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

SAPARD ANNUAL REPORT – YEAR 2007

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1. INTRODUCTION

Beginning in 2000, the EU reinforced its pre-accession assistance for the rural development of ten candidate countries of Central and Eastern Europe by creating Sapard, the Special Accession Programme for Agriculture and Rural Development. For its implementation a unique approach was chosen: the national authorities in the applicant countries assumed the entire responsibility through fully "decentralised management" thus enabling the realisation of Sapard. One objective is to implement numerous small-scale rural development projects and the other is to create structures capable of applying the *acquis communautaire* upon accession. Detailed information regarding the implementation of Sapard can be found in the previous Annual Reports as published on the EC website <http://ec.europa.eu/agriculture/external/enlarge/publi/index/en.htm>.

The report covers both 2006 and 2007 due to the limited activities under Sapard during in particular 2006, the completion of the programmes of the eight new Member States and problems encountered with the implementation of Sapard in Bulgaria (BG) and Romania (RO), which started in 2007. Implementation in BG and RO will be further dealt with in the Sapard annual report 2008, which is under preparation.

On 1.5.2004 eight Sapard countries joined the EU. During the course of 2004 they stopped contracting new projects under their respective Sapard programmes and switched to contracting under the post-accession programmes. Payments to final beneficiaries under their Sapard programmes ended towards the end of 2006 due to the expiration of the deadline for de-commitment at 31.12.2006 as set out in the last annual financing agreements.

On 1.1.2007 BG and RO joined the EU and have stopped contracting to final beneficiaries under Sapard on 31.10.2007 and 31.7.2007 respectively.

The programme of Croatia (HR) was approved by Commission Decision on 8.2.2006. With the Commission Decision on conferral of management of 29.9.2006 HR became eligible for receiving Sapard funds.

2. PROGRAMME IMPLEMENTATION AND MANAGEMENT

In the report over 2005 an assessment was made of the achievement of the objectives in the eight new MS that had completed contracting. A similar analysis has been made in this report, following completion of contracting in BG and RO.

2.1 Overall results of implementation¹

Under Sapard a total of € 963,7 million was allocated to the beneficiary countries from 2000 to 2006, of which € 334,2 million was allocated to the eight Member States (MS) that joined EU in 2004² and € 629,5 million to BG, RO and HR. During this period a total amount of € 016,8 million³ was actually paid by the Commission, representing 95,3% of the total amount allocated to the eight new MS and 45,7% for BG, RO and HR. At the end of 2007 the total amount paid increased to € 301,9 million and the percentages to respectively 96,5% and 62,3%.

In all eight MS that joined EU in 2004 the amount contracted under Sapard to the final beneficiaries went well beyond the 100% of the funds available under Sapard. Declared expenditure reached 100% of available funds, except in LV where the amount of eligible EU expenditure finally declared in euro was only 88% of the funds allocated to the programme. The number of contracted projects amounted to over 34 000 and accounted for € 448 million of Community contribution. Under the rules of the transition from Sapard to rural development, outstanding multi-annual commitments under Sapard may be covered under the provisions of the rural development programmes 2007 to 2013 of the MS.

By the end of 2006 the Commission had received final payment claims from eight MS, eligible for Sapard support. As regards the CZ the final payment was executed and the Sapard programme was closed already by the end of 2006. The programmes of EE, HU, SK and SI were closed in 2007. The programmes of PL, LT and LV remained to be closed in 2008.

Progress made during 2006 and 2007, measured by means of payments made by the Commission to BG, RO and HR slowed down, particularly in 2006. Payments to RO accelerated in 2007, while progress in BG was below average and payments to HR started in 2007. Total payment execution since the start measured as a percentage of funds available to the three countries at the end of 2005, 2006 and 2007 was respectively 41, 46 and 62%.

Until the end of 2006 RO had contracted over 4 200 projects accounting for over €88 million of Community contribution. During the same period BG had contracted over 2 500 projects, involving €421 million of EU funds. After closing of contracting, RO had contracted close to 4 600 projects at the end of 2007 with a value of € 114 million of EU Sapard contribution. For BG the respective numbers were over 3 100 projects and €456 million.

