



2014

Annual Activity Report

Final report

**Directorate
General for
Agriculture and
Rural
Development**

Foreword

2014, the year covered by this Annual Activity Report (AAR), brought a number of important challenges, although on the face of it, it was mainly a transitional and preparatory year for the full implementation of the Common Agricultural Policy (CAP) reform programmed for 2015.

Besides the adoption of the delegated and implementing acts of the reform package, DG AGRI had to assess 117 rural development programmes for the new programming period. As the majority of those programmes were submitted by the Member States during the summer months, this was a particularly busy period for the Directorate-General.

In addition, Russia announced an import ban of some EU agri-food products in August 2014. This required an immediate and coordinated response at EU level and DG AGRI worked very hard to maintain the stability of the internal market, to strengthen the resilience of our agricultural and food sector by encouraging the reorientation towards new markets, and to address the negative impact of the restrictions on vulnerable EU sectors.

In the field of international negotiations, 2014 was significant notably for finalising the trade agreement with Canada that should provide a blueprint for future comprehensive FTAs, and three Economic Partnership Agreements with West, East and Southern Africa.

This AAR puts a particular focus on performance reporting in order to better explain how the CAP benefits the European citizens. The Executive Summary includes a comprehensive narrative on the CAP Key Performance Indicators. The body of the report contains detailed data on all other objectives and indicators.

DG AGRI has invested further into tackling the problem of increasing error rates by boosting its audit capacity and addressing issues in Member States' management of EU funds. The reorganization of the Directorate-General, which entered into force in 2014, provided the necessary flexibility for taking these measures, despite a progressive reduction of human resources and an increase in the general workload.

The Directorate-General also took up the management of the new research and innovation programme with the Research Executive Agency (REA).

Agriculture and Rural Development are a key component of the number one priority of the Juncker Commission, which is "boosting jobs, growth and investment". As Commissioner Hogan has pointed out, simplification and subsidiarity is another major challenge for the CAP and DG AGRI is ready and eager to tackle it in the years to come.

This report gives a fair and comprehensive overview of DG AGRI's activities and achievements in 2014 and I am confident that it will provide valuable information on the performance of the CAP and its practical and administrative functioning.

Let me close by expressing my respect and gratitude to all DG AGRI staff for their efforts and their dedication to our common goal of a successful CAP.

Jerzy Plewa
Director-General



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INTRODUCTION

The DG in brief

Mission

The mission of the Directorate-General for Agriculture and Rural Development is to promote the sustainable development of Europe's agriculture and to ensure the well-being of its rural areas.

Organisation and human resources

In 2014, DG AGRI had a staff of around 1100 and was made up of 11 directorates (decreased from 13 directorates in 2013). Eight operational directorates were responsible for managing agricultural market measures, direct aids, rural development, research, pre-accession assistance, international relations and audit. Three directorates were in charge of policy strategy and coordination – covering the design, implementation, enforcement and evaluation of the Common Agricultural Policy (CAP) – and administrative support, including budget and financial management, internal audit and internal control.

Annex 2 provides the breakdown of human resources by activity.

Budget implementation

In 2014, DG AGRI managed a budget of around €55.6 billion in payment appropriations (which accounts for around 41% of the overall EU budget¹), split between nine activity areas: Administrative expenditure (ABB01), Interventions in agricultural markets (ABB02), Direct aids (ABB03), Rural development (ABB04), Pre-accession measures (ABB05), International aspects (ABB06), Audit (ABB07), Horizon 2020 — Research and innovation (ABB 09) and Policy strategy and coordination (ABB08). Three activity areas ABB02, ABB03 and ABB04 accounted in total for €55.3 billion².

DG AGRI operates in three management modes:

1. **Shared management** for interventions in agricultural markets, direct aids and rural development: Implementation vis-à-vis final beneficiaries is delegated to the Member States, while the Commission is responsible for the implementation of the overall legal framework, budget implementation and for Member States' supervision;
2. **Indirect management** for pre-accession measures: Implementation vis-à-vis the final beneficiaries is delegated to the authorities of the beneficiary country;
3. **Direct management** for other activities: contracts are concluded directly with third parties to supply the DG with studies, promotion activities and information and

¹ Execution 2013: 39.6% for CAP.

² More detailed figures see 2.1 Management of human and financial resources by DG AGRI.

communication activities. With the launch of Horizon 2020 – the Framework Programme for Research and Innovation (2014-2020) on 1st of January 2014, DG AGRI has delegated the entire operational management of its research activity to the Research Executive Agency (REA).

General risk environment

The CAP has around **eight million beneficiaries**, supported under a variety of **different schemes**. This entails a **very high number** of financial transactions, associated to a **very high value** and/or volume.

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 (e.g. many on-the-spot checks to verify eligibility conditions can only take place in certain periods of the year) 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** following up on errors, addressing weaknesses and leading to net financial corrections. In addition, a new legal framework for interruptions, reductions and suspension of CAP payments to Member States entered into force in 2014, which strengthens the Commission's powers to protect the EU financial interest in cases where serious risks of irregular payments have been identified.

These features underpin the design of the CAP management and control system, described in *part 2* of the AAR.

The implementation of the 2013 CAP reform and its impact on the general risk environment requires additional efforts in term of control activities and administrative capacity of the DG.

The year in brief

2014 was the first year of implementation of the 2013 CAP reform (see also part "Policy highlights of the year").

In 2014, the agricultural sector was influenced by the fall of agricultural and energy prices and the significant impact of the Russian ban on EU food products. In August 2014, Russia banned the imports of meat, dairy and fresh fruits and vegetables from the EU in response to EU sanctions following the Ukrainian crisis. This situation increased the uncertainty and price volatility on the markets, with expectations of higher availabilities on the internal market and large price drops as Russia is often the most important export market for the above products. The Commission immediately increased its monitoring of the situation, acted to alleviate the market instabilities due to oversupply by adopting exceptional measures mainly in order to withdraw the sudden oversupply from the fruit and vegetable and dairy markets. Regarding the dairy sector, the Commission decided to open Private Storage Aid for butter, Skimmed Milk Powder & cheeses and ensured that tendering for Public Intervention was open. For Fruits and Vegetables, product withdrawal was obtained mainly via free distribution and producers were compensated for green and non-harvesting.

On top of this, the Commission adopted a targeted aid scheme aimed at covering (partly) the exceptionally high (income) losses of the dairy farmers in the 3 Baltic States and Finland.

In parallel the Commission stepped up its efforts in the search for new, alternative markets via enhanced promotion actions to countries and regions not usually targeted and by assessing how access to alternative third country markets could be improved, in particular by finding solutions to long-standing trade barriers due to Sanitary and Phytosanitary issues.

The European Fund for Strategic Investments (EFSI) was reinforced by an amount of €100m from the budget for Horizon 2020 managed by DG AGRI.

To boost the use of financial instruments in the Rural Development in 2014-2020, the Commission signed a Memorandum of Understanding (MoU) with the European Investment Bank (EIB) to strengthen co-operation.

In order to address the challenges arising from the implementation of the reformed CAP and in the light of tangible staff cuts, DG AGRI was **reorganised** as of 1 January 2014. The new structure is aimed to ensure greater coherence and efficiency. In particular, a unit was set up to **support Member States in their efforts to implement the new direct payments schemes**, in particular as regards IACS. In addition, where implementation deficiencies are detected, the unit will ensure action to be taken by Member States through action plans and Commission monitoring of their implementation. As part of the reorganisation, a new Research and Innovation unit was created to deal with DG AGRI's part in **Horizon 2020 Framework Programme for Research and Innovation** especially for the part related to securing sufficient supplies of safe and high quality food and other bio-based products.

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG Agriculture and Rural development to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources by reference to the objectives set in the management plan and the efficiency and effectiveness of internal control systems, including an overall assessment of the costs and benefits of controls.

CAP delivering for the wider society – Key Performance Indicators

Food is a fundamental human need and its production is vital to everybody. The EU has 500 million consumers and they all need a reliable supply of healthy and nutritious food at affordable prices. However, the importance of agriculture for society extends beyond its role as a source of primary production. Although it accounts for only 1.7% of GVA in the EU, the primary sector is the backbone of the EU agri-food sector (agricultural producers and the food processing industry) which employs 7% of the European labour force and stands for 3.5% of GVA. In addition, EU agriculture shapes the landscape of almost half of the European territory. This adds further to the importance of agriculture for society at large.

Farmers are important economic players in rural areas which the EU cannot afford to neglect let alone lose. Rural areas cover about 90% of the Union territory, home to half its population. They will play a key role in the sustainable economic development of the Union as a whole and a viable agricultural sector can provide for positive knock-on effects for the rural economy. The CAP offers a range of measures that underpin the viability of the farming sector and contribute to the sustainable long-term development of rural areas.

In line with the 2013 reform that will be fully implemented in 2015, the new CAP aims at achieving three main objectives for EU agriculture: 1) viable food production, 2) sustainable management of natural resources and climate action, and 3) balanced territorial development. The performance of the policy will be assessed on the basis of the progress towards these objectives. The CAP key performance indicators provide for a first snapshot in this context³. The fifth key performance indicator relates to the effectiveness of the management and control system of the CAP.

³ The data used for all KPI relates to the latest available data. 2014 data is not available for all KPIs at this stage and sometimes the data for showing trends is only available for a limited number of MS.

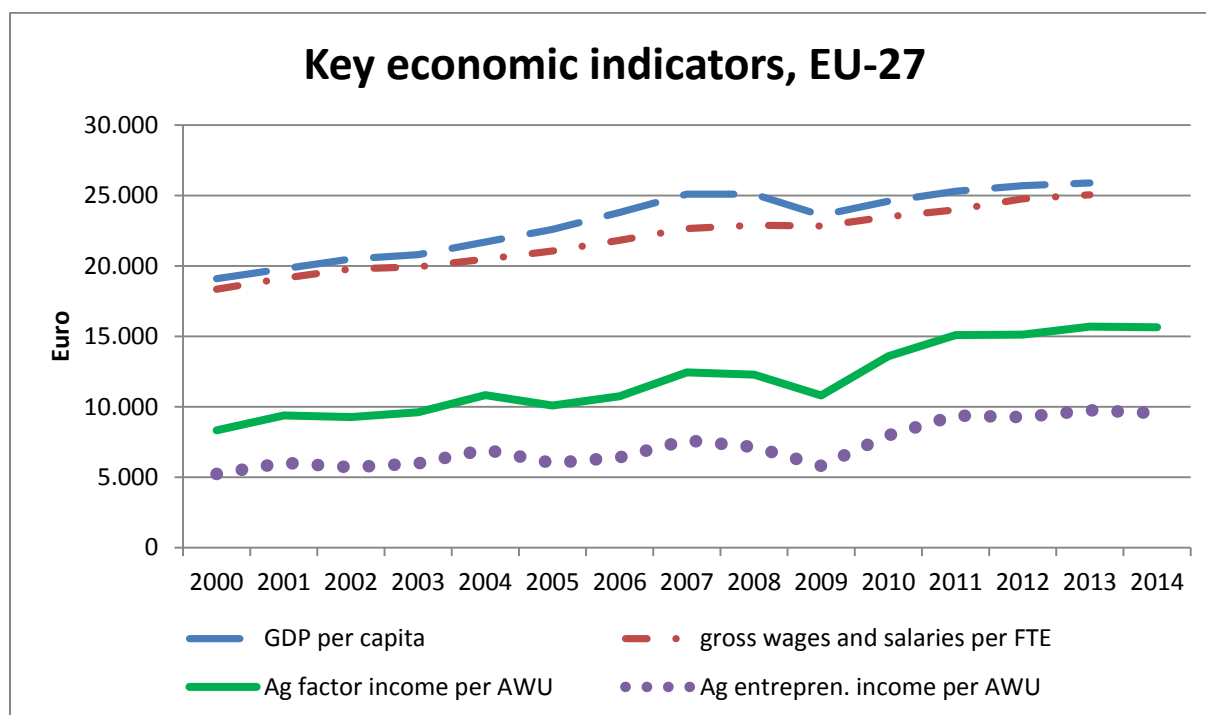
The CAP Key Performance Indicators	Baseline	Target	Impact/Result
1. Agricultural factor income	13 203 €/AWU (2012)	To increase	Stable 13 471 €/AWU (2014)
2. EU commodity prices compared to world prices	1.15 (2013)	Close to each other ratio 1.00	1.05 (2014)
3. Minimum share of land with specific environmental practices/commitments	<i>Data available in 2016</i>	To increase	<i>Data available in 2016</i>
4. Rural employment rate	62.2% (2012)	To increase	Stable 62.4% (2013)
5. Error rate (CAP total) Corrective capacity	-	-	3.10% 1.55% (2014)

KPI 1: Agricultural Factor income

Agricultural income is an essential indicator for the sector's economic performance and competitiveness. Yet its interpretation and link to policy performance needs to be situated in the broader context of economic developments, as agricultural income is not and should not be influenced by the CAP only. The income farmers receive, depends on their choices and the manner in which their choices are affected by trends in agricultural markets or climatic conditions. But agricultural income is also increasingly influenced by factors external to agriculture, such as broader macroeconomic developments, energy costs, the costs of other inputs, or severe market disruptions (such as the Russian ban on EU food products introduced in August 2014).

Real agricultural factor income per full-time worker decreased on average by 1% in 2014 in the European Union as a whole in comparison to the previous year. The reduction in average factor income is mainly caused by developments in the EU-15 (-2%), while the countries that joined the EU in or after 2004 showed a slight increase (EU-N13: +0.5%). Real agricultural factor income per worker in 2014 was still about 35% higher than in the crisis year 2009.

KPI 1: Development in agricultural factor income per worker⁴



Agricultural factor income represents income generated by farming activities (i.e. off-farm activities are not included), and is used to remunerate (1) borrowed/rented production factors (capital investment, wages for salaries and rented land), and (2) its own production factors (work and/or enterprise, own capital and owned land).

Agricultural entrepreneurial income measures the income derived from agricultural activities that can be used for the remuneration of own production factors, i.e. non-salaried (= family) labour, land belonging to the agricultural holding and own capital.

The income development per worker in 2014 has slightly decreased, due to low prices for certain products in 2014 and the negative price effect stemming from the Russian embargo on European food and foodstuffs, together with a reduction in agricultural labour input by 2.1%.

The KPI 1 also shows that agricultural income is prone to fluctuation and needs to be considered both from a multi-annual perspective⁵ and by taking regional differences into account. Agricultural factor income per worker in the Member States that joined the EU in 2004 or later (EU-N13) is just one-fourth of the agricultural factor income generated in the EU-15.

Compared to the gross wages and salaries, the KPI 1 also shows that agricultural income still

⁴ Data for Croatia are only available from 2005 onwards and have not been included in the graph.

⁵ Real agricultural factor income per worker increased by around 16% between 2005 and 2007, declined by 13.6% between 2007 and 2009, went up again by 34% between 2009 and 2011, followed by a period of smaller changes until 2014.

largely lagging behind income in the rest of the economy.

However it is estimated that agricultural income would be 22% lower in the EU27 without CAP direct support⁶, however with large differences in the various Member States depending on farm structures.

A major objective realized through successive CAP reforms was to allow the agricultural sector to remain economically viable by granting direct payments to farmers. These payments, by representing a basic layer of fixed support decoupled from production decisions, allow farmers to mitigate part of the volatility inherent in agricultural markets and remain in business also in turbulent times. Public support still represents a substantial share of the agricultural factor income in the EU (roughly 28% for the EU-27 for the period 2008-13).

The CAP has to strike a balance between protecting farmers from sudden severe market disturbances and fostering the competitiveness and the market orientation of the primary sector. Until now the CAP seems to be successful in this respect: farming across Europe could be sustained (the agricultural area in the EU has remained stable for several decades) while the constant decline in the number of farms in the EU resulted in larger and more economically viable farms. The growing competitiveness of the sector is also reflected in the fact that the EU 28 has changed from running a trade deficit of €5.7 billion in 2009 to a surplus of just over €18.3 billion in 2013.

⁶ Scenar 2020 study – liberalisation scenario

KPI 2: EU Commodity prices compared to world prices

The gradual dismantling of product-specific support throughout consecutive CAP reforms since 1992 set EU agriculture on a path towards a market oriented approach to production decisions. The decoupling of direct payments, the abolition of measures limiting production, the phasing out of export subsidies and the lowering of market intervention prices all contributed to improving the market orientation and the competitiveness of EU farmers.

This has almost closed the gap between EU and world market prices. Over the last decade, this convergence has been facilitated by a marked increase in global commodity prices driven by a persistent global demand growth for agricultural products (demand pull), and an increase in energy prices (cost push) leading to a reversal in the long term decline of commodity prices.

The relationship between EU and world prices can be monitored through a ratio calculated between the EU and international price for a basket of 11 individual commodities whose quotations are considered comparable; the closer the ratio is to 1, the narrower the gap is between the two.

Ratio EU/world price						
	2009	2010	2011	2012	2013	2014p
BEEF	1.69	1.26	1.21	1.19	1.24	0.99
PIG MEAT	1.60	1.17	1.12	1.19	1.21	0.93
POULTRY	1.26	1.18	1.35	1.19	1.13	1.05
SOFT WHEAT	0.98	0.92	1.07	0.99	1.02	0.99
MAIZE	1.10	1.19	1.05	0.95	1.04	1.14
BARLEY	1.10	0.96	1.04	0.96	1.00	0.97
SUGAR	1.56	1.03	1.10	1.55	1.90	1.65
BUTTER	1.43	1.09	1.18	1.19	1.27	1.22
CHEDDAR	1.14	0.95	1.03	1.14	1.10	1.12
WMP	1.20	1.03	1.08	1.09	0.98	1.11
SMP	1.09	0.93	0.90	0.95	0.90	0.96
Weighted average	1.31	1.08	1.12	1.13	1.15	1.05

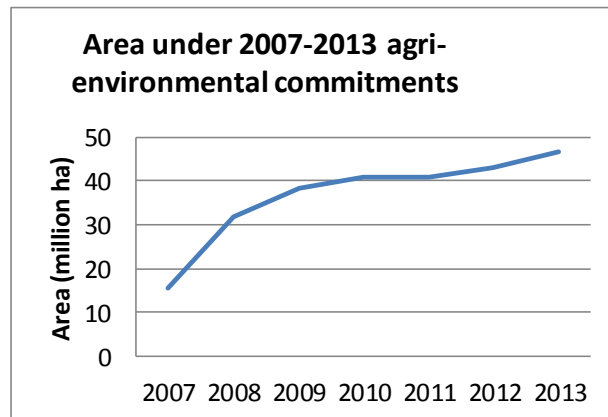
As the agricultural economy continues to globalise, prices of agricultural commodities have become more volatile, along with prices of energy and fertilisers. Even though the demand for agricultural products remains more or less stable, supply can change due to adverse weather events such as droughts and floods, or unforeseen factors such as the Russian ban on EU foodstuffs and food products. This element of uncertainty makes it very difficult for farmers to plan their production options.

Where price fluctuations are driven by market fundamentals, the CAP helps stabilise markets through its safety net and crisis measures. Intervention prices, private and public storage as well as compensation for non- or green-harvesting are CAP tools designed to stabilise markets on an ad-hoc basis in times of crisis, e.g. in response to the Russian ban on EU foodstuffs and food products in 2014. The CAP has ceased using export refunds and did not reactivate them also during the difficult month following the Russian ban.

However, there are also many factors influencing price volatility that lie beyond the pure market mechanism (e.g. financial speculations). Whereas the CAP has no means to counteract them, it can mitigate their negative effects for farmers through direct payments.

KPI 3: Minimum share of land with specific environmental practices/commitments

The CAP recognises that farmers deliver private and public goods jointly; they look after the countryside across the EU and render environmental and climate services to the wider public. These services are rewarded and encouraged via agri-environmental measures and via the EU's framework for organic farming. In 2013, 46.9 million hectares were under at least one agri-environmental commitment, representing more than 25% of the total EU-27 Utilized Agricultural Area.



On top of cross-compliance requirements, representing the compulsory basic layer of environmental requirements and obligations to be met in order to receive CAP funding, agri-environment measures play a crucial role in **meeting society's demand for environmental outcomes provided by agriculture**. Extensive farming systems, a mosaic of landscapes, environmentally sound farming techniques adapted to region-specific needs, or extensive pasture systems are highly valued. Agri-environment payments encourage farmers to adopt agricultural activities or levels of production intensity that deliver these positive environmental outcomes.

The acceptance and increased uptake of agri-environment measures is a success story – the measures are well accepted by the farmers and the outcome is valued by society. However, the CAP can and will do more for the environment in the years to come.

As from 2016, on top of a simplified and more targeted cross-compliance, the new Common Agricultural Policy will devote 30% of the direct payments (roughly €62.4 billion for FY2016-2020) to paying farmers for the delivery of public goods and environmental services through the green direct payment. In addition at least 30% of all public funding in the new rural development programmes (with a contribution from EAFRD of at least €29.9 billion) is reserved to pursue the objective of sustainable agriculture and climate action. Thus, as from 2016 onwards the KPI 3 will include the share of land under greening practices combined with the share of land with specific environmental commitments within rural development.

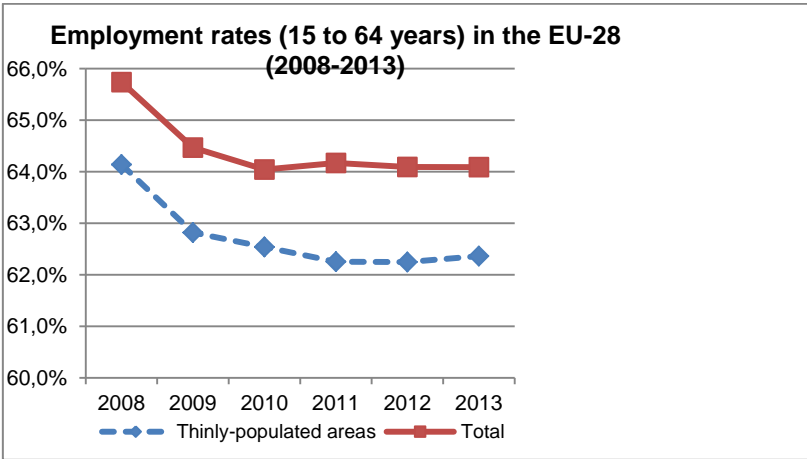
As the green direct payment is a compulsory element across Europe, the territorial coverage of this instrument will be higher than the voluntary agri-environmental measures. Therefore, the CAP will be able to improve its environmental performance by ensuring that a substantial part of the agricultural area in Europe is affected by cross-compliance requirements, “greening” obligations as well as agri-environmental commitments.

The positive effect of these CAP measures goes beyond insuring that important nature services (that would otherwise be at risk to disappear) continue to be provided by farmers, helping to preserve natural resources and combating climate change; the CAP “green measures” also provide the basis for further economic development in the areas concerned for example through tourism activities or regional and local niche markets.

KPI 4: Rural employment rate

Europe’s rural areas account for 90% of EU territory; 58% of the EU’s population live in predominantly rural areas and significantly rural regions. In rural areas, per capita income is approximately a third lower, the service sector is less developed and higher education levels are generally also lower than in non-rural areas. Maintaining the vitality of rural communities is essential for ensuring the continued provision of important socio-economic and environmental functions as well as recreational value and cultural heritage.

The employment rate in rural areas followed the general trend of the overall employment rate in the EU but always stayed at a lower level. The overall employment rate experienced a significant decrease in the first years of the current economic crisis: the average EU rate dropped from 65.8% in 2008 to 64.1% in 2010. Since then, it has remained stable, with rates just above 64%. Although staying below the overall average, the evolution of the employment rate in thinly populated rural areas displays a very similar pattern, with a slight but continuous decrease since 2010, followed, however, by a slight increase of 0.2% from 2012 to 2013. This amounts to an employment rate of **62.4% in rural areas in 2013 (as compared to 64.1% for the whole economy)**⁷.



⁷ A change in the methodology to classify local areas from year 2012 has produced a break in Eurostat series by type of area. In order to show the evolution of the employment rates, 2012 and 2013 rates have been recalculated using the previous classification.

Rural regions provide 27.1% of all jobs in the EU (57.6 million people employed). According to the Labour Force Survey, agriculture employed 9.8 million people in 2013, which represented 4.5% of total employment in the EU. In about 10 Member States rural employment represents 40% or more of the total employment (Estonia, Ireland, Greece, Lithuania, Hungary, Austria, Romania, Slovenia, Slovakia and Croatia). However, both the employment in agriculture and its share in total employment decreased over the period 2008-2013. In absolute terms, the decrease represented nearly one million persons. The decline in the share of total employment is even greater in the EU-N13 (-2.0%) than in the EU-15 (-1.6%) and EU-28 (-1.8%).

The food industry, which is also typical for rural areas and forms part of the agro-food value chain, employed nearly 5 million people in 2013 representing 2.2% of total employment in the EU. Germany together with France, Poland, Spain and Italy employed approximately half of the total number of persons in this sector in the EU.

With a view to supporting the viability of rural areas, the CAP intervenes in two ways into the rural labour market:

- The 1st pillar of the CAP promotes jobs in the primary sector first and foremost by granting an income support to farmers via decoupled direct payments: the vast majority of the 12 million agricultural holdings, and with it 25 million people working on farms, benefit from this income support that provides stability to the farming sector, allows for the continuation of agricultural activity, most notably in times of crises, and ensures the development of a sustainable farm sector across the whole EU. With 44.7% of all EU farms being semi-subsistence farms (farms with income less than 4 000 Euro per year) income support represents a crucial element for maintaining these people in employment.
- The 2nd pillar supports job creation and maintenance of jobs via investments in rural businesses and infrastructures and skills acquisition through training and advice. Both support mechanisms make a substantial contribution to job creation and the development of the sector in rural areas. In the period 2007-2013 innovation support was channelled to 136 000 farms that have introduced new products or technologies in their farm businesses. Investment support covered a further 379 000 farm modernisation projects and 22 885 agro-food processing and marketing businesses, which contributed to new employment or maintenance of existing jobs.

KPI 5: Error rate and corrective capacity

Title 05	Agriculture and Rural Development	DG AGRI annual Accounts (Annex 3) m EUR	% of CAP budget	Adjusted error rate	Amount at risk m EUR	Corrective capacity			
						financial corrections m EUR	recoveries m EUR	total m EUR	as % of 2014 expenditure
0501	Administrative expenditure	20,31	0,04%	1,00%	0,20				-
0502	Interventions in Agricultural Markets	2.478,17	4,45%	3,87%	95,96	141,76			
0503	Direct Aids	41.659,68	74,86%	2,54%	1.056,08	394,69			
	EAGF	44.137,85	79,31%	2,61%	1.152,04	536,44	117,83	654,27	1,48%
0504	Rural Development	11.186,00	20,10%	5,09%	568,83	113,58	95,64	209,22	1,87%
0505	Pre-accession Measures	158,73	0,29%	3,19%	5,06				-
0506	International Aspects	1,81	0,00%	1,00%	0,02				-
0507	Audit	117,42	0,21%	0,046%	0,05				-
0508	Policy Strategy and Coordination	27,61	0,05%	1,00%	0,28				-
0509	Horizon 2020 - Research & Innovation	0,00	0,00%	0,00%	0,00				-
CAP	Total	55.649,72		3,10%	1.726,48	650,03	213,47	863,49	1,55%

The control objective is to ensure that the remaining risk to the EU budget does not exceed 2%. As this report goes on to state, the adjusted error rates for the highest spending ABB activities for which the Director General is responsible are at 3.87% for ABB02 - market measures, 2.54% for ABB03 - direct

payments and 5.09% for ABB04 -Rural Development⁸. DG AGRI has in place a clearance of accounts system which carries out ex-post audits on funds in shared management and makes net financial corrections in order to protect the EU budget – these amounts are recovered to the budget as assigned revenue. In addition, Member States also recover unduly paid amounts from beneficiaries and reimburse them to the EU budget. While these amounts are not recovered to the EU budget until some years after the expenditure has been incurred, DG AGRI considers that they constitute a "corrective capacity" and have estimated (on the basis of a three-year average) what amounts can be expected to be recovered to protect the EU budget after all corrective actions have taken place. Taking account of the corrective capacity of net financial corrections and recoveries, the remaining overall risk to the EU budget in respect of the CAP would be below materiality.

⁸ A cumulative approach for 2014-2020 is under consideration for the EAFRD in accordance with a common methodology to be developed for ESI Funds

Policy highlights of the year

In 2014, DG AGRI has worked mainly on two fronts:

- 1) the last phase of implementation of the policy for 2007-2013, including its monitoring and where possible, its evaluation;
- 2) the preparation of the implementation of the policy framework for 2014-2020.

1) Last phase of implementation of the policy for 2007-2013

The implementation of Direct Payments proceeded in accordance with regulation 73/2009 and DG AGRI continued to monitor the implementation of rural development programmes 2007-2013. Policy assessments for this period have started with a number of evaluations (see Annex 9) and with monitoring indicators covering the period until the year 2013. These first assessments show that the CAP has delivered on its initial objectives for 2013. For example, the 2014 evaluation found that the CAP measures applied to the cotton sector have kept nearly 15 000 jobs (“Full-Time Equivalents”) in the agricultural and more than 1100 in the industrial sector. However, comprehensive results and impacts will only be available by 2017, with the ex-post evaluations of rural development programmes.

As regards the **reduction of the error rate levels** in the implementation of the RDPs progress has been made in the collaboration between the Member States and the Commission. Improved action plans by the Member States and enhanced tools for their follow-up by the Commission can be expected to lead to a reduction in the level of error in rural development in the future. Regular follow up on the actions plans drawn up by Member States in order to reduce the error rate in the implementation of rural development has been ensured, including at the occasion of monitoring committees, annual review meetings and two dedicated seminars involving managing Authorities and Paying Agencies from all Member States. The actions plans have been updated twice during the year and their quality has been improved, notably by requiring a more systematic coverage of relevant audit findings and a more rigorous setting of appropriate indicators. A new IT tool was developed to improve DG AGRI's capacity to store the massive amount of information included in the action plans and boost its analytical means to treat such information.

2) Preparation of the implementation of the policy for 2014-2020 and new activities

For the preparation of new instruments and initiatives, DG AGRI has been busy between legislative activities and operational ones.

As 2014 was a transitional year, all efforts were focused on a quick approval of Rural Development Programmes and a timely implementation of the new direct payment scheme. This required tremendous efforts to ensure adoption of all related **delegated and implementing acts** as well as **guidance documents**. This was a prerequisite for ensuring that the necessary environmental measures under Rural Development as well as the green direct payment of the CAP can be fully implemented in 2015.

Solid preparatory work has been carried out to set the grounds for the implementation of a new generation of high-quality **Rural Development Programmes**, the majority of which will be approved during the year 2015. 117 RDPs 2014-2020 (out of a total of 118) have been submitted to the European Commission progressively over the year. Intensive dialogue with the Member States has led to the issuing of "Letters of Observations" in relation to 105 of the received draft programmes, and to the approval of 9 of them⁹, while an additional draft 18 RDPs were "ready for adoption" (i.e. in a stage where the procedures for their adoption were started but not yet completed) at the end of 2014. The assessment of the RDPs went hand in hand with the treatment of 28 national Partnership Agreements (covering the 5 European Structural and Investment Funds (ESIF)¹⁰), all of them formally received and approved in 2014.

After setting up the structure in 2013, DG AGRI started its **research** activities in the context of the Framework Programme for Research and Innovation (Horizon 2020). 2014 was used to build up relations and set procedures with the Research Executive Agency (REA) to allow a smooth transition of responsibilities. REA will be in charge of the actual management of the research projects (once selected). DG AGRI managed to assure the evaluation of the 2014 Call for proposals and – together with DG RTD – to prepare the strategic framework for the implementation of the Work Programme 2016/2017. To make funding available for the European Fund for Strategic Investments (EFSI) the budget for Horizon 2020 managed by DG AGRI has been reduced by 100m.

A Memorandum of Understanding (MoU) between the European Commission and the European Investment Bank (EIB) on their co-operation in agriculture and rural development in 2014-2020 was signed in 2014 with the aim of using the experience of the EIB and boosting the utilisation of financial instruments supported by the EAFRD by farmers and rural business.

In 2014, DG AGRI continued its action to enhance the performance monitoring of the CAP: the new **Common Monitoring and Evaluation Framework (CMEF)** was put in place as scheduled¹¹ and in line with Commission commitments.

The year 2014 has been a momentous year for **agricultural trade relations** with our partner countries in the African, Caribbean and Pacific (ACP) group of states. We have seen the beginning of the implementation of the CAP reform and successfully concluded **Economic Partnership Agreements (EPAs)** with many ACP countries. Agriculture is central to the EPAs: 60% of the population of sub-Saharan Africa rely on farming for their livelihoods and it is the key sector for economic growth in the least developed regions. The EPAs have been crafted

⁹ AT, DK, PL, DE Saxony, DE Saxony-Anhalt, FI Mainland, PT Continente, DE National Framework, DE Rural Development Network.

¹⁰ European Agricultural Fund for Rural Development (EAFRD), European Regional development Fund (ERDF), European Social Fund (ESF), the Cohesion Fund (CF) and the European Maritime and Fisheries Fund (EMFF).

¹¹ Commission Implementing Regulation (EU) No 834/2014 of 22 July 2014 and Commission Implementing Regulation (EU) No 808/2014 of 17 July 2014.

to boost regional trade, open EU markets and allow developing countries to protect sensitive sectors from the effects of liberalisation, especially in agriculture. We have also agreed to far-reaching policy dialogue and cooperation with our partners, including the commitment to forego any potential use of export refunds on products exported to African countries participating in the comprehensive EPAs. These EPAs are an example of how policy coherence with development objectives is given practical effect.

Major initiatives adopted

On 24 March 2014, the Commission adopted a proposal for a new Regulation by the European Parliament and the Council on **organic production and labelling of organic products**¹². The proposal aims at revising the legal and political framework for the EU organic scheme, to boost the development of the sector in line with the Commission's priorities for jobs and growth. This proposal is complemented by a Communication with an Action Plan on the future of Organic Production in the EU¹³. It sets out 18 actions to be implemented until 2020 in three priority areas: competitiveness of organic producers, consumer confidence and external dimension of the EU organic policy.

End June 2014, the Commission adopted a new framework of **State aid rules**¹⁴ applicable to agriculture, forestry and rural areas for the period 2014-2020. The new rules are aligned with the rural development rules and cater for simpler administrative procedures.

In January 2014, the Commission adopted proposals to reinforce and simplify the school schemes.

All these activities together contribute to build the new CAP. They follow a comprehensive intervention logic in a way to contribute to the general objectives of the CAP for 2014-2020, and in turn, to the Europe 2020 strategy for smart, sustainable and inclusive growth and sound financial management¹⁵.

¹² COM(2014)180 final.

¹³ COM(2014)179 final.

¹⁴ Communication from the Commission –European Union Guidelines for State aid in the agricultural and forestry sectors and in rural areas 2014 to 2020, C(2014) 4104, 25/06/2014.

Overall contribution to the Europe 2020 strategy

The policy as designed for 2007-2013 already contributed in many aspects to the Europe 2020 strategy. The new policy was designed to make an even stronger contribution to these broader EU objectives. In particular:

The CAP contributes to **smart growth** by increasing resource efficiency and improving competitiveness through:

- The development of technological knowledge and innovation,
- Higher value added and quality products,
- Investments into green technologies such as energy and water saving technologies,
- Continued and enhanced investment in skills, training and entrepreneurship, as well as networking.

As regards **green growth**, given the important interaction of agriculture with natural resources, the CAP makes a significant contribution to increasing productivity while preserving natural resources through:

- Ensuring the long-term viability of farming through income stabilisation, while fostering innovation and the use of research results with a focus on green technologies and resource efficiency;
- Contributing to the provision of environmental public goods, such as the preservation of habitats, biodiversity and an attractive countryside, by ensuring environmentally sustainable land management;
- Further reducing emissions from agriculture, for example by supporting improved land management and production techniques to reduce emissions;
- Fully developing the potential of rural areas, by mobilizing and connecting local actors, for example by supporting small scale projects developing innovative solutions towards resource efficiency.

In terms of **inclusive growth**, agricultural activity and its multiple links with the up and downstream sectors are essential for thriving rural areas. In this context, the CAP plays an important role in empowering people in inclusive societies notably through:

- Unlocking local potential in rural areas and diversifying rural economies through incentives for mobilizing and connecting local actors across sectors;
- Allowing additional jobs (agricultural and non-agricultural) in rural areas for example by developing local markets, improving local infrastructures or supporting business start-up;
- Supporting farmers' income, which is significantly lagging behind, including a safety net in the face of increased price and income volatility.

Key conclusions on resource management and internal control effectiveness

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

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. As required by the Financial Regulation, the Director-General has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

DG AGRI has assessed the effectiveness of its key internal control systems during the reporting year and has concluded that the internal control standards are effectively implemented with the exception of standard 12. Furthermore, DG AGRI has taken measures to further improve the efficiency of its internal control systems in the area of the prioritised standards for 2014: Mission, Staff allocation and Information and Communication. Please refer to Part 3 for further details.

In addition, DG AGRI has systematically examined the available control results and indicators, including 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. Please refer to Part 2 for further details

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

- **ABB02 – Expenditure on Market Measures: 4 aid schemes in 7 Member States (8 elements of reservation): Austria, France (for two aid measures), Netherlands, Poland, Spain, Romania and the United Kingdom**
- **ABB03 – Direct payments: 15 paying agencies, comprising 6 Member States: Spain (10 paying agencies), France, UK (RPA - England), Greece, Hungary and Portugal**
- **ABB04 – Rural development expenditure: 28 paying agencies, comprising 16 Member States: Bulgaria, Germany (3 paying agencies), Denmark, Spain (6 paying agencies), France (2 paying agencies), UK (2 paying agencies), Hungary, Greece, Italy (4 paying agencies), Lithuania, Latvia, Netherlands, Poland, Portugal, Romania and Sweden.**
- **ABB05 – IPARD expenditure for Turkey.**

Information to the Commissioner

The main elements of this report and declaration of assurance, including reservations, were brought to the attention of Commissioner Hogan, responsible for Agriculture and Rural Development, on 30 April 2015.

1. POLICY ACHIEVEMENTS

1.1 Achievement of general and specific objectives

1.1.1 Policy area Agriculture and Rural Development: general objective 1

General objective: To promote a viable food production <input checked="" type="checkbox"/> Spending programme: EAGF and EAFRD <input type="checkbox"/> Non-spending		
Impact indicator ¹⁶ : Agricultural factor income Definition: Real net value added at factor cost per annual work unit (AWU) Source: Eurostat – Economic Accounts for Agriculture		
Baseline 2012 (EU-28) ¹⁷	Current situation	Target
13 203 €/AWU (in real prices)	13 471 €/AWU (in real prices, 2014)	To increase <i>Article 39 (1)(b) TFEU</i>
Impact indicator: Total factor productivity in agriculture Definition: Total factor productivity (TFP) compares total outputs relative to the total inputs used in production of the output (both output and inputs are expressed in term of volumes) Source: DG AGRI calculation based on Eurostat data		
Baseline (2009-2011, average)	Current situation	Target
104 (index 2005 = 100)	104.4 (2011-2013, average; index 2005 = 100)	To increase <i>Article 39 (1)(a) TFEU</i>
Impact indicator: EU commodity price variability Definition: EU and world commodity market price variability will be established for a number of selected agricultural commodities. It will be calculated on the basis of monthly commodity market prices. It is the coefficient of variation measuring the dispersion of commodity prices around the mean over the period of 3-5 years. The coefficient of variation will be calculated as standard deviation of a set of prices / mean average. The indicator will be calculated for EU and world prices. Source: DG AGRI (Agriview) for EU prices, FAO and World Bank for world prices		

¹⁶ Further details related to the measurement of the impact indicators are available in the following document: http://ec.europa.eu/agriculture/cap-post-2013/monitoring-evaluation/documents/impact-indicators_en.pdf

¹⁷ Change in baseline necessary in order to align the definition with the agreed method for the underlying CAP impact indicator.

Baseline (2010-2012)			Target
			To decrease <i>Article 39 (1)(c) TFEU</i>
Coefficient of variation Commodity	World Jan 2010-Dec 2012	EU Jan 2010-Dec 2012	
Beef	10.1%	8.2%	
Poultry	4.7%	6.3%	
Pig	10.7%	9.9%	
Soft wheat	17.9%	21.2%	
Maize	23.1%	17.8%	
Barley	22.7%	22.0%	
Butter	14.9%	12.0%	
Cheese (Cheddar)	6.6%	9.1%	
Skimmed milk powder (SMP)	10.0%	8.0%	
Whole milk powder (WMP)	11.0%	7.2%	
Current situation			
Coefficient of variation Commodity	World Jan2012-Dec2014	EU Jan2012-Dec2014	
Beef	13.6%	2.8%	
Poultry	7.0%	2.5%	
Pig	13.8%	7.9%	
Soft wheat	13.2%	14.2%	
Maize	21.9%	15.9%	
Barley	13.7%	15.0%	
Butter	15.3%	13.1%	
Cheese (Cheddar)	10.6%	7.4%	
Skimmed Milk Powder (SMP)	21.9%	16.7%	
Whole Milk Powder (WMP)	24.3%	15.8%	

The various policy instruments of the CAP have continued to contribute to promote a viable food production in the EU by protecting farmers from sudden severe market disturbances and fostering competitiveness and the market orientation of the primary sector. In 2014, the agricultural sector has been influenced by the fall of agricultural as well as energy prices and the significant impact of the Russian ban on EU food products introduced in August 2014. In addition, price variability/volatility has been higher for dairy products, but has decreased significantly for meat and cereals. The fall in the EU was similar to the world trend for cereals, while diverging (world increasing) for meat.

Despite these difficult economic circumstances, the CAP reinsured that agricultural income in the EU decreased only to a limited extent. Direct payments contributed to this effect as well as the immediate CAP measures implemented after the Russian ban to stabilise markets. In addition, the CAP evolution of the last decade towards decoupling of direct payments, abolition of production limiting measures, the phasing out of export subsidies and the lowering of market intervention instruments all contributed to improve the market orientation of EU farmers, thereby improving their competitiveness and productivity. The increased CAP efforts undertaken in 2014 to increase the knowledge exchange and research in the primary sector will positively contribute in the long run to these developments.

The CAP contributed well to the achievement of its objective to promote a viable food production despite difficult economic conditions.

1.1.2 Policy area Agriculture and Rural Development: general objective 2

General objective: To promote a sustainable management of natural resources and climate action		
<input checked="" type="checkbox"/> Spending programme: EAGF and EAFRD <input type="checkbox"/> Non-spending		
Impact indicator: Emissions from agriculture Definition: The emissions from agriculture indicator is composed of two sub-indicators, one assessing GHG emissions and one ammonia emissions. Source: European Environment Agency, United Nations Framework Convention on Climate Change (UNFCCC)		
Baseline 2010	Current situation	Target
Greenhouse gas: 510 324 (in 1000 t of CO ₂ equivalent) ¹⁸	Greenhouse gas: 469 104 (2012) (in 1000 t of CO ₂ equivalent)	To reduce EU2020
Impact indicator: Water abstraction in agriculture Definition: Volume of water applied to soils for irrigation purposes Source: Eurostat – Survey on agricultural production methods (SAPM)		
Baseline 2010	Current situation	Target
39 834 412 (in 1000 m ³)	No new data available	To decrease Regulations n° 1305, 1306 and 1307/2013

The CAP has continued to promote a sustainable management of natural resources and climate action via related cross-compliance requirements as well as dedicated Rural Development measures such as agri-environmental measures and organic farming. The expansion of the surface under agri-environmental schemes during the 2007-2013 programming period (46.9 million ha, representing more 25% of the EU-27 UAA in 2013) has played an important role in the improvement of the environmental performance of EU farming.

Emissions from the agricultural sector have continued to decline, showing an average annual rate of decrease of 1.7% between 2001 and 2012. The share of agriculture in total net emissions has also continued to decline.

All efforts in 2014 were focused on a quick approval of Rural Development Programmes and a timely implementation of the new direct payment scheme. This required tremendous efforts to get all related delegated and implementing acts as well as guidance documents approved. These steps were the prerequisite for ensuring that the necessary environmental measures under Rural Development as well as the green direct payment of the CAP can be

¹⁸ This indicator could also be expressed as share of agriculture (including soils) in total net emissions – the value for 2010 was 11.6% and the latest result (2012) is 10.3%.

fully implemented in 2015.

The CAP contributed well to achieving its objective of promoting a sustainable management of natural resources and climate action and the related targets were met in 2014.

1.1.3 Policy area Agriculture and Rural Development: general objective 3

General objective: To promote a balanced territorial development		<input checked="" type="checkbox"/> Spending programme: EAGF and EAFRD <input type="checkbox"/> Non-spending
Impact indicator: Rural employment rate Definition: Employment rate for the population aged 15-64 in thinly-populated areas Source: Eurostat – Labour Force Survey		
Baseline 2012 (EU-28)	Current situation (2013)	Target
62.2% ¹⁹	62.4%	To increase Article 110 (2)(c) of Regulation n° 1306/2013

The CAP promoted well a balanced territorial development in the EU by various instruments. The success can be showed by the fact that on the one hand rural employment changed its downward trend in 2013 and by the fact that the structural change in the agricultural sector slowed down in those rural areas most hit by the economic crisis. Thus, agriculture acted as an economic buffer in these areas.

The CAP contributed to these developments by granting continued payments for farms producing in less favoured areas and by a vast means of tools available in the Rural Development programmes. In addition, the preparatory work in the Member States establishing their RDPs created a boost in certain rural areas to invest in innovation and cooperation activities, in view of the upcoming opportunities granted via the European Innovation Partnership "Agricultural productivity and sustainability".

The CAP promoted well a balanced territorial development and the related targets were met.

¹⁹ A change in the methodology to classify local areas from year 2012 has produced a break in Eurostat series by type of area. In order to show the evolution of the employment rates, 2012 and 2013 rates have been recalculated using the previous classification.

1.1.4 ABB 02 Intervention on the agricultural markets: specific objective 1

Relevant general objective: Viable food production														
Specific objective 1: To improve the competitiveness of the agricultural sector and enhance its value share in the food chain <input checked="" type="checkbox"/> Spending programme: EAGF <input type="checkbox"/> Non-spending														
Result indicator: Share of EU agricultural exports in world market Definition: Share of EU agricultural exports in world exports is defined as the value of EU exports of agricultural goods/value of total world exports of agricultural goods. Source: UN COMTRADE														
Baseline (2011)	Current situation (2012)	Target 2014												
18.7% ²⁰	18.5%	To maintain <i>Regulation n° 1308/2013</i>												
Result indicator: Share of value added for primary products in the food chain Definition: The indicator looks at the value added of the primary production in comparison to other stages of the food chain (mainly food manufacturing, food distribution and food service activities). Source: Eurostat – National Accounts, Structural Business Statistics														
Baseline (2010)	Current situation (2011)	Target 2014												
<table border="1"> <thead> <tr> <th>EU-27</th> <th>Value added (in billion €)²¹</th> </tr> </thead> <tbody> <tr> <td>Primary</td> <td>158</td> </tr> <tr> <td>Processing</td> <td>224</td> </tr> <tr> <td>Retail*</td> <td>375</td> </tr> </tbody> </table> <p>** EU-27 data for 2009 and 2010; food retail data for 2010 estimated</p>	EU-27	Value added (in billion €) ²¹	Primary	158	Processing	224	Retail*	375	<table border="1"> <thead> <tr> <th>Value added (in billion €)</th> </tr> </thead> <tbody> <tr> <td>167</td> </tr> <tr> <td>227</td> </tr> <tr> <td>385</td> </tr> </tbody> </table>	Value added (in billion €)	167	227	385	Higher share of value added for primary products in the food chain <i>Regulation n° 1308/2013</i>
EU-27	Value added (in billion €) ²¹													
Primary	158													
Processing	224													
Retail*	375													
Value added (in billion €)														
167														
227														
385														

²⁰ Baseline updated following the change of data source (UN COMTRADE replacing Eurostat).

²¹ Baseline updated following the change of data source.

Result indicator: **EU commodity prices compared to world prices**

Source: EUROSTAT and related specific statistics

Baseline (December 2012)											Current situation (December 2014)											Target 2014
Price indices																						Prices brought closer to the world prices Regulation n° 1308/2013
(Jan 2000 = 100)																						
World											World											
Beef	Chicken	Pork	Wheat US SRW	Wheat US HRW	Maize	Barley	Butter	Cheddar	SMP	WMP	Beef	Chicken	Pork	Wheat US SRW	Wheat US HRW	Maize	Barley	Butter	Cheddar	SMP	WMP	
221,9	167,7	211,0	333,3	324,6	334,8	358,0	268,4	225,4	221,1	210,2	221,9	167,7	211,0	333,3	324,6	334,8	358,0	260,7	215,9	153,6	153,4	
European Union											European Union											
Beef	Chicken	Pork	Soft wheat	Maize	Barley	Butter	Cheddar	SMP	WMP	Beef	Chicken	Pork	Soft wheat	Maize	Barley	Butter	Cheddar	SMP	WMP			
135,8	143,7	154,4	183,0	172,1	183,6	109,0	107,5	115,7	108,6	115,0	136,7	123,2	183,0	172,1	183,6	94,5	106,9	85,1	88,8			
Absolute prices																						
World											World											
Beef	Chicken	Pork	Wheat US SRW	Wheat US HRW	Maize	Barley	Butter	Cheddar	SMP	WMP	Beef	Chicken	Pork	Wheat US SRW	Wheat US HRW	Maize	Barley	Butter	Cheddar	SMP	WMP	
(\$/100kg)	(\$/100kg)	(\$/100kg carcass)	(\$/mt)	(\$/mt)	(\$/mt)	(\$/mt)	(\$/mt)	(\$/mt)	(\$/mt)	(\$/mt)	(\$/100kg)	(\$/100kg)	(\$/100kg carcass)	(\$/mt)	(\$/mt)	(\$/mt)	(\$/mt)	(\$/mt)	(\$/mt)	(\$/mt)	(\$/mt)	
431,6	215,3	175,7	325,1	359,5	310,2	315,0	3 288,0	4 000,0	3 400,0	3 338,0	537,2	250,8	186,0	263,3	290,7	178,3	218,0	3158	3733	2400	2417	
European Union											European Union											
Beef	Chicken	Pork	Soft wheat	Maize	Barley	Butter	Cheddar	SMP	WMP	Beef	Chicken	Pork	Soft wheat	Maize	Barley	Butter	Cheddar	SMP	WMP			
€/100 kg			€/mt				€/mt				€/100 kg			€/mt				€/mt				
395,1	193,3	174,2	258,1	241,0	238,7	3 380,0	3 398,0	2 669,0	2 954,0	334,6	183,9	136,7	175,6	143,8	158,4	2933	3171	1891	2370			

Main outputs in 2014					
Description	Indicator	Current situation	Target		
Data on price difference between internal market and world market	Price comparison for the main sectors: cereals, beef, poultry, pig meat, milk	Differences between EU and World prices ²²		2014 To reduce the difference	
		€/t	2012		2014
		Beef	661.3		-645.2
		Pork	398.4		-162.2
		Poultry	292.4		-189.8
		Soft wheat	10.3		-37.9
		Maize	4.6		-0.8
		Barley	-1.4		-18.3
		Butter	863.9		373.5
		SMP	81.6		-57.9
		Cheddar	341.2		144.3
WMP	411.6	408.9			

A decrease in prices for main agricultural products marked the year 2014, both in the EU and around the world. Unlike the large drop in 2008, which was the result of a wider economic crisis, current decrease results from increases in production. EU has experienced a record harvest in cereals, coupled with good harvests in other main production areas. EU sugar prices which were double the world market prices from 2011 to 2013 started to decrease gradually. The gap with the world market EU sugar prices towards the end of 2014 is the lowest since 1980. Milk production grows due to high demand for dairy products in emerging economies and meat production has rebounded after the drops in previous years.

