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2016 Annual Management and Performance Report for the EU Budget



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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT,
THE COUNCIL AND THE COURT OF AUDITORS**

2016 Annual Management and Performance Report for the EU Budget

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Introduction

The EU budget is a key instrument for implementing European policies. Together with regulatory instruments, it complements national budgets to deliver on the shared political priorities and respond to the challenges the EU faces.

The need to ensure that resources are allocated to priorities and that actions financed through the EU budget bring high performance and added value is at the heart of the Commission's **EU Budget Focused on Results initiative**. This initiative, building on the performance frameworks in the 2014–2020 programmes, promotes a coherent balance between compliance and performance.

The 2016 Annual Management and Performance Report for the EU Budget provides a comprehensive overview of the performance, management and protection of the EU budget. It explains how the EU budget supports the EU's political priorities and describes both the results achieved with the EU budget, and the role the Commission plays in ensuring the highest standards of financial management.

Demonstrating the Commission's efforts towards streamlined performance reporting, this second edition of the Annual Management and Performance Report incorporates the former **Communication on the protection of the EU budget¹** and, as last year, will be part of the **EU budget Integrated Financial Reporting Package**. This package is an essential input for the annual 'discharge procedure' by which the European Parliament and the Council scrutinise the implementation of the EU budget.

Executive summary

The **2016 Annual Management and Performance Report for the EU Budget** brings together the latest information on the results achieved with the EU budget and on how it is managed and protected.

The current **Multiannual Financial Framework**, which runs from 2014 till- 2020, was agreed in 2013 against the backdrop of the financial and economic crises and fiscal consolidation in the Member States. It was designed to support the objectives of the Europe 2020 growth strategy, placing a strong emphasis on investment in jobs and growth.

These objectives are reflected in the ten political priorities of the Commission as set out by President Juncker. They remain highly relevant today.

In addition, a number of new challenges have arisen, in particular the need to provide a strong and united European response to the migration crisis and to security threats resulting from global instability. **The EU budget has played a key role in addressing these challenges.** In 2016, high priority was given to action to boost growth, competitiveness, investment and jobs; and to the European response to global challenges. This required the Commission to make full use of the flexibility built into the Multiannual Financial Framework to ensure that funds are directed rapidly to where they are most needed.

The Commission also made important proposals in 2016 to make the current Multiannual Financial Framework work better. The Commission Communication on the **Mid-term Review/Revision of the Multiannual Financial Framework 2014-2020²**, presented in September 2016, included an ambitious package of legislative proposals aiming to:

- (i) provide additional financial means to tackle migration and security risks and foster economic growth, job creation and competitiveness;
- (ii) increase the flexibility of the EU budget in order to quickly and efficiently address unforeseen circumstances; and
- (iii) simplify financial rules and thus reduce the administrative burden on recipients of EU funds³.

These proposals drew on the Commission's ongoing work under the umbrella of the **EU Budget Focused on Results Initiative**. Other noteworthy developments in 2016 included improvements to the structure and the content of programme statements accompanying the 2017 draft budget to provide the Budget Authority with a more focused picture of programmes' performance. In addition, the Commission produced for the first time in 2016 a single **Integrated Financial Reporting Package** providing detailed information on revenue, expenditure, management and performance of the EU budget in line with best practices in the fields of **transparency and accountability**. Transparency is also ensured through the "Financial Transparency System" (FTS) publication⁴ which provides information about the beneficiaries of EU funding managed directly by the Commission.

Performance and results

Growth, jobs and a resilient society

The European economy continues to recover, although growth remains modest and is still held back by the legacy of the financial and economic crises. In a context of worldwide uncertainty, this fragile recovery has made it imperative to keep the EU budget focused on sustainable and inclusive economic growth.

Boosting jobs, growth and investment remains the overarching priority for the EU budget, as confirmed by President Juncker in his State of the Union address of 14 September 2016. In this speech, the

President underlined the need for Europe to strengthen its economic recovery and to invest strongly in its youth and jobseekers, as well as in start-ups and Small and Medium sized Enterprises (SMEs).