The Sapard programme of HR was adopted in February 2006 and the conferral of management was adopted by the Commission in September 2006. An amount of €25 million was committed to the programme on the basis of one single Annual Financing Agreement (AFA) for the year 2006 and has been allocated to the measures "Investments in Agricultural Holdings" and "Processing and Marketing of Agricultural and Fishery products". A first Payment on Account was made in April 2007 and the first payment application was submitted to the Commission for the second quarter of 2007. At the end of 2007 EU funds for an amount of €0.9 million were paid to final beneficiaries. Modifications to the programme, mainly on eligibility criteria, were adopted in October 2007 by means of a Commission Decision.

¹ See Annexes A.1 and A.2.

² Czech Republic (CZ), Estonia (EE), Hungary (HU), Latvia (LV), Lithuania (LT), Poland (PL), Slovakia (SK), Slovenia (SI).

³ Pre-financing and reimbursement payments.

The total amount of public funds paid to final beneficiaries declared under the Sapard programme at the end of the year 2007 is € 113 million (€ 722 million at the end of 2006), of which the Community contribution amounts to € 333 million (€ 038 million at the end of 2006). As a large share of the investment undertaken under the Sapard Programme are revenue generating investments which are supported by up to 50% from public sources, the overall direct impact of Community support under the Sapard instrument, thus including private financing, therefore amounts to a total of around € 683 million (€ 988 million at the end of 2006) in investments and services provided. Consequently, each euro given by the Community under Sapard results in an investment of €2,40. This leverage factor was constant over the last three years.

3. ASSESSMENT OF ACHIEVEMENT OF OBJECTIVES⁴

Now that contracting of projects to final beneficiaries under Sapard has also come to an end in BG and RO, it is possible to assess the overall impact of these country programmes.

The assessment focuses on the implementation results as compared to the Sapard objectives. It assesses the state of implementation of the investment measures for farms and the food industry, which contribute, in particular, to the attainment of EU standards. It also assesses the investment measures for diversification of economic activities, rural infrastructure and, for BG, renovation and development of villages. These measures mainly contribute to sustainable economic development and the creation of job opportunities in rural areas, and account for respectively 99% and 92% of the total Sapard allocation in BG and RO⁵.

Detailed information and figures on the implementation of the measures of the Sapard programmes of Bulgaria, Romania and Croatia, in relation to their allocations and objectives, can be found in annex G to this report.

A horizontal assessment will be done in the framework of the *ex-post* evaluation of the eight programmes already closed.

4. PROGRAMME IMPLEMENTATION AND MANAGEMENT

4.1 Monitoring of programme implementation

AFAs for the year 2006 were signed with BG, RO and HR in 2006. The AFA 2006 signed with RO provides for an extension of the date for automatic de-commitment ("n+3 rule") for the AFA 2003 to 31 December 2007.

During 2006 and 2007 the EC continued to work closely with the beneficiary countries on monitoring and evaluation. In addition to the on-going monitoring, twelve Monitoring Committees were held during 2006 and eight in 2007.

Six Commission Decisions amending programmes of BG and RO were adopted in 2006⁶, three for each country. The main aim of two, out of three, Commission decisions adopted for RO was to allow the RO authorities to apply the special provisions for exceptional natural

⁴ Annexes B and C contain a horizontal overview.

⁵ Annexes C.4 and C.5.

⁶ See Annex D.

disasters contributing to provide relief to RO rural areas affected by floods (the first decision allowing to apply such provisions and the second decision allowing extending the deadline for their application). The main objectives of the three amendments adopted for BG (and the last one for RO) were mainly to better focus their programmes to the needs for preparation for accession and to improve their absorption capacity. In 2007 no Commission Decisions amending the programmes of BG and RO were adopted.

4.2 Regulations

On 11.7.2006 the Commission adopted Regulation (EC) No 1052/2006 amending Commission Regulation (EC) No 2222/2000 laying down financial rules for the application of Sapard. This amendment intends to minimize the implications of the exceptional natural disasters in BG and RO, and the risk of cancellation of appropriations. It provides for an extension of the date for automatic de-commitment ("n+3 rule") for the AFAs 2003 and 2004 to 31 December 2006 and 2007 respectively to these countries.

