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

**SAPARD ANNUAL REPORT – Year 2004**

**{SEC(2005) 1375}**

## 1. INTRODUCTION

Beginning in 2000, the European Union reinforced its pre-accession assistance for the rural development of ten candidate countries of eastern and central Europe by creating Sapard, the Special Accession Programme for Agriculture and Rural Development. Detailed information regarding the implementation and management systems of Sapard can be found in the 2000 annual Sapard report.

Financial support provided under Sapard is intended to assist the Sapard countries to make structural improvements to their agricultural and rural environment in anticipation of joining the EU. The European Union provided financial support to improve product processing, marketing and quality standards, to meet the requirements of the EU. Sapard assistance was also used to solve specific problems identified by the countries.

## 2. MAIN RESULTS OF SAPARD IMPLEMENTATION<sup>1</sup>

From 2000 to 2004, a total of €2 412.1 million was allocated to the Sapard countries for the improvement of their rural and agricultural sectors, of which €1 334.2 million was allocated to the new Member States and €1 077.9 million to Bulgaria and Romania. From 2000 to 2004, €991 million was actually paid to the Sapard countries. During 2004 alone, €573.5 million was paid to the Sapard countries, of which €380.4 million was paid to the new Member States and €193.1 million was paid to Bulgaria and Romania.

On 1 May 2004, eight out of ten Sapard countries joined the EU. During the course of 2004, the new Member States stopped contracting new projects under their respective Sapard programmes and switched to contracting under the post-accession programmes.

As a result of Sapard implementation, the new Member States were able to make use of already existing Sapard structures for their post-accession programme management. Furthermore, the data on contracting post-accession funds for Sapard type measures suggest that in the majority of countries the contracting levels under these measures are higher than under other measures, for example, in Latvia the contracting has reached 100% and in Estonia the average level is 63%.

By the end of 2004, the Sapard agencies had contracted over 37 000 projects accounting for over €2.2 billion of Community contribution.

## 3. ASSESSMENT OF ACHIEVEMENT OF SAPARD OBJECTIVES<sup>2</sup>

Now that contracting of the Sapard funds has stopped in the new Member States, it has become easier to assess the overall result of Sapard implementation. For a number of reasons, such as diversity of indicators and investments, an assessment based on the indicators set out in the Sapard programmes is not practically achievable. Instead, this report will focus on the implementation as compared to the Sapard objectives. The report will analyse the state of implementation of the investment measures for farms and food industry, which contribute, in particular, to the attainment of *acquis* standards, and the other two investment measures for rural infrastructure and diversification of economic activities which contribute, in particular,

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<sup>1</sup> See Annex A.

<sup>2</sup> Annexes B and C contain a horizontal overview.

to sustainable economic development and job creation in rural areas. These four measures account for 86% of the total allocation under Sapard.

As regards Bulgaria and Romania, this report will focus on the progress made throughout 2004.

### **3.1 New Member States**

By the end of 2004, all eight countries managed to entirely contract EU funds allocated to them, as well as to prepare a pipeline of projects eligible under the post-accession programmes.

Under the farm investments measure, the share of animal production and products, which is the most essential sector in terms of adoption of *acquis* standards has reached 41% of the overall amount contracted under this measure in the eight countries. At the same time, investments in the arable crops sector represent 16%. Although in some countries the crops sector is relatively important, concentration on this sector is, to some extent, a result of economic difficulties in the animal production and products sector.

As regards investments in food processing and marketing, meat products and milk and dairy products, the two most vital in terms of *acquis* sectors, have reached 51% and 22%. Furthermore, the monitoring data suggest that the level of investments in first stage processing, and in particular slaughterhouses, has in certain countries increased, hence placing more emphasis on the adoption of *acquis* standards. For example, the number of slaughterhouses projects in Hungary has nearly tripled.

A preliminary assessment of these results suggests that investments under these two measures have, to a large extent, contributed to achieving the Sapard objectives.

In 2004, the rural infrastructure measure was the most important in terms of contracting levels which reflects the substantial need for improvement of infrastructure in rural areas, in particular in Poland.

Under investments in diversification of economic activities, 20% of the EU funds allocated to this measure were used for investments rural tourism and 11% for development of basic services.

Investments under these two measures have contributed towards improving the basic infrastructure and supporting sustainable development of economic activities in the rural area.

The main aim of the agri-environmental measure was to obtain sufficient experience in preparation and implementation of the agri-environmental programme post-accession which was accomplished, in particular in Slovakia and the Czech Republic.

### **3.2 Bulgaria and Romania**

The total amounts committed to Bulgaria and Romania for 2004 amounted to €226.7 million.

In terms of approved projects, the implementation of Sapard in Bulgaria progressed very well in 2004. By 31 December 2004, the Sapard agency had approved 1 909 projects accounting for €285.4 million of EU contribution, and therefore almost doubled the number of approved projects as compared to 2003. This figure corresponds to 100% of the Sapard allocation for the years 2000–2004.