Economic recovery in Europe, although slow, contributed to improved demand for agricultural products and EU agriculture benefitted from growing food demand in emerging markets, with exports exceeding previous years, e.g. a new 2013/14 cereal export record without export subsidies and despite an overall strong Euro until the summer. Falling energy and cereals prices in the second part of the year improved price competitiveness for both plant and animal production. With the weakening of Euro in the last quarter of the year, export competitiveness improved further.

The year 2014 was the first year of implementation of the 2013 CAP reform, which aimed (besides sustainability and territorial balance) to ensure the competitiveness of the EU agriculture. The competitiveness of producers is market rather than policy induced, while the perspective of dairy quota abolishment in 2015 improved the outlook for many farmers responding to global demand growth in this sector.

Energy and input (such as fertilizers) prices and exchange rates are among those elements, which are independent of agricultural sector performance and directly affect its competitiveness.

In the longer term, a rebound of the energy price and strengthening of the EUR vs USD might weaken the price-competitiveness of the EU production.

²² Negative value means EU price is higher.

Other risk factors include agricultural productivity, structure and the competitiveness of the other participants in the food chain. The productivity growth in European agriculture has slowed down in recent years, but various CAP instruments support increased research and innovation and aim for a better productivity and sustainability. The restructuring in many sectors is continuing, which should increase competitiveness. In terms of the food chain, the food and drink industry has been one of the few that registered growth in 2014 and remains above the pre-crisis levels. The retail industry faces a strong price competition, especially from low-cost sector which increases the competitive pressure on their suppliers.

The 2013 CAP reform towards more market oriented agriculture has contributed to improving the competitiveness of the EU agricultural sectors.

1.1.5 ABB 02 Interventions on the agricultural markets: specific objective 2

Relevant general objective: Viable food production		
Specific objective 2: To maintain market stability		<input checked="" type="checkbox"/> Spending programme: EAGF <input type="checkbox"/> Non-spending
Result indicator: Export refunds Definition: Ratio of the volume of the products exported with export refunds and the total EU production per given period. Source: DG AGRI		
Baseline (December 2013)	December 2014	Target 2014
Beef: 0% Pigmeat: 0% Poultry: 0%	Beef: 0% Pigmeat: 0% Poultry: 0%	Used only in case of need (seen against market developments) <i>Regulation n° 1308/2013</i>
Result indicator: Public intervention Definition: Ratio of volume of the products bought in the intervention storage and the total EU production of those respective products Source: DG AGRI		
Baseline (2012)	2014	Target 2014
0%	0%	Used only in case of need (seen against market developments) <i>Regulation n° 1308/2013</i>
Result indicator: Private storage Definition: Ratio of volume of the products placed into the publicly aided private storage and the total EU production of those respective products Source: Market monitoring data DG AGRI		
Baseline (2013)	2014	Target 2014
Butter: 4% Olive oil: 0%	Butter: 1.1% SMP: 1.3% Cheese: 0.6% For Olive oil No Private Storage Aid in 2013 & 2014	Used only in case of need (seen against market developments) <i>Regulation n° 1308/2013</i>

Main outputs in 2014			
Description	Indicator	Current situation	Target
Market measures	Regulatory adoptions	<p>COMMISSION IMPLEMENTING REGULATION (EU) No 635/2014 opening a tariff quota for the import of industrial sugar until the end of 2016/2017 MY</p> <p>COMMISSION IMPLEMENTING REGULATION (EU) No 1345/2014 on the determination of surplus quantities of sugar, isoglucose and fructose in Croatia</p> <p>COMMISSION IMPLEMENTING REGULATION (EU) No 1250/2014 as regards tariff quotas for sugar originating in Serbia</p> <p>COMMISSION IMPLEMENTING REGULATION (EU) No 1278/2014 amending Regulations (EC) No 967/2006, (EC) No 828/2009, (EC) No 891/2009 and Implementing Regulation (EU) No 75/2013</p> <p>COMMISSION IMPLEMENTING REGULATION (EU) No 1248/2014 fixing the quantitative limit for the exports of out-of-quota sugar until the end of the 2014/2015 MY</p> <p>COMMISSION IMPLEMENTING REGULATION (EU) No 265/2014 cereal sector import duties</p> <p>COMMISSION IMPLEMENTING REGULATION (EU) No 416/2014 opening and providing for the administration of import tariff quotas for certain cereals originating in Ukraine</p> <p>COMMISSION IMPLEMENTING REGULATION (EU) No 1169/2014 amending Implementing Regulation (EU) No 416/2014 opening and providing for the administration of import tariff quotas for certain cereals originating in Ukraine</p> <p>COMMISSION IMPLEMENTING REGULATION (EU) No 1260/2014 fixing a flat-rate reduction for the import duty for sorghum in Spain imported from third countries</p> <p>Del. R. 950/2014 Private storage aid cheese (repealed by 992/2014)</p> <p>Del. R.1336/2014 Advancing public intervention period for SMP and butter 2015</p> <p>Impl R.947/2014 Private storage aid for Butter</p> <p>Impl R.948/2014 Private storage aid for SMP</p> <p>Impl R.1337/2014 Extending Private storage aid for SMP and butter</p>	2014
Exceptional measures	Quick reaction whenever necessary	<p>Del. R.1263/2014 Exceptional aid to milk producers in EE, LV and LT</p> <p>Del. R.1370/2014 Exceptional aid to milk producers in Finland</p> <p>Impl.R.1071/2014 Support measures for the eggs and poultry meat sectors in Italy(Avian Influenza)</p> <p>Impl.R.324/2014 Support measures for pig meat in Poland</p> <p>Impl.R. 428/2014 Support measures for pig meat in Lithuania</p> <p>emergency measures :</p>	2014

		<p>Commission Delegated Regulation (EU) No 913/2014 laying down temporary exceptional support for peaches and nectarines for fresh consumption</p> <p>emergency measures for the Russian ban:</p> <p>Commission Delegated Regulation (EU) No 0932/2014 laying down temporary exceptional support measures for producers of certain fruit and vegetables</p> <p>COMMISSION DELEGATED REGULATION (EU) No 1031/2014 laying down further temporary exceptional support measures for producers of certain fruit and vegetables</p> <p>DELEGATED REGULATION (EU) No 1371/2014 laying down further temporary exceptional support measures for producers of certain fruit and vegetables</p>	
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As the prices for most agricultural commodities fell in 2014, the questions of maintaining market stability were frequent in political debates. In all of the markets where intervention prices are set, the actual market prices remained above intervention level. There were two instances, where a deteriorating market situation caused the Commission to carefully monitor the situation: the peach and nectarine production was particularly high due to the weather conditions with prices falling significantly affecting Greece, Spain and France; and finally the very good global cereals harvest and reduced quality of part of EU wheat resulted in EU cereal feed prices approaching in autumn the intervention level (although weaker Euro contributed to higher exports, which upheld the market) but recovered since then.

In August, Russia banned the imports of meat, dairy and fresh fruits and vegetables from the EU in response to EU sanctions following the Ukrainian crisis. This situation increased the uncertainty on the markets, with expectations of higher availabilities on the internal market and large price drops as Russia is often the most important export market for the above products, taking up a sizeable part of EU total production. The Commission immediately sent signals to the market participants that it will monitor and act to increase stability, and in the coming days opened public intervention and private storage aid for dairy products and withdrawal aid for fruits and vegetables.

In November, the avian influenza of the H5N8 subtype was detected in Germany, the Netherlands, United Kingdom and Italy. The health and safety measures require killing and safe disposal of the poultry present on the infected holdings and cleaning and disinfection of the holdings and the establishment of protection and surveillance zones around the outbreak. DG AGRI continues to monitor the effects on EU market situation.

In reaction to the Russian ban the Commission acted very quickly and for the first time in the new context of the 2013 reformed CMO. The use of exceptional measures has met some challenges, affecting the effectiveness of certain measures.

In fruits and vegetables the initial funds for the measures were used up very quickly by producers in Poland, whereas subsequent audit checks showed that an important share of applications were not substantiated, thus crowding out other legitimate requests. This was corrected in the follow-up measures.

Also, the private storage aid for cheese was mostly used by operators from regions in the EU not so much hit by Russian ban and the measure was subsequently removed.

The effectiveness of market intervention also depends on the broader economic situation. In

case of dairy and some fruits and vegetables, the crises aggravated an already negative price trend and while the implemented measures provided some help for producers, their purpose is not to reverse market trends, for which market supply adjustments are also needed. Another challenge is to evaluate the most effective combination of tools.

The monitoring of market situation shows that the market fluctuations are generally at a level that guarantees proper functioning of the market. In the event of Russian ban, the Commission quickly applied safety net and exceptional measures to stabilise the affected sectors, either through intervention (withdrawals, private storage aid, opening public buying-in) or direct support. In conclusion, the policy achieved its objectives.

1.1.6 ABB 02 Interventions on the agricultural markets: specific objective 3

Relevant general objective: Sustainable management of natural resources and climate action	
Specific objective 3: To meet consumer expectations	<input checked="" type="checkbox"/> Spending programme: EAGF <input type="checkbox"/> Non-spending
Result indicator: See Result indicator EU commodity prices compared to world prices above	

Main outputs in 2014			
Description	Indicator	Current situation	Target
Reports to EP and Council on the feasibility of origin labelling for <ul style="list-style-type: none"> • Unprocessed foods (except fruit and vegetables, and meat which are already covered) • Single ingredient products (except wine, olive oil, and honey which are already covered) • Ingredients representing more than 50% of a food (co-production with DG SANCO) • the possible mandatory origin labelling for milk, and milk used as an ingredient in dairy products • the possible mandatory origin labelling for fresh and frozen meats other than beef, pig, sheep, goats and poultry. Revision and updating of legislation on marketing standards for certain products of animal origin	Adoption by the Commission	Regulation (EU) n° 1144/2014 of the European Parliament and of the Council repealing Council regulation n° 3/2008 was adopted on 22 October 2014 and shall enter into force on 1 December 2015	2014

Quality of agricultural products is probably the most sensitive area where the CAP and consumer expectations meet. Efforts to steer products of unsatisfactory quality away from the final consumer and to provide clarity for consumers is regulated by several rules known as EU marketing standards. In 2014, DG AGRI began to evaluate the implementation of these rules,

which will need to be aligned with the Lisbon Treaty. While some marketing standards concern the production processes (e.g. poultry meat) other concern external qualities of products (e.g. apples). Trade in agricultural products has developed over the years to the point where, in the framework of the EU marketing standards, traders have further developed more detailed and specific private standards.

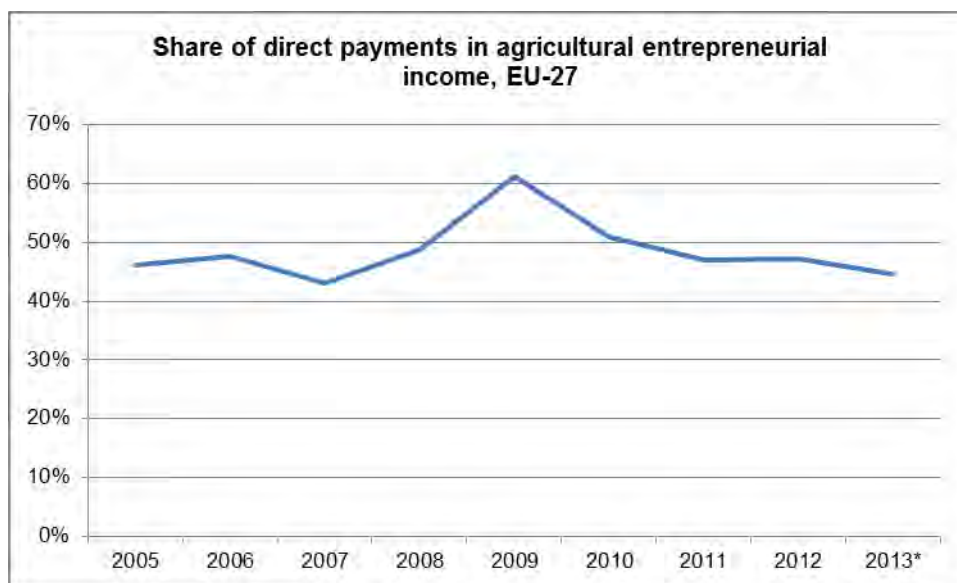
Moreover, the implementation of Regulation (EU) No 1144/2014 of the European Parliament and of the Council was adopted on 22 October 2014 and shall enter into force on 1 December 2015. The reform of the promotion scheme has adopted 47 co-financed (30 million euro) programmes to be implemented on the internal market and in third countries. It foresees establishment of a European promotion strategy for internal and external markets, widening the scope of measures, significantly higher EU co-financing, simplifying administrative procedures and facilitating management of multi-country programmes via a one-stop shop.

In conclusion, the policy achieved its objectives in 2014.

1.1.7 ABB 03 Direct aid: specific objective 1

Relevant general objective: Viable food production		
Specific objective 1: To sustain farmers' income stability by providing direct income support		
<input checked="" type="checkbox"/> Spending programme: EAGF <input type="checkbox"/> Non-spending		
Result indicator: Share of direct support in agricultural entrepreneurial income (family farm income) Definition: The indicator gives the share of direct support (coupled and de-coupled payments) in entrepreneurial income. Source: EAGF Financial Report and EEA - EUROSTAT		
Baseline (2012) ²³	Current situation	Target 2014
47.3% ²⁴	43.5% EU-27 (43.7% EU-28) (2013)	To maintain the ratio <i>Regulation n° 1310/2013</i>

The share of direct support in agricultural entrepreneurial income depends on the one hand on the evolution of direct aids expenditure and on the other hand on agricultural income developments. While total direct aids have increased over the period 2005-2014 (relating to calendar years 2004-2013), agricultural entrepreneurial income has slowly recovered from the low point reached in the crisis year 2009. As a consequence, the share of direct support in agricultural entrepreneurial income peaked in 2009 and has since shown a steady decline. If the year 2009 is taken as exceptional, values are fluctuating around 46% without showing any clear trend.



²³ The calculation is based on 2012 budget execution data and 2012 farm income data.

²⁴ Updated value due to changes in 2012 data

*In the first half of 2014, the technical work concerning the finalisation of the **detailed implementing rules** (Implementing Regulation No 641/2014 and Delegated Regulation No 639/2014) of the new Regulation of the Council and of the European Parliament on direct payments for the CAP towards 2020 (No 1307/2013) was finalised:*

- Regulation No 639/2014 was adopted on 11/03/2014 and published on 20/06/2014 (Regulation No 641/2014 was published the same day). Detailed rules regarding the Integrated Administration and Control System (IACS) were also published, respectively on 20 June 2014 for the Delegated Regulation (Regulation No 640/2014) and 31 July 2014 for the implementing Regulation (Regulation No 809/2014).*
- A Commission Regulation establishing for 2014 the budgetary ceilings applicable to certain direct payments was also adopted on 3 October 2014.*
- A Commission implementing decision authorising the granting of complementary national direct payments (CNDPs) in Bulgaria was also adopted at the end of the year.*
- The detailed rules defined further the implementation aspects of the new architecture of direct payments with a basic payment plus mandatory additional layers consisting of the payment for agricultural practices beneficial for the climate and the environment ("greening") and the Young Farmers Scheme.*
- Furthermore, some other aspects have been further specified, in particular those related to the Voluntary Coupled Support, the definitions and also implementation of the provisions on "active farmer".*

Besides, the new regulation details the notification requirements in respect of the policy choices to be made by Member States. In accordance with the Regulation, such notifications are to be done by means of the ISAMM application (Regulation (EC) No 792/2009). Therefore, in the second trimester of 2014, the notification forms were elaborated in this system to ensure the transmission of homogeneous information on the decisions taken by the Member States.

After 1 August 2014, the notifications sent by MS regarding the policy choices related to the new schemes were thoroughly examined. In this context, a significant number of bilateral technical exchanges with representatives of the Member States were held.

Four guidelines were also drafted regarding i) new requirements for the Land Parcel Identification System (LPIS), ii) how the LPIS should accommodate Ecological Focus Areas (EFA) from 2015 for a proper implementation of the greening, iii) on-the-spot controls and iv) aid applications submitted by farmers.

In conclusion, the policy achieved its objectives in 2014.

1.1.8 ABB 03 Direct aid: specific objective 2

Relevant general objective: Viable food production		
Specific objective 2: To promote a more market oriented agriculture, by extending further the shift from coupled to decoupled income support		
<input checked="" type="checkbox"/> Spending programme: EAGF <input type="checkbox"/> Non-spending		
Result indicator: Percentage of total direct payments which is decoupled Source: Budget 2013 + Budget 2014 + Budget 2015		
Baseline (Calendar year 2012 / Budget year 2013)	Current situation	Target 2014 (Calendar year 2014 / Budget year 2015)
93.24% ²⁵	93.50% ²⁶	93.24% <i>Regulation n° 1310/2013</i>

Specific support

24 MS (BE, BG, CZ, DK, EE, IE, EL, ES, FR, HR, IT, LV, LT, HU, NL, AT, PL, PT, RO, SI, SK, FI, SE, UK) notified reviewed measures of the specific support under Article 68 of Regulation 73/2009 to be implemented in the calendar year 2014 while CY made use of that possibility for the first time in that year. Such high number of review decisions is mostly due to the increase of the percentage (from 3.5% to 6.5%) of the national ceiling to be possibly used for coupled specific support applicable for the year 2014. All notified amended or additional support measures were assessed, some of them being subject to Commission approval in the case of BE, DK, ES, FR and PT.

Main outputs in 2014			
Description	Indicator	Current situation	Target
Detailed rules (Implementing and Delegated acts) of the Regulation of the Council and of the European Parliament on direct payments for the CAP towards 2020 (Regulation n° 1307/2013) as well as for a new Regulation on the financing, management and monitoring of the CAP (section on IACS) (Regulation n° 1306/2013)	Adoption by the Commission	Published on 20/06/2014 Commission Delegated Regulation (EU) No 639/2014 Commission Delegated Regulation (EU) No 640/2014 Commission Implementing Regulation (EU) No 641/2014 Commission Implementing Regulation (EU) No 809/2014 ²⁷	3 rd quarter 2014
Commission Regulation establishing	Adoption by	Adopted on 04/10/2014	31.07.2014

²⁵ Execution for the Budget 2013 (calendar year 2012)

²⁶ Execution for the Budget 2014 (calendar year 2013) provisional figures

²⁷ OJ L 227, 31.7.2014, p 69-124.

for 2014 the budgetary ceilings applicable to certain direct payments	the Commission	Commission Implementing Regulation (EU) No 1044/2014 ²⁸	
Commission implementing decision authorising the granting of complementary national direct payments (CNDPs) <ul style="list-style-type: none"> • In Bulgaria in 2014 • in Croatia in 2014 	Adoption by the Commission	<ul style="list-style-type: none"> • 02/10/2014 C(2014) 6945 • Request under treatment – foreseen 1st Quarter 2015 (notification received 30/12/2014) 	<ul style="list-style-type: none"> • 31.12.2014 • 1st Quarter 2015
Commission Implementing Decision relating to the financing by the EAGF of the national additional suckler cow premium granted by Belgium in the year 2014	Adoption by the Commission	4.12.2014 C(2014) 9150 final	4.12.2014

The finalisation of the regulatory framework combined with the analysis of the notifications and the assistance provided to Member States should allow the proper implementation of the new direct system for the period 2015-2020.

²⁸ OJ L 290, 4.10.2014, p 1-8.

1.1.9 ABB 03 Direct aid: specific objective 3

Relevant general objective: To promote a sustainable management of natural resources and climate action		
Specific objective 3: Contribute to the development of sustainable agriculture and to making the CAP more compatible with the expectations of the society; preventing soil erosion, maintaining soil organic matter and soil structure, ensuring a minimum level of maintenance and avoiding the deterioration of habitats, and protecting and managing water; avoiding a massive conversion into arable land		
		<input checked="" type="checkbox"/> Spending programme: EAGF <input type="checkbox"/> Non-spending
Result indicator: Percentage of CAP payments covered by cross compliance Source: DG AGRI		
Baseline (2013)	Current situation	Target 2014
82,36% ²⁹	83.5% ³⁰ (Source: DG AGRI)	Maintain the % ³¹ Regulation n° 1306/2013
Result indicator: Opinion expressed by the public on cross compliance Definition: Aggregate figures on the opinion by the public on cross compliance Source: Eurobarometer		
Baseline (2007)	Current situation	Target 2014
83% support the reduction of direct payments to farmers not complying with environmental rules 84% support the reduction for non-compliance of animal welfare rules 86% support the reduction of direct payment to farmers not respecting food safety rules ³²	In the absence of new <i>Eurobarometer</i> with specific questions on cross compliance, there is no new information available.	Maintain the positive opinion <i>With the cross compliance the CAP is more sustainable and more compatible with the society's expectations. Therefore, if cross compliance shows an important support by the public opinion, its impact will be significant.</i>

²⁹ The calculation of the 2013 baseline indicator in the Management plan 2014 was adapted.

³⁰ Execution of the Budget 2014 (calendar year 2013) provisional figures

³¹ In view of the payment profile for rural development, the percentage of payments covered by cross compliance was higher in the earlier part of the programming period 2007-2013. This reflects the fact that the rural development measures that are not falling under cross compliance have a different payment profile than the ones falling under cross compliance: measures not under cross compliance tend to have an increasing execution over the period and thus the % covered by cross-compliance will decrease over the programming period.

³² Results of the latest Special Eurobarometer "Europeans, Agriculture and the Common Agricultural Policy" published in 2007.

Result indicator: Control rate for GAEC (Standards of Good Agricultural and Environmental Condition) Definition: GAECs form part of the requirements under Cross Compliance and apply to anyone who receives payments under Single Payment Scheme and certain rural development schemes Source: IACS statistics		
Baseline (2013)	Current situation	Target 2014
100% implementation of the minimum regulatory control rate in all Member States	In 2013, all paying agencies fulfilled the mandatory control rate except Ireland regarding holdings receiving RD payments. <i>(Source: IACS statistics)</i>	100% implementation of the minimum regulatory control rate <i>Regulation n° 1306/2013</i>
Result indicator: The ratio of permanent pasture within a Member State in relation to the total agricultural area Source: MS annual notification (ISAMM – Information System for Agricultural Market Management and Monitoring)		
Baseline (2005)	Current situation	Target 2014
Ratio has not decreased beyond the limit of 10% in any Member State except Lithuania.	The decrease of the ratio is below 10% for all MS. ³³ <i>(Source : MS annual notification, Information System for Agricultural Management and Monitoring (ISAMM))</i>	Maintain the ratio within the limit of 10% in relation to a reference ratio <i>Regulation n° 1310/2013</i>

Main outputs in 2014			
Description	Indicator	Current situation	Target
Detailed rules (Implementing and Delegated acts) of the new Regulation of the Council and of the European Parliament on the financing, management and monitoring of the CAP (section on cross compliance) (Regulation n° 1306/2013)	Adoption by the Commission	<ul style="list-style-type: none"> • Commission Delegated Regulation (EU) No 640/2014 • Commission Implementing Regulation (EU) No 641/2014 • Commission Implementing Regulation (EU) No 809/2014. 	31/12/2014

The performance indicator of the cross-compliance is quantified among others by the increase of the percentage of payments covered by cross-compliance which steadily raised from 79.4% in 2012 to 83.5% in 2014. In this respect, cross-compliance contributes to citizens' expectations that direct payments should only support farmers complying with the basic environmental, animal welfare, public, animal and plant health rules enshrined in cross-compliance.

The shortcomings observed in the framework of the clearance of accounts procedure did not hamper achievement of the specific objectives.

From the annual performance indicators it appears that the cross-compliance policy serves to achieve the specific objective of this instrument. Therefore, cross-compliance contributed in 2014 to reaching the general policy objective to promote a sustainable management of natural resources and climate action.

³³ Two MS (EL and IE) didn't communicate yet the ratio for year 2014.

1.1.10 ABB 03 Direct aid: specific objective 4

Relevant general objective: Balanced territorial development		
Specific objective 4: To promote local agricultural production and to ensure a fair level of prices for commodities for direct consumption and for processing by local industries in the Outermost Regions of the EU and in the Aegean Islands		
<input checked="" type="checkbox"/> Spending programme: EAGF <input type="checkbox"/> Non-spending		
Result indicator: Support to the Local Production to maintain/develop the agricultural production Definition: Utilised agricultural area (variation with respect to the previous year) Source: MS Annual Reports		
Baseline (Calendar year 2012 / Budget year 2013)	Current situation ³⁴	Target 2014
POSEIDOM: Mainland France: 26 792 692 ha (-0.3%) Guadeloupe: 29 675 ha (-2.8%) ³⁵ Martinique: 23 769 ha (-2.5%) Guyane: 25 803 ha (+0.9%) Réunion: 42 641 ha (-0.2%) POSEICAN: Mainland Spain: 23 868 700 (2010 data: +0.4% variation 2009/2010) Canaries: 83 221 ha (+0.7%) POSEIMA³⁶: Mainland Portugal 3 668 145 (2009 data: +5.6% variation 2007-2009) Madeira: 5 428 ha (2009 data: +40.6%: variation 2007-2009) Azores: 120 412 ha (2009 data: +7.5%: variation 2007-2009) Smaller AEGEAN ISLANDS: 287 094 ha (-6.3%)	POSEIDOM: Mainland France: 26 708 310 ha Guadeloupe: 28 847 ha Martinique: 23 185 ha Guyane: 26 034 ha Réunion: 42 554 ha POSEICAN: data not yet available; ongoing transmission POSEIMA: Mainland Portugal 3 668 145 ha (2009 data) Madeira: 5 428 ha (2009 data) Azores: 120 412 ha (2009 data) Smaller AEGEAN ISLANDS: 294 581 h	To at least maintain local agricultural production <i>Objective of the regulation 228/2013, Article 2 (1c)</i>

³⁴ In their annual implementation reports for 2013, the Member States concerned (except Greece and Portugal for Madeira) have communicated data related to the common performance indicators as requested by the Commission services. However, the provided data may not be fully in line with the requirements of the Commission services and thus not mutually comparable. Therefore, these indicators shall be evaluated with due caution.

³⁵ The data provided by the French authorities on the SAU in 2012 was only provisional. It was corrected in the annual report for the year 2013. This explains the differences among the data for 2012 and 2013. The variation shown in the present document is calculated on the latest data provided by the French authorities for 2012.

³⁶ In the annual reports for 2010, 2011, 2012 and 2013 the Portuguese authorities have only communicated data concerning 2009 related to this indicator.

Based on information received from Member States, despite a declining trend in terms of utilised agricultural area (UAA) in most of France's Outermost Regions (except for French Guiana), in line with the downward trend in mainland France for the 2007-2013 period, certain production figures in most of the Antilles show a slightly more positive evolution than in mainland France.

Trends in livestock in the French OR from 2012 and 2013 generally show minimal decreasing figures, similar to the trend followed during the same period in mainland France –Martinique and French Guiana showing slightly positive figures. With regards to local agricultural production, Guadeloupe and Martinique register a lower variation of production in terms of tonnes with respect to the previous year, while French Guiana and La Réunion show higher figures compared to the ones registered in 2012.

In Portuguese Azores a growing trend in livestock in the period 2003-2013 has been recorded with respect to mainland Portugal. Local production of fruits, banana, pineapple and pork meat is stable or has decreased in the 2013/2014 campaign compared to the previous year. Milk and beetroot production is maintained despite the increasing trend registered in the period 2004-2013. The rest of local production shows a positive trend, in particular meat and horticultural products. Increased figures in the slaughtering of bovine and ovine, and to a lesser extent the slaughtering of goat and poultry, were registered in the 2004-2013 period. Horticultural products show an increasing trend, except for fruits, which followed a negative growth. Refined sugar from local beetroot, wine production shows a negative trend in the period 2004-2013. With regards to processed dairy products, they suffered a decrease in 2013 of 2-10%. Despite the fluctuations experienced by these products in the last decade, the global trend remains positive. Processed milk for public consumption continued to grow each year showing a positive trend in the period 2004-2013.

The shortcomings observed in the framework of the clearance of accounts procedure did not hamper achievement of the specific objectives of the schemes. In line with the exercise to reduce the error rate, guidelines on control statistics have been developed to enable MS to present collected data on controls regarding measures to aid local production in a common and structured way.

The periodical and annual reporting by MS is overall satisfactory and allows concluding that the programme generally meets the multiannual objectives with regards to measures to support local production. Nonetheless it should be highlighted that for the first time a set of common performance indicators has been included in the Regulations – annex VIII of Commission Implementing Regulation (EU) No 180/2014, and therefore some MS may need more time to implement and transmit comprehensive data to the Commission.

In conclusion, the policy achieved its objectives in 2014.

1.1.11 ABB 03 Direct aid: specific objective 5

Relevant general objective: Balanced territorial development		
Specific objective 5: Specific Supply Arrangements (SSA) to ensure the supply of essential products: SSA coverage rate (relation between quantities of products benefiting from SSA support and total quantities of the same products introduced in the respective outermost region)		<input checked="" type="checkbox"/> Spending programme: EAGF <input type="checkbox"/> Non-spending
Result indicator: Percentage of SSA products coverage of local needs Source: MS Annual Reports		
Baseline (2012 – variations with respect to 2011)	Current situation ³⁷	Target 2014
POSEIDOM ³⁸ (all products): 46% (-1%) POSEICAN: (cereals only): 99.04% (-0.64%) POSEIMA: Madeira (cereals only): 95.0% (-3.6%) Azores (cereals only): 88.1% (EU) (Variation not available) Smaller Aegean Islands (animal feed): 90.61%	POSEIDOM (all products): 49% (+3%) POSEICAN (cereals only): 99.64% (+0.60%) POSEIMA: Madeira (cereals only): 98.6% (+3.6%) Azores (cereals only): 85.30% (-2.8%) Smaller Aegean Islands: (animal feed): 99.61% (+9%)	100% <i>The objective included in regulation 228/2013 Article 2 (1a) is the "guaranteed supply to the outermost regions of products essential for human consumption (...)". This target contributes to achieving this objective.</i>

Main outputs in 2014 ³⁹			
Description	Indicator	Current situation	Target
Implementing Regulation for POSEI (implementing Regulation (EU) No 228/2013)	Adoption by the Commission Entry into force (publication in the EUOJ)	Publication and entry into force of Commission Implementing Regulation (EU) No 180/2014 on 4/3/2014	31.01.2014 28.02.2014
Implementing Regulation for the Aegean Islands (implementing Regulation (EU) No 229/2013)	Adoption by the Commission Entry into force	Publication and entry into force of Commission Implementing Regulation (EU) No 181/2014 on	31.01.2014 28.02.2014

³⁷ In their annual implementation reports for 2013, the Member States concerned (except Greece and Portugal-Madeira) have communicated data related to the common performance indicators as requested by the Commission services. However, the provided data may not be fully in line with the requirements of the Commission services and thus not mutually comparable. Therefore, these indicators shall be evaluated with due caution.

³⁸ The French authorities used in their annual report for 2011, 2012 and 2013 a different methodology and data source to calculate this indicator (calculation based on value and not quantities, data taken from customs sources and not from SSA operators).

³⁹ Valid for the two specific objectives mentioned above

	(publication in the EUOJ)	4/3/2014	
Delegated Regulation for POSEI (Regulation (EU) No 228/2013)	Entry into force (publication in the EUOJ)	Publication and entry into force of Commission Delegated Regulation (EU) No 179/2014 on 4/3/2014	28.02.2014
Delegated Regulation for the Aegean Islands (implementing Regulation (EU) No 229/2013)	Entry into force (publication in the EUOJ)	Publication and entry into force of Commission Delegated Regulation (EU) No 178/2014 on 4/3/2014	28.02.2014
Amendment of Commission Implementing Regulation (EU) No 180/2014		Adoption of Commission Implementing Regulation (EU) No 1282/2014 ⁴⁰ amending Implementing Regulation (EU) No 180/2014 on 2/12/2014	2014

The level of coverage of the Specific Supply Arrangements (SSA) over the total supply needs of the outermost regions follows an increasing trend in French ORs and Canary Islands for the 2009-2013 period, and for Azores in the 2012-2013 period (figures from previous years are not available).

In the case of the smaller Aegean islands, according to the latest annual execution report submitted by Greece, SSA measures have proved particularly appropriate and instrumental given the current crisis context. SSA measures come as a financial guarantee for smaller Aegean islands' beneficiaries towards suppliers in mainland Greece.

The shortcomings observed in the framework of the clearance of accounts procedure did not hamper achievement of the specific objectives of the schemes. In line with the exercise to reduce the error rate, guidelines on control statistics have been developed to enable MS to present collected data on controls regarding Specific Supply Arrangements measures in a common and structured way.

The periodical and annual reporting by MS is overall satisfactory and allows concluding that the programme generally meets the multiannual objectives with regards to specific supply arrangements. Nonetheless it should be highlighted that for the first time a set of common performance indicators has been included in the Regulations – annex VIII of Commission Implementing Regulation (EU) No 180/2014, and therefore some MS may need more time to implement and transmit comprehensive data to the Commission.

In conclusion, the policy achieved its objectives in 2014.

⁴⁰ OJ L 347, 3.12.2014, p. 13

ABB 04 Rural development

2014 has represented a transitional year for rural development programming.

The following sections report on the activities carried out during the year in relation to both the programming period 2007-2013, and the programming period 2014-2020. Main results for both programming periods are presented under consecutive narratives referring to the cross-cutting objective linked to knowledge transfer and innovation, one chapter for each of the three general objectives of the CAP, and one chapter covering cross-cutting issues. The latter provides an overall summary of the DG activities linked to programming.

Due to the new architecture of rural development policy and programmes introduced in 2014-2020 and the corresponding changes in the monitoring and reporting systems, the tables presenting selected indicators under each general objective refer to relevant "axes" in relation to Rural development Programmes (RDPs) 2007-2013⁴¹ and to relevant "Focus Areas" in the case of RDPs 2014-2020.

As regards the new generation of programmes, the target levels reported in the table have been consolidated as a result of the aggregation of the corresponding values included in the RDPs which have been approved during the year 2014 (9 out of 118) and further 18 RDPs were "ready for adoption" (i.e. in a stage where the procedures for their adoption were started but not yet completed) at the end of 2014⁴². They represent only a limited fraction of the aggregated values which will result from the totality of the programmes, once approved, and therefore provide a very first preliminary indication of the overall achievements which can be expected from the implementation of the complete set of programmes.

1.1.12 ABB 04 Rural development: specific objective 1

2007-2013 programming period

Fostering knowledge transfer and innovation in agriculture, forestry and rural areas		
Main output		
	Dec 2013	Target 2007-13
Training activity related to agriculture and/or forestry (Number of participants that successfully finalised training)	2 430 000	2 774 000

⁴¹ For the 2007-2013 programming period, the actual implementation period for the target date 2007-2015 (in view of the n+2 rule).

⁴² These 18 programmes have not been taken into account in the calculation of the performance indicators for ABB 04, but are used for the calculation of the control efficiency and cost effectiveness indicators in part 2.1.2.

2014-2020 programming period

Relevant general objectives: This specific objective contributes to achieving all three general objectives of the CAP.			
Specific objective 1: Fostering knowledge transfer and innovation in agriculture, forestry and rural areas (Priority 1)		<input checked="" type="checkbox"/> Spending programme: EAFRD <input type="checkbox"/> Non-spending	
Result indicator: Percentage of expenditure for the three measures <i>Knowledge transfer & information action, advisory services and cooperation</i> in relation to the total expenditure for the RDP (Focus area 1A: Fostering innovation and the knowledge base in rural areas) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation (2014)	Target 2023
0	n.a.	7 out of the 7 relevant adopted programmes include this Focus Area	2.44%
Result indicator: Number of cooperation operations planned under the cooperation measure (groups, networks/clusters, pilot projects) (Focus area 1B: strengthening the links between agriculture and forestry and research and innovation) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0	n.a.	7 out of the 7 relevant adopted programmes include this Focus Area	1 370
Result indicator: Total number of participants trained (across all focus areas) (Focus area 1C: fostering lifelong learning and vocational training in agriculture and forestry sectors) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0	n.a.	6 out of the 7 relevant adopted programmes include this Focus Area	926 678

NB:

Baseline is 0 at the start of the programming period and all the targets are cumulated over the period.
 No milestones are defined at the level of focus areas.

Targets:

- For the new generation of spending programmes, targets are set for 2020 in programming and for 2023 in implementing terms.
- Aggregated value from adopted programmes

Two of the 9 programmes approved in 2014 concern a Framework Programme and a Rural Network Programme. 18 RDPs which were "ready for adoption" at the end of 2014 are not taken into account for the calculation of these indicators.

Main outputs in 2014			
Description	Indicator	Current situation	Target
Workshops to present the possibilities under the EIP to stakeholders in various Member States	Number of workshops	7	7
Focus groups (discussion groups for experts to discuss challenges and potential solutions for a particular technical issue)	Number of focus groups	7	7
A seminar on innovation related subject	Number of Seminars	1 Seminar	1 Seminar
Factsheets and newsletters; functional interactive website	Date of delivery	Newsletter every 2 nd Tuesday in the month Factsheets when relevant	2014

Knowledge transfer and innovation actions represent key elements to boost a sustainable and competitive agricultural sector and to promote jobs and growth in agriculture and rural business. This is why actions under this priority are considered of horizontal nature, i.e. as means to achieve the objectives set at the level of all rural development priorities.

The European Innovation Partnership on agricultural productivity and sustainability (EIP) will be implemented via the rural development programmes in the period 2014-2020 and will be supported by a network. During 2014 the EIP network was further expanded and mainly used to support Member States in the programming of the new concept and in explaining the new opportunities to the stakeholders.

Given the preliminary stage of implementation of the RDPs 2014-2020, it is too early to draw conclusions on the respective implementation levels.

The approaching of the end of the spending period for the RDPs 2007-2013, has triggered an acceleration in the implementation of the programmes during the year 2014. Data on relevant indicators extracted from the Annual Activity Report 2013 show that the levels of achievement at the end of that year approach the corresponding planned targets for the whole programming period (n+2 rule).

1.1.13 ABB 04 Rural development: specific objective 2

2007-2013 programming period

Increase the competitiveness of agriculture, forestry and the food industry through support for restructuring, innovation and value added quality products		
Main expenditure-related outputs	Dec 2013	Target 2007-13
Modernisation projects on farms (Number of projects)	379 000	575 000
Supported enterprises for adding value projects (Number)	22 800	34 000
Participation in quality schemes under Rural Development Programs (Number of farms)	370 500	283 700

Relevant general objectives: Viable food production			
Specific objective 2: Enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and sustainable management of forest (Priority 2)		<input checked="" type="checkbox"/> Spending programme: EAFRD <input type="checkbox"/> Non-spending	
Result indicator: Percentage of agricultural holdings with RDP support for investment in restructuring (Focus area 2A: improving the economic performance of all farms and facilitating farm restructuring and modernisation notably with a view to increase market participation and orientation, as well as agricultural diversification) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0		7 out of the 7 relevant adopted programmes include this Focus Area	4.01%
Result indicator: % of agricultural holdings with RDP supported business development plan/investments for young farmers (Focus area 2B: facilitating entry of adequately skilled farmers into the agricultural sector and in particular generational renewal) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0		4 out of the 7 relevant adopted programmes include this Focus Area	2.20%

NB:

Baseline is 0 at the start of the programming period and all the targets are cumulated over the period.

No milestones are defined at the level of focus areas.

Targets:

- For the new generation of spending programmes, targets are set for 2020 in programming and for 2023 in implementing terms.
- Aggregated value from adopted programmes

Two of the 9 programmes approved in 2014 concern a Framework Programme and a Rural Network Programme. 18 RDPs which were "ready for adoption" at the end of 2014 are not taken into account for the calculation of these indicators.

Main outputs in 2014			
Description	Indicator	Current situation	Target
A pilot project on an exchange programme for young farmers	Date of completion	On-going	November 2015
Study on Investment Support under Rural Development Policy	Date of completion	Completed	November 2014

1.1.14 ABB 04 Rural development: specific objective 3

Relevant general objectives: Viable food production			
Specific objective 3: Promoting food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture (Priority 3)		<input checked="" type="checkbox"/> Spending programme: EAFRD <input type="checkbox"/> Non-spending	
Result indicator: Percentage of agricultural holdings supported under quality schemes, local markets and short supply circuits, and producer groups (Focus area 3A: improving competitiveness of primary producers by better integrating them into the food chain through quality schemes, promotion in local markets and short supply circuits, producer groups and inter-branch organisations) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0	n.a.	4 out of the 7 relevant adopted programmes include this Focus Area	6.09%
Result indicator: % of agricultural holdings participating in risk management schemes (Focus area 3B: supporting farm risk management) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0	n.a.	2 out of the 7 relevant adopted programmes include this Focus Area	0.32%

NB:

Baseline is 0 at the start of the programming period and all the targets are cumulated over the period. No milestones are defined at the level of focus areas.

Targets:

- For the new generation of spending programmes, targets are set for 2020 in programming and for 2023 in implementing terms.
- Aggregated value from adopted programmes

Two of the 9 programmes approved in 2014 concern a Framework Programme and a Rural Network Programme. 18 RDPs which were "ready for adoption" at the end of 2014 are not taken into account for the calculation of these indicators.

Concerning both specific objectives on Viable food production:

The take up of investment-related support in the RDPs 2007-2013 is considerably high, in terms of financial indicators and supported farms. The enhanced viability of the farms is being also scrutinized through a number of studies and pilot project that will feed coming policy strategies. The combination of investment operations with business plan development support has a big potential to boost the setting-up of young farmers in the agricultural sector.

The on-going study on an exchange programme for young farmers will provide by the end of 2015 good practices from promoting sharing of experiences and farm exchanges, in line with the corresponding request by the European Council.

The Evaluation "Investment Support under Rural Development Policy", completed in November 2014, aimed at methodological advancement with respect to how the impacts of measures to support physical investments are assessed. The task consisted in testing a selected sample of methods for evaluating investment measures in RDPs related to impact, effectiveness, efficiency, achievements. The strengths and weaknesses of different methodologies were explored under "real world" conditions" (e.g. limited data availability, limited resources etc.) in 11 case study territories.

Better integration into the food chain through the promotion of quality schemes, short supply chains and local markets may be addressed via several tools of the new rural development policy. Specific measures under these topics, together with the cross-cutting support for cooperation activities, are available for Member States in order to achieve the objectives under this Priority.

Given the preliminary stage of implementation of the RDPs 2014-2020, it is too early to draw conclusions on the respective implementation levels.

The approaching of the end of the spending period for the RDPs 2007-2013, has triggered an acceleration in the implementation of the programmes during the year 2014. Data on relevant indicators extracted from the Annual Activity Report 2013 show that the levels of achievement at the end of that year approach the corresponding planned targets for the whole programming period.

Main outputs in 2014			
Description	Indicator	Current situation	Target
Register PDO/PGI/TSG names and publish in the OJ single documents and product specifications, ensure public accurate information concerning registered PDOs and PGIs and TSGs	Legal compliance of examination procedures Publication of implementing and delegated acts	Internal procedures aligned with the new legislative framework. On 19.06.2014: Publication of Commission Delegated Regulation (EU) No 664/2014 of 18 December 2013 and of the Commission Implementing Regulation (EU) No 668/2014 of 13 June 2014 laying down rules for the application of Regulation (EU) No 1151/2012).	2014 1 DA + 1 IA in 2014
Draft implementing and delegated acts for wine PDO/PGI			2014
Proposal for aligning rules for geographical indications for spirit drinks with the Lisbon Treaty		No action. To be dealt with in the context of the simplification of quality policy.	

Contribute to a coherent control system for PDO/PGI/TSG (follow-up of the FVO audit program and related activities)	Contributions to control system	Participation in FVO audits in three Member States ⁴³ . Contribution to 7 four-days training courses in the framework of BTSF on controls and certification. Seminar for Member States on 1.10.2014 on PDO/PGI/TSG controls at retail/ market level.	2014
A revised EU political and legal framework for organic production (Agenda planning reference 2012/AGRI/014)	Adoption by the Commission	24.3.2014	2014
Contribute to a coherent control system for organic farming, including imports (follow-up of the FVO audit program and related activities, supervision activities)	Contributions to control system	Contribution to 9 audits and related activities ⁴⁴ , assessment of reports and follow-up to irregularities.	2014
Assessment for recognition of equivalent Control Bodies for the purpose of imports of organic products, including requests for scope extensions, analysis of yearly reports and supervision of already recognised control bodies	Delivery	All requests for equivalency recognition or scope extension assessed; assessment of annual reports on-going; follow-up to irregularities.	2014
"Organic Farming Information System" aimed in particular at enhancing information flows and the follow-up of irregularities, with Member States, Control Bodies and Third Countries	Development	In 2014, new functionalities for the submission of annual reports by recognised Third Countries, for the generation of searchable lists of control bodies, and for the interrelation with the development of a system for the electronic certification of imported organic products.	2014

As regards the new Regulation on quality schemes for agricultural products and foodstuffs⁴⁵, the

⁴³ Italy, Slovenia, The Netherlands.

⁴⁴ In detail: audits carried out in 5 Member States (Czech Republic, Finland, Malta, the Netherlands, and Slovakia), 2 Third Countries recognised as equivalent for import of organic products (Argentina and Australia), and 2 Control Bodies recognised as equivalent for import of organic products (one with activities in Turkey and one with activities in Vietnam).

⁴⁵ Regulation (EU) No 1151/2012 of the European Parliament and of the Council of 21 November 2012 on quality schemes for agricultural products and foodstuffs, OJ L 343, 14.12.2012, p. 1.

Commission adopted implementing rules⁴⁶ and thus completed the legal framework for registration and protection of PDO/PGI/TSG. The Commission enhanced its efforts to improve the enforcement of the quality policy and of the control systems in the Member States by contributing to trainings on official control and certification, by organising a seminar for the Member States on control of PDO/PGI/TSG in the market place, and by participating in FVO audits in the Member States.

On 24 March 2014, the Commission adopted:

- A proposal for a new Regulation by the European Parliament and the Council on organic production and labelling of organic products⁴⁷. The proposal aims at revising the legal and political framework for the EU organic scheme, to boost the development of the sector in line with the Commission's priorities for jobs and growth;
- A Communication with an Action Plan on the future of Organic Production in the EU⁴⁸. It sets out 18 actions to be implemented until 2020 in three priority areas: competitiveness of organic producers, consumer confidence and external dimension of the EU organic policy;
- Draft negotiating directives for international agreements in the area of organic production. The negotiating directives were adopted by the Council on 16 June 2014.

In the course of 2014, implementing rules for enhanced supervision and control of organic production and labelling of organic products entered into force (1 January 2014) and the system of import authorisations by Member States, which had shown weaknesses in ensuring a harmonised approach, was phased out (1 July 2014)⁴⁹. The Commission continued its cycle of on-the-spot audits in Member States as well as in recognised Third Countries and Control Bodies in Third Countries. Action plans were set up to address the identified weaknesses and areas for improvement, which are subject to a close follow-up. The Commission was actively engaged in the development of an IT system for the electronic certification of organic products imported into the EU, to simplify the administrative burden and to increase traceability and control.

As regards the external dimension of the EU organic policy, negotiations for a reciprocal arrangement of equivalence with the Republic of Korea were concluded in December 2014.

The policy with respect to the quality schemes for agricultural products and foodstuffs, wine, spirit drinks and aromatised wines and with respect to organic farming is on course to meet its multiannual objectives and has achieved annual performance indicators or milestones in the reporting year.

⁴⁶ Commission Implementing Regulation (EU) No 668/2014 of 13 June 2014 laying down rules for the application of Regulation (EU) No 1151/2012 of the European Parliament and of the Council on quality schemes for agricultural products and foodstuffs, OJ L 179, 19.6.2014, p. 36.

Commission Delegated Regulation (EU) No 664/2014 of 18 December 2013 supplementing Regulation (EU) No 1151/2012 of the European Parliament and of the Council with regard to the establishment of the Union symbols for protected designations of origin, protected geographical indications and traditional specialities guaranteed and with regard to certain rules on sourcing, certain procedural rules and certain additional transitional rules, OJ L 179, 19.6.2014, p. 17.

⁴⁷ COM(2014)180 final.

⁴⁸ COM(2014)179 final.

⁴⁹ Commission Implementing Regulation (EU) No 392 of 29 April 2013, amending Commission Regulation No 889/2008, and applying as from 1 January 2014.

1.1.15 ABB 04 Rural development: specific objective 4

2007-2013 programming period

Improving the environment and the countryside through support for sustainable land and forest management with specific focus on biodiversity, organic farming, high nature value farming, water and climate change,		
Main expenditure-related outputs	Dec 2013	Target 2007-13
Support under agri-environment (Number of hectares ⁵⁰), of which Organic Farming	46 800 000 7 650 000	47 000 000
Support in Less Favoured Areas (Number of hectares ⁶)	55 300 000	55 500 000
Support under Natura 2000 (Number of ha)	1 500 000	1 300 000
Afforested land (Number of hectares)	270 000	470 000

Relevant general objectives: Sustainable management of natural resources and climate action			
Specific objective 4: Restoring, preserving and enhancing ecosystems related to agriculture and forestry (Priority 4)		<input checked="" type="checkbox"/> Spending programme <input type="checkbox"/> Non-spending	
Result indicator*: a) Percentage of agricultural land under management contracts contributing to biodiversity b) Percentage of forest area under management contracts contributing to biodiversity (Focus area 4A: Restoring and preserving and enhancing biodiversity, including in Natura 2000 area, areas facing natural constraints and high nature value farming and the state of European landscapes) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0	n.a.	Out of the 7 relevant adopted programmes, 7 are relevant for sub-indicator a) and 5 for sub-indicator b)	a) 4.56% b) 0.89%
Result indicator*: a) Percentage of agricultural land under management contracts improving water management b) Percentage of forest area under management contracts improving water management (Focus area 4B: improving water management including fertiliser and pesticide management) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0	n.a.	Out of the 7 relevant adopted programmes, 7 are relevant for sub-indicator a) and 2 for sub-indicator b)	a) 24.28% b) 1.09%

⁵⁰ To be understood as "physical area", i.e. : hectares under several agri-environment contracts are counted only once.

Result indicator*: a) % of agricultural land under management contracts preventing soil erosion and improving soil management b) % of forest area under management contracts preventing soil erosion and improving soil management (Focus area 4C: preventing soil erosion and improving soil management) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0	n.a.	Out of the 7 relevant adopted programmes, 7 are relevant for sub-indicator a) and 2 for sub-indicator b)	a) 26.24% b) 2.11%

* Contributing to the KPI presented in **Part 2**

NB:

Baseline is 0 at the start of the programming period and all the targets are cumulated over the period.

No milestones are defined at the level of focus areas.

Targets:

- For the new generation of spending programmes, targets are set for 2020 in programming and for 2023 in implementing terms.
- Aggregated value from adopted programmes

Two of the 9 programmes approved in 2014 concern a Framework Programme and a Rural Network Programme. 18 RDPs which were "ready for adoption" at the end of 2014 are not taken into account for the calculation of these indicators.