The Commission Regulation (EC) No 248/2007 specifically addressing the transition of BG and RO from Sapard to Rural Development Programming as MS and on the continuation of the application of the Sapard AFAs and MAFAs was prepared in 2006 and adopted in March 2007.

4.3 Update on mid-term evaluations

According to MAFA, the mid-term evaluations should be updated where and whenever appropriate. Based on this, it was decided to carry out such updates for BG and RO by 31.12.2005. RO submitted the final version of the report to the EC in May 2006. The procedure was closed in November 2006. BG presented the report in March 2007. The procedure was closed in January 2008.

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

5.1 Update on Conferral of Management of Aid and monitoring missions⁷

Conferral of management of Sapard aid is issued by the Commission to the candidate countries. In 2006 one conferral audit mission has been carried out to HR in the context of accreditations, covering two measures. The Commission Decision was issued on 29 September 2006. For the 'third wave' of accreditations, two other Commission Decisions were issued that year, on 22 April for RO and on 29 September for BG. In 2007 no conferral audit missions were carried out and no Commission decisions were issued in this regard.

Two compliance monitoring missions in accordance with the conditions and provisions of Commission Regulation (EC) No 2222/2000 were carried out to HR in May and October 2007. It appeared that certain accreditation criteria were seriously deficient. Thus the HR Authorities were requested to draw up a plan to remedy the deficiencies and to inform the Commission of the implementation of such a plan before the end of 2007. The progress was monitored on a regular basis and a follow-up mission to HR was carried out in January 2008,

⁷ See Annex E.

from which Commission services have noted that most of the actions have been properly implemented. However, a certain number of weaknesses remained to be corrected.

5.2 Clearance of accounts decisions

On 29.9.2006 the Commission adopted a Decision on the clearance of the 2005 accounts of nine Sapard countries. The expenditure declared by RO in 2005 was not proposed for clearance under this Decision, pending the results of some additional checks.

Also, the accounts of BG, PL and RO for the 2003 financial year, which were disjoined in 2004, underwent additional checks in 2005 and a clearance decision on these three accounts was adopted by the Commission on 17.2.2006.

On 28.9.2007 the Commission adopted a Decision on the clearance of the 2006 accounts of all Sapard countries, with the exception of the CZ where the programme was closed in the year 2006. Also on 10.12.2007, the Commission adopted a second clearance decision relating to the expenditure chargeable to Sapard for EE, HU, LV, LT, PL, SK and SI during the period 2000–2006 and establishing the final balance to be paid or recovered.

These decisions are without prejudice to any subsequent decisions, which may be adopted to exclude expenditure not carried out in accordance with Community legislation from Community funding.

5.3 Conformity clearance

In 2006, five conformity missions were carried out. Four of them concentrated on the implementation of corrective measures to address the recommendations made during the first enquiries carried out in 2003 and 2004 (SK, SI, EE, LV). In 2007 two conformity missions were carried out, one in BG in March and one in RO in September, thus covering almost all expenditure in 2007.

Moreover, two desk audits were opened in 2007 in order to take into account the findings of the Certifying Bodies for the year 2005 related to LT and SK.

The audits and auditors focussed particularly on specific allegations in the context of OLAF findings, the respect of public procurement rules, eligibility criteria, the extent and quality of controls and on specific requirements of the MAFA that were also considered to present a higher degree of risk as regards the principles of sound financial management and in particular, economy and cost-effectiveness; non-eligible expenditure, changes in key staff and *ex-post* checks. The audit in BG focussed also on the limited time procedures for the private measures, a procedure introduced by the BG authorities as a reaction to the need for examination of a large number of projects in a situation of limited time and resources. The audit was closed without applying financial corrections.

In RO a third and a fourth audit were carried out, respectively in 2006 and 2007, to follow up the findings made by the Court of Auditors and the Commission during previous missions and to cover the expenditure declared until the time of the mission, in particular for the measure "Rural infrastructure". Public procurement procedures have been considerably improved due to new legislation. Selected samples of payment files were examined and some final beneficiaries were inspected on the spot.

