 aid schemes comprising 6 Member States (8 elements of reservation): Germany, Spain (for 3 aid schemes), France, Italy, Hungary and Romania.**	Financial	EUR 36.38 million	Expenditure in 2021 was EUR 2 505.33 million
2	**ABB03 – Payments made on Direct Payments:** **14 Paying Agencies comprising 7 Member States: Cyprus, Croatia, France, Hungary, Italy (8 Paying Agencies), Portugal and Slovakia**	Financial	EUR 170.44 million	Expenditure in 2021 was EUR 37 920.61 million
3	**ABB04 – Payments made on Rural Development:** **26 Paying Agencies comprising 17 Member States: Belgium (1 Paying Agency), Bulgaria, Czech Republic, Germany (3 Paying Agencies), Denmark, Spain (3 Paying Agencies), Finland, France (2 Paying Agencies), the United Kingdom (4 Paying Agencies), Croatia, Hungary, Italy (2 Paying Agencies), the Netherlands, Poland, Portugal, Sweden and Slovakia.**	Financial	EUR 331.06 million	Expenditure in 2021 was EUR 14 631.92 million

Table: 2.1.4.2-1

[86] 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 2021 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

Titles 08 and 15	Agriculture and rural development	Direct management payments made (EUR)	Error rate	Amount at risk at payment (EUR)
0801	Administrative expenditure	8 379 795	1.00%	83 798
1501	Instrument for Pre-accession Assistance	236 925	1.00%	2 369
0803, 080299	Rural development	11 900 393	1.00%	119 004
08029902	Completion of previous projects	7 092 662	1.00%	70 927
080206	Policy strategy and coordination	247 485 346	1.00%	2 474 853
0820	Other actions	2 239 664	1.00%	22 397
Total		**277 334 784**	**1.00%**	**2 773 348**

Table 2.1.4.3-1

For the EUR 277.33 million managed directly by DG AGRI, the maximum amount at risk is estimated at EUR 2.733 million indicating an adjusted error rate of 1.00%.

Indirect management

Title 15	Agriculture and rural development	Payments made (EUR)	Prefinancing paid (EUR)	Cleared prefinancing (EUR)	Relevant expenditure (EUR)	Adjusted error rate	Amount at risk (EUR)
1502	Instrument for Pre-accession Assistance	180 251 532	-	-	180 251 532	0.18%	322 587
Total		**180 251 532**				**0.18%**	**322 587**

Table: 2.1.4.3-2

For the EUR 180.25 million in indirect management under the pre-accession programmes, the maximum amount at risk is estimated at EUR 0.32 million indicating an estimated adjusted error rate for relevant expenditure of 0.18%.

Shared management

Title 08	Agriculture and rural development	Shared management payments made (EUR)	Adjusted error rate	Amount at risk (EUR)
080203, 080299	Interventions in agricultural markets	2 505 328 860	2.117%	53 025 967
080205, 080299	Direct aids	37 920 607 689	1.443%	547 050 874
0803, 080299	Rural development	14 631 735 531	2.847%	416 621 184
Total		**55 057 672 080**	**1.846%**	**1 016 698 025**