1.1.16 ABB 04 Rural development: specific objective 5

Relevant general objectives: Sustainable management of natural resources and climate action			
Specific objective 5: Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors (Priority 5)		<input checked="" type="checkbox"/> Spending programme: EAFRD <input type="checkbox"/> Non-spending	
Result indicator: Percentage of irrigated land switching to more efficient irrigation systems (Focus area 5A: increasing efficiency in water use by agriculture) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0	n.a.	2 out of the 7 relevant adopted programmes include this Focus Area	10.02%
Result indicator: Total investment in energy savings and efficiency (Focus area 5B: increasing efficiency in energy use in agriculture and food processing) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0	n.a.	2 out of the 7 relevant adopted programmes include this Focus Area	117 153 040

Result indicator: Total investment in renewable energy production (Focus area 5C: Facilitating the supply and use of renewable sources of energy, of by products, wastes, residues and other non food raw material for purposes of the bio-economy) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0	n.a.	5 out of the 7 relevant adopted programmes include this Focus Area	869 595 048
Result indicator*: a) Percentage of LU concerned by investments in life-stock management in view of reducing the GHG and ammonia emissions b) Percentage of agricultural land under management contracts targeting reduction of GHG and ammonia emissions (Focus area 5D: Reducing GHG and ammonia emissions from agriculture) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0	n.a.	Out of the 7 relevant adopted programmes, 2 are relevant for sub- indicator a) and 2 for sub-indicator b)	a) 3.42% b) 1.75%
Result indicator*: Percentage of agricultural and forest area under management to foster carbon sequestration and conservation (Focus area 5E: Fostering carbon sequestration in agriculture and forestry) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0	n.a.	3 out of the 7 relevant adopted programmes include this Focus Area	0.43%

*Contributing to the KPI presented in **Part 2**

NB:

Baseline is 0 at the start of the programming period and all the targets are cumulated over the period.

No milestones are defined at the level of focus areas.

Targets:

- For the new generation of spending programmes, targets are set for 2020 in programming and for 2023 in implementing terms.
- Aggregated value from adopted programmes

Two of the 9 programmes approved in 2014 concern a Framework Programme and a Rural Network Programme. 18 RDPs which were "ready for adoption" at the end of 2014 are not taken into account for the calculation of these indicators.

Main outputs in 2014			
Description	Indicator	Description	Indicator
Follow-up and contribution to the international climate negotiations as regards aspects related to agriculture and LULUCF	Contributions to negotiations	Follow-up and contribution to the international climate negotiations as regards aspects related to agriculture and LULUCF	Contributions to negotiations

Forest Strategy: inter-institutional discussions	Council conclusions adopted Opinions from Committee of the Regions and European Economic and Social Committee adopted	Forest Strategy: inter-institutional discussions	Council conclusions adopted Opinions from Committee of the Regions and European Economic and Social Committee adopted
Forest Strategy; preparation of a multiannual implementation plan	Multiannual implementation plan	Forest Strategy; preparation of a multiannual implementation plan	Multiannual implementation plan
Forest strategy; Standing Forestry Committee and Commission to develop demonstrable criteria and indicators for Sustainable Forest Management	Implementation of the strategy	Forest strategy; Standing Forestry Committee and Commission to develop demonstrable criteria and indicators for Sustainable Forest Management	Implementation of the strategy
Renewable energies: contributions to the implementation of the Renewable Energy and the Fuel Quality Directives and related developments, including biomass sustainability requirements	Contributions to the Directives implementation	Renewable energies: contributions to the implementation of the Renewable Energy and the Fuel Quality Directives and related developments, including biomass sustainability requirements	Contributions to the Directives implementation

Concerning both specific objectives on Sustainable management of natural resources and climate action:

Agri-environmental commitments under the new RDPs have to be implemented by taking into account greening obligation in the first pillar. Therefore, overall achievements related to environmental targets will be more challenging and ambitious in the 2014-2020 period under rural development. The modified approach towards the areas facing natural constraints, which must be determined on the basis of bio-physical features, will also contribute to the preservation of the biodiversity and European landscapes. Finally, the minimum 30% financial allocation for environmental and climate change-related activities which is legally required, will assure adequate means for the ambitious policy objectives.

In the new programming period, objectives related to environmental care are spelt out in greater detail in Focus Areas categorised under rural development priorities 4 and 5. The system takes account of the fact that many supported activities can contribute simultaneously to all of the focus areas under priority 4. The focus areas of priority 5 reflect the importance which the Commission attaches to reducing greenhouse gas emissions, sequestering carbon and increasing resource efficiency.

Further to the adoption in September 2013 of the Communication on the new EU Forest Strategy, in 2014 the file was discussed in other EU Institutions. In May 2014, the Council adopted Conclusions, and the European Parliament is currently preparing an own Initiative Report. Current work of the Commission focuses on the implementation of the Strategy and,

particular on the preparation of a multiannual implementation plan, as requested in the Council Conclusions.

Input was provided to the Communication on a policy framework for climate and energy in the period from 2020 to 2030 for agriculture and forestry. Further work is ongoing in the light of the European Council Conclusions from October 2014.

Given the preliminary stage of implementation of the RDPs 2014-2020, it is too early to draw conclusions on the respective implementation levels.

The approaching of the end of the spending period for the RDPs 2007-2013, has triggered an acceleration in the implementation of the programmes during the year 2014. Data on relevant indicators extracted from the Annual Activity Report 2013 show that the levels of achievement at the end of that year approach the corresponding planned targets for the whole programming period (n+2 rule).

1.1.17 ABB 04 Rural development: specific objective 6

2007-2013 programming period

Improving the quality of life in rural areas and encouraging diversification of economic activity through the development of new economic activities/creation of new jobs and contributing to an adequate level of services for the rural economy,		
Main expenditure-related outputs		
	Dec 13	Target 2007-13
Number of new tourist actions supported	19 400	31 700
Number of villages renewed	39 000	29 000
Number of micro-enterprises supported/created	61 800	73 300
Number of projects financed by LEADER Local Action Groups	139 128	227 281

Relevant general objectives: Balanced territorial development			
Specific objective 6: Promoting social inclusion, poverty reduction and economic development in rural areas (Priority 6)		<input checked="" type="checkbox"/> Spending programme: EAFRD <input type="checkbox"/> Non-spending	
Result indicator: Number of jobs created through supported projects (not LEADER) (Focus area 6A: Facilitating diversification, creation of new small enterprises and job creation) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0	n.a.	6 out of the 7 relevant adopted programmes include this Focus Area	20 900

Result indicator: a) Percentage of rural population covered by local development strategies b) Number of jobs created through supported projects (LEADER) c) Percentage of rural population benefiting from new or improved services / infrastructures (Focus area 6B: Fostering local development in rural areas) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0	n.a.	Out of the 7 relevant adopted programmes, 7 are relevant for sub-indicator a), 6 for sub-indicator b) and 7 for sub-indicator c)	a) 60.80% b) 17.56% c) 11 306
Result indicator: Percentage of rural population benefiting from new or improved IT infrastructures (Focus area 6C: Enhancing accessibility to use and quality of information and communication technologies (ICT) in rural areas) Source: Rural development programmes			
Baseline (2013)	Milestone 2018	Current situation	Target 2023
0	n.a.	3 of the 7 relevant adopted programmes include this Focus Area	50.06%

NB:

Baseline is 0 at the start of the programming period and all the targets are cumulated over the period.

No milestones are defined at the level of focus areas.

Targets:

- For the new generation of spending programmes, targets are set for 2020 in programming and for 2023 in implementing terms.
- Aggregated value from adopted programmes

Two of the 9 programmes approved in 2014 concern a Framework Programme and a Rural Network Programme. 18 RDPs which were "ready for adoption" at the end of 2014 are not taken into account for the calculation of these indicators.

Main outputs in 2014			
Description	Indicator	Current situation	Target
Study on rural tourism	Study launch	Postponed to 2015	2014
Represent DG AGRI, in meetings of the Commission working groups, chaired by DG REGIO, DG JUST or DG EMPL, participating on the Roma Task force, Task Force Greece, Support Group for Cyprus and Mediterranean Task Force	- Meetings attended - Commission progress report on implementation by the MS of their Roma integration strategies Meetings and contributions to the quarterly reports and Memorandum of Understandings - Contribution to the work of the Task Force Mediterranean for the drafting of a Commission staff working document, adopted in May 2014, concerning the	Task Force Mediterranean: DG AGRI does not provide support for any of the activities listed in the Communication on the work of the Task Force. Therefore there are no projects that can be reported for the follow up of the implementation of the activities of the Task Force.	2014 April 2014 2014

	implementation of the Commission Communication to the Parliament and the Council on the work of the Task Force, adopted in December 2013.		
Follow up of the Action plan for implementing the Commission Communication on the integration of Roma in Europe	Follow up actions	Participation in the European Roma Summit, met in Brussels on 4 th April 2014	2014

As regards RDPs 2007-2013, the corresponding levels of achievement are relatively lower than in the case of other policy objectives (i.e. in comparison to other "Axes"). This is mainly due to initial difficulties in the launching of relevant projects at the beginning of the programming period (especially in the case of LEADER). However, the observed positive development of the indicators over the last years is likely to lead to final values closer to the planned results at the end of the spending period.

The bottom-up approach for policy implementation under Leader has been reinforced in the new legal framework, through the Community-led local development (CLLD) strategy. Organised local groups have now the possibility to implement multi-funded strategies, combining different policy areas. The integration of Roma population is being followed and boosted with a dedicated EU-level strategy, involving all parties and decision-makers. Finally, the rural development policy is completely aligned with the Commission overall objective for growth and jobs.

Given the preliminary stage of implementation of the RDPs 2014-2020, it is too early to draw conclusions on the respective implementation levels.

The approaching of the end of the spending period for the RDPs 2007 – 2013, has triggered an acceleration in the implementation of the programmes during the year 2014. Data on relevant indicators extracted from the Annual Activity Report 2013 show that the levels of achievement at the end of that year approach the corresponding planned targets for the whole programming period, although this applies to a lower extent compared to other policy areas.

The following main outputs 2014 are cross-cutting issues and thus, are assigned to several specific objectives/priorities.

Main outputs in 2014			
Description	Indicator	Current situation	Target
Establishment of the delegated and implementing acts and transitional rules for rural development policy for the period 2014-2020	Adoption of delegated and implementing acts	Delegated and implementing acts published on 11 March and 17 July 2014, respectively	2014
Management of the 2007-2013 Rural Development Programmes (financial management, programme modifications, annual reports, monitoring committees)	RDP modifications Follow up of Programmes	117 RDP modifications concerning a total of 82 RDPs	2014
Follow up of actions plans drawn up by Member States in order to reduce the error rate in the implementation of rural development	Corrective and preventive actions implemented Seminars with Paying Agencies and Managing Authorities	2 updates of the action plans 2 Seminars with PA and MA	2014
Negotiation of partnership agreements and contribution to a coherent approach among all ESIF funds	PA preparatory meetings	All PAs adopted	2015
Negotiation and approval rural development programmes for the period 2014 – 2020	Number of RDPs approved	9 RDPs approved in 2014, 18 RDPs "ready for adoption"	117 RDPs approved by 2014 ⁵¹
Closure of programmes	Number of RDPs closed	4 Programmes closed in 2014	11 programmes closed by 2014
Guidance documents for the implementation of the rural development policy	Number of guidance documents	37 guidance documents and measure fiches finalised in 2014	32 documents finalised by 2014
Dissemination of information about rural development policy to different stakeholders (e.g. advisory groups)	Advisory groups held	2 Good Practice Workshops 2 Evaluation Expert Committees 1 Expert Group for Monitoring and Evaluating the CAP	2014

⁵¹ Latest available indicative figure, to be updated when programmes are submitted.

Coordinate the contribution of DG AGRI to the implementation of the Action plan concerning the Danube strategy relative to rural development	Coordination actions	No specific actions in 2014	2014
Launch of the European Network for Rural Development (ENRD) 2014-2020	ENRD launching	Service contract for the new ENRD Contact Point signed on 16 July 2014	2014
Implementation and Monitoring the Baltic Strategy	Coordination actions	Dissemination of 2 policy recommendation documents Replies to 3 ISCs launched by lead-DG REGIO Representation of DG AGRI in 1 working group meeting and 1 conference and dissemination of results	2014
Implementation of the Adriatic-Ionic Strategy (EUSAIR)	Represent DG AGRI, in inter-service meetings chaired by DG REGIO and DG MARE and meetings of the working groups chaired by the national authorities.	One meeting of the Impact Assessment Steering Group for the EUSAIR was held on 30 January 2014. Two inter-service meetings for the preparation and implementation of the EU Adriatic and Ionian Sea Strategy (EUSAIR) were held on 14 March and 30 October 2014, respectively. Contribution to the Action Plan and the Communication of the EUSAIR; and to the DG REGIO's presentation on the EUSAIR for the Round Table in Tirana, Albania on 10 January.	2015
Follow up of the Commission Working Groups on improvement of the Administrative capacity in Member States	Representation of DG AGRI in the Working Groups chaired by DG EMPL (IGCA) ⁵² and DG REGIO (IGFC) ⁵³	Assistance to 3 meetings of IGCA (18/3, 1/7, 23/9), and 2 meetings of IGFC (25/3, 11/9)	

⁵² Inter-service Group on Institutional Capacity and Administrative Reform

⁵³ European Structural and Investment Funds inter-service group on reinforcing the Funds' capacity in the weaker Member States (IGFC)

Following the approval in December 2013 of the Basic Act concerning the reformed Rural Development Policy, during the year 2014 intensive work has been dedicated to prepare the ground for a smooth implementation of the new programming period 2014-2020, as well as to progress substantially towards the completion of the RDPs 2007-2013.

An overall amount of more than 11 billion euro⁵⁴ has been disbursed in 2014 in relation to the implementation of RDPs, of which the vast majority at the benefit of RDPs 2007- 2013. This has permitted to reach a cumulative implementation rate of more than 81% on the total committed funds on RDPs 2007-2013⁵⁵.

The legislative framework for implementing the new rural development policy was completed by the publication of delegated and implementing regulations on 11 March and 17 July 2014, respectively. To support the new programming phase, a considerable number of guidance documents⁵⁶ have been regularly issued during the year and extensively discussed with the Member States in the context of expert meetings and other dedicated events.

117 RDPs 2014-2020 (out of a total of 118) have been submitted to the European Commission progressively over the year. Intensive dialogue with the Member States has led to the issuing of a "Letter of Observations" in relation to 105 of the received draft programmes, and to the approval of 9 of them⁵⁷. The assessment of the RDPs has gone hand in hand with the treatment of 28 national Partnership Agreements (covering the 5 European Structural and Investment Funds (ESIF)⁵⁸), all of them formally received and approved in 2014.

Regular follow up on the actions plans drawn up by Member States in order to reduce the error rate in the implementation of rural development has been ensured, including at the occasion of monitoring committees, annual review meetings and two dedicated seminars involving managing Authorities and Paying Agencies from all Member States. The actions plans have been updated twice during the year and their quality has been improved, notably by requiring a more systematic coverage of relevant audit findings and a more rigorous setting of appropriate indicators. A new IT tool has been developed to improve DG AGRI capacity to store the massive information included in the action plans and boost its analytical means to treat such information.

On 14 July 2014, the European Commission and the European Investment Bank have signed a Memorandum of Understanding (MoU) for co-operation in agriculture and rural development in

⁵⁴ Representing 99.99% of payment appropriations made available for the year 2014.

⁵⁵ Taking account of expenditure declared to the Commission by the end of third quarter of 2014. The Member States dispose of a time period until the end of the year 2015 to incur expenditures in relation to their RDPs 2007-2013.

⁵⁶ These concern both subjects of horizontal nature (e.g. in relation to programming, evaluation etc.), and detailed measure fiches providing good practice approaches for the implementation of the rural development measures.

⁵⁷ AT, DK, PL, DE Saxony, DE Saxony-Anhalt, FI Mainland, PT Continente, DE National Framework, DE Rural Development Network. An additional draft 18 RDPs were "ready for adoption" (i.e. in a stage where the procedures for their adoption were started but not yet completed) at the end of 2014.

⁵⁸ European Agricultural Fund for Rural Development (EAFRD), European Regional development Fund (ERDF), European Social Fund (ESF), the Cohesion Fund (CF) and the European Maritime and Fisheries Fund (EMFF)

2014-2020. The MoU will offer the Member States further possibilities to benefit from the EIB experience and expertise in the development of financial instruments, which play an increasingly important role to support.

2014 has represented a transitional year for rural development programming.

The approaching of the end of the eligibility period for the implementation of RDPs 2007-2013 has triggered a considerable acceleration in the corresponding levels of payment claims, which have been treated effectively and in timely manner.

Solid preparatory work has been carried out to set the grounds for the implementation of a new generation of high-quality programmes, the majority of which will be approved during the year 2015. The assessment of draft RDPs 2014-2015 and the related procedural steps for their approval have been performed in the respect of relevant legal provisions.

Progresses have been realised as regards the collaboration between the Member States and the Commission in view of the reduction of the error rate levels in the implementation of the RDPs. Improved action plans by the Member States and enhanced tools for their follow-up by the Commission can be expected to lead to a reduction in the level of error in rural development in the next future.

1.1.18 ABB 05 SAPARD/IPARD: specific objective 1

Relevant general objective: The specific objective contributes to all three general objectives of the CAP and to IPA general objective "support candidate countries and potential candidates ('beneficiary countries') in implementing the political, institutional, legal, administrative, social and economic reforms required by those beneficiaries in order to comply with the Union's values and to progressively align to Union rules, standards, policies and practices with a view to Union membership."		
Specific objective 1: To contribute to the sustainable adaptation of the agricultural sector and rural areas in the three countries (Bulgaria, Romania and Croatia) eligible for Sapard support until 2009.		
<input checked="" type="checkbox"/> Spending programme: SAPARD <input type="checkbox"/> Non-spending		
Result indicator: All Sapard programmes closed in accordance with the Multi-Annual Financing Agreement (MAFA) concluded with the three countries. Source: MAFA		
Baseline (2013)	Current situation	Target (mid-term)
Final amounts calculated. They still need to be confirmed by a final "clearance of accounts" decision	decisions still not finalised	2014 <i>This target was agreed internally in view of the clearance of accounts</i>

Main outputs in 2014			
Description	Indicator	Current situation	Target
Sapard programs of HR, RO and BG closed	Final balance settled for the Sapard programs of HR, RO and BG	Decisions not yet finalised, final amounts not yet settled due to clearance of accounts not being finalised	2014

For the final closure of the Sapard programmes by the Commission the following conditions must be met:

- *final expenditure declaration has been submitted by the countries*
- *final reports must be approved by the Commission*
- *ex-post evaluations must be submitted to and accepted by the Commission*
- *Sapard accounts of the countries must be finally cleared by the Commission*

Final expenditure declarations were submitted by all Sapard countries.

The final accounts are cleared for nine Sapard programmes including Croatia. The clearance of the accounts for Sapard Romania and Bulgaria is still pending due to problems found during the verifications of the accounts. Therefore, the final balance could not be settled in 2014. It is expected that all steps will have been completed for these two countries and that their programmes, together with Croatia will be closed in 2015.

The 2010 synthesis report of Sapard ex-post evaluations showed that Sapard pre-accession funds used for the agricultural investment and processing investments measures have been relatively

effective, contributing to the competitiveness and income at the individual level of the beneficiaries. At sector level impacts were more moderate due to the limitations of the Sapard budget.

The impacts on the rural economies have usually shown to be significant at local micro community level. The relative small budget available prevented Sapard from having a greater impact at regional and national level.

Due to the small share of the budget for the measure "Diversification of economic activities", Sapard did not significantly decrease the dependency on agriculture in rural areas.

The evaluation confirmed the positive impacts of Sapard on the set up of the institutional structures for the management and control of EU funds, job creation and maintenance of job and, technological modernisation. The instrument also contributed indirectly to the introduction of environmentally friendly technologies because of the obligation to respect EU standards for agricultural holdings and processing related investments.

It has not been possible to close the programmes as the clearance of accounts has not yet been completed for Romania and Bulgaria. All of the other pre-conditions have been completed.

1.1.19 ABB 05 SAPARD/IPARD: specific objective 2

<p>Relevant general objective: The specific objective contributes to all three general objectives of the CAP and to IPA general objective "support candidate countries and potential candidates ('beneficiary countries') in implementing the political, institutional, legal, administrative, social and economic reforms required by those beneficiaries in order to comply with the Union's values and to progressively align to Union rules, standards, policies and practices with a view to Union membership."</p>		
<p>Specific objective 2: Enabling decentralisation of assistance management to the Candidate Countries by supporting the development of the administrative and management and control capacity of the institutions implementing and managing the IPARD programmes.</p>		
<p><input checked="" type="checkbox"/> Spending programme: IPARD <input type="checkbox"/> Non-spending</p>		
<p>Result indicator: IPARD Agencies are in place and operational, confirmed by national accreditation Source: DG AGRI</p>		
Baseline (2013)	Current situation	Target (mid-term)
<p>HR Achieved for 2 measures in 2009 Achieved for 2 additional measures in 2011 Achieved for 2 additional measures in 2013</p>	<p>All measures foreseen from the programme, except A-E measure, accredited and implemented.</p>	<p>HR The agri-environmental measure will be implemented under the post-accession programme in 2014. <i>National authorities have decided not to go for national accreditation of the agri-environmental measure under IPARD</i></p>

TR Achieved for 3 measures and in 42 provinces in 2011-2013 Finalised for Technical Assistance measure in 2012 (conferral completed)	All measures foreseen from the programme, except A-E measure, accredited and implemented.	TR To pursue the national accreditation for agri-environment measure <i>National authorities' decision</i>
fYRoM Achieved for 3 measures in 2009 Finalising for one measure is delayed and planned to be granted in early 2014.	National accreditation for measure Technical Assistance was granted in August 2014.	fYRoM To pursuit the national accreditation for the measure "Technical Assistance" <i>National authorities' decision</i>
ME ME has decided not to finalize national accreditation for IPARD I and will only use IPARD II funds	ME has decided not to finalize national accreditation for IPARD I and will only use IPARD II funds	ME Use of IPARD II funds
Result indicator: Multi-annual Financing Agreements (MFA) concluded Source: DG AGRI		
Baseline (2013)	Current situation	Target (mid-term)
HR Achieved for 2010, 2011 and 2012, on-going for 2013	Conclusion of MFA for 2013 completed	HR 2015 <i>The target is a consequence of the provisions of the Sectoral Agreement concluded between the country and the Commission</i>
TR Achieved for 2010, 2011 and 2012, on-going for 2013	MFA for 2013 completed	TR 2014 <i>The target is a consequence of the provisions of the Sectoral Agreement concluded between the country and the Commission</i>
fYR of Macedonia Achieved for 2010 and 2011, on-going for 2012 and 2013	MFA for 2012 and 2013 concluded	fYR of Macedonia 2014 <i>The target is a consequence of the provisions of the Sectoral Agreement concluded between the country and the Commission</i>
ME ME has decided not to finalize national accreditation for IPARD I and will only use IPARD II funds	ME ME has decided not to finalize national accreditation for IPARD I and will only use IPARD II funds	ME Use of IPARD II funds

Main outputs in 2014			
Description	Indicator	Current situation	Target
Conferral of management granted to TR for 1 measure and for the former Yugoslav Republic of Macedonia also for 1 measure	Conferral decision of the Commission	Conferral of management for Technical Assistance achieved for Turkey Conferral of management for measure "Technical Assistance" for the former Yugoslav Republic of Macedonia is expected by mid-2015 while national accreditation was achieved in 2014.	2014

The Multi-annual Financing Agreements for 2013 have been concluded. Technical assistance conferral of management was completed in 2014 for Turkey, while National Accreditation of this measure was completed in the former Yugoslav Republic of Macedonia. FYRoM has to make some adjustments before conferral of management can be granted.

The IPARD programme for Turkey, former Yugoslav Republic of Macedonia and Croatia were modified to take account of technical and /or financial modification.

Montenegro decided not to implement IPARD, but to concentrate on the implementation of the IPARD- like project under IPA and the preparation for the implementation IPARDII.

1.1.20 ABB 05 SAPARD/IPARD: specific objective 3

<p>Relevant general objective: The specific objective contributes to all three general objectives of the CAP and to IPA general objective "support candidate countries and potential candidates ('beneficiary countries') in implementing the political, institutional, legal, administrative, social and economic reforms required by those beneficiaries in order to comply with the Union's values and to progressively align to Union rules, standards, policies and practices with a view to Union membership."</p>		
<p>Specific objective 3⁵⁹: To contribute to the sustainable adaptation of the agricultural sector and rural areas and to the new Member State Croatia's and Candidate Countries' preparation for the implementation of the <i>acquis communautaire</i> concerning the CAP and related policies under IPARD 2007 – 2013 (IPARD I) by:</p> <ol style="list-style-type: none"> 1. improving market efficiency and implementation of Union standards, 2. preparatory actions for the implementation of the agri-environmental measures and local rural development strategies, 3. development of the rural economy. 		
		<input checked="" type="checkbox"/> Spending programme: IPARD I <input type="checkbox"/> Non-spending
<p>1. Improving market efficiency and implementation of Union standards (AXIS 1)</p>		
<p>Result indicator: Number of applications received Source: IPARD programs 2007-2013, bi-annual and bi-monthly reports</p>		
Baseline (2013)	Current situation	Target (mid-term)
HR: 531 applications fYRoM: 459 applications TR: 1451 applications	HR: 640 applications fYRoM: 361 applications TR: 3394 applications	833 in HR 2890 in fYRoM 3358 in TR
<p>Result indicator: Number of applications approved Source: IPARD programs 2007-2013, bi-annual and bi-monthly reports</p>		
Baseline (2013)	Current situation	Target
HR: 203 applications fYRoM: 698 applications TR: 594 applications	HR: 421 applications fYRoM: 352 applications TR: 1961 applications	514 in HR 2330 in fYRoM 2040 in TR
<p>Result indicator: Number of farms/enterprises supported (paid by the IPARD Agency) Source: IPARD programs 2007-2013, bi-annual and bi-monthly reports</p>		
Baseline (2013)	Current situation	Target
87 projects in HR 75 projects in fYRoM 127 projects in TR	HR: 177 applications fYRoM: 152 TR: 1110 projects	414 in HR 2330 in fYRoM 1836 in TR

⁵⁹ Targets have been updated taking account of the latest implementation status.

Result indicator: Total volume of investment (paid) Source: IPARD programs 2007-2013, bi-annual and bi-monthly reports		
Baseline (2013)	Current situation	Target
€38m in HR €5.8m in fYRoM €22.7m in TR	HR: €85.2m fYRoM: €2.9m TR: €421m (public only)	€220m in HR €164m in fYRoM Target in TR ⁶⁰
Result indicator: Increase on gross value added (GVA) in supported holdings Source: IPARD programs 2007-2013 and bi-annual reports		
Baseline (2013)	Current situation	Target
For the time being information not available in HR, fYRoM and TR	For the time being information not available in HR, fYRoM and TR	5% in HR 5-8% in fYRoM Target in TR ⁶¹ by €52m
Result indicator: Number of farms/enterprises introducing Union standards Source: IPARD programs 2007-2013 and bi-annual reports, *AIR2013 (data by 31/12/13)		
Baseline (2013)	Current situation	Target
For the time being information not available in HR, fYRoM and TR	HR*: 89 fYRoM:120 TR* 650	290 in HR Target in fYRoM ⁶² Target in TR ⁶³ : 408
Result indicator: Economic growth in agriculture – net additional added value in PPS (Purchase Power Standards = purchasing power of the same goods with different currencies) Source: IPARD programs 2007-2013 and bi-annual reports		
Baseline (2013)	Current situation	Target
For the time being information not available for HR	For the time being information not available for HR	5% in HR

⁶⁰ No target agreed at the time when programme was set up.

⁶¹ No target agreed at the time when programme was set up.

⁶² No target agreed at the time when programme was set up.

⁶³ No target agreed at the time when programme was set up.

Result indicator: Labour productivity in agriculture – change in gross value added (GVA) Source: IPARD programs 2007 – 2013 and bi-annual reports		
Baseline (2013)	Current situation	Target
For the time being information not available in HR, fYRoM and TR	For the time being information not available for HR	To increase
2. Preparatory actions for the implementation of the agri-environmental measures and local rural development strategies (AXIS 2)		
Result indicator: Local rural development strategies A) Number of applications received B) Number of applications approved C) Number of recognised LAGs D) Total population of LAGs Source: IPARD programs 2007 – 2013 and bi-annual reports		
Baseline (2013)	Current situation	Target
In HR A) 40 applications received B) 30 LAGs contracted C) 0 LAGs D) 0 Contracting under axis 2 Leader measure has not started in TR and fYRoM, as the accreditation and conferral processes in the countries are not yet initiated.	In HR A) 71 B) 42 C) 41 D) 1 386 000	In HR A) 40 B) 25 C) 25 D) 1 055 000
3. Development of the rural economy (AXIS 3)		
Result indicator: Improvement of rural infrastructure A) Number of applications received B) Number of applications approved C) Number of beneficiaries D) Total volume of investment (data by 10/11/2014 – Monitoring Tables) Source: IPARD programs 2007-2013 and bi-annual reports		
Baseline (2013)	Current situation	Target
A) TR: n.a. (see comment below) HR: 199 B) HR: 32 C) HR: 6 D) HR: €0.5m No projects have been contracted yet by fYRoM under this measure. TR does not intend to programme this measure.	A) HR 199 B) HR: 106 C) HR: 33 D) HR: €9.3m	A) 2580 in TR 205 in HR B) 174 in HR C) 148 in HR D) €59m in HR

Result indicator: Diversification of rural economy		
E) Number of applications received		
F) Number of applications approved		
G) Number of beneficiaries		
H) Total volume of investment (data by 10/11/2014 – Monitoring Tables)		
Source: IPARD programs 2007-2013 and bi-annual reports		
Baseline (2013)	Current situation	Target
E) HR: 326 fYRoM: 153 TR: 1930	E) HR: 326 fYRoM: 13 TR: 8322	E) 380 in HR 417 in fYRoM 5697 in TR
F) HR: 53 fYRoM: 9 TR: 125	F) HR: 171 fYRoM: 13 TR: 5864	F) 350 in HR 155 in fYRoM 5127 in TR
G) HR: 12 fYRoM: n/a TR: 57	G) HR: 41 fYRoM: n/a TR: €77m paid	G) 329 in HR 155 in fYRoM 4615 in TR
H) HR: €1.1m paid fYRoM: €0m (projects were cancelled)	H) HR: €3.8m fYRoM: €0m (currently no projects paid)	H) €39m in HR €31m in fYRoM

Main outputs in 2014			
Description	Indicator	Current situation	Target
Management of the implementation of 3 IPARD programmes 2007-2013 (including their amendments)	Percentage of EU-money paid annually to the beneficiary countries	The commitments for all the years of the programming period 2007-2013 have been made. De-commitments for the years 2008, 2009 and 2010 for HR and fYRoM have been made. De-commitments for the year 2011 are expected to be made in 2015 for HR and fYRoM.	All programs can implement one annual allocation in a year

Final results for 2014 will only be available once annual implementation reports for 2014 are available and submitted to the Commission in mid-2014.

Nevertheless, on the basis of information available one can conclude that IPARD implementation progressed well in 2014 in Turkey and Croatia. This conclusion is supported by the latest available data on the number of applications approved. It should be noted that the delay between application approval and payments to beneficiaries can be eighteen months or more, therefore the real result in terms of IPARD fund absorption will not be seen for some time.

In the case of the former Yugoslav Republic of Macedonia, both potential beneficiaries and the IPARD management structure continue to be challenged by the programme for numerous reasons. The Commission continues to work with a view to improving the implementation situation.

1.1.21 ABB 05 SAPARD/IPARD: specific objective 4

<p>Relevant general objective: The specific objective contributes to all three general objectives of the CAP and to IPA general objective "support candidate countries and potential candidates ('beneficiary countries') in implementing the political, institutional, legal, administrative, social and economic reforms required by those beneficiaries in order to comply with the Union's values and to progressively align to Union rules, standards, policies and practices with a view to Union membership."</p>		
<p>Specific objective 4: To finalise the institutional and legal set up in Candidate Countries Serbia , Montenegro and Albania to manage the IPARD 2014-2020 (IPARD II) rural development programmes⁶⁴ and to provide guidance in building institutional capacities in Bosnia and Herzegovina and the Kosovo</p>		
<p><input checked="" type="checkbox"/> Spending programme: IPARD II <input type="checkbox"/> Non-spending</p>		
<p>Result indicator: Setting up of the implementing structures:</p> <ul style="list-style-type: none"> • Designation, identification and start of operation of NIPAC, NAO and management structure in accordance with the provisions of the Framework Agreement. • Setting-up and start of operation of IPARD Agency in accordance with the provisions of the Framework and Sectoral Agreement. • Setting-up and start of operation of Managing Authority in accordance with the provisions of the Framework and Sectoral Agreement. • Successful contribution of relevant IPA projects to building institutional capacities in the countries concerned. <p>Source: Information on progress in national accreditation by beneficiary countries.</p>		
Baseline (2013)	Current situation	Target ⁶⁵
<p>- 18 advisory missions to the potential Candidate Countries were carried out.</p> <p>- Advice to the national authorities was provided in 13 technical meetings in Brussels or in the countries concerned.</p> <p>- 5 IPARD capacity-building IPA component I projects are being implemented.</p> <p>- Managing Authority and IPARD Agency have been set up in Albania, Montenegro and Serbia. In Albania these bodies are implementing IPA 2011 project on "piloting IPARD", which is to be extended under IPA 2013. ToR of a similar project to be implemented</p>	<p>Operating Structure (Managing Authority and IPARD Agency) and Management Structure (National Fund and NAO Support Office) have been set up in Albania, Montenegro and Serbia.</p> <p>Albania and Montenegro are implementing IPARD-like grant schemes.</p> <p>Albania, Montenegro and Serbia are preparing their IPARD entities for 'entrustment of budget implementation tasks'.</p> <p>Turkey and former Yugoslav</p>	<ul style="list-style-type: none"> • NIPAC, NAO and management structure operating in 2014 • IPARD Agency operating in 2015 • Managing Authority operating in 2015 • Institutional capacities in the countries concerned built up through IPA component I projects in 2013 and 2014 <p>The Target to set up the implementing structures for Serbia and Montenegro in 2013 for implementing IPARD I were not relevant as both countries decided not to</p>

⁶⁴ For the time being Bosnia and Herzegovina and the Kosovo have no capacity to implement IPARD II.

⁶⁵ As set by the Financial Regulation of the EU for implementing the EU budget.

by FAO in BiH have been prepared with AGRI's support - Study on potential for diversification in agriculture in Albania and Montenegro was carried out	republic of Macedonia will most likely opt for a lighter procedure based on the existing conferral of management powers decisions granted by the EC under IPA I.	pursue under IPARD I. However, those structures need to be set up in 2014 to allow IPARD II implementation.
Result indicator: Signature of Sectoral Agreements for IPARD II between the Commission and the beneficiary countries (except Bosnia and Herzegovina and Kosovo) Source: Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11/03/2014 establishing an Instrument for Pre-accession Assistance (IPA II)		
Baseline (2013)	Current situation	Target
Under IPARD II all potential candidate countries are eligible for IPARD support. However, for the time being only Albania, Serbia, and Montenegro intend to implement IPARD II.	The text of the draft Sectoral Agreement was provided to the IPARD II countries on 21 November 2014. Their comments are currently being analysed. Sectoral Agreement will be finalised in Q1 2015, after which signing procedures can be arranged.	The Sectoral Agreement for IPARD II for Turkey, the former Yugoslav Republic of Macedonia, Albania, Montenegro and Serbia will be signed in 2015.
Result indicator: Submission of IPARD II programmes for Turkey, Serbia and the former Yugoslav Republic of Macedonia to the Commission, preparatory work under way for Albania and Montenegro so that IPARD II programmes can be adopted in 2015. Source: Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11/03/2014 establishing an Instrument for Pre-accession Assistance (IPA II)		
Baseline (2013)	Current situation	Target
Albania, Serbia and Montenegro have presented several draft IPARD I Programmes. However, all three countries decided not to pursue IPARD I. They are now asked to submit new IPARD II Programmes.	IPARD II Programmes for Serbia, Turkey and the former Yugoslav Republic of Macedonia were approved by the IPA II Committee on 9 December 2014. Montenegro and Albania on track for programme adoption during the 1 st semester of 2015	IPARD II Programmes submitted by Serbia, the former Yugoslav Republic of Macedonia and Turkey in 2014. Adoption of the programmes by the Commission is expected by 31/3/15. Albania and Montenegro expected to submit their programmes by mid of 2015 so their adoption can be done by the end 2015.

Main outputs in 2014			
Description	Indicator	Current situation	Target
All countries (except Bosnia and Herzegovina and Kosovo) eligible for IPARD II have nationally accredited IPARD II implementing	Entrustment of budget implementation tasks by the Commission and Commission decision on IPARD II programmes	'National accreditation' of IPARD II in Montenegro and Serbia expected late	All programmes can implement one annual allocation in a year

<p>structures. IPARD II programmes of Turkey, Serbia and fYRoM approved by the IPA II Committee in December 2014. Preparation for the approval of the programmes by the Commission underway.</p> <p>Montenegro and Albania prepare their IPARD II programmes for submission to the Commission.</p>	<p>for Turkey, Serbia and fYRoM.</p> <p>National accreditation of IPARD II implementing structures for other beneficiary countries (except Bosnia and Herzegovina and Kosovo).</p>	<p>2015.</p> <p>Entrustment of budget implementation tasks for IPARD II in Montenegro and Serbia, expected in early 2016.</p> <p>Entrustment of budget implementation of IPARD II for Turkey and fYRoM on track for 2015</p>	
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On the basis of information available and subject to verification all countries concerned are on track to implement IPARD II in 2015 (Turkey, fYRoM if necessary) or 2016 (Serbia, Montenegro and Albania).

1.1.22 ABB 05 SAPARD/IPARD: specific objective 5

<p>Relevant general objective: The specific objective contributes to all three general objectives of the CAP and to IPA general objective "support candidate countries and potential candidates ('beneficiary countries') in implementing the political, institutional, legal, administrative, social and economic reforms required by those beneficiaries in order to comply with the Union's values and to progressively align to Union rules, standards, policies and practices with a view to Union membership."</p>		
<p>Specific objective 5: IPARD II 2014-2020 To contribute to IPA general objective 1: "to support candidate countries and potential candidates (Turkey, the former Yugoslav Republic of Macedonia, Serbia, Montenegro, Albania, and at a later stage Bosnia and Herzegovina and the Kosovo) in implementing the political, institutional, legal, administrative, social and economic reforms required to bring the countries closer to Union values and to progressively align to Union rules, standards, policies and practices with a view to Union membership" and to the IPA specific objective 1 "support for political reforms", specific objective 2 "Support for economic, social and territorial development, with a view to a smart, sustainable and inclusive growth" and specific objective 3 "Strengthening the ability of beneficiary countries to fulfil the obligations stemming from membership by supporting progressive alignment with and adoption, implementation and enforcement of the Union <i>acquis</i>, including preparation for management of Union Structural Funds, the Cohesion Fund and the European Agricultural Fund for Rural Development".</p>		<input checked="" type="checkbox"/> Spending programme: IPARD II <input type="checkbox"/> Non-spending
<p>IPA specific objective 1: Support for political reforms</p>		
<p>Result indicator: Number of measures conferred for indirect management without ex ante controls under IPARD II programmes Source: Estimate, based on experience gained under Sapard and IPARD I</p>		
Baseline (2013)	Current situation	Target 2020
0	0	32
<p>Result indicator: Number of meetings of the Monitoring Committee involving representatives of civil society and agriculture sector stakeholders in implementing rural development programmes Source: Estimate, based on experience gained under Sapard and IPARD I</p>		
Baseline (2013)	Current situation	Target 2020
0	0	68
<p>IPA specific objective 2: Support for economic, social and territorial development, with a view to a smart, sustainable and inclusive growth</p>		
<p>Result indicator: Number of economic entities performing modernisation projects in agri-food sector Source: Estimate, based on experience gained under Sapard and IPARD I</p>		
Baseline (2013)	Current situation	Target 2020
0	0	8100

Result indicator: Number of economic entities developing additional or diversified sources of income in rural areas Source: Estimate, based on experience gained under Sapard and IPARD I		
Baseline (2013)	Current situation	Target 2020
0	0	4250
Result indicator: Overall investment in physical capital in agri-food and rural development (€) Definition: Overall investment in machines, equipment, production facilities made by farmers, food processing and marketing enterprises as well as micro and small enterprises in rural areas Source: Estimate, based on experience gained under Sapard and IPARD I		
Baseline (2013)	Current situation	Target 2020
0	0	€2.58 billion
IPA specific objective 3: Strengthening the ability of beneficiary countries to fulfil the obligations stemming from membership by supporting progressive alignment with and adoption, implementation and enforcement of the <i>acquis communautaire</i>, structural, cohesion, agricultural and rural development funds and policies of the Union		
Result indicator: Number of economic entities progressively upgrading towards EU standards Definition: Number of farmers and food processing and marketing enterprises progressively upgrading to EU environmental, food safety and hygiene, occupational standards Source: Estimate, based on experience gained under Sapard and IPARD I		
Baseline (2013)	Current situation	Target 2020
0	0	5550

Main outputs in 2014			
Description	Indicator	Current situation	Target
IPARD II programmes of TR and FYR are approved by the IPA II Committee and the annual allocation 2014 is to be committed in the EU budget very early in 2015.	Number of programmes approved and amount of money committed	IPARD II Programmes for Serbia, Turkey and the former Yugoslav Republic of Macedonia were approved by the IPA II Committee on 9 December 2014. Adoption (and budgetary commitment) expected in the 1st Q 2015. Serbia has no budget allocation for 2014.	5 programmes approved €90m committed

During 2014 substantial input was provided for the establishment of the IPA 2014-2020 legal framework. Overall the implementation of SAPARD and IPARD by and in accession countries met our targets, although it was not possible to formally close SAPARD yet, and the former Yugoslav Republic of Macedonia continues to experience absorption and implementation challenges. The accession countries take up of programmes and the level of commitment of funds continued on an upward trend in line with our objectives.

The programme is on course to meet its multiannual objectives as measured by the targets and performance indicators selected.

1.1.23 ABB 06 External relations: specific objective 1

Relevant general objective: The activity contributes to achieving all three general objectives of the CAP.		
Specific objective 1: To promote the EU agricultural sector by contributing to successful negotiation and cooperation within the World Trade Organisation (WTO) and other multilateral organisations such as the Organisation for Economic Co-operation and Development (OECD) and the Food and Agriculture Organisation (FAO).		
<input checked="" type="checkbox"/> Spending programme: EAGF and EAFRD <input type="checkbox"/> Non-spending		
Result indicator: Timely contribution to negotiations and other ongoing processes in multilateral fora Source: DG AGRI		
Baseline (2013)	Current situation (2014)	Target (mid-term)
100% of contributions in time. Examples: Provision of negotiating lines to take in the context of WTO DDA negotiations following the 9 th Ministerial Conference (Bali, December 2013). Relevant input to agriculture-related FAO activities.	All contributions prepared in time and to the required quality.	100% of contributions in time <i>This target was agreed within DG AGRI and is reflected by relevant procedures for conducting negotiations.</i>

Main outputs in 2014			
Description	Indicator	Current situation	Target
WTO Agricultural negotiations under the Doha Development Agenda (DDA) following the 9 th Ministerial Conference in December 2013	Contributions made to follow-up work 'post Bali'	100% of contributions in time	Throughout 2014
Negotiations in the WTO on compensatory adjustments for other WTO Members in respect of Croatia's accession to the EU (Article XXIV:6 GATT)	Contributions made to negotiations	100% of contributions in time	Throughout 2014
Implementation of rights and obligations under existing WTO Agreements including notifications and monitoring, Trade Policy Reviews, schedule modification negotiations (Article XXVIII GATT), WTO accessions and Dispute Settlement Procedures	Contributions made	100% of contributions in time	Throughout 2014
FAO Regional Conference on Family Farming in Bucarest	Contributions made to preparation and participation	DG AGRI prepared EU statements and actively participated in all these FAO meetings. Ahead of Regional Conference,	April 2014

	in the FAO regional conference	DG AGRI solved a trade-related issue. DG AGRI's contributions prepared in a timely, efficient way, and the CAPs role, and the role of trade, in food security was understood.	
Committee on Agriculture (COAG)			September/October 2014
41 st Committee on Food Security			October 2014
Second International Conference on Nutrition (ICN2)			November 2014
EU-Africa Summit: adoption of the new Joint Africa-EU Strategy post 2013 and roadmap 2014-2017	Specific chapter on agriculture and food security in new JAES and roadmap Set up action plan for implementation of roadmap.	Specific chapter adopted on the JAES roadmap, includes substantial commitments on agriculture and food security; action plan now being set up under the new Commission in line with planned adoption in 1 st Semester 2015.	Throughout 2014 (final adoption of action plan in 1 st semester 2015)

The EU took an active role in the discussions at the WTO on a work programme following the successful 9th Ministerial Conference of December 2013. In particular, it showed leadership with ideas aimed at progressing the DDA talks on agriculture. However, 4 months of stalemate started in July 2014 due to opposition by another WTO member to the adoption of the Trade Facilitation protocol, until a solution was reached in November. The EU led by example in fulfilling WTO transparency obligations through updated notifications covering all pillars on the most recent exercises on domestic support (2011-12), export competition (2012-13) and tariff-rate quota fill (2011-12). The EU submitted to the WTO a draft comprehensive schedule for the EU-25 after years of preparatory work. GATT Article XXIV.6 negotiations (following EU enlargement) were concluded with several key partners. Much preparatory work was completed for the review of the Lisbon Agreement on appellations of origin at WIPO which will be discussed at a Diplomatic Conference in May 2015.

Moreover, DG AGRI participated to the above-listed FAO meetings, as well as additional ones (e.g. Ministerial, several events relating to the International Year of Family Farming). Our contribution raised the profile and understanding of the contribution EU agricultural policy and trade can make to food security and related issues. This reflected the EU's commitment to policy coherence for development. Participants recognised that European agriculture has changed and become outward oriented and that the European model of agriculture can be a useful reference point for developing countries' own agricultural strategies.

The policy of engaging with the international community in promoting the trade and development dimension of European agriculture has successfully met its targets in 2014.

1.1.24 ABB 06 External relations: specific objective 2

Relevant general objective: The activity contributes to achieving all three general objectives.		
Specific objective 2: Improve market access for agricultural products by contributing to negotiating, revising bilateral agreements, by resolving trade irritants, ensuring protection for EU geographical indications in third countries by negotiating relevant provisions within Free Trade or Associations Agreements or stand-alone agreements, carrying out dialogues in agriculture and cooperation activities and contributing to sustainable economic development in particular in developing countries.		
<input checked="" type="checkbox"/> Spending programme: EAGF and EAFRD <input type="checkbox"/> Non-spending		
Result indicator: Timely preparation of and contribution to bilateral negotiations leading to the objectives given. Source: DG AGRI		
Baseline	Current situation (2014)	Target (mid-term)
100% of timely contributions. Examples: Contributing to negotiations with WTO partners in the framework of Art XXIV.6 GATT; Contributing to negotiations with Canada on the agricultural aspects of the Comprehensive Economic and Trade Agreement, with the United States on the Trans-Atlantic Trade and Investment Partnership; Contributing to negotiations with the Southern African Development Community (SADC), East African Community (EAC), West Africa, amongst others, on the conclusion of the Economic Partnership Agreement; Implementation of agri and non agri GI provisions for Cariforum EPA – mandate under elaboration Negotiating a stand-alone agreement with China on cooperation on, and protection of, geographical indications Contributing to negotiations for the conclusion of Free Trade Agreements with Ecuador Steering the process leading to the protection of EU geographical indications in Central America, in the framework of the agreement with these countries Carrying out dialogues on agricultural issues with some third countries (China, Brazil, India) and cooperation activities in the agricultural field	All contributions prepared and delivered on time, leading in many cases to successful conclusion of work (eg. SADC, EAC, West Africa, CETA, and Ecuador negotiations all completed). Agreements with Ukraine and Moldova brought into force in late 2014; and initiatives launched in response to Russia's ban on EU agricultural exports. Some dialogues postponed at request of partners, to take place instead in 2015, others (eg. Japan) took place as scheduled.	100% of contributions in time <i>This target was agreed within DG AGRI and is reflected by relevant procedures for conducting negotiations.</i>

Main outputs in 2014			
Description	Indicator	Current situation	Target
Economic Partnership Agreement with SADC and other regional configurations in Africa	Finalisation of Agreement	All finalised: SADC : 15 July 2014 West Africa: June 2014 EAC: 17 October 2014	01.10.2014
Comprehensive Economic and Trade Agreement with Canada (CETA)	Finalisation of Agreement	Negotiations concluded in September 2014. Legal scrubbing and ratification process to be finalised in 2015	Initially 2014, postponed to 2015
Ecuador FTA	Conclusion of negotiations following exchange of offers	Negotiations concluded in July 2014 and text initialled in December 2014. Ratification process to be finalised in 2015	July 2014, finalisation of agreement in 2015
Council Decision on the protection of certain geographical indications from Central American countries (Agenda Planning reference 2013/AGRI/025)	Adoption by the Commission/Council	Council Decision 2014/429/EU adopted in July 2014.	May 2014
Agreement on cooperation on, and protection of geographical indications with China	Continuation and possibly conclusion of the negotiations for the agreement on cooperation on, and protection of geographical indications	Last round of negotiations held in June 2014. Negotiations to be continued in 2015	2014
Agricultural agreement with Egypt	Finalisation of negotiations on adaptation of agreement following Croatia's accession	Completed	2014
European Neighbourhood Programme for Agriculture and Rural Development (ENPARD)	Implementation of regional sector dialogues (Eastern Partnership Panel on Agriculture and Rural Development – two meetings in 2014, and two ENPARD South Regional seminars) and contribution to design of country-level ENPARD actions (Moldova, Georgia)	On-going	2014
Deep and comprehensive Free Trade Agreement with Georgia	Signing of the DCFTA and entry into force	Completed	2014
Free Trade Agreement with Japan	Continuation and possibly conclusion of the negotiations	5 negotiation rounds held in 2014, with the view to conclude by the end of 2015	Common aim to conclude in 2015
Kazakhstan	New enhanced Partnership and cooperation agreement	Negotiations concluded, legal scrubbing	December 2014

		completed, ready for initialling	
Mercosur	Possible active resumption of negotiations following exchange of offers	2 chief negotiators' meetings in 2014, with no exchange of offers. Contacts to be continued in 2015.	2014
Modernisation of free trade agreement with Mexico of 2000	Conclusion of scoping exercise, towards a possible launching of formal negotiations.	Parties met twice in 2014 to assess respective ambitions. Scoping exercise on-going.	2015
Deep and comprehensive Free Trade Agreement with Moldova	Signing of the DCFTA and entry into force	Completed	2014
Autonomous Trade Preferences for Moldova	Adaptation of the ATP following Russian ban on imports from Moldova	Completed	December 2014
Morocco	Continuation of the negotiations for the agreement on protection of Geographical Indications	Concluded early January 2015	2014
Norway: GI agreement	Continuation of the negotiations for the agreement on protection of Geographical Indications	Ongoing	Originally 2014, now 2015
Norway : further trade liberalisation	Adoption of negotiation mandate by the Council for the launch of bilateral negotiations	Completed	Originally 2014, now 2015
Resolution of trade irritants with Russia	Contribution to Commission efforts in addressing longstanding (live animals, dairy, seed potatoes, planting material, etc.) and new (pigmeat, beef offal, Polish fruit and vegetable) bans on exports of various products on SPS grounds that affected several member states; contributed to Commission efforts in addressing - and assessing the economic impact of - the political ban decided on 6/7 August 2014 that affected EU exports of most meat, dairy products, fruit and vegetables.	Ongoing.	2014
Export of organic products to South Korea	Opening of South Korean market to EU certified organic products	Agreement reached in December 2014 allowing the resumption	2014

		of export of organic EU products to South Korea as of 1 February 2015	
Switzerland	Amendment of Annex 12 of Bilateral Agreement, with GIs registered in the EU in 2011 and 2012.	Completed	2014
Free Trade Agreement with Thailand	Continuation of the negotiations	Last negotiation round in April 2014 – suspended since due to political reasons	
Resolution of trade irritants with Turkey	Contribution to Commission efforts in addressing longstanding SPS barriers on EU beef and live animals exports, the problem not yet resolved	Ongoing. Live animal imports resumed in last quarter of 2014. Removal of barriers and resumption of trade for beef products still being pursued.	2014. 2015 for beef products
Deep and comprehensive Free Trade Agreement with Ukraine	Signing of the DCFTA on 27.06.14. Entry into force on 1.1.2016.	Completed	2014
Autonomous Trade Measures for Ukraine	Entry into force. Application until 1.01.2016	Completed	April 2014
Transatlantic Trade and Investment Partnership with the United States	Continuation of negotiations, including exchange of offers	4 rounds of negotiations held in 2014, with exchange of market access offers in February. Negotiations to be continued in 2015	2014
Free Trade Agreement with Viet Nam	Continuation of the negotiations	7 meetings held in 2014, with the view to conclude during spring 2015	2014

For several trade negotiations the timing for conclusion is not in the hands of DG AGRI, but depends rather on the overall political readiness of the partner to conclude, or to the capacity of the EU to negotiate mutually balanced outcomes. Putting this observation aside, DG AGRI was successful in almost all negotiations in concluding in time a balanced outcome of benefit to the EU agricultural sector. 2014 was significant notably for finalising the 21st century trade agreement with Canada, that provides a blueprint for future comprehensive FTAs, and three Economic Partnership Agreements with West, East and Southern Africa. The agreements increase and permanently bind full market access for our African partners, while the EU renounced the use of export subsidies in future. As regards the SADC EPA a balanced market access deal was reached in agriculture with only 3% of exports to South Africa excluded and 10% of South African exports to the EU are excluded from liberalisation. A GI agreement was also finalised with South Africa. The agreements move our relationship with Africa to a new partnership between equals, and demonstrate that the Common Agricultural Policy provides solutions.