Two years after its launch, the **European Fund for Strategic Investments**, the centrepiece of the **Investment Plan for Europe**, has already delivered tangible results.

As of mid-May 2017, financing under the European Fund for Strategic Investments is expected to support investment of more than 190 billion in all EU Member States, which is more than half of the target of EUR 315 billion by mid-2018⁵.

In light of this strong performance, the Commission proposed in September 2016 to extend its duration and double its financial capacity, which would enable the mobilisation of at least EUR 500 billion in investments by 2020. Most of this increase will come from private investment, thus providing a lasting stimulus catalysed by the EU budget. The Commission is also working on making it easier to combine the European Fund for Strategic Investments with other European funding programmes.

A good example is the **Loan Guarantee Facility** under the '**COSME**' programme ('**Competitiveness of enterprises and small and medium-sized enterprises**') which continued to be very successful in 2016, also thanks to the additional risk-bearing capacity from the European Fund for Strategic Investments.

At the end of 2016, more than 143 000 Small and Medium sized Enterprises in 21 countries have already received financing of more than EUR 5.5 billion with the support of the COSME programme.

Alongside the Investment Plan for Europe, the **European Structural and Investment Funds** are powerful instruments to boost smart and inclusive growth. By the end of 2016, which was the first full year of implementation by the Member States, projects with an investment value of more than EUR 176 billion had been approved for European Structural and Investment Funds' support.⁶

Beyond financial support, the European Structural and Investment Funds are designed to provide strong incentives to Member States to implement essential and growth-friendly structural and policy reforms, including those linked to the Country-Specific Recommendations issued in the context of the European Semester.

The ex-post evaluations of the Cohesion Policy funds from the 2007-2013 programming period, which were finalised in 2016, demonstrated how these funds have contributed to growth and job creation, and showed how every region and country in the EU has benefited from Cohesion Policy. For example, it was estimated that:

In the EU-12 countries, cohesion policy funds and rural development investments in 2007-2013 led to increased GDP in 2015 by 4 % above what it otherwise would have been.

In terms of combatting unemployment, the cohesion policy funds for the 2007-2013 period have also proved to be effective. Preliminary data showed that:

the European Regional Development Fund and the Cohesion Fund led to the creation of 1.2 million jobs, while 9.4 million participants supported by the European Social Fund subsequently gained employment.

Although it is only possible to report on successful outcomes upon completion of the intervention, **Youth Employment Initiative** actions, together with those of the **European Social Fund** are delivering first positive results on employment. By the end of 2015 2.7 million young people participated in activities organised by those actions, including 1.6 million unemployed and 700 000 inactive people.

235 000 people were back in employment, 181 000 gained a qualification and 100 000 were in education or training following an intervention of the European Social Fund and the Youth Employment Initiative.

In certain Member States it has however taken more time to put the necessary processes and structures in place to implement the Youth Employment Initiative.

The **research and innovation programme Horizon 2020** is key for building a society and economy based on knowledge and innovation across the EU. It succeeded in reaching 49 000 participations and grant agreements were signed for a total amount of EU 20.5 billion. Over 21% of all participations were Small and Medium-sized Enterprises. In 2016, the Marie Skłodowska-Curie actions (MSCA) celebrated their 20th anniversary and funded 25 000 researchers between 2014 and 2016.

The Nobel Prize in Chemistry was awarded jointly to three laureates who have been receiving funding since the fourth research framework programme.

A number of large-scale infrastructure programmes are also contributing to the EU's jobs and growth objectives. The **Galileo**-programme, setting up Europe's own global satellite navigation system, transitioned from the deployment to the exploitation phase in 2016.

The launching of six new satellites in 2016 enabled services provision to begin.

Following the declaration of Galileo Initial Services in 2016, chipset and receiver manufacturers and application developers can use Galileo signals to develop their activities, and a number of Galileo-ready devices are already on the market⁷. To be

noted that the implementation of projects under Horizon 2020 encouraged the development of new Galileo applications. These projects have already led to 13 innovations being brought to the market, 5 patents, 34 advanced prototypes, two products on the market and 223 published scientific papers. The global Navigation Satellite System market is expected to grow from 5.8 billion devices in use in 2017 to an estimated 8 billion by 2020.

