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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**1st financial report on financial implementation of the European Agricultural Fund for
Rural Development (EAFRD) – 2007 financial year**

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1. BUDGET PROCEDURE

The 2007 preliminary draft budget 2007 was adopted by the Commission and proposed to the Budgetary Authority in April 2006. The following EAFRD allocation (amounts in EUR) was proposed:

Budget line	Commitment appropriations	Payment appropriations
05.040501 (RD programmes)	12 343 028 111	6 182 000 000
05.040502 (Technical assistance)	23 133 604	9 300 000

The Council¹ adopted the 2007 draft budget in July 2006 with no changes as regards the EAFRD allocation.

The European Parliament adopted the 2007 budget in its plenary session of December 2006. The commitment and payment appropriations for the EAFRD budget lines, heading 2, amounted to EUR 9 897.6 and 4 954.9 million respectively, which represents a reduction of EUR 2 468.6 and 1 236.4 million in comparison to the initial proposal. This reduction was the result of a Parliament's amendment² to put in the reserve 20% of the appropriations requested for rural development programmes.

The budget authority approved the transfer from the reserve to the rural development budget item in March 2007, once the European Parliament agreed on the Commission's revised proposal on voluntary modulation.

2. MANAGEMENT OF APPROPRIATIONS

2.1. Commitment appropriations

2.1.1. Appropriations available for rural development programmes

The amount of commitment appropriations finally available for funding of Rural Development programmes 2007-2013 amounted to EUR 12 343 028 110, in accordance with Commission Decision 2007/383/EC of 1 June 2007, fixing the annual breakdown by Member

¹ First reading

² Text of the amendment: 20% of these appropriations will be put in the reserve. The Commission will communicate to Parliament between the 1st and the 2nd reading how it intends to cater for the breaches on Parliament's budgetary prerogatives when laying down annual budgets following from their recent proposal on voluntary modulation (COM(2006) 241) and whether this current proposal on voluntary modulation has effect on the agreed ceilings for the Rural Development programmes for the period 2007-2013.

State of the amount for Community support to rural development for the period from 1 January 2007 to 31 December 2013.

The amount actually committed in 2007 amounted to EUR 9 513 362 081, or 77.1% of the amount available in the budget. This amount allowed the commitment of the 2007 allocation of 54 programmes approved in 2007, out of a total of 94 programmes submitted by the Member States. The difference (EUR 2 829 666 030) was used as follows:

An amount of EUR 1 360 517 165, corresponding to 25 programmes for which the approval procedure was almost finished at the end 2007, was carried over to the exercise 2008 for commitment before 31 March 2008. All the programmes concerned were approved in time and the full amount committed within the deadline set up by the Financial Regulation.

An amount of EUR 1 469 148 864, corresponding to 15 programmes (12 Spanish regional programmes, the Romanian national one and the rural networks for Spain and Portugal), was cancelled in the 2007 budget for reprogramming over 2008 and subsequent exercises in accordance with point 48 of the Interinstitutional Agreement on budgetary discipline.

The Budgetary Authority accepted the Commission proposal on reprogramming of this amount, partially over the 2008 budget (EUR 370 376 764), and the rest over subsequent years.

2.1.2. Appropriations available for technical assistance

Article 69(2) of Council Regulation (EC) No 1698/2005 provides for 0.25% of the total amount for Community support to rural development to be used for technical assistance by the Commission. In the 2007 budget EUR 23 133 604 of commitment appropriations and EUR 9 300 000 of payment appropriations were assigned for this purpose.

2.2. Payment appropriations

2.2.1. Payment appropriations for rural development programmes

The budget 2007 finally included EUR 6 182 000 000 of payment appropriations. Of this amount EUR 101 379 347 was transferred to reinforce the budget line 05.040201 (Objective 1 programmes of the period 2000-2006), and a rest of EUR 306.46 was cancelled.

The difference (EUR 6 080 620 346.54) was used for payments as follows:

Payments on account:	EUR	3 704 899 313.26
Reimbursements last quarter 2006	EUR	264 363 267.94
Reimbursements 2 nd quarter 2007	EUR	254 511 668.52
Reimbursements 3 rd quarter 2007	EUR	1 856 846 096.82

The 3rd quarter 2007 reimbursements for some programmes (list below) were totally or partially pending at the end of the year due to the fact that the commitment 2007 for these programmes had already been fully used by the payments on account and previous reimbursements:

	CCI	Programme	Balance to be paid
DE	2007DE06RPO004	Bayern	8 311 416,80
DE	2007DE06RPO010	Hessen	970 355,90
DE	2007DE06RPO015	Northern-Westphalia	5 877 675,72
IE	2007IE06RPO001	Ireland National	32 174 706,48
UK	2007UK06RPO002	Northern Ireland	13 463 173,73
IT	2007IT06RPO012	Umbria	1 846 826,34
UK	2007UK06RPO001	England	53 414 561,27
Total			116 058 716,24

2.2.2. Payment appropriation for technical assistance

The budget 2007 included initially EUR 9 300 000 of payment appropriations for technical assistance to be used by the Commission. Only EUR 1 531 687.47 (16.5% of the initial amount) was actually paid in 2007.

