



2017

Annual Activity Report

DG Regional and Urban Policy

GLOSSARY OF TERMS

AOSD(s)	Authorising Officers by Sub-Delegation
BUDG	DG Budget
CAFS	Commission Anti-Fraud Strategy
CBC	Cross-border Cooperation
CF	Cohesion Fund
CIMS	Committee on Public Procurement and Grants
CNECT	DG for Communications Networks, Content and Technology
COMP	DG Competition
CPR	Common Provisions Regulation
CRI	Catching-up Regions initiative
CSRs	Country-specific recommendations
DAS	" <i>Declaration d'assurance</i> " i.e. Statement of Assurance
EBRD	European Bank for Reconstruction and Development
ECA	European Court of Auditors
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EIF	European Investment Fund
EMPL	DG Employment, Social Affairs & Inclusion
ENER	DG Energy
ERDF	European Regional Development Fund
ERTMS	European Railway Traffic Management System
ESI(F)	European Structural and Investment (Fund)
ETC	European Territorial Cooperation
EUSAIR	EU Strategy for the Adriatic and Ionian Region
EUSBSR	EU Strategy for the Baltic Sea Region
EUSF	European Union Solidarity Fund
FI(s)	Financial Instruments
FIR	Final Implementation Report
GHG	Greenhouse gases
GROW	DG Internal Market, Industry, Entrepreneurship and SMEs
HR	Human Resources
HRSC	DG Human Resources Strategic Committee
IAS	Internal Audit Service
ICT	Information and communication technology
IPA	Instrument for Pre-accession Assistance
IQR	Independent Quality Review
IUC	International Urban Cooperation
JAFS	Joint Anti-Fraud Strategy
JASPERS	Joint Assistance to Support Projects in European Regions
MARE	DG Maritime Affairs and Fisheries
MFF	Multi-annual financial framework
MOVE	DG Mobility and Transport
MS	Member States
OECD	Organisation for Economic Co-operation and Development
OLAF	European Anti-Fraud Office
OP	Operational programmes
REGIO	DG Regional and Urban Policy
RRR	residual risk rate
RTD	Research and Technological Development
S3	Smart Specialization Strategies
SCO(s)	Simplified Cost Option(s)
SME(s)	Small and medium-sized enterprise(s)
STG	Stock-Taking Group
TA	Technical Assistance
TEN-T	Trans-European Transport Networks
TFEU	Treaty on the Functioning of the European Union
TO	Thematic objective
UIA	Urban Innovative Actions

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THE DG IN BRIEF

DG Regional and Urban Policy (REGIO) reports to Commissioner Crețu, responsible for Regional Policy. With approximately 700 staff members, the Directorate General is composed of seven directorates: a resources directorate, an audit directorate, a policy directorate and four implementing directorates. The Directorate General's structure and its matrix organisation facilitate internal coordination. The Resources Director is the Director in charge of Risk management and Internal Control.

The activities of the Directorate General are framed by the Treaties on the European Union and on the Functioning of the European Union.

Article 174 of the Treaty on the Functioning of the European Union (TFEU) provides that, in order to strengthen its economic, social and territorial cohesion, the Union is to aim at **reducing disparities** between the levels of development of the various regions and the backwardness of the least favoured regions, and that particular attention is to be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps. To that end, Article 175 establishes the European Structural and Investment Funds (ESIF).

The activities of the Directorate General for Regional and Urban Policy contribute in various ways to most of the Commission priorities. The funds directly support the delivery of key EU priorities, the implementation of country-specific recommendations issued in the context of the European Semester and ensure the necessary investment enabling conditions through the follow-up of ex-ante conditionalities for the 2014-2020 programmes.

REGIO's contribution is particularly significant for the delivery of five of the Juncker Commission's priorities:

- (1) A New Boost for Jobs, Growth and Investment;
- (2) A Connected Digital Single Market;
- (3) A Resilient Energy Union with a Forward-Looking Climate Change Policy;
- (4) A Deeper and Fairer Internal Market with a Strengthened Industrial Base;
- (8) Towards a New Policy on Migration.

The EU is committed to creating more and better jobs and a socially inclusive society. These goals are also at the core of the **Europe 2020 strategy**, which sets the overarching strategic framework for the 2014-2020 period.

REGIO provides support to deliver these objectives, notably through the interventions financed under the **European Regional Development Fund (ERDF)** and the **Cohesion Fund (CF)** which, together with the other European Structural and Investment (ESI) Funds¹, are the European Union's main instruments for investment. Through the ERDF and CF, a critical mass of investment is delivered in key EU priority areas, to deliver structural change and respond to the needs of the real economy by supporting job creation, business competitiveness, economic growth, sustainable development, and by improving citizens' quality of life, thus contributing to the goals of the Europe 2020 Strategy for smart, sustainable and inclusive growth and the objectives of Cohesion Policy enshrined in the Treaty.

In addition, REGIO is also involved in the management of the following instruments:

¹ European social fund (ESF), European Agricultural Fund for Rural Development (EAFRD) and European Maritime and Fisheries Fund (EMFF).

- The **Instrument for Pre-accession Assistance (IPA)**, which is the means by which the EU supports reforms in the 'enlargement countries' with financial and technical help.
- The **European Union Solidarity Fund (EUSF)**, which was set up in 2002 to grant financial assistance to Member States and to countries negotiating their accession to the EU, mainly in the event of major national or regional natural disasters.

These instruments are implemented under different management modes:

Shared management (ERDF and CF; EUSF; IPA-CBC)

Under the shared management mode, the co-legislators fix the legal framework and the overall funding and determine the allocations by Member States and category of region. The Commission adopts the programmes. As regards implementation, the Commission cooperates with Member States' administrations (at national, regional and local level), who are in charge of the operational implementation.

As regards the EUSF, the Commission is responsible for assessing the applications received and – if the applications are accepted – for proposing an amount of aid to the European Parliament and the Council who have to approve it. Once the financial contribution has been paid out, the beneficiary State is responsible for the implementation including the selection of operations and their audit and control.

REGIO is involved in IPA through the management of an envelope of external aid under the instrument's Component II (regional cooperation) in 2007-2013 and under policy area "regional cooperation" in 2014-2020.

The implementation of these funds allows fulfilling the long-term Cohesion Policy objectives of strengthening economic and social cohesion in the European Union. Thanks to the policy's specific features (e.g. alignment of investment to EU-wide priorities, concentration of resources on less developed and transitional regions, multiannual programming, place-based approach, multi-level governance, interregional cooperation), the supported investments bring strong European added value while respecting subsidiarity, as investments of the same size would not be possible under direct management.

Indirect management (IPA and Urban Innovative Actions)

REGIO also manages an envelope of external aid delivered through indirect management under the IPA Component III (regional development) in 2007-2013 and under policy area "regional cooperation" in 2014-2020. In addition, an envelope of EUR 370 million over the 2014-2020 period implemented under indirect management is devoted to Urban Innovative Actions, the objective of which is to identify and test new solutions through pilot projects in cities.

Direct management (technical assistance)

Useful complementary actions facilitating the implementation of the instruments illustrated above also result from a limited share of funding implemented under direct management.

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG Regional and Urban Policy to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties².

a) Key results and progress towards the achievement of general and specific objectives of the DG

In these first years of implementation of the 2014-2020 programming period, the selection of projects to be co-financed by Cohesion Policy is a key step towards a successful implementation of investments. In 2017, the **rhythm of project selection by the Member States has further accelerated**, with an average selection rate reaching 55% for ERDF and CF, as more than EUR 190 billion funding from the programmes³ have already been allocated to **more than 167 000 projects supporting the EU 2020 objectives for jobs and growth**. This represents a notable improvement compared to the level of project selection registered at the end of 2016 (26.1%) and compares favourably to the pace of implementation experienced in the 2007-2013 programming period.

Due to the natural time gap between investment and results materialisation but also in performance reporting by the Member States, the high level of projects selection is yet to be translated into a high level of reported outputs and results. The latest performance information available as reported by the Member States – i.e. the annual implementation reports for the 2014-2020 programmes reflecting the situation at end-2016 shows that **ERDF and Cohesion Fund programmes are delivering across policy areas and Member States**. These add to the remarkable level of achievements registered by the 2007-2013 programmes, the benefits of which are still being felt across Europe.

As the largest source of EU funds to regions, localities and enterprises – representing a substantial share of the total EU budget in 2017 – and a major reliable source of public investment in many Member States during and after the crisis period, Cohesion Policy continue to support the positive trends towards economic recovery and convergence in the European Union observed during the last two years. It played a major role in helping Member States conciliate their fiscal consolidation constraints with the support to long-term investments strategies, which are necessary to sustain the recovery of the European economy and the increasing pace of jobs creation noted since 2013.

In doing so, Cohesion Policy interventions are effectively supporting the delivery of the Juncker Commission priorities, in line with the Investment Plan for Europe, and exploiting complementarities with the European Fund for Strategic Investments (EFSI). Overall, thanks to the interventions co-financed by ERDF and CF, **Cohesion Policy contributed to the EU2020 objectives and to the 10 priorities of the Juncker Commission** mainly through the implementation of 2014-2020 programmes, which concentrate resources on a limited number of policy areas directly contributing to the pursuit of the Europe 2020 strategy, thus maximising the impact of EU investments.

Furthermore, in the context of the evolving political agenda related to Sustainable Development Goals (SDGs), ERDF and Cohesion Fund emerge as the main investment instrument, with 94% of investments relevant for 11 SDGs (see Annex 12).

² Article 17(1) of the Treaty on European Union.

³ Total eligible cost of projects selected up to end 2017.

In addition, Cohesion Policy continue to provide a significant impetus for Member States to implement structural changes and policy reforms, including those linked to Country-Specific Recommendations issued in the context of the **European Semester**, namely through investment targeting areas with structural weaknesses and **ex-ante conditionalities**, which provided incentives to enact policy reforms, triggering strategic, regulatory and institutional changes, and improved the overall investment environment⁴.

In 2017, 99% of 658 actions plans set out to fulfil ex ante conditionalities, applicable to ERDF and Cohesion Fund investment priorities, were completed. For the very few cases of unfulfilled ones, 1 suspension decision was issued and 3 pre-suspension letters were sent out to Member States. Those action plans concern strategic frameworks, plans and reforms in the Member States and regions covering a large range of areas, such as: public procurement, environmental legislation relating to the Environmental Impact Assessment and the Strategic Environmental Assessment, research and innovation, ICT and broadband, promotion of entrepreneurship, water and waste sectors, labour market, health sector, public administration/administrative capacity, etc.

As regards particularly **Jobs, growth and investment**, projects selected up to the end of 2016 plan to create 155 600 direct jobs as a result of SME support, thus sustaining the employment rate in many Member States. ERDF financing was granted to projects supporting more than 450 000 SMEs (84 500 of which have already been completed), thus contributing to productivity and competitiveness of firms.

Cohesion Policy support has been granted to around 30 700 research and innovation projects by the end of 2017, thus ensuring a significant level of investment in this area and positively influencing the gross EU domestic expenditure on R&D.

A wide range of interventions in the area of education (more than 16 500 investments in infrastructure) and of social inclusion have also been granted support by the ERDF and CF, thus contributing towards the achievement of the related headline targets.

Two pilot projects were launched in 2017 to provide tailored support for regions facing industrial transition and help interregional partnerships to develop competitive European value chains. They aim to further help Europe's regions invest in their niche areas of competitive strength (the "smart specialisation" process) and generate the innovation, resilience and growth needed to harness globalisation.

Cohesion Policy's **contribution to the Digital Single Market** through the 2014-2020 programmes is gaining steam. Up to the end of 2017, around 5 500 projects were selected on the ground to support the achievement of a connected Digital Single Market, corresponding to EUR 9.1 billion of total investment (ERDF plus national co-financing). Planned achievements resulting from projects selected up to the end of 2016 notably point to an estimate of close to 1 million additional households that will be covered by broadband access, which will help create the right conditions for digital networks and services to flourish, giving consumers and businesses better access to digital goods and services across Europe, in particular in rural areas.

Notable achievements are also expected to be delivered by projects selected up to the end of 2016 in the area of **energy efficiency and renewables**: more than 2,000 MW of additional capacity of renewable energy production; reduction of greenhouse emissions of close to 3 million tonnes of CO₂ equivalents, thus contributing to climate change objectives, one of the key priorities of the EU.

Cohesion Policy is **enhancing the effectiveness of the Single Market** by delivering support in key investment areas. These investments are notably helping SMEs and start-ups and supporting research and innovation, thus contributing directly to the strengthening of the European industrial base. A significant number of large-scale

⁴ SWD(2017)127 of 31.03.2017 - The Value Added of Ex ante Conditionalities in the European Structural and Investment Funds: http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/value_added_exac_esif_en.pdf

infrastructure projects are also targeted by the 2014-2020 programmes, which are essential for the proper functioning of the internal market.

Cohesion Policy has actively contributed to the Commission efforts towards **effective integration of migrants**, through investments on social, health, education, housing and childcare infrastructure, thanks to more than 3 500 projects already selected and being implemented in the area of social inclusion. In order to give further prominence and increase the focus of investments in support to migrants and refugees, a new investment priority to this effect was proposed for inclusion in the ERDF regulation.

Evidence of the benefits resulting from the implementation of Cohesion Policy was provided by the ERDF-CF ex-post evaluation⁵ and by the 7th Report on Economic, Social and Territorial Cohesion⁶, which showed that every region and country in the European Union benefits from Cohesion Policy, even net payer Member States. Overall, the ERDF-CF ex-post evaluation showed that **1 euro of investment** in the programming period 2007-2013 **is estimated to generate 2.74 euros of additional GDP by 2023**.

Overall, **positive trends** are being registered **as regards most of ERDF/CF specific objectives**, with the rhythm of reported achievements gaining momentum across many investment areas compared to the first performance information communicated by the Member States in 2016.

On the other hand, **some delays** are still noted in the implementation in certain investment areas (e.g. broadband, waste, renewable energy). While these interventions mostly concern physical investments of a significant scale, with a typically long life cycle and results and outcomes visible only at a very advanced phase, they are nonetheless being closely scrutinised and followed-up in cooperation with the Member States affected by implementation difficulties.

Good results have been registered as regards the **definition of a new regulatory framework for the Policy post-2020**. This work took into account the recommendations of the Commission's High Level Group on Simplification for beneficiaries, contributions from all interested stakeholders, analysis of available evidence – including the ex-post evaluation of 2007-2013 programmes, a wide range of studies covering key policy questions and options, conferences/workshops with academics as well as with international organisations, and followed an inclusive approach, encompassing several brainstorming sessions open to all REGIO staff, followed by the setting up of thematic working groups tasked with the drafting of the new proposals. This work will be crystallized in May 2018 into a formal legislative proposal focussed on delivering efficiently the policy objectives while ensuring simplification of the delivery system and an enhanced performance culture.

b) Key Performance Indicators (KPIs)

Progress continues to be registered also in relation to the 4 key policy performance indicators, for which reported achievements have progressed significantly compared to the first reporting (referred to the end of 2015). This is illustrated in the bar charts below (2nd column, 'Progression of achievements').

*The KPI values reported below only concern outputs delivered by the 2014-2020 programmes and should then not be compared to the ones included in REGIO's 2016 AAR, which reflected the outputs delivered by the 2007-2013 programmes. **All reported data***

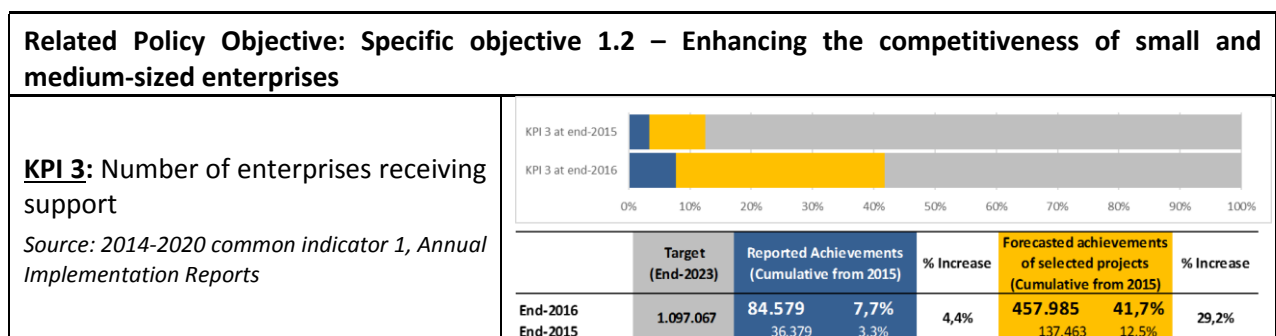
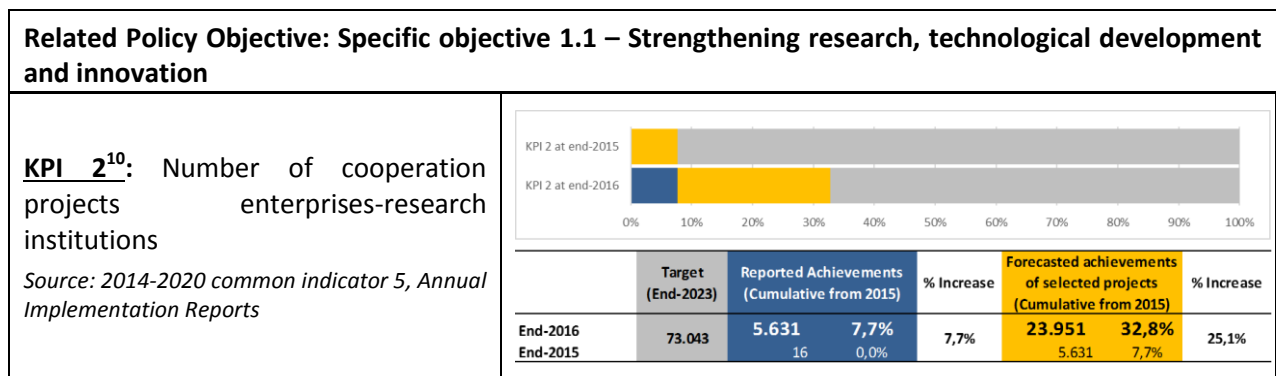
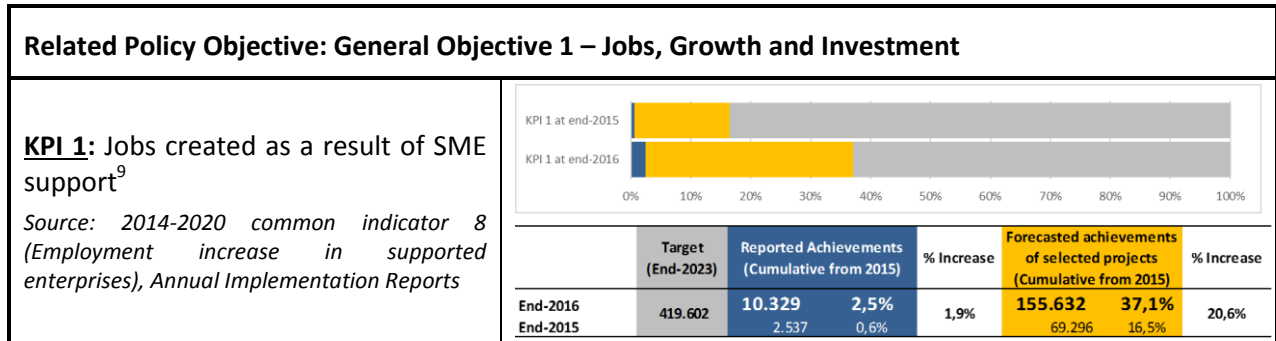
⁵ SWD(2016) 318 final -

http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp1_sw_d_report_en.pdf

⁶ http://ec.europa.eu/regional_policy/en/information/cohesion-report/

⁷ Under "global achievements", we present the sum of all achievements linked to the relevant indicator reported by each operational programme, regardless of whether or not targets had been set. It therefore expresses the most recent available estimate of the total achievements.

(achievements and targets) are available on-line through the ESIF Open data platform⁸ based on indicators reported by the Member States. This platform offers unprecedented transparency and encourages "peer pressure" in reporting reliable data. It promotes transparency, excellence and communication and provides a comparison tool enabling analysis and research.

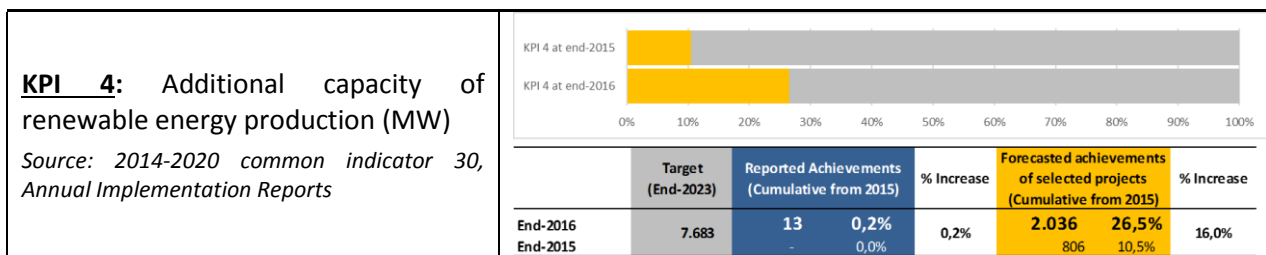


Related Policy Objective: Specific objective 3.1 – Supporting the shift towards a low-carbon economy in all sectors

⁸ <https://cohesiondata.ec.europa.eu/>

⁹ The scope covered by the indicator is reduced compared to previous AARS. In previous AARS, the value associated with this indicator was referred to the 2007-2013 programmes and resulted from the aggregation of all indicators related to jobs creation (employment increase resulting from SME support, jobs created in research, tourism, etc.)

¹⁰ The KPI value disclosed in REGIO AAR 2016 was referred to the 2007-2013 core indicator 24 "Number of enterprises cooperating with supported research institutions"



Key Performance Indicator	Target	Latest known results AAR2017
KPI 5: Residual risk rate in shared management ¹¹	< 2%	1.39 % (OPs 2007-2013) 1.05% (OPs 2014-2020)

Beyond supervising and steering the implementation of programmes in the Member States, DG Regional and Urban Policy also carried out significant policy work in many areas throughout 2017, notably: the Urban Agenda of the EU, the Communication on "Boosting Growth and Cohesion in EU border regions" and the establishment of a related Border Focal Point in REGIO, the contribution to the Interreg Volunteers Initiative (121 young volunteer matches completed) and bottlenecks to growth and development in lagging regions (in the framework of the initiative launched in 2015). A new strategy for the outermost regions was also adopted by the Commission in 2017, seeking to further support these specific regions in sectors such as agriculture, blue economy, circular economy, climate change and energy, to trigger growth and job creation. Several actions foreseen by the strategy have already been implemented in 2017.

c) Key conclusions on Management and Internal control

In accordance with the governance arrangements of the European Commission and in line with its own mission statement, DG Regional and Urban Policy 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.

DG Regional and Urban Policy has revised the structure of its internal control in 2017, following the adoption of the new internal control framework of the Commission, based on international good practice and 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 applicable internal control principles and having due regard to the risks associated with the environment in which it operates.

DG Regional and Urban Policy has assessed the effectiveness of its key internal control systems during the reporting year in line with the Commission's revised framework, taking account of the observations and recommendations addressed to it by internal auditors and by the European Court of Auditors and has concluded that the internal control principles are generally effectively implemented.

¹¹ See risk at payment calculation in footnote 84 page 97. The risk is calculated on the relevant expenditure of the year. The residual risk on the accounts is also below 2% (0.4% for the 2015-2016 accounts and 0.8% for the 2016-2017 accounts).

In addition, DG Regional and Urban Policy has systematically examined the available control results and indicators, including those aimed to supervise Member States and entities to which it has entrusted budget implementation tasks, as well as the related observations and recommendations issued by internal auditors and by 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 (Section 2.1).

In conclusion, management has reasonable assurance that, overall, for direct management, the Solidarity Fund and indirect management, suitable controls are in place and work as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented.

As regards shared management, management has also assurance that suitable controls and corrective capacity are in place and work as intended as regards ERDF/CF and IPA-CBC. The internal control system allowed detecting deficiencies in the management and control systems of:

- 17 programmes of the 2014-2020 programming period. The risk to the EU budget for these programmes is partially mitigated by the 10% retention applied on all interim payments.
- 21 programmes of the 2007-2013 programming period that are under closure. Appropriate additional financial corrections will be applied by the Commission before making payments of the respective balances and closing the programmes. Therefore only limited financial risk occurred in 2017 (in relation to interim payments to 2 programmes) as no final payment was made for any of these programmes yet.

The estimated average error rate at payment for the 2017 relevant expenditure for all management modes and programming periods is approximately 1.1% (last year 1.9% to 3.7%). This includes a risk at payment of 1.39% for 2007-2013 and of 1.05% for 2014-2020 (on the 2017 relevant expenditure). The 2016 assessment of a residual risk below 2% for the 2015-2016 accounts is confirmed, based on the Commission's revised and completed assessment. This lower level compared to previous years is to be put to the credit of the new control and assurance architecture set up for the 2014-2020 period which further protects the EU budget year on year through annual corrective actions to bring the residual risk for each programme each year below materiality. An equivalent set-up protects the EU budget at closure of the 2007-2013 period, since payments of the final balance to programmes were done in 2017 only after having obtained reasonable assurance that any remaining material irregularities have been appropriately corrected. The risk at closure is also estimated at approximately 1.1%.

On this basis, the Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by the following two reservations:

- **A reservation for the 2014-2020 programming period concerning 17 ERDF/CF programmes,**
- **A reservation for the 2007-2013 programming period concerning 21 ERDF/CF programmes (non-financial in 19 cases). The reservation is due to the level of financial corrections that still needs to be applied before closing the programmes.**

d) Information to the Commissioner

The main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Crețu, responsible for Regional Policy.

1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG

1.1 Achievement of general and specific objectives

Cohesion Policy programmes are delivered through shared management. Operational Programmes are agreed with the European Commission once every seven years but can also be adapted whenever the necessity to do so arises; they are implemented over a ten-year period by Member State authorities who report annually on programmes' progress. Policy achievements are the result of a combination of factors – the policy, the quality of implementation by the implementing bodies, the implementation conditions in the Member States, the economic context etc. It should be noted that the effects of the unprecedented economic crisis experienced in recent years, the impact of which are still being felt on the investment capacities of many Member States, have also affected the launch and first years of implementation of the 2014-2020 programmes.

Achievement of general objectives:

The positive trends towards economic recovery and convergence in the European Union observed in 2016 have continued to develop in the course of 2017.

The record high **employment rate of 71.1%** surpassing the pre-crisis levels has become one of the main highlights of the year and indicated that EU is on the right path for achieving the Europe 2020 target of 75% employment rate. Albeit unemployment and, specifically, youth unemployment have still remained a concern for some Member States or some of the less developed and outermost regions, it is expected that continuing economic recovery further stimulated by investments in SMEs and innovation would facilitate increasing convergence.

The **real GDP growth of 2.3%** (EU-28) exceeded the initial forecasts for 2017. This achievement is closely tied to the abovementioned growth tendency on the European labour market. The latter also positively influenced increase in per capita GDP in less developed regions, where the indicator has continued converging towards the EU average. In the meantime, a problem of a "middle-income trap", meaning economic stagnation of regions with close to average GDP/capita, has become more obvious throughout Europe and would require some specific solutions to be tackled effectively.

Overall promising results have been observed for **education and social inclusion** as well as **intra-EU trade in services and labour mobility**, indicating stable progress towards the Europe 2020 targets as well as demonstrating the spill-over effects of economic recovery and convergence processes. The latter however, affected the pace of achieving European objectives in the areas of energy and environment. In particular, **energy consumption and GHG emissions have increased** in comparison to the baseline levels. Being a side effect of the renewed economic growth, these results can also be explained by a cumulative nature of environmental processes, where a longer time span is needed for policies to bring tangible results. Thus, achievement of objectives related to energy union and climate change is expected to accelerate in the following years.

Cohesion Policy contribution

Although European economic recovery is a result of multiplicity of factors, including generally improved conditions on external markets, the role of Cohesion Policy can clearly be distinguished. Thus, substantial growth in employment (+5%) as well as the highest in EU productivity gains have been widely seen in "less developed regions" – the primary recipients of Cohesion Funds. The problem of continuous lack of public investments, and the fact that in 2015-2017 Cohesion Policy provided 41% of government capital investment for the EU-13, bring additional emphasis on the key role of Cohesion Policy for

providing support to the achievement of Juncker Commission's priorities and maintenance of solidarity and unity in Europe. This is especially important given fragile nature of economic recovery as well as some uncertainties in both European and global politics.

Another aspect of Cohesion Policy is the value-added brought by European investments, stimulating improvements in the areas far beyond target regions or member states. These processes are vividly demonstrated by successes of cross-border cooperation projects and Interreg, not to mention general enhancement of economic opportunities due to growing purchasing power throughout the Union and, especially, in less-developed and transition regions. In the same vein, the non-cohesion countries also benefit from spill-overs generated by investment in cohesion countries both directly (through selling investment goods) and indirectly (from increased trade owing to higher income in cohesion countries).

Emphasis on capacity building and support of structural reforms, being underlying elements of Cohesion Policy, allow ensuring long-term benefits of European investments as well as foster systematic changes resulting in creation of a more favourable business environment for all Member States and regions.

An important contribution to the effective delivery of EU-wide goals will also result from the entry into force of the **Omnibus Regulation**, towards which REGIO has relentlessly worked throughout 2017 in cooperation with the Council and the European Parliament. Building on the proposal presented by the Commission in the second semester 2016, this ambitious package will bring further simplification, more flexibility and increased visibility of investments, in line with the orientations of the Budget Focused on Results initiative.

In addition, Cohesion Policy stimulates private investments while directing them towards the areas where these investments are most needed. This is partially achieved through an increased share of funding delivered on the ground through financial instruments including through combination of ESI Funds and European Fund for Strategic Investments (EFSI).

Regarding the crucial role Cohesion Policy plays for both development of and solidarity between Member States, in 2017 REGIO continued its active work to position Cohesion Policy as a major contributor to shaping and delivering EU policies. Thus, given the potential of synergy between ESIF and EFSI, Omnibus proposal has been finalised and become a significant step towards further enabling funds combination. The DG also continuously worked on shaping and reinforcing urban dimensions of its policies, considering the growing pressure on cities brought by changing demographics and environmental pressures. To strengthen cross-border cooperation projects, a new supportive tool in the form of a Border Focal Point has been introduced. In the meantime, the issue of migration and the problem of the stagnating level of employment of third country nationals in EU led the Directorate-General to propose a new Toolkit for the integration of people with a migrant background.

While the impact of Cohesion Policy is particularly substantial in cohesion countries, contributing to a significant convergence of GDP per head, the non-cohesion countries including net payers to the EU budget also benefit from spillovers generated by investments in less rich areas both directly (through selling investment goods) and indirectly (through higher income and therefore increased trade). By 2023, 2007–2013 programmes are estimated to add 0.12% to GDP in non-cohesion countries of the EU.

A growing level of achievements reported by Member States resulting from the implementation of 2014-2020 programmes

Due to the time-gap linked to the Member States' reporting on common indicators, the most recent available information in relation to programmes' achievements reflects the situation at the end of 2016¹². In order to provide a more accurate picture, the comments on policy performance in the following sections also take into account the financial information at the end of 2017, reflecting the state of programmes' implementation on the ground (i.e. selection rate, number of projects selected, expected achievements forecasted

¹² Annual Implementation Reports submitted by Member States in 2017

by selected projects). The same data has also been included in the 2019 programme statements for ERDF and CF.

Reported achievements have remarkably progressed compared to the previous achievement figures reported in the Annual Implementation Reports submitted by Member States in 2016 (and referred to end 2015).

As regards **the Jobs, growth and investment** priority in particular, projects selected up to the end of 2016 plan to create 155 600 direct jobs as a result of SME support, thus sustaining the employment rate in many Member States. ERDF financing was granted to projects supporting more than 450 000 SMEs (84 500 of which have already been completed), thus contributing to productivity and competitiveness of firms.

Cohesion Policy support has also been granted to around 30 700 research and innovation projects by the end of 2017, thus ensuring a significant level of investment in this area and positively influencing the gross EU domestic expenditure on R&D.

A wide range of interventions in the area of education (more than 16 500 investments in infrastructure) and of social inclusion have also been granted support by the ERDF and CF, thus contributing towards the achievement of the related headline targets.

The Cohesion Policy **contribution to the Digital Single Market** delivered through the 2014-2020 programmes is also gaining steam. Up to the end of 2017, around 5 500 projects were selected on the ground to support the achievement of a connected Digital Single Market, corresponding to EUR 9.1 billion of total investment (ERDF plus national co-financing). Planned achievements resulting from projects selected up to the end of 2016 notably point to an estimate of close to 1 million additional households that will be covered by broadband access, which helps create the right conditions for digital networks and services to flourish, giving consumers and businesses better access to digital goods and services across Europe, in particular in rural areas.

Notable achievements are also expected to be delivered by projects selected up to the end of 2016 in the area of **energy efficiency and renewables**: more than 2 000 MW of additional capacity of renewable energy production; reduction of greenhouse emissions of 3 million tonnes of CO₂ equivalents, thus contributing to climate change objectives; one of the key priorities of the EU.