As to the **Connecting Europe Facility for Transport** support has been granted to 452 projects for a total value of EUR 19.4 billion in investment across Europe. This has helped to kick off major infrastructure investments in Europe contributing to the overall Connecting Europe Facility goals, such as bridging missing transport links and removing bottlenecks. For example:

The Connecting Europe Facility for Transport contributed to the 64 km long Brenner Base Railtunnel which will be the longest high capacity rail tunnel in the world.

The tunnel will reinforce considerably the competitiveness of railway traffic along the strategic Munich-Verona stretch and contribute to a better modal shift in the sensitive Alpine region.

With regard to education, lifelong learning, training and encouraging entrepreneurship, more than two million participants benefited from Erasmus+ by the end of 2016. It enabled around 497 000 young people to study, train, volunteer and participate in youth exchanges abroad in 2016. Its first implementation report⁸ underlined that:

Erasmus+ students are not only more likely to be employed (compared to their non-mobile peers), but also to secure management positions. On average 64 % of Erasmus+ students, compared to 55 % of their non-mobile peers take up managerial positions within five to ten years from graduation.

For the Erasmus+ Master Loan Scheme five banks⁹ signed up to the scheme and one university implemented an innovative financing model. Despite encouraging feedback from students, the level of uptake (in terms of the number of financial intermediaries and the size of the guarantees sought) is lower than estimated initially and the Commission is seeking to expand geographical coverage and uptake.

Finally, 2016 was the first year of implementation of the new system of direct payments under the reformed **Common Agricultural Policy**. Member States managed direct payments for about 7 million farmers and rural development programs. Several market support measures were implemented in response to unfavourable market developments in 2015 and 2016 and have helped to rebalance the agricultural sectors. In response to falling milk prices in the EU in the first half of 2016 and the persistent supply-demand imbalance, the Commission announced an exceptional milk production reduction measure in July 2016, which contributed to the effective rebalancing of the EU dairy market. The measure financed the reduction of production of more than 850 000 tonnes in the fourth quarter 2016 (64 % of the total decrease of milk production in the Union) which supported a rise of 29 % in EU milk prices in the second half of 2016.

European agriculture showed its resilience, as evidenced by the trade statistics:

EU agri-food exports reached a value of EUR 130.7 billion, which is 1.5 % higher than in 2015.

A European response to global challenges

In 2016 the European response to new challenges emerging from the shifting geopolitical situation continued. The EU budget provided support to Member States in properly managing migration flows, addressing the root causes of migration and safeguarding the Schengen area. Other EU priorities in relation to global challenges, such as climate change, continued to be underpinned by the EU budget.

The implementation of Member States' national programmes under the **Asylum, Migration and Integration Fund** and the **Internal Security Fund** gathered pace in 2016.

Member States stepped up their efforts in both voluntary and forced return with support from the Asylum, Migration and Integration Fund in 2016:

Out of 37 748 returned people 26 187 were returned through voluntary return programmes.

Early data shows that the number of irregular migrants apprehended at the EU's external borders has decreased (from 1.8 million in 2015 to 0.5 million in 2016). The numbers of illegal arrivals in Greece fell dramatically owing to the implementation of the EU-Turkey Statement; however the number of illegal arrivals from Libya remains very high.

In 2016, the EU Member States received 14 205 refugees resettled in the Union via national and multilateral schemes¹⁰. This is the highest number of resettled people in a single year recorded so far in the EU¹¹ and is a direct result of the EU-wide resettlement schemes. The increase shows the value and potential of strengthened EU-level cooperation and coordination in the area of resettlement.

The implementation of the 'hotspot' approach continued in Greece and Italy. In 2016, Greece established five hotspots with a combined capacity of 7 450 places; and Italy has put into operation four hotspots with a combined capacity of 1 600 places.

The Commission and the newly established **European Border and Coast Guard Agency** worked towards an effective presence at sea:

174 500 people in 2016 in the Central Mediterranean alone were rescued.