As regards the European neighbourhood, and trade relations with other regions, the agreements reached will open markets further and protect quality products, thus stimulating growth and jobs in line with Commission priorities. Deeper cooperation and assistance will stimulate reform

and the development of the agricultural economies in partner countries in line with our developmental goals.

In 2014, the bilateral trade policy and negotiations have fully met EU objectives of: stimulating growth and jobs through securing better market access, preserving the EU's agricultural model, and supporting sustainable agricultural development in developing and transition economies.

1.1.25 ABB 06 External relations: specific objective 3

Relevant general objectives: The activity contributes to achieving all three general objectives.	
Specific objective 3: To promote the EU interests and positions on agriculture and rural development in the relations with enlargement countries and to assist the enlargement countries in their alignment to the CAP	<input checked="" type="checkbox"/> Spending programme: EAGF and EAFRD <input type="checkbox"/> Non-spending
Result indicator: Timely contribution to the Commission's work in the area of enlargement Source: DG AGRI	
Baseline (2013)	Target (mid-term)
100% of timely contributions Example: Preparation of screening report for Montenegro.	100% of contributions in time <i>This target was agreed within DG AGRI and is reflected by relevant procedures for conducting negotiations.</i>

Main outputs in 2014			
Description	Indicator	Current situation	Target
Preparation of screening report for Serbia	Drafting of screening report	Screening report completed	2014
Contribution to the Progress Report and Strategy Paper 2014 – evaluation progress of candidate and potential candidate countries in the preparation for EU accession	Drafting of chapter agriculture in Progress reports	Completed	October 2014
Negotiations with Kosovo for a Stabilisation and Association Agreement (SAA)	Finalisation of agreement	Finalisation of negotiations and initialling of the agreement. Legal scrubbing on-going.	2014
Proposal of the Commission for Albania to be granted candidate Status	Provision of candidate status	Albania received the status in 2014	June 2014

The objective is to contribute to the accession process in the field of agriculture and to promote EU interests with the enlargement countries. As seen in the progress or screening reports and (for Albania) the granting of candidate status, these objectives were largely met, subject in one or two cases to limited capacity for reform in the accession countries themselves. Overall agricultural trade relations were managed smoothly despite occasional frictions.

The policy remains on course to meet its objective, recognising that in some cases limited capacity in the accession countries may affect their ability to meet common aims in the accession process.

1.1.26 ABB 07 Audit: specific objective 1

Relevant general objective: The activity contributes to achieving all three general objectives.		
Specific objective 1: To provide the Commission with reasonable assurance that Member States have put in place management and control systems in conformity with EU rules designed to ensure the legality and regularity of the underlying transactions financed by the EAGF, EAFRD, SAPARD and IPARD and, where this is not the case, to exclude the expenditure concerned from EU financing so as to protect the EU's financial interests.		
<input checked="" type="checkbox"/> Spending programme: EAGF, EAFRD, SAPARD and IPARD <input type="checkbox"/> Non-spending		
Result indicator: Percentage of planned audit missions carried out Source: Multiannual audit work plan for DG AGRI-J for 2014-17 (2014/15 programme to be completed by end June 2015)		
Baseline (2013)	Current situation	Target 2014/2015
95.2%	95.4% (information retrieved in February 2015)	100% of number of audit missions planned for 2014 <i>The number of audit missions is part of the multi-annual audit work plan of the Directorate replacing the 2014 Annual Work Programme in force until 1 July 2014.</i>
Result indicator: Timely completion of audit reports and observation letters to Member States Source: DG AGRI		
Baseline (2013)	Current situation	Target 2014/2015
Average of around 56 days to finalise audit reports, and around 89 days for observation letter in national language	Average of around 55 days to finalise audit reports, and around 74 days for observation letter in national language (information retrieved in February 2015)	Deliver according to deadlines: - audit reports to below 60 days ⁶⁶ - observation letters in national language below 90 days <i>The targets were agreed via management discussion within DG AGRI Directorate J.</i>
Result indicator: Closure of "backlog": audits carried out in 2012 and before Source: DG AGRI		
Baseline	Current situation	Target 2014/2016
None – new indicator	93 audits have been closed by the end of 2014. (information retrieved early 2015)	285 ⁶⁷ audits from 2012 and before have been identified as "backlog". The target is to close these audits before end 2016. Milestones: 69 audits to be closed by end 2014 146 audits to be closed by end 2015 70 audits to be closed by end 2016

⁶⁶ The indicator "observation letters in working language to 65 days" is considered not relevant any longer.

⁶⁷ The new target is due to a change from an annual to a multi-annual work programme in 2014.

		<i>The target was set in DG AGRI Directorate J's Multiannual Work Programme (2014-2017) of 11/09/2014</i>
<p>Result indicator: Review of the clearance of accounts system (see also result indicator below on <i>Timely contribution to CAP towards 2020 legislation</i>)</p> <p>Definition: Review of the rules for the clearance of accounts system and adoption of the implementing and delegated acts</p> <p>Source: DG AGRI</p>		
Baseline (2013)	Current situation	Target 2014
The delegated act for the horizontal regulation on the financing, management and monitoring of the CAP (Reg. 1306/2013) was discussed in working groups at the end of 2013 and will be transmitted for adoption in March 2014. Discussions commenced at the end of 2013 in the Agricultural Funds Committee on the implementing acts for the horizontal regulation.	Commission Implementing Regulation (EU) No 908/2014 and Commission Delegated Regulation (EU) No 907/2014 for the horizontal regulation on the financing, management and monitoring of the CAP were adopted on 06 August and 11 March 2014, respectively. New guidelines on financial corrections (including identification of key and ancillary controls) to be adopted by the Commission in March 2015.	Adoption and publication of the implementing and delegated acts for the horizontal regulation on the financing, management and monitoring of the CAP in accordance with the calendar established for the procedure. <i>Timetable CAP 2020</i>

Main outputs in 2014			
Description	Indicator	Current situation	Target
Financial clearance of the accounts presented by the paying agencies of Member States and Applicant Countries according to the financial clearance procedures provided for in EU legislation, and exclusion of expenditure which does not comply with EU rules	Adoption of Commission Decision	Commission EAGF – C(2014)260 of 29/04/2014 EAFRD – C(2014)251 of 29/04/2014	By 30/04/2014 for Member States and by 30/09/2014 for IPARD Applicant Countries
Decisions on Member States', SAPARD and IPARD paying agencies whose annual accounts were disjoined for FY 2009-13: <ul style="list-style-type: none"> • SAPARD disjoined accounts: <ul style="list-style-type: none"> • 2009: BG, RO • IPARD disjoined accounts: <ul style="list-style-type: none"> • 2013: TR • EAGF: partially disjoined accounts: <ul style="list-style-type: none"> • 2010: GR, IT • 2011: DE, RO • 2012: DE, BE • 2013: BE, GR, RO • EAFRD: partially disjoined accounts: 	Adoption of Commission Decisions	IPARD 2012: fYRoM, TR – decision C(2014)6820 EAGF 2010: IT, GR – decision C(2015)393 2012: DE – decision C(2014)5450 EAFRD: 2010: IT, LU – decision C(2015)369 2012: DE – decision C(2014)5453 SAPARD, IPARD and the remaining EAGF and	All disjoined annual accounts to be cleared

<ul style="list-style-type: none"> • 2010: BE, IT, LU • 2011, FR, RO, ES, • 2012: DE, DK, FR, RO, ES • 2013: BG, DK, ES, GR, R 		EAFRD disjoined annual accounts to be cleared by the end of 2015.	
Prepare conformity clearance procedures and prepare corresponding decisions, covering relevant cases, in March (Decision 44), July (Decision 45), and November 2014 (Decision 46)	Adoption of Commission Decisions	Conformity clearance decisions adopted for €478m - Decision 44: 2014/191/EU of 08/04/2014 for €318m - Decision 45: 2014/458/EU of 12/07/2014 for €57m - Decision 46: 2014/950/EU of 19/12/2014 for €103m	Decisions in March, July and November 2014
Decisions on conferral of management regarding IPARD	Adoption of Decision	Conferral of management decisions adopted in 2014: TR – Technical Assistance - C(2014)6001 of 26 August 2014 TR – private investment measures - C(2014)6000 of 26 August 2014 Conferral to former Yugoslav Republic of Macedonia for technical assistance by September 2015.	Conferral to Turkey for technical assistance. Confirmation of conferral to Turkey for 6 provinces for investment measures. Conferral to fYRoM for technical assistance.
Propose improvements to the system for gaining reasonable assurance on the legality and regularity of the underlying transactions	Completion of guidelines for certification bodies and informing both MS and CBs of the requirements.	Final Guidelines presented to the Agricultural Funds Committee on 22/01/2015	By June 2014
Increase audit intensity with regard to EAFRD in order to follow-up the action plan put in place further to the reservation in the Director General's AAR for 2011	Number of audits ⁶⁸ in 2014	40 audits in 2014 compared to 28 in 2011	30% increase in the number of audits planned to be carried out in

⁶⁸ Number of audit missions only – excluding desk checks – for EAFRD (not including SAPARD/IPARD audits).

			2014 (subject to the finalisation of the 2014 audit work programme)
Training Strategy and Plan for systematic training of auditors in order to provide a high quality and transparent audit activity	Establishment of a training strategy including Certified Government Auditing Professional (CGAP) internal audit training and certification as well as other general and specific training	By the end of 2014, approximately 80% of Directorate J auditors have completed the CGAP training.	2/3 of Directorate J auditors to have completed the CGAP training by end 2014. Completion of training strategy in first half 2014.
An audit strategy that will include: <ul style="list-style-type: none"> • A consolidated picture of the audit universe for all audit activities performed; • A definition of relevant, measurable objectives relating to the assurance building process; • A multiannual rolling plan of audit work; • Achievement of synergies with Certification Bodies. 	Completion	The Audit Strategy of Directorate J was adopted in March 2014.	Early 2014

In 2014, DG AGRI developed and implemented a multi-annual audit work programme in line with its audit strategy which was adopted in March 2014. In view of the number of open audits, a specific indicator was introduced for "backlog" (being audit missions open for 2012 and before) with annual milestones which, for 2014, were surpassed. Other indicators related to the timely completion of audit work were also met.

The materiality criteria developed in 2014 for the 2013 AAR strengthened DG AGRI's methodology for calculating a "residual error rate" and for targeting reservations and provided a solid basis on which the Director General could give assurance on legality and regularity. This methodology received positive feedback from the ECA in its 2013 Annual Report.

1.1.27 ABB 07 Audit: specific objective 2

Relevant general objective: The activity contributes to achieving all three general objectives.		
Specific objective 2: To contribute to improving EU legislation concerning Member States and Applicant Countries' management and control systems for agricultural expenditure.		
<input checked="" type="checkbox"/> Spending programme: EAGF and EAFRD <input type="checkbox"/> Non-spending		
Result indicator: Timely contribution to CAP towards 2020 legislation Definition: Timely delivery of draft CAP 2020 legislation concerning the management and control systems for agricultural expenditure Source: DG AGRI		
Baseline (2013)	Current situation	Target 2014
The horizontal regulation (Reg. 1306/2013) was adopted by the European Parliament and the Council on 17 December 2013. Technical discussions took place in expert group meetings on the clearance of accounts aspects of the draft delegated act. Discussions commenced on the draft implementing act.	Commission Delegated Regulation (EU) No 907/2014 of 11 March 2014 Commission Implementing Regulation (EU) No 908/2014 of 6 August 2014	100% timely delivery <i>The target was agreed with the hierarchy of the DG in order to respect the calendar established for the adoption and publication of the acts.</i>
Result indicator: Adoption of the guidelines on public procurement procedures for shared management Definition: Alignment of DG AGRI approach on how to deal with deficiencies in public procurement procedures with that of other shared management DGs following Recommendation of the European Parliament in its 2011 Discharge report Source: DG AGRI		
Baseline (2013)	Current situation	Target 2014
Up to 2013, the rules on how errors in public procurement are assessed was not harmonised amongst the DGs in shared management. The European Parliament recommended, in its report on the discharge of the 2011 budget that shared management DGs harmonise their rules and procedures in this respect. The new guidelines for determining net financial corrections to be made to expenditure financed by the Union under shared management, for non-compliance with the rules on public procurement, have been adopted [Commission Decision C(2013) 9527]. Furthermore, AGRI-E-F-G is chef de file for an action plan to analyse the root causes for the high error rates in the RD sector. Two special workshops with the MS (management committee) have been held in April and October 2013 in order to discuss with the MS the actions to be taken to reduce the high error rates in the RD sector with specific mention of errors in public procurement.	Commission Decision C(2013)9527 final of 19 December 2013 on the setting out and approval of the guidelines for determining financial corrections to be made by the Commission to expenditure financed by the Union under shared management, for non-compliance with the rules on public procurement	Beginning of 2014, depending on the timing of the other DGs concerned by the guidelines. (DG REGIO is chef de File)

Main outputs in 2014			
Description	Indicator	Current situation	Target
Delegated and implementing acts for the horizontal regulation on the financing, management and monitoring of the CAP (Regulation (EU) 1306/2013 of 17 December 2013)	Adoption by the European Parliament and Council	Commission Delegated Regulation (EU) No 907/2014 of 11 March 2014 Commission Implementing Regulation (EU) No 908/2014 of 6 August 2014	2014
Harmonised Commission guidelines on how to deal with deficiencies in MS procedures for and management of public procurement (DG REGIO is Chef de File)	Adoption by the Commission	Commission Decision C(2013)9527 final of 19 December 2013 on the setting out and approval of the guidelines for determining financial corrections to be made by the Commission to expenditure financed by the Union under shared management, for non-compliance with the rules on public procurement	Early 2014

With regard to the guidelines on public procurement procedures for shared management, the Commission Decision C(2013)9527 final was adopted on 19 December 2013.

The targets have been timely reached.

1.1.28 ABB 08 Policy Strategy and Coordination: specific objective 1

<p>Specific objective 1: To inform and increase awareness of the CAP by maintaining an effective and regular dialogue with stakeholders, civil society, and specific target audiences based on two key messages below:</p> <p>(1) The CAP has provided 50 years of service to European citizens, going beyond food production into public goods delivery.</p> <p>(2) The CAP is a living policy, evolving with society's needs and expectations:</p> <ul style="list-style-type: none"> - meeting the challenges of food security, climate change, sustainable use of natural resources and balanced territorial development, - increasing the competitiveness of the farming sector, both economic and ecologically, - contribute to smart, sustainable and inclusive growth in rural Europe in line with "Europe 2020" strategy. 		
<p>Indicator: Public awareness of CAP Source: Eurobarometer</p>		
Baseline	Current situation	Target
<p>The Latest Eurobarometer survey (EB 410 published in March 2014, field research November-December 2013) shows that 92% of Europeans believe that agriculture and rural areas play an important role for their future and that 64% have heard about the support that the EU gives farmers through its CAP. There is a broad consensus that agriculture plays a beneficial role.</p> <p>2009: 41% of those surveyed have heard about the CAP</p>	<p>See baseline</p> <p>The next Eurobarometer survey will be conducted in IV 2014 and the results published in IQ 2016</p>	<p>Maintain and if possible increase awareness of the CAP</p>

In 2014, DG AGRI developed its communication actions around the main policy issue: the implementation of the newly reformed CAP, targeting specific external audiences:

- *Media: through the Journalist network ENAJ and its platform Ag-Press.eu with 850 active members, press and study trips and media tools.*
- *Stakeholders: with CAP Communication Awards initiative, CAP Communication Network and targeted CAP related communication actions.*
- *General Public, with CAP Campaign "Taking Care of Our Roots", fairs, events and conferences*
- *Grant beneficiaries with 13 co-financed projects.*

An external evaluation of the information policy on the CAP (focusing on DG AGRI's communication activities implemented over the last few years) is currently conducted and the results are expected by mid-2015.

The implementation of the information activities on the CAP is on track. An in-depth analysis on its performance will become available once the evaluation is completed.

1.1.29 ABB 08 Policy Strategy and Coordination: specific objective 2

Specific objective 2: To facilitate decision-making on strategic choices for the CAP and to support other activities of the DG by means of economic and policy analyses and studies		
Indicator: Timely contribution to the decision-making process for the CAP towards 2020 Source: Registered documents		
Baseline (2013)	Current situation	Target
- complementary analyses during negotiations for the CAP 2014-2020, as necessary - publications (among which on internet: short- and medium-term outlook, briefs, market monitoring, statistics)	100%	100% timely deliveries: - supporting policy and economic analysis - publication of key documents on the CAP
Indicator: Representativeness of information about the EU farm economic situation collected by the Farm Accountancy Data Network (FADN) Source: EU FADN		
Baseline (accounting year 2011)	Current situation	Target (mid-term)
Observed coverage of EU agricultural production in the accounting year 2011: - 91% coverage of the Standard Output - 91% coverage of the Utilised Agricultural Area - Farm returns collected: 82 436	Observed coverage of EU agricultural production in the accounting year 2012: - 94% coverage of the Standard Output - 93% coverage of the Utilised Agricultural Area - Farm returns collected: 83 699	90% coverage of the EU agricultural production as expressed in Standard Output 90% coverage of the Utilised Agricultural Area (Maximum) Number of farm returns to be delivered for the accounting year 2012 (Reg. 1291/2009 and successive amendments): 85 626
Indicator: Adequate knowledge of Farm structure Source: Eurostat – Farm Structure Survey		
Baseline 2013	Current situation	Target (mid-term)
First use of Agricultural Census 2010 survey results in analyses and data requests	2010 Agricultural Census data extensively used in internal analyses, publications and indicators of the common monitoring and evaluation framework for the CAP 2014-2020	Optimal use of the 2010 Agricultural Census data in internal analyses, publications and indicators of the common monitoring and evaluation framework for the CAP 2014-2020

The EU FADN experienced a thorough restructuring of its main aspects through the whole year 2014. Alignment of the legislation to the Lisbon Treaty requirements and updating of the methodology and IT system due to the introduction of a new questionnaire as from the accounting year 2014 were the main elements. At the same time, the yearly targets were met by collecting a bigger number of farm returns compared to previous years and thus increasing the coverage of the main elements of EU agriculture. These achievements were made possible by the continuous monitoring of the organisation and functioning of the FADN in the EU Member States and by the regular exchanges with the Member States where the data collection seems more problematic.

2010 Agricultural Census data were extensively used in 2014, while waiting for the results of the Farm Structure Survey 2013, expected by the first half of 2015. The data were used in numerous internal analyses and publications, to reply to data and information requests coming from different stakeholders and to calculate a number of context indicators of the common monitoring and evaluation framework for the CAP 2014-2020, recently published on Europa website.

Annual performance targets were met in 2014.

1.1.30 ABB 08 Policy Strategy and Coordination: specific objective 3

Specific objective 3: To ensure smart regulation through simplification, impact assessment and evaluation, and analytical support to policy conception and to international negotiations		
Indicator: Common monitoring and evaluation framework for the CAP towards 2020 Source: DG AGRI task Force on Monitoring and Evaluation		
Baseline (2013)	Current situation	Target (2014)
No comprehensive system (only by instrument) Draft legal act and draft guidance documents presented and discussed with MS: - expert group: meetings on 27.02.2013 and 09.01.2014 - Funds committee: 04.12.2013 and 17.12.2013	Common Monitoring and evaluation Framework in place. Meetings of the expert group on M&E (9.1.2014-14.10.2014) CMEF discussed in agri management meeting Documentation for MS available.	Comprehensive framework for the monitoring and evaluation of the whole CAP in place - 2 meetings with the expert group on M&E; - 2 meetings of DG AGRI task force on M&E; - Full regulation and guidance documents available for MS.
Indicator: Degree of implementation of the annual evaluation plan Source: Data collected by DG AGRI		
Baseline (2013)	Current situation	Target (mid-term) ⁶⁹
100% complete	100% completed	100% of evaluations completed/launched according to the initially set timetable - Number of new evaluations launched: 4 - Number of evaluations completed: 4 The evaluations to be conducted in a given year are decided at senior management level, based on the legal and policy requirements and introduced in a rolling evaluation and studies plan which is updated yearly.

⁶⁹ To be confirmed as the figures presented reflect the situation on 31.12.2013.

Indicator: Degree of implementation of the annual studies plan set in the evaluation and studies plan Source: Data collected by DG AGRI		
Baseline	Current situation	Target (mid-term)
100%	completed 100% launched: 2	100% of studies completed/launched according to the initially set timetable - Number of new studies launched: 3 - Number of studies completed: 6 <i>The studies to be conducted in a given year are decided at senior management level, based on the legal and policy requirements and introduced in a rolling evaluation and studies plan which is updated yearly.</i>
Indicator: Contribution to the Commission Regulatory Fitness initiative (REFIT) Source: DG AGRI files on simplification		
Baseline	Current situation	Target (mid-term)
Outcome of the mapping of the CAP acquis reported on 17.4.2013 and Commission Communication adopted on 2.10.2013	Timely contribution to both the REFIT Communication and the Scoreboard, adopted in June 2014 (COM(2014) 368 final); contribution to and exchanges with SecGen on the ABRplus programme.	Timely contribution to the REFIT initiative including follow-up of the Administrative Burden Reduction programme (ABRplus) upon request of the Secretariat General

DG AGRI contributed on time to the preparation of the REFIT Communication where the Commission reported on the progress in implementing REFIT and proposed a number of new initiatives for simplification and burden reduction in the field of Agriculture. The actions planned for the CAP in the Scoreboard that accompanied the June Communication on REFIT were subsequently confirmed by the adoption of the Commission Work Programme 2015.

During 2014, the monitoring and evaluation framework was put in place as scheduled. The implementing regulations (Commission Implementing Regulation (EU) No 834/2014 of 22 July 2014 and Commission Implementing Regulation (EU) No 808/2014 of 17 July 2014) lay down the details of the CMEF. Guidance for Member States is available on the internet⁷⁰. This will be completed during 2015 with a leaflet explaining the framework to the general public and a handbook giving a complete overview targeting a more advanced audience.

The timing of the evaluations scheduled for launching in 2014 and for those planned to be finalised in 2014 was respected. As regards the studies, three tender procedures were launched, however the contract for one of them (study on rural tourism) was not awarded; this study will be re-launched in 2016.

The impact of a policy can only be assessed after sufficient time has passed. Although the monitoring and evaluation framework is on track, especially at the earlier stages of programme

⁷⁰http://enrd.ec.europa.eu/enrd-static/evaluation/library/evaluation-helpdesk-publications/en/evaluation-helpdesk-publications_en.html

implementation, clear impacts might not yet be measurable. To cover this, where relevant, based on the CMEF, the evaluations will assess the degree to which the preconditions for reaching the expected impact are there.

The implementation of the monitoring and evaluation framework is on track and objectives on the REFIT are met.

1.1.31 ABB 08 Policy Strategy and Coordination: specific objective 4

Specific objective 4: To support DG AGRI by providing sound legal services and consolidated legal texts thus ensuring that its policies and their implementation are in compliance with the legal framework of the EU		
Indicator: Proportion of positive opinions from the LS in inter-service consultations launched by DG AGRI		
Source: Statistics tool provided by CIS-Net		
Baseline (2013)	Current situation	Target (mid-term)
100%	100%	>90% of consultations <i>Target was fixed taking into account a minimal margin of manoeuvre for legal disagreements/need to pursuit proposal for policy issues</i>
Indicator: Rapidity of response on signataires submitted for paraphe on legal issues and on notes submitted asking for legal advice		
Source: Internal Follow-up within Unit I1 (échancier based on Ares)		
Baseline (2013)	Current situation	Target (mid-term)
96.01% of respected deadlines	93.84%	>85% dealt with within deadlines laid down in the vademecum fixing the rules for legal consultation <i>The vademecum provides for a standard deadline fixed to satisfy Agri services need for quick replies, but at the same time a certain margin of manoeuvre to divert from deadlines is needed to take into account: more difficult/demanding legal problems; exceptional work overload requiring prioritisation of tasks</i>

Sound legal support has been provided to DG AGRI services both by replying to legal advice request in a timely manner (despite urgency and exceptional overload at some point) and by making it possible that all of DG AGRI ISC addressed to Legal Service (out of 664 consultations) obtained agreement or positive opinion with comments. This was achieved despite the need to deal under urgent procedures in a number of cases (13 of the consultations followed a fast-track procedure).

In 2014, the objectives were met.

1.1.32 ABB 08 Policy Strategy and Coordination: specific objective 5

Specific objective 5: To ensure correct application and enforcement of Common Agricultural Policy law thus contributing to the smooth functioning of the internal market (state aid and infringement procedures).		
Indicator: Timeliness of treatment of all notifications of state aid cases received Source:		
Baseline (2013)	Current situation	Target (mid-term)
100% (between 200 and 300 cases each year)	100%	100% <i>Legal requirement</i>
Indicator: Appropriate administrative treatment of all new complaint cases notified (information of complainant) ⁷¹ Source: CHAP-EU Pilot Data base		
Baseline (2013)	Current situation	Target (mid-term)
100%	100%	100% <i>Procedural rules established by the College</i>
Indicator: Timeliness of treatment of all new draft technical standards received Source: TRIS data basis		
Baseline (2013)	Current situation	Target (mid-term)
100%	100%	100% <i>Legal obligation by virtue of Directive 98/34/EC</i>
Indicator: Proportion of agreements from the LS to proposals launched by DG AGRI in the context of the consultation process foreseen by the monthly infringement decision taking-procedure Source: NIF data base		
Baseline (2013)	Current situation	Target (mid-term)
100%	100%	90% of consultation Procedural requirement <i>Guidelines on the monthly cycle (04/2013)</i>

The proper functioning of the internal market requires a strict and efficient application of EU law including State aid rules. The Commission monitors the application of EU law by the Member States and assesses and approves the compatibility of State aid with the Treaty.

In 2014, the DG AGRI "Enforcement of legislation" unit contributed effectively to the proper functioning of the internal market in the area of agriculture and to the correct use of the mechanisms of the CAP, by enforcing the correct application of EU agricultural law by the Member States. The following tools were properly used to achieve this objective in accordance

⁷¹ Refers to both – sound legal analysis and observation of procedures.

with the Commission procedures and commitments:

(1) *Infringements proceedings: AGRI undertook the administrative and legal work required by the preliminary investigation of complaints registered in CHAP and/or own detected cases (CDO), the exchange of information with Member States and problem solving through EU-Pilot and by the management of infringement proceedings (Article 258 and 260 TFEU). These instruments allowed to redress incorrect application of EU law and to build the EU citizens confidence in the existence of a Union based on law;*

(2) *Examination of technical regulations: AGRI managed the proper and timely treatment of all notifications of draft technical national regulations related to agricultural products received from Member States, within the framework of Directive 98/34/EC on Technical Standards. This notification procedure allowed preventing potential obstacles to free movement of goods cases.*

Moreover, the revision of the State aid rules applicable to agriculture, forestry and rural areas came to a close end June 2014, when the Commission adopted a new framework of State aid rules for the period 2014-2020. The new rules are aligned with the rural development rules and cater for simpler administrative procedures.

The monitoring of the application and enforcement of both State aid rules and the Common Agricultural Policy law has met its objectives and has fully achieved the annual performance indicators.

1.1.33 ABB 08 Policy Strategy and Coordination: specific objective 6

Specific objective 6: To implement the Commission planning and programming process and provide full assistance to the Directorate-General in the decision making processes so that it delivers its policy objectives contributing to the overall Commission strategy in an effective, timed, efficient and accountable manner.		
Indicator: Percentage of elements of the Strategic Planning and Programming (SPP) cycle delivered on time Source: DG AGRI		
Baseline (2013)	Current situation	Target (mid-term)
100%	75%	100% <i>A timely delivery is crucial for an adequate Commission decision-making process.</i>
Indicator: Delivery rate (adoption by the College): - CWP - Other Agenda Planning (AP) proposals Source: Agenda Planning database		
Baseline (2013)	Current situation	Target (mid-term)
- 2012 CWP: 0% ⁷² - Other AP proposals: Cancelled: 15%	- CWP initiatives: 100% (4 items) - Other AP proposals: Cancelled: 8.7%	100% <i>The target is set at 100% in order to foster adequate</i>

⁷² All AGRI CWP initiatives 2013 have been postponed (Organic, School schemes) or cancelled (POSEI, Fruit & Vegetables).

Postponed: 32.5% Adopted: 52.5%	Postponed: 34.78% Adopted: 56.52%	<i>planning within the DG.</i>
Indicator: Number of delays in DG AGRI replies to Interservice Consultations (ISC) Source: CIS-Net		
Baseline (2013)	Current situation	Target (mid-term)
162 out of 2183 (7.4%)	329 out of 3082 (10.6%)	Steady reduction <i>The target is a permanent goal of DG AGRI</i>

DG AGRI finalised all Commission Work Programme initiatives. At the same time, 2014 was a transitional year for the planning and programming activities. With the late finalisation of the budgetary procedure and the unavailability of the consequent figures needed for the MP and also related to the entry into office of the new College, the 2015 Management Plan was delayed, which explains that the results are not 100% for the indicator concerning the elements of the SPP cycle.

The indicator concerning interservice consultations is related to the respect of deadlines and rules in the decision-making procedures, which is a guarantee of the legality of acts adopted. The increase of late replies is supposedly due to discontinuing reminders to the responsible units. Ex-post controls and reporting will be applied to lower the number of late replies.

In conclusion, while DG AGRI has only partially reached this objective in 2014, the planning itself took place on time and was based on a thorough discussion between senior management and staff.

1.1.34 ABB 08 Policy Strategy and Coordination: specific objective 7

Specific objective 7: To maintain continuous dialogue and cooperation with EU institutions, national parliaments, other institutional stakeholders and civil society, including the participation in meetings of the Council, the SCA and working parties, European Parliament, COMAGRI and other committees, as well as attendance to trilogues (accompany & follow-up on the ordinary legislative procedure).		
Indicator: Questions/requests from other Institutions, including Parliamentary Questions, replied to within the deadline Source: BASIL and PETITIONS2 (electronic management systems for resp. EP questions and petitions) and data collected by Unit R.4		
Baseline (2013)	Current situation	Target (mid-term)
From 1.01.2013 to 31.12.2013, 1354 EP questions (448 lead /906 associated), 3 requests from national parliaments, 64 MEP letters to the Commissioner and 9 letters from MEPs signed by DG and 38 Petitions (20 lead/18 assoc.) were dealt with > 99% replies within deadline	From 1.01.2014 to 31.12.2014, 1226 EP questions (701 lead /525 associated), MEP letters to the Commissioner: 80 MEP letters to the DG: 3 Petitions AGRI CF: 19 Petitions AGRI ASOC: 17 Opinions National Parliaments: 13 99% replies within deadline	Maintain the present high rate of replies within deadline. <i>Target based on historical performance rate.</i>

Indicator: Participation of the Commissioner and DG AGRI's officials in high level meetings with other EU institutions and advisory groups (civil dialogue groups) Source: Data collected by Unit R.4		
Baseline (2013)	Current situation	Target
<p>Commissioner's participation in 2013: - 5 times in EP plenary and 4 time in COMAGRI.</p> <p>DG AGRI's participation in 12 plenaries and in 21 meetings of COMAGRI</p> <p>- EESC: in 2013 the Commissioner attended 1 EESC meeting with Chairman Campli.</p> <p>- CoR: in 2013 the Commissioner has attended 1 CoR meeting.</p> <p>Participation of DG AGRI in 10 EESC meetings and 3 CoR meetings</p> <p>- Council meetings: 11 times</p> <p>DG AGRI's participation in 2013:</p> <p>- Council: 11 times</p> <p>- SCA: 28 times</p> <p>- WPs: 42 times</p> <p>- trilogue meetings: 51</p> <p>DG AGRI participation in pre-GRI: 23</p> <p>DG AGRI participation in advisory/working groups: 76</p>	<p>Commissioner's participation in 2014: - 2 times in EP plenary and 1 in COMAGRI.</p> <p>DG AGRI's participation in 11 plenaries and in 12 meetings of COMAGRI</p> <p><i>EESC</i>: in 2014 the Commissioner did not attend an EESC meeting</p> <p>Participation of DG AGRI in:</p> <p>Section meetings NAT: 9</p> <p>Observatory meetings in Brussels: 5</p> <p>Study group meeting: 30</p> <p>Conference: 4</p> <p>Plenary: 9</p> <p><i>COR</i>: in 2014 the Commissioner did not attend a COR meeting</p> <p>Participation of DG AGRI in:</p> <p>Section meeting NAT: 5</p> <p>Plenary: 5</p> <p>Conference/Summit: 1 (March 2014)</p> <p>DG AGRI's participation in 2014:</p> <p>- Council: 10 times</p> <p>- SCA: 20 times</p> <p>- WPs: 32 times</p> <p>- trilogue meetings: 0</p> <p>DG AGRI participation in pre-GRI: 24</p> <p>DG AGRI participation in advisory groups/working groups/civil dialogue groups: 70</p> <p>- AG 33</p> <p>- FWG 15</p> <p>- CDG 22</p>	<p>The Commissioner represents the Commission in the most important meetings</p> <p><i>Target based on historical figures.</i></p>
Indicator: Number of overdue recommendations in RAD addressed to AGRI as chef de file Source: RAD ⁷³		
Baseline (2013)	Current situation	Target (mid-term)
0	22 overdue (as of 31.12.2014) ⁷⁴	0 <i>Timely implementation of actions is crucial for an effective implementation of discharge recommendations.</i>

⁷³ RAD ("Recommendations/Actions/Discharge") is a DG BUDG database to monitor the implementation of European Court of Auditors, Council and European Parliament recommendations.

⁷⁴ 5 of the overdue recommendations are in the process of being closed in January 2015. The remaining 17 overdue recommendations are under validation by DG BUDG at the time of writing.

With the introduction of the ordinary legislative procedure for the Common Agricultural Policy under the Lisbon Treaty on 1 December 2009, the European Parliament is put on an equal footing with the Council as a co-legislator for the CAP. A major activity of DG AGRI in 2014 was the continued monitoring of the implementation of the CAP reform and as well as work on the pending legal proposals on organic and school schemes; the continued civil dialogue with the agricultural non-governmental organisations also plays an increasingly important role. The set-up of this dialogue has been entirely reviewed in 2014 and 13 civil dialogue groups have been created with a new composition to ensure a better balance between economic and non-economic non-governmental organisations.

The targets have been achieved for the reporting year as the activity has been stable following largely the historical trend.⁷⁵

⁷⁵ It should be noted that there is less participation of the Commissioner in 2014 in different fora in comparison with the figures in 2013 due to the end of the mandate for Barroso II. There were no trilogues due to the fact that the bulk of the CAP reform has already been implemented.

1.1.35 ABB 09 Framework Programme for Research and Innovation (Horizon 2020) – Research and innovation related to agriculture

Relevant general objectives: The activity contributes to achieving all three general objectives and to H2020 general objective "To build an economy based on knowledge and innovation across the whole Union, while contributing to sustainable development."			
Specific objective: Societal challenges - to secure sufficient supplies of safe and high quality food and other bio-based products, by developing productive and resource-efficient primary production systems, fostering related ecosystem services, alongside competitive and low carbon supply chains			
<input checked="" type="checkbox"/> Spending programme <input type="checkbox"/> Non-spending			
Result indicator: Publications in peer-reviewed high impact journals in the area of SC2 Definition: This indicator measures the number of publications in peer-reviewed high impact journals in a specific societal challenge per €10m of EC-funding⁷⁶. High impact journals are defined to be the top 10% (in terms of Scimago Journal Ranking (SJR) index) of all journals within a given scientific category. Source: Horizon 2020 common IT system, i.e. CORDA (Common Research Datawarehouse) and RESPIR (SESAM Research Performance and Impact Reports)			
Baseline 2013 ⁷⁷	Milestone 2018	Current situation	Target 2020
205 publications in peer reviewed high impact journals (FP7 baseline for projects finished by October 2013)	50 publications (absolute number)	Programme just started, no publications yet	250 publications (absolute number) <i>On the basis of FP7 results</i>
Result indicator 2: Patent applications in the area of SC2⁷⁸ Definition: This indicator measures the number of patent applications in a specific societal challenge per €10m funding⁷⁹. Source: Horizon 2020 common IT system, i.e. CORDA (Common Research Datawarehouse) and RESPIR (SESAM Research Performance and Impact Reports)			
Baseline 2013	Milestone 2018	Current situation	Target 2020
5 patent applications (FP7 baseline for projects finished by October 2013)	1 (absolute number)	Programme just started, no patent yet	5 (absolute number) <i>On the basis of FP7 results</i>

⁷⁶ From the launch of the programme and until a critical mass of finished projects (ca. 10% of all funded projects) has been reached, information about the two indicators below will be provided in the form of absolute number by the funded projects. On the basis of FP7 data it is considered that this critical mass of finished projects should be reached by 2019.

⁷⁷ The reference for all the targets is the year when the last actions financed under H2020 will be finished, i.e. several years after the formal end of the programming period.

⁷⁸ The result indicator was aligned with the respective indicator provided for in the Management Plan 2014 of DG RTD, i.e. reporting on *patent applications* only but not on *patents awarded* (as stated in the Programme Statement 2014) since no meaningful information (or none at all) can be expected before 2019-2020.

⁷⁹ No sufficient amount of meaningful data are expected for "patents awarded" before 2020 because of the time that is needed for a patent to be awarded.

Main outputs in 2014			
Description	Indicator	Current situation	Target
Setting up a new research and innovation unit; recruitment for new posts	Publication of posts	Research team fully appointed and operational	Research team fully appointed (16 posts), management tools (e.g. IT) in place
First call for submission of proposals	Publication of calls (first and second stage)	In total 182 proposals were submitted	Proposals submitted
Evaluation of proposals and selection of projects to be funded	Ranked list recommending negotiation of contracts	The ranked list was produced and contracting (by REA) has begun	Contract negotiation started (either by DG AGRI or REA)
Strategic analysis of research gaps	Gathering of information based e.g. on foresights and discussions with stakeholders	In the preparation for the Work Programme 2016/2017 discussions were organised with stakeholders and a scoping paper was prepared together with RTD F.	Preparations for Work Programme 2016/2017 started

In 2014 the new Research and Innovation unit in DG AGRI was established. It started working immediately to assure the evaluation of the 2014 Call for proposals. The actual management of the research projects (once selected) will be the responsibility of the agency REA and 2014 was used to build up relations and set procedures with REA to allow a smooth transition of responsibilities.

Secondly, DG AGRI worked – together with DG RTD – to prepare the strategic framework for the implementation of the Work Programme 2016/2017 by preparing the Societal Challenge 2 Scoping Paper. Extensive consultations were held with the stakeholders and information was gathered in specific workshops which will also provide input for the drafting of the 2016/2017 Work Programme that will take place in 2015.

The evaluation process was suspended because of a potential conflict of interest. A new evaluation was carried out and, as a result, it could not be finalised by the end 2014.

The spending programme is on course to meet its multiannual objectives and has achieved its annual performance indicators in the reporting year.

1.1.36 AWBM 01 Administrative support

Please refer to Annex 12 for further details on the performance achievements of **AWBM 01 Administrative support**.

1.2 Example of EU-added value and results/impacts of projects or programme financed

EU action following the Russian ban on EU agri-food products

As from the moment Russia banned imports of EU agri-food products in August 2014, the EU showed full solidarity in its response. In view of the EU wide consequences of the ban on agricultural markets, an immediate and common response was provided in order to: (1) maintain the stability of the *internal* market via market crisis management measures adopted at EU level, (2) strengthen the resilience of our agricultural and food sector by encouraging the reorientation towards new markets and opportunities, including via enhanced promotion measures and tackling non-tariff barriers, and (3) address the negative impacts of the restrictions on some vulnerable EU sectors by means of well-targeted compensation. In line with the working of the single market, the oversupply with corresponding price decreases occurred overall the EU, hence implying the need for an EU wide market stabilizing answer. However, due to the different level of dependency on the Russian market, some Member States were more affected than others. Farmers and operators in some regions were hit particularly heavily. Where possible, exceptional market measures were adopted taking into account these differences in trade dependency.

The rapid and clear response of August 2014 strengthened EU solidarity, provided market confidence and supported the resilience of the EU agri-food sector in the face of this challenge. As overall EU export figures also show, these efforts (jointly done by EU, MS and operators involved) helped to mitigate the effects of the ban to a very considerable extent.

1.3 Economy and efficiency of spending and non-spending activities.

According to the financial regulation (art. 30), the principle of economy required that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved.

The respect of these principles is continuously pursued through the implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner (e.g. the different workflows contribute to the efficient cooperation between staff, units, etc...) and according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

DG AGRI is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations. The following two initiatives show how these principles are implemented in our DG:

1.3.1 Example 1: Simplification of FADN related regulations

In the context of the alignment of the EU legislation to the requirements of the Lisbon Treaty, the Farm Accountancy Data Network (FADN) legislation has undergone a complete revamping in the last months.

The FADN Commission regulations were deeply analysed to give them new and improved structure and to update their content following the 2013 CAP reform and related new data needs (such as, by adding the 'greening' dimension of direct payments among collected variables).

This restructuring and update of contents took place together with a significant simplification effort: following the adoption of the amended basic regulation in 2013, two new acts, one delegated and one implementing regulations, were drafted in 2014, which substitute five other repealed regulations. This simplification was mainly possible by consolidating five implementing acts into a single one, thus avoiding repetitions and cross references between regulations and reducing the number of recitals, and by deleting outdated and unnecessary provisions.

The FADN is a tool for informing the CAP and therefore a strong correlation exists between the complexity of the CAP and the FADN. While further simplification would possibly affect the FADN capacity to acquire comparable and credible farm data from multiple sources from all EU Member States, the new legislative framework represents a good example of simplification of EU legislation.

1.3.2 Example 2: Assessment of Rural Development Programmes 2014-2020

A DG AGRI "Task-Force on Rural Development post-2013" (TF) was created in 2012 to provide assistance to the Member States in the preparation of the rural development programmes 2014-2020, as well as to ensure coordination, sharing of expertise/information and mutual help between colleagues in rural development directorates. This TF is composed by all Heads of Units in rural development directorates and is supported by 9 "thematic working groups", involving a number of experts from rural development units to provide technical support in relation to as many relevant rural development subjects (e.g. in relation to investments, environmental and climate-related issues, programming, etc.).

Since 2012 the TF has regularly met, among others to develop guidance documents both for the Member States on the content of the policy, and for the desk officer as regards the assessment of submitted programmes (e.g. detailed checklists for each of the rural development measures).

During the year 2014 DG AGRI has been confronted with the challenging task of assessing 117 draft rural development programmes⁸⁰, with a peak of workload during the summer period, in connection with the ultimate possible date for the submission of the programmes by the Member States⁸¹. This situation has triggered the need to fine-tune the existing working arrangements, in a way to further promote efficiency gains in the treatment of incoming programmes, while taking care of ensuring their timely, consistent and high-quality assessment.

Accordingly, a "Consistency Board" composed by the directors of rural development directorates, the Head of Unit of the Unit dealing with horizontal issues and consistency of rural development, and – on rotational basis – the Heads of geographical rural development Units was set-up. Based on a standardised input by the geographical units, the Board has so far assessed all the finalised draft letters of observations on submitted draft programmes. It has ensured a coherent approach on selected relevant issues, such as aspects of verifiability and controllability of rural development measures, synergies and complementarities of planned interventions with interventions under the CAP first pillar and other funds of the Union, proposed approach in the implementation of specific rural development measures, etc.

Furthermore, in order to inform regularly all geographical units on the outcomes of the Board's discussions, a "Consistency Bulletin" has been regularly issued, focusing in particular on technical aspects and interpretation issues of horizontal nature. To perform this task, where relevant the Board has liaised with relevant units within and outside DG AGRI (e.g. for clarifying legal interpretations, conformity with state aid rules, issues of complementarity with other Funds etc.).

⁸⁰ 117 out of the expected 118 rural development programmes were submitted by the Member States in 2014.

⁸¹ 22 July 2014, based on article 26(4) of Regulation (EU) 1303/2013 of the European Parliament and of the Council.

2. MANAGEMENT OF RESOURCES

Assurance is an objective examination of evidence for the purpose of providing an assessment 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.

This section reports the control results and other relevant elements that support managements' assurance on the achievement of the internal control objectives⁸². It is structured in three separate sections: (1) the DG's assessment of its own activities for the management of its resources; (2) the assessment of the activities carried out by other entities to which the DG has entrusted budget implementation tasks; and (3) the assessment of the results of internal and external audits, including the implementation of audit recommendations.

2.1 Management of human and financial resources by DG AGRI

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

2.1.1 Control effectiveness as regards legality and regularity

DG AGRI has set up internal control processes aimed to ensure the 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 concerned.

With around 8 million beneficiaries of the CAP, direct management by the Commission is not possible. EAGF and EAFRD expenditure is implemented under **shared management** through a comprehensive management and control system (which is described in detail in Annex 10 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

⁸² Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and 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 32).

fraud. The CAP legislation provides that they shall accredit **Paying Agencies** which are dedicated bodies responsible for the management and control of Union funds, notably payments to beneficiaries and financial reporting to the Commission. There were 81 such Paying Agencies at the end of 2014.

The EAGF is managed on an annual basis and commitment and payment appropriations always match. This is in line with the principle of *annuality* set out in the Treaty on the functioning of the European Union (Article 310) and in chapter 2 of the Financial Regulation⁸³. For both the market measures and direct payments to farmers which are funded under the EAGF, there are no "programmes" as such. Aid measures and schemes are legislated for at EU level and specify EU-wide rules.

The EAFRD is 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.

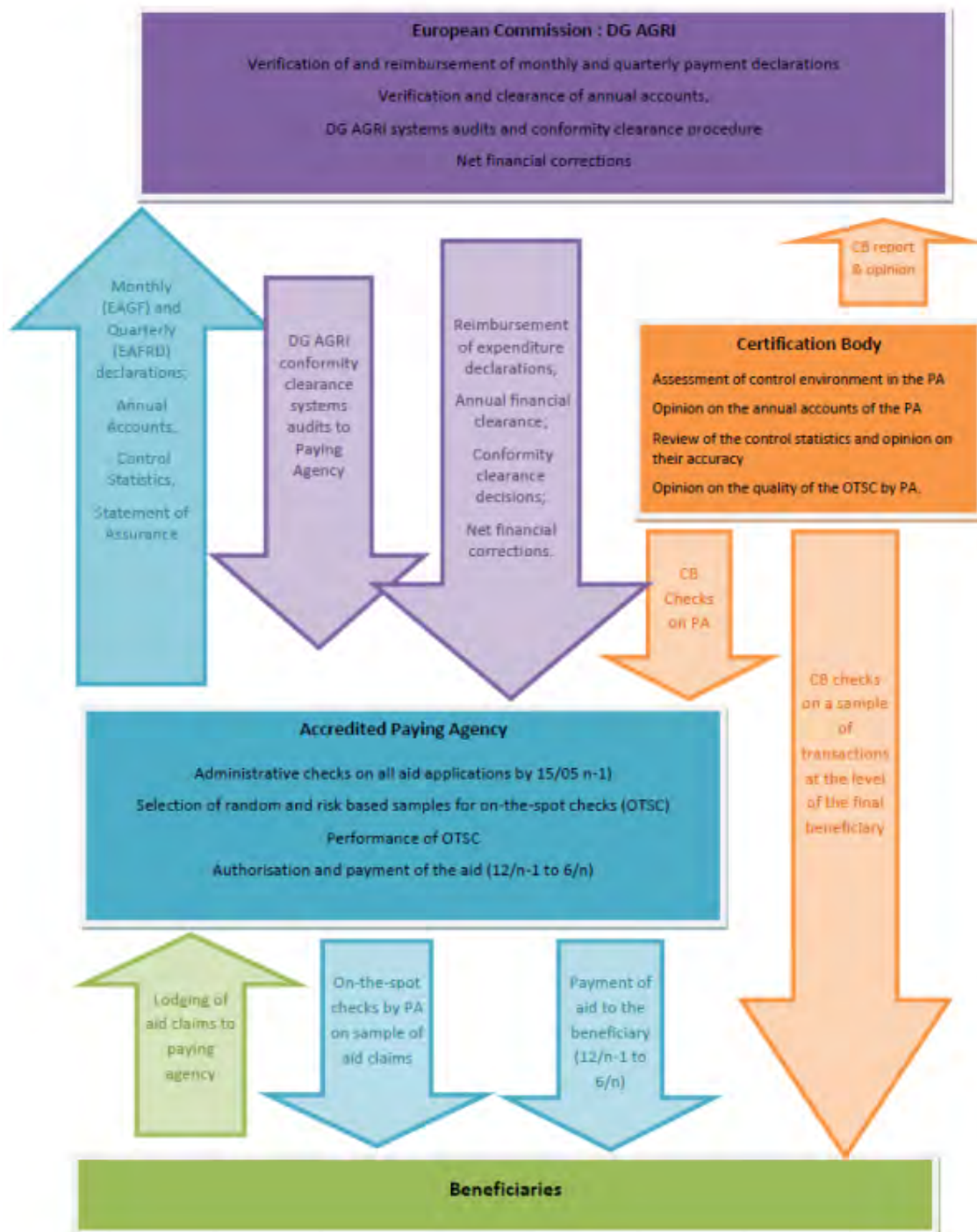
The same financial management and control rules apply to both EAGF and EAFRD. Accounts are declared by the paying agencies and cleared (financial clearance) by the Commission on an annual basis. The results of controls under the responsibility of the paying agencies are provided to the Commission in 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 un-controlled population – see Annex 4) has, therefore, been calculated in respect of the 2014 expenditure⁸⁴. DG AGRI is also of the view that consideration must also be given to the corrective capacity of DG AGRI's net financial corrections imposed on Member States and of the amounts recovered from beneficiaries by the Member States and reimbursed to the EU budget. It is not until this corrective capacity has been taken into account that the picture of risk to the EU budget is complete and it is possible to assess the real remaining financial risk to the EU budget after all corrective actions have been taken.

The following flow chart sets out the DG AGRI shared management model:

⁸³ Regulation no. 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union (OJ. L 298 of 26/10/2012).

⁸⁴ A cumulative approach for 2014-2020 is under consideration for the EAFRD in accordance with a common methodology to be developed for ESI Funds.