Cohesion Policy is also **enhancing the effectiveness of the Single Market** by delivering support in key investment areas. These investments are notably helping SMEs and start-ups and supporting research and innovation, thus contributing directly to the strengthening of the European industrial base. A significant number of large-scale infrastructure projects, which are essential for the proper functioning of the internal market, will be delivered through the 2014-2020 programmes, in addition to the ones already implemented in the 2007-2013 period which are now supporting the smooth functioning of the internal market through improved connectivity and reduced bottlenecks and helping cooperation among Member States.

[Achievement of specific objectives](#)

Detailed achievements of REGIO in 2017 are presented below under the relevant specific objectives. In line with the DG's Strategic Plan 2016-2020, information concerning achievements is clustered around the Commission priorities towards which REGIO is providing the most significant contributions:

- (1) A New Boost for Jobs, Growth and Investment;
- (2) A Connected Digital Single Market;
- (3) A Resilient Energy Union with a Forward-Looking Climate Change Policy;
- (4) A Deeper and Fairer Internal Market with a Strengthened Industrial Base;
- (8) Towards a New Policy on Migration.

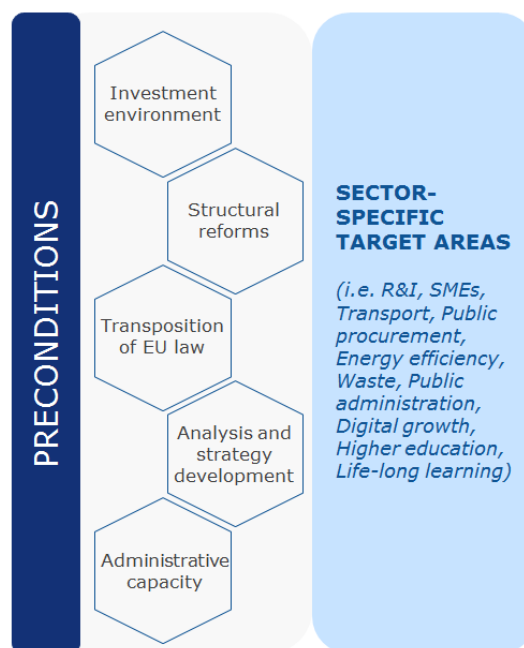
The analysis and performance information presented in the sections below mainly result from the Member States' reporting on common indicators (regarding the implementation of 2014-2020 programmes, in line with the performance framework embedded in REGIO's Strategic Plan for 2016-2020). This information is an important tool for assessing the achievement of objectives associated with ERDF/CF operational programmes.

Indicator values revealed by Member States are also supplemented by the assessment of policy achievements contained in the management declarations provided by the relevant Authorising Officers by Sub-Delegation (AOSDs). This assessment takes into account all the available evidence regarding programme performance.

In order to provide a more accurate picture, the comments on policy performance in the following sections also take into account the financial information at end 2017, reflecting the most recent state of programmes' implementation on the ground.

The mapping of the corresponding specific objectives and details about all the related performance information are provided in Annex 10.

In addition, the report highlights **non-financial contribution of REGIO** geared towards the achievement of specific objectives and, consequently, fulfilment of the Commission's priorities. This includes ex-ante conditionalities, integrated territorial solutions, capacity building, cooperation mechanisms and technical assistance, which are all instrumental in ensuring proper investment conditions as well as durability of results and systematic character of changes triggered by support from the Structural Funds. The Funds are fully aligned with EU economic governance thereby contributing to the virtuous triangle of investment, structural reforms and responsible public finances. Ex-ante conditionalities have been instrumental for the creation of favourable legislative and structural conditions for sound investments with positive spill-over effects beyond the immediate remit of Cohesion Policy. The rare cases (8) of unfulfilled ex-ante conditionalities have also constituted a ground for suspending interim payments to affected (parts of) programmes. One suspension decision has been adopted while for the remaining few cases pre-suspension letters for such unfulfilled conditionalities have already been issued or are in the pipeline. The effects of non-financial contribution on a smoother delivery of results can be illustrated through the mechanism of ex-ante conditionalities (picture on the right) that, setting preconditions linked to certain general outcomes (i.e. improved investment environment, enhanced administrative capacity etc.) target relevant sector-specific issues which are considered to be the main leverages in delivering Commission's objectives on the ground.



1.1.1 Achievement of specific objectives linked to European Commission priority 1 – Jobs, Growth and Investment

DG Regional and Urban Policy is contributing significantly to the Juncker Commission's top priority to create jobs, enhance growth and stimulate investment in Europe. This is being done notably by investing a critical mass of funding into the real economy and enacting structural change to remove obstacles to investment. In order to maximize the impact of the funds, resources concentrate on key investment areas and growth bottlenecks. As a result, the policy is now focused more on smart growth, including research and innovation,

information and communication technologies, Small and Medium-sized Enterprise (SME) development and the low-carbon economy, while ensuring that basic infrastructure in less developed regions is also supported where needed.

Contribution resulting from the implementation of 2014-2020 programmes

Up to the end of 2017, 167 943 projects were selected on the ground for kick-starting growth and job creation, corresponding to EUR 193.5 billion of total investment (ERDF and CF plus national co-financing). These projects are notably expected to produce benefits in many of the key areas with the greatest growth potential. This will be done by supporting more than 450 000 enterprises, improving research infrastructure for 8 000 researchers, reconstructing or upgrading more than 1 000 km of railway lines, ensuring a better conservation status for habitats extending over 4 million hectares, providing improved health services for more than 13 million people.

Close to 170 000 projects selected on the ground at end 2017 for kick-starting growth and job creation

corresponding to more than EUR 194 billion of total investment (ERDF/CF and national co-financing)

The main results reported by Member States in the various investment areas are set out below.

Research, technological development and innovation

An estimated EUR 33 billion has been allocated to specific research and innovation projects under the ERDF programmes to the end of 2017, representing 54% of the EUR 61.6 billion planned – a significant increase from 26% at end 2016.

Through selected research and development projects carried out by enterprises and receiving support from Cohesion funding, it is expected that close to 8 000 research jobs will be created (in FTE terms).

Number of enterprises cooperating with research institutions



more than **5 600**
completed up to end 2016

Many of these projects will provide funding for Research and Technological Development (RTD) infrastructures and centres of competence throughout the 2014-2020 programming period, contributing to improve research facilities across Member States. Through selected projects, more than EUR 2 billion of private investment in the area of research and innovation will be leveraged.

Several common indicators of research investment are showing encouraging trends, with 636 new researchers already supported; 5 812 researchers already benefitting from improved research infrastructures and more than 5 600 enterprises are cooperating already with research centres across the EU.

These were mainly in Competitiveness regions in the EU15, reflecting the significant share of funding allocated to this in the concerned programmes.

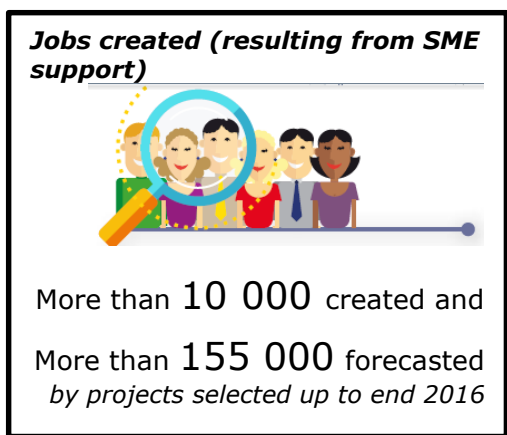
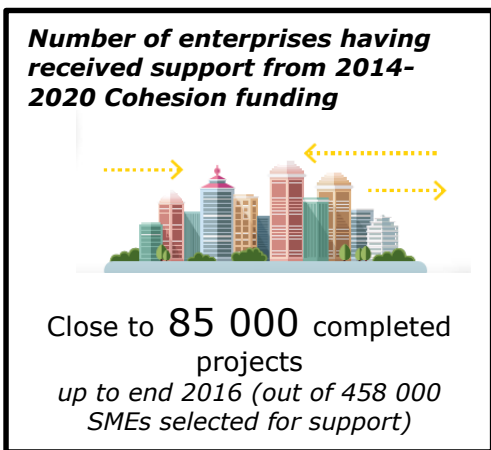
Enterprise support (including access to finance)

A substantial share of 2014-2020 Cohesion Policy funding is devoted to improving the business environment and supporting entrepreneurship. Enterprises are supported across the funds to increase their competitiveness, develop products, find new markets and create new jobs, with particular emphasis on innovation and high growth firms and programmes aimed at supporting the innovative capacity of Small and Medium-sized Enterprises (SMEs). The wide range of support on offer to SMEs is also crucial to achieving a deeper and fairer internal market with a solid industrial base.

As the main source of job creation among all interventions co-financed by the ERDF, these interventions have been key in tackling the effect of the crisis in recent years and in kick-starting jobs and growth throughout Europe. In addition to the effects resulting from the investments of the 2007-2013, and which are still being felt in the real economy, encouraging results have been reported by Member States. An estimated EUR 31.3 billion has been allocated up to the end of 2017 to improve the competitiveness of SMEs under the ERDF programmes, representing 64.2% of the EUR 48.8 billion planned. This represents a twofold increase compared to the 31% selected at the end of 2016.

ERDF financing was granted to projects supporting almost 458 000 SMEs (84 579 of which have already been completed). Amongst those decided projects:

- more than 200 000 of those companies will be supported with advice and counselling (which corresponds to 45% of the final target);
- more than 70 000 start-ups have been selected for support (46% of target), with projects already completed benefitting more than 16 800;
- by the end of 2016, 155 600 jobs were expected to be directly created in the supported firms (37% of target), more than 10 000 of which were already reported as created;
- more than EUR 9.5 billion of private investment will be leveraged through projects selected up to the end of 2016, matching public support to enterprises (grants and non-grants), with EUR 0.6 billion already achieved.



Furthermore, in line with the objectives of the Juncker Commission Initiative "**Investment Plan for Europe**" and the Commission's Work Programme, access to funding notably for SMEs and investors has been reinforced. Important progress has been made towards **doubling the amount of investments delivered through financial instruments** (FIs) compared to 2007-2013. Current planning shows that EUR 20.1 billion of ERDF and CF, equivalent to 8% of the total allocations, is planned to go to financial instruments. In doing so, Cohesion Policy is providing a key contribution to one of the main objectives of the Investment Plan for Europe.

Important work was also carried out with a view to foster the **ESIF/EFSI complementarity**, the focus being put on promoting and explaining the potential for such synergies, including developing model templates for usefully combining EFSI and ESIF in certain investment areas. Beyond that, Cohesion Policy is also supporting the Investment Plan for Europe by supporting investment and **improving investment conditions** across the EU.

The latest data provided by Member States on the progress in setting up financial instruments, referred to the end of 2016, demonstrates an overall positive trend and that more FIs are becoming operational. The total OP ERDF and CF contribution committed to FIs was EUR 9.9 billion, with a total of EUR 3 billion (or 30%) of the amounts committed already paid to FIs (compared to EUR 1.1 billion at the end of 2015).

The information available indicates that the share of funding by investment area is globally in line with the indicative targets set by the Plan for Europe. The largest share of funding, nearly 52% is assigned to support to Small and Medium-sized Enterprises (SMEs), which was already the key area of investment by FIs in past programming periods. 17% are used for investments in low carbon economy, while an increase in demand is registered for support to energy efficiency and renewable energy investment. Innovation and R&D have commitments of 20%, demonstrating comparatively high interest in Member States.

Expected leverage of additional resources as reported by the Member States demonstrates the ability of ERDF and CF FIs to pursue wider Cohesion Policy objectives, mobilising and attracting private capital for the benefit of final recipients.

The contribution of the SME Initiative to the recovery in Spain

The SME Initiative was launched in Spain in December 2014, with an ERDF contribution of EUR 800 million. The Initiative yielded successful results in terms of absorption (96% of the allocations already committed), meaningfully contributing to the economic recovery in Spain.

The SME Initiative has mobilised by now more than EUR 3.6 billion in loans, benefitting more than 40 000 SMEs, more than 15 000 of which are start-ups.

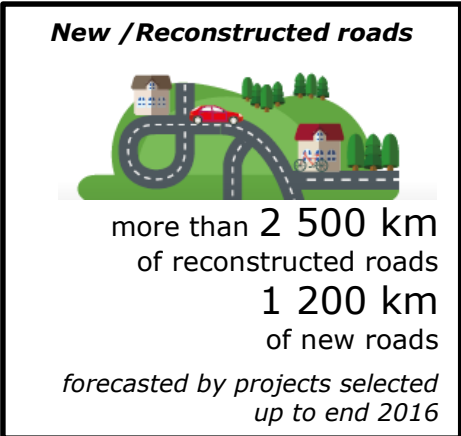
It is however to be noted that some issues of compliance were noted in 2017, which are described in part 2 of the AAR (section 2.1.1.1.A.1 and footnote 27).

Sustainable transport

Investment in transport will remove bottlenecks, reduce travel times and lead to more urban trams and metros. By 2023 the programmes plan to renovate more than 4 600 km of Trans-European Transport Networks (TEN-T) railway lines, construct 2 000 km of new TEN-T roads and construct or improve 680 km tram and metro lines. Up to end 2017, an estimated EUR 43.7 billion has been allocated to network infrastructure projects under the ERDF and Cohesion Fund programmes, representing 61% of the EUR 71.6 billion planned.

In relation to rail-related investments, the principal objective is the reconstruction of important part of the existing networks. The already selected projects will modernise nearly 990 kilometres of railway (14% of the target) mainly in Hungary, Lithuania, Poland and Sweden. Within the selected projects, 687 km of TEN-T railway lines will be reconstructed (15% of the TEN-T rail target) so far mainly in HU, LT, PL.

In relation to improving accessibility across the European national and regional road networks, over 2 500 km of road will be reconstructed under already selected projects (25% of the target), of which 550 km are part of the road TEN-T network (67% of the target). The largest values linked to selected projects mainly occur in Bulgaria, Czech Republic, Greece, Lithuania, Poland and Slovakia. An important volume of new roads are also planned, essentially in less developed regions, with more than 1 200 km already selected (38% of target) including 830 km of new TEN-T roads and motorways (41% of target).



The level of reported achievements has not yet gained steam, due to the long life-cycle of investment related to large infrastructure projects. The most notable results so far concern reconstructions or upgrades of existing infrastructure, with close to 100 km of reconstructed railway lines and more than 300 km of reconstructed roads, of which 217 km of TEN-T roads.

Environment protection and infrastructure

Progress was also noted in the area of environment protection and promotion of resource efficiency, as estimated EUR 24.4 billion was allocated to projects under the programmes supported with ERDF and the Cohesion Fund to the end of 2017, representing 53% of the EUR 45.9 billion planned.

Planned investments are expected to deliver significant results in key areas:

- around 3.6 million citizens will benefit from improved drinking water supply (28% of target);
- The waste water of 5.4 million citizens will see improved treatment reducing environmental impact (32% of the target);
- 4 million hectares of habitat are now targeted with conservation measures (22% of the target).

On the other hand, progress is still slow as regards the objectives linked to the increase of waste recycling capacity, as projects selected so far only cover a modest fraction of the expected target.

Contribution resulting from support to structural reforms, investment conditions and effective implementation

DG Regional and Urban Policy's contribution towards the achievement of jobs, growth and investment in 2017 also included important non-financial contributions, in line with the policy framework introduced as part of the reforms for the 2014-2020 period.

To this end, the policy provides substantial resources to undertake **structural reforms and address structural challenges** linked to investment-relevant country specific recommendations (CSRs). Relevant CSRs were notably a focal point for effective programming and are reflected in the adopted Partnership Agreements and programmes. The major bulk of challenges identified in recent CSRs (all that were relevant to the ERDF and CF, see annex 11 the contribution of DG Regional and Urban Policy to the CSRs) have already been addressed by targeted investment in the 2014-2020 programmes or have been tackled through the enforcement of **ex-ante conditionalities (ExACs)**, which set out sector-specific and horizontal conditions to ensure effective spending. Pre-conditions in this area related in particular to (1) Research and Innovation/Smart specialisation strategies; (2) SME/Small Business Act; (3) Water, waste and EIA/SEA legislation.

The implementation of ex-ante conditionalities in 2017 allowed tackling bottlenecks to investment, and contributed to deliver the third pillar of the Investment Plan for Europe. ExACs provided an impetus for Member States to implement structural changes and policy

Using ExACs to implement structural reforms, including those linked to Country-Specific Recommendations:

In **Poland**, improving the business environment via the reduction of administrative burden related to delivery of permits for infrastructure projects (CSR 2013-14) reducing obstacles to investment in railway by improving the administrative and technical capacities of the railway sector.

In **Latvia**, consolidation of research institutions by linking financing to performance and in higher education to focus better education to the needs of the economy; incentivising innovation and private investments (target = share of innovative enterprises up to 40%); improve quality of vocational education and training through consolidating the school network, updating the curricula and expanding the work-based learning components; and improving efficiency of the judicial system by strengthening the capacity of law enforcement agencies and development of e-justice.

In **Slovenia**, in the framework of ExAC Research and innovation, strategic innovation partnerships were established. Their main role is to support stakeholders in the R&D and innovation process, inter alia, through administrative procedures. The processes used by the public administration which have impact on businesses have been simplified. This responded to the 2016 CSR: "Take measures to modernise public administration and reduce the administrative burden on business. Improve the governance and the performance of state-owned enterprises".

reforms, including those linked to Country-Specific Recommendations issued in the context of the European Semester. They effectively addressed delays and shortcomings in transposition of the EU acquis in some Member States (e.g. in the energy, water and waste sectors), thereby improving the quality and legality of public and private investments in general, not only those co-financed by ESI Funds. The analysis carried out on 2017 CSRs has shown that no reprogramming of ESI Funds is necessary for the time being.

Work has also continued throughout 2017 to support the rolling out of the 121 **smart specialisation strategies** officially drawn up in the concerned Member States and regions, mobilising more than EUR 120 billion of ESI Funds and national/regional resources and aiming to leverage considerably more private investment.

In addition to the support provided through the Smart Specialisation Platform, a notable achievement was also the adoption of the Commission **Communication on Strengthening Innovation in Europe's Regions** – Strategies for resilient, inclusive and sustainable growth¹³ and its accompanying staff working document. This places smart specialisation in the wider context of harnessing globalisation and structural reforms. It also enhances the role of Cohesion Policy in achieving the jobs, growth and investment, Energy Union Circular Economy, and Digital Single Market priorities. It built on a wide stakeholder consultation process, which was finalised at the Smart Regions 2.0 international conference in Helsinki with the participation of 750 representatives of regional authorities, businesses and researchers from all EU countries. As a follow-up to this, Communication two pilot actions have been launched: on interregional innovation partnerships and industrial transition that will also provide lessons for the post-2020 Multiannual Financial Framework (MFF) regulations.

Examples of EU added value

Finland – Sohjoa: automated robot bus

SOHJOA aims to set Finland in the fast lane of the development of automated road transport systems. The project will create an open innovation platform that companies can utilize to develop new product and service ideas. Sohjoa addresses the challenges of new growth industries as well as sustainable intelligent transportation development. This is accomplished by bringing autonomous electric buses to operate as part of the pilot innovation platforms. These buses have the potential to reduce operating costs, lower the overall emissions and offer better service to the mobility customer. In an open innovation environment Sohjoa stimulates the interaction and cooperation between various actors (companies, research centres, municipalities and end-users), in line with the place-based approach, that is facilitated by the Cohesion Policy. Total investment for the project is EUR 553 417, with the EU's European Regional Development Fund contributing EUR 224 957. The Sohjoa-project was a RegioStars2017 finalist.

Netherlands – Supporting research and innovation in the private sector

Up to 335 million EUR from the ERDF in the Netherlands is foreseen under TO1 "Strengthening research, technological development and innovation". The four programmes are stimulating investments in research and innovation in the private sector, among others, by providing loans, grants or guarantees for the development of new products and services, by setting-up living labs or by facilitating cooperation between SMEs and research institutions. By the end of 2016, these investments supported 300 enterprises to cooperate with research institutions and 1 000 SMEs to introduce new products to the market. The ERDF investments also triggered 145 million of additional private investments, which is a clear example of the capacity of Cohesion Policy to foster the pooling and leveraging of finances from different EU and national sources, thus providing a clear added value compared to purely national resources.

Lithuania – Business and science cooperation to develop environment-friendly products

¹³ (COM(2017)376 final)

The project ECODECO emerged as an answer to the increasing focus of wallpaper consumers on environmental impacts of products purchased. Currently, almost all the wallpapers on the market have been manufactured using paint on the basis of plasticized polyvinyl chloride (PVC), which creates major environmental problems. Within the framework of the project, the scientists of VEIKA UAB are developing a completely new wallpaper base for paints that does not contain any PVC and plasticizer, in view of placing it on the market. The ERDF played a key role to make this project possible, by providing decisive financial support as well as a cooperation framework between businesses and scientific players on an EU priority such as the environmental protection. The total budget of the project is EUR 2.3 million, half of which is being financed by the ERDF.

Greece - Maximising the impact of public investments through ESIF/EFSI combination

Approximately EUR 260 million will be available to EQUIFUND, a new financial instrument that aims to facilitate access to finance for entrepreneurs in the whole territory of Greece. This new initiative will kick-start investments into accelerator funds and support early stage start-up companies to mature growth companies and technology. EUR 200 million come from the ERDF-supported Operational Programme Competitiveness, Entrepreneurship and Innovation 2014-2020. This amount will be complemented by EUR 60 million co-invested by the European Investment Fund (EIF), which includes up to EUR 10 million from EFSI supported resources. By attracting private capitals, the Fund will help entrepreneurs turn their ideas into concrete projects with high value added, for the direct benefit of the Greek real economy. This further confirms the added value of Cohesion Policy in fostering the pooling and leveraging of finances from different EU and national sources.

1.1.2 Achievement of specific objectives linked to EC priority 2 – A Connected Digital Single Market

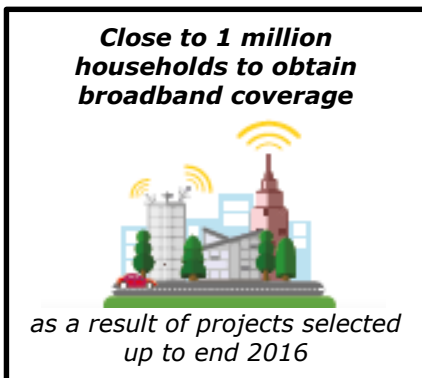
ERDF is the most important EU funding source for making the Digital Single Market happen and deliver on its economic and societal potential. Cohesion Policy provides overall EUR 20 billion in the current programming period. In particular reaping the benefits of the digital economy, better addressing societal needs through e-government solutions and providing affordable access to high-speed broadband and ensuring e-inclusion are the focus of ESIF programmes. The aim is also to achieve efficiency gains thanks to e-government solutions, smart energy and transport solutions. ESIF deliver tailored support on the ground matching local needs and opportunities. There are in total 209 ERDF operational programmes with Digital Single Market related allocations (including 36 Interreg programmes).

Significant funding is notably earmarked for the development of e-government, Information and communication technology (ICT) services and applications for SMEs, high speed broadband, smart grids and intelligent energy distribution systems, and large scale data centres.

Contribution resulting from the implementation of 2014-2020 programmes

Project selection in the areas contributing to the Digital Single Market has progressed at a sustained pace throughout 2017. Up to end 2017, around 5 500 projects were selected on the ground to support the achievement of a connected Digital Single Market, corresponding to EUR 9.1 billion of total investment (ERDF plus national co-financing), representing 47% of the EUR 19.3 billion planned. This is a significant increase from only 19% selected at the end of 2016, when project selection in this area was still lagging compared to the overall average of selection of 28%.

Close to 5 500 projects selected on the ground by end 2017 to support the achievement of a connected Digital Single Market
corresponding to EUR 9.1 billion of total investment (ERDF plus national co-financing)



Through these projects, close to 1 million additional households (mainly in France, Greece, Croatia, Hungary, Italy, Latvia, Slovakia and United Kingdom) will obtain broadband coverage, thereby contributing to increasing the competitiveness and economic growth of concerned areas. Overall, interventions that will be co-financed through the available funds will extend the broadband coverage to 14.5 million additional households by 2023.

The other main activities supported include e-government actions (aimed at reforming delivery of public services and e-procurement) and e-commerce in SMEs, for which no common indicators were however defined.

While notable progress has been registered across several Member States in the second half of 2017, some difficulties have slowed down the implementation of broadband projects in the early stages of implementation. While the needed approval of DG COMP on state aid delayed broadband investments in some cases (e.g. France), delays were mainly the consequence of shortcomings in the cooperation with operators in place in order to plan and implement viable projects (Czech Republic, Slovakia) and to carry out the required appropriate mapping. Close monitoring in cooperation with DG CNECT and DG COMP was put in place, so as to ensure that issues can be effectively tackled and in order to ensure the conditions for effective progress towards the set EU targets.

A shift from a classic ICT sector approach to comprehensive digital strategies stimulated by targeted ex-ante conditionalities

The application of targeted ex-ante conditionalities has encouraged the shift from a classic ICT sector approach to a comprehensive local/regional/national 'digital agenda', requiring regions to identify ICT investment priorities relevant for their territory. In order to optimise the impact of ICT investments under the ESI Funds, Member States and regions were obliged to develop two strategies before making any digital investments using the Funds:

- For 2014-2020, national and regional authorities devised a strategic policy framework for digital growth within their broader research and innovation strategies in order to receive funding for investments in ICT products and services.
- Each Member State planning to use the Funds for broadband investments also developed a Next Generation Network Plan that identified where public intervention was necessary to provide broadband access.

Strengthening digital strategic governance in Member States:

In **Italy**, about EUR 2.6 billion in investments are planned in digital growth in 2014-2020. Digital divide is one of the major gaps between the Italian regions (especially in the Mezzogiorno) and the rest of Europe. In reply to a relevant ExAC, Italy has adopted a **Strategy for Digital Growth**, which intends to:

- bring connectivity with a minimum of 100 Mbps for up to 85% of the Italian population;
- guarantee coverage of at least 30 Mbps to all citizens;
- cover at least at 100 Mbps offices and public buildings;
- bring high speed broadband in the industrial areas.

This work has produced significant results in several Member States, as shown by the example illustrated in the box on the right.

In addition, targeted actions aimed at improving the administrative capacity of programme authorities in this area have been and continue to be implemented. Among other initiatives, a network of **Broadband Competence Offices** (BCOs) was created across Member States, supported by a Brussels-based facility, which was officially launched in November 2017 and is now fully operational. Through single points of contact within the Member States, this network provides information and/or advice to any public authority

wishing to roll-out high-speed broadband, as well as any potential broadband project promoter enquiring about the EU/national/regional funding available for broadband.

All these actions are expected to help improve the digital performance of regions and Member States, thus positively contributing to the attainment of the target set for the impact indicator capturing digital competitiveness of Member States. Through the BCOs, the Commission and the participating Member States notably aim at addressing the urban-rural digital divide by extending broadband in rural areas, by deploying a set of actions (the "Toolkit for rural broadband") which should help roll out high-speed broadband connections to 18 million rural citizens by 2020.

Examples of EU added value

Estonia – X-Road

Since 2001, X-Road has been the backbone of e-Estonia. It is the invisible yet crucial environment that allows the nation's e-services databases, both in the public and private sector, to link up and operate in harmony. Today, thanks to X-Road, more than 1 000 inter-connected databases covering some 1 700 services helps answer more than 50 million enquiries every month. An EU-funded project "The Cross-Border Cooperation of the X-Road" created a joint data exchange platform between Estonia and neighbouring Finland. As a result, databases in both countries can interface, assist with cross-border services and make e-services accessible to both Estonian and Finnish citizens. Total investment for the project "The Cross-Border Cooperation of the X-Road" is estimated to be EUR 352 000, totally financed through ERDF support.

Malta – Sintegram project

The project aims to develop and implement a national spatial data infrastructure and enhance the capacity of geo-spatial/GIS technology expertise for Malta. The project ensures that the underlying aerial, terrestrial and bathymetric infrastructure and knowledge gain is made available to all government entities in order to deliver the relevant analytical framework as per national, EU and other international obligations and requirements. The project has a total budget of EUR 7 million, 80% of which financed by ERDF and 20% through national funds: then, Cohesion Policy provides here a substantial financial support, making possible an investment in infrastructure which would not have taken place otherwise in a Member State for which the level of public investment has been low during the last years.

Croatia – Digitalisation of schools

The goal of the project, supported by EUR 102.9 million from the ERDF, is to strengthen ICT in public primary and secondary schools. ICT equipment will be implemented in 850 out of 1 100 public schools. The project consists of 2 phases: an ongoing pilot phase covering implementation of ICT infrastructure in 150 schools and a second phase of major project preparation. With the major project, the remaining 700 schools will be equipped. In parallel, an educational content is being developed, teachers are going through training to adopt new technology (ESF supported part of the project) and school processes are being digitalised (e.g. digital diary, communication platform for parents, etc.). This is a clear example of the added value of ERDF interventions in directing funds towards the educational sector as well as towards digital infrastructures in a Member State that entered into EU just in 2013 and that has showed a low level of public investment in the past years.

1.1.3 Achievement of specific objectives linked to EC priority 3 – A Resilient Energy Union with a Forward-Looking Climate Change Policy

Achieving an Energy Union will ensure security, affordability and sustainability of energy supply in Europe, while also making the Union less dependent on international market and external sources of energy raw materials. In addition, diversified production with growing share of renewables, more sensible energy use and implementation of measures aimed at

mitigating climate change, will foster job creation and guarantee sustained increase in the quality of life across all Member States.

Cohesion Policy has a key role in making the Energy Union happen and reaching the EU 2020 and 2030 climate and energy targets. This includes significant financial allocations, in particular from the ERDF and CF, constituting the single biggest EU funding contribution in this area with EUR 69 billion of investments related to various dimensions of the Energy Union and EUR 8 billion for climate change adaptation measures.

Contribution resulting from the implementation of 2014-2020 programmes

The 2014-2020 programmes focus on three main types of investments, namely:

- low-carbon economy (including renewable energy and energy efficiency, including of public and residential buildings and enterprises, in particular SMEs);
- climate change adaptation and risk prevention (including flood prevention and nature based solutions such as green infrastructure);
- smart energy infrastructure (distribution grids, transmission and storage) as well as energy-efficient, low-carbon mobility.

Project selection rate in the above mentioned areas grew steadily in the course of 2017. Thus, 18 871 projects in the area of low carbon economy have been selected and either will be or are already being implemented on the ground. This represents 45% of the final value and covers EUR 2 486.1 billion of ERDF-CF investments. For investments targeting climate-related goals, the total of 2 975 projects have been selected, representing 55% of the target value and more than EUR 599.3 million of European investments. In the area of smart energy infrastructure and sustainable mobility, 3 888 projects or 60% of the target value, have been selected and are entering the implementation phase.

More than 21 000 projects selected on the ground to support the shift towards low carbon economy and Europe's climate action
=
Total investments of about EUR 32 billion (ERDF/CF plus national co-financing)

In addition to the substantial progress in terms of selection, some tangible results have already been achieved on the ground and reflected in the corresponding indicator values. Some examples, resulting from the projects selected up to end 2016, include:

- decrease in primary energy consumption of public buildings by 14 943 216 kWh/year (planned targets associated with selected projects should allow a decrease of 687 821 491 kWh/year, which is equivalent to the annual energy consumption of 161 000 households);
- improved energy consumption of about 42 000 households (planned targets associated with selected projects should allow improving the energy consumption of around 154 000 households);

Around 15 000 people covered by improved flood protection mechanisms (planned targets associated with selected projects should lead to improved flood protection mechanisms for more than 27 million people).

Given the time delays associated with reporting on achievements that could be captured by indicators, it can be stated that the actual results of projects' implementation in the area of Energy Union and climate change are already much more significant. In addition, certain types of investments (i.e. renewable energy production or low-carbon transport) are expected to demonstrate results towards the end of the programming period as they are linked to the projects with a longer time-frame (including building of physical infrastructure). Once finished, however, these will make a substantial contribution towards achieving the Energy Union and Europe's ambitious targets in reducing GHG emissions.

Examples of EU added-value

FRANCE – Thermal Smart Grid

By capturing energy from the sea surrounding the port of Marseille, Massileo – a thermal smart grid powered by 75% by renewable energy and partially financed through ERDF – provides sustainable energy to the 2.7-hectare Îlot Allar eco-district with over 58 000 m² of offices, shops, homes and hotels. The Massileo project has already allowed reduction of CO₂ emissions by 80%, which in fact represents only a fraction of the project's full capacity. With a heat/cold production power of 21 MW, the smart grid can provide energy to 500 000 m² of built area, and reduce emissions even further. The energy transition away from fossil fuels is a driver of the smart specialisation strategy of the Region Provence-Alpes-Côte d'Azur. This project clearly demonstrates the specific added value provided by the enforcement of the related ex ante conditionality towards improving the quality of investments.

POLAND – Energy efficiency of public buildings

By supporting switch to renewable energy sources, the ERDF-supported project is aimed at increasing energy efficiency of public utility buildings of the Winnica Commune (Mazowieckie). As a result of the planned interventions, greenhouse gas emissions are expected to decrease by 505.9 tonnes of CO₂ equivalent, while savings in annual primary energy consumption are estimated at the level of 2 066 092 kWh/year. This project demonstrates the added value of ERDF/CF in promoting the alignment of national investments to EU priorities, allowing addressing global challenges in a more efficient way.