The unprecedented scale of the refugee and migration flows (in particular from Syria) also led the Commission to innovate in the type of instruments and assistance mobilised by the EU: in addition to providing humanitarian assistance outside Europe, the EU began for the first time to fund humanitarian action within its borders, through the new **Emergency Support Instrument**.

In 2016 shelter was provided for over 35 000 people in Greece, from tents in the initial stage to winterised containers and 417 safe spaces for unaccompanied minors in dedicated facilities were created.

Moreover, humanitarian funding in Turkey through the **Facility for Refugees in Turkey** was considerably increased. This enabled the Commission, among other initiatives, to launch an innovative programme called the **Emergency Social Safety Net**, aiming to assist up to one million of the most vulnerable refugees in Turkey with regular cash allocations. This is an example of an increasing use of assistance from the EU budget as an efficient and effective way of getting aid to people in emergency situations.

Furthermore, aside from its humanitarian assistance, the Commission also supports the longer-term livelihoods, socio-economic and educational perspectives of refugees and their host communities in Turkey. Some first indicative results from the 'Generation Found'-project, which is a project on education, implemented with UNICEF:

*60 000 children benefit from educational material and 10 392 children benefit from psychosocial and social cohesion programmes.
2 081 education personnel were trained
7 950 Syrian educational personal received incentives*

The promotion of stability and sustainable development also guides the action of the EU budget outside the EU. As the world's largest **humanitarian aid** donor, the EU plays a central role in tackling the humanitarian challenges. In 2016, the Commission managed:

An unprecedented humanitarian aid budget of about EUR 2 billion for food, shelter, protection and healthcare for 120 million people in over 80 countries.

Building on the successful experience of the Investment Plan for Europe, the Commission proposed in 2016 an ambitious **European External Investment Plan** for Africa and the European Neighbourhood as a means to address the root causes of migration. As part of the plan, the **European Fund for Sustainable Development¹²** is **expected to mobilise up to EUR 44 billion in investments** with funds from the general budget of the Union.

The EU budget is also an important tool in addressing **climate** change, the EU has decided that at least 20 % of its budget for 2014-2020 – slightly above EUR 200 billion over the whole period – should be spent on climate measures.

In 2016 the total contribution to the climate mainstreaming was estimated at 20.9 %.

Commission's management and protection of the EU budget

In addition to the results achieved through EU spending, the way in which the EU budget is managed has an important impact on its overall performance. This is why the Commission strives to

achieve the highest standards in financial management in terms of efficiency, effectiveness and cost-effectiveness.

Protection of the EU budget through its effective management

The Commission gives the highest priority to ensuring that the EU budget is well-managed and that all the necessary measures are in place to protect taxpayers' money.

Although management of the budget is the ultimate responsibility of the Commission, 74 % of expenditure is executed by Member States authorities under shared management.

The Commission protects the EU budget, i.e. EU spending, from undue or irregular expenditure via two main mechanisms:

- (i) Preventive mechanisms (e.g. ex-ante controls, interruptions and suspension of payments); and
- (ii) Corrective mechanisms (primarily financial corrections imposed on Member States but also recoveries from recipients of EU payments): where preventive mechanisms are not effective, the Commission, in its supervisory role, is required to apply corrective mechanisms as a last resort.

The Commission departments have made progress over the years on limiting the *annual* error rate. Despite the downward trend of the estimated error rate, the European Court of Auditors has not yet issued a positive Statement of Assurance on its opinion on the legality and regularity of the underlying payments, because its estimate of the Commission's annual error rate is still above the materiality threshold of 2 %¹³. However, while errors may be detected in any given year, they are also duly corrected in subsequent years. A *multiannual analysis* of those errors and corrections is thus

necessary and more appropriate. Indeed, in the context of the Multiannual Financial Framework, the Commission's spending programmes, control systems and management cycle are also multiannual by design.

In 2016, the total **financial corrections and recoveries** implemented amounted to EUR 3.4 billion, which is equivalent to 2.5 % of payments made. During the period 2010-2016 the average amount confirmed was EUR 3.3 billion or 2.4 % of the average amount of payments made from the EU budget, while the average amount implemented was EUR 3.2 billion or 2.3 % of payments.