Under the farm investment measure, the EU funds allocated to that measure were completely contracted. The number of projects contracted by the end of 2004 more than doubled as compared to the end of 2003. The share of the arable crops sector still remains high (44%) compared to other countries which is justified by the substantial need for rationalisation and mechanisation.

Under the processing and marketing measure, 96% of EU funds allocated to that measure for the period 2000–2004 have been contracted. Investments in the meat products sector represent 31%, in the milk and dairy products 14%, and in fruit and vegetables 28%.

The contracting level and the number of projects have also increased under the diversification of economic activities measure. The most important activities related to investments in rural tourism (42%) and investments in timber, carpentry and biofuels (33%).

Additionally, in 2004 rural infrastructure and the renovation of villages became operational. By the end of 2004, the contracting levels for these two measures reached 84% and 71% respectively. Under the rural infrastructure, 83% of the funds were used towards road infrastructure.

In Romania, by the end of 2004, the Sapard agency approved 1 096 projects accounting for €452.4 million of EU funds. This figure corresponds to 57% of the Sapard allocation for the years 2000–2004.

The rural infrastructure measure, the principal measure in Romania, was allocated the largest share of EU Sapard contribution to Romania. By the end of 2004, the contracting level reached 122% of which in roads (49%), drinkable water (35%) and sewerage (16%).

Rapid progress in contracting under processing and marketing, farm investment and diversification measures is essential in order to avoid losing funds by the end of 2005.

The processing and marketing measure was allocated the second largest share of the EU contribution. The level of contracting under this measure reached 41% for the period 2000–2004 of which the meat products sector received 51% and the milk and dairy sector 21%.

The contracting under the farm investments measure only reached 15%, with 53% spent on the arable crops sector. The level of contracting under the diversification measure has reached a mere 11%, with 94% relating to rural tourism.

#### **4. PROGRAMME IMPLEMENTATION AND MANAGEMENT**

##### **4.1 Monitoring of programme implementation**

During 2004, 18 Sapard Monitoring Committee meetings took place and six Sapard programmes were amended. In addition to the usual monitoring, the work of the Committees focused on programme modifications. The principle aims of the modifications were as follows: (i) the revision of certain aspects of accredited measures in the light of the experience gained and/or of the results of the mid-term evaluation; (ii) the update of the financial tables, and in certain countries, the allocation of interest earned and (iii) the adjustment of the programmes in preparation for accreditation. In the eight new Member States, the work also concentrated on the final adaptation of the financial tables, as well as on the final adjustment of the programmes (Annex D).

In Bulgaria, the modifications related to further concentration on implementing measures which (i) contribute to the adoption of the *acquis* and (ii) enhance the productivity of the farms in the light of approaching accession. In Romania, the Monitoring Committees discussed the issue of improving the level of contracting, as well as the proposals for programme modification to reflect the issue of conflict of interest in the infrastructure projects.

Furthermore, all ten countries submitted their annual implementation reports.

#### **4.2 Mid-term evaluation**

In 2004, the Commission analysed the mid-term evaluation reports. Relevant conclusions and recommendations of the reports were taken into account for the purpose of modifying the programmes for Bulgaria and Romania. This information was also taken into account under the post-accession programme management in the eight new Member States.

#### **4.3 Rural Credit Window**

In order to help improve the rural credit system, a special project, the Rural Credit Window, was established under the PHARE SME facility in 2003. The progress in the implementation of the Rural Credit Window component designed to facilitate farmers and rural business access to financial services has been slower than initially predicted. The Commission is currently analysing the reasons for the current situation and considering possible causes of action to improve implementation.

### **5. LEGAL INITIATIVES**

Set out in this section is a summary of the legal initiatives carried out during 2004<sup>3</sup>.

The Sapard Council Regulation and the Commission implementing Regulation were modified so as to align the financial assistance provided to Bulgaria and Romania with the assistance provided to the new Member States post-accession. This involved, *inter alia*, (i) an inclusion of a new eligible measure allowing the rural communities to prepare and implement local rural development strategies; (ii) an adaptation of the aid intensities similar to those granted to the new Member States and (iii) an introduction of certain flexibility for the use of national schemes facilitating access to credits.

The Council Regulation was further amended to include Croatia as a beneficiary of Sapard for the period 2005–2006.

The Commission adopted a new regulation which extended the validity of the financing agreements (MAFA and AFA) previously concluded with the Sapard countries that became Member States. For a transitional period, these countries are permitted to follow the rules different to the usual EU rules. Under this regulation certain provisions contained in these agreements, such as those governing the conferral of management procedure ceased to apply.

In order to advise the new Member States on the closure of the programmes, the Commission prepared Guidelines for Closure of the Sapard programmes.