Table: 2.1.4.3-3

The amount at risk for the funds under shared management is estimated at EUR 1 016.70 million, corresponding to an adjusted error rate of 1.846%. This amount at risk is the Director-General's best, conservative estimate of the amount of expenditure authorised in 2021, 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 48 targeted reservations (8 for Market Measures, 14 for Direct Payments and 26 for Rural Development) in respect of 2021 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 [(2)]
		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 01 Research and Innovation												
0101	Administrative expenditure	0.05	0.00	0.00	0.05	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 02 European Strategic Investments												
0203	Connecting Europe facility (CEF)	0.26	0.00	0.00	0.26	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 03 Single Market												
0302	Single Market Programme	0.08	0.00	0.00	0.08	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
Title 05 Regional Development and Cohesion												
0502	European Regional Development Fund (ERDF)	0.18	0.00	0.00	0.18	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
0503	Cohesion Fund (CF)	0.08	0.00	0.00	0.08	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 07 Investing in People, Social Cohesion and Values												
0701	Administrative expenditure	0.46	0.00	0.00	0.46	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
Title 10 Migration												
1001	Administrative expenditure	0.20	0.00	0.00	0.20	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
Title 11 Border Management												
1101	Administrative expenditure	0.07	0.00	0.00	0.07	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
Title 14 External Action												
1420	Other Actions	4.24	0.00	0.00	4.24	1.00%	0.04	0.00	0.00	0.00	0.00	0.04
Chapter 20 Administrative Expenditure of the European Commission												
2002	Administrative expenditure	0.00	0.00	0.00	0.00	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
2004	ICT expenditure	0.85	0.00	0.00	0.85	1.00%	0.01	0.00	0.00	0.00	0.00	0.01
Title 08 Agriculture and Maritime Policy and Title 15 Pre-Accession Assistance												
SHARED MANAGEMENT												
080203, 080299	Interventions in Agricultural Markets	2 505.33	0.00	0.00	2 505.33	2.12%	53.03	38.34	0.00	0.00%	0.00	0.00
080205, 080299	Direct payments	37 920.61	0.00	0.00	37 920.61	1.44%	547.31	439.85	0.00	0.00%	0.00	0.00
	EAGF total	40 425.94	0.00	0.00	40 425.94	1.49%	600.33	478.19	95.17	1.42%	573.36	26.97
0803, 080299	Rural development	14 631.74	0.00	20.62	14 652.36	2.85%	417.20	172.22	95.02	1.82%	267.24	149.96
INDIRECT MANAGEMENT												
1502	Pre-accession Measures	180.25	0.00	0.00	180.25	0.18%	0.32	0.00	0.00	0.00%	0.00	0.32
DIRECT MANAGEMENT												
0801	Administrative expenditure	8.38	6.81	4.69	275.21	1.00%	2.75	0.00	0.00	0.00%	0.00	2.75
1501	Instrument for Pre-accession Assistance	0.24										
0803, 080299	Rural development	11.90										
08029902	Completion of previous projects	7.09										
080206	Policy strategy and coordination	247.49										
0820	Other actions	2.24										
Total CAP		55 515.26	6.81	25.31	55 533.76	1.84%	1 020.61	650.41	190.19	1.51%	840.60	180.01
Total DG AGRI		55 521.72	6.81	25.31	55 540.22	1.84%	1 020.68	650.41	190.19	1.51%	840.60	180.07
												0.3%
												0.3%

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 2021.

Footnote (2): *The estimated final amount at risk corresponds to the overall risk at closure in the Annual Management and Performance Report.*

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 third year below materiality at 1.84%.

For Direct Payments, the adjusted error rate, already below the materiality threshold in the past three years, was 1.44% in 2021 (1.57% in 2020 and 2019). The number of Paying Agencies under reservation (14) and the estimated amount at risk are lower compared to last year,. 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 2.85% albeit remaining below 3% (for comparison, it was 2.92% in 2020, 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 1.84%, 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 840.60 million or 1.51% of 2021 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 0.3%.

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, 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 view[87].

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 Service 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**: 4 aid schemes comprising 6 Member States (8 elements of reservation): Germany, France, Italy, Spain (for 3 aid schemes), Hungary and Romania;*
- ***ABB03 – Payments made on Direct Payments**: 14 Paying Agencies, comprising 7 Member States:* Cyprus, Croatia, France, Hungary, Italy (8 Paying Agencies), Portugal and Slovakia*;*
- ***ABB04 – Payments made on Rural Development**: 26 Paying Agencies, comprising 17 Member States: Belgium (1 Paying Agency), Bulgaria, Czech Republic, Germany (3 Paying Agencies), Denmark, Spain (3 Paying Agencies), Finland, France (2 Paying Agencies), the United Kingdom (4 Paying Agencies), Croatia, Hungary, Italy (2 Paying Agencies), The Netherlands, Poland, Portugal, Sweden and Slovakia.*

More details are provided in Annex 9.