Shared Management – DG AGRI model



Flow chart 2.1.1

On the basis of a precise legal framework for the control and activities of the Paying Agencies and the Commission, DG AGRI has set up control processes designed so as to ensure the adequate management of the risks relating 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 control objective is to ensure that the

remaining risk to the EU budget does not exceed 2%. As this report goes on to state, the adjusted error rates for the highest spending ABB activities for which the Director General is responsible are at 3.87% for ABB02 -market measures (7.44% in 2013), 2.54% for ABB03 -direct payments (2.34% in 2013) and 5.09% for ABB04 -Rural Development (5.19% in 2013). The adjusted error rate for the CAP as a whole is 3.1%. However, just considering the error rate on its own does not give the full picture with regard to assurance. DG AGRI has in place a clearance of accounts system which carries out ex-post audits on funds in shared management and makes net financial corrections in order to protect the EU budget – these amounts are recovered to the budget as assigned revenue. In addition, Member States also recover unduly paid amounts from beneficiaries and reimburse them to the EU budget. While these amounts are not recovered to the EU budget until some years after the expenditure has been incurred, DG AGRI considers that they constitute a "corrective capacity" and have estimated (on the basis of a three year average) what amounts can be expected to be recovered to protect the EU budget after all corrective actions have taken place. Taking account of the corrective capacity of net financial corrections and recoveries, the remaining overall risk to the EU budget in respect of the CAP would be below materiality.

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, 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 pointed out by the Court of Auditors in its 2012 and 2013 annual reports, they are primarily responsible for the errors which occur.

DG AGRI carries out around 120 audit missions to the Member States every year in order to check that EU rules are complied with. As a result, the Commission imposes net financial corrections on the Member States by which they reimburse to the EU budget any irregular spending which has been identified.

It is recalled that Article 32(5) of the Financial Regulation No. 966/2012 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."

Accordingly, in 2013, DG AGRI produced reports on the root causes of error in respect of each of the three ABB activities and has identified the principal weaknesses in the Member States' management and control systems (details are set out for each ABB activity in the corresponding parts of Annex 10). In most of the cases, remedial actions are being taken by the Member States concerned and DG AGRI actively monitors their proper implementation. DG AGRI has also analysed the costs and benefits of the controls presently required to be carried out (see details at point 2.1.2 on control efficiency and cost-effectiveness). The amount spent by Member States on controlling and managing agricultural expenditure is close to €4 billion. The analysis shows that

these costs are already high and that any further increase of control efforts would raise the issue of the cost-effectiveness of the control system. As for the future, the CAP Reform of 2013 introduced the maximum degree of simplification upon which the European Parliament and Council of Ministers could agree as well as improved control systems to the greatest extent practically achievable. The CAP Reform agreed upon by the European Parliament and Council of Ministers sets out the legal framework for 2014-2020. The control systems have been improved to the greatest extent practically achievable. DG AGRI is determined to use all means at its disposal to ensure a sound management of the CAP on this basis.

However, taking into account the need to balance legality and regularity with the achievements of policy objectives while bearing in mind the current control requirements and costs, it cannot be expected with any real certainty that an adjusted error rate below 2% would be attainable, with reasonable efforts, for all areas of the CAP.

2.1.1.1 Materiality criteria (control objective) and reservation

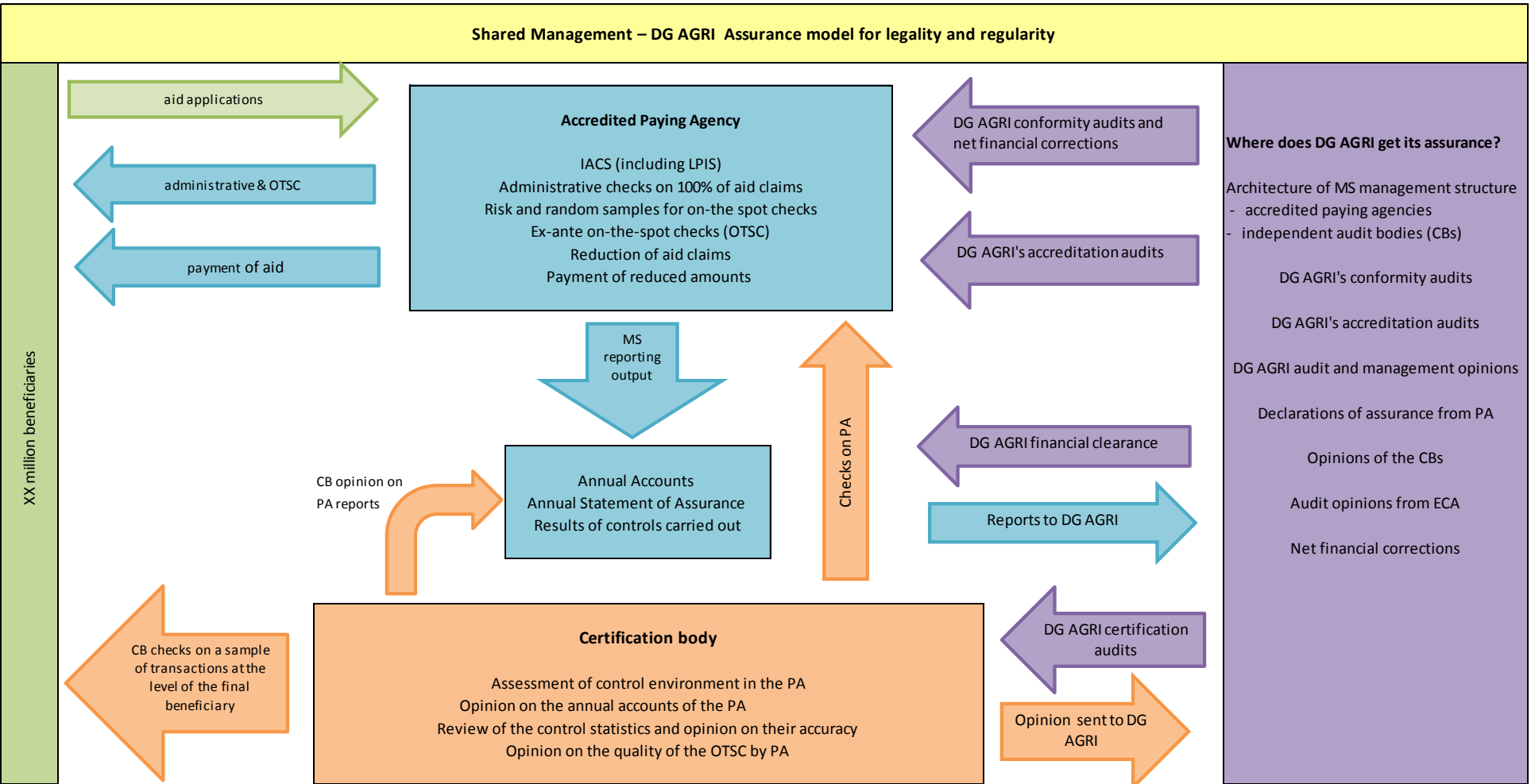
Given the annual declaration cycle and financial clearance of accounts procedure, the necessary information on the results of the controls carried out for financial year N is received in sufficient time to be used in the AAR for that year (with regard to shared management expenditure). In line with the detailed materiality criteria set out in *Annex 4*, reservations are made as a general rule for 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.

The "conformity clearance" procedure which results in net financial corrections is multiannual in nature; the audits carried out in year N may cover expenditure also for years N-1 or even N-2 while the ensuing contradictory and conciliation procedures require 2 years or more in some cases. However, the resulting net financial corrections do ultimately protect the EU Budget against the risk of irregular payment at beneficiary level. (See chapter 2.1.1.3 and Annex 10 for further explanation of the conformity clearance procedure). DG AGRI is of the view that net financial corrections, as well as recoveries from beneficiaries reimbursed to the EU budget, represent a corrective capacity that has to be taken into account in any comprehensive assessment of the overall system of internal control. DG AGRI wishes to develop, for future AAR exercises, together with the concerned services of the Commission, a means to incorporate the impact of these corrective measure in an overall indicator on the real risk to the Union budget.

The control systems are explained in more detail in part 2 of Annex 10 (functioning of the Paying Agencies) and in part 3 of that annex which deals separately with each of the ABBs.

The following flow chart sets out 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.

Shared Management – DG AGRI Assurance model for legality and regularity



Flow chart 2.1.2

2.1.1.2 Payments executed in 2014 for the CAP

In 2014, total EU outturn on payment appropriations⁸⁵ under DG AGRI responsibility was €55 650m. Of this, €55 426m (or 99.6%) was under shared management. Direct management and indirect management accounted altogether for only around 0.4% of total EU expenditure under DG AGRI responsibility.

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

Title 05	Agriculture and Rural Development	Shared Management	Direct Management	Indirect Management	Total	% of CAP budget
		EUR	EUR	EUR	EUR	
0501	Administrative expenditure		20.307.196		20.307.196	0,04%
0502	Interventions in Agricultural Markets	2.477.179.051	993.725		2.478.172.776	4,45%
0503	Direct Aids	41.659.679.434			41.659.679.434	74,86%
0504	Rural Development	11.177.586.805	8.411.496		11.185.998.301	20,10%
0505	Pre-accession Measures			158.726.294	158.726.294	0,29%
0506	International Aspects		1.806.025		1.806.025	0,00%
0507	Audit*	112.037.579	5.386.421		117.424.000	0,21%
0508	Policy Strategy and Coordination		27.605.680		27.605.680	0,05%
0509	Horizon 2020 - Research & Innovation					0,00%
	Total	55.426.482.869	64.510.543	158.726.294	55.649.719.706	
	% of Title 5	99,60%	0,12%	0,29%	100,00%	100,00%

* includes settlement of disputes and interest payments

Table 2.1.3

The detailed financial data and the draft annual accounts are presented in Annex 3.

Annex 10 to this report sets out in detail the management and control system in place for shared management funds and demonstrates how assurance is drawn with regard to legality and regularity in respect of each of the three principal ABB activities for which the DG is responsible, ABB02, ABB03 and ABB04, which together account for 99.4% of the CAP spending in 2014.

The principal conclusions in respect of each of these are summarised in sections 2.1.1.4 (ABB02 – Market Measures), 2.1.1.5 (ABB03 - Direct Payments) and 2.1.1.6 (ABB04 – Rural Development).

⁸⁵ Including assigned revenue.

2.1.1.3 How DG AGRI protects the EU Budget - Corrective Capacity

2.1.1.3.1 Protection of the EU Budget via Net Financial Corrections

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

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

Treatment of assigned revenue

For both EAGF and EAFRD, the amounts corrected and clawed back by the Commission are credited to the EU budget as assigned revenue on specific budget lines (item 67 01 for EAGF, item 67 11 for EAFRD).

In the EAGF the resulting assigned revenue can be used to finance expenditure budget lines to cover any type of EAGF expenditure without being targeted to any specific Member State. The budget remarks for chapters 05 02 (markets) and 05 03 (direct payments) clearly show that the financing needs of the EAGF are systematically reduced during the budget procedure by an amount representing the estimated assigned revenue which will be available from financial corrections during the budget year concerned.

For EAFRD, as the budgetary commitments have already been consumed by the Member State when it declared expenditure for reimbursement by the Commission, the recovered amounts cannot be used anymore. The payment appropriations from the assigned revenue are available for payments under the budget line for the EAFRD. They can be used for any open payment for any rural development programme. Hence, the EAFRD assigned revenue reduces the overall need for payment appropriations and has been used to reduce requests for additional payment appropriations.

Explanatory box 2.1.4

Every year the Commission adopts between 2 and 4 conformity clearance decisions on a package of individual financial corrections. **In 2014 the Commission adopted 3 such decisions⁸⁶**, covering 56 individual net financial corrections for a total amount of **€443m** (0.8% of the CAP expenditure budgeted for 2014). It is also noted that a further, financially significant, conformity clearance decision was prepared at the end of 2014 and the Member States were formally consulted in the Agricultural Funds Committee. **That decision, which was for the amount of €1.4 billion** (covering 98 individual corrections), **was adopted by the Commission in January 2015⁸⁷**.

⁸⁶ Decision 2014/191/EU of 4/04/2014, OJ L104 (ad hoc decision no. 44)

Decision 2014/458/EU of 9/07/2014, OJ L205 (ad hoc decision no. 45)

Decision 2014/950/EU of 19/12/2014, OJ L369 (ad hoc decision no. 46)

⁸⁷ Decision 2015/103/EU of 16/01/2015, OJ L16 (ad hoc decision no. 47)

Net financial corrections decided* in 2014 (million EUR)

Commission Conformity Clearance Decisions		EAGF	EAFRD	Total
ad hoc 44	2014/191/EU	293,241	21,737	314,978
ad hoc 45	2014/458/EU	41,349	10,240	51,588
ad hoc 46	2014/950/EU	68,633	7,916	76,549
ad hoc 47	2015/103/EU	1.243,108	165,997	1.409,105
Total		1.646,331	205,890	1.852,221
Annual financial clearance for 2013		2,745		
Financial corrections SAPARD 2000-2006			14,519	
Note 6		1.649,076	220,409	1.869,485

* The opinion of the Agricultural Funds Committee was issued

Table 2.1.5

Is the amount executed in a given year the same as the amount adopted in the same year?

For EAGF, financial corrections are executed by deducting the amounts concerned from the monthly payments made by the Commission in the second month following the Commission decision on a financial correction to the Member State concerned. For EAFRD, the financial corrections are executed through a recovery order requesting the Member State concerned to reimburse these amounts to the EU budget mostly executed by set-off in the reimbursement in the following quarter. It therefore occurs that decisions adopted in the end of year N are only executed at the beginning of year N+1.

Furthermore, the execution of the decision may be delayed due to instalment and deferral decisions.

This is particularly the case since 2010 when, due to the financial and economic crisis, Member States requested more frequently the benefit of an existing provision in the legislation allowing reimbursement of financial corrections via annual instalments (rather than a one-off payment): if the amount to be reimbursed by the Member State is more than 0.01% of its GDP, it may request that the deductions are made in annual instalments (maximum 3) instead of all at once. **Up to end of 2014, instalment decisions had been adopted in respect of €1.1 billion of financial corrections while such decisions were also adopted in January 2015 in respect of a further €1.28 billion (€2.4 billion in total).** (See Table: Annex 10 – 4.5 for details)

In 2012, the Commission introduced a new provision⁸⁸ which permitted deferral of reimbursement of financial corrections for Member States under EU financial assistance

⁸⁸ Commission Implementing Regulation (EU) No 375/2012 of 2 May 2012 amending Regulation (EC) No 885/2006 laying down detailed rules for the application of Council Regulation (EC) No 1290/2005 as regards the accreditation of paying agencies and other bodies and the clearance of the accounts of the EAGF and EAFRD - OJ L 118, 3.5.2012, p. 4–5

and under the conditions that the deficiencies at the origin of the financial correction are remedied. The Member States which were subject to financial assistance mechanisms could request to defer for a one-off 18 month period their financial corrections. All amounts which should be executed during that period were deferred until the end of the period at which time the total amount was scheduled to be repaid via 3 annual instalments. Deferral decisions were adopted in respect of Portugal for €108.5m while for Greece €529m was deferred. However, due to failure by Greece to implement fully the action plan upon which part of the deferred amounts were conditional, the deferral was partially revoked for €25.1m. (See Tables: Annex 10 – 4.6 and 4.7 for details)

Tables giving details of the various instalments and their repayment schedules as well as the two deferral decisions can be found in Annex 10 – part 4 which give more information on net financial corrections and explains the clearance of accounts system.

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

The following example which concerns financial corrections for the LPIS in France illustrates the time-lag between expenditure which is incurred in the Member State, the Commission's detection of the error and the decision on and eventual execution of the financial corrections.

Financial corrections for LPIS in France

On 16 January 2015, the Commission adopted a number of individual financial corrections regrouped in "ad-hoc" decision no. 47 which was published as Decision 2015/103/EU of 16/01/2015 (OJ L16). This decision concerns, *inter alia*, 2 financial corrections related to deficiencies in the LPIS affecting area related payments in France.

The first financial correction results from a conformity clearance procedure initiated with a letter of findings sent by DG AGRI in 2010. It relates to deficiencies in the LPIS identified in relation to claim years 2008 to 2010 impacting on expenditure for financial years 2009 to 2011. A contradictory procedure followed comprising an exchange of letters, a bilateral meeting and a Conciliation appeal procedure. In 2013 DG AGRI notified France of its intention to propose a financial correction. In September 2014, following the report of the Conciliation Body, DG AGRI notified its final position to the French authorities of its intention to propose to the Commission a financial correction of €366m.

The second financial correction corresponds to a conformity clearance procedure opened by a letter of findings in 2011. Following the contradictory procedure (in this case, France did not appeal to the Conciliation Body), DG AGRI notified the French authorities of its intention to propose a financial correction of €329m in respect of deficiencies in the LPIS identified for claim years 2011 to 2012 and impacting on expenditure for financial years 2012 and 2013.

In summary these 2 financial corrections correct the risk to the EU budget deriving from deficiencies in the French LPIS for the 2009 to 2013 expenditure. An on-going conformity clearance procedure will later on correct the situation for the 2014 expenditure.

The draft ad-hoc decision was presented to the Agricultural Funds Committee during its meeting in November 2014. It covered 6 other individual financial corrections for other deficiencies affecting CAP expenditure in France (mainly sugar restructuring, animal premia, management of single payment scheme entitlements) for a total of €1 078m. It will be executed in 3 annual equal instalments in 2015, 2016 and 2017 and will generate assigned revenues for the budgets 2015, 2016 and 2017.

The French authorities have appealed to the Court of Justice in respect of the 2 LPIS financial corrections. In the event that the Court of Justice would nullify the decision in respect of those financial corrections the Commission will have to reimburse the corrected amounts to France.

Explanatory Box: 2.1.6

2.1.1.3.2 Protection of the EU Budget via Recoveries

It is not only the Commission which acts to recover ineligible expenditure 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 10 – Part 5 explains the legal framework and provides detailed information on recovered amounts.

2.1.1.3.3 Corrective Capacity

A What is "corrective capacity"?

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

However, these mechanisms apply ex-post and imply contradictory procedures that might take time to complete. Therefore the full picture of the actual financial damage to the EU budget for a given annual expenditure, as a result of MS 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 correction – 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.

B How is corrective capacity estimated in respect of net financial corrections

The amount of future net financial corrections to the 2014 CAP expenditure will result from 3 main components:

- The legal framework under which corrective actions are to be carried out:
 - For instance, for rural development, the conformity clearance procedure was introduced only from the 2007-2013 expenditure, with the result that there were almost no net financial corrections adopted by the Commission before 2011.
 - The legal framework also influences the length of the conformity clearance procedure since the Commission must ensure the Member States' right to the contradictory and conciliation steps of the procedure in order to minimise the risk that the Court of Justice would invalidate financial corrections.
 - 10 years ago, first pillar expenditure was comprised rather differently with market measures having a much greater share of the spending. Therefore financial corrections and recoveries made 5 or 6 years ago, would have related

more to that legal framework and resulting expenditure breakdown and would not be at all representative of the situation for 2014.

Therefore, using a long historical reference (e.g. 6 years) would imply that financial corrections related essentially to a different legal framework and expenditure breakdown and with very significantly different risk profiles, would be taken into account.

- The effectiveness of the audit strategy of DG AGRI, including the available audit resources. For instance, the number of audits and conformity clearance procedures related to EAFRD investments measures has doubled in the last 3 years, which will be reflected in the future amounts of financial corrections for EAFRD measures. The multiannual audit programme put in place in 2014 aims at increasing the overall expenditure coverage of DG AGRI audits by making full use of the "24 months rule" which allows the Commission to apply, where appropriate, financial corrections for the expenditure up to two years before the audit takes place – therefore, in principle, one audit every 3 years is sufficient to fully cover the risk.
- The error rate in the 2014 expenditure, i.e. the combination of the inherent risk with the effectiveness of the management and control systems implemented by the paying agencies that are making the payments to the beneficiaries.

As in 2013, DG AGRI uses a historical average of the net financial corrections executed for estimating its corrective capacity. Given the variation between years in the amount of the corrections made over time, it is considered that the average of the three previous years gives the closest assessment of what financial corrections can be expected to be made in respect of the reporting year of the AAR (i.e. 2014 expenditure).

Using the executed amounts, i.e. the amounts actually reimbursed to the EU budget in the years concerned, instead of the decided amounts, is the best way to reflect how these corrections are actually protecting the EU budget and it takes into account timing issues between adoption and execution mentioned above. For 2014, it results in an overall lower but more realistic assessment of corrective capacity which gives a better indication of the amounts which would be recovered to the EU Budget in a given year.

It is noted that DG AGRI excludes corrections in respect of cross-compliance infringements from its calculation of corrective capacity for net financial corrections. Cross-compliance infringements are not "errors" as regards eligibility and are therefore not included in the estimates of the error rates. As the amounts are, however significant, they are disclosed separately.

DG AGRI corrective capacity from financial corrections executed between 2012-2014				
	ABB02	ABB03	ABB04	Total
TOTAL 2012	222,595	406,875	54,088	683,558
TOTAL 2013	100,425	381,470	229,766	711,661
TOTAL 2014	102,273	704,489	71,143	877,905
Cross compliance corrections from 2012-2014	0,028	308,767	14,250	323,045
Total 2012-14 excluding cross compliance	425,265	1.184,067	340,747	1.950,079
3 year average= corrective capacity from financial corrections	141,755	394,689	113,582	650,026

Table: 2.1.7

C How is corrective capacity estimated in respect of Recoveries?

As is the case for net financial corrections, corrective capacity for recoveries is estimated on the basis of an average of the previous three years. Again, it is considered that this period gives the closest assessment of the recoveries which can be expected to be made in respect of the reporting year of the AAR. DG AGRI also excludes recovered amounts in respect of cross-compliance infringements from its estimation of corrective capacity for recoveries. Member States do not presently report on recovered amounts at ABB level and it is not therefore possible to disclose a corrective capacity for recoveries at this level. This is why the corrective capacity is only reported at Fund level.

DG AGRI corrective capacity from recoveries between 2012-2014			
	EAGF	EAFRD	Total
2012	160,744	132,885	293,629
2013	155,144	128,001	283,145
2014	150,306	150,734	301,039
Cross compliance recoveries from 2012-2014	112,710	124,702	237,412
Total 2012-14 excluding cross compliance	353,484	286,917	640,401
3 year average = corrective capacity from recoveries	117,828	95,639	213,467

Table 2.1.8

D Conclusion

The total corrective capacity in respect of the EAGF and EAFRD funds in shared management is estimated to be €863.5m. This amount represents 1.55% of 2014 CAP expenditure. This represents the DG AGRI's best estimate of what will be recovered to the EU budget via net financial corrections and recoveries in respect of 2014 expenditure.

2.1.1.4 ABB02: Market Measures

Market measures, at €2 478m, accounted for 4.45% of the CAP budget in 2014. There are some 50 very diverse measures split over 15 sectors, the most important of which are fruit & vegetables and wine:

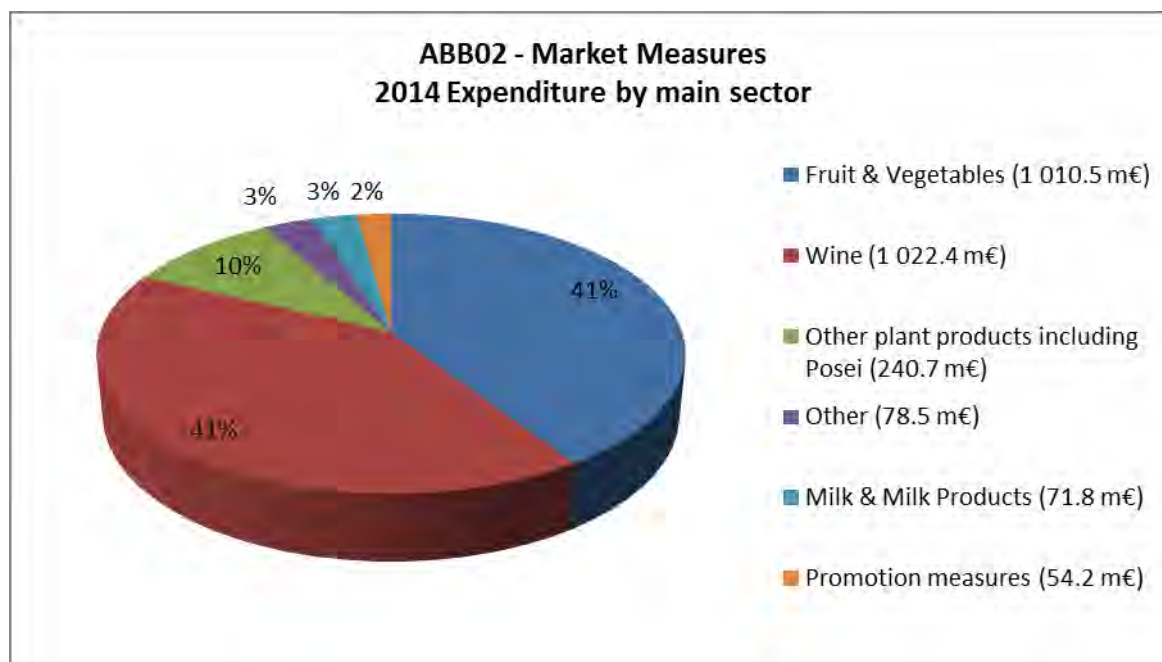


Chart 2.1.9

The following table sets out the expenditure in 2014 for ABB02 by Budget article (by 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 in shared management EUR	expenditure covered by statistics		Expenditure for which no statistics are available					
			expenditure EUR	risk EUR	no stats available EUR	measure risk assessed by auditors		ABB02 error rate applied* =3,87%		
					expenditure	risk	expenditure	risk		
050201	Cereals	2.458.300			2.458.300		0	2.458.300	95.136	
050202	Rice	6.484			6.484		0	6.484	251	
050203	Non-annex I products	128.875			128.875		0	128.875	4.987	
050204	Food Aid	-7.238.760			-7.238.760	-7.238.760	0		0	
050205	Sugar	457.334			457.334			457.334	17.699	
050206	Olive Oil	43.030.679			43.030.679	0	0	43.030.679	1.665.287	
050207	Textile Plants	6.273.976			6.273.976	0	0	6.273.976	242.803	
050208	Fruit and Vegetables	1.010.527.746	1.010.454.789	63.722.211	72.957		0	72.957	2.823	
050209	Wine	1.022.390.321	553.503.421	16.899.649	468.886.900	468.886.900	5.445.387	0	0	
050210	Promotion	53.233.953	0		53.233.953	0	0	53.233.953	2.060.154	
050211	Other plant products and POSEI	240.754.941	238.468.142	267.257	2.286.800	0	0	2.286.800	88.499	
050212	Milk and Milk Products	71.789.375	67.626.502	3.421.935	4.162.873	0	0	4.162.873	161.103	
050213	Beef and Veal	444.143			444.143		0	444.143	17.188	
050215	Pigmeat, eggs, poultry & apiculture	32.921.682			32.921.682	607.656	587.837	32.314.026	1.250.553	
	Total	2.477.179.051	1.870.052.854	84.311.052	607.126.197	462.255.796	6.033.224	144.870.401	5.606.485	
					Expenditure	Amount at risk	% coverage	error rate		
	expenditure covered by control statistics					1.870.052.854	84.311.052	75,49%		
	expenditure for which there are no statistics but for which risk assessment carried out					462.255.796	6.033.224	18,66%		
	Risk for expenditure covered by stats and by risk assessment					2.332.308.650	90.344.277	94,15%		
	*error rate for expenditure covered by statistics and risk assessed									3,87%
	Extrapolated risk for non risk assessed expenditure					144.870.401	5.606.485	3,87%		
	Risk for ABB02 Direct expenditure (promotion measures, budget item 05021002)					993.725	9.937	0,00%		1,00%
	Total error and risk for ABB02					2.478.172.776	95.960.698	100%		3,87%

Table 2.1.10

Control statistics are available in respect of 75.5% of the expenditure covering €1 870m. For a further €607m, DG AGRI's auditors consider 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 10 – part 3.1 (ABB02).

This assessment process led to a number of adjustments being proposed by DG AGRI to the error rates calculated by the Member States.

Each case where the adjusted error rate was above 2% was examined in order to determine if a reservation should be made:

- Where the resulting level of error was above 5%, a reservation was made (8 such reservations were necessary) unless the amount at risk was below the de minimis threshold of €1m established in DG AGRI's materiality criteria (Annex 4).
- Where the level of error falls between 2 and 5%, the specific situation was examined to determine if risk mitigating factors existed that would preclude making a reservation.
- The results of this analysis are set out for each case in Annex 10 – part 3.1 (ABB02).

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

- Fruit & vegetables: Operational programmes for producer organisations (AT, NL & UK)
- Fruit & vegetables: Pre-recognition of producer groups (PL & RO)
- Wine: Restructuring & reconversion of vineyards (ES & FR)
- School milk scheme (FR)

Annex 10 provides information on the corrective action which is envisaged in each case that a reservation is made.

The following table presents the situation at Member State level for ABB02. Annex 10 – Part 3.1 (ABB02) provides the full picture per paying agency.

Member State	Expenditure 2014	Reservation (by sector)	Adjusted error rate	Amount under reservation EUR	Amount at Risk EUR	2014 Expenditure managed by PAs with a reservation
AT	22.061.031	Fruits and Vegetables: Operational Programmes	12,69%	1.235.275,00	1.485.893	9.737.206,44
BE	53.302.546				180.414	
BG	23.450.992				158.826	
CY	5.330.302				3.716	
CZ	14.130.899				342.452	
DE	95.869.557				298.649	
DK	9.114.473				780.915	
EE	1.244.577				6.805	
ES	474.267.787	Wine Restructuring	10,49%	11.808.721,40	16.697.932	112.534.414,01
FI	5.256.981				15.855	
FR	551.830.595	Wine Restructuring	5,00%	5.090.928,09	11.421.743	101.818.561,73
		School Milk Scheme	25,58%	2.958.484,92		11.567.290,43
GB	39.483.380	Fruits and Vegetables: Operational Programmes	10,00%	3.244.589,00	3.349.627	32.445.889,98
GR	45.231.610				893.836	
HR	3.246.601				43.669	
HU	52.241.267				107.927	
IE	6.743.969				43.333	
IT	603.595.272				4.124.992	
LT	4.080.095				76.524	
LU	297.664				651	
LV	4.013.557				11.891	
MT	296.254				262	
NL	33.845.364	Fruits and Vegetables: Operational Programmes	11,19%	3.059.337,52	3.233.770	27.342.165,24
PL	225.397.572	Fruits and Vegetables: Pre-recognition of Producer Groups	25,25%	48.793.173,10	49.180.645	193.278.392,56
PT	100.404.710				1.232.614	
RO	74.987.535	Fruits and Vegetables: Pre-recognition of Producer Groups	25,00%	1.474.776,99	1.718.468	5.899.107,94
SE	13.343.117				477.071	
SI	6.271.379				40.831	
SK	7.951.382				21.450	
Other	993.725				9.937	
Total ABB02	2.478.284.189		3,87%	77.665.286	95.960.699	494.623.028

Table: 2.1.11

The total amount at risk for ABB02 is estimated at €95.96m corresponding to an error rate of 3.87%.

Table 2.1.11 indicates an amount of €494.6m as being the expenditure managed by Paying Agencies for which a reservation has been issued. It is emphasised that of this amount, **only €77.7m was assessed to be at risk**. It is also noted that the €494.6m referred is **under close scrutiny** by DG AGRI as described in the reservation set out in chapter 4.2. Close scrutiny means an on-going conformity clearance procedure and monitoring by DG AGRI of the remedial actions to be taken by the Member State where appropriate.

2.1.1.5 ABB03: Direct Payments

Direct payments constitute the largest area of expenditure in the CAP (74.9%) and amounted to €41 659.7m in 2014. The single payment and single area payment schemes account for 92% of this amount.

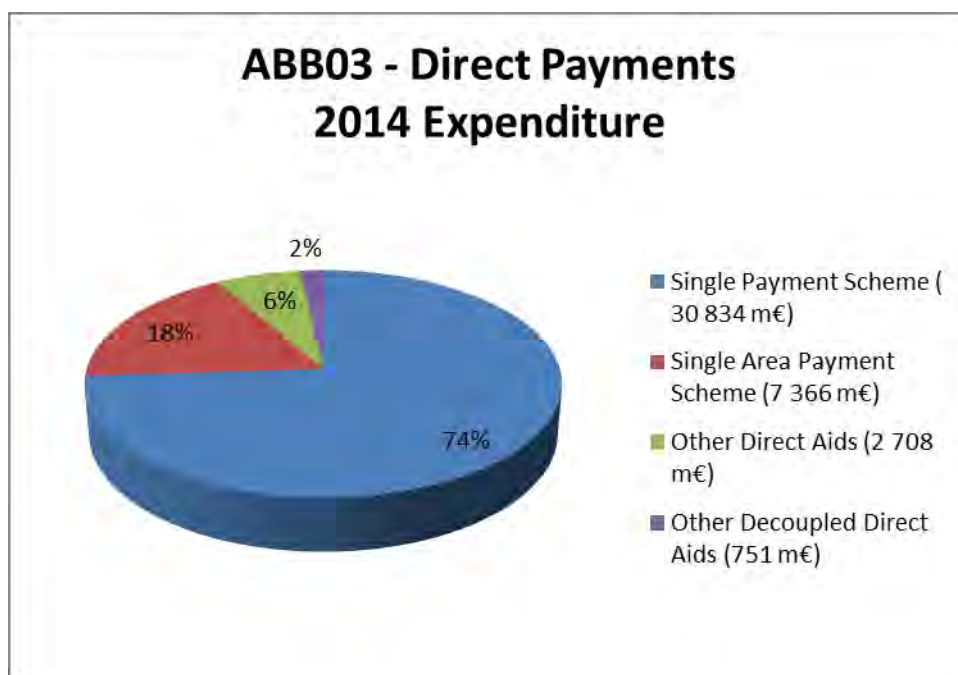


Chart 2.1.12

Control statistics have been provided by each paying agency in respect of 93.1% of the expenditure for the ABB activity.

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. Account has been taken of the opinions of the certification bodies (independent audit bodies which deliver an opinion on the reliability of the statistics), the European Court of Auditors and the DG AGRI auditors in respect of the audits carried out in the past three years. Annex 10 – Part 3.2 (ABB03) explains how the adjustments proposed were determined.

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

As a result of the "top-ups" made, an adjusted error rate (aER) has been calculated of 2.54% with 17 out of 69 paying agencies having an adjusted error rate above 2% (of which 6 were above 5% - 5 Spanish paying agencies and Hungary).

For the 11 paying agencies with an error rate between 2 and 5%, an examination was carried out of any risk mitigating factors which indicated that the EU budget was protected for the past (conformity clearance procedure, culminating in a financial correction, underway) and that it is protected for the future (the deficiencies have been addressed by the paying agency). In 2 out of the 11 cases, it was considered that, given

the mitigating factors present it would not be necessary to make reservations. Annex 10 – part 3.2 (ABB03) sets out in detail the justifications where a reservation is not retained while the corrective actions required by the paying agency are indicated.

The overall outcome of this exercise is that 15 reservations are necessary at paying agency level:

- Spain – for 10 paying agencies
- France -ASP
- UK – RPA
- Hungary
- Greece
- Portugal

The following table presents the situation at Member State level for ABB03. Annex 10 – Part 3.2 (ABB03) provides the full picture per paying agency.

Member State	Expenditure in 2014	Number of Paying Agencies	Number of Paying Agencies under reservation	Adjusted error rate	Amount at risk	Amount at risk covered by a reservation	2014 Expenditure managed by PAs with a reservation
AT	695.527.340	1	0	0,10%	681.343	0	0
BE	552.532.180	2	0	0,08%	478.007	0	0
BG	578.641.269	1	0	0,64%	3.682.176	0	0
CY	51.667.591	1	0	0,49%	252.116	0	0
CZ	878.678.596	1	0	1,21%	10.588.835	0	0
DE	5.101.255.642	13	0	0,31%	15.559.116	0	0
DK	916.928.453	1	0	0,81%	7.424.362	0	0
EE	99.062.701	1	0	0,50%	493.034	0	0
ES	5.110.448.403	17	10	5,24%	267.096.195	260.359.297	4.010.525.850
FI	519.426.986	1	0	0,51%	2.648.156	0	0
FR	7.779.692.012	2	1	4,22%	328.932.967	328.901.404	7.643.870.704
GB	3.195.725.305	4	1	1,58%	50.114.621	45.108.112	2.009.205.409
GR	2.246.413.946	1	1	4,53%	101.832.085	101.832.085	2.246.413.946
HR	93.202.238	1	0	0,16%	145.737	0	0
HU	1.287.608.038	1	1	5,94%	76.515.798	76.515.798	1.287.608.038
IE	1.227.716.757	1	0	2,50%	30.728.509	0	0
IT	3.902.241.260	9	0	1,14%	44.515.934	0	0
LT	375.811.208	1	0	0,21%	786.540	0	0
LU	33.088.060	1	0	0,19%	64.157	0	0
LV	143.760.006	1	0	1,25%	1.799.906	0	0
MT	5.272.930	1	0	0,00%	44	0	0
NL	805.799.539	1	0	0,26%	2.081.284	0	0
PL	2.982.334.188	1	0	1,55%	46.161.699	0	0
PT	634.862.683	1	1	2,97%	18.838.888	18.838.888	634.862.683
RO	1.259.560.966	1	0	1,74%	21.900.244	0	0
SE	679.485.230	1	0	2,29%	15.577.331	0	0
SI	140.204.433	1	0	0,73%	1.020.667	0	0
SK	371.546.506	1	0	1,66%	6.155.487	0	0
Other*	-8.815.032			0,00%	0	0	0
Total	41.659.679.433	69	15	2,54%	1.056.075.240	831.555.585	17.832.486.632

* See Annex 10 - Part 3.2 for more details.

Table 2.1.13

The total amount at risk for ABB03 is estimated at €1 056.1m corresponding to an error rate of 2.54%.

Table 2.1.13 indicates an amount of €17 832.5m as being the expenditure managed by Paying Agencies for which a reservation has been issued. It is emphasised that of this

amount, **only €831.5m was assessed to be at risk**. It is also noted that the €17 832.5m referred is **under close scrutiny** by DG AGRI as described in the reservation set out in chapter 4.2. Close scrutiny means an on-going conformity clearance procedure and monitoring by DG AGRI of the remedial actions to be taken by the Member State where appropriate.

2.1.1.6 ABB04: Rural Development

In 2014, €11 186m was paid to Member States in respect of rural development which represents 20.1% of the CAP spending.

Budget Item	Description	Expenditure
0504	05040114 Completion of EAGGF (Guarantee Section) 2000-2006	-1.397.377
	05040201 Completion of EAGGF (Guidance Section) 2000-2006	6.556.494
	05040202 Completion of special programmes for N. Ireland & Ireland	87.488
	05040501 Rural Development programmes (2007-2013)	10.947.350.313
	05040502 Operational Technical Assistance (2007-2013)	5.076.010
	05046001 Promoting sustainable rural development	224.989.886
	05046002 Operational Technical Assistance (2014-2020)	3.335.487
Total		11.185.998.301

Table 2.1.14

Control statistics have been provided by each paying agency in respect of 100% of the expenditure under the 2007-2013 Rural Development Programmes which account for €10 947.3m of the total expenditure.

The following chart sets out 2014 expenditure declared by Member States for the 2007-2013 programmes divided among the priority areas or "axes" (see Annex 10 -3.3.2 for more information).

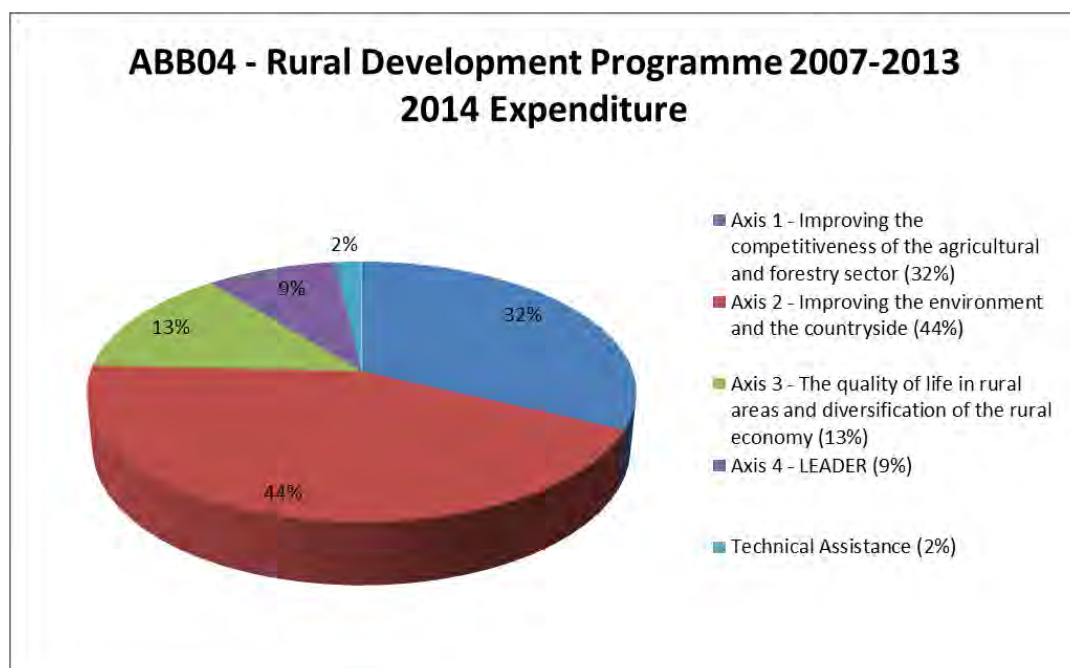


Chart 2.1.15

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. Account has been taken of the opinions of the certification bodies (independent audit bodies which deliver an opinion on the reliability of the statistics), the European Court of Auditors and the DG AGRI auditors in respect of the audits carried out in the past three years. Annex 10 – Part 3.3 (ABB04) explains in detail the assessment process and how the adjustments proposed were determined.

As a result of the "top-ups" made, 43 out of 72 paying agencies have an adjusted error rate above 2% (of which 14 were above 5% - Bulgaria, Denmark, Spain (Andalucia and Valencia), France (ODARC and ASP), UK (England), Greece, Ireland, Lithuania, Latvia, Netherlands, Portugal and Romania).

In line with its materiality criteria in Annex 4, 13 cases where the error rate is above 5% (Bulgaria, Denmark, Spain (Andalucia and Valencia), France (Corsica and ASP), UK (RPA-England), Greece, Lithuania, Latvia, the Netherlands, Portugal and Romania) were automatically subject to reservation. In all of these cases, the high adjusted error rate was determined further to assessment and adjustment of the error rate by DG AGRI or due to the system assessment given by the ECA. In one case (Ireland) there was no expenditure reimbursed by the Commission in 2014 and therefore it was not appropriate to make a reservation in respect of 2014 expenditure⁸⁹.

For 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 5 cases (Belgium Flanders, Cyprus, DE-Bayern, Finland, and Luxembourg) it was considered that it was not necessary to carry over reservations from the 2013 AAR with regard to 2014 expenditure. The reasons for each decision are detailed in Annex 10 – 3.3).
- In a further 9 cases it was considered that, given the mitigating factors present, it would not be necessary to make reservations.

Reservations were issued for 15 paying agencies with adjusted error rates between 2 and 5%.

22 reservations from 2013 are repeated for 2014 as the remedial action plans are still underway while 6 new reservations are introduced (DE-Sachsen, DE Sachsen Anhalt, ES-Murcia, ES-Valencia, Lithuania, Latvia).

⁸⁹ While Ireland did make payments to farmers and declared the expenditure to the Commission; due to the fact that Ireland had already been reimbursed for 95% of the multi-annual envelope for 2007-2013, no reimbursement was made by the Commission in 2014. The corresponding amounts will be reimbursed if appropriate in the framework of the closure of the programmes – closure accounts expected to be sent in June 2016.

The overall outcome of this exercise is that 28 reservations are necessary at paying agency level:

- Bulgaria
- Germany – 3 paying agencies (Brandenburg, Sachsen and Sachsen Anhalt)
- Denmark
- Spain - 6 paying agencies (Andalucia, Castilla-la-Mancha, Castilla y Leon, Galicia, Murcia, Valencia,)
- France – 2 paying agencies (Corsica, ASP – the national paying agency)
- UK – 2 paying agencies (Scotland, England)
- Hungary
- Greece
- Italy – 4 paying agencies (AGEA, Emilia Romagna, Lombardy, Calabria)
- Lithuania
- Latvia
- Netherlands
- Poland
- Portugal
- Romania
- Sweden

The following table presents the situation at Member State level for ABB04. Annex 10 – Part 3.3 (ABB04) provides the full picture per paying agency.

Member State	Expenditure in 2014	Number of Paying Agencies	Number of PAs under reservation	Adjusted error rate	Amount at risk	Amount at risk covered by a reservation	2014 Expenditure managed by PAs with a reservation
AT	244.873.999	1	0	2,04%	5.006.799	0	0
BE	16.628.109	2	0	3,10%	687.376	0	0
BG	393.750.627	1	1	9,59%	37.773.967	37.773.967	393.750.627
CY	22.898.351	1	0	3,46%	793.200	0	0
CZ	283.248.060	1	0	1,76%	4.994.786	0	0
DE	917.307.316	15	3	2,09%	19.525.561	12.807.298	430.033.762
DK	83.307.265	1	1	5,69%	4.742.561	4.742.561	83.307.265
EE	62.135.652	1	0	1,28%	793.019	0	0
ES	964.188.641	18	6	3,75%	36.627.505	31.938.074	615.548.011
FI	56.934.909	1	0	2,98%	1.696.581	0	0
FR	798.152.731	2	2	7,26%	57.933.076	57.933.076	798.152.731
GB	691.044.486	4	2	5,54%	39.735.967	38.596.101	586.261.526
GR	549.164.613	1	1	8,91%	48.905.111	48.905.111	549.164.613
HU	550.351.068	1	1	2,57%	14.120.613	14.120.613	550.351.068
IE	0	1	0	6,73%	0	0	0
IT	1.204.033.199	9	4	3,76%	45.487.681	42.871.443	990.121.758
LT	232.381.211	1	1	8,19%	19.041.660	19.041.660	232.381.211
LU	1.287.916	1	0	2,46%	31.704	0	0
LV	58.786.443	1	1	6,02%	3.539.906	3.539.906	58.786.443
MT	11.410.988	1	0	3,10%	353.581	0	0
NL	111.016.078	2	1	6,49%	7.220.693	7.220.693	111.016.078
PL	1.700.773.103	1	1	4,83%	82.221.601	82.221.601	1.700.773.103
PT	683.122.011	1	1	9,78%	66.821.441	66.821.441	683.122.011
RO	822.842.472	1	1	6,77%	55.688.805	55.688.805	822.842.472
SE	221.274.236	1	1	3,75%	8.294.381	8.294.381	221.274.236
SI	118.091.451	1	0	1,29%	1.521.137	0	0
SK	148.345.380	1	0	3,26%	4.843.296	0	0
Other*	238.647.988			0,18%	428.938		
Total	11.185.998.301	72	28	5,09%	568.830.947	532.516.733	8.826.886.913
Other*					expenditure	Risk	amount at risk
05040114	Completion of EAGGF (Guarantee Section) 2000-2006				- 1.397.376,72	0,00%	-
05040201	Completion of EAGGF (Guidance Section) 2000-2006				6.556.494,14	5,19%	340.282
05040202	Completion of special programmes for N. Ireland & Ireland				87.488,03	5,19%	4.541
05040502	Operational Technical Assistance (2007-2013)				5.076.009,58	1,00%	50.760
05046001	Promoting sustainable rural development				224.989.885,83	0,00%	-
05046002	Operational Technical Assistance (2014-2020)				3.335.486,64	1,00%	33.355
Total					238.647.987,50	0,18%	428.938

Table 2.1.16

The total amount at risk for ABB04 is estimated at €568.8m corresponding to an error rate of 5.09%.

The table indicates an amount of €8 826.8m as being the expenditure managed by Paying Agencies for which a reservation has been issued. It is emphasised that of this amount, **only €532.5m was assessed to be at risk**. It is also noted that the €8 826.8m referred is **under close scrutiny** by DG AGRI as described in the reservation set out in chapter 4.2. Close scrutiny means an on-going conformity clearance procedure and monitoring by DG AGRI of the remedial actions to be taken by the Member State where appropriate.

2.1.1.7 Interruption, reductions and suspension

2.1.1.7.1 New mechanisms for interrupting, reducing and suspending payments for 2014-2020

Following the entry into force of the new CAP Horizontal Regulation 1306/2013 by the legislator, a new legal framework for interruptions, reductions and suspension of CAP funds enters into force in 2014 which will strengthen the Commission's powers to suspend EU financing in cases where risks of irregular payments have been identified.

Accordingly the Commission may under article 41(2) reduce or suspend monthly (EAGF) or interim payments (EAFRD) on the following conditions:

where "one or more of the key components of the national control system in question do not exist or are not effective due the gravity or persistence of the deficiencies found" (or there are similar serious deficiencies in the system for the recovery of irregular payments) and:

either the deficiencies are of a continuous nature and have already been the reasons for at least two financial correction decisions,

or

the Commission concludes that the Member State concerned is not in a position to implement the necessary remedial measures in the immediate future, in accordance with an action plan with clear progress indicators to be established in consultation with the Commission.

The first indent is very close to the present situation under Regulation (EC) No 1290/2005; the second indent is new. It is in essence the legislative response to the recommendation by the European Parliament in its 2011 discharge resolution according to which the suspension rules for the CAP should be aligned with those of the Cohesion Funds.

The Commission may also suspend/reduce payments under Article 41(1) when it has established that :

- expenditure has been effected by bodies which are not accredited paying agency,
- payment periods or financial ceiling set by Union law have not been respected, or
- expenditure has otherwise not been effected in accordance with Union rules.

Similarly, payments could be suspended/reduced when the Commission cannot establish that the rules mentioned above were respected.

In addition to the reduction/suspension mechanism Article 36(7) of new CAP Horizontal Regulation 1306/2013 provide for the interruption of interim payments for EAFRD as a first, quick and reactive tool in case of concerns on the legality and regularity of payments.

The combination of both preventive actions (interruption for EAFRD,

reductions/suspension for both Funds) and net financial corrections will allow the Commission to act promptly and effectively and protect the EU budget: payments will not be made for the measures/part of the measures concerned during the suspension or payments will be reduced up to the level of the estimated risk; irregular payments already made will be fully covered via the financial corrections. Detailed internal guidelines for the applications are being drawn up to ensure that the preventive actions can be taken quickly and that budgetary consequences can be managed.

2.1.1.7.2 Interruptions and reductions of payments in respect of 2014 expenditure

The interruptions and suspensions of EAFRD payments concerned 6 out of 92 Rural Development Programmes.

BULGARIA

a) Withdrawal of expenditure for Measure 321 and 322 (Basic services for the economy and rural population and Village renewal and development)

An audit inquiry RD1/2011/810/BG has discovered deficiencies in the implementation of public procurement, which resulted in proposing a financial correction of 10% on all eligible costs for all projects of the BG RDP subject to public procurement. The audit covered a period from beginning of 2010 until 15/10/2012. Consequently, payments of relevant amounts were interrupted.

In a letter of 17.04.2014 the BG authorities have reported the measures they have taken to ensure that the recommendation of the auditors (specifically regarding award criteria and respective selection of the cheapest bid) have been horizontally applied. In their feed-back they confirmed having checked all projects subject to public procurement and in case of different practices applied recalculated the total of the contract based on the cheapest offer. This has led to a total correction of 2 937 193.86 euro.