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<sup>3</sup> Annex E.

In 2004, the Commission adopted financing agreements allocating to Bulgaria and Romania €225.2 million. In order to allocate additional €1.5 million to Bulgaria and Romania Commission adopted a further financing agreement.

## **6. ACTIVITIES IN RELATION TO CONFERRAL OF MANAGEMENT, AUDITS AND CONTROLS**

### **6.1 Update on Conferral of Management of Aid and monitoring missions<sup>4</sup>**

In 2004, three additional Commission decisions conferring management of aid were adopted. By the end of the year, the conferral of management covered 100% of the allocation for the Czech Republic, Slovakia and Slovenia.

Monitoring audit missions to Slovakia (March 2004), Poland (April 2004), Romania (May 2004) and Bulgaria (October 2004) were carried out in order to assess the operation of the management and internal control systems. Recommendations were made where appropriate.

### **6.2 Clearance of accounts decision**

The 2003 accounts for seven Sapard countries (Estonia, Hungary, Latvia, Lithuania, Czech Republic, Slovakia and Slovenia) were cleared by Commission Decision C(2004) 3603 of 28 September 2004.

The Bulgarian, Polish and Romanian accounts were not cleared pending the receipt and evaluation of the additional information requested.

### **6.3 Conformity Clearance decision**

The compliance audit enquiry, which began in September 2003, was continued in 2004. In 2004, six audits were performed. The accredited agencies and the local bodies responsible for the management and control of the Sapard measures in the Czech Republic, Slovakia, Poland, Hungary and Romania were subject to an overall verification of the implemented procedures. A second audit was carried out in Bulgaria to cover the expenditure declared during 2004.

During all these audits, selected samples of payment files were examined and some final beneficiaries were inspected on the spot.

The auditors focussed particularly on specific requirements of the MAFA that were considered to present a higher degree of risk as regards: (i) the principles of sound financial management and, in particular, economy and cost-effectiveness; (ii) double funding or overlapping of funding; (iii) expenditure not eligible for Community co-financing under Sapard; (iv) eligibility criteria set out in the rural development programmes for each measure; (v) the extent and quality of controls; (vi) the changes in staff considered as “key personnel”; (vii) public procurement, and (viii) specific allegations.

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.

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<sup>4</sup> See Annex F.

## **6.4 Work carried out in relation to the Court of Auditors**

On 19 February 2004, the Court of Auditors presented to the Commission a special Sapard report: "Has Sapard been Well Managed". The report was critical in terms of achievement of the Sapard objectives. It pointed out delays in implementation caused by a lack of planning on the part of the Commission. The report also concluded that the lack of the final beneficiaries' own resources, problems of access to credit for potential beneficiaries, as well as complex procedures resulted in a significant under-utilisation of funds.

Nevertheless, the Court also concluded that the Commission's decision to apply decentralised implementation was correct given the likely large number of projects to be financed. It stated that it had ensured that (i) well defined systems with key controls were in place before any funds could be spent; (ii) the procedures were well documented; (iii) the systems were generally working in practice, and (iv) for most files reviewed the checking procedures were followed. The Court recognised that Sapard has contributed positively to the preparation for EU-membership.

## **6.5 Information on irregularities**

In 2004, 91 cases of irregularities were brought to the attention of OLAF: 27 in Poland, 23 in Slovenia, 18 in Romania, 15 in Lithuania and 8 in Hungary. A clear improvement in both the quality and the quantity of the reports should be noted. However, the Commission continues to deplore the existence of considerable delays, the lack of information from certain countries, and occasionally the poor quality of communications which has led to the loss of important information.

The majority of irregularities arose from the incorrect application of procurement rules for measures in infrastructure and slaughterhouses, the ineligibility of certain expenses and the insufficient assessment of the impact of the projects on the environment. Inadequate staffing, the lack of training, and the importance of rotation are considered as the risk factors.

## **7. FUTURE DEVELOPMENT**

### **7.1 Croatia**

In order to start the preparatory work for the implementation of the pre-accession assistance, the Commission carried out a fact-finding mission to Croatia in September 2004. At the same time, the Croatian authorities were advised as to the key steps to be undertaken in order to ensure an early start to their pre-accession assistance implementation.

In November 2004, the Commission organised an introductory seminar to provide Croatia with information regarding the Sapard programme, and the system required to be set up by the country before it can receive EU funds.

### **7.2 Instrument for Pre-accession Assistance (IPA)**

The Communication from the Commission for financial perspectives 2007–2013 recommended a reform of the external aid, including pre-accession<sup>5</sup>. The Commission put

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<sup>5</sup> COM(2004) 101.

forward a single framework for pre-accession assistance – referred to as the Instrument for Pre-accession Assistance (IPA).

Under the future financial perspective, the type of assistance provided under the Sapard instrument will continue under the Rural Development Component.