BELGIUM – Bio Base Europe Pilot Plant

Bio Base Europe Pilot Plant, located in Ghent, is an ERDF-financed independent, state-of-the-art facility that operates from a laboratory level to a multi-ton scale. Bio Base Europe Pilot Plant is a service provider for process development, scale-up and custom manufacturing of bio-based products and processes. A wide and flexible spectrum of modular unit operations translate bio-based lab protocols into viable industrial processes. In this way this project is contributing to the Belgian EU 2020 target of increasing by 13% the share of sustainable energy in the total energy consumption and the reduction of 18% of the consumption of primary energy. The project is contributing to implementation of the Flemish regional smart specialisation and innovation strategy within the cluster domain of sustainable chemistry. This is a clear example of how ERDF programming maximises the territorial dimension of the policy, allowing the identification of local assets, potential and development needs as well as the design and implementation of investment strategies aligned to EU priorities.

MALTA – Renewable energy in a domestic sector

The project, benefiting from a total allocation of EUR 60 million including from ERDF/CF, covers various measures targeting renewable energy and energy efficiency. In particular, a scheme to promote the use of photovoltaic systems in the domestic sector has been launched: 4 165 grants to households in over 68 localities have been offered to date and the number continues to grow. ERDF/CF provided a decisive financial help towards the deployment of such a substantial support scheme, which could not have taken place otherwise in a Member State having experienced low levels of public investment during the last years.

Contribution from the European Solidarity Fund (EUSF)

Members States and regions are increasingly confronted with natural disasters which can be often linked to climate change. The EUSF offers support where the damage caused by these disasters goes beyond their national capacity to address them. In 2017, the Commission received 10 new EUSF applications notably including requests from Greece (Lesbos and Kos earthquake 2017), Portugal (2017 forest fires) and France (hurricanes Irma and Maria of 2017). The EUSF contribution can be used for emergency and recovery operations in the area of basic infrastructure, assistance to the population, provisional housing, protection of the cultural heritage and cleaning up operations. Support from the EUSF helps to increase the resilience from Member States and regions to address the consequences of these natural disasters. In 2017, the EUSF demonstrated the EU

solidarity to several Member States, including United Kingdom, Cyprus, Portugal and Italy. The biggest ever contribution of EUR 1.2 billion was paid to Italy, as part of the EU aid package to the country following the series of devastating earthquakes in Umbria, Lazio, Marche and Abruzzo in 2016/2017.

Non-financial contributions aimed at improving investment conditions and accompanying effective implementation

DG Regional and Urban Policy also supports the Commission's energy and climate priority through non-financial contributions, with a wide range of the available instruments (ex-ante conditionalities; integrated territorial solutions; capacity building; cooperation mechanisms and technical assistance). Ex-ante conditionalities (ExACs) play an important role, being geared towards particular sector-specific barriers in areas such as:

- smart energy distribution, storage and transmission systems;
- energy efficiency;
- cogeneration;
- renewable energy;
- risk prevention and management.

Through defining certain preconditions in the above mentioned areas, ExACs along with other measures ensure effectiveness of public investments, durability of results and systematic character of changes triggered by support from Structural Funds.

Ensuring the best conditions for quality projects

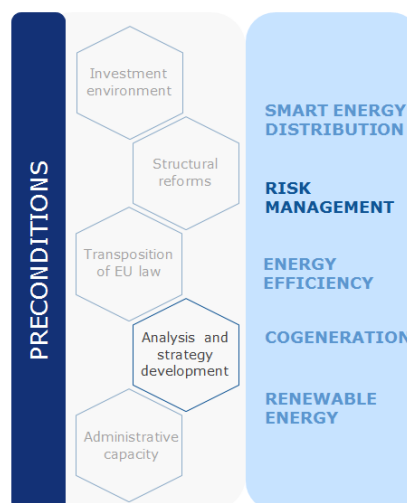
ExACs to frame and target support from ESI Funds

In **Slovenia**, the *risk prevention and risk management ExAC* led to the preparation and timely adoption of the National Adaptation Strategy (NAS). In particular, Strategic Framework for Climate Change Adaptation set a vision for Slovenia 2050 and provided the overall long-term objective for increasing the country's climate resilience and adaptability. Clear formulation of goals as well as strategic guidance on the steps necessary to achieve them, created the proper framework for effective and targeted application of ESI funds as well as other public funds.

In **Croatia** and **Latvia** *risk prevention and risk management ExAC* incentivised acceleration of the preparation of National Adaptation Strategy. Furthermore, in the **Czech Republic**, the national adaptation action plan has been developed, leading to prioritisation of investments.

Territorial solutions as a response to the climate change

In addition to ex-ante conditionalities, territorial solutions play an increasing role in risk prevention and management as they allow pooling of resources and provide suitable conditions for joint development of innovative solutions, in particular, in the realm of climate change. One of the examples is **cross-border cooperation between Italy and France**, where authorities supported by REGIO are working together in the ADAPT project to explore the "water bombs" phenomenon (intensive rainfalls occurring within a short period of time) and develop new measures to confront the problem. Innovative monitoring systems and drainage solutions are currently being elaborated jointly.



1.1.4 Achievement of specific objectives linked to EC priority 4 – A Deeper and Fairer Internal Market with a Strengthened Industrial Base

Enhancing the effectiveness of the Single Market by delivering support in key investment areas

The goal of a Deeper and Fairer Internal Market is both a prerequisite for and a derivative of all Commission's priorities supported by REGIO. This means that all investments channelled to 2014-2020 programmes and widely described in the previous sections make their contribution towards strengthening European internal market, which cannot exist without cohesion, solidarity and sustained growth of all Member States and all European regions. Thus, this priority is being strengthened notably through:

- targeted investments in SMEs and start-ups aimed at increasing their competitiveness, enhancing productivity as well as further diversifying European economy;
- support of research and innovation to foster modernisation and bring Europe to the vanguard of new technological developments;
- implementation of large pan-European infrastructural projects allowing seamless functioning of the internal market.

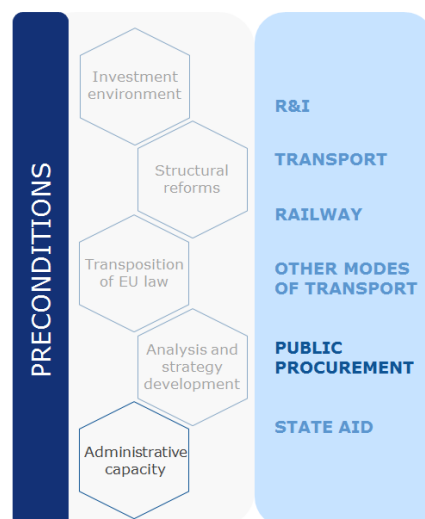
The latter is also an essential element for strengthening European industrial base, as it remains an engine for economic growth and, given the challenge of globalisation, requires additional investments and support to stay innovative and capable of adapting to the changing conditions of global markets.

In addition to the financial support provided through 2014-2020 programmes, the internal market of the EU is also being strengthened through ex-ante conditionalities and programmes and initiatives in the realm of territorial cooperation.

Creating the culture of compliance with Single Market rules and fostering efficient investments

Following the logic of financial contributions, it can be stated that a wide majority of ex-ante conditionalities contribute to the goal of a Deeper and Fairer Internal Market, including the ones on innovation and transport. Nevertheless, impact of ExACs on public procurement and State aid is particularly noteworthy as these conditionalities allow creating a real **culture of compliance with the Single Market rules across all Member States** by removing structural obstacles and/or enhancing capacity of member states to meet the single market requirements.

Several examples from Czech Republic, Slovakia, Romania, Bulgaria and Italy showcase concrete benefits brought by ExACs on State aid and public procurement, and linked to such areas as transposition of the EU Law and improvement of administrative capacity.

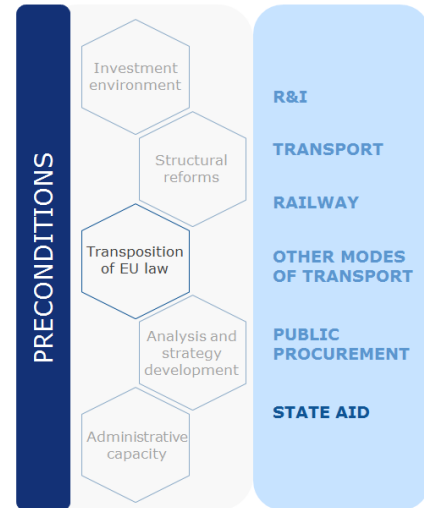


Enhancing legislative framework through ExACs

In the **Czech Republic** in the framework of the general ExAC on State aid, the authorities ensured that the central *de minimis* registry is included among the external support systems for monitoring of ESI Funds. This provided a check for the overall *de minimis* aid level and ensured that *de minimis* aid granted under ESI Funds is recorded in the central *de minimis* registry. In addition, the Member State took a specific commitment in the

Partnership Agreement to ensure increased transparency in the Czech companies' ownership structure.

In **Slovakia**, the new State Aid Act set up the legislative framework for establishing a central register for State aid (to cover individual aid and aid subject to the General Block Exemption Regulation as well as *de minimis* aid). The Act introduced some obligations for State aid granting authorities including the need to record data on aid provided and on aid beneficiaries in the central register (to ensure that Slovakia fulfils EC requirements in the field of transparency). The Act also defined penalties for not meeting these obligations. The data is available on a publicly accessible website.



Building up administrative capacity

As confirmed by the 7th Cohesion Report, the performance of Member States and regions in the implementation of Cohesion Policy is to a large extent influenced by the administrative capacity of their public administrations. Therefore, REGIO has continued its priority work on providing specific support tools to programme authorities and beneficiaries in the Member States to ensure that they are capable of managing Funds at their disposal, identified also one of the strategic priorities for Commissioner Creţu.

In the framework of the ExAC on Public procurement, the administrative capacity of central public procurement bodies was strengthened in **Romania, Slovakia, Hungary, Czech Republic and Bulgaria**.

Extensive and targeted training programmes were set up in **Greece, Italy and Romania** for national and regional administrations, which are currently being rolled out.

The Commission also supported two pilot projects in **Slovakia and Bulgaria**, while the Organisation for Economic Co-operation and Development (OECD) helped both countries in developing a tailor-made training strategy for officials on public procurement through implementation of pilot training courses.

Dedicated trainings on State aid and public procurement were organized by REGIO for key bodies involved in the implementation of the programmes.

One of the key objectives of the work in the area of administrative capacity is the promotion of the concept of professionalization of the management of the funds. REGIO set up a new tool¹⁴ for all public institutions involved in managing the European Regional Development Fund and Cohesion Fund - national coordinating bodies, managing, audit and certifying authorities, joint secretariats and intermediate bodies – helping them identify and address competency gaps and adapt their training strategies.

Besides these horizontal policies with an important impact on the implementation of operational programmes, a whole range of other activities were implemented in 2017 which supported the further strengthening of administrative capacity for the implementation of ERDF and CF (e.g. on anti-fraud and corruption measures, competency development in managing the funds, etc.).

Territorial cooperation as a way to strengthen internal market and reduce barriers between the Member States

European Territorial Cooperation (ETC) programmes focusing on different levels and dimensions of interregional cross-border cooperation constitute some core actions in DG

¹⁴ For more information: http://ec.europa.eu/regional_policy/en/policy/how/improving-investment/competency/

REGIO efforts to increase the effectiveness of the Single Market. While the funding delivered through these programmes simultaneously supports many of the Commission's priorities (e.g. Jobs, Growth and Investments through support for business and research activities across borders; Energy Union and Climate through international activities in the field of natural resources management or risk prevention), their contribution is particularly noteworthy as regards tackling border obstacles and reducing administrative barriers between border regions in neighbouring countries.

In 2017 significant progress has been achieved regarding the selection rate which reached the level of 57% with about 5 100 projects selected on the ground. The overall cost of these projects is close to EUR 7 billion.

5 100 cross-border cooperation projects
selected for a total amount of almost **EUR 7 billion of investments**

Some tangible results are expected to stem from projects already selected and being implemented on the ground:

- Almost 57 000 participants in (cross-border) labour mobility;
- 73 000 young people participating in youth actions;
- Close to 3000 enterprises in research and development cooperation.

Alongside cross-border cooperation (CBC) programmes, to tackle the challenges requiring more comprehensive approach and involvement of all levels of governance across various neighbouring countries (i.e. river management and flood prevention; cultural heritage preservation, etc.), transnational programmes and interregional programmes have been activated. In 2017 these programmes contributed substantially to strengthening the Internal Market by providing the necessary support and deepening cooperation and exchanges between all affected sides.

In addition, DG REGIO actively worked on smoothing cooperation along internal borders of the Union by addressing some of the legal and administrative barriers. In particular, in the **Communication "Boosting Growth and Cohesion in EU Border Regions"** adopted in autumn 2017, a set of actions was proposed to tackle the above issues. In line with the proposals, a "Border Focal Point" – a special body consisting of Commission's experts in cross border issues – has been created to provide advisory support for national and regional authorities and tackle legal/administrative border obstacles.

Macro-regional strategies (MRS), facilitating multi-stakeholders cooperation across European regions, constitute another important dimension of REGIO actions aimed at supporting the internal market.

All four on-going MRS have shown to be key instruments for the implementation of EU policies and programmes as well as to foster cohesion and competitiveness on a scale larger than cross-border or interregional cooperation. Rather than additional financial support, they proved to provide a strategic framework for the concerned Member States and foster specific action in response to common challenges, thus ensuring that available funding instruments at all territorial levels are aligned towards common objectives. In addition to continuous assistance to the existing strategies, in 2017 a study on "Macro-regional strategies and their links with Cohesion Policy" was launched. It brought some important insights as regards dynamics and development trajectories of four MRS.

Important work has also been carried out in order to contribute to the effective integration of the **outermost regions** into the Internal Market. A renewed EU strategy for the outermost regions **"A stronger and renewed strategic partnership with the EU's outermost regions"** was adopted in 2017, setting the Commission's future orientations for nine outermost regions, taking into account their specificities and the EU priorities. In particular, the new strategy brought stronger emphasis on regions' unique assets seeing them as a way to create new opportunities for local people and boost competitiveness and innovation in sectors such as agriculture, blue economy, circular economy, climate change and energy, while deepening the cooperation with neighbouring countries. REGIO has already started implementing the strategy and launched two studies that will be also utilised to prepare the post-2020 legislative framework. The two studies will focus on

physical accessibility of the outermost regions (in cooperation with DG MOVE) and on the specific additional allocation for the outermost regions.

On top of that, a large Outermost Regions Forum was organised in March 2017 to gather stakeholders and local representatives from outermost regions, their Member States (France; Spain; Portugal), the EU institutions as well as other organisations. The event served as a key platform for discussion on important issues relevant for outermost regions, including digital and physical accessibility, blue and green growth, circular economy and energy etc.

Also important in 2017 was the implementation of new actions for **international cooperation on regional and urban development**, which have now been mainstreamed under the International Urban Cooperation (IUC) programme financed by the EU's Partnership Instrument. In the second half of 2017, in total some 40 region-to-region pairings (Latin America) and city-to-city pairings (China, India, Japan, North and South America) were identified. In some cases, the regions and cities selected were able to begin working together before the end of the year to exchange experience and develop joint projects in the fields of, respectively, regional innovation systems and sustainable urban development. In the case of the city-to-city pairings the priority themes selected by the city representatives included, in line with the EU Urban Agenda and New Urban Agenda of the UN, smart city development, water and waste management, urban mobility, urban poverty and social inclusion.

In 2017, a first phase of the **Catching-up Regions initiative** (CRI) – a bottom-up initiative created to overcome key development bottlenecks as well as maximise performance and outcomes of Cohesion Policy in low-income regions – was completed. It involved four pilot regions (two in Poland and two in Romania) and, thanks to the crucial support provided by REGIO, led to some significant structural changes there:

- in two participating Polish regions, a number of reforms geared towards areas such as commercial research, business creation and SMEs advisory services were implemented.
- in Romania the North West and the North East regions elaborated their regional innovation strategies, enhanced cooperation between local actors, created governance steering bodies and prepared a pipeline of projects in sectors linked to innovation, integrated projects in sectors like biomedicine, ITC, sustainable use of resources, agro-food, cosmetics etc., which will receive support amounting to EUR 50 million from the Regional OP.

The second phase of CRI, covering new regions and new themes such as energy efficiency, decarbonisation and business inspections has been launched and is currently underway. In particular, in Poland, it is adjusted with other Commission's projects, complementing two initiatives led by DG ENER: "Coal Regions in Transition" and "Smart Finance for Smart Buildings".

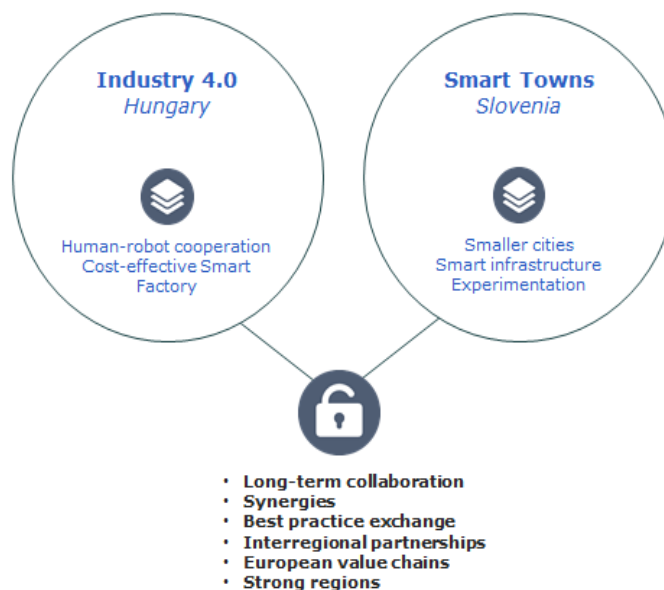
The third phase of the CRI will focus on boosting economic growth in small and medium-size towns in danger of deprivation to enhance their attractiveness for investors, businesses and citizens.

In Romania, in view of the successful results of the initiative in the two pilot regions, the initiative will be extended to all other Romanian regions, with the aim of strengthening the delivery of ESI Funds in the field of smart specialisation.

The Catching-up Regions project is also being gradually rolled-out in other Member States. Thus at the beginning of 2018 it was officially launched in Slovakia in the Presov region with a particular focus on matching vocational training with smart business needs, improving energy efficiency and setting up a geographical information system, and furthermore in the Trencin region with the objective to cover structural development challenges resulting from successive reduction of mining activities in the region.

Finally, **Smart Specialization Strategies** (S3) should also be highlighted as the tool promoting territorial approach and multi-level governance in the European Union and focusing on innovation-driven regional growth. In 2017 this placed-based policy progressed further with the adoption of the Commission Communication on "Strengthening innovation in Europe's regions" that positioned Cohesion Policy via smart specialisation beyond research and innovation, linking it to structural reforms, industrial transition and interregional cooperation. Pilot regions for industrial transition and interregional partnerships were selected. This way, by promoting valorisation of local specificities, mobilising local actors and creating favourable conditions for connecting innovation ecosystems, Smart Specialisation targeted the very underlying elements of the Single Market, fostering local innovative solutions for the benefits of the whole Union.

CENTRAL & EASTERN EUROPE. WORKSHOPS 2017



Examples of EU added-value

Cross-border cooperation (CBC) – bringing innovation to the food production sector

The Germany-Netherlands CBC programme finances a number of innovation projects, one of which is Food2020 that seeks to enhance efficiency in the food production sector all along the border by developing bio-based solutions, examining cultivation solutions in urban areas as well as exploring opportunities for producing foodstuff based on insects.

Transnational cooperation- AlpFoodway project

The AlpFoodway project represents an interesting example of cross-disciplinary, transnational and participative approach involving many countries/ regions and requiring cooperation across all level of governance. The project is aimed at promoting and valorising the Alpine food cultural heritage by creating a sustainable development model for peripheral mountain areas and adopting innovative marketing and governance tools for the whole area. One of the added benefits of the projects is an ability to support emerging transnational alpine identity based on the common cultural values and create a critical mass to allow regional products to reach large markets more easily.

Macro-regional initiatives

The **EU Strategy for the Baltic Sea Region** (EUSBSR), aiming at tackling newly emerged issues, has reinforced cooperation in the transport area as well as strengthened focus on the integration of refugees. In addition, first pilot projects were chosen to stimulate macro-regional collaboration in the field of innovation.

Participants of the **EU Strategy for the Adriatic and Ionian Region** (EUSAIR) in their turn agreed to set up a collaborative platform to help regional actors to better coordinate their response to the refugee and migration crisis as well as learn from each EUSAIR other.

Catching-up Regions

In **Podkarpackie** and **Swietokrzyskie** regions (Poland) thanks to the close cooperation between regions, the World Bank, the Ministry of Investments and Development and under steering of REGIO, it was possible to address and solve quickly some structural issues affecting the delivery of ESIF in Poland (i.e. the interpretation of the state aid rules on the economic use of publicly-funded research and development equipment etc.).

In the **North West** and the **North East** regions (Romania) as a result of the work on innovation strategies, EUR 50 million was allocated to support innovative projects and utilise fully the local competitive advantages of both regions.

1.1.5 Achievement of specific objectives linked to EC priority 8 – Towards a New Policy on Migration

Contribution resulting from the implementation of 2014-2020 programmes

REGIO has contributed to this priority in 2017 mainly through **measures supported by 2014-2020 ERDF programmes**, which are addressing the needs created by the exceptional flow of migrants to Europe by focusing on support for reception and the effective integration of legal migrants and asylum seekers in the field of employment, social inclusion and education. This is being done in the context of the thematic objectives employment (TO8), social inclusion (TO9) and education (TO10). In addition, a significant contribution towards these objectives also results from the thematic objective SME support (TO3), through which business support services reach all potential entrepreneurs, including those from more vulnerable groups such as migrants, with the aim to make the EU in its entirety stronger and more cohesive. Project selection rate in the area of social inclusion exceeds 40% at the end of 2017, with more than 3500 projects already selected and being implemented.

Increasing the focus of programmes on the response to the refugee crises:

In **Italy**, migrants represent an increasing share within the groups at risk of social exclusion. The national system, under strong pressure in recent years, has reacted mostly with own resources to face the needs of reception of migrants. In order to respond more effectively to structural transformations and fully address the issue of integration, the resources already foreseen in the Partnership Agreement have been complemented with EUR 220 million of additional funds from the technical adjustment allocated to Italy, which will be programmed within OP Legality.

While the managing of the related funds and programmes is primarily the responsibility of Member States, REGIO has continued to work closely with programme authorities in 2017, ensuring a swift processing of **programme modifications proposed by Member States** for which the challenges are more acute, in order to reinforce measures for migrants. This is especially relevant, given the State Of The Union Speech emphasis on solidarity and importance of legal migration for maintaining the pace of economic growth in an ageing Europe.

An important contribution to the effective delivery of the EU-wide goal of ensuring a better integration of migrants will also result from the entry into force of the Omnibus Regulation, towards which REGIO has relentlessly worked throughout 2017 in cooperation with the Council and the European Parliament. More flexibility will be given to use resources from all regional funds to deal with the challenges arising from integrating migrants and refugees. A new investment priority will be added to the European Regional Development Fund, enabling Member States and their regions to e.g. finance the renovation or construction of accommodation infrastructure aimed at integration.

REGIO's efforts to support the use of EU funds by Member States in the field of migration in 2017 also led to the development of a "**Toolkit on the use of EU funds for the integration of people with a migrant background**", in close cooperation with other Commission services. The objective of the toolkit is to assist national and regional funding authorities in implementing integration policies targeting people with a migrant background through the use EU funds in the 2014-2020 programming period. The toolkit i) identifies areas where people with a migrant background are considered to face the most pressing and acute challenges and ii) address them through scenarios on employment, education, housing, reception and access to basic mainstream public services, describing

the corresponding measures which can be usefully supported by EU funds in these fields, for instance in the programmes and calls for proposals.

Policy work in the framework of the European Urban Agenda and New Urban Agenda of the United Nations

REGIO is carrying out targeted work to complement the funding delivered through the 2014-2020 programmes, notably in the framework of the Urban Agenda Partnership on Integration of Migrants and Refugees. The partnership aims to manage the integration of incoming migrants and refugees (extra-EU) and to provide a framework for their inclusion, covering: housing, integration, provision of public services, social inclusion, education, and labour market measures. In this context, an Action Plan including concrete actions leading to better regulation, better funding and better knowledge was prepared in 2017 and is being implemented.

An additional contribution in this area is being provided through the Urban Innovative Actions. In response to the second call (total available amount of EUR 50 million), another wave of innovative projects aiming among others at the inclusion of migrants and refugees was selected by end 2017. These projects, which will start to be implemented in 2018, will serve as a lab to identify and test new solutions in cities.

Examples of EU added-value

Slovenia-Austria: the Urban Diversity project

Since 2015 and the emergence of the refugee crisis, an intensive dialogue has been established with a number of CBC programmes to explore how they could contribute to alleviate some of the pressure created by the sudden influx of refugees and how they could contribute to their settlement. The CBC programme Slovenia-Austria finances for instance the Urban Diversity project between the cities of Ljubljana and Graz on connecting migrant entrepreneurs and their families on both sides of the border.

Germany – projects helping in integrating people with a migrant background

The 2014-2020 ERDF programme for North Rhine-Westphalia supports social inclusion in the context of sustainable urban development concepts. The objective is to combat social exclusion at an early stage in order to avoid children and adolescents losing out in integration. The local stakeholders of disadvantaged urban areas develop a concept for their district that they tailor to the specific problems of the urban area concerned. The EU added value of Cohesion Policy in that respect is that it delivers the whole package of measures needed for long-term social inclusion. This includes for example support for i) childcare and education infrastructure (in North Rhine-Westphalia, it is foreseen to support 12 600 children), ii) the improvement of public space and iii) measures to stimulate the local economy. EUR 465 million should globally be invested, half of which comes from the ERDF. The objective is to improve the living conditions of 600 000 citizens, through support for 20 development concepts.

The 2014-2020 ERDF programme for Berlin is aiming at integrating immigrant mothers via local women notably through the project "Neighbourhood Mothers Neukölln". This is a grassroots outreach project started in the 2007-2013 period and aimed at facilitating access to information and services that help families from immigrant backgrounds with young children of up to 12 years. This had led to the creation of a network of over 70 neighbourhood mothers from all different nationalities and helps to integrate families and create a cohesive community. ERDF supported the project "Neighbourhood Mothers" with EUR 778 533 in 2007-2013. EUR 180 000 of additional ERDF contribution are being conveyed in the 2014-2020 programming period.

Sweden – boosting opportunities for foreign-born entrepreneurs

The ERDF-supported project One Stop Future Shop is aiming to boost new entrepreneurs in the city of Gothenburg. It offers business advice, seminars, workshops and other supporting activities for start-ups and businesses for free in many languages: Swedish, English, Arabic, Persian/Farsi, French, Maltese, Somalian and Mandarin. Many activities are customized to female, young and foreign born entrepreneurs. One focus of the project is the so called Start-up FastTrack for newly arrived entrepreneurs. The project is about supporting newcomers who have been entrepreneurs in their own countries. Legal advice is provided every two weeks when students from entrepreneurship schools are in place to help migrants or foreign-born people with business law and intellectual property issues. The project also offers a food incubator: direct business advice for entrepreneurs

with ideas in food, such as starting a restaurant or a café, food production or ideas in service solutions about food such as apps or food supplies as well as targeted courses (like food hygiene). Over the past year, the project had almost 100 newly arrived participants in its fast track in business, and the target is that another 200 newly arrivals within two years should have better knowledge and conditions for running companies in Sweden.

1.2 Achievements in relation to the delivery of outputs as set in REGIO 2017 Management Plan

The general objectives by policy area and the specific objectives for operational activities illustrated under section 1.1 above refer to the legal and multiannual objectives and implementation of Regional and Urban Policy (REGIO) through its main financial components (ERDF, CF, IPA and EUSF) contributing to the delivery of the overall Cohesion Policy objectives. The relevant indicators and policy outputs related to the functioning and execution of these instruments provide the framework for measuring and assessing the achievement of policy objectives.

In order to foster their achievement, REGIO identified 18 operational priorities for 2017. These annual objectives, structured around six main multiannual priorities, reflect the DG's operational focus on actions (mainly measured through output indicators related to the DG's internal processes) which can positively contribute to the delivery of policy results, thus enhancing policy performance.

The achievements associated with the DG's operational priorities presented below (which have a greater impact on the achievement of policy objectives) should therefore be seen as a direct illustration of REGIO's ability to accomplish its mission. A full overview of the implementation of 2017 operational priorities is provided in annex 6.

To deliver jobs, growth and investment by supporting the delivery by Member States of the 2014-2020 programmes' objectives

Contribution to (short- or long-term) policy achievements

Providing continuous support to programme authorities to accelerate the implementation of 2014-2020 programmes and the delivery of the intended objectives on the ground was identified as the main challenge for the year 2017. This was done while also closely monitoring the focus and quality of planned investments, so as to ensure that quality projects are selected at a sustained pace and are translated as swiftly as possible into valuable investments on the ground producing jobs and growth. In addition, work continued on ex-ante conditionalities with a view to ensuring that the right conditions for effective investments were in place. These elements are key to a successful delivery of the Commission's priorities 1, 2, 3, 4 and 8 (Growth, Jobs and Investment, Digital Single Market, Energy Union and Climate, Internal Market and Migration).

As regards financial implementation, in the delivery cycle of any investment policy the selection of projects and the subsequent fund absorption are necessary conditions for the delivery of growth and jobs through the effective use of the Funds. In order to ensure that, DG Regional and Urban Policy implemented targeted actions throughout 2017 aimed at addressing country-specific difficulties and at enabling programme authorities to find their cruise speed for the implementation of the 2014-2020 programmes.

The information presented below shows that **REGIO's efforts in 2017 have produced positive results across all its main strands of work**. While implementation difficulties continued to be observed throughout the year, the close monitoring arrangements put in place allowed identifying and acting upon the most serious bottlenecks hindering implementation.

Illustration of main achievements / challenges

More than 99% of ex ante conditionalities action plans considered completed

Ex-ante conditionalities

Ex-ante conditionalities (ExACs) are a key element of the ESIF reform. They aim at making sure that adequate regulatory and policy frameworks are in place and that there is sufficient administrative capacity before investments are made, thus improving the effectiveness and efficiency of investment supported by the ESIFs as well as other public and private investments. They cover most investment areas, including research and innovation, broadband, SMEs, water and transport, active social inclusion, health, vocational education and training. These conditionalities also cover governance and the alignment of projects with national strategies in the area of public administration modernisation.

Close monitoring of fulfilment of ex-ante conditionalities action plans was ensured throughout the first semester 2017, as well as a swift issuance of observation letters following the notification by Member States. Overall, 99% of the action plans were considered completed, 8 action plans were assessed as non-fulfilled and presented to the ExAC Suspension Committee, while 1 action plan is currently pending assessment by the Commission at end March 2018. The non-completed ExAC action plans concern the following Member States: Cyprus (1), Greece (1), Italy (1), Romania (2) and Spain (3). More than half of them are linked to conditionalities concerning water and waste.

Designation

The process for the designation of programme authorities and bodies, which is a Member States responsibility and a key step towards the effective implementation of new operational programmes, has continued throughout 2017 under close monitoring by REGIO. The aim of the designation process is to ensure that the necessary management and control systems have been set up in a robust way so as to enable an effective implementation of programmes on the ground.

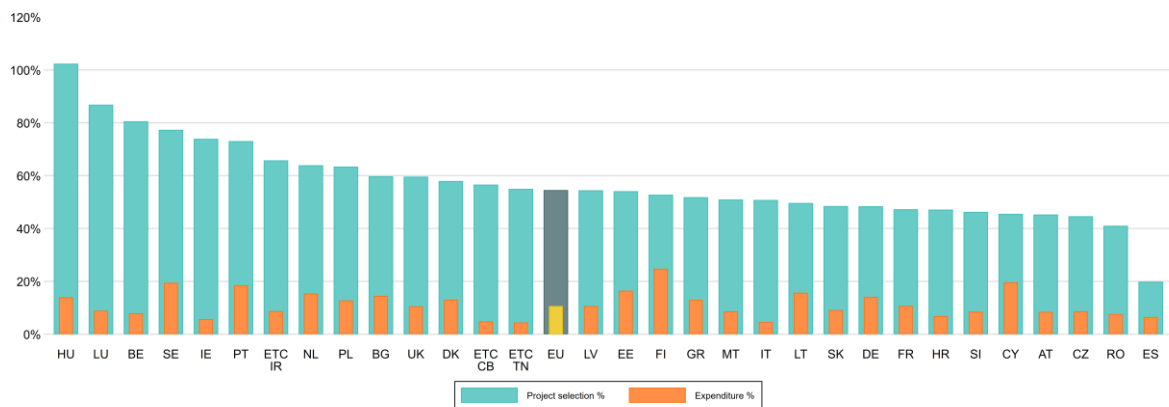
Completed designations at end 2017 cover 99% of mainstream allocations

As a result, all but 1 mainstream programmes had finalised their designation by end 2017, while the process still had to be completed for 21 smaller programmes (mainly territorial cooperation ones) representing about 1.2% of the EU support. The delays experienced in this area in 2016-2017 are therefore no longer an obstacle to implementation, as OPs with already designated authorities represented globally 99% of the mainstream allocations. REGIO and Member States engaged in order to complete the process for the remaining programmes as soon as possible (13 programmes still concerned at the date of signature of this report).