3. EXECUTION OF THE EAFRD BUDGET

3.1. Payments made by the Commission by MS and by quarterly declaration

The table below shows the amounts paid in 2007 concerning payments on account and reimbursement of expenditure incurred by the paying agencies during the period 16 October to 31 December 2006 (Q4 2006), 1 April to 30 June 2007 (Q2 2007), and 1 July to 15 October 2007 (Q3 2007). There were no payments during the 1st quarter 2007 as no programme had yet been approved. Total reimbursement amounted to EUR 2 375.7 million.

Payments actually made in 2007 per MS (€)

Pays	Q4 2006	Q2 2007	Q3 2007	Avances	Grand Total
AT			79.486.601,40	273.802.899,44	353.289.500,84
BE			38.646.666,61	16.436.002,28	55.082.668,89
CY				11.376.650,18	11.376.650,18
CZ				197.085.444,78	197.085.444,78
DE	38.300.830,85		337.905.632,12	436.454.678,63	812.661.141,60
EE				25.013.059,92	25.013.059,92
ES			3.903.655,85	3.930.641,26	7.834.297,11
FI	6.801.068,21		209.540.288,60	115.963.854,19	332.305.211,00
FR	645.562,00	218.053.467,09	333.624.213,80	359.606.865,33	911.930.108,22
GR			194.014.806,92	129.755.654,84	323.770.461,76
HU			1.569.249,15	266.409.037,44	267.978.286,59
IE	125.946.859,87		165.839.645,48	81.897.010,65	373.683.516,00
IT			169.986.744,42	275.873.441,60	445.860.186,02
LT				122.035.206,50	122.035.206,50
LU			11.080.836,77	3.341.160,20	14.421.996,97
NL	245.050,00	15.034.562,00	2.953.199,00	34.056.481,68	52.289.292,68
PL				926.102.670,92	926.102.670,92
PT			90.261.356,57	130.988.796,85	221.250.153,42
SE	64.761.508,39	21.423.639,43	93.334.591,26	112.613.963,92	292.133.703,00
SI			30.063.136,39	63.018.671,02	93.081.807,41
SK				68.929.632,73	68.929.632,73
UK	27.662.388,62		94.635.472,48	50.207.488,90	172.505.350,00
Grand Total	264.363.267,94	254.511.668,52	1.856.846.096,82	3.704.899.313,26	6.080.620.346,54

The amounts above referring to Q4 2006 were paid in 2007 based on the transitional provisions allowing expenditure under EAGGF Guarantee section incurred from 16 October to 31 December 2006 to be taken over by the EAFRD budget in accordance with Article 39(1)(c) of Council Regulation (EC) No 1290/2005.

3.2. Amounts paid and declared by the paying agencies by RD measure and by Axis

The table below shows the expenditure declared in 2007 by Member States, broken down by rural development measures and Axis, for all the rural development programmes together. It shows that 15.7% of these amounts concern expenditure for measures under Axis 1, 81.8% for measures under Axis 2 and only 2% to expenditure for measures under Axis 3. This profile is quite different of the average profile by Axis of all the RDP together (35.8% for Axis 1, 45.1% for Axis 2 and 19.1% for Axis 3).

This situation results from the fact that aids granted under Axis 2 very often refer to agri-environment measures or compensatory allowances for less favoured areas, which are often paid, either on the basis of ongoing contracts from the previous programming period (agri-environment payments) or as annual payments with a more or less continuous character.

On the contrary, financing projects under Axis 1 and 3 usually requires a preparatory work to be undertaken by the managing authority of the programme. This work starts by publishing the conditions for granting aid under the programmes and receiving claims from potential beneficiaries, and continues with a selection procedure against selection criteria previously agreed by the monitoring committee.

The difference of EUR 116.1 million between the amount declared by the paying agencies (2 491.8 million), and the amount actually reimbursed by the Commission (2 375.7 million) is due, apart minor rounding, to reimbursements in 2008 of part of the Q3 2007 declaration for 7 programmes (detailed in point 3.2.1), which had exhausted their 2007 commitment.