The forward-looking **overall amount at risk at closure**, i.e. when all corrections (will) have been made, is estimated to be less than 2 % of total relevant expenditure. This implies that the Commission departments' *multiannual* control mechanisms in general ensure appropriate management of the risks relating to the legality and regularity of the transactions and that the financial corrections and recoveries made in subsequent years do **protect the EU budget overall**.

In the meantime, further actions are being taken for those programmes with persistently high levels of error to address their root causes¹⁴ and to prevent, detect and correct fraud¹⁵. In this context, the new **Early Detection and Exclusion System (EDES)** for the protection of EU financial interests entered into force on 1 January 2016, which strengthens the protection of the EU budget against unreliable economic operators.

Management Assurance

In their 2016 Annual Activity Reports, **all 49 Authorising Officers by Delegation declared that they had reasonable assurance** that the information contained in their report gives a true and fair view; the resources assigned to the activities have been used for their intended purpose and in accordance with the principle 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.

For transparency, in the Annual Activity Reports, reservations are issued for those programmes for which the annual residual error rate has not (yet) fallen below 2 % at the time of reporting.

29 Authorising Officers by Delegation declared an unqualified assurance, while 20 declarations were qualified with a total of 37 **reservations** for 2016 (33 in 2015). This year's reservations concern expenditure and revenue. In all cases, the Authorising Officers by Delegation concerned have adopted action plans to address the underlying weaknesses and mitigate the resulting risks.

Regarding the 2016 assurance building, **notable progress** was made through the annual clearance of accounts and a 10 % retention from each interim payment introduced by DGs REGIO¹⁶, EMPL and MARE, a differentiated materiality threshold for Horizon 2020 for the Research DGs and Executive Agencies, and the better segmentation of the assurance building per type of expenditure by DGs DEVCO and NEAR.

Efficient, effective and cost-effective internal control systems

High standards of financial management require that the measures in place to ensure the effective protection of the EU budget are cost-effective.

With this in mind, measures are taken to develop **synergies** and seek **efficiency gains**, for example by simplifying rules and procedures, improving and linking financial IT systems, and further externalising and mutualising financial expertise. This ultimately leads to a lower bureaucratic burden, proportionate costs for controls on beneficiaries, lower error rates, improved data quality, and shorter "time to grant" and "time to pay" periods.

Progress has already been made, notably on the simplification of financial rules, the digital management of procurement and grants (including the setting up of a single entry point to communicate and exchange information with stakeholders), and reducing payment times.

To further improve the efficiency of financial management, the Commission launched a review in 2016 of the main financial business processes.

Moreover, each Commission department regularly assesses the **effectiveness** of its internal control systems. Overall, for 2016, all Commission departments concluded that the internal control standards were working well and being implemented effectively.

By the end of 2016, all Commission departments had also assessed the **cost-effectiveness** of their control systems. Based on these assessments (e.g. of risk, the cost of controls, payment times), the vast majority reviewed their control systems to improve organisational fitness. Increasingly, Commission departments are taking measures to ensure that their control systems remain risk-based and cost-effective. One example of combining resources to gain economies of scale and improve the cost-effectiveness of controls is the setting up of the Common Support Centre which serves 20 departments and other entities such as executive agencies or joint undertakings having in common the execution of the research programme Horizon 2020.

Structure of the Annual Management and Performance Report

Section 1 of this report summarises **the EU budget performance based on the latest available evidence on the results achieved with the EU budget up to end 2016**. This reporting draws on information from the Programme Statements that are part of the budget proposal for 2018, the 2016 Annual Activity Reports produced by Commission departments; and other sources such as evaluations¹⁷ and implementation reports on EU programmes.

It provides an entry point to these documents where further detailed reporting on programmes' objectives and progress on indicators measured against baselines and targets are available. While the report relates to the 2016 reporting year, it draws on the latest available data, which sometimes relate to previous reporting years.