Project selection and absorption

In these first years of implementation of the 2014-2020 programming period, the selection of projects to be co-financed by Cohesion Policy is a key step towards a successful implementation of investments in this programming period. In 2017, the rhythm of project selection by the member States has further accelerated, with an average selection rate reaching 55% for ERDF and the CF, as more than EUR 190 billion funding from the programmes have already been allocated to around 167 000 projects supporting the EU 2020 objectives for jobs and growth.

This represents a notable improvement compared to the level of project selection registered at end 2016 (26.1%) and compares favourably to the same time in 2007-2013. The project selection rate is particularly high in Hungary, Luxembourg and Belgium where at least 80% of the allocation has been covered with the projects selected. Including the above-mentioned, 19 Member States and Interreg programmes on average have selected operations covering more than 55% of their allocation.



2014-2020 ERDF/CF: Project selection and expenditure declared per MS at end 2017

While the high level of projects selection has only partially translated into absorption rate in terms of payments by the Commission¹⁵, the latest trend confirms the acceleration of implementation captured by the selection rate. The amount of cumulative payments (including advances) from the Commission to Member States for 2014-2020 programmes at end 2017 totals EUR 40.5 billion (almost 16% of the total ERDF and CF allocation for the period). Interim payments currently amount to almost EUR 22.5 billion, corresponding to 8.6% of the allocation. Thanks to the claims sent at the end of the year, the gap in the rate of interim payments for EU28 has narrowed compared to the same time in 2007-2013. This jump in payments is likely due to the impact of N+3 at the end of 2017.

REGIO support to implementation

During 2017, REGIO continued to deploy efforts in supporting Member States' authorities to accelerate the implementation of the 2014-2020 programming period on the ground. Support was provided through technical meetings, targeted advice, dialogue with national authorities and closer follow up on the implementation, which was instrumental in addressing the remaining bottlenecks.

The competence centre for administrative capacity building implemented a number of actions supporting Member State administrations, with a specific focus on Member States with weaker administrative capacity.

Among the targeted actions carried out in 2017 is the continued implementation of the TAIEX REGIO PEER2PEER, an exchange tool for regional policy practitioners/experts in Member States, which experienced great success throughout the year. In this framework, 130 exchanges were implemented by December 2017, involving 1,920 participants from 26 MS (mainly from Lithuania, Czech Republic, Romania, Bulgaria and Croatia). These exchanges should help Member States increase the quality and the legality of spending and accelerate the absorption of Funds.

Several actions have also been carried out in the framework of specific actions plans developed jointly with other Commissions services in order to prevent irregularities and reduce the error rates related to public procurement (action plan developed jointly with DG GROW, other ESIF DGs and EIB) and to State aid (action plan developed jointly with DG COMP). Training sessions on these issues attracted 182 participants from Member States in 2017.

Measures to prevent fraud and corruption included the implementation of a study on appropriate anti-fraud and anti-corruption practices in the management of the Funds applied in the Member States, as well as work in relation to the Integrity Pacts in

¹⁵ Absorption rate = interim payment claims submitted by Member States/amounts decided

cooperation with Transparency International to help governments, businesses and civil society to make public procurement procedures more transparent and efficient. As a result of this, 15 pacts were signed by end of 2017 and are being implemented in pilot Member States.

A Competency Framework for the management of the funds was also finalized in 2017, after a test phase in a few pilot projects in Member States. A brand new tool is now available for all public institutions involved in managing the ERDF and CF - national coordinating bodies, managing, audit and certifying authorities, joint secretariats and intermediate bodies – in order to identify and address competency gaps and adapt their training strategies.

Major Projects

More than 500 major projects are programmed in the 2014-2020 programmes; Member States with the highest number of projects being Poland, Romania and the Czech Republic. The main sectors concerned were roads and other transport infrastructure, water and wastewater, energy and solid waste. Good progress was registered in 2017, as more than 100 additional major projects were submitted by Member States, bringing the total of submitted projects to 198 (38% of all major projects), representing EUR 50 billion of total eligible cost. Following revised estimates by the Member States, the expected number of major projects was brought down to around 530 (vs 580 previously).

More than 80% of the submitted projects have already been adopted, while others recently submitted are still in the appraisal phase. Thanks to enhanced cooperation between DG REGIO and JASPERS, the DG's performance in processing submitted major projects further improved in 2017, with less than 5% of MPs were approved with slight delays, due to interruptions and need to re-consult JASPERS.

Financial instruments

Financial Instruments (FIs) have become increasingly important delivery tools for Cohesion Policy objectives and a significant share of resources has been progressively delivered through these instruments. Ensuring better and increased use of financial instruments is also a key objective of the Juncker Commission Initiative "Investment Plan for Europe"¹⁶ and ESI funds are also expected to play their part notably by achieving at least a doubling of use through financial instruments in comparison with 2007-2013. Planned use of financial instruments for the 2014-2020 programming period reported by Member States show that the targets in relation to Research Development & innovation, to environment and resource efficiency could be reached. Current allocations show that EUR 20.1 billion of ERDF and CF is planned to be delivered through financial instruments.

In 2017 REGIO has pursued several strands of work in order to support Member States in setting up and using financial instruments and to foster an increased simplification of financial instruments:

- Advice and support to Member States has continued via the FI-compass platform, which has continued to disseminate knowledge and practical know-how on FI notably through events (conferences, workshops, seminars, trainings, etc.). This also included fi-campus, a three-day event in Brussels gathering more than 300 participants, were organised in 2017, addressing horizontal themes of interest for all Member States implementing financial instruments.
- Work was also carried out with a view to foster the ESIF/EFSI complementarity,

¹⁶ COM (2014)903 final.

the focus being put on promoting and explaining the potential for such synergies. This involved in-depth discussions on concrete examples and models, its merits and its compliance with the legal framework. Active screening of OPs was ensured by REGIO geographical desks so as to identify potential for combination ESIF/EFSI as regards agreed priority countries and in the area of energy efficiency. A particular focus was the follow-up of the Smart Finance for Smart Buildings (SFSB) initiative to develop a model template for usefully combining EFSI and ESIF in this area. The findings were discussed in several meetings with the EIB Group. Work is ongoing with the EIB Group to identify the potential of the identified areas/projects.

- Finally, in the context of the Multiannual Financial Framework mid-term review, the simplifications to the financial instrument framework and to further facilitate ESIF/EFSI combination proposed in September 2016¹⁷ were intensely negotiated with the co-legislators throughout 2017. The trilogues were successfully completed in December 2017.

Adapting and developing the policy so as to further enhance the effectiveness of investments

Contribution to (short- or long-term) policy achievements

REGIO is continuously looking for ways to further enhance the effectiveness of Cohesion Policy investments. This objective is pursued notably through the preparation of the legislative proposals for post-2020 EU Cohesion Policy, which will shape the Cohesion Policy of the future, but also through continuous contributions to the simplification and streamlining of the rules governing the implementation of Cohesion Policy in 2014-2020.

Main achievements / challenges

Strong results were achieved in relation to this objective.

Substantial progress was equally achieved with regard to **simplification**, namely through debates, conclusions and recommendations on legislative and non-legislative actions proposed by the High Level Group on simplification for beneficiaries set up by Commissioner Crețu. This has led on the legislative side to a comprehensive Commission proposal for simplification through the Omnibus regulation. Despite some initial delays due to the political process and consequential revision of REGIO's management plan target, the pace of adoption of Omnibus regulation has accelerated significantly towards the end of the year resulting in the inter-institutional finalisation of the proposal.

On the non-legislative side, the Commission services have adopted other actions aimed at policy simplification and streamlining or action-plans to follow-up on specific recommendations to clarify or simplify certain procedures and practices (for instance in relation to cross-cutting audit issues and the following meta-analysis of country-specific gold-plating cases). In 2018, the DG will continue working on swift implementation of the regulation and other actions adopted, ensuring proper assistance and guidance for Member States so that they could start taking advantage of simplification availed in the Omnibus as soon as possible.

Taking into account the recommendations of the Commission's High Level Group on

¹⁷ The proposal covered important topics, such as: ESIF/EFSI complementarity, implementation of financial instruments by publicly owned banks or institutions operating under a public mandate to promote economic development, the extension of the SME Initiative, clarifications on procedures for replacement of individual irregular expenditure in financial instruments, clarifications of audit procedures of the EIB and IFIs when they manage financial instruments either at EU level or on behalf of managing authorities; measures to deal with negative interests.

Simplification for beneficiaries, contributions from all interested stakeholders, analysis of available evidence – including the ex-post evaluation of 2007-2013 programmes, a wide range of studies covering key policy questions and options and conferences/workshops with academics as well as with international organisations - REGIO has notably progressed substantially towards the definition of a **new regulatory framework for the Policy**. This was done following an inclusive approach, encompassing several brainstorming sessions open to all REGIO staff, followed by the setting up of thematic working groups tasked with the drafting of the new proposals. This work will be crystallized in 2018 into a formal legislative proposal focussed on delivering efficiently the policy objectives while ensuring simplification of the delivery system and an enhanced performance culture.

Another noteworthy achievement was the publication of the 7th Cohesion Report that emphasised the key role of Cohesion Policy and European investments for supporting the development of Member States during and after the crisis. The report also provided evidence of the value added of Cohesion Policy and presented recommendations for its future.

Ensuring and demonstrating the added value of Cohesion Policy and ensuring integration with EU governance mechanisms

Contribution to (short- or long-term) policy achievements

The integration of Cohesion Policy into EU economic governance for 2014-2020 **helps to increase the responsiveness of the policy** to changing economic circumstances and emerging imbalances. This is done by using the funds to support Country Specific Recommendations (CSRs) relevant for Cohesion Policy and ensuring that they are reflected in 2014-2020 programme strategies and their subsequent modifications. Thus, a strong link is ensured between growth and productivity-enhancing reforms and the related Cohesion Policy investments, making it possible to achieve a greater impact of ESIF intervention on the ground in relation to EU policy objectives. A description of the CSRs to which DG Regional and urban Policy contributes is presented in annex 10.

Providing **evidence on results** of 2014-2020 programmes and evaluating their impact contribute to raise awareness of EU citizens and other stakeholders about what the policy and funds deliver. Gathering and disseminating evidence on what does not work as well as what does help Member States and regions **develop more effective policies** which will be supported by the Funds. **Communicating and disseminating results and impacts** of programmes contribute to building trust in EU policies, particularly in **Cohesion Policy**, as an effective contribution to fostering investments for growth and creating jobs in Europe.

Main achievements / challenges

Positioning Cohesion Policy as a major contributor to shaping EU policies

Throughout 2017, efforts to position Cohesion Policy as a major contributor to shaping EU policies and to further strengthen the links between the policy and the EU economic governance mechanisms have continued.

In this respect, the adoption of the Commission **Communication on "Strengthening Innovation in Europe's regions"**, which emphasised the role of smart specialization and placed it within a wider context of structural reforms, industrial transition, globalisation and digitalisation, is particularly noteworthy. In addition, successful outcomes have been delivered to strengthen DG Regional and Urban Policy's **contribution to the European Semester** (including timely analysis of MS needs and investment priorities for the 2018 Country Reports, identification of priority themes to be reflected in the 2018 CSRs, drafting of the boxes profiling the

contribution of ESI Funds to structural change, etc.). The DG continued to be actively involved in the Commission Country Teams, contributing to the analysis and to the drafting of Country Reports on the assessment of progress made in addressing CSRs from previous years and wider structural challenges. None of the 2017 CSRs required modifications to be introduced to the 2014-2020 programmes. An overview of CSRs to which REGIO contributed in 2017 is provided in Annex 11.

Demonstrating policy results and encouraging policy learning

In 2017, the outcomes of the 2007-2013 ex-post evaluation exercise were disseminated and the Strategic Report summarising programmes' performance (captured through Annual Implementation Reports submitted in June 2017) was successfully adopted in December 2017. Considerable support to policy learning was granted in 2017 via, *inter-alia* the exchange of good practices in evaluation in the EC-MS Evaluation Network (meeting three times a year); the methodological support for evaluation offered to Member States via the evaluation summer schools and peer reviews of their evaluations in order to learn about strengths and weaknesses in the practice of evaluation of Cohesion Policy.

Work was also carried out to assess reliability of performance data reported by Member States, as the first thematic audits (12 audits in 9 Member States) were performed. While the audits provided generally positive results, they could not yet be extended to the entirety of programmes identified through the risk-assessment, due to the absence of sufficient reporting data for several OPs. To ensure comprehensiveness of obtained evidence, further audit missions will be carried out in 2018 in addition to scrutinising the first results of the checks performed by the Member States on the reliability of performance data indicators, included by the audit authorities in the annual control reports.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section answers to the question *how* the achievements described in the previous section were delivered by the DG. This section is divided in two subsections.

The first subsection (2.1) reports the control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive; appropriately covering all activities, programmes and management modes relevant for the DG.

The second subsection (2.2) deals with the other components of organisational management: human resources, better regulation principles, information management and external communication.

2.1 Financial management and internal control

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. Its results are properly documented and reported to the Director-General.

The reports produced are:

- the annual reports by Authorising Officers by Sub-Delegation (AOSDs) in the DG;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the reports on control results from management and audit authorities in Member States in shared management as well as the result of the Commission supervisory controls on the activities of these bodies;
- the reports of the Audit Directorate and ex-post supervision and controls, including the assessment of system audit reports received from audit authorities;
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level;
- the opinion, observations and the recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

This section reports the control results and other relevant elements that support management's assurance. It is structured into (2.1.1) Control results, (2.1.2) Assessment of audit observations and recommendations, (2.1.3) Assessment of the effectiveness of the internal control system, and resulting in (2.1.4) Conclusions as regards assurance.

2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives¹⁸. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. 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.

Overview of the financial resources managed by DG Regional and Urban Policy in 2017
With the control results for the activities of the Directorate General

Activity		Payments 2017 ¹⁹ (EUR m)	% REGIO	IC indicators	Reservati on
2014-2020 period	<i>ERDF / CF</i>	21,285.5 m	79.8	Residual risk rate < 2% (1.05%) Total error rate < 10%	Yes – 17 OPs
	<i>Cross border cooperation IPA- CBC/ENI;</i>	16.5	0.1	No risk on the advance payments	No
2007-2013 period	<i>ERDF / CF</i>	3,673.6	13.8	Residual risk rate < 2% (1.39% ²⁰) Corrections applied at closure	Yes – 20 ERDF/CF OPs
	<i>IPA – Cross border cooperation</i>	7.7	0.0	Error rate: 0.9%, CRR <2%	1 IPA-CBC OP
Up to 2006	<i>ERDF / CF</i>	138.2	0.5	Residual error rate <2%, (corrections applied at closure)	No
Solidarity Fund	<i>EUSF</i>	1,272.7	4.8	No significant findings	No
Indirect Managem ent	<i>IPA Regional Development</i>	152.4	0.6	2016 error rates validated below materiality	No
	<i>Urban Innovative Actions</i>	42.5	0.2	No significant findings	No
Direct Managem ent	<i>Technical assistance, Pilot project and Preparatory actions; incl. Cross- subdelegations given</i>	71.6	0.3	Corrections being carried out as a result of the checks and ex- post controls carried out	No
Grand Total		26,660.7	100%		38

¹⁸ 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).

¹⁹ Including pre-financing.

²⁰ The risk at payment / Residual risk rate provisionally calculated at this stage of the closure process at 1.39% on the relevant expenditure.

2.1.1.1 Control effectiveness as regards legality and regularity

REGIO has set up internal processes aimed at ensuring adequate management of risks related to the legality and regularity of underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

A. Shared Management

An introduction to shared management and Cohesion Policy Funds and to the control architecture is provided in Annex 8.

Member States are in first instance responsible to have well-functioning management and control systems in place, to prevent and detect irregularities, to make the required financial corrections and to report residual error rates for each programme each year. In that regard, the 2014-2020 programming period introduced some major regulatory changes in order to increase the programme authorities' accountability and to strengthen the management and control system.

Among these, the following contributes to this improved assurance model: the introduction of accounts for each programme with a retention of 10% on each interim payment from the Commission and reliable annual residual risks (after the Member State's corrections) below 2% to avoid additional financial corrections, possibly net, by the Commission.

A.1 Shared management - ERDF and Cohesion Fund 2014-2020

In 2017, REGIO paid EUR 21.2 billion for the 2014-2020 programmes.

Materiality criteria (control objective) and reservation

With respect to the legality and regularity of the transactions for the 2014-2020 programming period, the objective is to ensure that the estimated residual risk of error is below the materiality level of 2% for each operational programme and accounting year.

The Directorate-General reviews each operational programme in order to identify the need for reservations and additional corrective measures. Reservations or partial reservations are made for programmes with one or a combination of the following:

- a total error rate above 10%;
- deficiencies in key elements of the systems, which could result in/lead to irregularities above 10% and for which no adequate corrective measures to remedy the deficiencies have yet been implemented;
- material legality and regularity issues and insufficient level of financial corrections implemented i.e. the annual "residual total error rate" remains above 2%;
- material issues on the completeness, accuracy and veracity of the accounts.

The materiality criteria determining when a reservation is to be issued are illustrated in detail in Annex 4.

Setting-up of a robust system prior to the implementation: Designation process complementing ex-ante conditionalities

Designation is a first layer of assurance aiming to ensure that the managing and certifying authorities in charge of each operational programme have the appropriate management and control system set up from the start of the period, in line with assessment criteria set in the regulation. The notification of the designation is a pre-condition for the first application for an interim payment. This is complemented by ex-ante conditionalities to

ensure effective spending and that the appropriate legislative and regulatory environment and governance models are in place from the start of programme implementation, in areas such as public procurement and State aid.

Designation received for 96% of programmes, covering more than 98% of ERDF/CF allocations

48 designation packages categorised at risk analysed

Indicator (programming period 2014-2020) ²¹	End-March 2018
<i>% of managing and certifying authorities designated</i>	
For ERDF and CF programmes	99%
<i>Including multi-fund programmes with an ESF component</i>	(219 out of 220 ²²)
For ETC and IPA-ENI:	86%
	(74 out of 86 ²³)
For all programmes	96%
Designation package at risks analysed	48 out of 52

At end-March 2018, notification of the designations was done for 293 out of 306 operational programmes (96%), covering over 98% of ERDF/CF allocations. Programmes awaiting notification of designation are listed in Annex 8.

A joint risk assessment shared between ESIF DGs identified 52 ERDF / CF programmes²⁴ at risk, necessitating a review of designation packages. As of end-March 2018, all but one of the designation packages for programmes at risk were received²⁵. REGIO has finalised the analysis for 48 programmes and provided its assessment to the authorities, along with recommendations to audit authorities to follow-up particular issues. This analysis also fed into REGIO's risk assessment in view of early preventive system audits. Due to significant delays in designation by the Member States, the initial target of having all 52 risky designations assessed by end-June 2017 was extended.

Source of information used to build up the assurance during the implementation

For the 2014-2020 programming period, the main assurance source is the submission of the "assurance package" that programme authorities must provide each year by 15 February (1st March at the latest) up to and including 2025. These "assurance packages" contain for each programme:

- A Management Declaration and Annual Summary, prepared by the managing authority;
- Accounts, certified by the certifying authority;
- An Annual Control Report and Audit Opinion, issued by the audit authority, based on the main findings of system audits carried out to verify the effective functioning of the management and control system and audits on representative samples of operations on the basis of the declared expenditure, as well as audits on the accounts.

²² Designation of authorities not yet notified for OP SME Initiative in Finland.

²³ Including 10 IPA-CBC programmes and the 11 OPs for which EMPL is in the lead.

²⁴ The Commission may decide to assess designation packages (which comprise the description of the management and control system, the opinion of the independent audit body and the supporting audit report (see article 124 CPR)) which exceed EUR 250 million in Fund contribution, on the basis of its risk assessment. The Member State, on a voluntary basis, may also submit the designation package to the Commission for observation when certain conditions are met. Such assessment shall not interrupt payments in line with the regulation. The cumulative audit knowledge as explained in chapter 2.1.3. constituted also a criterion when deciding on the work to be carried out on designation whenever the Independent Audit Body in charge of assessing the 2014-2020 system description is the same as the audit authority for the period 2007-2013 and when it is considered reliable.

²⁵ Designation for IT Ricerca received after cut-off of 31 March 2018.

REGIO's verifications focused on assessing the reliability of MS' audit work

=

Efficiency and economy of audit effort in line with the single audit principle

A risk-based and preventive audit approach of the EC

A system under constant monitoring: Commission's desk and on-the-spot audit work to implement the 2014-2020 Single Audit Strategy

The Single Audit Strategy for the funds managed by REGIO, EMPL and MARE for the 2014-2020 programming period aims at focusing the Commission's audit activity on the re-performance of the work of the audit authorities. This single audit approach is completed by capacity building actions and thematic/targeted audits to ensure that no serious deficiencies remain uncovered or uncorrected by the Member States when submitting the accounts, and that the Commission can rely on the assurance packages. The overall objective of the Single Audit Strategy is to obtain reasonable assurance that the

management and control systems established and implemented by Member States:

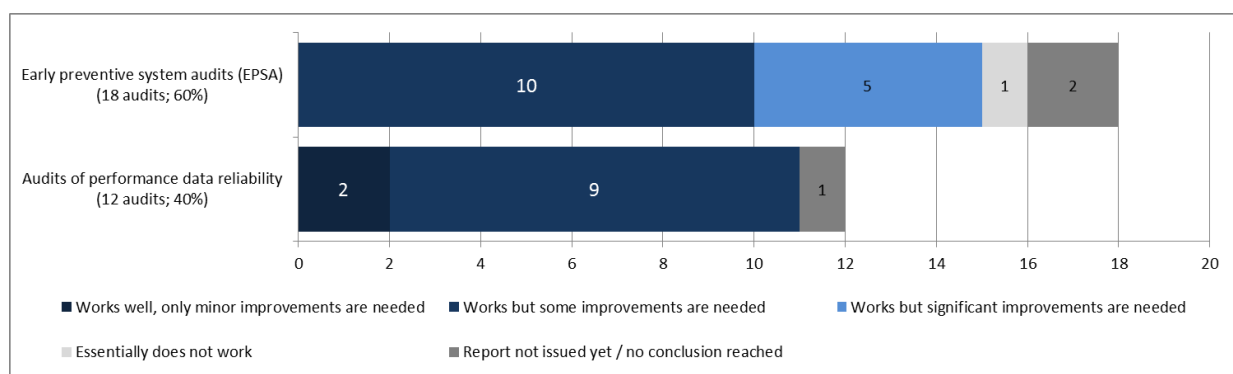
- ✓ comply with requirements of the relevant EU Regulations;
- ✓ are functioning effectively to prevent and detect errors and irregularities and to ensure the legality and regularity and the effectiveness of the expenditure declared to the Commission; and
- ✓ ensure the quality and reliability of the systems in place for reporting performance data.

Moreover, at the start of the programming period, and pending reception of audit authorities' audit results and opinions for all programmes, the Single Audit Strategy foresees risk-based, targeted preventive system audits to obtain early on assurance on the proper functioning of the designed systems.

Commission on the spot audit work in 2017

In line with the Single Audit Strategy, REGIO's 2017 audit plan focused mainly on Early Preventive System Audits (EPSA) and audits to verify the reliability of data reported on performance indicators, jointly with EMPL to ensure synergies in particular for common management and control systems (multi-fund programmes, common audit authorities). The first compliance audits (to re-perform the work of audit authorities and ascertain the error rates and residual error rates reported in 2016) were also planned and took account of the ECA's sample for its 2017 Statement of Assurance.

REGIO's on-the spot audit results



Early preventive system audits

18 Early preventive audits carried out in 2017

Significant deficiencies detected for 6 programmes and remedial actions requested on time for 2018 accounts

A total of 18 Early Preventive System audits took place covering operational programmes in 11 Member States (BG, CZ, DE, ES, FR, HU, IT, PL, RO, SK and UK). The programmes were selected through a single risk assessment performed jointly by REGIO and EMPL.

These audits were preventive, with a view to obtain assurance at an early stage of implementation and before receiving the assurance packages from the national authorities. For the concerned programmes, the Commission was able to issue timely recommendations to the concerned Member States, addressing any

shortcomings found in their systems. This is therefore considered a useful tool also appreciated by Member States to provide early and preventive recommendations to programme authorities. As a general conclusion there was reasonable assurance on the effective functioning of the management and control system of the audited programmes, except for six operational programmes in Germany, Hungary, Italy, Poland and the UK for which deficiencies were found in relation to the selection of operations, management verifications, audit trail and procedures for drawing up and submitting payment claims.

Warning letters were issued for all affected programmes asking Member State authorities to implement the necessary corrective measures on time for the accounts to be submitted in early 2018.

Audits on the reliability of performance data indicators

*12 audits on performance data
Material deficiencies detected for
1 programme*

In view of the performance reserve allocation in 2019, 12 audits were carried out in 9 Member States²⁶ to assess the reliability of performance data reported by Member States. No material deficiencies were detected except in one case (IT). Recommendations have been made to improve reporting and the IT systems whenever necessary, and to correct performance data reported so far and to re-inforce monitoring in the Italian case, thus possibly contributing

to improved quality of performance data reported to the Commission.

Compliance audits

*12 compliance audits
on 29 ERDF/CF, ESF and FEAD
operational programmes by
ECA, accompanied by REGIO
and EMPL*

*Preliminary results taken into
account when possible*

The main objective of the on-the-spot compliance audits is to seek reasonable assurance that no serious system deficiency remained undetected or unreported by Member States and that the reported audit opinions (on the effective functioning of systems and on legality and regularity of the expenditure declared) and residual error rates were reliable. The Commission services had planned to carry out in 2017 their first compliance audits, following a risk-assessment, to re-perform the work of audit authorities and ascertain the error rates and residual error rates reported. The Court of Auditors also carried out 12 compliance audits in 7 Member States (covering 29 multifund and monofund programmes) for the 2017 Statement of Assurance on Cohesion policy²⁷. With a view to avoid duplication of audits on the very same

operations already audited by audit authorities and re-performed by the Court, and with

²⁶ BG, CZ, DE, EL, FR, IT, PL, SK and UK.

²⁷ For ERDF/CF these ECA audits covered all but 7 programmes with expenditure declared in the accounts, including these programmes initially included in our audit plan.

regard to the limited number of programmes having operations audited by audit authorities in 2015-2016, REGIO and EMPL decided to accompany the Court's audits instead (for REGIO in EE, EL, LV, PL and ES).

As regards the 2018 accounts, REGIO is currently carrying out its joint risk-assessment with EMPL to determine which audit authorities and programmes will be subject to compliance audits in 2018. In setting its audit plan, REGIO will carefully coordinate with other concerned services as well as with the Court to avoid duplications and overlaps, while ensuring a sufficient level of coverage through its own audits for its assurance process.

Conclusions on the assessment of the assurance packages received by 1st March 2017 (2nd accounting year 2015-2016)

Assurance as regards three blocks of expenditure, coming from:

- 1. Full assessment of last year's assurance packages*
 - 2. Preliminary assessment of the new assurance packages*
 - 3. 10 % retention on interim payments and all available audit information*
-

REGIO completed its assessment of the assurance packages submitted by the Member States by 1st March 2017. For the 35 programmes having submitted annual control reports, the assessment focused on the validation of the reported audit opinions and error rates / residual error rates taking account of additional audit work carried out. The Commission auditors have thus looked at all evidence allowing them to **validate last year's residual error rates** for all these 35 programmes. This was done following a full desk review of the information contained in the annual control reports and taking account of results from any EU re-performance audit work carried out during the year by the Directorate-General and other Directorates-General. Whenever possible, account was also taken of the results of the European Court of Auditors' work. Special attention was given to the sampling methodology used by audit authorities, analysis and treatment of errors and the reporting of financial corrections that would affect the calculation of the residual error rate.

Based on the findings of the Court for the 2015-2016 accounts (pending completion of the clearing procedure with the concerned Member States) and reviewed by the Commission at this stage, additional financial corrections may be necessary to bring the residual risk to 2% in one case. If confirmed upon completion of the ongoing clearing procedure, these corrections will be implemented. The programme has been included in the reservation list²⁸.

On the basis of the approach described above, REGIO is in a position to report **for the 2nd accounting year 2015-2016 a weighted average total error rate of 0.5% and a**

²⁸ For another programme of SME Initiative, the Court detected a high number of ineligible loans, linked for example to insufficient checks performed by the audited financial intermediaries to verify the status of beneficiary companies. These implementation weaknesses, however, do not impact the legality and regularity of the advance payment made in 2017 by the Commission to the programme in line with the regulation (complete endowment of the financial instrument to be paid as advance payment in case of SME Initiative programmes). Following the ECA audit, the fund manager (EIF) committed to apply corrective measures so as to ensure the sound implementation of the instrument.

For this programme, the Court also points to an amount not paid by the Member State to the fund manager due to insufficient credits but reported to the Commission in the submitted accounts. This preliminary finding is subject to an ongoing clearing procedure with the Member state and the Commission. Payments to this programme represented a sizable share of ERDF/CF expenditure paid by the Commission under the 2015-2016 accounting year,(EUR 27 million or 1,5%). However, the Commission considers this formal reporting error was only temporary and solved within the reporting year since the Member State could complete its payment to the Fund manager immediately after receiving the ERDF co-financing in June 2017.

For 2nd accounting year
01 July 2015-30 June 2016:

35 certified accounts received

Adjusted weighted average
- error rate: 0.5%
- residual error rate: 0.4%

weighted average residual error rate of 0.4%²⁹. Without the impact of EU advances to financial instruments³⁰, these rates would be 0.7% and 0.6% respectively³¹.

Taking into account the potential maximum impact of ongoing audits of the Court, the overall weighted average residual error rate for ERDF/CF in 2015-2016 would still remain below 2%. On the basis of the above assessments and taking account of the updated error rates, REGIO confirms that **the estimate for the risk at payment included in the 2016 AAR (i.e. below 2%) remains valid.**

Preliminary results of the assessment of the assurance packages received by 1st March 2018 (3rd accounting year 2016-2017)

For accounting year
01 July 2016-30 June 2017:

175 certified accounts received with
ERDF/CF expenditure
All accounts accepted

Reportable error rate: 1.4 %
Reportable residual error rate: 0.8%

Upon receipt of the assurance packages for the 3rd accounting year 2016-2017, REGIO has carried a preliminary assessment to confirm that the information disclosed in the annual control report and audit opinion is in line with the information gathered by the Commission in particular through their own audit work. In particular, the following elements have been analysed, as part of the consistency checks carried out:

- that the Member States authorities have taken appropriate preventive and corrective actions to follow-up the interruptions and warnings issued by the Commission;
- that audit conclusions reported by the audit authorities are in line with the national system audit reports issued during the period and with the results of the Commission's on-the-spot audit work.
- that the expenditure under on-going assessment has been deducted from the accounts in accordance with article 137(2) CPR and was appropriately treated by the programme authorities when calculating the residual error rate.

The preliminary assessment made by REGIO auditors covered the reported audit opinions on the accounts, on the effective functioning of management and control systems and on the legality and regularity of expenditure certified in the 3rd accounting year 2016-2017 based on the reported total error rates and residual error rates as disclosed in the annual control reports.

Accounts

All programmes have submitted certified accounts and relative accompanying documents for **the accounting year** from 1 July 2016 to 30 June 2017.

Out of those, 175 programmes (including 6 multi-fund programmes with EMPL chef de file) certified ERDF/CF expenditure, for a total amount of EUR 13.5 billion. This is a difference of EUR 562 million compared to the related final interim applications submitted in July 2017. These deductions result from financial corrections implemented following audits, continued management verifications and from different on-going assessments on the

²⁹ Compared to a 0.11% reportable residual risk last year, before the Commission's complete assessment..

³⁰ As per ECA recommendation n° 2 a) in its 2016 Annual Report, paragraph 6.40.

³¹ Out of the 35 programmes with ERDF/CF expenditure certified in the 2015-2016 accounts, 2 include advance payments made to a financial instrument (the Estonian programme and the SME initiative programme in Spain).

legality and regularity of expenditure previously declared during the accounting year. Out of these, **EUR 97 million** represents deductions made by the Member States from the accounts **as a direct result of financial corrections following audits of operations** (see table in annex 8).

This shows that the new system allows to exclude from annual accounts the expenditure found to be irregular (0.7% of the expenditure declared during the accounting year corrected as a result of audit of operations).

As a result of their verifications, audit authorities were able to issue unqualified audit opinions on the completeness, accuracy and veracity of all submitted accounts³².

Following its assessment of the work carried out by the audit authorities to substantiate their audit opinions on the accounts³³ and after having for some programmes received revised accounts or further clarifications from national authorities, REGIO concluded that all reported accounts can be accepted, thus confirming their completeness, accuracy and veracity.

Effective functioning of management and control systems

For the 175 programmes with ERDF /CF expenditure, assurance packages provide also the basis for the audit opinions by audit authorities on the management and control system in place and on the legality and regularity of underlying transactions. Based on the result of its preliminary assessment of all submitted information, total error rates and opinions reported, as well as any subsequent audit information, REGIO considers that management and control systems function effectively for 156 programmes³⁴.