The weaknesses detected were addressed to the authorities concerned. The application of possible financial corrections to the expenditure affected will be evaluated at the end of the clearance of accounts procedures linked to the present enquiry in application of the provisions of the MAFA.

By Conformity Clearance Decision C(2006) 2405 of 22 June 2006 the Commission excluded, in accordance with Article 12(7) of Section A of MAFA, an amount of €31 333 from Community financing for certain expenditure incurred by PL under Sapard due to the payment of ineligible amounts of VAT to some beneficiaries, declared to the Commission in 2003 and 2004.

5.4 Work carried out in relation to the European Court of Auditors (ECA)

In the framework of the DAS 2005 the ECA checked the Commission's handling of the Sapard Annual Implementation Reports. During this exercise, specific attention was paid to the documentation of the Commission's analysis of the reports and to the respect of the deadlines as laid down in the MAFAs. The comments made were duly taken into account by the Commission's services.

In the framework of its 2005 annual report the ECA carried out audits in BG and RO on five projects in each country implementation.

In the framework of its 2006 annual report for Sapard, at Commission level, the ECA's audit involved an appraisal of the supervisory and control systems including the Commission's review of the certifying bodies' reports and tests of transactions on a sample of six Commission payments. Furthermore, the ECA's audit comprised tests of controls and tests of transactions on five projects in RO and an additional sample of five projects in LV, covering main measures implemented at the time of the audit.

The Commission services examined these reports as well as the replies from the countries concerned, and followed up on some of the issues raised during the national audits in both countries. After this examination the Commission considered with the possible exception of public tendering in RO, that there was no evidence of serious system weaknesses regarding Sapard. From findings of audits carried out by DG Agriculture in 2008, thus after the reporting period of this report, it was found that national authorities may not have fully complied with the requirements of the Sapard Instrument. Both MS were requested to draw up an Action Plan, which addresses the control deficiencies. The Commission will consider resuming the reimbursement of expenditure concerned once it has been confirmed, that the Action Plans have been properly implemented.

5.5 Information of irregularities

5.5.1 Operational cases by OLAF

In 2007 OLAF became increasingly aware and concerned with possible irregularities, fraud and corruption involving SAPARD funding in Bulgaria and Romania which resulted in the opening of 23 cases.

5.5.2. Irregularities notified by Member States to the Commission⁸

The obligation to report detected irregularities is established in Section F of the Multiannual Financing Agreement signed with the beneficiary countries. In 2007⁹ OLAF received 145 first notifications (163 in 2006) and 582 updated communications on irregularities detected under SAPARD programme (641 for all the years). The number of reports decreased by 11% in comparison with 2006. This could be related to the fact that for EU-8 SAPARD has been closed. As the checks can be carried out five years after the final payments to the beneficiaries it is likely that some new irregularities will still be detected in the coming years. The geographical distribution of cases has changed in comparison to 2006. The biggest numbers of reports came from Romania, Bulgaria, and Poland. There is a sharp increase of cases detected in Bulgaria and a decrease in Romania and Poland. Romania accounts for 44% of reported detected irregularities, Poland for 20% and Bulgaria for 12%.

The quality of the reports is gradually improving; however, the majority of administrations fail to indicate whether the reported cases are ‘irregularities’ or ‘suspected fraud’¹⁰. There are some inconsistencies in the financial aspects of the reports especially with reference to the Community irregular amounts, amounts not paid due to detection of irregularities, amounts recovered and to be recovered.