EAFRD payments made by the paying agencies and declared per RD measure and Axis

Measure / Axis	Q4 2006	Q2 2007	Q3 2007	TOTAL
111 - Vocational training and information actions	1 086 298,41	4 922 377,73	9 186 941,86	15 195 618,00
112 - Setting up of young farmers	25 794,75	51 789 354,14	27 997 810,74	79 812 959,63
113 - Early retirement	11 997 135,97	2 924 477,27	36 632 389,55	51 554 002,79
114 - Use of advisory services	675,00		209 790,00	210 465,00
115 - Setting up of management, relief and advisory services	63 492,72		397 448,09	460 940,81
121 - Modernisation of agricultural holdings	4 397 907,01	49 393 001,81	92 684 223,39	146 475 132,21
122 - Improvement of the economic value of forests	4 737 185,47	2 976 203,43	5 884 858,39	13 598 247,29
123 - Adding value to agricultural and forestry products	1 270 689,95	1 947 853,97	20 210 897,53	23 429 441,45
124 - Cooperation for development of new products	-			-
125 - Infrastructure related to the development and adaptation	286 467,69	1 912 747,35	22 911 861,00	25 111 076,04
126 - Restoring agricultural production potential	-		6 251 762,52	6 251 762,52
131 - Meeting standards based on Community legislation	-		30 063 136,39	30 063 136,39
132 - Participation of farmers in food quality schemes	325,00	4 799,00	325,00	5 449,00
133 - Information and promotion activities	-			-
141 - Semi-subsistence farming	-			-
142 - Producer groups	-			-
143 - Provision of farm advisory services in BG and RO				-
Total Axis 1 - Improving the competitiveness of the agricultural and forestry sector	23 865 971,97	115 870 814,70	252 431 444,46	392 168 231,13
211 - Natural handicap payments to farmers in mountain areas	1 971 175,38	6 641 452,40	373 841 496,20	382 454 123,98
212 - Payments to farmers in areas with handicaps, other than ...	31 311 086,96	2 970 220,12	288 751 752,35	323 033 059,43
213 - Natura 2000 payments and payments linked to Directive ...	231 449,42		1 582 177,18	1 813 626,60
214 - Agri-environment payments	197 455 456,87	102 019 226,19	898 205 435,05	1 197 680 118,11
215 - Animal welfare payments	3 881,99		9 992 846,22	9 996 728,21
216 - Non-productive investments	253 423,61		265 423,40	518 847,01
221 - First afforestation of agricultural land	3 342 396,05	2 435 954,46	72 089 454,65	77 867 805,16
222 - First establishment of agroforestry systems on ...	-			-
223 - First afforestation of non-agricultural land	54 779,00	235 138,83	813 004,29	1 102 922,12
224 - Natura 2000 payments	-			-
225 - Forest-environment payments	10 222,50		339 091,49	349 313,99
226 - Restoring forestry potential and introducing prevention ...	-	21 697 857,60	15 481 198,70	37 179 056,30
227 - Non-productive investments	697 435,08	651 167,37	5 655 877,24	7 004 479,69
Total Axis 2 - Improving the environment and the countryside	235 331 306,86	136 651 016,97	1 667 017 756,77	2 039 000 080,60
311 - Diversification into non-agricultural activities	1 905 558,78	12 030,13	7 660 357,31	9 577 946,22
312 - Business creation and development	96 800,37		164 773,20	261 573,57
313 - Encouragement of tourism activities	912 886,14	30 363,97	2 856 932,38	3 800 182,49
321 - Basic services for the economy and rural population	462 076,94	16 748,50	10 062 460,48	10 541 285,92
322 - Village renewal and development	1 425 677,03		16 039 993,00	17 465 670,03
323 - Conservation and upgrading of the rural heritage	-	1 430 734,78	5 770 482,64	7 201 217,42
331 - Training and information	-	363 254,82	67 610,54	430 865,36
341 - Skills acquisition, animation and implementation of ...	-	14 703,00	454 059,46	468 762,46
Total Axis 3 - The quality of life in rural areas and diversification of the rural economy	4 802 999,26	1 867 835,20	43 076 669,01	49 747 503,47
411 - Implementing local dev. strategies. Competitiveness	10 253,00			10 253,00
412 - Implementing local dev. strategies. Environment/land	-			-
413 - Implementing local development strategies. Quality of life	243 625,99		(1 064,58)	242 561,41
421 - Implementing cooperation projects	-			-
431 - Running the local action group, acquiring skills and ...	-			-
Total Axis 4 - Leader	253 878,99		(1 064,58)	252 814,41
511 - Technical Assistance	109 111,65	122 001,65	10 386 637,14	10 617 750,44
Total Axis 5 - Technical Assistance	109 111,65	122 001,65	10 386 637,14	10 617 750,44
611 - Direct Payments				-
Total Axis 6 - Direct Payments				-
TOTAL	264 363 268,73	254 511 668,52	1 972 911 442,80	2 491 786 380,05