On the contrary, for 14 programmes³⁵ REGIO considered based on all audit evidence reported by audit authorities that systems work only partially and need substantial improvements pointing to serious deficiencies, with material impact on expenditure declared. For these programmes either sufficient financial corrections were applied by the Member State on time for the accounts, thus allowing to obtain a residual risk below 2% in the accounting year; in such case no reservation are made but instead system improvements are requested from the concerned Member States for the next accounting year. Otherwise, where the reported error rate is above 10% or where insufficient financial corrections were made to bring the residual risk below 2% for the accounting year, reservations are made.

Finally, for 5 programmes³⁶, REGIO issued adverse opinions on the functioning of the management and control systems due to material levels of error not mitigated by the 10% retention, leading to additional reservations.

REGIO's preliminary audit opinions on the received assurance packages:

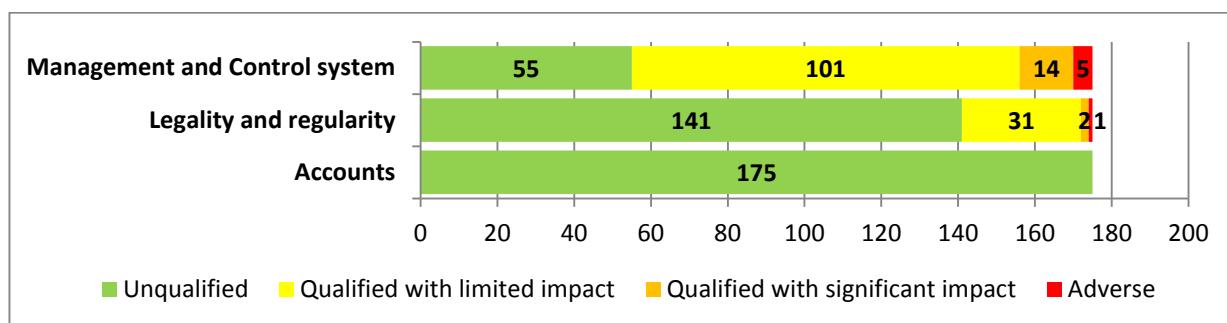
³² In line with Article 139(5) CPR, this audit opinion on the accounts and acceptance of the accounts is without prejudice to the assessment of the legality and regularity of the underlying expenditure in the accounts, which is a separate process (see below).

³³ Following the regulatory framework (Article 139(2) CPR), an acceptable audit authority's unqualified opinion on the accounts is the key criterion for the Commission to decide on the acceptance of the accounts.

³⁴ Including for 102 programmes where improvements are needed but without material impact on expenditure declared.

³⁵ BE(1), CZ(2), FR(4), HR(1), HU(2), IT(2), PL(1), SI (1).

³⁶ FR(3), IT (1), TC(1).



Reportable error rates and residual error rates

The preliminary checks carried out on the reported total and residual error rates have not revealed material inconsistencies to be reported in the majority of cases. However, some irregularities linked to ineligible VAT were identified by the Court audits in PL for the error rates reported last year in relation to the 2017 accounts. Since this issue could be systemic for the concerned three regional programmes, it led us to use a flat rate of 2% to calculate the risk for these programmes instead of the error rates reported by the audit authority for the 2018 accounts. For remaining programmes, some minor adjustments to the reported error rates have occurred but the assessment of reported error rates is still on-going at this stage and will be confirmed in next year's annual activity report, once a full desk-review completed by possible compliance audits have been carried out³⁷.

As a result, error rates and residual error rates are disclosed in the annual activity report as the ones reported by the audit authorities to the Commission, except for a limited number of cases where they have been adjusted. Overall, taking account reportable error rates and the flat rates³⁸ and based on expenditure certified in accounts submitted in February 2018, **the average reportable total error rate is 1.4% and the corresponding average residual total error rate 0.8%** (see details by programme in Annex 7D).

In addition, REGIO has made a re-calculation of these total and residual error rates by neutralizing the impact of the advances paid into financial instruments and included in the samples of audit authorities based on declared expenditure (in line with Article 127 CPR)³⁹. The result is a mere difference of 0.2 percentage points on the error rate (the total error rate would be **1.6%** and the **residual total error rate 0.9%** when excluding advances into financial instruments from the calculation⁴⁰). The impact of advances into financial instruments on the average weighted residual error rate is therefore low. As a result to all implemented financial corrections and subject to a final assessment and validation to be reported in its 2018 AAR, **the Directorate General has reasonable assurance at this stage that the residual error rates for all programmes except three⁴¹ are below materiality for 2017.**

Interim payments made in the second semester 2017 were subject to 10% retention

³⁷ This is particularly the case for Greece which reported a common reported error rate for 17 programmes and for which additional verifications are needed, including for an error reported as "exceptional". The Commission services need to verify whether the issue should instead be considered as systemic.

³⁸ DE(1), FR(1), PL(3).

³⁹ See ECA recommendation 2(a), paragraph 6.40 in its 2017 Annual Activity Report; 67 programmes out of 175 were concerned with such a re-calculation of the error rate due to advances paid into financial instruments.

⁴⁰ The SME Initiative programmes which constitute a 100% advance payment are excluded from this calculation. For the third accounting year, only one programme in Bulgaria has confirmed in the accounts expenditure related to the SME initiative.

⁴¹ OP 2014DE16RFOP004 Brandenburg in DE, OP 2014FR16M0OP007 Midi-Pyrénées et Garonne in FR and 1 ETC OP 2014TC16RFCB014 Interreg V-A- Central Baltic, all put in reservation.

The assurance on the interim payments made by the Commission in the second semester of 2017 is based on the following elements:

- Reliable audit authorities⁴² have validated the designation process for remaining programmes before the first interim payment was submitted to the Commission.
- All interim payments made by the Commission were subject to 10% retention in line with the regulation, pending finalisation of the full national control cycle.
- Results from all available audit information, such as **156⁴³ national system audit reports** submitted by the audit authorities in 2017 and/or the results of the Commission own audit work, and in particular the early preventive system audits performed in 2017, were assessed. Adequate follow-up actions were carried out by REGIO such as the immediate interruption of payments (when the risk was considered to be above the 10% retention) and/or warning of possible interruption unless specific remedial actions are taken until the submission of accounts (when the risk was considered to be covered by the 10% retention).
- Results from the assessment of the assurance packages.

For programmes for which payments were made in the first semester 2017, assurance packages received in February 2018 included audit opinions on the effective functioning of the systems and legality and regularity based on system audits and audits of samples of operations. They therefore provided information on the effectiveness of management verifications carried out, an analysis of the nature of irregularities detected and weaknesses identified in the management and control system and remedial actions (including financial corrections) already applied or on-going. For these programmes, the total and residual error rates reported are therefore also the best indicator of risks for expenditure of the second semester.

For programmes with no reported error rates this year but with payments made by the Commission in the second semester of 2017, the Commission has prudently estimated a residual error rate of 2% for the amount at risk, except for those programmes where other audit evidence such as national system audits or Commission audits allow to quantify the risk to a higher level.

Conclusion for 2014-2020 expenditure paid in 2017: overall assessment of the effective functioning of management and control systems

Indicator	2017
Number of ERDF/CF programmes from the 2014-2020 programming period in reservation	17

The set-up of the assurance model for the 2014-2020 programming period strengthens the Member States' accountability and reduces the risk of having a material level of error in the certified programme accounts on a yearly basis. Moreover, timely identification of deficiencies and reporting of reliable error rates is in the Member States' best interest since the European Commission shall make net financial corrections in case Member States have not appropriately addressed serious deficiencies in their management and control systems errors before submitting annual accounts.

Based on all audit results, REGIO is making the following assessment:

⁴² acting as independent audit bodies under article 124 of the CPR.

⁴³ Additional system audit reports were received at the same moment of the submission of the Annual Control Reports in February 2018.

- The residual error in the expenditure entered in **the 2015-2016 accounts is reported at 0.4% after corrections applied by Member States in the accounts**, thus confirming that the 2015-2016 accounts are not affected by a material level of errors (and pending the definitive results of contradictory procedures for potential additional deficiencies identified by the Court but under contradictory procedure and to be included in this calculation once confirmed)⁴⁴;

- For all programmes with ERDF/CF expenditure certified in the 2016-2017 accounts, management and control systems are reported to function effectively or need some limited improvements, except for 19 programmes where REGIO has evidence of serious deficiencies for which financial corrections were taken, system improvements were requested from the Member States and reservations are made where necessary⁴⁵.

- The average reportable residual error rate for expenditure certified in **the 2016-2017 accounts is 0.8%**, based on error rates reported by Member States' audit authorities as provisionally adjusted by REGIO using flat rates when it had indications that the reported error rates could be under-reported. This REGIO's assessment of the reported data is still on-going and a full validation will be made in the next AAR through a full desk review and following on-the-spot compliance audits to assess the reliability of the work of audit authorities to be carried out on a risk basis. On this basis, REGIO has reasonable assurance that the management and control systems are reported to function effectively to ensure the legality and regularity of the EU payments made in 2017 for the 2014-2020 programming period since they bear practically no risk (pre-financing) or, for the interim payments made, adequate mechanisms are in place to ensure that only legal and regular expenditure are included and certified in annual accounts, with the exception of those programmes which are under reservation (see page 100).

Safeguarding the EU budget by preventive and corrective actions (interruption and financial corrections)

In view of the regulatory changes for 2014-2020, in particular, the articulation between Article 83 CPR on interruption, Article 142 CPR on suspensions and two novelties of the CPR, the annual closure of accounts and the 10% retention on reimbursement of interim payments (Articles 130 and 139 of the CPR), REGIO and EMPL agreed to follow a common approach regarding interruption of payments, as a balanced solution that protects the EU budget against serious irregularities and serious deficiencies in the management and control system. This ensures a residual error rate below 2% and the possibility for the Commission to apply net financial corrections should serious deficiencies be identified by the Commission's Audit Directorates (or the European Court of Auditors) subsequent to the submission of the accounts, not identified, reported or corrected by the Member State.

Under the agreed approach, an interruption is necessary only where the serious deficiency in the management and control system would require a correction higher than 10% or where the irregularity would have serious financial consequences (impact above 10% of the programme's financial allocation or above the threshold of EUR 50 million)- in application of Article 83 (1)(a) of Regulation 1303/2013. If no payment claim is submitted, a warning letter of possible interruption of payment deadline is to be sent. A warning letter is also sent for cases with estimated risk to the EU budget below 10%. The Member State is requested for system deficiencies to take necessary measures to improve the system and for irregularities not to include related expenditure in the interim claims and in the account until the legality and regularity of the expenditure is confirmed.

⁴⁴ This calculation does not include a specific programme for which 100% advance payment was made in 2017 and for which the Court found various implementation errors, see footnote 28.

⁴⁵ Out of these 19, for 8 programmes (in BE, CZ, FR(2), HU, IT(2) and SI) a reservation is not issued, following the materiality criteria set in annex 4.

The table below shows the number of warnings and interruptions issued in 2017 and during the 1st quarter of 2018.

	Warning (risk < 10%)	Warning of possible interruption of payment (risk >10% but no pending payment claim)	Interruption of payment (risk >10% and pending payment claim)	Pre-suspension letters	Suspension decisions
2017	1	3	0	-	-
Q1 2018	3	2	1	-	-

A.2 Shared Management – Closure of ERDF/ CF 2007-2013

In 2017, REGIO paid EUR 3.7 billion for the 2007-2013 ERDF/CF programmes, mainly for final payments⁴⁶. Indeed, closure packages of the 2007-2013 programmes (Final Implementation Report, Closure declaration and Final payment Claim) were received by 31 March 2017 for all 317 ERDF/CF programmes as expected and by the 31 of March 2018 for the five Croatian programmes.

Closure is a threefold process involving different parts of the Directorate general (implementation, audit, financial) which results in the financial settlement of outstanding Union commitments through payment of the balance of the commitment to the appointed authority or issue of a debit note and/or decommitment of any final balance. When setting-up the procedures REGIO decided to withhold (i.e. to keep open commitments and not to pay at this stage) amounts affected by open issues, such as on-going OLAF/national investigations, open audit findings, pending recoveries, etc. Following REGIO's assessment, the uncontested amounts are paid immediately following a pre-closure letter, as soon as the Commission is satisfied with the content of the final implementation report and has obtained assurance from the closure declaration that all legality and regularity issues have been solved.

REGIO has set up internal processes aimed at ensuring adequate management of risks related to the legality and regularity of underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned. In this respect, the control objective is to ensure that the residual risk of each programme does not exceed 2% on a cumulative basis at closure and that, where this is the case, the necessary additional financial corrections are applied at closure so that this ultimate filter ensures that no material level of error exists in the co-funded expenditure.

Article 89(4) of the General Regulation provides that subject to available funding, the Commission shall pay the final balance within no more than 45 days from the latter of the following dates: the date of the acceptance of the Final Implementation Report and the date of the acceptance of the Closure Declaration.

If there are no pending issues identified in the programme or all pending issues have been resolved, the final balance can be determined and paid. Consequently, a closure letter can be sent accepting the closure documents. However, if there are pending issues identified in the programme, the final balance cannot yet be determined and a pre-closure letter shall be sent, the Commission paying only the uncontested amount to the Member State. Once the pending issues are resolved, a closure letter can be sent to the Member State.

At end 2017, the closure process was well advanced but still ongoing for two thirds of

⁴⁶ 3.33 Billion as final payments and 0.35 Billion as interim payments.

programmes. The following paragraphs therefore give an overview of the state of play of the closure, the estimated residual risk rate and the level of financial corrections for the whole programming period at this stage of the closure process.

A.2.1 Supervisory actions of the Directorate-General throughout the 2007-2013 programming period to monitor risks for each programme provided a sound basis for closure

1. Commission supervisory work carried out throughout the programming period

Indicator (programming period 2007-2013)	2017
Reviewed audit authorities by REGIO	52 ⁴⁷ in charge of >98% of ERDF/CF allocations ⁴⁸
Reliance on reviewed audit authorities by REGIO	100% of reviewed audit authorities (after action plans, where necessary)

Closure declarations and final control reports contain a synthesis of all EU and national audit work carried out during the programming period to monitor and mitigate irregularities and risks identified throughout implementation. On its side, during the 2007-2013 programming period, REGIO's audit directorate has built up significant knowledge of the effective functioning of management and control systems at national/regional level both from monitoring and analysing the work carried out by the audit authorities, and from its own work under different audit enquiries, in line with its audit strategy:

- Review of the work of audit authorities (for mainstream and ETC programmes) in view of possible reliance on audit results
- Monitoring of continued application of conditions for formal reliance on audit authorities in line with Art.73
- Bridging the assurance gap for the quality of management verifications, in particular for public procurement and State Aid issues
- Effectiveness of management verifications carried out under the ETC objective
- Reliability of the reporting of withdrawals and recoveries
- Financial instruments
- Preparation for closure: targeted audits covering any of the above audit enquiries in case of estimated remaining risks.

Over the programming period, REGIO carried out over 580 audit missions in the Member States, as follows:

Enquiry planning memorandum ⁴⁹	Number of audits
Review of the work of audit authorities	241
Monitoring of Article 73	21
Fact finding audits on annual control reports and final control reports	72
Bridging the assurance gap	155
Reliability of reporting of withdrawals and recoveries	36
Financial instruments	15
Audit of the management verifications in ETC programmes	20
Audits to estimate an error rate at the beginning of the programming period (2009)	14
Performance audits (pilot exercise)	9

⁴⁷ The on the spot audits by Directorate General of Regional and Urban Policy covered the following ERDF/CF audit authorities responsible for audit of mainstream programmes and ETC programmes: (1 AT, 2 BE (out of 3 AAs), 1 BG, 1 CY, 1 CZ, 11 DE (out of 17 AAs), 1 DK, 1 EE, 1 ES, 1 FI (out of 2 AAs), 1 FR, 1 EL, 1 HR, 1 HU, 1 IE, 12 IT (out of 25 AAs), 1 LT, 1 LV, 1 MT, 1 NL, 1 PL, 1 PT, 1 RO, 1 SE, 1 SI, 1 SK and 4 UK (out of 5 AAs). LU was the only MS without on-the-spot audit by REGIO; in addition 7 audit authorities are responsible for ETC programmes only (the latter representing 0.36% of total ERDF allocation).

⁴⁸ ERDF/CF allocation for both mainstream and ETC programmes under the audit responsibility of 75 ERDF/CF audit authorities.

⁴⁹ Audits carried out for preparation of closure are included in the respective audit enquiries, see next section.

TOTAL	583
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The validated error rates reported annually by the audit authorities reflect the effective functioning of the management and control systems and, together with the cumulative residual risk (taking account of the financial corrections implemented by Member States), constitute the cornerstone of the assurance process and of the methodology to estimate the residual amount at risk at closure.

Therefore, REGIO's audit effort focused in first instance to ascertain the reliability to be put in the work of audit authorities. Since 2009, 334 audits to review the audit authorities' work were carried out. These audits contributed to capacity building, when need for improvements or weaknesses were identified and allowed to bring all concerned audit authorities to a common level playing field. As a result of this exhaustive audit work, REGIO was eventually able to rely on the work of 52 audit authorities, in charge of auditing 98% of the ERDF/CF expenditure in the programming period.

Over 580 REGIO audits since 2009

334 to review the audit authorities' work

Reliance on work of 52 audit authorities (auditing >98 % of ERDF/CF)

work were carried out. These audits contributed to capacity building, when need for improvements or weaknesses were identified and allowed to bring all concerned audit authorities to a common level playing field. As a result of this exhaustive audit work, REGIO was eventually able to rely on the work of 52 audit authorities, in charge of auditing 98% of the ERDF/CF expenditure in the programming period.

Where the work of the audit authorities could not be fully relied upon, or where specific risks were not addressed in a timely way by the audit authorities' audit strategies, REGIO carried out its own audit work to obtain direct assurance (under the "Bridging the assurance gap" audit enquiry).

Where serious deficiencies have been detected, either through the work of the audit authorities or from the work of the REGIO audit directorate, timely corrective actions have been taken. In particular, through procedures for the interruption and suspension of Commission payments and appropriate reservations entered in the annual activity reports, REGIO has systematically requested national authorities to implement appropriate action plans to ensure the effective functioning of the management and control systems for newly declared expenditure (to avoid repetition of same types of irregularities) and to make proportionate financial corrections for expenditure already declared to the Commission, when needed. The audit directorate has closely monitored and assessed the system improvements and the corrective actions taken by the national authorities. More than 200 of the 322 ERDF/CF programmes have gone through a warning, interruption or suspension procedure since the beginning of the programming period (see section A.2.2 below).

Detailed reports on the results of audit activities were disclosed in each annual activity report since 2009 (see also annex 8).

2. Targeted audits for preparation to closure in case of remaining risks

In 2016 and 2017, REGIO also carried out targeted audits to address any risk that it considered remaining high in view of the preparation for closure. These audits could cover any of the enquiries available under the REGIO audit strategy and were tailor-made.

The audit work to prepare for closure was based on the following enquiries:

- Reliance on the work of audit authorities and monitoring Article 73

During 2016, 2017 and beginning of 2018 REGIO auditors carried out the following audits to assess the reliance that could be placed on the work of the audit authorities in view of closure:

- 4 audits re-performing the audits of operations carried out by the audit authorities in CZ, HR, IT and SK;
- 5 audits to prepare for closure in DE, IT (2), SI and SK;
- 21 fact-finding audits to assess the reliability of the 2015 annual control reports and the final control reports in BG (2), CZ, DE (3), DK, EL (2), ES, FR, HU (2),

IT (2), RO(3), SK and UK (2) and one fact finding in relation to the 2016 annual control report in HR.

- 4 audits in DE, (2), EE and PL to monitor the work of audit authorities for programmes that were granted Article 73.

- Bridging the assurance gap

In 2016 and in 2017, 9 audits were carried out under this enquiry in BG, DE, HU (3), IT (2) and RO (2). Audits aimed to obtain direct assurance in view of closure declarations, ensuring that identified risks were appropriately treated and adequately mitigated. The scope of the audits was tailored to address the specific residual high risks of each programme taking into account the results of the work of the audit authorities, systemic weaknesses previously identified, error rates from audits of operation and effectiveness of management verifications. Other high risk areas were also covered under this enquiry such as the inclusion of retrospective projects expenditure, the inclusion of expenditure linked to contracts known to be affected by public procurement irregularities for which appropriate ex-ante corrections had to be applied, risk of reduced quality of management verifications due to higher amounts of expenditure to be certified in 2015 and 2016 and delays in certification resulting in the audit authorities having limited time to complete their audits of operations.

- Withdrawals and recoveries

In 2017, two audits on the spot (in Romania and Slovakia) at the level of the certifying and managing authorities and three desk audits covering Greece, France and Italy were carried out. In all cases, the audit work focused on the accuracy and reliability of the data reported by the Member States on withdrawals and recovered by 31 March 2016 and previous years with the aim to ensure that the residual risk rate to be calculated and reported by audit authorities at closure is reliable.

The cumulative audit work carried out throughout the programming period and the related corrective actions taken by the national authorities have thus paved the way to closure and have contributed significantly to limiting the risks remaining at closure.

A.2.2.Safeguarding the EU budget by preventive (up to closure) and corrective actions

1. Interruptions/suspensions of payments

Since the beginning of the programming period, REGIO interrupted ERDF/CF payments, warned about the possible interruption of payment (when no payment claims were submitted) or suspended payments to 233 out of 322 ERDF/CF programmes due to serious deficiencies in the functioning of management and control systems. In line with the proportionality principle, these measures were taken at the level of the deficiency: programme or part of programme, for example intermediate body, specific measure etc.

72% OPs interrupted or warned during the period

Corrective measures including financial corrections taken

The use of these preventive measures allowed REGIO to appropriately monitor risks throughout the period, continuously protecting the EU budget from irregular expenditure. This was confirmed by the European Court of Auditors in its *Special report on the protection of the EU budget from irregular expenditure*⁵⁰ where it concluded that "overall, we found that the Commission made effective use of the measures at its disposal during the 2007-2013

⁵⁰ Special Report No 04 from 2017: Protecting the EU budget from irregular spending: The Commission made increasing use of preventive measures and financial corrections in Cohesion during the 2007-2013 period.

programme period to protect the EU budget from irregular expenditure". These measures also allowed REGIO to accelerate the closure process of 2007-2013 programmes compared to previous programming periods.

At the time of closure, there were three operational programmes⁵¹ with a suspension decision adopted by the Commission. The concerned Member States were informed that the suspension decision has become redundant at closure and that the underlying deficiencies or irregularities will be dealt within the course of the closure procedure. Final payments could only be processed once all outstanding issues have been dealt with. Suspension decisions will have to be removed by means of a repealing Decision after closure of the operational programmes concerned.

2. *Financial corrections as a result of the Commission supervisory role*⁵²

Indicator (ERDF and Cohesion Fund)	2017 (EUR million)	Cumulative since 2007 (EUR million)
Financial corrections as a result of the Commission supervisory role		
- Decided/confirmed ⁵³	611	3,498
- Implemented	450	2,697
- Rate of implementation of corrections for 2007-2013 programmes	-	77%

The purpose of financial corrections is to ensure that the risk on the legality and regularity of the expenditure declared for co-financing at programme level is below materiality, either through corrections of individual irregularities detected or through extrapolated corrections in case of material representative error rates. These must be based on evidence. The Commission bears the (initial) burden of proof for system deficiencies, irregularities and breaches of the obligations under Articles 98 and 15(4).

The principal sources of evidence for the reported financial corrections are:

- REGIO audits;
- Reports by national audit bodies (annual control report and audit opinion submitted according to Article 62(1)(d)(i) and (ii) of Regulation (EC) No 1083/2006 ; national audit reports);
- Audits by the European Court of Auditors (ECA);
- OLAF final case reports.

Following this methodology, the reporting of financial corrections in this section provide only information on amounts of financial corrections carried out by the Member States at the Commission request resulting from EU bodies audit work. These amounts of financial corrections confirmed and implemented by Member States at the Commission's request are reported on bi-annual basis to the European Parliament. The Commission's annual Communications on the protection of the EU budget provide the details on an accrual and cash basis⁵⁴.

See also in annex 8 the tables showing per Member State the total cumulative decided/confirmed and implemented financial corrections for all programming periods at the end of 2017.

3. *Preventive impact of financial corrections on expenditure not declared to the Commission*

⁵¹ Ref 2007HU161PO008, 2007ES161PO002 and 2007ES162PO006

⁵² Financial corrections for the 2007-2013 programming period only. More details are given in Annex 8.

⁵³ Excluding financial corrections at source.

⁵⁴ The Communications on the protection of the EU Budget is integrated in the Annual Management and Performance report (AMPR) as from June 2017.

Indicator (ERDF and Cohesion Fund)	2017 (EUR million)	Cumulative since 2007 (EUR million)
<i>At source</i> ⁵⁵ financial corrections for 2007-2013 programmes resulting from Commission supervisory role	9	1,442 ⁵⁶

The amount of financial corrections reported above do not reflect the total amount of corrections accepted by Member States as a result of the Commission's supervisory role. Remedial action plans are requested by the Commission from Member States when deficiencies are identified. These also have a **preventive impact** on expenditure already incurred by beneficiaries and registered at national level in the certifying authority's accounts, but not yet declared to the Commission. For such expenditure, the certifying authority applies the financial correction requested by the Commission prior to declaring expenditure ('ex ante' or 'at source'). Expenditure declared to the Commission is therefore net from irregular amounts. Similarly, warning letters sent out by the DG when system deficiencies are identified before a payment claim is submitted to the Commission may also have the same preventive effect on the protection of the EU budget, but no amount is reported by the European Commission/ Member States in this case as this effect is more difficult to quantify.

The preventive effect of the Commission's supervisory role leads to an increased protection of the EU budget and to reduced errors detected by audit authorities when auditing amounts claimed from the Commission, and should therefore be reflected as well in the reporting⁵⁷.

4. Financial corrections reported by Member States relating to the 2007-2013 period

Indicator (ERDF and Cohesion Fund)	at closure (EUR million)	Cumulative since 2007 ⁵⁸ (EUR million)
Corrections for 2007-2013 programmes reported by Member States ⁵⁹	3,162	8,985
Out of which additional to the Commission's reporting at 1/03/2017 ⁶⁰		6,290

Since the reporting year 2010 and by 31st March of each year, Member States submit an annual statement on withdrawals, recoveries, pending recoveries and irrecoverable amounts under the provisions of the Article 20(2) of Regulation (EC) No 1828/2006 for the 2007-2013 programmes. This is sent to the Commission through the IT system SFC2007. This information has been reported for the last time with closure declarations by 31 March 2017. This report refers to two sources of financial corrections:

⁵⁵ Or "ex-ante" corrections, as reported in the AAR2015.

⁵⁶ As also explained in previous AARs, REGIO performs an additional reporting exercise since 2014, targeted on the main cases in which flat rates corrections have been applied for problems linked to public procurement procedures or deficiencies in the Member States' management and control systems. As a result of this exercise, EUR 1.4 billion of financial corrections 'at source' have been identified in 10 Member States (BG, CZ, EL, FR, HU, IT, LV, PL, RO and SK).

⁵⁷ Since there is no legal requirement for Member States to report on such amounts, nor a structured reporting since the beginning of the programming period, this section presents a prudent and non-exhaustive amount of additional financial corrections for cases for which the Directorate-General could reconstitute a clear audit trail at the level of the certifying authority.

⁵⁸ The 2007-2013 regulatory payment system implies that EU payments or the EU share of withdrawals and recoveries are calculated automatically based on either the declared total or public cost, taking into account the co-financing rate at priority axis level. Amounts of recoveries and withdrawals are therefore calculated on the basis of the latest available financing plan, which means that amounts of EU share for a given year can vary in subsequent years if the co-financing rates were subsequently modified. Reporting can also be subsequently adjusted by the Member State, at the Commission request, when errors are detected.

⁵⁹ Following the provisions set in the guidance note to the Member States ref. COCOF 10/0002 EN.

⁶⁰ As a result of comparison for each Member State between national and EU reporting of implemented corrections.

- Financial corrections implemented by Member States (or pending recoveries) following the national verification and audit work carried out by all programme authorities, i.e. including from management verifications in addition to audits,
- Financial corrections implemented as a result of EU audit work, including at the Commission's request.

When facing irregular expenditure included in previous payment claims submitted to and reimbursed by the Commission, Member States have two choices according to the regulation:

- 1) immediately withdraw the irregular expenditure from the programme as soon as they detect the irregularity, by deducting it from the next statement of expenditure and thereby releasing EU funding for other, eligible operations or
- 2) issue a recovery order from the beneficiary and leave the expenditure in the programme until the outcome of proceedings to recover the unduly paid grant from the beneficiary; once the amount is effectively reimbursed by the beneficiary, deduct the recovered amount from the next statement of expenditure. The first type of financial corrections should be reported under withdrawals and the second one under recoveries and refer to corrections deducted from payment claims in the previous year.

Finally, from the overall cumulative amounts reported by Member States the Commission deducts its own reported cumulative amounts to estimate the additional corrections from Member States only. Cumulatively at the date of this report, Member States reported EUR 9.0 billion of withdrawals and recoveries for ERDF/CF for the 2007-2013 programming period, **out of which EUR 6.3 billion are estimated by the Commission to be additional to its reporting**⁶¹. A table providing a detailed picture of withdrawals and recoveries reported by Member State can be found in Annex 8.

5. Follow-up of 2016 reservations - ERDF/CF 2007-2013

The timing for submission of closure packages and final control reports to the Commission in March 2017 did not allow enough time for an in-depth analysis by the REGIO services before the signature of the AAR 2016. Therefore, on a precautionary basis operational programmes were included as part of the 2007-2013 reservation list when they presented an error rate for 2015-2016 expenditure above 5% or had a significant scope limitation on the expenditure certified for these years resulting in a qualified audit opinion by the audit authorities. Together with those programmes already subject to ongoing legal proceedings at the time of submission of closure packages, and for which no tome was available to assess the actions reported in closure packages as implemented, this resulted in 66 programmes put in reservation.

Following the in-depth analysis of the final control reports and the additional financial corrections implemented by the Member States and the audit work performed in 2017, and taking account of the regulatory retention of 5% that the Commission may only pay once it has reasonable assurance that all corrective actions have been implemented, reservations could be lifted for 49 operational programmes. The other 17 programmes remain in reservation pending the final results of the assessment of all required information from Member States, including additional financial corrections required in some cases or due to some on-going investigations (together with another new reservations for 3 programmes at closure, see annex 7 for the list of concerned 2007-2013 programmes with reasons for the reservation).

⁶¹ Additional corrections are estimated as the difference between the cumulative amount reported by the Member States up to closure (EUR 8.99 billion) and the amount reported by the Commission as implemented as a result of its supervisory role (EUR 2.70 billion). In the cases where the amount reported by the Commission is higher (like for example in Luxembourg and Malta), the additional corrections are set to zero. See table in annex 8 with more details on the corrections reported by each Member State.

A.2.3 Analysis of closure packages submitted by the Member States and assessment of the residual risk for each 2007-2013 programme at closure

Indicator	Total
Closure packages received by March 2017 (out of 317)	317
Closure packages received by March 2018 (5 HR programmes)	5

The programme authorities have submitted closure documents for all ERDF/CF programmes concerned by end of March 2017 and for the 5 Croatian programmes (3 mainstream and 2 cross borders with Croatia component) by end March 2018, in line with the regulation. All closure packages received in 2017 have been assessed by REGIO within the 5-month regulatory deadline and assessment letters were sent to Member States. This included requests for additional explanations or information in relation to final implementation reports or for legality/regularity issues, including the request for additional audit work in case of audit scope limitations reported.

1. Assessment of the final implementation reports and reported information on performance of programmes

The Final Implementation Report (FIR) enables the Commission to check whether the programme, as approved by the Commission, was properly implemented and whether the programme's objectives have been reached. Therefore, it presents aggregated data and information for the entire implementing period, including data for 2015. Before being sent to the Commission, the FIR should have been examined and approved by the Monitoring Committee.

The structure of the FIR follows the template provided the Implementing Regulation. It should contain all the information described in Art.67(2) of the General Regulation including:

- the progress made in implementing the programme;
- financial information;
- the measures taken to provide information on and publicise the OP;
- information about significant problems; and
- information about major projects implementation.

The analysis of the FIR was carried out within the regulatory deadline of the five months of its receipt by the Commission and where necessary observations were sent to the Member State for improvement of the document. Particular attention was given to the analysis of the outputs and results described against the programmes' objectives.

In the course of the examination of the closure of the 2007-2013 programmes the Commission has also examined with the Managing Authorities the final achievement values reported under selected "core" indicators (2014 values have been reported in the context of the ex-post evaluation and preliminary closure values were presented in REGIO's 2016 AAR). The values now arrived at for the selected core indicators are set out in Annex 11. All values show important increases in the final year(s) of the eligibility period (2015 for most programmes with implementation continuing into 2016 for Croatian, Romanian and Slovak programmes). For instance, aggregate gross job created is now reported at 1.3 million compared to 940,000 in 2014. It is particularly striking how values for indicators linked to major infrastructures (multi annual projects) showed significant increases in the final report, i.e. population covered by broadband access, or served by water and waste water projects have increase almost 3 times in comparison with 2014 values, which could be explained by the fact that certain type of interventions take more time to produce tangible results, and also by the pressure to complete them within the eligibility period.