However, the fact that Bulgarian authorities have withdrawn the whole amount of uneligible expenditure and at the same time an additional financial correction of 837 094,85 euro calculated by the auditors on the basis of 10% correction was applied to all projects from beginning of 2010 to 15 October 2012, is considered by them as a double sanction. There is an on-going discussion on how to solve the issues (taking into account that the additional financial correction has been adopted through a Commission decision). A respective meeting with BG authorities is scheduled for 17 April 2015 in Brussels.

b) Interruption of payments for Measures 311 and 312 (Diversification into non-agricultural activities and Support for the creation and development of micro-enterprises)

Following a clearance of accounts inquiry carried out by the audit services of DG AGRI in 2012 (reference RD/2012/806/BG), a financial correction is being proposed for exceeding, in the case of production of renewable energy (solar panels), the maximum public support rate per project specified in the RDP as a result of cumulation of aid with other national schemes. The Bulgarian authorities have disagreed with the auditors findings and the case is still open. In the mean time they have informed us that a total amount 1 018 870.18 related to solar panel projects has been included in Q3 2014 Declaration of Expenditure, together with an additional amount of €681 814.37 included in last Q4 2014 Declaration of Expenditure (BG letter from 30/03/2015). The

first amount has been taken out of the payment, while an overall decision has been taken at the Suspension board to propose a Reduction of payments decision covering both Qs. Since not all expenditure related to solar panel projects is automatically declared as non-eligible (only the part subject to cumulation of aid), the board has decided to adopt a more proportionate approach applying a percentage to the overall amount related to solar panel projects (71.14% was calculated by the auditors as an average proportion on non-eligible expenditure out of all payments related to solar panels) a respective reduction of payments decision will be proposed to the suspension board.

GREECE - Interruption and suspension for Measure 112 (Young farmers)

On 26.01.2015, the Commission adopted Decision C(2015)252 on the temporary reduction of interim payments for the first and second quarter of 2014 under measure 112-Setting up of young farmers under the Greek Rural Development Programme 2007-2013. The temporary reduction for both quarters concerns a total amount of €3 215 169.25. Related quarterly payments had been interrupted before amounts for temporary suspensions were established.

ITALY – Abruzzo region - Interruption for Measure 112 (Young farmers)

On-the-spot-checks carried out in March 2014 on Measure 112 have raised doubts concerning the compliance of expenditure for a number of projects with the provisions of Article 13(4) of Regulation (EC) No 1974/2006, according to which "the individual decision to grant support for the setting up of young farmers shall be taken no later than 18 months after setting up". The payments for M112 were then interrupted for Q1 and Q2 2014. Additional information has been requested to the Region and the suspension board has been consulted. The Suspension Board decided that this was a case of key control deficiency in the national management system, so it did not have to be considered for suspension under Art. 41(1) of HZ but it fell into the scope of Art. 41(2) of HZ (suspensions/reductions due to systemic deficiencies and non-implementation of action plan). The interruption of payment deadline for Q1 and Q2 2014 had been lifted, following the Commission's request of confirmation from the MS that the incorrect procedure was stopped and no further commitments were concluded under these rules. In addition, it has been requested that the future declarations of expenditure will clearly identify the amounts affected by the past deficiency. The outstanding amounts concerning Q1 and Q2 2014 have been paid.

ITALY – Lazio region - Reduction of payments for Measure 112 (Young farmers)

On 16/12/2013 the Commission adopted a Decision for the temporary reduction of the Q2-2013 intermediate payments to Lazio Region (Italy) under measure 112 – Setting up of young farmers, of the Rural Development Programme 2007-2013. The reduction amounts to €753 591 of EAFRD contributions out of a total declared expenditure for the measure concerned of €848 833. Likewise, a procedure for the adoption of a Decision for the temporary reduction of the Q3/2013 payment to Lazio was activated and was adopted by the Commission on 28/02/2014 under the new regulatory framework (Article 41 of R. 1306/2013). The second reduction amounts to €532 237 out of a total declared expenditure for the measure concerned of €583 971. Similar reductions were executed in the 2 following quarters.

POLAND – Withdrawal of expenditure measure 113 (Early retirement)

During 2013 DAS audit (PF5633) the European Court of Auditors pointed at situations where beneficiaries of Early Retirement measure (M113) do not have their EU pensions reduced once they become entitled to the KRUS national state pension scheme. The situations related to commitments from 2004-2006 programming period paid under RDP 2007-2013. In May 2014 the Commission legal service concluded that Poland would no longer be entitled to request reimbursement from EAFRD for such payments. As a result, in the case of Q1, Q2 and Q3 2014 Declarations of Expenditure, the quarterly payments were interrupted and the Polish authorities were requested to calculate ineligible amounts and withdraw them from respective declarations. In addition, the Polish authorities did not claim those ineligible amounts in the 2014 Annual accounts.

ROMANIA – Withdrawal of expenditure for Measure 312 (Modernisation investment)

Payments declared by Romania under M312 were interrupted since Q4 2012, due to systemic weaknesses identified by both DG AGRI conformity audits and ECA audits (mainly concerning the creation of artificial conditions). In Q1 2014, RO started again to declare expenditure under M312 (covering Q4 2013-Q1 2014). The total amount declared for the 2 quarters added up to €12.74m. The assessment of DG AGRI was that M312 payments for Q1 2014 could be resumed, as the Romanian authorities seemed to have made an important effort to clean the M312 projects portfolio of projects affected by artificial conditions/splitting. Romania agreed to exclude from Q1 2014 payments the amounts identified as affected by artificial conditions (12 projects with a total value of €843 623.61).

2.1.1.8 Overall assessment of the functioning of the management and control system for funds under shared management

Article 66 of the Financial Regulation requires the Director General to report in his/her Annual Activity Report on whether, except as otherwise specified in any reservations, (s)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, sections 2.1.1.4, 2.1.1.5 and 2.1.1.6 set out the situation with regard to the functioning of the management and control systems for market measures, direct payments and rural development expenditure.

In delivering the conclusions in each case, DG AGRI has based itself on the 4 level structure of management and control which is described in Annex 10, part 1 and on the reports and indicators which emanate from those levels. DG AGRI shares the management of the CAP expenditure with some 81 paying agencies and reports extensively in Annex 10, part 2 on the annual management declarations which are delivered by those entities as well as on the opinion delivered on the annual accounts and declarations of assurance by the Certification Bodies (independent audit bodies). 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 2014		
ASSURANCE DERIVING FROM THE FUNCTIONING OF THE PAYING AGENCIES		
Accreditation of paying agencies⁹⁰	Fully accredited	77
	Limited accreditation	1
	Provisional accreditation	1
	On probation	2 ⁹¹
	Total	81
Certificates and reports of certification bodies on functioning of paying agencies' internal control systems	Received	80
	Not received	1
	Effective ⁹²	80
	Not effective	
Management Declarations signed by the directors of paying agencies	Received	80
	Not received	1
	Unqualified	80
	Qualified with reservation	1
Opinions of certification bodies on the management declarations	Received	80
	Not received	1
	Unqualified	80
	Qualified	1

Table 2.1.17

DG AGRI also carries out some 120 "conformity" clearance audit missions each year 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.

Conformity audits carried out in Financial Year 2012-2014

	ABB 02	ABB 03	ABB 04[*]	Total^{**}
Number of conformity audits with missions carried out^{***}	55	92	98	291
MS covered	AT, BG, CZ, DE, DK, ES, FR, GR, HU, IT, LT, LV, NL, PL, PT and RO (16 MS)	All Member States except MT	All Member States except MT	All Member States except MT

Table: 2.1.18

* concerns only EAFRD, thus excluding the EAGGF Guidance section.

** including 28 audits covering cross-compliance, 4 audits covering IT, 7 audits covering entitlements and 7 audits covering irregularities.

*** if an audit covers more than one ABB, it is allocated to all ABBs covered by that audit.

⁹⁰ State of play on 15 October 2014

⁹¹ Two Paying Agencies (ES01 – Andalucía and IT01 – AGEA) were placed under probation by the respective Competent Authorities.

⁹² Effective means very good, good or adequate.

Conformity audits carried out in Financial Year 2014

	ABB 02	ABB 03	ABB 04*	Total**
Number of conformity audits with missions carried out***	14	38	39	114
MS covered	BG, ES, FR, GR, IT, LV, PL, PT (8 MS)	BE, BG, CZ, DE, DK, EE, ES, FR, GB, GR, HR, IE, IT, LT, LU, LV, NL, PL, PT, RO, SI (21 MS)	AT, BG, DE, DK, EE, ES, FR, GB, GR, HU, IE, IT, LT, LV, PL, PT, RO, SE, SK (19 MS)	All Member States except CY, FI and MT
Expenditure 2014, - total, €m****	2 474.37	41 664.05	12 052.60	56 191.02
- audited, €m	598.82	14 645.18	2 313.44	17 557.44
- % covered	24.20%	35.15%	19.19%	31.25%

Table: 2.1.19

*) concerns only EAFRD, thus excluding the EAGGF Guidance section.

***) including 14 audits covering cross-compliance, 2 audits covering IT, 3 audits covering entitlements and 4 audits covering irregularities.

****) if an audit covers more than one ABB, it is allocated to all ABBs covered by that audit.

*****) as declared by the Paying Agencies in their annual declarations.

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 2015 and 2016 will also cover the 2014 expenditure ("24 months rule"). From its 2015 AAR DG AGRI will report on the cumulative expenditure covered by its audits.

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.

	Total expenditure	Expenditure covered by Statistics	% ABB covered by statistics	% Fund covered by statistics	% CAP covered by statistics
ABB02	2.477.179.051	1.870.052.854	75,49%		
ABB03	41.664.050.536	38.777.432.175	93,07%	92,09%	
ABB04	10.947.350.314	10.947.035.761	100,00%	100,00%	
CAP	56.996.815.670	51.594.520.789			90,52%

Table 2.1.20

In order to compensate for reliability and completeness issues with the statistics, DG AGRI carries out a thorough validation and evaluation of the data and takes into account all available relevant information notably the results of its own audit findings.

This process is explained in detail in Annex 4 (materiality criteria) as well as in Annex 10 – parts 3.1 (market measures), 3.2 (direct payments) and 3.3 (rural development).

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

Following this assessment stage and taking into account the adjusted error rate, the paying agencies for ABB 03 and 04 and aid 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 (2.1.21) 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											
	N° of aid schemes/Paying Agencies				as % of aid schemes/Paying Agencies				Payments to aid schemes/Paying Agencies in question as % of expenditure 2014			
	ABB02	ABB03	ABB04	Total	ABB02	ABB03	ABB04	Total	ABB02	ABB03	ABB04	Total
1 Reasonable Assurance (= adjusted error rate below 2%)	112	52	38	202	55.45%	25.74%	18.81%	100.00%	66.30%	52.63%	14.31%	45.63%
2 Reasonable Assurance with low risk (= adjusted error rate between 2% and 5%, mitigating factors)	50	2	5	57	87.72%	3.51%	8.77%	100.00%	13.74%	4.58%	5.06%	5.09%
3 Limited Assurance with medium risk (= adjusted error rate between 2% and 5%, no mitigating factors)	0	9	15	24	0.00%	37.50%	62.50%	100.00%	0.00%	34.61%	39.44%	34.02%
4 Limited Assurance with high risk (= adjusted error rate above 5%)	8	6	13	27	29.63%	22.22%	48.15%	100.00%	19.97%	8.18%	41.19%	15.27%
Grand Total	170	69	71	310	43.20%	22.24%	34.56%	100.00%	100.00%	100.00%	100.00%	100.00%

Table 2.1.21

All aid schemes/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 aid schemes in 7 Member States
- ABB03: 15 paying agencies in 6 Member States.
- ABB04: 28 paying agencies in 16 Member States.

Tables 2.1.23, 2.1.24 and 2.1.25 set out the situation underlying the above table 2.1.21 on the risk assessments for each of the three ABB activities.

The following table shows the principal indicators of adjusted error rates and amounts at risk for each of the 9 ABB activities under the CAP and gives the overall result. It also indicates the corrective capacity of the net financial corrections executed by the Commission and the recoveries by the Member States from the beneficiaries.

Title 05	Agriculture and Rural Development	DG AGRI annual Accounts (Annex 3) m EUR	% of CAP budget	Adjusted error rate	Amount at risk m EUR	Corrective capacity			
						financial corrections m EUR	recoveries m EUR	total m EUR	as % of 2014 expenditure
0501	Administrative expenditure	20,31	0,04%	1,00%	0,20				-
0502	Interventions in Agricultural Markets	2.478,17	4,45%	3,87%	95,96	141,76			
0503	Direct Aids	41.659,68	74,86%	2,54%	1.056,08	394,69			
	EAGF	44.137,85	79,31%	2,61%	1.152,04	536,44	117,83	654,27	1,48%
0504	Rural Development	11.186,00	20,10%	5,09%	568,83	113,58	95,64	209,22	1,87%
0505	Pre-accession Measures	158,73	0,29%	3,19%	5,06				-
0506	International Aspects	1,81	0,00%	1,00%	0,02				-
0507	Audit	117,42	0,21%	0,046%	0,05				-
0508	Policy Strategy and Coordination	27,61	0,05%	1,00%	0,28				-
0509	Horizon 2020 - Research & Innovation	0,00	0,00%	0,00%	0,00				-
CAP	Total	55.649,72		3,10%	1.726,48	650,03	213,47	863,49	1,55%

Table 2.1.22

This table presents the results of the assurance process which can be summarised as follows:

- For each ABB activity, the adjusted error rate of 2014 expenditure is in the range of 1% to 5.09%. Direct payments which account for 75% of the CAP expenditure, and are managed through the IACS, have an error rate of 2.54%, close to the 2% materiality threshold. For rural development, the error rate is somewhat higher at 5.09% manifesting the greater complexity of this policy. For market measures the material error rate of 3.87% reflects the very high adjustments which have been made by the DG AGRI auditors in a limited number of cases where large portions of the expenditure are considered at risk. For Pre-Accession Measures the error rate of 3.19% results from precisely identified risks with regard to two measures in Turkey.
- The quantification of the amount at risk (without taking account of the net financial corrections of €650m made by DG AGRI or the recoveries of €213m made by Member States) is some €1 726.4m of which €1 446.8m is covered by the reservations mentioned.

For a complete picture of the risk to the EU budget after all corrective action has been carried out, account needs to be taken of the corrective capacity deriving from the recoveries made by Member States of unduly paid amounts as well as the net financial corrections imposed on Member States by DG AGRI as a result of the clearance of accounts procedure.

Tables (ABB02, ABB03, ABB04) showing 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 2014 per level of assurance								2014					
Member States	Reasonable assurance		Reasonable assurance with low risk		Reasonable assurance with medium risk		Reasonable assurance with high risk		Total Expenditure	Total N° of Aid schemes/Paying Agencies	Amount at risk	Adjusted error rate	AAR 2014 Reservations	
	Expenditure	N° of Aid schemes/Paying Agencies	Expenditure	N° of Aid schemes/Paying Agencies	Expenditure	N° of Aid schemes/Paying Agencies	Expenditure	N° of Aid schemes/Paying Agencies					N° of Aid Schemes under reservation	2014 expenditure managed by MS with a reservation
AT	5,059,998	3	7,263,826	3	0	0	9,737,206	1	22,061,031	7	1,485,893	0	1	9,737,206
BE	51,442,033	3	1,860,513	1	0	0	0	0	53,302,546	4	180,414	0	0	0
BG	19,341,162	5	4,109,830	2	0	0	0	0	23,450,992	7	158,826	0	0	0
CY	5,232,735	7	97,567	2	0	0	0	0	5,330,302	9	3,716	0	0	0
CZ	10,916,977	5	3,213,922	2	0	0	0	0	14,130,899	7	342,452	0	0	0
DE	88,387,575	6	7,481,982	2	0	0	0	0	95,869,557	8	298,649	0	0	0
DK	1,850,076	1	7,264,397	3	0	0	0	0	9,114,473	4	780,915	0	0	0
EE	1,139,547	2	105,031	1	0	0	0	0	1,244,577	3	6,805	0	0	0
ES	306,498,154	7	55,136,082	2	0	0	112,534,414	1	474,168,650	10	16,697,932	0	1	180,335,209
FI	5,084,974	2	172,007	1	0	0	0	0	5,256,981	3	15,855	0	0	0
FR	382,205,430	7	56,239,313	3	0	0	113,385,852	2	551,830,595	12	11,421,743	0	2	239,573,939
GB	4,382,584	1	2,642,629	1	0	0	32,445,890	1	39,471,103	3	3,349,627	0	1	32,445,890
GR	21,471,336	5	23,760,274	2	0	0	0	0	45,231,610	7	893,836	0	0	0
HR	2,099,080	3	1,147,521	2	0	0	0	0	3,246,601	5	43,669	0	0	0
HU	49,331,585	7	2,909,682	2	0	0	0	0	52,241,267	9	107,927	0	0	0
IE	5,624,262	3	1,119,707	1	0	0	0	0	6,743,969	4	43,333	0	0	0
IT	485,555,333	7	118,039,939	2	0	0	0	0	603,595,272	9	4,124,992	0	0	0
LT	2,102,734	4	1,977,361	1	0	0	0	0	4,080,095	5	76,524	0	0	0
LU	280,838	2	16,826	1	0	0	0	0	297,664	3	651	0	0	0
LV	3,706,287	5	307,270	1	0	0	0	0	4,013,557	6	11,891	0	0	0
MT	289,480	2	6,774	1	0	0	0	0	296,254	3	262	0	0	0
NL	2,106,507	2	4,396,691	1	0	0	27,342,165	1	33,845,364	4	3,233,770	0	1	27,342,165
PL	23,687,723	3	8,431,457	1	0	0	193,278,393	1	225,397,572	5	49,180,645	0	1	888,449
PT	84,049,300	5	16,355,410	3	0	0	0	0	100,404,710	8	1,232,614	0	0	0
RO	63,779,484	4	5,308,943	3	0	0	5,899,108	1	74,987,535	8	1,718,468	0	1	642,043
SE	4,143,602	1	9,199,515	2	0	0	0	0	13,343,117	3	477,071	0	0	0
SI	5,136,878	3	1,134,500	2	0	0	0	0	6,271,379	5	40,831	0	0	0
SK	7,395,409	7	555,973	2	0	0	0	0	7,951,382	9	21,450	0	0	0
Other	993,725								993,725					
Grand Total	1,643,294,806	112	340,254,942	50	0	0	494,623,028	8	2,478,172,776	170	95,960,698	3.87%	8	490,964,902

Table 2.1.23

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 2014 per level of assurance								2014					
Member States	Reasonable assurance		Reasonable assurance with low risk		Reasonable assurance with medium risk		Reasonable assurance with high risk		Total Expenditure	Total N° of Aid schemes/Paying Agencies	Amount at risk	Adjusted error rate	AAR 2014 Reservations	
	Expenditure	N° of Aid schemes/Paying Agencies	Expenditure	N° of Aid schemes/Paying Agencies	Expenditure	N° of Aid schemes/Paying Agencies	Expenditure	N° of Aid schemes/Paying Agencies					N° of Aid Schemes under reservation	2014 expenditure managed by MS with a reservation
AT	695,527,340	1							695,527,340	1	681,343	0.10%	0	0
BE	552,532,180	2							552,532,180	2	478,007	0.08%	0	0
BG	578,641,269	1							578,641,269	1	3,682,176	0.64%	0	0
CY	51,667,591	1							51,667,591	1	252,116	0.49%	0	0
CZ	878,678,596	1							878,678,596	1	10,588,835	1.21%	0	0
DE	5,101,255,642	13							5,101,255,642	13	15,559,116	0.31%	0	0
DK	916,928,453	1							916,928,453	1	7,424,362	0.81%	0	0
EE	99,062,701	1							99,062,701	1	493,034	0.50%	0	0
ES	1,099,922,553	7			1,888,330,901	5	2,122,194,949	5	5,110,448,403	17	267,096,195	5.24%	10	260,359,297
FI	519,426,986	1							519,426,986	1	2,648,156	0.51%	0	0
FR	135,821,308	1			7,643,870,704	1			7,779,692,012	2	328,932,967	4.22%	1	328,901,404
GB	1,186,519,895	3			2,009,205,409	1			3,195,725,305	4	50,114,621	1.58%	1	45,108,112
GR					2,246,413,946	1			2,246,413,946	1	101,832,085	4.53%	1	101,832,085
HR	93,202,238	1							93,202,238	1	145,737	0.16%	0	0
HU							1,287,608,038	1	1,287,608,038	1	76,515,798	5.94%	1	76,515,798
IE			1,227,716,757	1					1,227,716,757	1	30,728,509	2.50%	0	0
IT	3,902,241,260	9							3,902,241,260	9	44,515,934	1.14%	0	0
LT	375,811,208	1							375,811,208	1	786,540	0.21%	0	0
LU	33,088,060	1							33,088,060	1	64,157	0.19%	0	0
LV	143,760,006	1							143,760,006	1	1,799,906	1.25%	0	0
MT	5,272,930	1							5,272,930	1	44	0.00%	0	0
NL	805,799,539	1							805,799,539	1	2,081,284	0.26%	0	0
PL	2,982,334,188	1							2,982,334,188	1	46,161,699	1.55%	0	0
PT					634,862,683	1			634,862,683	1	18,838,888	2.97%	1	18,838,888
RO	1,259,560,966	1							1,259,560,966	1	21,900,244	1.74%	0	0
SE			679,485,230	1					679,485,230	1	15,577,331	2.29%	0	0
SI	140,204,433	1							140,204,433	1	1,020,667	0.73%	0	0
SK	371,546,506	1							371,546,506	1	6,155,487	1.66%	0	0
Other	-8,815,031								-8,815,031		0			
Grand Total	21,928,805,847	52	1,907,201,987	2	14,422,683,644	9	3,409,802,987	6	41,659,679,434	69	1,056,075,240	2.54%	15	831,555,585

Table 2.1.24

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 2014 per level of assurance									2014				
Member States	Reasonable assurance		Reasonable assurance with low risk		Reasonable assurance with medium risk		Reasonable assurance with high risk		Total Expenditure	Total N° of Aid schemes/Paying Agencies	Amount at risk	Adjusted error rate	AAR 2014 Reservations	
	Expenditure	N° of Aid schemes/Paying Agencies	Expenditure	N° of Aid schemes/Paying Agencies	Expenditure	N° of Aid schemes/Paying Agencies	Expenditure	N° of Aid schemes/Paying Agencies					N° of Aid Schemes under reservation	2014 expenditure managed by MS with a reservation
AT			244.873.999	1					244.873.999	1	5.006.799	2,04%	0	0
BE	16.628.109	2							16.628.109	2	687.376	3,10%	0	0
BG							393.750.627	1	393.750.627	1	37.773.967	9,59%	1	37.773.967
CY	22.898.351	1							22.898.351	1	793.200	3,46%	0	0
CZ	283.248.060	1							283.248.060	1	4.994.786	1,76%	0	0
DE	442.704.131	11	44.569.424	1	430.033.762	3			917.307.316	15	19.525.561	2,09%	3	12.807.298
DK							83.307.265	1	83.307.265	1	4.742.561	5,69%	1	4.742.561
EE	62.135.652	1							62.135.652	1	793.019	1,28%	0	0
ES	348.640.630	12			377.690.620	4	237.857.390	2	964.188.641	18	36.627.505	3,75%	6	31.938.074
FI			56.934.909	1					56.934.909	1	1.696.581	2,98%	0	0
FR							798.152.731	2	798.152.731	2	57.933.076	7,26%	2	57.933.076
GB	104.782.959	2			47.843.290	1	538.418.236	1	691.044.486	4	39.735.967	5,54%	2	38.596.101
GR							549.164.613	1	549.164.613	1	48.905.111	8,91%	1	48.905.111
HR														
HU					550.351.068	1			550.351.068	1	14.120.613	2,57%	1	14.120.613
IE	0	1							0	1	0	6,73%	0	0
IT	154.265.424	4	59.646.017	1	990.121.758	4			1.204.033.199	9	45.487.681	3,76%	4	42.871.443
LT							232.381.211	1	232.381.211	1	19.041.660	8,19%	1	19.041.660
LU	1.287.916	1							1.287.916	1	31.704	2,46%	0	0
LV							58.786.443	1	58.786.443	1	3.539.906	6,02%	1	3.539.906
MT	11.410.988	1							11.410.988	1	353.581	3,10%	0	0
NL							111.016.078	1	111.016.078	1	7.220.693	6,49%	1	7.220.693
PL					1.700.773.103	1			1.700.773.103	1	82.221.601	4,83%	1	82.221.601
PT							683.122.011	1	683.122.011	1	66.821.441	9,78%	1	66.821.441
RO							822.842.472	1	822.842.472	1	55.688.805	6,77%	1	55.688.805
SE					221.274.236	1			221.274.236	1	8.294.381	3,75%	1	8.294.381
SI	118.091.451	1							118.091.451	1	1.521.137	1,29%	0	0
SK			148.345.380	1					148.345.380	1	4.843.296	3,26%	0	0
Other*	232.004.005		6.643.982						238.647.988		428.938	0,18%		0
Grand Total	1.798.097.677	38	561.013.711	5	4.318.087.837	15	4.508.799.077	13	11.185.998.301	71	568.830.947	5,09%	28	532.516.733
Other*														
05040114	Completion of EAGGR (Guarantee Section) 2000-2006								-1.397.377		0	0,00%		
05040201	Completion of EAGGR (Guarantee Section) 2000-2006								6.556.494		340.282	5,19%		
05040202	Completion of special programmes for Northern Ireland and Ireland								87.488		4.541	5,19%		
05040502	Operational Technical Assistance (2007-2013)								5.076.010		50.760	1,00%		
05046001	Promoting sustainable rural development								224.989.886		0	0,00%		
05046002	Operational Technical Assistance (2014-2020)								3.335.487		33.355	1,00%		
	total								238.647.987,50		428.938	0,18%		

Table 2.1.25

2.1.2 Control efficiency and cost effectiveness

The principle of efficiency concerns the best relationship between resources employed and results achieved. The principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price.

This section outlines the indicators used to monitor the efficiency of the control systems, including an overall assessment of the costs and benefits of controls (in the wider sense of the definition of control as set out in Article 2(R) of the Financial Regulation⁹³).

As illustrated in the Introduction (The DG in brief), DG AGRI manages funds under the following three management modes:

Management mode	% of expenditure 2014
Shared management	99.6%
Indirect management	0.3%
Direct management	0.1%

2.1.2.1 Effectiveness and efficiency of the controls

The indicators used by DG AGRI to assess the effectiveness and efficiency of the controls carried out during the reporting year are described in Annex 5.

Overall indicators for Shared management

Indicator	2014
Cost of control/financial management of the Commission checks and assessments (as a % of 2014 payment appropriations executed)	0.09%
% of Commission payments within delays (EAGF)	100%
Time-to-payment (EAFRD)	47.7 days ⁹⁴
Average time of interruption/suspension	97 days
Number, amount and % (of expenditure declared in 2014) of interruptions/suspensions of payments	26 cases €355.3m 3%

The annual overall **Commission cost** is estimated at 0.09% of total payments in 2014. This cost mainly relates to staff involved in audit activities (notably assessment of management and control systems in Member States and Commission ex-post audits), to

⁹³ "Control means any measure taken to provide reasonable assurance regarding the effectiveness, efficiency and economy of operations, the reliability of reporting, the safeguarding of assets and information, the prevention, and detection and correction of fraud and irregularities and their follow-up, and the adequate management of the risk 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 concerned. Controls may involve various checks, as well as the implementation of any policies and procedures to achieve the objectives described in the first sentence."

⁹⁴ The 45 days payment deadline is exceeded because of a recurrent lack of cash.

staff in the operational directorates (dealing with market measures, direct support and rural development) carrying out controls throughout the different design, implementation and monitoring phases and to staff involved in the financial management of the funds. In addition, staff responsible for evaluation, legal affairs and IT systems is also included in the calculation, following a proportion estimated by the concerned units.

The **costs at the level of the Member States** related to control are estimated around 7.0% of the EU-funding. DG AGRI's information on Member State costs relates to the broad definition of "control" and encompasses the cost of management and control of the CAP funds. The total cost benefit ratio for the Member States' efficiency when detecting and correcting undue amounts prior to payments based on the information reported by Member States is 7.5 : 1.

When adding the Commission and the Member States cost of control, the **total estimated cost** for the management and control corresponds to 7.09% of the total expenditure.

The **quantifiable benefits** mainly relate to the corrections implemented by DG AGRI's audit work. In this context, it must be pointed out that financial corrections are not an objective as such. A decreasing amount of corrections over the years would not solely result from the quality and/or quantity of controls but could also reflect an improvement in sound financial management of the programme by the Member States. In addition, there are a number of **non-quantifiable benefits** resulting from the controls operated throughout the various control stages. This includes notably (but not exclusively):

1. An increased level of assurance, resulting from a) improvements in the management and control systems implemented at DG AGRI request, b) blocking of payment requests associated with unreliable systems and c) DG AGRI's adjustments made on the error rates reported by MS.
2. The deterrent effects of ex-post controls also bring unquantifiable benefits.

Overall, during the reporting year the controls carried out by DG AGRI in relation with the management of the funds compared to the net financial corrections shows that the quantifiable benefits exceeded the costs in a proportion of 13 : 1, confirming the cost efficiency of these controls.

DG AGRI considers that the necessity of these Commission controls is undeniable, as the totality of the appropriations would be at risk in case they would not be in place.

Stage 1: Assessment/approval of spending proposals

Indicator	2014
% of actions adopted/approved <ul style="list-style-type: none"> ▪ 1st pillar - legal acts adopted⁹⁵ ▪ 2nd pillar - legal acts adopted⁹⁶ <ul style="list-style-type: none"> - modification of RDP 2007-2013 - RDP 2014-2020 approved⁹⁷ 	100% 100% 100% 22.9%
Average time to adopt/approve an action <ul style="list-style-type: none"> ▪ 1st pillar - legal acts ▪ 2nd pillar - legal acts <ul style="list-style-type: none"> - RDP 2014-2020⁹⁸ 	4.5 months 4.5 months 3.9 months
% of financial allocation approved <ul style="list-style-type: none"> ▪ 1st pillar - execution of financial ceilings ▪ 2nd pillar - budget allocation of RDP 2014-2020 approved 2014⁹⁷ 	98.5% 35.3%

For detailed information with regard to spending proposals for 1st and 2nd pillar please refer to the section on Policy achievements, notably to section 1.1.7. and to section 1.1.12.

Stage 2: Implementation of operations (Member States)

A. Setting up of the systems

The main control objective is to ensure that the management and control systems are adequately designed. As regards the indicator on effectiveness "**% of authorities designated/accredited**" all Paying Agencies are accredited, therefore, 100% of respective entities at the level of the Member States are accredited. In this context, it is highlighted that there are two paying agencies under probation (Andalucía in Spain and AGEA in Italy), one paying agency with limited accreditation (OPEKEPE in Greece) and one paying agency with provisional accreditation for EAFRD (PAAFRD in Croatia). As regards the indicator on efficiency "**number of authorities for which serious system weaknesses were found following accreditation reviews/audits**" with the exception of

⁹⁵ For direct payments the Commission does not approve MS spending proposals, but has laid down secondary legislation for application of the basic act. The indicator refers therefore to the adoption of the following legal acts related to direct payments: Implementing Regulation No 641/2014 and Delegated Regulation No 639/2014 of the new Regulation on direct payments for the CAP towards 2020 (No 1307/2013), detailed rules regarding IACS: Delegated Regulation No 640/2014 and Implementing Regulation No 809/2014; Commission Regulation establishing for 2014 the budgetary ceilings applicable to certain direct payments (Implementing Regulation No 228/2013) as well as related to POSEI/SAI: Implementing Regulation for the Aegean Islands (No 229/2013), Delegated Regulation for POSEI (No 228/2013), Delegated Regulation for the Aegean Islands (implementing Regulation No 229/2013). Concerning market measures, due to the diversity of programming periods and multiannual character of programmes under the CMO Regulation the indicator 'actions adopted in 2014' cannot be generally applied.

⁹⁶ The indicator refers to the following legal acts: Commission Delegated Regulation (EU) No 807/2014 and Commission Implementing Regulation (EU) No 808/2014.

⁹⁷ The 18 programmes which were "ready for adoption" in December 2014 and formally approved at the beginning of the year 2015 are included in the calculation. Substantial progress was achieved in 2014 as regards the vast majority of remaining multiannual programmes.

⁹⁸ Without considering the period of time needed by the Member States for revising the programmes ("stop the clock" procedure).

the Paying Agency AGEA (in Italy) in none of the entities audited in the context of the annual work programme of the service responsible serious system weaknesses were detected.

In the context of the annual financial clearance exercise, the Director of the Paying Agency provides a Management Declaration in accordance with Article 3(b) of Regulation 1306/2013. Moreover, Member States' certification bodies provide information on the quality of the work carried out by the paying agency in form of an audit opinion. The situation is summarised as follows:

	Paying agencies covered	Unqualified opinion	Qualified opinion
Management Declaration	80	79	1
CB Opinion on Management Declaration	80	80	0
CB Audit Opinion - EAGF	77	74	3
CB Audit Opinion - EAFRD	70	65	5

Table: 2.1.2.1 – 1

Table: 2.1.2.1 – 1 does not include the paying agency DE11 – Mecklenburg-Vorpommern whose audited accounts have not been received. This audit report and opinion were received on 07/04/2015 and have not been assessed in time for the clearance decision. Nevertheless, the management declaration of the Director of this Paying Agency is unqualified.

Conclusions:

- *For 95.3% of the expenditure there is an unqualified Management Declaration issued by the Director of the Paying Agency; for 99% an unqualified opinion on the Management Declaration was given by the Certification body, i.e. in 99% of the cases, the Certification Body confirmed that the Management Declaration complies with Article 3 of Regulation 908/2014;*
- *An unqualified opinion of the Certification Body was given in 74 cases representing 92.2% of EAGF expenditure and in 65 cases representing for 85.2% of EAFRD expenditure.*

B. MS controls to prevent, detect and correct errors within the declared certified expenditure

In the context of the assessment of Member States' costs and benefits of management and controls the notion of control includes any activities which are directly or indirectly related with the verification of the rights of the beneficiary and/or the regularity of the expenditure.⁹⁹ These activities comprise preparing all the necessary information to the

⁹⁹ The assessment is based on the budget of Member States entities which are responsible for carrying out the above mentioned controls. This budget includes all expenditure related to the normal functioning of the entity

potential beneficiaries, organising the collection of the numerous claims, carrying out both the administrative checks on all claims as well as controls on-the-spot, making the payments, managing the recoveries and managing the financial relationship with the Commission. Other activities such as controls carried out by the internal audit service as well as the Certification Body and/or ex-post controls are included.

For carrying out controls and in order to detect and correct undue amounts Member States have reported¹⁰⁰ the spending of the following amounts:

	Member States Management and Control Costs¹ m€	in % of 2014 expenditure
ABB02 ²	178.9	7.2%
ABB03 ²	2 175.9	5.2%
ABB04 ³	1 566.7	8.8%
Total⁴	3 921.6	7.0%

¹ as provided by Member States in 2013

² from 2014 certified Annual Declaration provided by the Paying Agencies

³ in % of expenditure including total public expenditure

⁴ in % of 2014 CAP expenditure

Table: 2.1.2.1 – 2

There is a relatively higher cost of management and controls for ABB04 due to the complexity and the nature of the eligibility conditions to be checked of some of the rural development measures.

The main control objective is to ensure that the periodic expenditure declarations submitted to the Commission for each action are legal and regular. When assessing the Member States' effectiveness regarding detecting and correcting of undue claimed amounts prior to payments, the following amounts were reported by the Member States:

concerned including for example salaries, employers' contributions, travelling expenses, training expenses, maintenance costs, building, expenses (rent, energy, cleaning, heating and cooling), costs invoiced by private companies and other cost of activity in relation to the entity, i.e. depreciation costs of cars, equipment and buildings. In contrast, exceptional one-off and investment costs are excluded; instead, depreciation costs as indicated above are taken into account.

¹⁰⁰ The costs of management and controls of Member States entities were assessed in 2013.

	Undue claimed amounts detected and corrected by Member States prior to payment ¹ m€	Member States' recoveries from beneficiaries after payment ² m€	Total undue amounts detected and corrected m€	Total in % of expenditure
ABB02	39.1			
ABB03	128.4			
EAGF	167.5	112.4	279.9	0.6%
ABB04	121.9	121.9	243.8	2.0%
Total	289.4	234.3	523.7	0.9%

¹ as reported in the 2014 control statistics
² based on financial data provided by DG AGRI's accountant (but excluding Cross Compliance)

Table: 2.1.2.1 – 3

The assessment of Member States' efficiency when detecting and correcting undue amounts prior to payments based on the information reported by Member States the situation as regards the 'cost : benefit'-ratio shows the following:

	Member States Management and Control Costs ¹ m€	Total undue amounts detected and corrected m€	cost : benefit ratio
ABB02	178.9		
ABB03	2 175.9		
EAGF	2 354.8	279.9	8.4 : 1
ABB04	1 566.7	243.8	6.4 : 1
Total	3 921.6	523.7	7.5 : 1

¹ as provided by Member States in 2013 and updated in case more recent information was provided in 2014.

Table: 2.1.2.1 – 4

Conclusions

- Undue payments detected and corrected at Member State level represent less than 1% of the expenditure. ECA observes¹⁰¹ that national authorities had sufficient information to prevent, detect and correct the errors before declaring the expenditure to the Commission. However, not all errors were detected and consequently remained uncorrected. The effectiveness of Member States' control systems needs to be improved.

¹⁰¹ Cf. ECA's observation: If all [...] information had been used to correct errors, the most likely error estimated [...] would have been [1.1 percentage points for expenditure covered by ECA's chapter 3 and 4.7 percentage points for expenditure covered by ECA's chapter 4] lower (ECA's ANNUAL REPORT concerning the year 2013, p. 83, point 3.8 and p. 111, point 4.8)

- The preventive effect of a control system is not taken into account: The lower error rate for ABB03 reflects the effectiveness of the IACS, notably the LPIS, where adequately implemented, in preventing errors from the very beginning of the process.
- For non-IACS measures the costs of management and control are relatively higher, in particular for ABB04 for some rural development measures due to the complexity and the nature of the eligibility conditions to be checked.

Stage 3: Monitoring and supervision of the execution by the Commission including ex-post controls

The main control objective at this stage is to ensure that the expenditure reimbursed from the EU Budget is eligible and regular. Hence, for assessing the effectiveness of the monitoring and supervision of Member States by DG AGRI reference is made to the best estimate of residual risk of error per Member State.

For a number of Paying Agencies the error rates reported by the Member States were adjusted in accordance with the methodology described in Annex 4:

ABB02	Adjustments were made for 10 aid schemes*
ABB03	Adjustments were made for 30 out of 69 Paying Agencies
ABB04	Adjustments were made for 52 out of 72 Paying Agencies
* as outlined in Annex 10 Part 3.1- ABB 02 where control statistics were provided only for a limited number of aid schemes and at the level of the Member States	

Table: 2.1.2.1 – 5

The table below gives a summary of the situation of error rates remaining in the non-controlled population at ABB level (in accordance with the methodology described in Annex 4):

ABB02	3.87%
ABB03	2.54%
ABB04	5.09%

Table: 2.1.2.1 – 6

In the course of the reporting period expenditure which has not been paid by the Member States to the final beneficiary in conformity with EU rules is returned back to the EU Budget via net financial corrections (implemented)¹⁰² following DG AGRI audits:

ABB02	-141.8	m€
ABB03	-394.7	m€
ABB04	-113.6	m€
Total	-650.1	m€
The above given amounts represent the 3-year average (= corrective capacity) of net financial corrections.		

Table: 2.1.2.1 – 7

The efficiency of the 'cost of control/financial management of the Commission checks and assessment' (in % of total payment appropriations executed) are presented in the following table:

	Costs of management and control m€	Payment appropriations executed m€	Costs in % of payment appropriations executed
Audit cost	15.8	55 426.5	0.03%
other EC cost	34.1		0.06%
Total	49.9		0.09%

Table: 2.1.2.1 – 8

The following table shows the 'amount of financial correction / costs of controls':

	Costs of management and control m€	Net financial corrections implemented*	cost : benefit ratio
Audit cost	15.8	-650.1	1 : ~13
other EC cost	34.1		
Total	49.9		
* 3-year average (= corrective capacity) of net financial corrections			

Table: 2.1.2.1 – 9

¹⁰² Net financial corrections (implemented) are amounts executed (i.e. "clawed back" by the Commission) in financial year 2014 taking into account deferrals and instalments and excluding corrections stemming from infringements of cross-compliance obligations.

Overall conclusions:

- DG AGRI's management and control systems are cost efficient. At only 0.09% of total CAP appropriations, there is a cost:benefit ratio of 1:13 in terms of the financial corrections clawed back to the EU budget. If audit costs are taken on their own, each EUR spent on auditing results in around 40 EUR recovered via financial corrections. Under the system of shared management, the conformity clearance procedure and its resulting net financial corrections is an efficient tool to enable the Commission to protect the EU budget against the errors made at Member State level.
- Member States spend almost €4 billion managing and controlling the CAP. This represents around 7% of what was paid out to farmers in 2014. Given the necessity of ensuring the legal and regular spending of the €55 billion managed under the CAP, effective management and control systems are a prerequisite for both Commission and Member States.
- However, both the Commission and the ECA do consider that there is scope for improving the Member States' cost: benefit ratio. In its 2012 and 2013 Annual Reports, ECA observes¹⁰³ that national authorities had sufficient information to prevent, detect and correct more than half of the errors before declaring the expenditure to the Commission. However, not all errors were detected and consequently remained uncorrected.
- For almost two thirds of the Paying Agencies, to varying extents, control systems only detect certain errors revealed by ex-post audits carried out by the Certification Bodies, DG AGRI or the ECA. As a consequence, the errors reported by certain Paying Agencies cannot be used in isolation for estimating the error rate and adjustments are in some cases necessary in order to reflect more robustly the real level of error and amounts at risk.
- Improving the quality and effectiveness of both the administrative and on-the-spot-checks would allow paying agencies to detect and correct more errors. Such an improvement would increase the average cost/benefit ratio of the Paying Agencies' controls.

¹⁰³ Cf. ECA's observation: If all [...] information had been used to correct errors, the most likely error estimated [...] would have been [1.1 percentage points for expenditure covered by ECA's chapter 3 and 4.7 percentage points for expenditure covered by ECA's chapter 4] lower (ECA's ANNUAL REPORT concerning the year 2013, p. 83, point 3.8 and p. 111, point 4.8)

2.1.3 Fraud prevention and detection

DG AGRI's Anti-fraud Strategy (AFS), adopted in its initial version on 12 September 2012, needed revisions and updates in 2014 on two occasions¹⁰⁴. The first revision, adopted by the Director-General on 13 May 2014, integrated the new legislation governing the CAP in the MFF 2014-2020 and updated and streamlined the action points. The second revision, adopted by the Director-General on 18 November 2014, addressed DG AGRI's direct expenditure under Horizon 2020 (although its implementation has been delegated to the Research Executive Agency REA) and integrated updates concerning EU legislation entered into force in the preceding months.

The internal rules in DG AGRI on the handling of allegations of fraud and of OLAF cases have been updated as at 4 February 2014 by introducing rules on the handling of internal cases (i.e. alleged wrongdoing by staff members of DG AGRI) and rules on the handling of allegations of food fraud¹⁰⁵.

In shared management, the prevention, detection and correction of fraud and other serious irregularities is principally in the hands of the paying agencies in the Member States. To this end, anti-fraud seminars have been offered to the Paying Agencies and Managing Authorities in the Member States^{106,107}. It continued in a structured manner the initiative already launched in 2013, where such seminars had been held in Romania, Croatia, the Former Yugoslav Republic of Macedonia and Turkey¹⁰⁸.

The content of the seminars covers the following four subjects: **(1)** Fraud prevention and detection by Paying Agencies and Managing Authorities under the new CAP legislation; **(2)** Irregularities and fraud: Common features and differences; **(3)** Typology of fraud in the CAP; **(4)** Indicators for fraud and irregularities in the areas at high risk of fraud.

Throughout 2014, 20 such seminars on fraud detection and prevention have been delivered to staff of Paying Agencies and Managing Authorities in 18 Member States (Poland, Austria, Germany, Slovak Republic, Cyprus, Denmark, Latvia, Czech Republic, Sweden (2 sessions¹⁰⁹), Greece, Ireland, Slovenia, Finland, Belgium (Flanders), Spain, Estonia, Portugal and Bulgaria (2 sessions¹¹⁰))¹¹¹. Counting all seminars, including those

¹⁰⁴ See Action Point 10 of the AGRI AFS.

¹⁰⁵ See Action Point 1 of the AGRI AFS.

¹⁰⁶ See Action Point 5 of the AGRI AFS.

¹⁰⁷ Occasionally, representatives from internal audit capacities, the national Anti-fraud Coordination services (AFCOS), financial police, prosecuting and tax authorities, etc., have also attended the seminars.

¹⁰⁸ See p. 132 of the AGRI AAR 2013.

¹⁰⁹ One of the seminars was held at the SEFI Committee (Committee for the Protection of the EU financial interests).

¹¹⁰ Both sessions for staff of the Paying Agency.

held in 2013, this initiative has reached out to more than 2.100 participants.

As investment projects in rural development demonstrate a particular exposure to fraud and irregularities, the content of the seminars was also relayed to desk officers in geographical units of DG AGRI¹¹². The corresponding seminars were held on 24 June and on 1 July 2014.

On 19 November 2014, a fraud awareness training has been held for unit AGRI.H.5 in the context of its responsibilities in the implementation of Horizon 2020¹¹³. The event was jointly animated with the anti-fraud coordinator of the REA and an external auditor of DG RTD.

On 08 December 2014, an information seminar has been provided to unit AGRI.J.5¹¹⁴ with the aim to inform its staff of the new anti-fraud obligations of Paying Agencies and Managing Authorities under the new legislation for the CAP 2014-2020.

The Commission's Internal Auditor has communicated to DG AGRI¹¹⁵ that all recommendations following the audit "Fraud prevention and detection in DG AGRI" of 2011¹¹⁶ are deemed to be implemented.

Throughout 2014, DG AGRI has referred 13 allegations of fraud and other irregularities to OLAF, 10 of which related to the EAFRD. Most referrals have led to the opening of investigations, some are still under evaluation.

OLAF has closed 53 investigations and coordination cases relating to allegations of fraud or other serious irregularities to the detriment of the CAP or SAPARD budgets in 2014. 28 of the cases closed concerned SAPARD projects (53%) and 18 EAFRD projects (34%). The remaining 12 cases concerned various other domains.

¹¹¹ All other MS are expected to be covered by the initiative by the summer of 2015.

¹¹² See Action Point 4 of the AGRI.AFS.

¹¹³ See Action Point 5 of the AGRI AFS.

¹¹⁴ See Action Point 5 of the AGRI AFS.

¹¹⁵ Ares(2014)3721431 – 10/11/2014

¹¹⁶ Ares(2011)2311217

2.1.4 Other control objectives

Reliability of reporting

In order to report on the legality and regularity of expenditure in shared management with the Member States, DG AGRI is obliged to depend on the results of controls reported each year by each paying agency.

In recent years, concerns have grown as to the reliability and completeness of that data and whether it presents the full picture of the level of error which exists. In its 2012 AAR, DG AGRI undertook an additional assessment (for expenditure under ABB03 only) in order to take into account other audit opinions on the effectiveness of the Member States' control systems.

As from the 2013 AAR, DG AGRI extended that approach to the other expenditure areas and took into account all available information and use the professional judgement of its auditors in order to assess where it would be necessary to adjust the error rates resulting from those statistics which were considered to be unreliable.

Safeguarding of assets and information

DG AGRI has set up a full range of measures to ensure the adequate safeguarding of its information. In particular:

- All information systems are protected from unauthorized access through the firewall technology and advanced access rights mechanisms. A security plan has been defined for the key DG AGRI IT systems, for the implementation of additional security measures.
- These databases are also duplicated on a backup site, with immediate synchronisation, to prevent from data loss.
- The Business Continuity Plan is kept up to date, with a Disaster Recovery Plan tested on a yearly basis to ensure continuity of operations in case of incident.

Central IT services (DG DIGIT) provide for additional services in this domain: all workstations are safeguarded with technical means that protect them from security threats, laptop computers are encrypted and secure e-mail is made available for the exchange of sensitive information.

2.2 Budget implementation tasks entrusted to other DGs and entities.

This section reports and assesses the elements that support the assurance on the achievement of the internal control objectives as regards the results of the DG's supervisory controls on the budget implementation tasks carried out by other Commission DGs and entrusted entities distinct from the Commission.

2.2.1 Indirect management¹¹⁷

SAPARD and IPARD expenditure are managed by DG AGRI under the decentralised¹¹⁸ or indirect¹¹⁹ management mode.

2.2.1.1 Description of the management and control system

For both SAPARD and IPARD funds, the assurance is obtained based on a management and control system for programmes established in line with both the principles of the agricultural Funds and the relevant external aid provisions of the Financial Regulation.

In particular, for both SAPARD and IPARD, the management and control system has a structure similar to the one applicable under EAGF and EAFRD, with however some more stringent conditions. The main ones are the following:

- The accreditation of the structures at national level only is not sufficient to enable the structures in the beneficiary countries to start operating. Indeed, in accordance with the rules established in the Financial Regulation for indirect management, following the setup of the management and control system by the national authorities, the Commission needs to formally entrust the implementing tasks to the beneficiary countries, after having verified their level of preparedness;
- Once management powers have been conferred, substantial changes to the management and control procedures need the prior approval of DG AGRI before they can be put into operation;

¹¹⁷ Article 214 (a) of the financial regulation (Regulation (EU) No 966/2012) stipulates that the indirect management mode is applicable for commitments made as of 1 January 2014. Thus, in financial year 2014 all expenditure declared under IPARD 2007 – 2013 was managed under decentralised management according to the previous financial regulation (Council Regulation (EC,) No 1605/2002). The budget allocation made in 2014 for IPARD 2014 – 2020 will be managed under indirect management according to the new financial regulation.

¹¹⁸ Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities

¹¹⁹ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002

- More extensive control procedures and stricter conditions for payments to the final beneficiaries apply, compared to the same measures in EAFRD.

IPARD, based on the experience gained under SAPARD, continues to be operated under indirect management without ex-ante controls by the Commission. This approach was deliberately chosen by the Commission in view of the potentially large number of small projects to be implemented under the programmes which would require a considerable number of additional staff in the EU delegations. This form of management is also considered to be the best preparation for acceding countries for the implementation of rural development funds after accession.

The three countries currently benefitting under IPARD (Croatia¹²⁰, the former Yugoslav Republic of Macedonia and Turkey) have not yet implemented area- or animal-based support measures and therefore the IACS (Integrated and Administration Control System) is not yet operational.

Similar to the SAPARD experience, it took some time for the beneficiary countries of IPARD to put in place an effective management and control system. As IPARD money can only flow after management powers have actually been conferred, the absorption rate has initially been low. However, as management for some measures has now been conferred for all of the three beneficiary countries, the overall uptake of IPARD funds is moving in an upward direction and is expected to improve substantially as these countries continue to gain experience in the implementation of IPARD.

2.2.1.2 SAPARD

SAPARD (Special Accession Programme for Agriculture and Rural Development) was established in June 1999 by the Council of the European Union to help countries of Central and Eastern Europe deal with the problems of the structural adjustment in their agricultural sectors and rural areas, as well as in the implementation of the *acquis communautaire* concerning the Common Agricultural Policy (CAP) and related legislation.

A. Compliance with accreditation criteria and compliance of management and control systems

Even though the last payments under SAPARD ended in 2009, during the five years after the final payment for the project, the beneficiary countries are obliged to continue to verify that the projects did not undergo a substantial modification, as stated in Article 4(4) of Section B of Multiannual Financing Agreement ('MAFA').