Brussels, 25 April 2022
(e-signed)
Wolfgang Burtscher

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

2.2. Modern and efficient administration – other aspects

2.2.1. Human resource management

2021 was still heavily impacted by the COVID-19 pandemic. The HR BC team continued to deal with the various aspects of the crisis (telework abroad, office presence, ...) and important related issues (new building policy and hybrid working), while ensuring continuity and proper management of DG AGRI's human resources.

The new delivery model of the Common Agricultural Policy called for a reorganisation of the DG. Important HR work was dedicated to the planning of the process and the implementation of the new organisation chart. The reorganisation request was validated in December 2021, and the new organisation chart entered into force on 16 January 2022.

The HR BC team continued working on AGRI's local HR strategy. Its finalisation has been deferred to 2022 due to the reorganisation and the wish for alignment with the corporate HR strategy that is not adopted yet.

DG AGRI's specialised competition in the field of "Sustainable agriculture and Rural Development" has been running in 2021; however, the process has been delayed and the publication of the list of laureates is expected by EPSO around July 2022.

The HR BC team continued to carefully monitor DG AGRI's job quota and advised on options for its most efficient use in relation to the DG's policy and operational priorities. The reorganisation was also the occasion to reallocate resources to new priorities and to free up posts to pay for the staff reduction of DG AGRI decided by the central services. DG AGRI's request for staff reinforcement to support activities linked to the Green Deal, the Farm to Fork Strategy, as well as the Organic Action Plan has not been granted.

With the last appointments of Heads of unit in 2020 and some departures in 2021, DG AGRI had 52,5%[88] female representation at middle management level on 31/12/2021. DG AGRI's target for first female appointments to middle management positions has been set at 5. Following the departure of 1 female middle manager to the Washington Delegation (a non-management position) on 1 October 2021, the quantitative target initially assigned to DG AGRI has been increased by one. Therefore, 2 more first female appointments have to be done by 31 December 2022. At the end of 2021, DG AGRI published 2 Head of unit vacancies. After the reorganisation, further management positions are expected to be published.

Furthermore, 5 new Deputy Head of units were nominated and the 4th edition of DG AGRI's Middle Management Training Programme has been running in 2021. Last but not least, a new "360° feedback exercise" for AGRI managers was launched.

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[88] State-of-play middle management: 31/12/2021: 19M/21F/5 vacant => 52.5%; 01/01/2022: 18M/20F/7 vacant => 52.6%; 16/01/2022: 18M/20F/2 vacant => 52,5%

The screening 2021 exercise has been successfully finalised and ATLAS data has been revised and recorded for DG AGRI.

Internal communication is an essential element for DG AGRI to promote information sharing and collegiality among staff. Based on an Internal Communication Survey among AGRI colleagues in 2021, DG AGRI drafted the AGRI Internal Communication Strategy 2021-2024 as well as the Internal Communication Action Plan 2022. The Internal Communication Team is now putting more emphasis on the political-strategic element in internal communication products, but still places great emphasis on supporting the interpersonal elements in the DG as well – the pandemic has shown the importance of actively promoted social interaction for the wellbeing of colleagues.

Support has been provided to the DG AGRI's Equality Task Force and to the work of the Equality Coordinator (topics covered: Equal Opportunities, equality, diversity, disabilities and the Equality Mainstreaming Plan). Furthermore, an awareness raising package on ethics has been launched.

2.2.2. Digital transformation and information management

Digital transformation: The DG AGRI Strategic Plan 2020-2024 establishes that progress in the implementation of the EC Digital Strategy principles will be monitored through ISAMM as well as Compass Corporate and SFC2021 that DG AGRI co-develops with other DGs.