2. *Assessment of the final control reports and closure declarations (audit opinions)- reported by audit authorities at closure and assessment of the residual risk rate per programme*

Indicator (ERDF and Cohesion Fund)	2017
Residual risk rate at closure (average for all programmes) reported by MS as at 31 March 2018	0.3%
Residual risk rate at closure (average for all programmes) as at 31 March 2018 – validated by REGIO except for 31 OPs (additional audits / information required)	0.6%

*317 closure packages
All fully assessed
1/3 of the OPs closed*

*Residual risk rate provisionally
calculated at 0.6%*

REGIO's audit directorate has reviewed all final control reports in 2017 and validated the error rates communicated by the audit authorities or requested additional information or audit work to be performed, based on desk review of all documents transmitted and taking into account the results of the targeted audits for preparation to closure described in section A.2.1 above. For the desk review, a standard checklist applied to all programmes and paying particular attention to some risks (in particular those identified by the European Court of Auditors in its 2016 Annual Report,

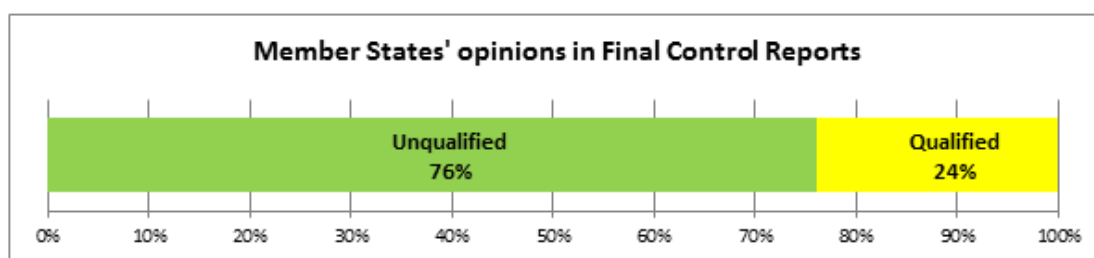
namely confirmation of audits on the eligible amounts reported for financial instruments, verification that State aid or contractual advances were covered by real expenditure at closure, appropriate coverage of programmes by audit activities over the programming period, appropriate controls of the reliability of financial corrections used for the purpose of the calculation of the residual risk rate at closure, etc.).

At closure, audit authorities have disclosed a residual risk rate (RRR) for each programme and calculated on the basis of the expenditure certified during the whole programming period, the identified risk rates and the validated financial corrections. This was their best estimate of the expenditure that was considered not in full conformity with contractual or regulatory provisions.

The RRR is also the best estimate of a programme's corrective capacity, i.e. of the residual risk taking account of the corrective capacity of the programme over the programming period. It assesses whether the financial risk for programmes has been kept at a tolerable level at closure. It is estimated by considering for each programme or group of programmes the multi-annual impact of the validated error rates calculated since the beginning of the programming period, after deduction of the financial corrections reported by the certifying authority and audited/validated by the audit authorities at closure.

The residual risk rates communicated in closure declarations are below the materiality threshold of 2% for all programmes. This is the result of the important level of additional corrections carried by Member States at closure, based on reported error rates. Audit authorities could thus report an unqualified audit opinion at closure for two thirds of the programmes.

Member States' audit opinions submitted at closure



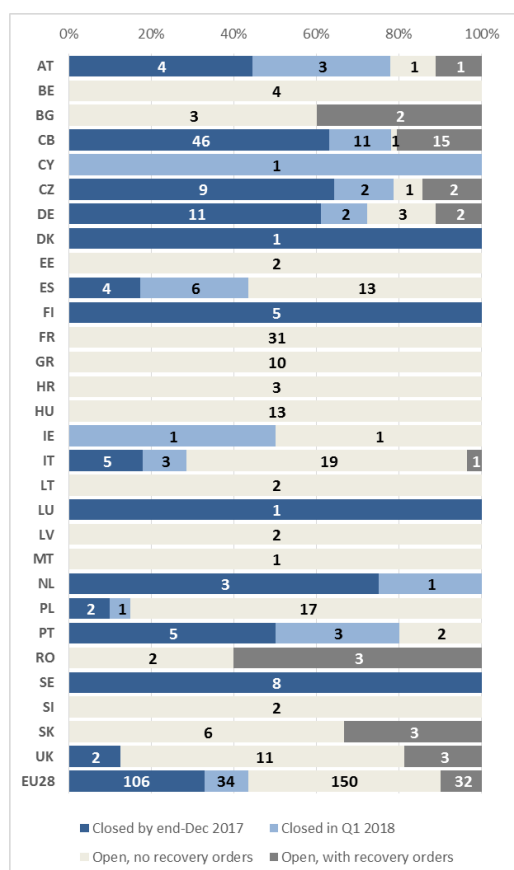
Based on the data reported by certifying authorities and audited at closure by audit authorities, Member States have **reported an average residual risk rate at closure for all programmes of 0.3%**⁶².

Following its thorough examination, REGIO could validate the reported error rates and residual error rates in most cases. However, for 31 programmes⁶³, the residual risk rate has not yet been validated by REGIO as it requires assessing further information from Member States, including for the validation of the reported error rate for the last audit period (expenditure declared between 2015 and up to closure in some cases) or due to additional audit work requested by audit authorities when additional expenditure was declared at closure, too late for the audit authority to be able to cover it in the closure declaration. In those cases, the residual error rate as reported in the closure declaration (15 cases), a flat rate of 2% when the total projected error rate for the last period is 5% or 10% (15 cases) or a more prudent estimate based on information available (one case) are used for REGIO's estimation of the average residual error rate at this stage, but it might evolve till full closure.

After its validation, and taking account of the reportable or flat rate residual risk for the above 33 programmes, **REGIO concludes at this stage of closure that the residual risk rate applied to the expenditure certified for the whole programming period is well below the materiality level of 2%, at 0.6%. This indicates that appropriate financial corrections have been applied up to closure**, as expected, by programme authorities. This also demonstrates that closure acted as an additional filter to correct any remaining material level of errors, following the multi-annual corrective capacity of programmes, as the Commission has argued over the multiannual implementation of programmes. The Commission services will carefully complete the assessment of this indicator for the programmes, which are not yet closed, and after all additional audit work requested from some audit authorities is assessed and will apply additional financial corrections where necessary.

It is underlined that the European Court of Auditors is also currently carrying audits in view of its 2017 Statement of assurance. REGIO will report in next year's annual activity report the results of these ongoing ECA audits, whether they affect the reported residual error rates and if additional financial corrections are necessary.

A.2.4 State of play of 2007-2013ERDF/CF closure



Indicator	2017
Cumulative number of programmes pre-closed/closed	
- by end 2017	106
- by 31 March 2018	140
RAL (open commitments)	
- at 31/3/2017 (initial situation)	14.9bn
- at 31/12/2017 (- 5.8bn)	9.1bn
- at 31/03/2018 (-0.8bn)	8.3 bn

REGIO has received closure packages in due time for the 322 ERDF/CF operational programmes⁶⁴. Closure packages comprise of: a final

ment applications.
 , RO (5), SI (2), SK (3) and UK (2).
 and two ETC programmes), the assessment of closure packages received
 dated in the Annual Activity Report 2018.

implementation report, closure declaration and a final payment claim.

Packages submitted show that 222 programmes (69%) have declared enough expenditure to fully absorb the funds. For these programmes, the regulatory financial retention of 5% of the programmes allocations plays its full role as a security net that will be paid in full only when REGIO has the required assurance that all conditions for closure are fulfilled. Following its thorough assessment of closure packages and the analysis of further information requested for some programmes, REGIO has sent 23 pre-closure and 83 closure letters by end-2017. This allowed closing/pre-closing 106 ERDF/CF programmes, leading to final payments of EUR 3.3 billion⁶⁵.

By 1 April 2018, REGIO has further progressed on closure and has completed its analysis for another 34 programmes, with further pre-closure or closure letters sent. The payments made in 2018 are for a total amount of EUR 0.8 billion and concomitant reduction in outstanding commitments. Thus, by end March 2018, through early decommitment of unused appropriations and final payments to closed programmes, REGIO has reduced the outstanding commitments (RAL) on 2007-2013 programmes to EUR 8.3 billion for the 182 remaining open programmes.

32 operational programmes are subject to a recovery order (34 orders in total ERDF+CF) with total amount of EUR 663 million. 10 of these 34 recoveries for a total amount of EUR 10.3 million were already carried out.

The list of operational programmes with error rates / residual risk rates and status on closure is presented in annex 7B.

A.2.5. Conclusion: reservations in relation to ERDF-CF 2007-2013

Indicator	2017
Number of ERDF/CF programmes from the 2007-2013 programming period in reservation	20

As a result of the review of the closure documents and notably the Final Control Reports, there are 20 programmes for which the level of financial corrections to be implemented, due to the significant deficiencies detected, exceeds the financial retention of the overall allocation made at programme level (normally 5%). This includes 17 programmes kept from the 2016 reservation⁶⁶ and 3 programmes not previously in reservation, for which new information was available at closure⁶⁷. Further details as regards the reason leading to the reservation for these 20 ERDF/CF programmes are described in annex 7A.

The final payment for these programmes will take place only when the relevant level of financial correction is accepted and implemented (or applied through a Commission decision).

Overall, the estimated average residual error rate on 2017 expenditure declared for the 2007-2013 ERDF/CF programmes is estimated at this stage of closure to be at 0.6%, therefore well below the materiality threshold of 2%.

A.3. Shared Management: IPA-CBC and Solidarity Fund

In 2017, REGIO paid respectively, EUR 12.5 million for IPA-CBC and for the Solidarity Fund EUR 1.3 billion of pre-financing.

⁶⁵ For one Spanish programme (ref 2007ES16UPO001), the final payment made in 2017 was overstated. This was due to an IT issue impacting the calculation which was since then corrected. A recovery will be made in 2018.

⁶⁶ The decision on whether to keep a reservation issued in the 2016 AAR was made taking into account both the level of payments for a given programme and the amount of expenditure certified, in order to assess the residual risk.

⁶⁷ The 3 mainstream Croatian programmes are put under reservation due to insufficient information provided at closure.

IPA-CBC 2007-2013

Indicator	2017
Projected error rate at closure (average IPA-CBC programmes) as of 31 March 2018	0.9%
Number of IPA-CBC programmes from the 2007-2013 programming period in reservation	1

IPA cross-border programmes differ from the mainstream ETC programmes as they involve at least one candidate country. In terms of management and control system, the assurance model does not differ from the mainstream programmes, as both the requirements and the control objective are identical to those for ERDF/CF.

The closure documents were submitted for all 8 IPA-CBC programmes in line with the regulatory deadline of end-March 2018 and REGIO will fully assess these within 5 months. Information related to IPA-CBC programmes in this annual activity report is therefore limited, and will be confirmed in REGIO AAR 2018.

Based on reportable information, the review carried out confirms that pending further assessment reasonable assurance can be obtained at this stage on all the programmes. For all 8 programmes, the residual error rate reported is below 2%.

However, for one of the programmes (2007CB16IPO001- Adriatic IPA CBC) a reputational reservation is considered necessary, as several beneficiaries have informed the Commission they have still not been paid for their projects in April 2018, which is after the deadline of submission of programme closure documents of 31 March 2018. The Commission already requested the programme authorities to address this issue on due time and is currently investigating its extent. Commission will consider the need for further action, including financial corrections, on the basis of its assessment.

Solidarity Fund (EUSF)

The way in which REGIO defines its assurance for the Solidarity Fund is tailored to the specificities of the instrument.

The main steps leading to the payment of an aid under the Solidarity Fund can be summarized as follows:

- applications are put forward by Member States and assessed by the Commission.
- if the application is accepted, the Commission proposes an amount of aid to the European Parliament and the Council for approval before it can be paid out.
- once the appropriations become available in the EU budget, the Commission adopts a decision awarding the aid to the affected State. The aid is then paid out immediately in a single instalment.
- After payment, the affected State is responsible for the implementation including the selection of operations and their audit and control.

The main inherent risk as regards the EUSF is that due to the unpredictable and urgent nature of the events and related expenditures, there is no prior assessment of the management and control systems in place⁶⁸. The assurance on the legality and regularity of the EUSF expenditure is therefore mainly obtained *ex post*, i.e. after the Fund has been received by the beneficiary country and the projects have been completed. Such assurance is based on management checks and audit work performed by the national authorities

⁶⁸ The legal framework introduced by the Council Regulation (EU) No 661/2014, amending the Council Regulation (EC) No 2012/2002, introduced some improvements in this regard, namely by allowing the Member States to use the same national authorities designated for ESIF to manage and control EUSF assistance. However, the provisions of the amended Regulation are applicable only to the EUSF assistance granted after its entry into force on 28/06/2014.

concerned, as described in the implementation reports and audit opinions⁶⁹ submitted to the Commission for the closure of each EUSF assistance.

At the level of the Commission, assurance on the legality and regularity of EUSF spending is mainly obtained through the desk review of the validity statements (audit opinions) provided by independent audit bodies, which may be audit authorities in charge of ERDF/CF programmes as well. These desk reviews are complemented by on the spot audits carried out on a risk basis by the Audit Directorate.

In February 2017, Italy updated its initial application in 2016 for the devastating series of earthquakes after another severe shake occurred in January. This disaster was the biggest ever in terms of damage dealt with by the EUSF. In October 2017 Italy was awarded the record amount of EUR 1.197 billion. This was only made possible by using the full EUSF allocation for 2016 (carried forward to 2017), the 2017 allocation plus the frontloading of a part of the 2018 allocation.

In 2017, the Commission received 10 new EUSF applications including three cases from Spain (Murcia flooding 2016, Doñana and Galicia fires in 2017), two from Greece (Lesbos and Kos earthquake 2017) one from Portugal (2017 forest fires), one from Poland (2017 storm), from Latvia and from Lithuania (2017 flooding) and from France (hurricanes Irma and Maria of 2017). The applications for the Murcia flooding and the Doñana fires were rejected by the Commission because the damage caused remained below the relevant thresholds. The assessment of the remaining 8 applications continued into 2018.

In 2017, 9 implementation reports and validity statements / audit opinions were submitted to REGIO for disasters dating from 2014 and 2015, which are currently being assessed.

After the assessment of implementation reports and independent audit opinions received for earlier EUSF cases the Commission closed 7 EUSF interventions in 2017 dating from 2007 to 2013 and concerning Slovenia (2 cases), United Kingdom, Romania (3 cases) and Germany. For the intervention in the United Kingdom and for two Romanian cases recoveries were made.

In relation to the results of two audit missions undertaken by REGIO's Audit Directorate in previous years, for the intervention in the Czech Republic (audit in 2017 upon the flooding of 2010 and 2013) the auditors did not find irregular expenditure. For the intervention in Slovakia (flooding of 2010), the final audit report proposed the national authorities to apply financial corrections of EUR 11 million.

For the audit mission to Poland (flooding of 2010), the case was closed as the irregular expenditure detected by the Commission has been withdrawn by the Polish national authorities and replaced by eligible expenditure. The closure will be effective in 2018, as no further action is needed to be taken by the Commission.

An audit mission to the UK for the flooding of 2007 was completed in 2015 and led to a proposed flat-rate financial correction, which was accepted by the UK. The recovery amounting to EUR 16 million was received by the Commission already in October 2016 and the remaining interest to be paid by the UK amounting to EUR 54 222 because of late payment was received in March 2017.

In September 2017, an external in-depth ex-post evaluation of the EUSF was launched and is expected to run for 12 months. The evaluation results will be disseminated to the general public, national and regional authorities, the Council, the European Parliament, the Court of Auditors, as well as to stakeholders interested in the activities and the performance of the EUSF.

⁶⁹ For EUSF assistance granted up to June 2014, the audit opinions were submitted in the form of "statements of validity".

Conclusion: For the Solidarity Fund, based on the audit work carried out so far, the Directorate-General can conclude that it has reasonable assurance on the compliance of expenditure based on the audit opinions, which were accepted in 2017. No reservation is made.

A.4. Shared Management – ERDF / CF 2000-2006 and earlier periods: processing closures

In 2017, REGIO paid EUR 138 million for the 2000-2006 ERDF programmes and for the Cohesion fund.

State of play of closures

ERDF 2000-2006

The last open Operational programme out of a total of 379 programmes (Italy- OP Sicily) was closed in June 2017 following the official acceptance of the closure declaration by the Member State.

This includes also the programmes where conclusions on a certain number of projects cannot be achieved as they are awaiting the decision of national institutions under administrative and/or legal procedures (including court cases). Depending on the decision of national authorities, it may result in the recovery of financial amounts or a decision to charge the amounts to EU budget. Out of 379 programmes closed, 20 are thus currently "partially" closed due to such open projects.

The Directorate General can conclude that it has reasonable assurance on all ERDF 2000-2006 payments made in 2017.

Cohesion Fund 2000-2006

The objective at closure is to ensure that the residual error rate for each project does not exceed 2% i.e. that the expenditure is not materially misstated.

In 2017 an additional 15 projects out of the remaining 57 were closed which was less than anticipated. 42 projects remained open at the end of 2017 out of the 1,121 Cohesion Fund decided projects⁷⁰.

Open projects per country as of 31 December 2017

BG	EE	ES	GR	LT	PT	RO	Total
6	1	1	8	4	2	20	42

As regards the two reputational reservations issued in the AAR 2016, these reputational reservations were due to the level of potential financial corrections that needed to be applied for one transport project (Calafat-Vidin bridge project in Bulgaria) and for three Romanian transport projects. The financial correction/closure letters for these projects were sent in May/June 2017. Following the additional information received from the Member States, the level of potential corrections has been revised and is partially or in full covered by the financial retention at closure of Cohesion Fund projects (20% or 10%). Final payments for these projects will not be made until the Commission has obtained assurance that the necessary corrections were carried out. On this basis, the reservations are not maintained for these transport projects, in line with the applicable materiality criteria⁷¹.

The Directorate General can conclude that it has reasonable assurance on all the final Cohesion Fund 2000-2006 payments it has made in 2017.

⁷⁰ For a Fund contribution of EUR 32.5 Billion.

⁷¹ See annex 4 for the detailed methodology used.

ERDF / CF 2000-06 and 1994-99: financial correction decisions annulled by the Court of Justice

The Court of Justice annulled 7 General Court judgments relating to financial correction decisions for the 1994-99 period due to non-respect of deadline for approving the financial correction Decisions. The cases are T-97/09, T-21/10, T-104/10, T-114/10 and T-116/10 (*Germany/Commission*), T-109/10 (*Luxembourg/Commission*) and T-119/10 (*The Netherlands/Commission*).

The reasons for these annulment decisions remain, as for 2015, the new interpretation of the Court of Justice on applicable delays for the Commission to take a financial correction decision. The financial impact of these cases is circa EUR 200 million.

B. Indirect Management - Instrument for Pre-Accession (IPA) and Urban Innovative Actions

In 2017, REGIO paid EUR 152 million in indirect management.

Instrument for Pre-Accession

IPA (for Turkey, the former Yugoslav Republic of Macedonia and Montenegro) are managed under indirect management, with the EU delegations carrying-out ex-ante controls on the tendering of contracts, launch of calls for proposals and the award of contracts and grants. This represents an important mitigating element in the overall assessment of the functioning of management and control systems in candidate countries. There are five⁷² IPA programmes.

The control system is built on multiannual and multilevel control whereby one level of control may rely on the work of previous controls performed by other bodies.

Indicator	2017
Weighted average error rate on 2017 payments as reported by the audit authorities (based on 2016 error rates) – Estimate	0.3%

REGIO has assessed for all three countries (Montenegro, Turkey and Former Yugoslavian Republic of Macedonia) the NAO's statement of assurance, the system audit reports, the annual audit work plan, the annual audit opinion and the annual audit activity report, which were submitted at the end of 2017.

No audits on the spot were carried out by REGIO in 2017.

On this basis, REGIO can conclude that the management and control systems are functioning effectively and obtained reasonable assurance on all five operational programmes.

Urban Innovative Actions

The Urban Innovative Actions (UIA) is an instrument allowing the Commission to directly support cities to test new solutions to address their future challenges. The initiative has a budget of around EUR 370 million for the 2014-2020 period and it is implemented via indirect management. The management of the instrument is delegated to the Hauts-de-France Region in France, which has set up a Secretariat to manage Urban Innovative Actions.

The assurance system for UIA relies on the existence and functioning of an effective and

⁷² Three programmes in Turkey, one in FYROM and one in Montenegro.

efficient Internal Control both at the level of the entrusted entity and at the level of the Commission. The assurance building blocks can be found in annex 8

The update of the Audit Strategy and audit methodology, submitted in September 2017, were considered satisfactory by the audit services of REGIO. The ex-ante assessment required by Article 61(1) of the Financial Regulation in order to entrust tasks of budget implementation to an external entity has been done in 2014 and the management and control system is being finalized in accordance with applicable rules and principles. The external auditor is the audit company Ernst & Young, selected by the entrusted entity in 2016. The entrusted entity submitted to the Commission in December 2016 the draft audit strategy and audit methodology in December 2016, which requires clarifications.

The audit opinion for 2017 was submitted by 15 March 2018. No expenditure were declared by the Certifying Authority so far. The opinion provided by the external auditor on the effective functioning of the management and control system is unqualified.

Three Transfer of Funds from Commission to the Entrusted Entity of EUR 206 million in total took place in 2015, 2016 and 2017 for the implementation of entrusted tasks for the period 2014-2016 in accordance with Article 4 of the Delegation agreement. The entrusted entity did not carry out any payment to beneficiaries in 2015 and 2016. Only technical assistance was used to pay for costs incurred by the entrusted entity. However, no expenditure was declared to the Commission in 2015, 2016 and 2017.

Despite the absence of expenditure declared to the Commission, implementation of the Urban Innovative Actions is on track. A first call for proposals on Urban Innovative Actions was launched in December 2015 with a budget of EUR 80 million. 18 projects were selected but no grant agreement signed yet in 2016. A second call for proposals has been launched in December 2016 with a budget of EUR 50 million and 16 projects were selected. A third call was launched in December 2017 with a budget of EUR 100 million.

On the basis of the information available so far and the fact that no expenditure was declared to the Commission, and despite the fact that neither the yearly control report, nor the management declaration were sent to the Commission (only the audit opinion was sent) there are no issue which would prevent REGIO from having reasonable assurance on the transferred funds.

C. Direct management

Indicator	2017
Ex-post review of payments	20 direct management payments

Direct management

In 2017, the budget under direct management was used mainly for operational and administrative technical assistance for ERDF and the Cohesion Fund (EUR 113.3m) and preparatory actions (EUR 10.3m). 44.1% of technical assistance expenditure was allocated in support of the implementation of the programmes, 73% of which was spent on JASPERS to the EIB, a technical assistance facility supporting the preparation of high quality major projects, while 22.8 % was spent on awareness-raising actions.

The assurance model for direct management transactions is embedded in REGIO's internal control system: all transactions are processed according to the Financial Regulation and REGIO's financial circuits, which follow a partly decentralised model.

The assurance system is based on the following building blocks:

Programming: overall and individual action

For technical assistance, assurance that operations cover the needs of the DG and are carried out according to priorities is derived from the programming exercise. The main objectives and priorities for technical assistance interventions in the 2014-2020 period are spelled out in the TA strategy, which is linked to the objectives set out in the REGIO's Management Plan, the Juncker's Commission priorities and Europe 2020 objectives. Specific actions implementing the TA strategy are identified by REGIO services and are consolidated and assessed against the overall strategy through the preparation of the annual Financing decision and its mid-year modification. Reporting on the implementation of the TA strategy (financial execution of the yearly Financing Decision and annual progress in implementing the TA strategy) gives additional assurance that TA funds were used for their intended purpose.

Tendering and contracting

For the award of contracts and grants, REGIO has put in place partly decentralised financial circuits. In addition to these standard circuits, all administrative, financial and procedural tasks were centralised in the central financial unit (TA Cell).

Following the centralisation of the administrative, procedural and financial tasks in the TA Cell, the 4 eyes principle is applied within the TA Cell. Therefore, the role of the former Committee on Public Procurement and Grants (CIMS), checking the legality and regularity of the public procurement processes according its internal procedural rules became redundant. The Board decided at its meeting of 15 May 2017 to abolish the CIMS.

To provide assurance to the AO(S)D the 4-eyes principle is applied for all procedures in the TA Cell, and an additional ex-ante verification is performed by the Legal Unit before awarding contracts above the Directive ceiling.

Before the abolishment of the CIMS, 2 meetings were organised in 2017 examining 3 files.

Monitoring of implementation and payments

In accordance with the partly decentralised financial circuit, payments are approved following the four-eye principle (each file is double-checked both on operational and financial aspects). Operational monitoring is carried out along the life of the contracts by the implementing services; generally through verifications of deliverables (e.g. interim, final reports...).

Ex-post controls

Additional assurance is provided through the performance of ex-post controls on a sample of payments (including both mainstream and direct payments) systematically selected from the different budget lines, to ensure that these were duly authorised, paid to the right beneficiaries, properly accounted for and materially correct. There were no critical or very important findings. In addition, ex-post controls on 5 grants procedures selected on a judgemental basis were carried out (and outsourced by EMPL at the request of REGIO, under the action plan to share and pool audit resources). For 3 of the audited grants the audit found ineligible expenditure⁷³, which will be recovered for the EU budget.

D. Budget implementation tasks entrusted to other services 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 services and entrusted entities distinct from the Commission.

As in previous years, REGIO has cross-sub-delegated the execution of a very limited part of the budget (EUR 4.24 million) to the Directors General of:

DG Economic and Financial Affairs (EUR 0.10m) for communication activities in the Economic Magazine;

DG Employment, Social Affairs and Inclusion (EUR 1.49m) for ARACHNE Project risk scoring tool, the Audit direct grants and MAPAR;

Eurostat (EUR 1.15m) for sub national data collection and data acquisitions;

DG Neighbourhood and Enlargement Negotiations (EUR 1.5m) Technical and other admin assistance to MS (Continuation of TAIEX REGIO PEER 2 PEER scheme)

REGIO also had co-delegation arrangements with other DGs and services as per below:

DG Communications (EUR 6.7m) as contribution to corporate communication activities;

DG Agricultural and Rural Development (EUR 0.33m) as contribution towards the Brussel's based Facility for Broadband Competence Offices (BCO)

DG Translations (EUR 0.25m), for outsourced translations

DG Informatics (EUR 1.8m) for Delivery of IT projects, implementation of business processes in IT systems, IT help desk, maintenance and support to users

DG Interpretation (EUR 0.3m), for conferences and events

Office of Publication (EUR 0.4m) for communication activities.

Office for Infrastructures and Logistics in Brussels (EUR 57k), for communication activities (Print Shop)

A total of EUR 5.1m was disbursed on behalf of DG Regional and Urban Policy by DG Human Resources (EUR 0.3m) and the Paymasters Office (EUR 4.8m) for staff-related expenditure such as staff reinforcements via short-term contracts, contract agents, seconded national experts, committees and missions.

The heads of Commission services, the AODs are required to implement the appropriations subject to same rules, responsibilities and accountability arrangements. The cross-delegation agreement requires the AOD of these DGs to report on the use of these appropriations..

None of these reports communicate events, control results or issues, which could have a material impact on assurance. They provided reasonable assurance that the resources

⁷³ Amounting to EUR 88.224 out of EUR 2.083.076 audited (4,2%).

assigned to the activities described 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.

2.1.1.2 Efficiency and Cost-effectiveness

Based on an assessment of the most relevant key indicators and control results, REGIO has assessed the cost-effectiveness and the efficiency of the control system and reached a positive conclusion.

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.

As illustrated in the introduction of part 2, REGIO manages funds under several management modes:

Management mode	% Payments
Shared management	99.00%
Indirect management	0.73%
Direct management	0.27%

A. Shared Management

Cost-effectiveness

The table below shows the results registered in 2017 in relation to the indicator used to assess the cost-effectiveness of the controls carried out during the reporting year.

Indicator	2017
Cost of control/financial management of the Commission checks and assessment (as a % of total 2017 payments)	0.28%

REGIO quantifies the costs of the resources and inputs required for carrying out the controls described in annex 5 and compares them to the volume of payments registered in the reference year. The DG also identifies and assesses, in so far as possible, the benefits resulting from the controls, which are mostly qualitative and non-quantifiable.

The annual overall Commission cost is estimated at 0.28% of total payments of the year, which is in line with the result reported in 2016 (0.26%), in spite of a lower volume of payments made in 2017 (around 7% of decrease in payments with respect to 2016) and of increased unit costs considered for staff, in line with corporate guidance. In view of that, the result reported for 2017 has to be viewed as proof that significant efficiency gains were achieved in the reporting year, notably as a result of the recent internal reorganisations undertaken by the DG. The costs considered mainly relate to staff in the geographical desks (which carries out controls throughout the different design, implementation and monitoring phases) and staff involved in audit activities (notably assessment of management and control systems in Member States and including the Commission ex-post audits). The remaining direct Commission costs relate to staff acting as service providers to the geographical desks (in the competences centres and in the units responsible for evaluation activities and financial instruments). In addition, a share of the staff involved in the financial circuits, as well as staff responsible for legal affairs and IT systems is also included in the calculation, following a proportion estimated by the concerned units. The cost of IT tools (development/maintenance) supporting 2017 control activities is also included in the calculation.

In relation to the cost of controls in Member States, a study "New assessment of ESIF administrative costs and burden" was launched in 2017 for which the first interim report was issued in September 2017. This interim report contains estimated values that are still expected to change following more complementary data work and quality control. The final Report is expected for July 2018 and the results will be considered in the AAR for 2018.

Once available, the validated estimates of the cost of controls for implementing the 2014-2020 programmes will have to be compared to a level of cost of controls in the Member States of around 2.1% estimated for the 2007-2013 period.

The main benefits resulting from the controls operated throughout the various stages include notably (but not exclusively):

1. An increased level of assurance, resulting from a) improvements in the management and control systems implemented at the request of REGIO, b) blocking of payment requests associated with unreliable systems and c) DG Regional and Urban Policy's adjustments made on the error rates reported by MS.
2. The negotiation procedures on the content of the Partnership Agreements and Operational Programmes. These were thoroughly analysed by the Commission to ensure a) the respect of requirements laid down in the Cohesion Policy Regulation (CPR) and b) the adequate reflection of policy objectives and priorities, notably with the position papers and the follow-up to the relevant Country Specific Recommendations (CSRs). This work is of utmost importance to get the programming right from the start and focus the ESI Funds on the challenges MS and regions are facing as identified in the European Semester. While most of this work was completed in 2015, negotiations with Member States continue also in the following years, following Member States' requests for OP modifications. Programming, management and monitoring roles carried out by the geographical units are key for all Member States if the ESI Funds are to deliver on the Europe 2020 Strategy. The deterrent effects of ex-post controls also bring unquantifiable yet undeniable benefits, in addition to the financial corrections reported in section A.2.2 as direct results.

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

Efficiency

The table below shows the results registered in 2017 in relation to the indicators used to assess the efficiency of the controls carried out during the reporting year.

Indicator	2017
% of Commission payments on time	98.3%
	due to budgetary constraints (transfers between lines) and financial corrections after lifting of interruptions to be applied
Time to lift interruption of payments (impacted by the degree of complexity of the issues and of the time required by Member States to react)	no interruptions of payments in 2017
% interruption of payments notified to MS within 2 months	Not applicable
Payment claims submitted in 2017 and interrupted in 2017	no interruptions of payments in 2017

In terms of efficiency, satisfactory results were achieved in 2017 as regards the time-to-pay, with more than 98% of payments made within the legal deadlines for the shared management mode.

No recent information is available in relation to the indicators capturing efficiency of the controls surrounding the interruptions/suspensions of payments, as no such procedures were initiated in 2017.

Overall, during the reporting year the controls carried out by REGIO for the management of the budget appropriations were cost-effective and efficient.

In addition, it should be noted that there have been significant efficiency gains in the costs of controls in 2017 due to a decrease of about 10% in the total staff employed in shared management with respect to 2016, mainly thanks to internal reorganisations encompassing the restructuring of REGIO organigram, including mergers between operational units.

Moreover, the DG is constantly looking for additional efficiency gains in revising its control strategy and in designing and deploying its control activities. This is notably reflected in the following:

- Risk-based approach for audit activities – the efficiency of the DG's audit activities is ensured by the continuous focus on riskier areas, to which resources are primarily allocated and the use of single auditing to avoid audit duplication and unnecessary burden on administrations and beneficiaries;
- Differentiated approach for monitoring and supervisory activities of the implementing units - a differentiation exercise was launched in 2015, which allowed adapting the monitoring and supervisory efforts of implementing units to the specific needs of each programme/Member State. This differentiated approach has continued to be applied throughout 2017, thus contributing to the optimisation of control efficiency;
- Revision of the control system in line with the simplification measures introduced with the 2014-2020 programming period - actions are being taken and procedures are being put in place in order to enable the effectiveness of the control related simplification measures.

B. Indirect management

Cost-effectiveness

The table below shows the results registered in 2017 in relation to the indicator used to assess the cost-effectiveness of the controls carried out during the reporting year.

Indicator	2017
Cost of control/financial management of the Commission checks and assessment (as a % of total 2017 payments)	0.73%

The estimated annual overall Commission costs amount to 0.73% of total payments of the year managed under indirect management mode.