As provided by Article 14(2.8), Section A of the MAFA, recording in the debtors' ledger has to continue until all debts are written off at the end of the second year following their registration. This implies that the SAPARD agencies have to keep a debtors' ledger

¹²⁰ Contracting under IPARD ended 1 November 2014 (cut-off date between IPARD and the new Rural Development Programmes for Member States).

for the recording of all debts, including irregularities. The amount "*shall be written off at the end of the second year following its registration in the debtors' ledger and deducted from the next application for payment*" and the debt can be registered even after the programme has ended. In practice, this means that a programme will be closed after a maximum of seven years after the final payment (5 + 2 years as described hereafter). For the eight Member States which joined the EU in 2004, this period expired at the end of 2013 (date of last project payment + the two periods mentioned above: end of 2006 + 5 years + 2 years = 31.12.2013). For Bulgaria, Croatia and Romania, the last declaration of expenditure was submitted in 2009. Therefore, the end date for recoveries for these three countries would be 31.12.2016 (end of 2009 + 5 years + 2 years = 31.12.2016).

Any financial corrections applied to these countries based on the clearance of accounts procedures will take the form of recovery orders.

B. Audit work

Romania

In 2010, OLAF investigators found evidence of irregularities and possible fraud in tendering procedures for SAPARD projects under the measure '*Processing and marketing*'. In order to follow-up OLAF's enquiry, DG AGRI visited the Romanian paying agency several times to ensure that the paying agency had dealt correctly with the different cases opened by the OLAF investigation.

By following-up the OLAF's enquiries, a correction for the financial years 2007 and 2008 was made¹²¹, in order to cover the risk to the Fund posed by the lack of veracity of three offers and, consequently, doubt about the eligibility of the application.

During the follow-up audits carried out in 2012, DG AGRI found a particular issue in the recording of irregular amounts in the debtors' ledger for which the advice of the Commission's Legal Service was sought. The enquiry was closed in December 2013. Another mission (on ex-post checks) took place in April 2014; some findings were noted. The conformity clearance procedure is still on-going.

Bulgaria

A conformity audit was carried out in Bulgaria in 2014, covering projects implemented under different measures of the SAPARD Programme (public and private) in order to follow-up the recommendations made during the previous audit missions (carried out in 2011, 2012 and 2013). The aim of this audit was also to assess the quality of the ex-post checks carried out by the SAPARD Agency in a region not visited before. The conformity clearance procedure is still on-going for the enquiry of 2014. The previous three audits of 2011, 2012 and 2013 have been closed without financial corrections.

¹²¹ Commission Decision C(2014)3722 of 11 June 2014

Croatia

In June 2012, OLAF informed DG AGRI of serious fraud evidence uncovered in a SAPARD project in Croatia, but also that four projects showed serious signs of fraudulent manipulation. OLAF suspected that additional cases involving SAPARD funding could be concerned.

In order to follow-up OLAF's enquiry, DG AGRI carried out an audit in October 2012, mainly to examine the projects not investigated by OLAF. The results of the enquiry were communicated to the paying agency and one of the files was sent to OLAF for further investigation, after which OLAF decided to open a case. The enquiry on the two other projects was closed by DG AGRI in December 2013 after a bilateral meeting in July in Zagreb, including an on-the-spot visit to one of these two projects. During this additional visit, the last concerns could be removed.

In addition, in March 2013, and in cooperation with OLAF, DG AGRI held a seminar on fraud prevention and detection at the Croatian Paying Agency to better equip its staff to recognise possible instances of fraud and react to them appropriately.

Considering the limited number of projects under SAPARD in this country and the fact that the SAPARD Agency had addressed the recommendations given in the previous audits, no conformity audit was carried out in 2014.

C. Financial clearance

For SAPARD, all years have been cleared, with the exception of the accounts of Bulgaria and Romania for the financial year 2009 for which some issues remain to be clarified or adjusted.

D. Conclusion for SAPARD

The last payments under the SAPARD Programme for the three above SAPARD countries were made in December 2009. The expenditure effected in 2009 had been subject to a number of audits carried out between 2010 and 2014 in order to ensure that during the five years after the final payment, the projects do not undergo a substantial modification and that a debtors' ledger continues to be used until the end of 2016. Audit missions will be carried out for these countries in 2015 in order to verify the completeness and correctness of the debtors' ledger and the follow-up given to the OLAF cases.

2.2.1.3 IPARD

IPARD (2007 – 2013)

IPARD (Instrument for Pre-Accession Assistance in Rural Development) is a pre-accession Programme of the EU for the period 2007 – 2013, the implementation of which is still on-going. It is an integral part of the IPA (Instrument for Pre-accession Assistance), of which the main objectives are to assist candidate countries and potential

candidate countries in their harmonisation and implementation of the EU *acquis*, as well as preparation for the management of the future EU funds. The objectives of IPARD are to provide assistance for the implementation of the *acquis* concerning the Common Agricultural Policy and to contribute to the sustainable adaptation of the agricultural sector and rural areas in the candidate country.

expenditure in 2014)	CROATIA	FYR	TURKEY	Total
101 Investments in agricultural holdings	5.088.574	143.830	78.649.694	83.882.098
103 investment in processing and marketing of agriculture and fishery products	6.805.487	43.766	22.716.372	29.565.626
202 Preparation and implementation of local rural development strategies Art	388.310	0	0	388.310
301 Improvement and development of rural infrastructure	4.206.023	0	0	4.206.023
302 Diversification and development of rural economic activities	607.592	0	40.009.430	40.617.022
Technical Assistance	67.215	0	0	67.215
Total	17.163.203	187.596	141.375.496	158.726.294

IPARD II (2014-2020)

IPARD II (2014-2020), prepared in partnership with the beneficiary countries, sets a new framework for providing pre-accession assistance for the 2014-2020 period.

The most important novelty is its strategic focus. Country Strategy Papers are the specific strategic planning documents made for each beneficiary country for the 7-year period. These will provide for a stronger ownership by the beneficiaries through integrating their own reform and development agendas.

It is an integral part of the IPA II (Instrument for Pre-accession Assistance II), whose main objectives are to assist candidate countries and potential candidate countries in their harmonisation and implementation of the EU *acquis*, as well as preparation for utilisation of the future EU funds. The objectives of IPARD are to provide assistance for the implementation of the *acquis* concerning the Common Agricultural Policy and to contribute to the sustainable adaptation of the agricultural sector and rural areas in the beneficiary countries.

For 2014 there were budget allocations to the former Yugoslav Republic of Macedonia (€5m) and Turkey (€69m), from 2015 onwards there will also be an annual allocation for Albania, Montenegro and Serbia.

IPARD II budget allocations in 2014 in €		
MEASURES	fYRoM	Turkey
Investments in physical assets of agricultural holdings	2.150.000	28.980.000
Investments in physical assets concerning processing and marketing of agricultural and fishery products	2.250.000	17.250.000
Agri-environment- climate and organic farming measure	0	1.380.000

Investments in rural public infrastructure	0	6.900.000
Farm diversification and business development	400.000	13.110.000
Technical assistance	200.000	1.380.000
TOTAL	5.000.000	69.000.000

A. Audit work

In 2014, seven audit visits were carried out to Croatia, the former Yugoslav Republic of Macedonia and Turkey. In addition, two advisory visits were carried out to Albania and Montenegro in view of their future participation in IPARD II. After each visit a letter by DG AGRI letter confirmed the issues discussed on the spot and recommended the further steps to be taken by the national authorities. In terms of advisory activity, it should be also noted that in November 2014 a TAIEX event was organised in Brussels, for all IPA II beneficiaries, on IPARD programmes under IPA II and entrustment of budget implementation tasks.

Croatia

In 2014, an audit mission was carried out to reassess the proficiency of the Audit Authority (AA) in performing its tasks and particularly in delivering Audit Reports and Opinions on the functioning of the Management and Control System and the legality and regularity of transactions as well as the completeness and accuracy of financial statements. The DG AGRI auditors could gain assurance that the execution of verifications by the Audit Authorities was generally adequate, but there was a need to increase the human resources and vocational capacity in technical matters.

A conformity audit had been carried in 2013, on measures 101 (Investments in agricultural holdings to restructure and upgrade to EU standards) and 103 (Investments in the processing and marketing of agriculture and fishery products to restructure those activities and to upgrade them to EU standards). Certain minor weaknesses were noted in this audit, which has been closed in 2014 without financial correction after clarifications from the Croatian authorities.

The former Yugoslav Republic of Macedonia

In 2014, an audit mission was carried out to reassess the proficiency of the Audit Authority (AA) in performing its tasks and particularly in delivering Audit Reports and Opinions on the functioning of the Management and Control System and the legality and regularity of transactions as well as the completeness and accuracy of financial statements. In terms of human resources, the mission could conclude positively on the number and vocational capacity of the Audit Authority's staff. Concerning the assessment of errors, the mission showed that, in some situations, the Audit Authority has doubts on whether an error should be classified as having a financial impact or being formal. Concerning the quality of the verifications, the DG AGRI auditors could gain sufficient assurance about their good execution by the Audit Authority.

An audit mission was carried out with a view to conferring implementing powers on the authorities of the former Yugoslav Republic of Macedonia in respect of the Technical Assistance measure. The audit showed that some actions need to be undertaken by the

national authorities before the management powers for this measure can be conferred.

Turkey

In 2014, four audit missions were carried out in Turkey.

An audit mission was carried out with regard to conferral of management powers to the Turkish authorities in respect of the Technical Assistance measure. The conferral of management was granted by Commission Decision No C(2014)6001 of 26 August 2014.

A mission was carried out with regard to granting permanent conferral of management powers for investment measures to six Turkish Provincial Coordination Units which had so far received only a temporary conferral. The permanent conferral of management was granted by Commission Decision No C(2014)6000 of 26 August 2014.

A mission was carried out to reassess the proficiency of the Audit Authority in performing its tasks and particularly in delivering Audit Reports and Opinions on the functioning of the Management and Control System and the legality and regularity of transactions as well as the completeness and accuracy of financial statements. In terms of human resources, the mission could conclude positively on the vocational capacity of the Audit Authority's staff. In the past the Audit Authority had repeatedly delivered reports and opinions after the deadlines specified in the agreements and, for financial year 2013, the delay caused the disjunction of the accounts. DG AGRI auditors gained sufficient assurance on the quality of the verifications carried out by the Audit Authority. With regard to assessment of errors, however, the auditors found that the Audit Authority did not always properly assess whether an error should be classified as having a financial impact or whether it was merely formal.

A 2013 DG AGRI audit on IPARD projects found serious shortcomings with regard to the evaluation of the reasonableness of costs. The Turkish authorities compare the different offers but do not respect all regulatory requirements. Legality and regularity of the transactions can therefore not be guaranteed, resulting in a significant risk of inflated prices and doubts on the eligibility of the expenditure. A reservation was therefore made in the 2013 AAR with regard to the expenditure considered to be at risk and a clearance of accounts procedure is on-going in order to recover any amounts unduly paid.

With a view to simplification and in consideration of the high number of errors, the Turkish authorities and DG AGRI are working together on improving the existing price database as the main control tool for checking whether prices quoted in the beneficiaries' claims are reasonable. When an amended, stable system is agreed between the Commission and the Turkish authorities, the improved/amended system will be evaluated by an external independent evaluator.

In 2014, a second audit took place, where similar shortcomings were observed and a clearance of accounts procedure is underway. DG AGRI carried out a further audit in 2015 which found that the situation had since improved with a partial impact on 2014 expenditure and the adjustment considered appropriate to the error rate is considered to be of the order of 5% (as opposed to 10% in the 2013 AAR).

Measures	Expenditure	Adjusted error rate	Amount at risk	Amount under reservation
101 Investments in agricultural holdings	78.649.694	5%	3.932.485	3.932.485
103 investment in processing and marketing of agriculture and fishery products	22.716.372	5%	1.135.819	1.135.819
302 Diversification and development of rural economic activities	40.009.430	0	0	0
Total	141.375.496	3.58%	5.068.303	5.068.303

The level of error for Turkey is 3.58% and it is considered necessary to carry over the reservation.

B. Financial clearance

The countries benefitting from IPARD funds have to send, by 31 December of the financial year N, the Audit Authority report and opinion on the management and control system and, by 30 April of the following year N+1, the Accounts, Statement of Assurance by the National Authorising Officer and Audit Authority report and opinion on the accounts. By 15 July N+1, DG AGRI has to inform the countries on the result of the clearance of accounts exercise and the relating decision is adopted by the Commission by 30 September N + 1.

In 2014, DG AGRI cleared the 2013 accounts for Croatia and the former Yugoslav Republic of Macedonia and the 2012 accounts of the former Yugoslav Republic of Macedonia and Turkey (which had been disjoined in 2013). The 2013 accounts of Turkey were disjoined, due to late delivery of the Audit Authority report and opinion on the accounts.

Concerning the 2014 financial year, the three countries provided the audit opinions and reports on the management and control systems. In respect of all three countries, the Audit Authorities provided positive ("*unqualified*") opinions on the management and control system and indicated that they had found no major findings.

2.2.1.4 Conclusion

The expenditure declared by IPARD beneficiary countries (Croatia, the former Yugoslav Republic of Macedonia and Turkey) continues to be monitored by means of audit missions and the clearance of accounts procedure, which is centered on audit work conducted by independent Audit Authorities at national level.

For two measures, which account for 71.7% of the expenditure for Turkey, there are elements which indicate that the level of error for that country is 3.58%. It is necessary to carry over the reservation.

Adjusted error rate and amount at risk for ABB05

	Expenditure in 2014	Amount at risk	adjusted error rate
Turkey	141.375.496	5.068.303	3,58%
Croatia	17.163.203		
FYROM	187.596		
Total ABB05	158.726.294	5.068.303	3,19%

DG AGRI estimates that the overall adjusted error rate for IPARD is 3.19% and that the amount at risk is €5.068m – the same amount is under reservation.

2.2.2 Financial instruments

General overview of FIs supported by the EAFRD in 2014

According to the legal rules for programming period 2007-2013 (Articles 50-52, R 1974/2006), the EAFRD could support the set-up of guarantee funds, loan funds and venture-capital funds. At present, guarantee funds are established in Bulgaria, Italy and Romania. A guarantee scheme has been set up also for the French region Corse. A loan fund is set up in Latvia and Greece, while in Lithuania the loan fund has a guarantee component.

In 2014 financial instruments under the EAFRD 2007-2013 (loan and/or guarantee funds) were utilised in 7 Member States (Bulgaria, Italy – 10 regions out of 21, Greece, Latvia, Lithuania, Romania and France – Corse). This was also the year when the Greek Fund became operational.

During 2013 RDP modifications concerning financial instruments mostly covered financial transfers from Funds back to programmes. In limited cases (IT regions) funding from RDPs was transferred to FIs.

Expenditure

Based on the information provided to the Commission by Member States via SFC 2007, and in relation to programming period 2007-2013, the amounts transferred from rural development programmes to financial instruments at the end of 2014¹²² represent €364.1m, with €79.7m lower than at the end of 2013.

Romania, Lithuania and Latvia made a financial change by returning respectively €76.4m, €2.1m and €2m (EAFRD money) to their RDPs, while Italy increase the financial instruments with an amount of €0.9m.

¹²² Including Q4 2014.

Legal aspects

There were no legal changes in the legislation governing the set up and implementation of financial instruments supported by the EAFRD in 2007-2013.

However, in December 2013, Regulation (EU) No 1303/2013, which defines the general rules on financial instruments applicable to ESI Funds (incl. the EAFRD) in 2014-2020, was approved. This was followed by a significant work by DG AGRI in relation to the secondary legislation linked to financial instruments for the period 2014-2020, under the coordination of DG REGIO. As an outcome, important legal acts providing more detail on the general rules defined in Regulation (EU) No 1303/2013 were adopted (e.g. Regulation (EU) No 480/2014, Commission Implementing Regulation (EU) No 964/2014, Commission Implementing Regulation (EU) No 821/2014, Commission Implementing Regulation (EU) No 1011/2014). The work covered also participation in the relevant discussions with the ESIF DGs, Member States (EGESIF/COESIF), the European Parliament and the Council on these legal documents.

Monitoring and control

Specific control obligations for the MS authorities are foreseen in Articles 28(g) and 28(h) of Regulation (EU) 65/2011 (and, for payments as of 01-01-2015, Article 61 of Regulation (EU) 809/2014). These obligations concern mainly the functioning of the instrument and to a less extent the compliance of the RD operations concerned, which is already covered by other control provisions.

Concerning other financial engineering instruments than interest rate subsidies, there were no audit missions in 2014.

Additional activities related to FI

DG AGRI significantly intensified its operational activities in the field of financial instruments in 2014.

On 14 July 2014 the Commissioner for Agriculture and Rural Development Dacian Cioloş, on behalf of the Commission, and Vice President of the European Investment Bank (EIB) Wilhelm Molterer signed a Memorandum of Understanding (MoU) between the European Commission and the EIB in respect of co-operation in agriculture and rural development within the EU in 2014-2020. This is first of its kind document in the field of agriculture, which paves the way for common initiatives by both institutions, so as to stimulate rural development and boost the utilisation of financial instruments supported by the EAFRD. A work programme outlining the activities to be undertaken under this MoU was also subject to preparation by DG AGRI and the EIB Group.

Two other MoUs¹²³ with the EIB Group were signed in 2014 by Commissioner Cioloş and the Commissioners in charge of the other ESIF policies.

¹²³ Leading services for these two MoUs was DG REGIO.

The first of these two additional MoU concerned a partnership for technical assistance and advisory services in support of financial instruments under the ESIF 2014-2020. This MoU paved the way for setting up the ESIF technical assistance platform for financial instruments "*fi-compass*"¹²⁴. Following the signature of the MoU, a service-level agreement was signed between the four ESIF DGs, with which all rules related to the relationships between the services were set up. The work under the platform is to be coordinated by DG REGIO which received cross-subdelegation from the rest of the ESIF DGs, including DG AGRI. DG AGRI took very active role in the preparation of the 2014-2015 bi-annual work programme under "*fi-compass*" under which general for all ESI Funds products and specific to each policy area ones, will be developed. The implementation of this work programme started in the autumn of 2014 and in total 5 specific to the EAFRD products¹²⁵ will be developed by end of 2015. As part of "*fi-compass*" DG AGRI, together with DG REGIO and DG EMPL, started the preparation of the call for applications under the Multi-regional assistance, which will be launched in 2015. DG AGRI also took active role in the preparation of the ESIF event on financial instruments in 2014-2020, which was planned to take place on 19-20/01/2015 and under which a separate workshop on issues related to FIs supported by the EAFRD was foreseen. The overall contribution from DG AGRI technical assistance budget to "*fi-compass*" is planned to be €1.17m in 2014.

The second of these two additional MoU concerned the audit and management verifications arrangements for financial engineering instruments implemented under shared management and receiving assistance from Structural Funds for the programming period 2007-2013, managed by the EIB Group. This MoU foresees also the intention for applying the same principles in 2014-2020 subject to alignment of the audit methodology to the new legal framework.

In 2014, DG AGRI was also heavily involved in the internal to the Commission inter-service groups on Financial instruments (FIIEG chaired by DG ECFIN; InnovFin chaired by DG RTD) as well as on the inter-service groups among the shared management funds (chaired by DG REGIO), which major aim was to prepare the legislation, the launch of *fi-compass* and its underlying documentation, as well as prepare for the new programming 2014-2020. In this context, various guidance documents were discussed and later on given to MS in the context of the EGESIF, COESIF and the RDC.

2.2.3 Cross-sub-delegations

When the Authorising Officer by Delegation sub-delegates management of a budget line or part of a line to one or several Directors-General or Heads of Service, the Authorising Officers by Sub-Delegation shall report to the Authorising Officer by Delegation. In their

¹²⁴ See <http://www.fi-compass.eu>

¹²⁵ Handbook on ex-ante assessment for FI supported by the EAFRD in agriculture; factsheet on state aid for agriculture; off-the-shelf product for energy efficiency and renewable energy in rural development; factsheet on venture capital in agri-business, awareness raising events and activities, etc.

reports, they have to provide their own assurance that the programmes, operations, actions and corresponding funds were executed in respect of the powers sub-delegated to them.

In order to implement its 2014 budget, DG AGRI sub-delegated the management of some projects to other Directorates-General. The Directorates-General concerned i.e. ESTAT, DEVCO, PMO, DIGIT, EMPL, REGIO, SANCO and JRC reported neither important issues nor anomalies.

For each report provided by the respective DGs, the Heads of Unit of DG AGRI in charge of the sub-delegated budget lines have been consulted. For four of them additional information was requested and whenever necessary the reports were revised.

Regarding JRC, one exception and a non-compliance event were reported by the JRC with regard to the procurement process related to the Union participation at the world Exposition 2015 in Milan. However no reservation was made in this respect.

The cross-sub-delegations are summarised in the table provided in annex 10.

2.2.4 Executive Agencies

DG AGRI joined the Research family Directorate Generals on 1st of January 2014 with the launch of Horizon 2020 – the Framework Programme for Research and Innovation (2014-2020). DG AGRI had decided to delegate the entire operational management of its activity under Societal Challenge 2 (SC2) to the Research Executive Agency (REA) for which DG RTD is lead parent DG.

DG AGRI, in collaboration with DG RTD, prepared a handover file in the context of the delegation on 1 November 2014 of the concerned activities to REA. This handover was duly fulfilled on 30 October 2014 with the signature of the file by the Director General of DG AGRI and the transfer of the corresponding commitment and payment appropriations to REA.

Through close collaboration with REA, DG AGRI could ensure the full execution of the 2014 operational budget under its responsibility, both in commitments and payments [CA: €52 095 604 (100%) –PA: €1 165 882 (100 %)]. DG AGRI furthermore contributed with €295 648 to REA's 2014 administrative budget.

The consumption of REA's total administrative budget has been followed up and a surplus of €626 400 has been added to its "subsidy line" (managed by DG RTD) where a surplus of €6.02m already existed. The global excess therefore amounted to a total of €6.65m which was transferred to REA's operational budget (€5.00m for Space Research and €1.65m for the Marie-Skłodowska-Curie Actions).

The monitoring arrangements include the membership as parent DG of the REA Steering Committee, the assessment of REA's Annual Activity Report (AAR), and the continuous coordination between DG AGRI and REA.

- The Steering Committee adopts REA's annual work programme, administrative budget and AAR. The Director of REA shall submit an AAR to the Steering Committee by no later than 1 March, the deadline for adopting the AAR by the Steering Committee and submission to the Commission is no later than 31 March [article 18 of the instrument of delegation]. Four Steering Committees were held during 2014, with one taking place after the transfer of activities mentioned above (21/02/2014, 17/06/2014, 17/10/2014 and 16/12/2014). At the moment of the preparation of this report DG AGRI had not yet received the Agency's AAR nor has there been a meeting or consultation of the Steering Committee.
- A Memorandum of Understanding (MoU) defining the modalities and procedures of interaction between REA and its five Parent DGs was signed in September 2014. Furthermore, REA reported monthly to its parent DGs on the use of its resources and Key Performance Indicators. An interim report for the first semester 2014 was also produced.

The relevant SC2 operational KPIs of Budget Implementation (100%) and Time-To-Inform (148 days) detailed in REA's December 2014 Overview report (Ref. Ares(2015)234613) are in line with the year-end targets (100% and 153 days respectively). Performance related to Time-To-Pay for experts suffered difficulties during the year but developments would appear to be improving.

- DG AGRI and REA were in close collaboration in implementing the H2020 Societal Challenge 2 activities which are co-managed with DG RTD. In 2014, before the handover on 1 November 2014, DG AGRI performed in collaboration with DG RTD the evaluation of the SC2 2014 calls leading to the corresponding ranking lists. The role of the REA in this process was to ensure the Administrative and Logistical Support Services (e.g. contracting the experts) and to attend consensus meetings in Brussels as observers which was of added value for both the preparation of the following phases and as training for their upcoming tasks following the delegation of activities.

From 1 November 2014, REA took over the activities starting with the grant agreement preparation for the proposals selected for funding under the 2014 calls, informing DG AGRI as parent DG about the progress. In addition, REA, DG AGRI and DG RTD.F had regular coordination meetings at Director level as well as at Head of Unit and operational level to ensure the monitoring and follow-up of activities transferred. The same practice is expected to be continued in the future.

From the different meetings and reports submitted during the year, no issues arose that would need to be raised in this report, however REA's 2014 AAR is still under preparation therefore a conclusion could not yet be provided on a possible reservation. DG AGRI was informed however that the Director of REA would not issue new reservations in the AAR 2014.

On the other hand DG AGRI was informed that the Director of REA would most likely maintain the reservations issued the previous year regarding the residual error rate on the SME actions and the Space and Security themes. REA has followed-up these FP7 reservations entered in its 2013 AAR by means of an Action Plan and related actions.

It should be noted that DG AGRI has no FP7 actions [delegated to REA].

It should be noted that for 2014 DG AGRI contributed with €47 509 to EASME's administrative budget, however DG AGRI was not parent DG of EASME and did not contribute to the SME Instrument in 2014.

2.3 Assessment of audit results and follow up of audit recommendations

This section reports and assesses the observations and conclusions reported by auditors which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations.

2.3.1 Internal Audit Capability reports and opinion

In 2014, in accordance with its audit planning, which covers the DG management processes on a risk basis, **Internal Audit finalised** 6 audit reports, 3 of which remaining from the 2013 programme¹²⁶ and assessed 150 outstanding recommendations through Follow-up audits engagements¹²⁷ and reviews¹²⁸.

The audit on DG AGRI readiness for the implementation of the enhanced role of Certification Bodies in the new assurance model, which was requested by the Director General at the end of July 2014, started in September and the fieldwork was finalised on 15.12.2014. The Final audit report was issued on 27 January 2015.

<i>Audit field</i>	<i>Subject</i>	<i>Date draft /final report (FR)</i>	<i>Number of recommendations</i>	<i>Number of VI recommendations</i>	<i>Number of accepted recommendations</i>
<i>Simplification</i>	Achievement of objectives	FR: 28/01/2014	10	0	10
<i>Promotion</i>	Implementation of the regulation	FR: 11/02/2014	11	2	10.5
<i>Market measures/analysis</i>	Market analyses	FR: 14/03/2014	15	0	15
<i>Follow-up reviews</i>	Outstanding recommendations relating to previous audits on IT developments, cross-compliance, development of policy initiatives and	First quarter 2014	53 recommendations followed-up		

¹²⁶ "Simplification", "Promotion" and "Market analysis". The audits on "Simplification" and on "Promotion" were reported upon in the Annual Activity Report 2013 as the fieldwork had been fully completed in 2013.

¹²⁷ Audit Follow-ups of "Support to information measures relating to the CAP"; "Financial management of rural development"; "Policy analysis and Studies and Document Management";

¹²⁸ The Follow-up reviews covered recommendations stemming from the audits on Food programmes, Wine, Cross Compliance, Direct payments, Mid-Term Evaluation, Development of Policy initiatives and Legislative Proposals, Direct expenditure, Public Procurement, Communication Strategy, Risk Management, Simplification, Market analyses, Financial reporting, Relations and Negotiations with Third Countries and POSEI.

	legislative proposals, wine sector, direct payments, financial reporting, food programmes, risk management, MTE and relations with third countries.				
<i>Follow-up audit - Direct expenditure</i>	Direct expenditure	FR: 27/01/2014	6 reco followed up out of which 2 very important		
<i>Follow-up audit – Communication</i>	Support for information measures relating to the CAP (Grant management)	FR: 04/03/2014	17 reco followed up out of which 3 very important		
<i>Follow-up audit – Financial management of rural development</i>	Financial management of rural development	FR: 11/03/2014	3 reco followed up out of which 1 very important		
	Recruitment, Mobility, career Guidance and Training	FR: 22/10/2013	15	3	15
<i>Quality policy and organic farming</i>	International dimension of the GIs/organic policies	FR: 22/10/2014	14	2	14
<i>Rural development - direct expenditure</i>	ENRD-EIP	FR: 23/10/2013	13	0	13
<i>Joint IAS-IAC IT audit</i>	Management of local IT	FR: 12/11/2014-	10	2	10
<i>Follow-up Audit Policy analysis</i>	Policy analysis and studies	6/10/2014	6 reco followed up out of which 1 very important		
<i>Follow-up reviews</i>	Second FU for Public procurement, Direct expenditure, Financial reporting, Food programme, wine, POSEI, risk management, negotiations and coordination with Third countries; First FU for simplification, communication strategy and market analyses	October-December 2014	57 reco followed up (all important)		
<i>Follow-up audit - Document management</i>	Document management	FR 12/12/2014	14 reco followed-up, 2 very important		
<i>Assurance</i>	AGRI's readiness to the new enhanced role of Certification Bodies	Final report 27/1/2015	8 recommendations out of which 4 VI		

Consequently, the IAC expressed the opinion that the internal control system in place provided reasonable assurance regarding the achievement of the business objectives set up for the processes audited except for a number of very important qualifications related to:

- **The International dimension of the GI/organic policies:** Auditors identified that major improvements were needed regarding (a) the strategic approach to GIs international negotiations which should more substantially encompass certain

“horizontal” issues (e.g. impact of some decisions, including resources needed to finalise, monitor and update agreements), so as to enhance its consistency, and (b) the roles and tasks of all players involved in negotiating, monitoring and updating international agreements which should be clearly defined.

- **The management of local IT in DG AGRI** (*audit performed jointly with IAS, See below*). Auditors concluded that major improvements were needed as regards the IT governance framework in place in DG AGRI as well as the design and monitoring of its IT strategy.
- **DG AGRI’s readiness for the implementation of the enhanced role of Certification bodies in the new assurance model.** Auditors concluded in the report that major improvements were needed as regards the definition of tasks, priorities and responsibilities; the development and periodic review of a common planning approach integrating the assessment of staffing needs, workload and required skills; this will require the update of the Audit Strategy, of the Audit Manual and of the audit mission planning as well as some external and internal communication arrangements as regards checks to be performed on CBs work, and capacity building activities.

For all above-mentioned audits, management accepted all the auditors’ recommendations and submitted action plans which were assessed favourably by the auditors. The various management measures included in these action plans have been or are being implemented as foreseen.

Follow-up of IAC recommendations:

Two major follow-up exercises were performed in 2014: one in the first quarter of 2014 and the second one in the fourth quarter. The follow-up exercise which was performed in the first quarter of 2014 consisted of 3 follow-up (FU) audits (FU audit on “Direct expenditure”; FU audit on “Support to information measures relating to the CAP”; FU audit on “Financial management of Rural development”) and 11 Follow-up reviews. Overall, this follow-up audit work involved the analysis of 73 recommendations out of which 9 were very important and it was reported in AAR 2013¹²⁹.

As regards the second follow-up exercise undertaken in the last quarter of the year, it consisted of 2 follow-up audits (FU audit on “policy analysis and studies”, FU audit of “document management”) and 12 follow-up reviews. Overall the implementation of 77 recommendations, out of which 3 were very important, was assessed.

This follow-up work allowed auditors to conclude that 72% of the assessed recommendations had been timely implemented (the percentage went up to 100% for very important recommendations), 17% were only partly implemented and only 1% was

¹²⁹ AAR 2013, pages 139-140

still open. 10% of the open recommendations were closed as they had become obsolete (new legal base, organisational changes).

Furthermore, in the month of January 2015, 2 additional audits¹³⁰ were followed up and out of the 26 recommendations (with 6 rated very important) assessed, 73% had been timely implemented.

The strengthened monitoring of the implementation of audit recommendations by DG AGRI senior management in 2014¹³¹ has had a positive impact on the rate of implementation, which would need to be maintained in 2015.

Overall at the end of January 2015, 57 recommendations of DG AGRI IAC were outstanding, out of which 8 Very Important ones. However, all the outstanding recommendations related to audits issued not earlier than 2013 and the majority of the outstanding recommendations had actually been issued in 2014.

2.3.2 IAS audits:

During the period of reference, IAS performed the following audit work:

- ✓ **An IAS review on the gap analysis of the new legislation of 2014-2020 programming period for the two Pillars**¹³².

Though acknowledging a number of key improvements aimed at harmonising and simplifying the Common Provisions Regulation (CPR) and the CAP as well as the efforts made by the Commission's services during the negotiation phase to protect the Commission's interests in its supervisory role, the IAS concluded that the final adopted legislation had resulted in significant additional risks due in particular to the sheer complexity and volume of the changes brought about by the legislative process.

Across the board, but notably in key areas such as direct payment (in particular 'greening') and financial rules (e.g. corrections, suspensions, irregularities), a number of new measures have been introduced, together with a large number of derogations, exceptions and supplementary rules which have offered greater flexibility to Member States. With so many changes, the rules become complicated and therefore difficult to understand and apply in practice. The IAS has noted the efforts made by DG AGRI to address these concerns, nevertheless, the scope for interpretation on the part of Member States has been significantly increased, which in turn can have an equally significantly impact on the error rates.

¹³⁰ Audit on « HR management » and audit on « Promotion policy »

¹³¹ Notably through 3 to 4 presentations a year in the senior management coordination meeting; the ICM tool put in place in February 2014.

¹³² Report issued on 9 December 2014

Given the nature of this engagement, IAS issued general recommendations to be taken into account going forward in preparing for the 2014-2020 Programming Period, namely:

- Finalise as early as possible the adoption of Delegated/Implementing Acts (if empowered in the legal acts) and clarify the rules through detailed guidance to the MS;
- Formalise the risk assessment of the new schemes to support, assess and adapt their control and audit strategies accordingly to properly address the risks arising from the new legislation and the choices made by each MS. This should also help DG AGRI management to monitor and supervise the required actions;
- Organise appropriate training for staff so as to ensure consistent application of the rules.

✓ **Joint IAS –IAC IT audit on the management of local IT in DG AGRI:**

The objective of the audit was to assess whether DG AGRI's local IT effectively fulfilled its mandate to support the implementation of the CAP by providing IT solutions aligned with the business needs and priorities.

The audit report was issued on 12/11/2014 and concluded that DG AGRI's management of its local IT was globally effective. However, it also concluded that the DG still needed to further enhance its local IT management, in particular by strengthening the high-level steering role of the IT Steering Committee (ITSC) and the participation of the business side in the decision making process, and by establishing a comprehensive IT strategy outlining the long-term direction of the DG's investments in IT and their alignment with the business objectives. IT portfolio and project management was a further area of improvement, as the overlap/confusion between the concepts of IT systems and IT projects and the lack of a clear process to manage the portfolio of IT projects resulted in inconsistent implementation of the project governance framework and the project management approach throughout the DG.

The audit contained 10 observations, out of which two related to areas of major improvement, namely IT governance and IT strategy. DG AGRI Management accepted all recommendations and submitted an action plan which was assessed favourably by the auditors.

✓ **DG AGRI was sampled in the IAS audit on the adequacy and effective implementation of DG's anti-fraud strategies**, which was launched in July 2014 and for which the fieldwork was still on-going at the end of 2014.

✓ **Several Follow-up audit engagements were performed** in 2014, namely

- An audit follow-up of Design and Monitoring of Directorate J Control Strategy (Pillar 1-2) concluded on 10/09/2014 that all the recommendations had been adequately and effectively implemented

except for Recommendation N°1 on the audit strategy. However, as all but one actions related to this recommendation had been completed, the rating of the recommendation was downgraded from very important to important.

- An audit follow-up of Fraud Prevention and Detection in DG AGRI was concluded on 10/11/2014 and concluded that all recommendations addressed to DG AGRI had been adequately and effectively implemented.
- An audit Follow up of the Commission-wide audit Strategy and Coordination of statistical data production, development and dissemination, for which DG AGRI had been sampled. The IAS concluded on 18/12/2014 that all four recommendations had been adequately and effectively implemented.
- An audit follow-up on the management and monitoring of Staff Allocation in the Commission services. This followed-up concluded¹³³ that Recommendation n°3 on the Identification of current and future staff needs had been adequately and effectively implemented and that as most of the agreed actions had been implemented as regards recommendation N°1 on “Mapping of Human resources with activities and associated priorities”, it could be downgraded from very important to important. The implementation of the open recommendations will be performed in 2015.
- An audit Follow up of the 2013 audit on Control strategy implementation in DG AGRI concluded on 17/12/2014 that significant progress had been made as regards the implementation of Recommendation N°1 (Detective Measures) and that as a result its rating could be downgraded from very important to important. Recommendation N°2 (on Corrective Measures) was assessed as implemented. For Recommendation N°3 (Monitoring and Reporting), as significant progress has been made in its implementation, the rating was downgraded from very important to important.
- An audit Follow up on the Internal Control System for managing the Instrument for Pre-Accession Assistance for rural development in DG AGRI concluded on 19/12/2014 that Recommendation N° 1 on “Delays in the implementation of IPARD programmes” could be closed as DG AGRI had implemented several actions to speed up financial implementation in Croatia and Turkey and the lower financial implementation in fYRoM was due in part to DG AGRI’s decision to interrupt payment from March to June 2012 due to

¹³³ 19/11/2014

weaknesses in the management and control system. Recommendation N°2 on the “Process of accreditation and conferral of management of powers” and Recommendation 3 on “Institutional capacity building” were assessed as adequately and effectively implemented could also be closed.

- A First Follow-up of the Limited Review of DG AGRI’s Residual Error Rate took place in spring 2014 and concluded that work was in progress for implementing the recommendations. As a result the rating of Recommendation N°1 on the reliability of Member States Control statistics was downgraded from Critical to Very important. A second follow-up review started in November 2014 and was finalised on 18/12/2014. It concluded that further progress had been made as regards Recommendation 1 but that some more long-ranging actions were still in progress. For the two Very Important Recommendations N°2 (Calculation of RER) and N°3 (Reservations) progress had been made but some actions still had to be completed. In light of the progress made, the recommendations have been downgraded from Very important to Important. Lastly, Recommendation N°4 (‘AAR Presentation’) remained in progress at the time of the Follow-up.

Consequently, the current state-of-play does not lead to assurance-related concerns.

2.3.3 European Court of Auditors Reports

On 5 November 2014 the European Court of Auditors (the Court) published its **annual report concerning financial year 2013**. Alongside its Annual report, the Court published an **overview report on Agriculture and cohesion spending for the 2007-2013 programming period**.

In 2014, the Court published five special reports covering DG AGRI's activities:

- **Special Report No 18/2013:** The reliability of the results of the Member States' checks of agricultural expenditure;
- **Special Report No 4/2014:** Integration of EU water policy objectives with the CAP: a partial success;
- **Special Report No 8/2014:** Has the Commission effectively managed the integration of coupled support into the Single Payment Scheme?;
- **Special Report No 9/2014:** Is the EU investment and promotion support to the wine sector well managed and are its results on the competitiveness of EU wines demonstrated?;
- **Special Report No 22/2014:** Achieving economy: keeping the costs of EU-financed rural development project grants under control.

2013 Annual Report

The European Court of Auditors' conclusion in its 2013 Annual Report (AR) as regards the **legality and regularity of the underlying transactions in the policy group "Agriculture and natural resources" (chapter 3)** is that based on the results of transaction testing, the most likely error rate (MLE) is estimated at 3.6% (compared to 3.8% in the Court's 2012 AR), with a lower and an upper limit of 1.7% and 5.5%, respectively (§3.7). The Court noted that cross-compliance issues¹³⁴ contributed to 0.5 percentage points to the most likely error rate (§3.13), an increase from 0.2 percentage points last year. It also highlighted that, if Member States had used the available information to prevent, detect and correct errors, the most likely error estimated would have been 1.1 percentage points lower (§3.8).

Why are the European Court of Auditors' most likely error rate (MLE) and DG AGRI's error rate different?

The differences between the two error rates are partly due to them having a different purpose and being therefore based on a different methodological approach.

Methodology:

- *ECA MLE*

The ECA draws a random sample of around 340 transactions (around 180 for the first pillar and 160 for the second) among those paid during the audited year. Because this sample is random, the results can be extrapolated, but this also means that not all Member States and Paying agencies will be visited in a given year.

The Court's auditors then audit the selected transactions and report the errors found. The average error rate found in the sample is considered to be representative of the error rate in the whole population. However, because the sample on which the extrapolation is based is small (less than 350 transactions audited for both pillars when there are about 50 million transactions made every year), the Court's most likely error rate (MLE) is always given with a confidence interval i.e. a lower and upper limit.

There is no real disagreement between the Court and the Commission on the Court's methodological approach, except regarding cross-compliance. The Court includes cross-compliance infringements in the calculation of their error rate whereas the Commission considers that cross-compliance is not an eligibility criterion and as such cannot be included in the error rate.

- *Commission's error rate*

The Commission uses the control statistics given by each paying agencies for each of the three ABB. These control statistics are the percentage of transactions in the controlled population where an error was detected. Because paying agencies only control 5% of all transactions and because control systems can be deficient and fail to detect errors, these control statistics have to be adjusted by the Commission. Following this adjustment, the Commission can estimate an amount at risk for each paying agency (adjusted error rate multiplied by expenditure in non-controlled population managed by the agency). This in turn allows the Commission to obtain an adjusted error rate for each ABB at EU level and to calculate an adjusted error rate for each pillar and the CAP as a whole.

¹³⁴ The Commission did not disagree with the Court on the assessment of legality and regularity of transactions in both chapters; nevertheless, the Commission maintained its position that the infringements to cross compliance obligations are not eligibility deficiencies and therefore should not be included in the calculation of the DAS error rates.

Purpose

The Court of auditors' MLE aims to give an estimate of the percentage of expenditure that has not been spent in line with the applicable regulations. Its purpose is to describe the situation at EU-level and to give an indication of the type of errors found. It is not concerned with the situation at the level of paying agencies or support measures.

DG AGRI is more concerned with the situation in each paying agency than it is with giving an overall error rate. DG AGR's calculation aims at identifying those paying agencies where the risk of errors is too high, to put in place the appropriate remedial actions.

At EU and pillar level the two error rates are therefore not contradictory but rather complementary. Finally, it should be noted that although based on different methodologies, the two figures tend in quantitative terms to remain broadly consistent, in particular when taking into account the fact that the Commission does not include cross-compliance in its rate and that the Court's comes with a confidence interval.

The Court assessed the Integrated Administration and Control Systems (IACS) in four paying agencies and concluded that the system was effective in one paying agency, partially effective in two and not effective in one paying agency. At the same time, the Court concluded that, overall, the results of its re-performance of the on-the-spot checks were satisfactory (§3.22).

Notwithstanding the persistent weaknesses in excluding ineligible land from the land parcel identification system (LPIS) and in the administrative treatment of claims, the Court considered IACS made a significant contribution to reducing the error rate in the expenditure it covers (§3.29). In its 2012 AR, the Court had found that the IACS was partially effective in all three paying agencies audited.

Whilst recognising that there will inevitably always remain certain weaknesses and imperfections, the Commission services are of the opinion that the IACS as a whole remains a solid system for the management of CAP expenditure. When deficiencies are found, Member States are requested to remedy them. The risk to the EU budget is adequately covered by the conformity clearance procedure.

The Court also noted deficiencies in debt management in Italy (AGEA), which could potentially lead to unnecessary charging to the EU budget (§3.25). Moreover, due to significant shortcomings in control procedures, the Court assessed as "not effective" the system applicable to aid for the preliminary recognition of producer groups in the fruit and vegetable sector in Poland (§3.38).

In relation to the assessment of the reinforcement of assurance exercise, the Court considered that the audit performed by the Italian audit body was not sufficient to justify the subsequent reduction of the on-the-spot inspection rate by the Italian authorities (§3.35).

As regards the revised approach for calculating the Residual Error Rate (RER) in the 2013 Annual Activity Report (AAR), the Court considers that the new approach, which complements control data provided by the Member States with other available audit information, represents an improvement (§3.42). In its reply, the Commission has committed to further develop the methodology for calculating the RER in its 2014 AAR.

As regards the **legality and regularity of the underlying transactions in the policy group "Rural development, environment, fisheries and health" (chapter 4)**, the Court

concludes, based on the results of transaction testing, that the MLE is estimated at 6.7% (compared to 7.9% in the Court's 2012 AR), with a lower and an upper limit of 3.5% and 9.9%, respectively (§4.6). The Court noted that cross-compliance issues¹³⁵ contributed to 0.2 percentage points to the most likely error rate (§4.15). It also emphasised that if Member States had used the available information to prevent, detect and correct errors, the most likely error estimated would have been 4.7 percentage points lower (§4.8).

The Court notes, as in previous years, that the main components (75%) of the most likely error are non-area-related measures (§4.9). Non-compliance with the eligibility requirements was the reason for most quantifiable errors (§4.10).

In Rural Development, the Court audited eight management and control systems: five were deemed partially effective and three not effective (§4.20). In its 2012 AR, the Court had found that out of the six systems audited, one was not effective and five partially effective.

The main weaknesses detected by the Court in the framework of its audit of rural development management and control systems were very similar to those reported over the past two years (§4.20): deficiencies in the administrative checks related to eligibility conditions and commitments, insufficient evaluation of the reasonableness of the costs, weaknesses in the follow-up of irregularities, insufficient quality of on-the-spot checks, deficiencies in the design and implementation of the control system for cross-compliance, ineffective checks of public procurements.

Contrary to previous years, the **Court has not issued any major negative observation in relation to the clearance of accounts procedure, the audit methodology, or the calculation of the residual error rate**. The few methodological recommendations made can be managed by DG AGRI with smaller adaptations to the existing system.

In its replies the Commission reiterated its intention to continue performing system-based audits, taking at the same time assurance from the Certification Bodies' audit work on legality and regularity of expenditure. The Commission also highlighted that new rules for application of financial corrections were in place, setting out more precisely the method and criteria to be applied.

The Court noted that the higher percentage of financial corrections in 2013 (2% compared to only 1.4% in 2012) is explained by the reduction of the backlog of open audit files. A sizable backlog of old files remains, in particular for EAGF and for irregularities.

As regards the follow-up of reservations made by DG AGRI for EAFRD in the last two years, the Court did not consider that certain action plans sufficiently took into account all of the Commission's and Court's audit findings.

Finally, the Court issued the following **recommendations** (§§3.46 and 4.37):

¹³⁵ As mentioned above, the Commission maintained its position that the infringements to cross compliance obligations are not eligibility deficiencies and therefore should not be included in the calculation of the DAS error rates.

- the eligibility and size of agricultural parcels, in particular of permanent pasture, should be correctly assessed and recorded by the Member States on the basis of the applicable EU criteria by way of comprehensive analysis of the most recent ortho-images;
- immediate remedial action should be taken by the Member States where the IACS is found to be affected by systemic errors, especially as regards incorrect administrative treatment of aid applications;
- the debtors ledgers of the Member States should contain full and reliable information on the amounts and nature of debts and that effective recovery/enforcement procedures should be applied without any undue delay;
- the Commission should ensure that the reinforcement of assurance procedure is effectively applied in order to enhance the quality and comparability of the work performed by the audit bodies and that remedial action is taken in respect of the unjustified reduction by the Italian authorities of the on-the-spot inspection rate;
- the Commission should actively monitor the application of remedial actions with regard to the deficiencies in the control system applicable to EU aid for producer groups in Poland;
- the Member States should carry out their existing administrative checks better, by using all relevant information available to the paying agencies, as this has the potential to detect and correct the majority of errors;
- the Commission should ensure that all cases where the Court detected errors are followed up appropriately;
- the Member States should ensure that action plans to address the high error rate in rural development are complete, by including all regions and addressing all measures, particularly investment measures, and take the Commission's and Court's audit findings into account;
- the Commission should document how it calculates the expenditure covered by its conformity audits;
- the Commission should take steps to further reduce the backlog of open audit files, so as to enable all audits carried out prior to 2012 to be closed by the end of 2015;
- the Commission should further develop its approach to calculating the RER by ensuring that it takes into account all expenditure and paying agencies.

The Commission accepted all the above recommendations, and underlined that the risk for the EU Budget is and will always be systematically covered by net financial corrections (multi-annual conformity clearance procedure), and through subsequent recoveries by Member States. The Commission also considers that the Court's annual representative error rate should be seen in the context of the multiannual character of net financial corrections and recoveries.

The Commission also pointed out that the shortcomings in Member States' management and control systems are addressed through targeted and comprehensive action plans where necessary. When the Commission services detect such problems

during the course of their audits, they request the Member State to take remedial actions. Where the problem is particularly acute, the Member State is required to implement a remedial action plan which is closely followed up by the Commission services.

In order to assist Member States in their implementation of the new rules on direct payments in the CAP reform, a new unit has been specifically created within DG AGRI. Moreover, regarding debt management, in case of negligence by the Member State, the complete non-recovered amount is charged to the budget of the Member State concerned. Such an approach ensures equal treatment of the individual cases and between the Member States.

Under the new CAP legal framework, the Paying Agencies and the Member States have jointly carried out ex-ante assessments on the verifiability and controllability of the measures which are envisaged by Member States' Rural Development Programmes for 2014-2020. Any identified source of errors is accompanied with targeted mitigating actions. Also, the Implementing Act of Regulation (EU) No. 1306/2013 has clarified the scope and content of the administrative, on-the-spot and ex-post checks.

To better protect the EU financial interests, the Commission has reinforced the rules for the interruption of payments in rural development in cases where Member States do not correctly play their role under shared management rules.

The Commission has also emphasised that, as from claim year 2014, the Certification Bodies will audit the legality and regularity of the transactions on the basis of a representative sample and this will provide more robust information on the level of error at paying agency level.

Chapter 10 on "Getting results from the EU budget" provides for a specific assessment of the performance reporting in the 2013 AAR.

In the 2013 special reports relevant for AGRI included in this chapter, the Court focused on the lack of reporting on performance, noting that:

- when spending EU funds in the 2007-2013 programming period, the focus was on absorption (the need to spend money) and compliance rather than good performance;
- the EU added value is not taken into consideration;
- sound financial management is not reported in a useful way;
- the assurance provided in the AARs specifically excludes performance issues.

As a consequence, the Court issued the following three recommendations:

- the Commission should, on the next occasion that the Financial Regulation is reviewed, rationalise its reporting framework for performance;
- the Commission should ensure that the evaluation report presents a summary that brings together all the information available on the progress towards Europe 2020 targets, in order to provide the reader with a clear overview of the achievements made;
- the Commission should further develop its managing and reporting system for performance to be able to take responsibility for sound financial management as

well as for the EU budget's contribution to policy achievements in the annual declarations of assurance by the directors-general.

Report on Agriculture and cohesion: overview of EU spending 2007-2013

Alongside its Annual report, the Court published an overview report on Agriculture and cohesion spending for the 2007-2013 programming period.

The Court highlights that absorption rates vary greatly between countries, from 44% in Greece to 89% in Estonia. Overall, by the first half of 2014, 31% of the commitments had not given rise to payments (§12). The Court also points out that in some cases, EU funds remain for several years in financial engineering instruments before being transferred to final beneficiaries. In its 2013 AAR, DG AGRI expressed such concerns for Bulgaria, and the Court has found similar issues in Italy (§21).

For the 2009-2013 period, the Court estimates that the most likely error rate for Agriculture is at 3.7%, with the largest component of spending – direct aid and market support – being affected by a lower error rate than rural development (§23). Management and control systems in Member States are deemed to be only partially effective, with errors being found in nearly half of the transactions audited. The Court considers this as an illustration of the complexity of the rules in place and calls for the Commission and the Member States to continue working towards a more simple control architecture (§43,47 and 115).

The main sources of errors for agriculture are identified (§25-28) as:

- over-declaration of area or animals;
- ineligible beneficiaries, activity or expenditure;
- administrative errors.

The Court expects the number of errors due to permanent pasture to be reduced when the new CAP legal framework enters into force.

The Member States that account for the highest share of amount at risk (for both agriculture and cohesion) are also those which receive the greatest share of funds for these policies (§34-39). The Court is therefore reluctant to distinguish between "good" or "bad" Member States when it comes to EU fund management (§115).

This overview report also provides an assessment of the supervisory role of the Commission, positively evaluating the work done on the conformity clearance procedure and the quality of the audits conducted, in particular for rural development. The Court also welcomes the appropriate and timely action taken in proposing a greater role for Certification Bodies, as well as the change in the methodology for calculating the residual error rate in agriculture (§67-70). The positive impact of IACS on the reduction of the error rate is also recognised, the error rate for expenditure managed under IACS is three times lower than for non-IACS expenditure (§74).