Most frequent methods of detection in 2007 appear to be ‘national administrative or financial control’, ‘on the spot control of achievements’, ‘control of documents’. In other words both *ex-ante* and *ex-post* controls are effectively used. Most frequent types of irregularity in 2007 were ‘failure to fulfil commitments entered into’ (45% of cases, compared to 13% in 2006), ‘failure to respect other regulations/contract conditions’ (19%, 12% in 2006) and ‘non-eligible expenditure’ (16%, 27% in 2006). Irregularities on ‘Infringement of rules concerned with public procurement’ occur in 7% of cases. In comparison to 2006 the number of cases with non-eligible expenditure decreased from 27% to 16%. The changes in the *modus operandi* reflect the transition to subsequent stages of the project cycle i.e. from selection and contracting, to implementation and *ex-post* checks. Clearly fraudulent types of irregularities ‘falsified supporting documents’ and ‘false/falsified certificates’ have a share of 2% within reported cases.

With regard to the reported irregular amounts there occurs an increase. For 2007 cases the greater part of the affected amounts has been unduly paid and has to be recovered by the national authorities.

6. FUTURE DEVELOPMENT

6.1 Instrument for Pre-accession Assistance (IPA)

The reform of the external aid policies proposed by the Commission in the Financial Perspective 2007-2013¹¹ resulted in the elaboration of the new single Instrument for

⁸ See Annex F.

⁹ Data available on 13.3.2008. The deadline to send notifications is end of February but data from some Member States have not been received yet. Some figures cover only three quarters of 2007.

¹⁰ Article 3(1)(e) of Commission Regulation (EC) No 1681/94 as amended by Regulation (EC) No 2035/2005.

¹¹ COM(2004) 101.

Pre-accession Assistance (IPA) replacing the five former instruments PHARE, ISPA, Sapard, CARDS and the Turkey (TR) pre-accession assistance.

On 17.7.2006, the Council adopted Regulation (EC) No 1085/2006 establishing an Instrument for Pre-Accession Assistance (IPA). The IPA Implementing Regulation (EC) No 718/2007 was adopted on 12.6.2007 and was communicated to all candidate countries.

IPA supports the candidate countries in five areas (components), one of them being rural development. The IPA Rural Development component (IPARD) helps the countries to prepare for implementation of the *acquis communautaire* of the CAP and to align to EU structures, through the provision of financial assistance under multi-annual rural development programmes, provided that the candidate countries have set up the required institutions and management capacity.

Budgetary commitments have been made for the year 2007 for the three IPARD programmes, which were approved for HR, the former Yugoslav Republic of Macedonia and TR.

With this view, several fact-finding audit missions were carried out in 2006 and 2007 to the candidate countries TR and the former Yugoslav Republic of Macedonia. The objective of these missions were both to give a comprehensive overview of the road towards accreditation of the Rural Development Component of the Instrument for Pre-accession Assistance and to assess the progress made in setting up the management and control system required by the Commission. For both countries, the most tangible achievement in IPARD implementation has been so far the elaboration of the national law establishing the IPARD management and control system.

6.2 Co-operation with international organisations

The EC has increasingly developed cooperation with International Financing Institutions (IFIs) in the field of pre-accession assistance to rural development in recent years. The result has been a better understanding of the functioning of Sapard and the potential areas of collaboration between the IFIs and the EC services in this field. These activities continue under the IPA rural development component.

Close coordination and cooperation with the World Bank (WB) has been undertaken concerning the implementation of the WB Agricultural *Acquis* Cohesion Facility for HR (€25,5 million), designed to build up capacities within the HR Ministry for Agriculture, including support for the establishment of an Sapard/IPARD Agency and the preparation of Sapard/IPARD measures. Cooperation with the WB has been also related to the elaboration of the WB "Agriculture Strengthening and Accession" project for the former Yugoslav Republic of Macedonia, which is now being implemented.

Under the Agriculture Reform Implementation Project, the WB supported IPARD-type measures in TR. The project provided funding of €39,7 million for farmers, processing enterprises as well as producer organisations and co-operatives for agricultural production or processing related investments with the aim to increase income in rural areas and to raise social standards by conserving national resources. As the Project implementation framework was designed to take account of Sapard/IPARD requirements, it also fostered capacity building with regard to the further implementation of IPARD. The EC has also been in close contact with other international donors, such as the UNDP to better coordinate the respective rural development activities. The EC is furthermore a member of the East-Agri group which

is a network of agricultural and agri–business institutions working in the region of Central and Eastern Europe under FAO coordination.