ISAMM plays a key role in the implementation of the "Digital by default and once-only" principle: in 2021, it had 1400 external users, 365 active forms and 3300 communications per month. It contributes largely to make DG AGRI a data-powered organisation, collecting data from Member States, converting them into easy-to-interpret visuals and publishing them on the Agri-food Data Portal. With a large number of visits, the Agri-food Data Portal has become a cornerstone in the agricultural open data dissemination.

DG AGRI opened SFC2021 to the Member States in November 2021 so that they could submit their CAP Strategic Plans by 31 December 2021, as required by the new CAP regulation. Being co-financed, co-developed and co-used by the Shared Management DGs, SFC2021 contributes to the "Digital by default and once-only" principle.

DG AGRI is also a key stakeholder of Compass Corporate by providing budget, expertise and development resources. End of 2021, DG AGRI started to use Compass Corporate to process the CAP Strategic Plans. With workflows, the MyWorkPlace component and the integration with DECIDE, Compass Corporate is used to automate and orchestrate processes. It contributes to the "user-centric, agile" and "interoperability" principles of the EC Digital Strategy.

Information management: DG AGRI traditionally manages a large amount of data, namely as a result of the CAP design, implementation and monitoring. The new CAP approved end 2021 triggers the need for the use of further data and more advanced data technologies, given the focus on performance and the links with the Farm to Fork and

Biodiversity Strategies. 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 a reinforced data governance by creating a new "Data Governance" Unit and 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 rolling Data Management Work Programme supports the implementation aspects, with actions covering the corporate data strategy (data inventory and catalogue, definition of data policies and assessment of their implementation) as well as the local data initiatives such as data dissemination (Agri-Food Data Portal including the new Country dynamic factsheets) and analytics.

Data protection: DG AGRI continued to contribute to the objective set by the Action Plan on Data Protection. Numerous actions have been undertaken in 2021 to ensure compliance with the rules: Detailed information about the different activities can be found in Annex 10.

Document management: In line with the principles of the Decision on Records Management and Archives and the Digital Preservation Strategy, DG AGRI continued with archiving its electronic records, following the applicable retention periods, with a view of eliminating the records or transferring them to the Historical Archives for a long-term preservation. In 2021, DG AGRI continued its activities linked to the visibility of HAN files. DG AGRI Document Management Officers (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. Following on implementation of "Sensitive Personal Data" flag in ARES, DMOs organised several training sessions in order to increase the awareness on protection of sensitive personal data. Given the massive impact of the reorganisation on the document management domain, DMOs carried out different preparatory actions in order to ensure smooth transition and business continuity of DG AGRI services, such as the revision of DG AGRI filing plan and virtual entities.

2.2.3. Sound environmental management

Telework continued to prove highly effective in AGRI, with additional benefits such as less time spent commuting and reduced CO_2 emissions. The lockdown inevitably decreased missions and telework has naturally reduced physical meetings. DG AGRI continued to promote corporate EMAS campaigns. Following a call for volunteers, 10 colleagues expressed their interest in working together on EMAS issues – together with the 2 EMAS correspondents, they now form the AGRI BeeGreen group. Online meetings have been taking place every month since July. In the context of the staff consultation initiated by DG HR, the group consulted DG AGRI colleagues on the draft Decision "Greening the Commission" and consolidated the input.

Since activities remained limited last year, the DG AGRI EMAS team's main focus was to raise awareness of environmental issues and give ideas / tips for waste reduction in all aspects of life. This was done mainly through the Green and Healthy AGRI EMAS Monthly Blog that was shared with EMAS (HR) and the rest of EMAS correspondents, and also with workshops (one on digital and e-waste; another on Zero waste lifestyle as part of the EMAS waste campaign "Less waste more action_TOGETHER_2021" organised by EMAS (HR)). Another activity to highlight was the organization of a Plogging event in the Bois de la Cambre park.