The Court identified for each spending area the key risks and weaknesses (§§89-92 and 115):

- Direct payments: ineligible land, ineligible beneficiaries or more than one beneficiary for the same plot of land, entitlements calculated incorrectly or animal premiums paid for non-existent animals;
- Market measures: ineligible applicants, ineligible or overstated costs or products (intervention measures are mainly based on quantities declared by the beneficiaries, which cannot be checked using automated cross-checks with other databases, thus increasing the risk of errors);
- Rural development: non-compliance with the agri-environment requirements, as well as with specific requirements for investment projects and breach of EU and/or national public procurement rules. The pressure to spend funds is also a key risk factor for rural development.

The Court concludes its report by considering the potential impact of the new legal framework. While it believes that the new legal framework and the implementation of action plans for rural development may have a positive impact on the error rate in this policy area (§29), its appreciation is more cautious for the first pillar. It recognises the potentially positive impact the reinforcement of assurance could have on the reliability of information provided by the Certification Bodies. Nevertheless, it stresses that the improvement of the quality of control statistics remains a key challenge for the Commission (§§106, 114 and 115).

Special Reports published in 2014

Special Report No 18/2013: The reliability of the results of the Member States' checks of agricultural expenditure

The special report entitled "The reliability of the results of the Member States' checks of agricultural expenditure" was published on 17 March 2014. The audit concerned the statistical reports covering the 2010 results of administrative and on-the-spot checks for rural development and direct aid schemes which were included in DG Agriculture and Rural Development annual activity report for the 2011 financial year. The audit also reviewed the calculation of the residual error rates and its presentation in DG Agriculture and Rural Development annual activity report for the 2011 and 2012 financial years.

The Court found that the systems in place for administrative and on-the-spot checks were only partially effective, thus seriously undermining the reliability of the information Member States provide the Commission with. Furthermore, paying agencies do not always apply correctly Commission's guidelines for the compilation of the statistical reports. The data included in the reports were often incomplete or based on estimates.

The Court also notes that the certification bodies do not provide the Commission with sufficient assurance on the adequacy of the on-the-spot checks carried out by the paying agencies as well as on the reliability of the statistics.

Finally, the Member States' statistics do not provide a reliable basis for the Commission's estimations of the residual error rate. The Commission's adjustments of the error rates computed for each paying agency are not statistically valid.

In response the Commission underlines that it is aware that it cannot place full reliance on the control statistics from the Member States as the only indicator of the level of error in agriculture spending. Its own audits also indicate that in some Member States control systems are not fully in line with the rules, do not detect all errors that could be detected and that control statistics were not, therefore, completely reliable.

However, the Commission has taken actions to establish and communicate reliable estimates on errors. Notably, DG AGRI introduced a totally new system for the automatic transmission of the individual control data. The initial test for area payments claimed in 2012 has been successful.

For its 2012 Annual Activity Report DG AGRI developed a method for calculating the residual error rate that also takes into account all available evidence, including its own audits, those of the European Court of Auditors as well as the audit work of the certification bodies. This method was used for direct payments. For the AAR 2013 it was extended to other CAP expenditure and in particular, to rural development. The Commission considers that the adjusted error rates presented in the AAR 2013 are reliable and give a true picture, at the level of each paying agency or measure, of the errors made by the Member States in the payments to the beneficiaries.

Furthermore, the new horizontal regulation on the control, financing and monitoring of

the CAP provides for a significant increase in audit work to be performed by the Certification Bodies with regard to delivering an opinion on legality and regularity of the expenditure: re-performing checks done by the paying agencies on a representative sample. This work has commenced from claim year 2014 and will provide additional evidence to the Commission on the effectiveness of the controls done by the Member States.

Finally, the 2013 AAR contains precise information not only on the residual error rate per paying agency but also on the deficiencies identified, the necessary remedial actions and the state of their implementation.

Special Report No 4/2014: Integration of EU water policy objectives with the CAP: a partial success

The special report entitled “Integration of EU water policy objectives with the CAP: a partial success” was published on 13 May 2014. The ECA examined whether the EU’s water policy objectives are properly and effectively reflected in the CAP, both at strategic and implementation levels. To this end, the ECA analysed the two instruments currently used by the Commission to integrate water concerns into the CAP (namely cross-compliance and rural development funding) and points out delays and weaknesses in the implementation of the Water Framework Directive (WFD).

The audit found that cross compliance and rural development funding have thus far had a positive impact in supporting the policy objectives to improve water quantity and quality, but these instruments are limited. According to the ECA, they are not commensurate with the policy ambitions set for the CAP and the even more ambitious goals set by the CAP regulations for the 2014-2020 period.

The ECA also notes that monitoring and evaluation systems, both directly related to the CAP and those providing more general data do not provide the information necessary to fully inform policy-making as regards pressures on water coming from agricultural activities.

The Commission agrees with the ECA’s assessment that both instruments have a positive impact on water quantity and quality. However, the Commission is also aware of certain weaknesses in the implementation of both instruments by the Member States and has taken steps which should result in further improvements in the 2014-2020 programming period. For instance, the Commission has proposed that the Water Framework Directive and the Sustainable Use of Pesticides Directive become part of cross-compliance once they will have been implemented in all the Member States.

As regards the rural development policy, the necessary tools and mechanisms are provided for in the 2014-2020 programming period through the new Rural Development Regulation and through related legislation. Within the new regulation, improving water management and increasing efficiency in water use by agriculture are explicit elements of the priorities against which the Member States or regions must programme spending within their RDPs.

Furthermore, the Commission has introduced a new system for monitoring and

evaluating the CAP which will also apply to water-related issues in agriculture.

Special Report No 8/2014: Has the Commission effectively managed the integration of coupled support into the Single Payment Scheme?

The special report entitled “Has the Commission effectively managed the integration of coupled support into the Single Payment Scheme?” was published on 9 July 2014. The ECA assessed how the Commission managed the integration of EU support coupled to specific quantities of agricultural production (e.g. land cultivated or number of animals) into the Single Payment Scheme (SPS) after the 2008 health check of the CAP. More specifically, the ECA examined whether the Commission adequately supervised and verified the calculation of payment entitlements in the Member States, whether Member States’ legislation complied with the conditions and principles set out in EU legislation and whether the competent authorities had put up effective checks ensuring correct calculation and allocation of payment entitlements.

According to the ECA, the Commission did not use its mandate to ensure that the criteria applied for the distribution of the available support were always consistent with EU principles, notably those of non-discrimination of farmers and proportionality, or whether they followed the principles of sound financial management or potentially affected market conditions.

Although Member States had, for the most part, correctly used the reference data of farmers, the ECA noted significant weaknesses in the correct application of the calculation rules and principles. The framework set up by the Commission did also not sufficiently clarify which checks Member States have to carry out to ensure the correct calculation of payment entitlements and Member States’ control systems varied in quality. The ECA indicates also weaknesses in the way the Commission monitored the respect of applicable ceilings, checked Member States’ compliance with the applicable EU legislation and enforced the correction of errors.

In response, the Commission pointed out that, under the current legislative framework, the integration of coupled support into the SPS falls under the shared management of the Commission and the Member States. It is therefore for the Member States to implement the EU legislation, while the Commission is responsible for controlling and auditing the consistent implementation of the EU budget and compliance with the general principles of EU legislation. Regulation (EC) No 73/2009 provided a certain level of discretion to the Member States: they could choose different implementation modalities reflecting the variety of situations and characteristics in the EU. Taking into account the level of discretion enjoyed by the Member States, the Commission provided guidance on the correct implementation of the legislation upon Member States’ request for clarifications.

The Commission also uses tools to ensure effective supervision of compliance with applicable ceilings. In particular, the transmission of information by the Member States regarding the use of the ceilings has been digitalized. Where errors are detected in the transmission from Member States, the concerned notification is rejected or the Member State is contacted for further clarification.

Where weaknesses in the implementation of the EU regulations by the Member States are observed, these are followed up under the clearance of accounts procedure.

Moreover, the Commission has dedicated specific resources to increase its monitoring capacity to enhance its supervision over the implementation of the relevant EU Regulations before the start of the clearance of accounts procedures. In this context, the Commission has proposed in the implementing rules more detailed notification requirements. For example, the decisions made regarding the allocation of payment entitlements, or the decisions taken in the framework of the voluntary coupled support would have to be notified and justified.

In addition, the Commission specified in the new guidelines for the Certification Bodies that their checks should include an assessment of the “procedures in place to ensure the correct attribution of entitlements”. The next version of the guidelines will contain an explicit reference to the accuracy of the calculation.

Special Report No 9/2014: Is the EU investment and promotion support to the wine sector well managed and are its results on the competitiveness of EU wines demonstrated?

The special report “Is the EU investment and promotion support to the wine sector well managed and are its results on the competitiveness of EU wines demonstrated?” was published on 1 July 2014. The audit examined whether the EU investment and promotion support was appropriately designed and implemented, and whether its results in enhancing the competitiveness of EU wines were demonstrated.

In the ECA's view, the need for an investment measure specific to the wine sector is not justified, as such support already exists under the EU rural development policy. The ECA also questions the role of EU grants for the promotion of wines, since they were often used for consolidating markets rather than winning new or recovering old markets.

Moreover, the ECA notes a lack of sufficient relevant information to show the direct results attributable to these measures. In the case of the investment measures, the effects cannot be easily separated from rural development investments. In the case of the promotion actions, although wine exports to third countries have significantly increased in absolute terms, the audit revealed that EU wines have lost market shares in the main third countries targeted by promotion actions and those exports of EU wines not eligible for support also increased.

The ECA concludes that the management of investment and promotion support to the wine sector during the initial years covered by the audit was adversely affected by design and implementation weaknesses and the impact on the competitiveness of EU wines was not always demonstrated.

The Commission acknowledges that the implementation of the support programmes encountered initially some problems. To address these problems, the Commission made a number of changes to the implementing provisions as well as drafting guidelines to help explain and clarify the procedures governing the selection, eligibility, follow-up and control of measures financed by the programmes.

Concerning the demarcation between the investments under the wine support programmes and the rural development scheme, the dividing line is now clear and should make it possible to avert the risk of double financing without unnecessary administrative burden.

As far as the results of the measures are concerned, in accordance with Article 110 of the Horizontal Regulation 1306/2013, the Commission will ensure that the combined impact of all CAP instruments is measured and assessed in relation to the common objectives of the CAP. This includes an evaluation of the coherence of the CAP instruments by 2018 (first results). In this context, the Commission will examine how to include an assessment of the added value of having an investment support both under the wine COM and rural development.

Special Report No 22/2014: Achieving economy: keeping the costs of EU-financed rural development project grants under control.

The special report on “Achieving economy: keeping the costs of EU-financed rural development project grants under control” was published on 15 December 2014. The ECA investigated whether the approaches followed by the Commission and Member States were the most effective for keeping the costs of rural development grants under control. Concretely, the objective of the audit was to determine if the EAFRD was financing the "right things at the best price". The ECA concluded that the approaches followed were not the most effective.

According to the ECA, Member States could make significant savings in rural development project grants while ensuring better value for money. While many weaknesses were found in the Member States’ control of the costs of rural development grants, the ECA pointed out that more effective approaches to controlling the costs of these grants were already available to Member States but were not widely applied. As a result, Member States’ control systems were geared towards checking the prices of items or works in the grant applications without paying equal attention to whether the items themselves were appropriate. The checks were sometimes time-consuming but gave little assurance that the costs approved were reasonable.

The ECA further argues that the Commission did not offer guidance or spread good practice at the start of the 2007-2013 programming period, and the Commission did not ensure that Member States’ systems were effective before approving large volumes of grants. The ECA, however, underlines that since 2012 the Commission has adopted a more active and coordinated approach with a greater focus on economy which should lead to better financial management in the 2014-2020 programming period.

The ECA concludes that there is considerable scope for making real savings in rural development project grants in the 2014-2020 programming period by better approaches to controlling the costs.

The Commission underlines its commitment to achieving better economy and efficiency in rural development expenditure, in particular when awarding grants for investment operations to private and public beneficiaries (reasonableness of costs). To this end, the Commission has adopted a more active and coordinated approach, with greater focus

on economy, which it expects will lead to better financial management in the next multi-annual financial framework (MFF).

As regards the weaknesses in Member States' control systems, the Commission, during its own audits, has found similar weaknesses as those indicated by the ECA and financial corrections have been applied to cover the risk to the fund. Ongoing conformity clearance procedures are likely to lead to further financial corrections. The action plans developed by the Member States in the exercise of reducing the errors in the implementation of rural development measures include better methods for assessing the reasonableness of costs. For the 2014-2020 programming period, the enhanced use of standard costs should reduce the risk of errors in this respect.

As regards performance risks, the Commission will encourage Member States in the framework of regular meetings to share experiences and good practices. In relation to compliance risks, in March 2014, DG AGRI adopted a new multi-annual audit strategy for 2014-2020. This audit strategy continues to be risk-based; in order to achieve optimal audit coverage, it now features a rolling three-year audit programme applicable as of July 2014. This programme is supported by a Central Risk Analysis (CRA) and will be reviewed annually.

Financial corrections deriving from these audits are based on identified weaknesses in the implementation of the control systems and on an estimation of the financial risk that these weaknesses entail for the EU budget. On the basis of its audits, the Commission can also identify the actual sources and causes of the errors found and request the Member States to elaborate specific and targeted remedial actions.

3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS

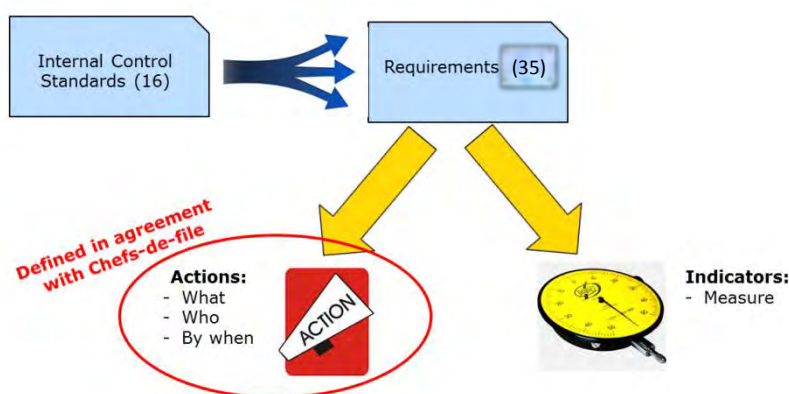
The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

DG AGRI has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

3.1 The assessment of the internal control systems

DG AGRI internal control system is based on the clear definition of roles and responsibilities for the **effective implementation of the control standards**.¹³⁶ The assessment is carried out based on a desk review, complemented by information from other channels and tools¹³⁷ to verify that the DG key control systems are working as intended.

Internal Control Standards - Effectiveness Desk review



¹³⁶ The Internal Control Coordinator closely supervises action taken by lead services ("chef de file") for the internal control standards in the DG, through a structured desk review carried out twice per year. This desk review has been improved and modernized in the past years through: a) the ex-ante definition, in agreement with the lead services, of the actions to be implemented in the course of the year in order to achieve compliance with and effective implementation of each standard. This included a clear attribution of responsibilities and deadlines to each action, b) the introduction of a monitoring tool for an effective communication amongst actors involved in the actions and an updated reporting on the state of play.

¹³⁷ Namely management supervision reports, risk assessment exercises, relevant audit findings, reported instances of exceptions, non-compliance events and internal control weaknesses, regular reports on financial execution.

3.2 The priority internal control standards in 2014

The priority standards¹³⁸ for 2014 **Mission** and **Staff allocation**, agreed upon with the senior management, were included in the 2014 DG AGRI Management Plan. The standard on **Information and Communication** was added in the 2014 Management Plan update as priority standard as well because of its partial ineffectiveness identified during the conclusions of the AAR 2013.

ICS n° 1: Mission

Reasons for the choice of the standard: the standard has been selected as priority standard to align with the CAP Reform and the re-organisation of DG AGRI that has entered into force on the 1.1.2014.

Main actions taken:

- During the Management Plan 2014 update Directors and Heads of Unit were invited to verify mission statements and bring them to the attention of their staff
- Updated mission statements were published on DG AGRI intranet
- A note to the file listing all changes in mission statements (notably following the reorganisation in DG AGRI in force since 1/1/2014) was drawn up presenting the modifications
- Early 2015 DG AGRI intranet included a focus on the Management Plan 2015 and reminded staff to consult mission statements and objectives of units/directorates.

Results of the effectiveness review: Mission statements have been updated after the re-organisation of 1.1.2014. They are linked across hierarchical levels and made available to staff through the intranet. It can therefore be considered that the standard on Mission is **effectively implemented**.

ICS n° 3: Staff allocation and mobility

Reasons for the choice of the standard: the standard has been selected as priority in order to focus action on a more effective and efficient staff allocation, in the context of the reduction of staff that the Commission must achieve between 2013 and 2017, and taking into account the recommendations issued by the Internal Audit Service in its audit on 'Management and Monitoring of Staff Allocation'.

¹³⁸ The priority internal control standards for a given year are chosen with the involvement of the senior management, which is called to play an active role in the identification of the standards where action for effective implementation should focus. DG AGRI strives to maintain an effective implementation of all internal control standards through on-going activities for a continuous improvement addressing any detected issues of partial compliance and/or ineffectiveness.

Main actions taken:

- Comprehensive reorganisation addressing the impact of the CAP reform and staff-related constraints. The reorganisation was adopted by the College on 22/10/2013 and entered into force on 1/01/2014. Staff allocation, tasks distribution and workload assessment have been thoroughly analysed with DG AGRI management to align the new organisational structure with the requirements of staff reduction and the CAP reform, in order to be ready for current and future challenges.
- Temporary allocation of posts to certain projects aimed at reinforcing services either faced with particular high workload, or responsible for top DG political priorities or accumulating significant backlogs.
- Definition of a task mapping methodology, establishing the taxonomy of DG's activities and policy domains, and implementation of a structured collaborative space to support the staff allocation process. The task mapping exercise was finalised end 2014.
- Finalisation of the HR plan: a four-year plan, which aligns HR key processes with the challenges of the DG via a gap analysis and leading to a rolling action plan.

Results of the effectiveness review: DG AGRI organisational structure has been reorganised to align with the challenges on the CAP reform and the staff reduction, on the basis of an intensive exercise involving all DG AGRI management. In parallel, the action plan responding to the IAS audit on staff allocation continued to be implemented. It can therefore be considered that the standard on Staff allocation is **effectively implemented**.

ICS n° 12: Information and Communication

Reasons for the choice of the standard: the standard has been selected as priority standard for 2014 because needs for improvement have been identified in the AAR 2013 (develop synergies on AGRI communication activities, better definition of Communication Action Plan priorities, follow-up of communication budgetary aspects). This partial ineffectiveness was being tackled through the implementation of the actions linked to the IAC audit on Communication.

Main actions taken:

- improved definition of communication needs in the sense that DG AGRI will have to establish its 5 years strategies on internal and external communication based on gained experience and an external evaluation of DG AGRI's communication policy,
- improvement of the DG internal communication network involving all concerned services in DG AGRI,
- preparations of a Vademecum for unit E5 procedures and the relations with the spokespersons service, preparation of guidelines on social media, evaluation of communication events.

Results of the effectiveness review: progress has been made, however, further improvements are needed to complete all actions of the IAC audit and also in the light of the modified requirements and guidance from DG COMM stressing the enhanced role of the Communication Steering Board. Therefore the **standard will continue to be prioritized in 2015**.

3.3 Complementary information

The general risk environment

The CAP expenditure is subject to **shared management** with Member States. While Member States have to set up an efficient management control system and adopt all the legislative, regulatory and administrative provisions necessary to ensure the legality and regularity of the spending, the Commission has the ultimate responsibility for the correct implementation of the budget. As roughly **eight million beneficiaries** supported under a large variety of **different schemes** are covered by the CAP, this by nature entails a **very high number of financial transactions** of a **very high value and/or volume**.

In the context of the CAP, the **inherent risk** is that errors or failures could occur in the financial management and that, if not prevented, detected or corrected, they will affect the legality and regularity of the underlying transactions and damage the sound management of the agriculture expenditure.

The management and control system of the CAP is described in *part 2* of the AAR.

Risk management in DG AGRI

In 2014 the risk management in DG AGRI was the subject to two assessments overseen by the Internal Control Coordinator and by all senior management of the Directorate General.

The risk of deficiencies in Member States' management of the CAP has been identified as significant in 2014. The conformity of Member States' systems with the EU rules designed to ensure the legality and regularity of transactions financed by EAGF and EAFRD is essential for the sound management of the CAP. Therefore, intensive action has been taken to mitigate this risk. Action plans have been elaborated with those Member States where material systemic weaknesses were found, financial corrections were applied to protect the EU's financial interests and more rapid and efficient mechanisms for the interruption and suspension of payments were set up. Despite these efforts, the risk of deficiencies in Member States' systems has partially materialised in 2014 as reflected by an error rate above the materiality threshold. Further action has been taken with the Member States to remedy the deficiencies.

The second and related risk concerned potential deficiencies in the implementation of the CAP reform by the Member States. National authorities faced a short time span between the adoption of the CAP reform following the agreement on the new Multiannual Financial Framework and the entry into force of the new provisions in the new programming period. At the same time a considerable number of new flexibilities had been agreed in the legislative process. Both left the Member States with the challenge of making their policy choices and setting up the corresponding systems within a short period. In addition, the economic and financial crisis negatively affected,

in some cases, Member States' capacity to secure the necessary resources. To mitigate this risk and to facilitate a smooth entry into force of the reform, the necessary delegated and implementing acts were adopted in time, extensive guidance and support were offered to Member States and a monitoring of their activities was put in place.

Thirdly, the growing success of production and trade in organic products entails a risk of insufficient supervision of the effective functioning of the control systems in Member States, recognised Third Countries and of control bodies' activities. Mitigating actions have been put in place to reduce the level and possible impact of the identified risk.

Fourthly, Croatia faced the challenge of implementing the CAP with a limited experience, especially for the preparation of the Rural Development Programme 2014-2020 with a risk of possible delays in the implementation. Mitigating actions have been put in place by monitoring the necessary progress in setting up management and control systems.

The risk due to problems with the liquidity of the EU budget and the consequent **lack of sufficient payment appropriations** has partially materialised in 2014. The services in many cases had to pay in instalments leading to the multiplication of the number of payments and increased unpredictability on the payment execution. This risk was notified to Commission's central services end of 2014 as cross-cutting risk at the level of the Commission in the framework of the DG risk management exercise.

Audit findings

On ECA, IAS and IAC audit findings, please refer to section 2.3 of the AAR.

With regard to the follow-up of audit findings, a new monitoring process on a quarterly basis has been started involving discussions at senior management level on the implementation of the audit recommendations.

3.4 Areas for improvement

On **performance reporting** (ICS 5 – Objectives and Performance indicators) a need was identified to develop DG AGRI's cross-cutting strategy and capability on performance monitoring and reporting.

Regarding IT, the local capacity has been found fulfilling effectively its mandate of supporting the implementation of the CAP, while scope for improvement in the **IT governance** (ICS 7 – Operational structure) was identified following the IAS audit on the Management of local IT.

On **Information and Communication**, please see details above, under ICS 12.

3.5 Conclusions

In conclusion, the internal control standards are effectively implemented in DG AGRI with the exception of standard n° 12 on "Information and Communication".

Significant progress can be reported on the monitoring and implementation of the internal audit recommendations.

Further enhancing the effectiveness of the internal control standards is a continuous effort, in line with the principle of constant improvement of management processes. Particular focus will be given in 2015 to the standards that have been selected as priority for 2015:

- **Objectives and Performance indicators** (ICS 5)
- **Operational Structure** (ICS 7)
- **Information and Communication:** (ICS 12 – will be added in the Management Plan update 2015).

4. MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Parts 2 and 3 and draw conclusions supporting of the declaration of assurance and namely, whether it should be qualified with reservations.

4.1 Review of the elements supporting assurance

The information reported in Parts 2 and 3 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG AGRI.

The Commission gives the highest priority to the exercise of its responsibilities for implementing the budget under Article 317 of the EC Treaty.

DG AGRI has assessed the effectiveness of its key internal control systems during the reporting year and identified areas for improvements, although in no case the weaknesses identified were of a nature to call into question the reasonable assurance. DG AGRI decided to select three priority ICS standards for 2014 (part 3).

In addition, DG AGRI has systematically examined the available control results and indicators, including the results of 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 2013 reservations

In the 2013 AAR, DG AGRI followed for the first time a revised methodology and issued reservations at the level of paying agency or measure. This led to a total of 63 reservations.

Member States were requested to submit action plans to remedy the weaknesses underlying the reservations. 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 audit directorate of the DG offers its opinion and checks on-the-spot at appropriate times the implementation of an action plan in accordance with its audit work programme.

For Rural Development, the conclusions on the revised action plans were presented at

the 4th Seminar on Error Rates with Paying Agencies and Managing Authorities of all Member States on 14 October 2014.

An internal follow-up exercise was launched in June 2014. The purpose of the exercise was to:

- Check if the ongoing remedial actions already cover the shortcomings identified in the reservations;
- Assess the need for and launch where necessary supplementary action;
- Ensure the monitoring of those actions.

The intermediate reporting was validated in September and December 2014.

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 MS. The detailed conclusions are available in annex 10.

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

The systems in place provide a *true and fair view*

The CAP operates in Shared Management with around 8 million beneficiaries. DG AGRI therefore works closely with the Member States which annual reports on their controls ensuring that the monies are disbursed in compliance with EU legislation. In these reports the directors of the paying agencies sign a management declaration attesting that accounts presented give a true, complete and accurate view of the expenditure. Furthermore the independent audit body of the paying agency (certification body) is required to certify whether it has gained reasonable assurance that the accounts transmitted to the Commission are true, complete and accurate.

Sound Financial Management

99.6% of the CAP expenditure being implemented in shared management, its sound management is based on Member States' compliance with the rules set down in the legislation which is 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 the payment functions. Annual accounts are required to be sent to the Commission and certification body is required to certify them. The Paying agencies carried out ex-ante administrative checks on each payment as well as on-the-spot checks for at least 5% of beneficiaries of direct aids and rural development expenditure. For market measure the level of checks is higher with up to 100% control rates required for certain schemes. The CAP legislation also imposes strict payment deadlines on the Paying Agencies. Those which do not respect these deadlines are subject to severe penalties. 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, for the almost totality of the EAGF and EAFRD, no evidence has 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

Chapter 2.1 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 Common Agricultural Policy. It demonstrates that the CAP presents an adjusted error rate which is above the materiality threshold of 2%. However, this is compensated by the corrective capacity of DG AGRI, i.e. the estimated amount related to the CAP expenditure 2014 that will be reimbursed by Member States to the EU budget by net financial corrections which the Commission executes in order to protect the EU budget as well as by the recoveries effected by the Member States and reimbursed to the EU budget. As a result, there is sufficient assurance that the remaining risk to the EU budget is below 2%.

In the framework of shared management, the detection and correction of errors is in the direct responsibility of the Member States and both DG AGRI and the European Court of Auditors have identified that the Member States themselves are primarily responsible for the error which occurs. 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 and used its professional judgement to identify at the lowest possible level (paying agency or aid scheme) the amounts at risk for the EU budget. 3 reservations are made on each of the ABB activities in shared management covering some 52 paying agencies (or aid schemes at Member State level for market measures).

In indirect management, a specific deficiency identified for one measure has led to a reservation for IPARD in Turkey.

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 2014 with a qualification in respect of the 4 reservations made for each ABB activities as detailed in the following chapter 4.2.

4.2 Overall conclusion on assurance and reservations

The Director General for Agriculture and Rural Development considers it necessary to enter three reservations in respect of 2014 expenditure in shared management with the Member States and one reservation in respect of indirect management.

No	Title	Type	2014 amount at risk (in million euro)	ABB amount covered i.e. scope (in million euro)
1	ABB02 – Expenditure on Market Measures: 4 aid schemes in 7 Member States (8 elements of reservation): Austria, France (for two aid measures), Netherlands, Poland, Spain, Romania and the United Kingdom	Financial	€77.7m	For the aid schemes covered by the reservations in the Member States concerned, the expenditure under reinforced scrutiny is €494.6m
2	ABB03 – Direct payments: 15 paying agencies, comprising 6 Member States: Spain (10 paying agencies), France, UK (RPA- England), Greece, Hungary and Portugal	Financial	€831.6m	For the paying agencies covered by the reservations in the Member States concerned, the expenditure under reinforced scrutiny is €17 832m.
3	ABB04 – Rural development expenditure: 28 paying agencies, comprising 16 Member States: Bulgaria, Germany (3 paying agencies), Denmark, Spain (6 paying agencies), France (2 paying agencies), UK (2 paying agencies), Hungary, Greece, Italy (4 paying agencies), Lithuania, Latvia, Netherlands, Poland, Portugal, Romania and Sweden.	Financial	€532.5m	For the paying agencies covered by the reservations in the Member States concerned, the expenditure under reinforced scrutiny is €8 826m.
4	ABB05 – IPARD expenditure for Turkey.	Financial	€5.07m	For Turkey, the expenditure under reinforced scrutiny is €101.4m

Reservation 1: ABB02 – Expenditure on Market Measures: 4 aid schemes in 7 Member States (8 elements of reservation): Austria, France (for two aid measures), Netherlands, Poland, Spain, Romania and the United Kingdom

DG/service	Agriculture and Rural Development
Title of the reservation, including its scope	Expenditure on market measures for fruit and vegetables operational programmes for producer organisations in Austria, Netherlands and UK, pre-recognition for producer groups in Poland and Romania; for restructuring and conversion of vineyards in Spain and France, and for the school milk scheme in France.
Domain	Shared Management – European Agricultural Guarantee Fund
ABB activity and amount covered ("scope")	<p>ABB02: market measures</p> <p>Expenditure in 2014 was €2 478.2m.</p> <p>The amount managed by the Member States with a reservation and put under reinforced scrutiny is €495m.</p> <p>The actual exposure/amount at risk for the expenditure under reservation is €77.7m.</p>
Reason for the reservation	<p>The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity).</p> <p>In the case of the 3 reservations for <u>fruit and vegetable operational programmes</u>, problems have been identified by the DG AGRI audit services in the recognition criteria applied by the Member States concerned (Austria, Netherlands and UK) resulting in ineligible expenditure.</p> <p>For the <u>fruit and vegetables aid for producer groups</u>, DG AGRI audit services have detected serious structural deficiencies in the approval procedures applied by Poland and Romania.</p> <p>In the <u>wine sector</u>, deficiencies were identified by DG AGR auditors with regard to the restructuring and conversion scheme for vineyards in Spain relating to how flat rate amounts are calculated while for France, the deficiencies related to selection procedures, timing of controls and recovery procedures.</p> <p>For <u>school milk</u>, France has reported a high level of error detected in the controls.</p>
Materiality criterion/criteria	<p>DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases.</p> <p>In the cases where the error rate is above 5% (10) they were automatically subject to reservation except where (in 2 out of the 10</p>

	<p>cases) the amount at risk was below DG AGRI's de minimis threshold of €1m established in its materiality criteria (Annex 4). In most of these cases, the high adjusted error rate was determined further to assessment and adjustment of the error rate by DG AGRI.</p> <p>In other cases where the adjusted error rate was between 2 and 5%, it was considered not necessary to make a reservation as the amount at risk is covered by an ongoing conformity procedure and the issue is already being addressed in order to remedy the situation for the future and/or the amount at risk was below the de minimis threshold.</p> <p>Further details may be found at Annex 10 – part 3.1 ABB02.</p>
Quantification of the impact (= actual exposure")	<p>The amount at risk for the expenditure under reservation is €77.7m. This corresponds to 15.7% of the expenditure effected by the Member States subject to reservation for the aid schemes concerned.</p>
Impact on the assurance	<p>The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAGF for market measures.</p> <p>However, DG AGRI considers that consideration shall also be given to the corrective capacity of the net financial corrections applied to claw back undue expenditure to the Budget. The average annual amount of net corrections executed over the past three years for market measures is around €141.8m. While these amounts refer to expenditure incurred in years prior to 2014, there are conformity procedures underway in respect of the deficient management and control systems which are subject to reservation. Thus the Director General can be confident that the EU budget is ultimately sufficiently protected by the corrective capacity of DG AGRI's net financial corrections.</p>
Responsibility for the weakness	<p>The concerned Member States are responsible for the proper implementation of the market measures concerned in their territory. The Commission supervises them in this respect, notably through audits carried out on-the-spot and through strict monitoring a follow-up of the implementation of milestones where action plans are required.</p>
Responsibility for the corrective action	<p><u>At Commission Level</u></p> <ul style="list-style-type: none"> • For 7 of the reservations, high error rates resulting in reservations derive from deficiencies which have been identified by the DG AGRI audit services during their audits on-the-spot. Therefore the corrective actions necessary have already been identified and notified to the Member States concerned. • DG AGRI monitors action plan implementation closely and

	<p>follows them up with the Member State, including on-the-spot where necessary.</p> <ul style="list-style-type: none"> • DG AGRI provides further guidance and support to the national authorities where necessary • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented. • Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension/reduction of payments in line with Article 41(2) of Regulation 1306/2013 <p><u>At Member State Level</u></p> <ul style="list-style-type: none"> • The Member State will be reminded of its responsibility for implementing the necessary corrective remedial actions within an appropriate time schedule. • In one case which is carried over from 2013 (France – School Milk Scheme) the MS has already taken steps to address the matter and it will be remedied from 2015.
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Reservation 2: ABB03 – Direct payments: 15 paying agencies, comprising 6 Member States: Spain (10 paying agencies), France, UK (RPA- England), Greece, Hungary and Portugal

DG/service	Agriculture and Rural Development
Title of the reservation, including its scope	Direct payments for 6 Member States: Spain (10 paying agencies) France, UK (RPA-England), Greece, Hungary and Portugal (15 paying agencies altogether).
Domain	Shared Management – European Agricultural Guarantee Fund
ABB activity and amount covered ("scope")	<p>ABB03: Direct payments</p> <p>Expenditure in 2014 was €41 659.7m.</p> <p>The amount managed by the Paying Agencies with a reservation and put under reinforced scrutiny is €17 832m.</p> <p>The actual exposure/amount at risk for the expenditure under reservation is €831.6m.</p>
Reason for the reservation	<p>The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity).</p> <p>In the case of the reservations for the 10 Spanish paying agencies and Greece, the deficiencies concern their incorrect definition of certain types of pasture land as being eligible. (See Annex 10-Part 3.2 ABB03 –</p>

	<p>Explanatory box 3.2.7 on "permanent pasture").</p> <p>For France the deficiencies concern problems in <i>the LPIS</i> (see box in Annex 10-Part 3.2 ABB03 for an explanation of the LPIS), the quality of the on-the-spot controls as well as in the management of entitlements.</p> <p>For the UK (RPA –England) the deficiencies concern <i>the LPIS</i>.</p> <p>For Hungary deficiencies have been identified in the <i>on-the-spot</i> checks and in recovery procedures.</p> <p>For Portugal the problem concerns an incorrect consolidation of <i>entitlements</i> for 2012 claim year.</p>
<p>Materiality criterion/criteria</p>	<p>DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases.</p> <p>All cases where the adjusted error rate is above 5% were automatically subject to reservation. (5 Spanish paying agencies and Hungary). In the case of the Spanish paying agencies the high adjusted error rate was determined on the basis of the financial corrections already notified to those paying agencies for the 2013 claim year (financial year 2014) to reflect the incorrect registration of permanent pasture in the LPIS. For Hungary the adjustment made by DG AGRI to the error rate is also based on a notified financial correction. For the 5 other Spanish paying agencies and 4 other Member States the adjusted error rates were between 2 and 5%.</p> <p>In 2 other cases where the adjusted error rate was between 2 and 5%, it was considered not necessary to make a reservation as the risk to the EU budget is already covered by an ongoing conformity procedure and the issue is already adequately addressed at Member State level in order to remedy the situation for the future.</p> <p>Further details may be found at Annex 10 – part 3.2 ABB03.</p>
<p>Quantification of the impact (= actual exposure")</p>	<p>The amount at risk for the expenditure under reservation is €831.56m. This corresponds to 4.66% of the expenditure effected by the paying agencies subject to reservation for the ABB activity as a whole.</p>
<p>Impact on the assurance</p>	<p>The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAGF for direct aid.</p> <p>However, DG AGRI considers that consideration shall also be given to the corrective capacity of the net financial corrections applied to claw back undue expenditure to the Budget. The average annual amount of net corrections executed over the past three years for direct aid was €395m. While these amounts refer to expenditure incurred in years prior to 2014, there are conformity procedures underway in</p>

	<p>respect of the deficient management and control systems which are subject to reservation. Thus the Director General can be confident that the EU budget is ultimately sufficiently protected by the corrective capacity of DG AGRI's net financial corrections.</p>
Responsibility for the weakness	<p>The concerned Member States and paying agencies are responsible for the proper implementation of the direct aid schemes concerned in their territory. The Commission supervises them in this respect, notably through audits carried out on-the-spot and through strict monitoring a follow-up of the implementation of milestones where action plans are required.</p>
Responsibility for the corrective action	<p><u>At Commission level</u></p> <ul style="list-style-type: none"> • For all of the paying agencies concerned by the reservations, the deficiencies concerned had already been identified by the DG AGRI audit services during their audits on-the-spot. Therefore the corrective actions necessary have already been identified and notified to the Member States concerned. • DG AGRI monitors action plan implementation closely and follows them up with the Member State, including on-the-spot where necessary. • DG AGRI provides further guidance and support to the national authorities where necessary • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented. • Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension/reduction of payments in line with Article 41(2) of Regulation 1306/2013. <p><u>At Member State level</u></p> <ul style="list-style-type: none"> • The Member State is responsible for implementing the necessary corrective actions within an appropriate time schedule. • The Member State is required to report regularly on progress milestones in line with the agreed schedule.

Reservation 3: ABB04 – Rural development expenditure: 28 paying agencies, comprising 16 Member States: Bulgaria, Germany (3 paying agencies), Denmark, Spain (6 paying agencies), France (2 paying agencies), UK (2 paying agencies), Hungary, Greece, Italy (4 paying agencies), Lithuania, Latvia, Netherlands, Poland, Portugal, Romania and Sweden

DG/service	Agriculture and Rural Development
Title of the reservation, including its scope	Rural development expenditure: 28 paying agencies, comprising 16 Member States: Bulgaria, Germany (3 paying agencies), Denmark, Spain (6 paying agencies), France (2 paying agencies), UK (2 paying agencies), Hungary, Greece, Italy (4 paying agencies), Lithuania, Latvia, Netherlands, Poland, Portugal, Romania and Sweden.
Domain	Shared Management – European Agricultural Fund for Rural Development
ABB activity and amount covered ("scope")	<p>ABB04: Rural Development</p> <p>Expenditure in 2014 was €11 186m.</p> <p>The amount managed by the Paying Agencies with a reservation and put under reinforced scrutiny is €8 826.9m.</p> <p>The actual exposure/amount at risk for the expenditure under reservation is €532.5m.</p>
Reason for the reservation	<p>The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity).</p> <p>In its 2013 AAR, DG AGRI made a reservation in respect of all Member States for this ABB and individual national action plans had to be drawn up and implemented in order to identify and remedy the root causes of the errors.</p> <p>In its case-by-case analysis of each paying agency for Rural Development, DG AGRI identified where the action plans did not adequately cover the deficiencies present for 2014, because more time is needed for the completion of all the remedial actions or because the national action plan did not address all the identified weaknesses.</p>
Materiality criterion/criteria	<p>DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases.</p> <p>It was considered that 43 paying agencies had an error rate above 2%.</p> <p>In line with its materiality criteria in Annex 4, <u>13 cases where the error rate is above 5%</u> (Bulgaria, Denmark, Spain (Andalucia and Valencia), France (Corsica and ASP), UK (RPA-England), Greece, Lithuania, Latvia, the Netherlands, Portugal and Romania) were automatically <u>subject to reservation</u>. In all of these cases, the high adjusted error rate was determined further to assessment and</p>

	<p>adjustment of the error rate by DG AGRI or due to the system assessment given by the ECA.</p> <p>For 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.</p> <ul style="list-style-type: none"> • In 6 cases (Belgium Flanders, Cyprus, DE-Bayern, Finland, Ireland, and Luxembourg) it was considered that it was not necessary to carry over reservations from the 2013 AAR with regard to 2014 expenditure. The reasons for each decision are detailed in Annex 10 – 3.3). • In a further 9 cases it was considered that, given the mitigating factors present, it would not be necessary to make reservations <p><u>Reservations were issued for 15 paying agencies.</u></p> <p>22 reservations from 2013 are repeated for 2014 as the remedial action plans are still underway while 6 new reservations are introduced (DE-Sachsen, DE Sachsen Anhalt, ES-Murcia, ES-Valencia, Lithuania, Latvia).</p> <p>The overall outcome of this exercise is that 28 reservations are necessary at paying agency level:</p> <p>Further details may be found at Annex 10 – part 3.3 ABB04.</p>
<p>Quantification of the impact (= actual exposure")</p>	<p>The amount at risk for the expenditure under reservation is €532.5m. This corresponds to 6.03% of the expenditure effected by the paying agencies subject to reservation for the ABB activity as a whole.</p>
<p>Impact on the assurance</p>	<p>The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAFRD.</p> <p>However, DG AGRI considers that consideration shall also be given to the corrective capacity of the net financial corrections applied to claw back undue expenditure to the Budget. The average annual amount of net corrections executed over the past three years for Rural Development is around €113m. While these amounts refer to expenditure incurred in years prior to 2014, there are conformity procedures underway in respect of the deficient management and control systems which are subject to reservation.</p> <p>Additionally, in 2013, €97m was recovered by the Member States from the beneficiaries.</p>
<p>Responsibility for the weakness</p>	<p>The concerned paying agencies are responsible for the proper implementation of the rural development programmes in their</p>

	territory. The Commission supervises them in this respect, notably through audits carried out on-the-spot and through strict monitoring a follow-up of the implementation of milestones where action plans are required.
Responsibility for the corrective action	<p><u>Commission level</u></p> <ul style="list-style-type: none"> • For all of the paying agencies concerned by the reservations, the deficiencies concerned had already been identified by the DG AGRI audit services during their audits on-the-spot or by the ECA during its systems audits. Therefore the corrective actions necessary have already been identified and notified to the Member States concerned. • DG AGRI monitors action plan implementation closely and follows them up with the Member State, including on-the-spot where necessary. • DG AGRI provides further guidance and support to the national authorities where necessary. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented. • Where necessary DG AGRI will interrupt payments as provided by Article 36(7) of Regulation 1306/2013. • Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension/reduction of payments in line with Article 41(2) of Regulation 1306/2013. <p><u>At Member State level</u></p> <ul style="list-style-type: none"> • The Member State is responsible for implementing the necessary corrective actions within an appropriate time schedule. • The Member State is required to report regularly on progress milestones in line with the agreed schedule.

Reservation 4: ABB05 – IPARD expenditure for Turkey

DG/service	Agriculture and Rural Development
Title of the reservation, including its scope	IPARD expenditure in Turkey
Domain	Indirect Management – Pre-Accession measures in the file of Agriculture and Rural Development
ABB activity and amount covered ("scope")	<p>ABB05: IPARD (Instrument for Pre-Accession Assistance in Rural Development)</p> <p>Expenditure in 2014 was €158.7m.</p> <p>The amount managed by the beneficiary country with a reservation and put under reinforced scrutiny is €141m.</p> <p>The actual exposure/amount at risk for the expenditure under reservation is €5.07m.</p> <p>Expenditure covered by the reservation and put under reinforce scrutiny is €101.4m.</p>
Reason for the reservation	<p>The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity).</p> <p>DG AGRI audits in Turkey identified deficiencies with regard to the evaluation of reasonableness of costs for the most financially significant investment measure.</p>
Materiality criterion/criteria	<p>DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above case.</p> <p>For measures 101 (investments in agricultural holdings) and 103 (investment in processing and marketing of agriculture and fishery products) DG AGRI auditors considered that there was a risk that inflated prices had been paid and estimates that this could represent 5% of the amounts paid for the measure in question.</p> <p>Further details may be found at Chapter 2.2.1 of the report.</p>
Quantification of the impact (= actual exposure")	<p>The amount at risk for the expenditure under reservation is €5.07m. This corresponds to 5% of the expenditure effected by Turkey for measures 101 and 103 and to 3.58% of Turkish IPARD expenditure as a whole.</p>
Impact on the assurance	<p>The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by IPARD.</p>
Responsibility for the weakness	<p>The Turkish paying agency is responsible for the proper implementation of the IPARD measures in Turkey. The Commission supervises them in this respect, notably through audits carried out on-the-spot and through strict monitoring a follow-up of the</p>

<p>Responsibility for the corrective action</p>	<p>implementation of milestones where action plans are required.</p> <p><u>Commission level</u></p> <ul style="list-style-type: none"> • The deficiencies concerned had already been identified by the DG AGRI audit services during their audits on-the-spot. Therefore the corrective actions necessary have already been identified and notified to the Turkish authorities. • DG AGRI monitors action plan implementation closely and follows them up with the national authorities, including on-the-spot where necessary. • DG AGRI provides further guidance and support to the national authorities where necessary. • Where necessary DG AGRI will interrupt payments as provided by Article 39(4) of Sectoral Agreement. • Failure by Turkey to implement an action plan will be addressed by DG AGRI via suspension of payments in line with Article 46 of the Sectoral Agreement. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented. <p><u>At national level</u></p> <ul style="list-style-type: none"> • Turkey is responsible for implementing the necessary corrective actions within an appropriate time schedule. • Turkey is required to report regularly on progress milestones in line with the agreed schedule.
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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.

(a) Direct management

Title 05	Agriculture and Rural Development	Expenditure EUR	Adjusted error rate	Amount at risk EUR
0501	Administrative expenditure	20.307.196	1,00%	203.072
0502	Interventions in Agricultural Markets	993.725	1,00%	9.937
0504	Rural Development	8.411.496	1,00%	84.115
0506	International Aspects	1.806.025	1,00%	18.060
0507	Audit	5.386.422	1,00%	53.864
0508	Policy Strategy and Coordination	27.605.680	1,00%	276.057
0509	Horizon 2020 - Research & Innovation	0	0,00%	0
CAP	Total	64.510.544	1,00%	645.105

For the €64.5m managed directly by DG AGRI, the maximum amount at risk is estimated at €0.645m indicating an adjusted error rate of 1%.

(b) Indirect management

Title 05	Agriculture and Rural Development	2014 Expenditure EUR	% of CAP budget	Adjusted error rate	Amount at risk EUR
0505	Pre-accession Measures	158.726.294	0,29%	3,19%	5.063.369

For the €158.7m in indirect management under the pre-accession programmes, the maximum amount at risk is estimated at €5.063m indicating an adjusted error rate of 3.19%.

(c) Shared management

Expenditure under shared management with the Member States, at €55 426.5m, accounts for 99.6% of the CAP budget.

Title 05	Agriculture and Rural Development	DG AGRI annual Accounts (Annex 3) EUR	Adjusted error rate	Amount at risk m EUR	Corrective capacity			
					financial corrections m EUR	recoveries m EUR	total m EUR	as % of 2014 expenditure
0502	Interventions in Agricultural Markets	2.477,2	3,87%	95,95	141,755			
0503	Direct Aids	41.659,7	2,54%	1.056,08	394,689			
	EAGF	44.136,88	2,61%	1.152,03	536,444	117,828	654,272	1,48%
0504	EAFRD Rural Development	11.177,60	5,09%	568,83	113,582	95,639	209,222	1,87%
0507	Audit	112,04	0,00%	0,00				
CAP	Total	55.426,52	3,10%	1.720,86	650,027	213,467	863,494	1,56%

The amount at risk for the funds under shared management is estimated at €1 720.86m corresponding to an adjusted error rate of 3.10%. This amount at risk is the Director General's best, conservative estimate of the amount of expenditure authorised in 2014

which may relate to underlying transactions made by the Member States which are not in conformity with the applicable regulatory provisions.

Reservations are targeted at the paying agencies or aid schemes where the specific deficiencies have been identified. In total there are 52 targeted reservations (8 for market measures, 15 for direct payments, 28 for rural development and 1 for IPARD) in respect of 2014 expenditure. In all cases, the expenditure by the paying agencies concerned is placed under reinforced scrutiny by DG AGRI: 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/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: 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.

(d) CAP

The overall situation for the CAP is as follows:

Title 05	Agriculture and Rural Development	DG AGRI annual Accounts (Annex 3) m EUR	% of CAP budget	Adjusted error rate	Amount at risk m EUR	Corrective capacity			
						financial corrections m EUR	recoveries m EUR	total m EUR	as % of 2014 expenditure
0501	Administrative expenditure	20,31	0,04%	1,00%	0,20				-
0502	Interventions in Agricultural Markets	2.478,17	4,45%	3,87%	95,96	141,76			
0503	Direct Aids	41.659,68	74,86%	2,54%	1.056,08	394,69			
	EAGF	44.137,85	79,31%	2,61%	1.152,04	536,44	117,83	654,27	1,48%
0504	Rural Development	11.186,00	20,10%	5,09%	568,83	113,58	95,64	209,22	1,87%
0505	Pre-accession Measures	158,73	0,29%	3,19%	5,06				-
0506	International Aspects	1,81	0,00%	1,00%	0,02				-
0507	Audit	117,42	0,21%	0,046%	0,05				-
0508	Policy Strategy and Coordination	27,61	0,05%	1,00%	0,28				-
0509	Horizon 2020 - Research & Innovation	0,00	0,00%	0,00%	0,00				-
CAP	Total	55.649,72		3,10%	1.726,48	650,03	213,47	863,49	1,55%

Rural Development remains an area which merits very close scrutiny and continued assessment of whether, with reasonable effort, it will be possible for the adjusted error rate to descend below 2%.

Taking into account the need to balance legality and regularity with the achievements of policy objectives while bearing in mind the current control requirements and costs, it cannot be expected with any real certainty that an adjusted error rate below 2% would be attainable, with reasonable efforts, for all areas of the CAP.

The corrective capacity from net financial corrections and recoveries is estimated at €863.5m or 1.55% of 2014 expenditure. When compared with the amount at risk, it allows the Director General to conclude with sufficient assurance that while the adjusted error rate for the CAP, at 3.1%, is material, the remaining financial risk to the EU budget, after all corrective action will have taken place, is below materiality.

After reviewing all the elements supporting assurance, the assessment of the overall risk relating to the legality and regularity of the underlying transactions, the targeted identification of the problems and their follow up with action plans, as well as the expected corrective capacity of the control systems, the AOD is in a position, despite the reservations, to sign the declaration of assurance.

DECLARATION OF ASSURANCE

I, the undersigned, Jerzy Plewa

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 view¹³⁹.

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 capability, the observations of the Internal Audit and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

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

However the following reservations should be noted:

- *ABB02 – Expenditure on Market Measures: 4 aid schemes in 7 Member States (8 elements of reservation): Austria, France (for two aid measures), Netherlands, Poland, Spain, Romania and the United Kingdom*
- *ABB03 – Direct payments: 15 paying agencies, comprising 6 Member States: Spain (10 paying agencies), France, UK (RPA - England), Greece, Hungary and Portugal*
- *ABB04 – Rural development expenditure: 28 paying agencies, comprising 16 Member States: Bulgaria, Germany (3 paying agencies), Denmark, Spain (6 paying agencies), France (2 paying agencies), UK (2 paying agencies), Hungary, Greece, Italy (4 paying agencies), Lithuania, Latvia, Netherlands, Poland, Portugal, Romania and Sweden.*
- *ABB05 – IPARD expenditure for Turkey.*

Brussels, 30 April 2015

(signed)

Jerzy PLEWA

¹³⁹ True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.