The cost relates to staff involved in audit activities and part of the geographical staff involved in control and implementation activities for IPA (both in REGIO concerned geographical unit and in the delegations). The FTEs corresponding to geographical staff should not be counted in full, as the concerned staff contributes to both control and implementation activities. Their role being primarily to deliver actions in support of political objectives, a differentiation between implementation and control tasks is difficult to establish. In view of this uncertainty, and in the absence of a cost-effective way to define which elements of their tasks are assessed as part of the control chain (as opposed to ensure the adequate implementation of policy objectives), REGIO estimated their involvement in the financial workflow at approximately 33% for the concerned staff in REGIO geographical unit and 75% for delegation staff.

The benefits of controls at the programming stage cannot be easily quantified. The unquantifiable benefits mainly relate to the relevance and effective implementation of

activities in line with the DG's policy objectives. The deterrent effects of monitoring and controls also bring unquantifiable benefits. They also contribute greatly to the improvement of the administrative capacity of the concerned countries. The quantifiable benefits of controls at the implementation and monitoring stages are known in nature but are difficult to quantify in a cost-effective way. By ensuring compliance with the Financial Rules and the respect of principles for grants and procurement, REGIO makes sure that the selected proposals or offers bring the best value for money, i.e. fulfilling performance needs and optimising the use of EU funds.

Efficiency

The table below shows the results registered in 2017 in relation to the indicators used to assess the efficiency of the controls carried out during the reporting year.

Indicator	2017
% of Commission payments on time (vs Financial Regulation Target)	100% UIA
UIA and IPA	98.3% due to financial corrections after lifting of interruptions to be applied
Budget execution	100%

In view of the above, REGIO considers that the relative level of efficiency and cost-effectiveness of the controls operated is adequate.

C. Direct management

Cost-effectiveness

The table below shows the results registered in 2017 in relation to the indicator used to assess the cost-effectiveness of the controls carried out during the reporting year.

Indicator	2017
Cost of control/financial management of the Commission checks and assessment (as a % of total 2017 payments)	3.20%

The estimated annual overall Commission costs amount to 3.20% of total payments of the year managed under direct management mode.

The cost relates to the staff of the newly established TA cell involved in financial advice, initiation, verification tasks and ex-post controls as well as a proportion of the operational staff involved in public procurement and contract management activities. The quantification of human resources involved in such activities is based on an estimation of FTEs needed for implementing the DG's technical assistance actions. Their role being primarily to deliver actions in support of political objectives, a differentiation between implementation and control tasks is difficult to establish. In view of this uncertainty, and in the absence of a cost-effective way to define which elements of their tasks are assessed as part of the control chain (as opposed to ensure the adequate implementation of policy objectives), REGIO estimated their involvement in the financial workflow at approximately 25% of their time.

The benefits of controls at the programming stage cannot be quantified. The unquantifiable benefits mainly relate to the relevance and effective implementation of activities in line with the DG's policy objectives. The quantifiable benefits of controls at the implementation and monitoring stages are known in nature but are difficult to quantify in a cost-effective way. By ensuring compliance with the Financial Rules and the respect of principles for grants and procurement, REGIO makes sure that the selected proposals or offers bring the best value for money, i.e. fulfilling performance needs and optimising the

use of EU funds. The deterrent effects of monitoring and controls also bring unquantifiable benefits.

Efficiency

The table below shows the results registered in 2017 in relation to the indicators used to assess the efficiency of the controls carried out during the reporting year.

Indicator	2017
% of Commission payments on time (vs Financial Regulation Target)	94.3%
Budget execution (payment appropriations)	100%

In view of the above, DG Regional and Urban Policy considers that the relative level of efficiency and cost-effectiveness of the controls operated is adequate.

After an in-depth assessment of its system for delivering technical assistance, at the end of 2016 the DG set up a dedicated TA cell in charge of tendering and contracting tasks for all operational units and of providing support for the effective implementation of TA actions: this new organisational structure, entered into force in January 2017, with a transitional period which extended until the end of the first semester, has become fully operational as from the second semester of 2017 and has started to provide efficiency gains in the reporting year.

D. Initiatives to improve economy and efficiency of financial and non-financial activities

According to the Financial Regulation (Article 30), 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. 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).

However, under the shared management mode the Commission cooperates with Member States' administrations, which are in charge of the operational implementation. The Commission is also assessing and implementing performance-related conclusions and recommendations from the European Court of Auditors⁷⁴. Thus, efficient and effective implementation of actions supported by the ERDF and CF largely depends on good governance and partnership among all the relevant territorial and socio-economic partners. In particular, crucial processes such as project selection remain largely in the hands of programme authorities.

REGIO has however set up a control environment and put in place procedures aimed at inducing authorities in charge of the implementation to comply with the principles of economy (minimizing the cost of inputs), efficiency (relation between resources and results) and effectiveness (achievement of objectives). In addition to that, specific initiatives aimed at improving the DG's internal effectiveness and efficiency have been launched and implemented in 2017.

⁷⁴ See section 2.1.1.

Example 1: Enhancing efficient implementation of the Funds through the introduction of measures simplifying the use of the ESI Funds for beneficiaries

As part of the mid-term review of the Multiannual Financial Framework (MFF), the Commission proposed in September 2016 an ambitious package to further strengthen measures to simplify the use of the ESI Funds for the beneficiaries (Omnibus package), building on the recommendations made by the Commission's High-level Group on Simplification.

In 2017, REGIO has worked closely with the Council and the European Parliament towards the adoption of the file, so that the simplification elements could yield their benefits as soon as possible. Political agreement was reached between the co-legislators on all parts of the Omnibus regulation in December 2017.

The main novelties expected to increase the efficiency of the funds are the following:

1. Simplified rules and improvement of legal clarity and consistency

The main aim of this mid-term reform is to cut the red tape that puts extra burden to regions and citizens. Increasing the use of simplified cost-options and minimizing the number of necessary audits so as to strike the right balance between flexibility for the beneficiaries and ensuring effectiveness of controls, are some of the novelties included in the reform.

2. Streamlining the implementation of financial instruments (FIs)

Measures contained in the approved package will notably introduce: i) new possibilities to combine ESIF/EFSI while also encouraging higher leverage; ii) direct award of contracts to bodies implementing FIs under well-defined conditions, thus streamlining and increasing legal certainty for implementing authorities; iii) prolongation of the eligibility period for the SME Initiative.

While these measures constitute an ambitious package of changes, which can have a real impact in reducing administrative burden, removing bottlenecks and putting the focus on achieving results, it is not yet possible to assess the impact of their actual simplification effects.

These will depend on how much of the options are actually taken up by Member States in their day-to-day management of programmes. This is why, further to the entry into force of the new provisions, REGIO will also accompany Member States so as to make sure that necessary consequential updates of affected implementing and delegated regulations as well as guidance notes can be made available to Member States as soon as possible, thus encourage a large uptake of the new provisions and maximise their simplification potential.

Example 2: Actions aiming at increasing the efficiency of internal processes

Further to the completion in 2016 of a study exploring possible ways of enhancing the effectiveness and efficiency of its technical assistance (TA) delivery process, REGIO decided to reorganize its TA delivery mechanisms. This has notably led to the creation as from January 2017 of a new TA Cell within the unit in charge of Budget and Financial Management. The newly created cell is in charge of carrying out tendering and contracting tasks for all operational units using TA, providing support for the effective implementation of the DG's TA budget (including the implementation of the Pilot Projects and Preparatory Actions), while also actively promoting TA possibilities to maximise effective use of funds available. Due to their nature, volume and specificity, it was decided to exclude from this exercise IT and Communication expenditure, which has continued to be managed in a decentralised way in the relevant units.

The TA Cell was also expected to further enhance the DG's strategic approach to the use of TA, thanks to strengthened monitoring and reporting on the concrete results stemming from the actions implemented, while also streamlining internal resources devoted to the concerned processes.

Overall, the calendar for the setting up of the TA Cell was respected, as the new entity entered into force in January 2017 with a transitional period extending until the end of the first semester to complete staffing and fine-tune new processes, procedures and circuits. The TA Cell centralised all administrative, procedural and financial tasks for the operational units from which the financial assistants were transferred in January 2017. Business continuity could be guaranteed for these units.

Several achievements have already resulted from the new delivery model, exceeding in certain cases expectations. The financial circuits were simplified for pre-financing payments, and (de)commitments. For these transactions, the operational initiation and verification step could be abolished.

In addition, the administrative initiation for the operational acceptance of payments (*conforme aux faits*), previously done by the operational units, is now done by the TA Cell directly in REGIO's WorkFlowSystem (WFS).

Thanks to the increased assurance provided by the centralisation of expertise on public procurement procedures, the DG's Commission des Marchés Publics (CIMS) could also be abolished, as assurance steps have been embedded in the workflows for awarding contracts/agreements and financial transactions. Current processes, workflows and checklists were revised to incorporate the new working relations, roles and responsibilities of the TA cell and the Operational Units.

While there are clear signs that the efficiency of the implementation of the TA budget in REGIO has improved, workload and efficiency will be assessed again after a full operational year.

2.1.1.3 Fraud prevention and detection

2017 witnessed on one hand the submission of closure documents for 2007-2013 programmes and on the other hand, the fourth year of implementation of 2014-2020 ESIF programmes. The action plan of the Joint Anti-Fraud Strategy 2015-2020 (JAFS)⁷⁵ in place contains numerous actions to build capacity in Member States and among EU staff, as well as to contribute to fraud prevention, detection and correction.

In 2017, an important work was done to **review the Directorate General's fraud risk assessment** in view of the revision of the Commission Anti-Fraud Strategy (CAFS) and ultimately also the JAFS. All these measures towards fraud prevention and detection contribute to the assurance process.

Responsibility for fraud prevention and detection is shared between Member States (who have to put in place effective and proportionate measures) and the Commission. At Commission level, measures to enhance fraud prevention and detection include adequate and timely reporting of fraud suspicions to OLAF, organisation of events and trainings on fraud awareness-raising and the promotion of the use of ARACHNE in Member States.

Risk-based internal control. The first and strongest preventive defence against fraud is the operation of a robust system of internal control, designed and operated as a proportionate response to the risks identified. Such a system can reduce the risk that fraud occurs or remains undetected, but cannot completely eliminate the likelihood of fraud occurring.

At mid-April 2018, REGIO operational directorates are responsible for follow-up actions of **67 OLAF investigation cases** in relation to the ERDF and the Cohesion Fund. According to OLAF's assessments in the financial recommendations joined to the Final Case Reports, an amount of up to **EUR 1.2 billion** could potentially be affected by the alleged suspected fraud or irregularities. This is a maximum amount that needs to be evaluated by the Authorising Officer based on the reported findings. A majority of these cases relate to 2007-2013 programming period, a few cases to the previous period (2000-2006) or to both periods. These cases are treated as part of the on-going closure exercise.

Every final report received from OLAF gives rise to a systematic follow-up procedure, including a contradictory procedure with the concerned Member State. OLAF findings and the Member States arguments are then analysed to take a decision on follow up, including financial corrections in the light of the legal framework applicable.

To the extent the conditions are met, OLAF recommendations for recovery give rise to financial corrections. However, OLAF's practice was in the past often to recommend the recovery according to the volume of the whole project in which fraud or irregularities were found. This did not justify financial corrections, e.g. where only part of the project expenditure had been declared to the Commission, and for expenditure not affected by fraud. More recently, however, OLAF has issued guidelines for investigators for financial recommendations to specify the amounts effectively affected.

At mid-April 2018, the number of on-going investigations in OLAF with respect to ERDF and Cohesion funds amounts to 91.

<i>No. of OLAF Cases</i>	AT	BE	BG	CZ	EL	ES	FR	HR	HU	IT	LT	LV	PL	PT	RO	SI	SK	UK	Multi-country	ISPA	IPA	TOTAL
Active Investigation	1	2	6	3	4	7		3	7	6		1	15	4	13		6	4	6	1	2	91
Follow-up		1	2	1	4	2	1	2	19	5	1		9	2	7	1	2		6	1	1	67
Total	1	3	8	4	8	9	1	5	26	11	1	1	24	6	20	1	8	4	12	2	3	158

⁷⁵ Adopted in 2015: Ares(2015)6023058 of 23 December 2015

*91 OLAF investigations
67 OLAF final reports
EUR 1.2 billion potentially
affected*

*Fraud detection risk of
0.42% of payments*

According to the Commission's Report on the fight against fraud of 20/07/2017⁷⁶, Member States communicated a total number of 6,817 irregularity cases to OLAF for the Cohesion Policy for a potentially affected amount of EUR 1.8 billion. According to the report, in 2016 the share of suspected fraud cases out of the irregularities notified by Member States to OLAF represented EUR 213 million. For the period 2007-2013, OLAF evaluates the fraud detection rate⁷⁷ at 0.42% of payments for ESI Funds.

Nevertheless, REGIO considers that such data needs to be treated with caution. The scope of fraud and/or corruption in particular in public procurement in the EU (part of which also involve EU co-financed projects) may be bigger than the reporting from Member States seems to suggest. The Directorate General therefore continues to analyse the fraud risk levels and suspicions in Member States, regions and programmes, and the types of reported fraud (*modus operandi*). An internal exercise was recently launched to revise the fraud risk assessment with a view to analyse if mitigating measures were sufficient to cope with each risk identified. This entailed improving the available statistics on the OLAF cases being followed-up, but also the use of various fraud risk indicators (IMS data on irregularities, audit findings, ARACHNE and publicly available data). This work will continue in 2018.

During 2017, the other main actions which were implemented in the framework of fight against fraud were:

- **Internal training and awareness-raising actions** to desk officers and auditors, including clarifications of the procedures for OLAF cases further to bilateral meetings with OLAF investigative units; maintenance of dedicated platforms on fraud prevention on the intranet of REGIO and SFC2007 / SFC2014; continuous co-operation and exchange of information related to fraud suspicion cases between the DG and OLAF.

- **Internal procedure for following-up final case reports (FCRs) issued by OLAF.** The new procedure put in place helped facilitate the follow-up of cases issued by OLAF in 2017. As a result of our frequent bilateral contacts with OLAF, they issued instructions for investigators to enhance the quality of OLAF reports and therefore chances of recovery of EU funds. Moreover, in the framework of the closure of 2007-2013 programmes, REGIO did a reconciliation exercise with OLAF to identify all the cases where affected expenditure must be deducted from the final payments to programmes.

- **Study on compliance of Member States with regard to effective and proportionate anti-fraud measures.** The Commission is also monitoring the compliance of Member States with their obligation to put in place anti-fraud measures and the mitigating measures adopted. To this end, REGIO has commissioned external services for the preparation of a study and a handbook on fraud prevention practices in ESI Funds in Member States. The assignment was implemented in 2017, and the results are expected by mid-2018.

- **Collaboration with OLAF to fight fraud.** A total of 11 fraud suspicions were transmitted by REGIO to OLAF in 2017. OLAF opened up 4 investigations on the basis of this information and dismissed 7 cases⁷⁸.

⁷⁶ COM(2017) 383 final https://ec.europa.eu/anti-fraud/sites/antifraud/files/1_act_part1_v2_en.pdf

⁷⁷ Fraud detection rate = Irregularities reported as fraudulent 2007-2013 divided by payment appropriations 2007-13 (Source: statistical annex of the PIF report 2016, page 69)

⁷⁸ Dismissed cases are treated in accordance with OLAF's guidance on dismissed cases.

- Promotion of Arachne to support management verifications in Member States.

In 2017, the Audit Directorate has actively promoted the use by programme authorities of "Arachne", a preventive risk-scoring tool developed by the Commission and provided to Member States for free. Currently, 15 Member States⁷⁹ consider integrating Arachne in their management and control system for at least one operational programme for the programming period 2014-2020 for ERDF and multi-fund programmes. Another 3 Member States (EE, MT and PT) are testing Arachne based on the data from at least one operational programme from the 2007-2013 operational programmes. An Arachne charter (on the rights and obligations of users and the Commission) was approved in 2017 and was made available to Member States in all languages of the European Union. A new version (2.0) of Arachne was released and is being installed in the Member States, linked with updated trainings. New functionalities were added such as the historical data, an alert function, enriched global risk calculation information, more public procurement types and improved filtering options. It is more user-friendly and offers additional functionalities that were partly proposed by national authorities. Last year more than 40 trainings and presentations for more than 660 dedicated users have been provided in different Member States and for colleagues in the Commission services to promote Arachne and make them familiar with the new functionalities.

- Actions related to administrative capacity building and transparency in relation to public procurement procedures as a way to promote transparency and fight against corruption:

In 2017, the high number of single bidding in several Member States triggered further analysis⁸⁰ and action⁸¹ because high single bidding can be linked to non-transparent and not well-functioning procedures. REGIO, in cooperation with other Commission services, has discussed the findings with the relevant national and regional authorities and has asked for remedial action. In particular, Member States were asked to take the following measures:

- ✓ Anticipate and improve the set-up for e-public procurement;
- ✓ Strengthen monitoring of the full tender cycle by civil society organisations and by government bodies;
- ✓ Increase transparency by improving public reporting of meaningful data (open data access);
- ✓ Further invest in the professionalization of procurement officials;
- ✓ Increase the professionalization and competence of the national bodies dedicated to coordinating and monitoring Public Procurement.

REGIO will continue to monitor this phenomenon very carefully, including by sampling data on the identity of the single bidders and winners of contracts, even within the limitations of the legal basis and practical means available.

In 2017, the implementation of the updated Public Procurement Action Plan continued, in close coordination with GROW, other ESIF DGs and EIB. Particular emphasis was given to actions helping Member States to further professionalise procurers, which is in line with the public procurement package adopted by the Commission on 3 October 2017. The following actions are worth highlighting:

- ✓ A public procurement good practice e-library was developed and made publicly available on InfoRegio. This is the deliverable under the REGIO funded assignment "Public Procurement good practice sharing across the EU for improving the delivery of European Structural and Investment Funds".

⁷⁹ BE, BG, CZ, FR, HR, HU, IT, LV, LT, LU, PL, RO, SK, SL, UK.

⁸⁰ See as an example the 2017 Commission Working Paper [Assessing the Quality of Government at the Regional Level using Public Procurement Data](#).

⁸¹ In 2017 REGIO assisted actively with the Digi-whist project (7th Framework Programme project) where public procurement data are gathered, checked, analysed and publicly made available; see on <http://digiwhist.eu/>

- ✓ The updated version of "Public Procurement Guidance for Practitioners on the avoidance of common errors in ESI Funded projects" has been finalised and was published early 2018. The new version of the Guidance incorporates changes and new elements stemming from the new EU Public Procurement Directives.
- ✓ During the event of "European Week of Regions and Cities 2017", the Commission organised a workshop dedicated to sharing public procurement good practices from across the EU for improving the delivery of ESI Funds.
- ✓ In 2017, the implementation of the project "Integrity Pacts – Civil Control Mechanism for Safeguarding EU Funds" continued (in co-operation with Transparency International). Integrity Pacts (agreements) have been signed for 15 selected projects and the respective civil society organisations have started monitoring public procurement processes. In all these cases, the monitoring of public procurement are in different stages, but already a number of positive early lessons have been identified from the process.
- ✓ REGIO has launched with European Institute of Public Administration and GROW a new 2-day training module: "*Key changes in public procurement directives & strategic procurement (innovative, green & socially responsible procurement)*". The training is targeted at participants from ERDF, Cohesion Fund and ESF managing authorities/ intermediate bodies. The first training session took place in December 2017 and received a very positive feedback from participants. The trainings will continue in 2018.

Eight TAIEX-REGIO PEER-2-PEER exchanges were organised on the issues of fraud prevention, integrity, controls and audit.

In addition, the Court of Auditors launched 2 performance audits relating to anti-fraud: one with a view to understand "*how the Commission manages the fraud risks*" and a second audit targeted at "*Fraud in Cohesion*". For the second, ECA intends to visit a sample of Member States to see how they comply with Article 125.4c) CPR. Results of these audits will be used by REGIO to enhance capacity building in Member States.

As a result of its policy of zero tolerance to fraud, the Directorate-General has issued 3 warning letters to programme authorities linked to OLAF final case reports and other fraud suspicions in 2017. It has also issued reservations regarding the following programmes due partially to fraud suspicions⁸² (see list of reservations in Annex 7A).

Assessment of anti-fraud measures in Member States will be pursued in 2018 in line with the Joint Anti-Fraud Strategy so that REGIO will be able to adapt its anti-fraud actions –if deemed necessary- to continue to adequately protect the EU's financial interests.

⁸² Czech Republic ref 2007CZ161PO008 – North West and Hungary ref 2007HU161PO002 - Environment and Energy.

2.1.1.4 Safeguarding of assets and information

REGIO manages a number of intangible assets (EUR 14.6 million – see Annex 3, Table 4).

The intangibles assets for the DG are the IT applications that have been developed and continue to be developed:

SFC which acts as an interface between Member States and the Commission for the management of structural funds; and

WAVE which is the workflow system designed by REGIO to support all decisional, financial and audit procedures.

The key control objectives for the DG are to ensure that these assets are appropriately accounted for and safeguarded, that information is protected, and that related weaknesses, errors, irregularities and losses are detected and addressed.

In the revision programme on the accounts of REGIO controls are put in place to verify if the cost-centre is correctly encoded including by other DG's contributing and using our IT applications and to verify if the applications entered the Production phase. Once in production a linear depreciation over 10 years is applied.

Assets owned by REGIO follow the international accounting rules and the closure guidelines established by the accounting officer of the Commission. The control objectives are considered to be fully met.

2.1.2 Audit observations and recommendations

This section reports and assesses observations, opinions and conclusions made by auditors in their reports as well as the opinion of the Internal Auditor on the state of control, 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 audit recommendations.

REGIO is audited by both external and internal independent auditors: the European Court of Auditors and the Commission internal audit service (IAS).

A. European Court of Auditors

Annual report for 2016

The European Court of Auditors (the ECA) published its Annual Report for the budgetary year 2016 in end of September 2017, on the basis of its 2016 Statement of Assurance audits. Chapter 6 of the report is dedicated to economic, social and territorial Cohesion Policy, with REGIO and EMPL's funds accounting for respectively 76% and 21% of the spending covered by this chapter. For the expenditure managed by REGIO, the audit sample drawn by the Court was composed of payments relating exclusively to the 2007-2013 programming period.

The ECA's audit results on a sample of transactions are taken into account for REGIO's assurance approach. The ECA's findings are treated in the same way as audit results from Member States and the Commission, and are individually followed-up.

Main conclusions on legality and regularity of the expenditure:

The ECA concluded in its 2016 Annual Report that payments for economic, social and territorial Cohesion Policy were affected by material errors, **with a most likely error of 4.8%** and a frequency of error in the audited sample of 48%. **The rate of error has further decreased compared to previous years** and is less than half of the error rate reported by the ECA during the implementation of the 2000-2006 programming period. At closure, after all controls have taken place at national level, the residual error fell below the materiality level (see section 2.1.1.1).

The decreasing trend in both the Court's calculated error rate and reported frequency shows the general improvement in tackling errors in Cohesion Policy. The successive programming periods have increased the administrative capacity of programme authorities and the reliability of their work, contributing to the reduction of the error rate over the years.

The ECA underlined however that management verifications before declaring expenditure to the Commission could have reduced the error rate by 3.7 percentage points, if all information available had been properly used. Management verifications carried out by managing authorities before certifying expenditure to the Commission ('first level checks' of expenditure certification) are indeed the critical first layer of control in the management and control systems. Member States bear responsibility in first instance to prevent, detect and correct irregularities in accordance with the legal framework. In case of evidence of a significant number of errors or insufficiently robust management verifications that undermine assurance, the Directorate General carried out risk-based audits to detect deficiencies in this element of the systems and take actions in order to remedy the identified weaknesses⁸³.

The main sources of errors reported were ineligible expenditure, followed by non-compliance with public procurement and ineligible projects or beneficiaries (see table

⁸³ See section 2.1.1.1 on results of the risk-targeted audit enquiry "Bridge the assurance gap" and on "interruptions / suspensions".

below):

Category	Share of total error
Ineligible costs included in expenditure declarations	42%
Errors in public procurement	30%
Ineligible projects/activities or beneficiaries	28%

Other issues:

The Court also reviewed the 2016 Annual Activity Reports of REGIO and EMPL in order to check the consistency and accuracy of the Commission's calculation of the amounts at risk. It underlined the reasons why the error rates reported by the Commission under the 2007-2013 programming period cannot be directly compared to the estimated level of error calculated by the Court. It also made some comments on the 2014-2020 assurance model for cohesion spending and the information provided in that respect in the Annual Activity Reports.

Impact of the 2014-2020 new requirements on the assurance model:

In addition, the 2014-2020 programming period provides a new assurance model with reinforced provisions for control and accountability, along with annual balance payments (or recoveries) on the basis of certified accounts after all controls and necessary corrections have been implemented at national level (see section 2.1.3). The objective is to bring the annual residual error rate of each programme below the materiality level of 2%; otherwise, it will trigger additional corrections. Financial corrections are therefore reported in programme accounts and audited each year.

In this context, the ECA decided to carry out a pilot exercise and amended its approach in order to contribute to the overall statement of assurance and to assess the new control and assurance framework and the extent to which it can be relied upon. The Commission welcomes this new approach. This evolution is made possible thanks to the new features of the current programming period but also the continuous improvement of the reliability of the information provided by audit authorities and validated by the Commission.

ECA recommendations:

The Court issued three new recommendations in its 2016 Annual Report for Cohesion Policy. Two recommendations aim at addressing specific risks of ineligible expenditure when closing the 2007-2013 programmes or issues that may affect the reliable calculation of the residual rates for the 2014-2020 programming period. The last recommendation aims at strengthening the focus on performance and simplification for the ESI funds in the legislative proposals for post-2020.

The Commission accepted these recommendations and is taking actions for their implementation (see annex 8 for more details).

Regarding the follow-up of previous recommendations, the Court assessed that 8 recommendations out of the 10 recommendations issued in its 2013 Annual Report and accepted by the Commission have been fully implemented and 2 have been implemented in most respects. The Commission has also taken action for the implementation of the recommendations issued in the 2014 and 2015 Annual reports of the Court that it has accepted. More details on the level of implementation of these recommendations are available in Annex 8.

Performance assessment of projects:

For the third year, the ECA also assessed whether projects completed at the time of the audit had achieved their objectives, based on both project outputs and results. The Court concluded that 98% of the examined projects had a performance measurement system in place of at least output indicators, as the legislative framework for the 2007-2013 period did not oblige programme authorities to define result indicators at project level. For **92% of projects with performance measurement systems in place, indicators defined**

have been either fully or partially achieved. The performance assessment presented by the ECA is a snapshot of a situation at the time of their audits which was still expected to evolve till closure, where it was finally evaluated and reported to the Commission

The 2014-2020 programming period strengthened both the focus on result-orientation with a comprehensive system of obligatory indicators for outputs and results at programme level and the reliability and exhaustiveness of the performance data reported by Member States.

The ECA's Performance audits and Special reports

In 2017, the ECA finalized seven special reports involving expenditure from regional and urban policy. These audits covered either thematic investments supported by Cohesion Policy funds such as Natura 2000, Drinking water infrastructure, ERTMS (European Railway Traffic Management System) or the SME loan guarantees as well as horizontal aspects linked to the implementation of Cohesion Policy funds such as Ex-ante conditionalities and performance framework in the 2014-2020 period, Commission's preventive and corrective measures in the 2007-2013 period or Joint Assistance to Support Projects in European Regions (JASPERS).

Detailed information on the main conclusions and recommendations of those special reports is available in Annex 8. REGIO is implementing the Court's recommendations within the limits of its competencies provided by the legal framework under shared management.

B. Internal Audit Service (IAS)

In 2017, the IAS completed two audits:

1. An audit on "Major Projects" to assess compliance with the applicable regulatory framework and the efficiency and effectiveness of the controls put in place by REGIO for the approval and early monitoring of Major Projects (MP) in the 2014-2020 programming period.

The IAS identified strengths in the audited systems: the centralization of the approval of MP in one unit in REGIO, that has contributed to the streamlining of the processes, as well as the delegation of the MP appraisals to JASPERS (Joint Assistance to Support Projects in European Regions), the partnership between EC, EIB (European Investment Bank) and EBRD (European Bank for Reconstruction and Development) with dedicated JASPERS staff/experts carrying out the qualitative appraisals, that has contributed to the implementation of a common and consistent approach and to a drop in the average approval times with respect to the 2007-2013 programming period.

Nonetheless, it identified one 'Very important' issue, related to JASPERS contractual and supervision arrangements. The contractual arrangements and the EC's access rights to audit/supervise JASPERS' appraisal of projects are not clearly defined. REGIO is ultimately accountable for the management of major projects and needs to effectively supervise the elements, which contribute to the assurance building process. Issues have been noted concerning the dual role of JASPERS both as an advisor to the Member State and as the IQR (Independent Quality Review) of major projects applications submitted, which raises questions concerning potential conflicts of interest between the JASPERS Advisory and IQR Divisions. Another potential source of conflicts of interest lies in the fact that a number of major project for which JASPERS provides either advisory services or appraisals receive loans from the EIB, i.e. one of the bodies making up JASPERS. Therefore, appropriate governance is needed in order to ensure adequate segregation of duties and separation of functions and in order to prevent COI (or even the perception of conflicts of interest) between JASPERS IQR, JASPERS Advisory and the EIB lending activities. For the post-2020 period, if Major Projects will

be part of the legislative proposals, REGIO should initiate these proposals to clarify the Commission's supervisory arrangements over JASPERS IQR.

2. An audit on "Amendments of 2014-2020 Operational Programmes in DGs REGIO, EMPL, and MARE" to assess whether the design of the DGs' internal control systems for approving requests submitted by MS for European Structural and Investment Fund OP amendments is adequate and is effectively implemented in a consistent and timely manner at this early stage of OP implementation. The timing of the audit was aimed at maximising its impact by ensuring that the DGs can take on board areas for improvement at an early stage of the process.

The IAS recognised the efforts made by the audited DGs to ensure a coordinated approach to processing OPA requests and identified the following strengths: a coordination of the guidance in place between the three ESIF DGs via a Stock-Taking Group (STG), a joint legal interpretation of the applicable regulations by ESIF DGs, internal coordination meetings at the 3 DGs (in REGIO the monthly "Implementation Network"), as well as the existence of a strategy towards a more performance based culture, and evaluation strategy in DGs REGIO and EMPL.

Although the audited process is overall working well, nonetheless the IAS identified one "Very Important" issues, related to the consistency, effectiveness, and timeliness of the OP amendment process. The deadlines prescribed by the regulation for issuing observations and adopting OP amendments lead to very time pressured processes, with little or no margins for delay on the part of the Commission. The IAS identified the need to strengthen the process of issuing observations, including their timing and monitoring by management, and the need to put in place a framework to guide desk officers' decision making on the level at which observations should be sent to MS (technical observations, service level letter, or observations by Commission Decision). Improvements are also needed for the coordination of multi-fund OPs and in formalising the upstream work done by desk officers (i.e. before the official OP amendment request is submitted by the MS) in REGIO and MARE as part of the OP amendment procedure. In addition and looking forward to the preparation of the post 2020 programming period legislation, the DGs need to propose realistic deadlines for making observations on OP amendments and clarify the level at which these need to be approved.

REGIO accepted all the recommendations from the two audits above and is implementing them according to the agreed timetable.

Moreover, in 2017 the IAS completed an audit on "Commission's framework/arrangements for the Estimation, Assessment and Reporting on the Cost Effectiveness of Controls", covering DG BUDG as the responsible central service, with participation from DG RTD and other DGs. The audit final report included one very important recommendation addressed to DG BUDG, requiring the service to redesign the existing framework for estimating, assessing and reporting on the cost-effectiveness of controls by better distinguishing between a narrower operational dimension on the one hand (simplifying the methodology for the estimation of the costs), and a wider policy dimension on the other hand (including the cost of controls at Member State and entrusted entity level, where feasible and cost-efficient, so that policy makers are provided with an estimate of the "cost to control EU spending" as part of the legislative debate).

In addition, the IAS has started an audit on "IT project management", an audit on "Evaluation process in DGs REGIO and EMPL", an audit on "Limited review on the reporting on the corrective capacity" and an audit on "Review of the annual assurance packages by DGs REGIO, EMPL and MARE". These audits are on-going and should be completed in 2018.

Finally, in 2017, the IAS has also carried out several follow-up assignments on the previous audits.

In particular, the open very important recommendations included in previous audits and their state of play at end 2017 are the following:

	Audit title/audit year	Very Important Open recommendations	Deadline
1	<i>Early implementation of ESIF control strategy 2014-20 (2016)</i>	Control-related simplification measures	mid 2018
		Audits on performance data reliability	
		Early Preventive System Audits	
		Designation process and review	
		Audits on financial instruments	
2	<i>Effectiveness of simplification measures under 2014-2020 ESI Funds(2016)</i>	Uptake and impact of simplification measures	end 2018
		Mitigating risks associated with simplified cost options	
	TOTAL	7	

In this regard, it should be noted that none of the open very important recommendations issued by IAS is overdue in relation to the revised target date. .

Conclusion:

Based on all work undertaken, the IAS has provided its conclusion on the state of internal control within REGIO.

IAS has concluded **that the internal control systems audited are partially effective since a number of 'very important' recommendations remain to be addressed** in line with the agreed action plans.

The residual risks related to these recommendations may affect one or several internal control principles and/or components. Particular attention should be given to the combined effect of the 'very important' recommendations related to the design and implementation of the ESIF control strategy 2014-2020 showing that certain elements of the overall control strategy need to be further strengthened.

It is to be noted that, while **the IAS opinion for 2017** appears less positive than the one provided in the previous year, this **does not reflect a deterioration in the effectiveness of REGIO's internal controls**. The revised opinion merely results from the alignment to the approach set out in the new implementation guide on the implementation of the Commission's new Internal Control Framework, in view of the possible impact of some of the very important recommendations on the effectiveness of the internal control principles.

In this regard, REGIO has carried out a **detailed and comprehensive analysis of the possible impact of the identified issues on the effectiveness of the DG's new internal control**, covering the audits carried out by IAS in 2017 as well as the open very important recommendations from previous years: in the framework of this analysis the actions already carried out to mitigate the related risks have been taken into account

This showed that, for all the open very important recommendations, REGIO is taking the necessary actions to tackle the different issues identified by the IAS audits. In particular, parts of the action plans relating to the audits on "Early implementation of the ESIF control strategy", "Simplification measures", "Major Projects" and "Amendments of Operational Programmes" have already been implemented: in particular, as regards the open very important recommendations from previous years and as detailed in Annex 8, most actions foreseen in the agreed action plans have been accordingly implemented and progress has been made for the outstanding actions, that will be completed in 2018. It is also to be

noted that none of the very important recommendations is overdue in relation to the revised target date.

On the basis of the analysis carried out, REGIO considers that, **in view of the actions already put in place for risks mitigation, the residual risk related to the above-mentioned recommendations does not affect in a material way the achievement of the internal control objectives**, and therefore the assurance provided in the AAR.

2.1.3 Assessment of the effectiveness of the internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with the internal control framework is a compulsory requirement.

REGIO 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 principles and having due regard to the risks associated with the environment in which it operates.

Business owners oversee on a continuous basis the effectiveness of the internal control systems, in order to determine whether they work as intended and ensuring that any control weaknesses in the system are detected, analysed and considered for improvement. In addition, management performs specific assessments to ascertain whether the internal control systems and their components are present and functioning. The purpose of these management assessments is to provide reasonable assurance that the internal control standards/principles adopted by the Commission are implemented and functioning in the DG, that the assessment findings are evaluated and that any deficiencies are communicated and corrected in a timely manner, with serious matters reported as appropriate.

As far as the specific assessments are concerned, they take place twice per year: a mid-year round of interviews of the Chefs de file responsible for the Internal Control Principle (ICP), followed by a self-assessment exercise at the end of the year. The mid-year review allowed identifying areas for which improvements were needed and taking remedial actions when appropriate. The self-assessment exercise at the end of the year aimed at confirming compliance and effectiveness or at identifying further needs for actions, in case of partial effectiveness.

The self-assessment, performed on the basis of the data on the monitoring criteria provided by the ICS Chefs de file, was reviewed by taking into consideration mainly the following:

- The annual AOSD Management Reports;
- The non-compliance events reported and exceptions requested;
- The conclusion of the Internal Auditor on the state of internal control in the DG (see IAS above);
- The results of the IAS and the Court's audits and the follow-up of their recommendations as reported in annex.

In carrying out the assessment process the DG has followed the methodology established in the "Implementation Guide of the Internal Control Framework of the Commission".

Overview of the main changes in REGIO internal control environment and mitigating measures implemented

The main changes affecting REGIO internal control environment in 2017 resulted from the comprehensive review of the DG internal control framework, and from reorganisations driven by corporate decisions (centralisation of the HR function).

As for the new Internal Control Framework, following the Commission Communication on 19 April 2017, a roadmap to ensure its implementation within REGIO was endorsed and timely implemented in cooperation with the IC Chefs de file throughout the reporting year.

In the comprehensive revision of REGIO internal control environment, all the business areas falling under each principle were reviewed and appropriate monitoring criteria (along with their baselines and performance targets) were identified. These were used to assess both compliance and effectiveness of the internal control system.

As for the DG reorganisations, 2017 has been a transitional year for the HR function, with the new set-up effective as from February 2017. While the transition to a new model has had some temporary impact on the HR services delivery, a satisfactory service level continued to be ensured. Nonetheless, actions have been already foreseen and will be taken in 2018 in order to further strengthen the effectiveness and soundness of the concerned principles, with a focus area on definition and deployment of new working arrangements for some of the HR-related principles setting operational requirements.

Work carried out to strengthen the effectiveness of the internal control

As indicated in the AAR 2016, specific work was carried out in 2017 in order to strengthen the effectiveness of the internal control system in the following areas: Mission, Ethical and Organisational Values, Staff Evaluation and Development, Processes and Procedures, Document Management, Evaluation of Activities.

Other opportunities for further strengthening the effectiveness of the internal controls in other areas were also seized.

IAS opinion

The IAS conclusion on the state of controls in REGIO in 2017 indicated that the internal control systems audited are partially effective, since a number of very important recommendations remain to be addressed in line with the agreed action plans. The residual risks related to these recommendations may affect one or several internal control principles.

For the reasons already illustrated under section 2.1.2 B above, "Audit observations and recommendations", REGIO considers that, **in view of the actions already put in place for risks mitigation, the residual risk related to the above-mentioned recommendations does not affect in a material way the achievement of the internal control objectives.**

AAR reservations

It should be noted that the reservations formulated in relation to 2017 only concern shared management. Rather than a risk, the issuance of a reservation should be considered as the result of the deployment of effective supervisory mechanisms vis-à-vis local implementing authorities (e.g. managing and audit authorities). These notably include controls allowing to effectively detect and correct any failures in the functioning of management and control systems set up and run by and under the direct responsibility of the Member States and on the operation of which the Commission has no control. It therefore represents a measure of protection of the EU budget, via the interruption of payments to beneficiaries, in response to the detection of errors or deficiencies in the management and control systems of the Member States.

On the basis of the sources mentioned above, the following **conclusions** can be drawn:

- As regards the effectiveness of the IC principles:
 - all the principles are present and functioning well, with only minor improvements needed, except from the principles 1, related to Integrity and Ethical Values, and principle 4, related to Human Resources, that are present and functioning, but for which some improvements are needed;
 - no principles are considered partially effective or ineffective.
- As regards the effectiveness of the IC components:

- all the five components are present and functioning well, with only minor improvements needed;
- no components are considered partially effective or ineffective.

On the basis of the available evidence and of the detailed assessment carried out, REGIO concludes that its **internal controls are effective** and that the **components and principles are present and functioning as intended, with minor improvements needed**.

Further enhancing of the effectiveness of the DG's control arrangements in place is an on-going effort that will continue in 2018.

In particular, actions aimed at further increasing the robustness of the DG's internal control environment will be implemented in 2018 in areas covered by the principles identified as "present and functioning but some improvements needed":

- **Principle 1** (The Commission demonstrates a commitment to integrity and ethical values);
- **Principle 4** (The Commission demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives).

2.1.4 Conclusions as regards assurance

This section reviews the assessment of the elements reported above (in Sections 2.1, 2.1.2 and 2.1.3) and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

Review of the elements supporting assurance

The information reported in Parts 2 stems from the results of management and audit 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 Regional and Urban Policy.

The Commission gives the highest priority to the exercise of its responsibilities for implementing the budget under Article 317 of the EC Treaty.

REGIO has systematically examined the available control results and indicators, including the results of its own audits and communicated audits from programme audit authorities, as well as the observations and recommendations issued by internal auditors, the European Court of Auditors and OLAF. These elements have been assessed to determine their impact on the management's assurance (part 2).

In addition, REGIO 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 leading to assurance-related concerns.

As regards **shared management**.

For the 2014-2020 programming period, the programme authorities provided an assurance declaration, a management declaration, an annual summary, audit opinions and an annual control report forming with the accounts the "assurance packages". REGIO has started to carry out a detailed analysis of these documents and will continue in 2017, including with on-the-spot audits to review the work of audit authorities where necessary. A reservation is made for 17 programmes.

For the 2007-2013 programming period, the closure packages were received by 31 March 2017. Based on an in-depth review of the Final closure reports carried out during the regulatory five-month period, a reservation is made for 21 programmes.

For the 2000-2006 programming period, assurance has been built over the years. In the closure process, final payments are made when REGIO is reasonably certain that the error rate is below the materiality threshold of 2%, following implementation of additional appropriate financial corrections.

Reservations and overall conclusion on assurance

Regarding **shared management**, the situation is as follows :

For the 2014-2020 programming period, the estimated average risk linked to the 2017 relevant expenditure is approximately **1%** taking into account the financial corrections made, REGIO concludes that it has reasonable assurance as regards legality and regularity of transactions except for 17 programmes due to the deficiencies detected.

The quantification of the reservation for these programmes is approx. EUR 79 million or 0.5% of the 2017 relevant expenditure for ERDF/CF.

For the 2007-2013 programming period, the estimated average risk linked to the 2017 relevant expenditure for ERDF and Cohesion Fund is approx. **1.4%**. REGIO concludes that it has reasonable assurance as regards legality and regularity of transactions except for 20 ERDF/CF and 1 IPA-CBC programme, due to the level of financial corrections which still need to be applied as part of the closure process.

The quantification of the reservation for these programmes is approx. EUR 31 million or 0.7% of the 2017 relevant expenditure for ERDF/CF and IPA-CBC 2007-2013.

For the 2000-2006 programming period, the estimated average risk is estimated at 0.5% and REGIO can conclude that it has reasonable assurance as regards legality and regularity of transactions.

Regarding **indirect management**, on the basis of analysis made at programme level REGIO can conclude that it has reasonable assurance as regards legality and regularity of transactions.

Finally, for **direct management and for the Solidarity Fund**, no material deficiencies were identified affecting the 2017 paid expenditure. On this basis, REGIO can conclude that it has reasonable assurance as regards legality and regularity of transactions.

REGIO therefore decides on the following two reservations:

Nr.	Title	Type	Quantification of the reservations ⁸⁴	Scope / relevant expenditure affected
1	Management and control systems for the programming period 2014-2020 for 17 programmes (16 ERDF/CF Operational Programmes impacting 9 Member States and 1 European Territorial Cooperation programme)	Financial	79 million	1.5 Billion
2	Management and control systems for the programming period 2007-2013 for 21 programmes (17 ERDF/CF Operational Programmes impacting 7 Member States, 3 European Territorial Cooperation programmes and 1 IPA-CBC programme)	Financial	31 million	299 million

⁸⁴ Calculated on the basis of the relevant expenditure for 2017.

1. Reservation concerning ERDF/Cohesion Fund management and control systems for the period 2014-2020 in several Member States

DG/service	Regional and Urban Policy
Title of the reservation, including its scope	A/ Reservation concerning the ERDF/Cohesion Fund management and control systems for the period 2014-2020 for : 17 programmes in Czech Republic, Germany, France, Croatia, Hungary, Italy, Poland, Slovakia, United Kingdom and one ETC programme.
Domain	Structural and Cohesion Funds and IPA-ENI carried out under 'Shared Management Responsibility'
Programme in which the reservation is made and total (annual) amount of this programme	<u>13.03 ERDF, 13.04 Cohesion Fund.</u> 2017 ERDF/CF total payments made: EUR 21.3 billion (2014-2020 period) 2017 ERDF/CF total payments made to systems affected by reservations: EUR 2.1 billion.
Reason for the reservation	- systems deficiencies leading potentially to risk above the 10% retention - total error rates above 10% - residual total error rate above 2%
Materiality criterion/criteria	Significant deficiencies at the level of the key elements of the management and control systems with a material risk to the EU Budget, Residual error rate >2%, material issues on the completeness, accuracy and veracity of the accounts
Quantification of the impact (=actual "exposure")	Total quantification of the reservation: EUR 79 million corresponding to approx. 0.5% of the 2014-2020 ERDF/CF relevant expenditure for 2017.
Impact on the assurance	The weakness affects the legality and regularity of the expenditure concerned and the effective functioning of the management and control systems in place. Financial impact is mitigated through: - 10% retention - interruption/suspension of payments pending the correction of the identified weaknesses by the Member States concerned; - financial corrections to be applied before declaring the first expenditure statement.
Responsibility for the weakness and its correction	The expenditure concerned is under shared management in which the Member State is primarily responsible for implementing the management and control systems. Therefore, the designated national and regional authorities of the programmes concerned are responsible for undertaking corrective measures. The Commission supervises the national authorities in this respect (monitoring of execution of the remedial measures).
Corrective action	<u>At Commission level</u> - warning letters / interruption of payment deadlines / launch of suspension and correction procedures, - audit work both desk or on the spot to check the ability of national auditors to fulfil their obligations, <u>At Member State level</u> - implementation of remedial actions including when necessary financial corrections in order to remedy the deficiencies, - audit by the audit authority of the effective implementation of remedial measures in management and control systems and of financial corrections when required.

2. Reservation concerning ERDF/Cohesion Fund and IPA-CBC management and control systems for the period 2007-2013 in several Member States

DG/service	Regional and Urban Policy
Title of the reservation, including its scope	A/ Reservation concerning the ERDF/Cohesion Fund management and control systems for the period 2007-2013 for: 20 programmes in Czech Republic, Croatia, Germany, Hungary, Italy, Romania, Slovakia and for ETC programmes. B/ Reservation (reputational) concerning 1 IPA cross Border programme. (These include full, nonfinancial and reputational reservations)
Domain	Structural and Cohesion Funds and IPA-CBC carried out under 'Shared Management Responsibility'
Programme in which the reservation is made and total (annual) amount of this programme	<u>13.03 ERDF, 13.04 Cohesion Fund,</u> 2017 ERDF/CF total payments made: EUR 3.7 billion (2007-2013 OPs) 2017 ERDF/CF total payments made to systems affected by reservations: EUR 49.8 million (In addition, EUR 249.9 million cleared for OPs Sicilia and Reti e mobilita). <u>13.05 IPA-CBC</u> 2017 IPA-CBC payments made: EUR 7.7 million (2007-2013 OPs). Reservation for OP Adriatic is reputational.
Reason for the reservation	Serious deficiencies in management and control systems for these programmes as detected by the programme audit authority and/or the Commission at closure which have significant financial impact (i.e. risk above the amount retained). In particular, these deficiencies concern one or several of the following key elements: - compliance with public procurement rules and directives /revenue generated project/eligibility rules, - high error rates following audit of operations, - audit work (incomplete, procurement irregularities not detected...), - suspicion of fraud, - Payment delays.
Materiality criterion/criteria	Following the in-depth assessment of closure documents, reservations are made for programmes with estimated financial corrections to be implemented exceeding the retention of the overall allocation made at programme level (normally 5%)
Quantification of the impact (=actual "exposure")	Total quantification of the reservation: EUR 31 million corresponding to approx. 0.7% of the 2007-2013 ERDF/CF relevant expenditure for 2017.
Impact on the assurance	The weakness affects the legality and regularity of the payments concerned and the effective functioning of the management and control systems in place. The Commission will make the final payment once the Member states' authorities will have agreed all necessary additional financial corrections.
Responsibility for the weakness and its correction	The expenditure concerned is under shared management in which the Member State is primarily responsible for implementing the management and control systems. Therefore, the designated national and regional authorities of the programmes concerned are responsible for undertaking corrective measures. The Commission supervises the national authorities in this respect.
Corrective action	For each programme included in the reservation, with the aim to obtain assurance that the required corrective measures have been completed, the Commission has analysed the Final Control Reports received by 31 March 2017 and when needed has requested Member States to perform additional audit work and/or to apply additional financial corrections.

Overall conclusion on risks

In the context of the protection of the EU budget, at the Commission's corporate level, the DGs' estimated overall amounts at risk and their estimated future corrections are consolidated.

For REGIO, **the estimated average error rate at payment⁸⁵ for the 2017 relevant expenditure for all management modes is approximately 1.1%** (implying an approximate amount at risk of EUR 238 million). This is the AOD's best, conservative estimation of the amount of *relevant expenditure*⁸⁶ during the year not in conformity with the applicable contractual and regulatory provisions at the time the payment is made. In previous year, the average error rate at payment was between 1.9% and 3.7%. This evolution reflects the change of the management and control system put in place for the 2014-2020 programming period, notably the 10% retention on Commission interim payments and the annual accounts that already include for each programme the necessary financial corrections to have a residual error rate below the materiality threshold of 2%.

As the 2007-2013 programming period is at the stage of the closure, final payments are processed when the Commission is of the opinion that all the necessary financial corrections have been made and that the residual risk is below the materiality threshold of 2%, meaning that no additional future corrections should be estimated. Therefore, the estimated amount at risk at payment is based on the estimated residual risk after financial corrections.

For the 2014-2020 programming period, as the relevant corrections have been implemented by the Member States in the relevant annual accounts, the estimated amount at risk at payment/accounts is also based on the residual risk calculated by the Audit Authorities taking into account the financial corrections applied by the Member States.

This expenditure (2007-2013 final payments and 2014-2020 annual accounts) may be subsequently subject to ex-post controls by the Commission and the Court of Auditors and some additional errors may be detected and corrected in successive years.

Table - Estimated overall amount at risk at payment and at closure for 2017

DG REGIO	"relevant expenditure" ^d (m€)	Average Error Rate / Risk at Payment (weighted AER; %)	estimated overall amount at risk at payment (FY; €)	estimated future corrections [and deductions]	estimated overall amount at risk at closure (€)	estimated overall amount at risk at closure ^e (%)
		Average	Average	Average	Average	Average
	(6)	(7)	(8)	(9)	(10)	(11)
ERDF/CF - 2014-2020	16.112,7	1,05%	169,2	-	169,2	1,05%
Crossborder cooperation IPA-ENI 2014-2020	2,5	2,00%	0,1		0,1	2,00%
ERDF/CF – 2007-2013	4.729,5	1,39%	65,7		65,7	1,39%
IPA –CBC – 2007-2013	67,6	0,91%	0,6		0,6	0,91%
IPA -2007-2013	333,9	0,03%	0,1		0,1	0,03%
ERDF/CF - 2000-2006 and before	236,7	0,50%	1,2		1,2	0,50%
Solidarity Fund	155,6	0,50%	0,8		0,8	0,50%
Urban Innovative actions	(0,0)	0,50%	(0,0)		(0,0)	0,50%
Direct management (incl. Cross Subdelegations given)	71,3	0,50%	0,4		0,4	0,50%
Overall, total	21.709,8	1,10%	238,0	-	238,0	1,10%

⁸⁵ In order to calculate the weighted average error rate (AER) in the reporting year, for 2007-2013 the reportable error rates were applied on the interim payments (if any) while the residual risk rates were applied on the final payments made by the commission. For the 2014-2020 period, the reportable residual error rates (based on the 2016-2017 accounting year) or a flat rate of 2% (in case no accounts and no annual control report were received for the first semester) were used.

⁸⁶ "relevant expenditure" during the year is equal to payments made, minus new pre-financing paid out, plus previous pre-financing cleared. The detailed calculation is provided in Annex 8.

As the relevant corrections have been implemented by the Member States in the relevant annual accounts (for the 2014-2020 period)⁸⁷, or as part of the closure process (for the 2007-2013 period), there are no future corrections estimated to be done on the 2017 expenditure.

The difference between those two amounts leads to the estimated overall amount at risk at closure of approximately 1.1% (implying an approximate amount at risk of EUR 238 million). For the Cohesion Policy, the risk at closure is by nature below 2% as it is not possible to close a programme in case this risk is known to be above the materiality level of 2%.

Taking into account the conclusions of the review of the elements supporting assurance and the expected corrective capacity of the controls to be implemented in subsequent years, it is possible to conclude that the internal controls systems implemented by REGIO provide sufficient assurance to adequately manage the risks relating to the legality and regularity of the underlying transactions. Furthermore, it is also possible to conclude that the internal control systems provide sufficient assurance concerning the achievement of the other internal control objectives.

⁸⁷ Apart for one programme under contradictory procedure with the Member State following an audit from ECA and for which an additional correction may be required for the 2015-2016 accounts accepted in May 2017

Declaration of Assurance

I, the undersigned, Marc Lemaître, Director-General of the Directorate General for Regional and Urban Policy

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view⁸⁸.

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 observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution

However the following reservations should be noted:

- a reservation concerning ERDF/Cohesion Fund management and control systems for the 2014-2020 programming period in 9 Member States, 1 European territorial cooperation programme (see table next page)*
- a reservation concerning ERDF/Cohesion Fund management and control systems for the 2007-2013 programming period in 7 Member States, 3 European territorial cooperation programmes and 1 IPA-CBC cooperation programme (see table next page)*

Brussels, 25 April 2018

Marc Lemaître

"Signed"



⁸⁸

True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.

List of operational programmes in the 2017 reservation

2014-2020 PROGRAMMING PERIOD, ERDF/CF and IPA-CBC

	MS	CCI	Title	Reservation 2017
1	CZ	2014CZ16RFOP001	Enterprise And Innovation For Competitiveness	Partial
2	DE	2014DE16RFOP004	Brandenburg	Full
3	DE	2014DE16RFOP013	Sachsen-Anhalt	Full
4	FR	2014FR05M0OP001	EMPL Ile-De-France And Seine	Full
5	FR	2014FR16M0OP007	Midi-Pyrénées Et Garonne	Full
6	FR	2014FR16M2OP005	Franche-Comté Et Jura	Full
7	FR	2014FR16M2OP009	Poitou Charentes	Full
8	HR	2014HR16M1OP001	Competitiveness And Cohesion	Full
9	HU	2014HU16M1OP001	Environmental And Energy Efficiency	Partial
10	HU	2014HU16M2OP001	Territorial And Settlement Development	Full
11	IT	2014IT16RFOP016	Sicilia	Full Non-fin
12	IT	2014IT16RFOP022	Basilicata	Full
13	PL	2014PL16M2OP010	Podlaskie Voivodeship	Full Non-fin
14	PL	2014PL16RFOP001	Smart Growth	Partial
15	SK	2014SK16RFOP001	Research And Innovation	Par Non-fin
16	TC	2014TC16RFCB014	Central Baltic	Full
17	UK	2014UK16RFOP004	Scotland	Full Non-fin

2007-2013 PROGRAMMING PERIOD, ERDF/CF and IPA-CBC

Res. No	MS	CCI	Title	Reservation 2017
1	CZ	2007CZ161PO008	North-West	Full Non-Fin
2	CZ	2007CZ16UPO001	Technical Assistance	Par Non-fin
3	DE	2007DE161PO007	Sachsen - Anhalt	Par Non-fin
4	ETC	2007CB163PO021	Romania - Bulgaria	Full Non-Fin
5	ETC	2007CB163PO041	France - Suisse	Full Non-Fin
6	ETC	2007CB163PO053	Slovenia - Hungary	Full Non-Fin
7	HR	2007HR161PO001	Environment	Full Non-Fin
8	HR	2007HR161PO002	Transport	Full Non-Fin
9	HR	2007HR161PO003	Regional Competitiveness	Full Non-Fin
10	HU	2007HU161PO002	Environment and Energy	Rep
11	HU	2007HU161PO007	Transport	Full Non-Fin
12	HU	2007HU161PO010	Implementation	Par Non-fin
13	HU	2007HU16UPO001	Electronic Public Administration	Full Non-Fin
14	IT	2007IT161PO005	Reti e mobilita	Full
15	IT	2007IT161PO006	Ricerca e competitivita	Full Non-Fin
16	IT	2007IT161PO011	Sicilia	Full
17	IT	2007IT162PO004	Lazio	Full Non-Fin
18	RO	2007RO161PO003	Transport	Full Non-Fin
19	RO	2007RO161PO004	Environment	Par Non-fin
20	SK	2007SK161PO007	Technical Assistance	Par Non-fin
21	IPA-CBC	2007CB161PO001	Adriatic IPA CBC	Rep

2.2 Other organisational management dimensions

2.2.1 Human resource management

In the context of shrinking resources, REGIO has deployed its resources effectively by focusing on the delivery of the Commission's priorities and core business, along with other vital areas where it is best placed to contribute.

The Directorate General used various tools for adequate HR planning and allocation:

- The Workforce Planning exercise - identifies the optimal staff allocation to tasks;
- Training Plan and Competency Gap analysis – improves matching of staffs' skills with DG needs and identifies areas where skills should be further developed;
- HR Rolling Plan - provides a full overview of the deployment of resources.

Decisions on the allocation of resources were taken at the level of the DG HR Strategic Committee (HRSC), composed of the Director-General, the Deputy Director-General and the Resource Director in 2017. The HRSC decided on the use of vacant posts, taking into account strategic priorities, requirements, and conclusions derived from HR planning tools indicated above.

Recruitment decisions are of strategic importance for the DG. Recruitment of all administrators is subject to a multi-layered process where the final stage is an interview with the High Level Panel, always in the presence of a Deputy-Director General and another senior manager. Recruitment decisions took into consideration the overall alignment of the applicants' individual qualities with the strategic needs of the DG.

Following the restructuring of the HR function across the Commission and its centralisation, the transition to the new system, with a Business Correspondent Team in charge of strategic HR issues, and an external Account Management Centre in charge of day-to-day HR business, has been smooth for most of the underlying processes.

During the year, REGIO has continued to deliver actions to enhance staff satisfaction, as specified in *REGIO's Action Plan on Staff Satisfaction*, which includes, but are not limited to, well-being actions aligned with the *fit@work EC-wide initiative*, such as yoga, pilates, reiki sessions, and lunchtime conferences.

It has made progress in reaching targets for indicators for well-being and staff engagement set in its 2016-2020 Strategic Plan. As well, targeted actions were taken throughout 2017 as a follow-up of the Commission staff satisfaction survey 2016, in order to effectively address the areas of concern identified through the survey.

The workforce planning exercise for 2017 showed good focus of available resources, as the overwhelming majority of them are allocated to the delivery of the DG's annual priorities.

As regards the staffing allocation, restructurings occurred throughout 2017 have led to rationalisations in many areas, by further increasing the average size of units and contributing to efficiency gains and savings mainly in the management and administrative support.

As well, targeted efforts in order to achieve a further harmonisation were devoted in area concerning the posts allocated to administrative support per unit and the job families and job titles of REGIO staff.

Staff mobility was implemented with remarkable results, allowing striking the right balance between continuity and renewal: 74% of the colleagues who were mobile in 2017 have changed jobs by the end of the year, with a clear and substantial improvement with respect to 2016. Overall, the active involvement of the hierarchy as well as of the Business Correspondent team in finding appropriate mobility solution for the mobile colleagues has allowed this successful implementation.

As regards female representation in middle management, REGIO has consistently been a forerunner in the area. At the end of 2017, the representation was however at 37%, close to the Commission average, compared to 40% at end 2016. This deterioration is mostly due to the implications of the Commission Decision on middle management staff mobility. The target set by the College in 2017 has been reached at the beginning of 2018.

2.2.2 Information management aspects

Sharing of information and knowledge

REGIO is strongly committed to cultivate and utilise knowledge related to Cohesion Policy for better policy-making, to improve programme implementation and collaboration with Member States, as well to increase staff efficiency.

To serve this purpose, it has developed and implemented a comprehensive approach on knowledge management including change management initiatives, training sessions and staff incentives to better collaborate, collect information and share expertise and knowledge. The main achievement of the knowledge management approach so far is the implementation and adoption of RegioWiki, a knowledge management repository and collaboration platform.

RegioWiki, which is based on "Confluence", is operational since February 2014, supported by a robust and controlled structure and vocabulary (taxonomy) and divided into 5 pillars: Geographic, Thematic, Policy, Regulation and Internal.

This overall approach is steered in the framework of REGIO's Board of Directors and Knowledge Management Steering Committee. In parallel, ad hoc networks of local correspondents and contributors in the different units help engage the whole REGIO staff into a collective endeavour.

After opening in 2016 of two pillars capturing our geographic and thematic knowledge, in 2017 the last pillar devoted to internal procedures and processes has been fully rolled-out: based on these progresses WIKI is now fully operational and actively and extensively used, with more than 700 users at end-December 2017, with respect to 480 users at the end of the previous year.

A satisfaction survey of Wiki users carried out in October 2017 has provided an overall positive feedback, confirming the potentials of the tool on improving information retrieval and delivery, maximising use of data for better policy making as well as creating a culture of knowledge sharing and learning according to the EC corporate programme on Data, Knowledge and Information Management.

Document management

As regards document management, an Electronic Archival Action Plan, launched in 2016 and which aims to reduce the number of non-filed documents and optimise the quality of filing, was implemented on the ground in 2017. This has provided clear and substantial improvements with a percentage of non-filed documents lower than 1% at the end of the year. Targeted actions were also taken to significantly reduce the paper and electronic files. The number of active files has been reduced by more than 30%. In addition, meetings and trainings were organised to ensure that managers and administrators are aware of their responsibilities in respect of Document Management. A first training on files was organized in November 2017 with very positive feedback. The DMO Correspondents' club was launched as well. These actions will continue in 2018.

At the end of 2017, REGIO considers that all files that could be shared with other Commission services have indeed been shared. REGIO has taken actions throughout 2017 to increase substantially this number, reaching the percentage of around 40% at the end of the year. This even understates the achievement as it only takes account of completely open files. If sub-files are taken into account a majority, 65%, of REGIO sub-

files are now shared. In particular, access was granted to all the programme files in April 2017, in line with the EC Corporate Information Management Policy. An area of focus in 2018 will be to further improve file-sharing with other EC services, continuing on the positive trend experienced in 2017. This would be achieved once a decision on the contract files sharing will be taken at corporate level.

This section covers also the Better Regulation component(s). For an extensive reporting on all components, please refer to Annex 2.

2.2.3 External communication activities

With a budget of EUR 454 billion for 2014-2020, the ESI Funds are a key component of the Commission's drive to fulfil its first political priority of investing in jobs and growth. The reform for 2014-2020 has made the Funds resolutely performance-orientated.

In this context, REGIO's Communication Strategy for 2017-2020 (adopted on 27 March 2017) sets the following priorities and objectives for the DG's communication for that period:

- Raise the profile of the regional development and cohesion funds within the Commission, to secure adequate levels of funding in the proposals post-2020;
- Raise awareness of the results of regional development and cohesion funds and their impacts on people's lives;
- Increase participation to setting priorities and funding under the next MFF;
- Raise awareness of the win-win impact of structural funds and of the potential of Cohesion Policy to induce political cohesion in the EU; and
- Increase take up of funds and the quality of project proposals presented.

To this end, the Strategy identifies a number of target audiences and main messages and promotes, among others, mainstreaming communication throughout all REGIO activities, making communication everyone's business in the DG, closely involving REGIO's partners and building on good practice. Finally, this was accompanied by an increase of EUR 11 million in REGIO's technical assistance allocation to communication activities for 2017 (mid-term review of the technical assistance decision for 2017).

REGIO also developed a response to requests from the Council (Conclusions of the April General Affairs Council meeting) as well as invitations from the European Parliament and the Committee of the Regions to enhance the visibility of Cohesion Policy. This was materialised by a joint letter of Commissioners Crețu and Thyssen to Member States of 23 May 2017, announcing the launch of 7 Joint Communication Actions, to be implemented as shared efforts between the Commission and Member States. These are:

- 1) Launch a broad coalition to raise the profile of Cohesion Policy;
- 2) Organise a video competition on the achievements of Cohesion Policy since its creation;
- 3) Organise a "Did you know?" campaign on Cohesion Policy's most iconic or representative projects;
- 4) Organise photo exhibitions showing "before – after Cohesion Policy" places in cities or regions;
- 5) Organise national versions of the European Regiostars awards;
- 6) Take the opportunity of the 60 years' anniversary of the EU to showcase 60 projects funded through Cohesion Policy in each member state;
- 7) Organise regional or local debates about funding priorities for Cohesion Policy.

These actions were largely implemented by Member States, as pointed out in a survey forwarded to managing authorities in September 2017.

In parallel, the DG continued the "EU in My Region campaign" and launched the following four campaigns, which are currently starting:

- Regional and local debates about the achievements of Cohesion Policy and investment priorities for post-2020;
- A campaign targeting the youth with 4 Road trips across Europe and projects co-financed by Cohesion Policy;
- A campaign targeting a large audience in a selected number of Member States where awareness of the policy is lower - called "EU delivers in the regions";
- Grants to media for dissemination of Cohesion Policy achievements in line with their own editorial line.

These campaigns are largely coordinated with DG COMM and other DGs (EMPL, EAC). This is part of the increasing cooperation with DG Communications and the Corporate Communication Steering Group, which ensures among others that corporate communication actions reflect the important contribution of ESI Funds to the Commission's priorities.

In October, REGIO organised again, in cooperation with the Committee of the Regions, the European Week of Regions and Cities. This was an important opportunity for dialogue between the Commission, regions and cities on the delivery of the Commission's political priorities. This Week was also the frame of the awards ceremony of the 10th edition of the RegioStars, which continued to recognise the achievements of the most innovative EU-funded projects.

In parallel, the ESIF open data platform was further developed and expanded, encouraging debate on the performance of 2014-2020 programmes. Thanks both to this expansion and to its continuous promotion through web, social media, Panorama magazine, mailing lists and conferences, the open data platform has become the by-default source of information on ESIF implementation.

Finally, the different fora on the EU macro-regional strategies (Alpine, Adriatic-Ionian, Baltic and Danube) allowed fostering cooperation between regions on common challenges linked to the Commission's political priorities, such as investment for growth and jobs, energy union, digital single market, etc.

For further information, please refer to Annex 2.