For each of the budget headings, the report provides implementation information on the progress of the 2014-2020 Multiannual Financial Framework programmes and the latest available evidence on the results of the 2007-2013 Multiannual Financial Framework programmes. As requested by the European Parliament and the European Court of Auditors, the report also presents links with the Europe 2020 Strategy and provides concrete examples of the added value of EU financing.

Section 2 describes **the Commission's internal control, financial management and protection of the EU budget in 2016**. This reporting is based on the Annual Activity Reports of Commission departments, in which the internal control environment and related issues are described in detail. Where problems were encountered in the course of the year the report describes how Commission departments tackled these challenges. This section summarises information on the achievement of the internal control objectives (managing legality and regularity risks; the cost-effectiveness of controls; and anti-fraud strategies), the protection of the EU budget and the management assurance provided to the College.

This assurance is based not only on management's own conclusions (which are based on statistical and non-statistical indicators about control results and corrections), but also cross-checked against opinions from independent parties (the Internal Audit Service's audit findings and limited conclusions, the European Court of Auditors' observations) and the conclusions of the work of the Audit Progress Committee.

The conclusion reached on the basis of the management assurance received from all departments and of the assurance obtained through internal audit work, **enables the Commission, by adopting this report, to take overall political responsibility for the management of the 2016 EU budget**.

Section 1

Performance and results

The Commission is committed to ensuring that the EU budget achieves the best outcomes for citizens by providing strong support for the EU's political priorities. In 2016, promoting jobs, growth and investment and providing a swift and comprehensive response to the multiple challenges faced by the EU were particularly high priorities.

To ensure resources are allocated to priorities and that every action brings high performance and added value, the Commission implements its EU Budget Focused on Results initiative. Building on the 2014–2020 performance framework, it promotes a better balance between compliance and performance. 'Focus, agility and results' are the guiding principles of the initiative, which aims at ensuring that every euro from the EU budget is spent in areas with the highest EU added value, that the performance of the EU budget is rigorously assessed, and that the results achieved are communicated clearly.

In this context, the Commission presented on 14 September 2016, a comprehensive review of the functioning of the multiannual financial framework at mid-term including a review of the EU budget's performance framework. This review was an opportunity to take stock of achievements and of the need to react to major unforeseen challenges such as the migration and security crises. This review underpinned a number of proposals, presented together with a Communication with the aim of topping up funding for the Union's main priorities and needs with approximately EUR 6 billion in the areas of jobs and growth, migration and security. The proposals also aim at creating more flexibility for the EU budget and at simplifying the financial rules for beneficiaries.

To demonstrate the Commission's commitment to providing the necessary conditions for a result-

orientated approach, and to ensure that the focus is placed on results rather than amounts spent, a number of amendments to the Financial Regulation have been proposed by the Commission. For example these would allow for payments based on conditions fulfilled, "single lump sum" payments covering all eligible costs of the action, priority given to simplified forms of grants and clarifying the scope of controls of simplified forms of grants. Simpler and more flexible rules should contribute to swifter and more efficient delivery on the ground, aiming at reducing the costs related to the implementation of EU rules as well as the error rates. The Commission's proposal for a simplified Financial Regulation aims to create a single rulebook easier to read and being 25 % shorter than the present Financial Regulation plus its Rules of Application.

Other progress in 2016 has been made under this initiative. In particular, the structure and the content of programme statements accompanying the 2017 draft budget were improved to provide the Budget Authority with a more focused picture on programme performance. In addition, 2016 was the first time the Commission reported in an integrated package detailed information on revenue, expenditure, management and performance of the EU budget in line with best practices in the field of transparency and accountability (EU budget Integrated Financial Reporting Package)¹⁸. The Commission has also actively engaged with experts from the Member States, other EU institutions and international organisations to build a common understanding on the existing performance frameworks and created a an opportunity for sharing new ideas and best practices. In 2016 three such expert group meetings took place and the second Conference on the Budget Focused on Results initiative was organised.

Key features of the EU budget

2014–2020 performance framework

Implementing a robust performance framework for the EU budget is a prerequisite for more result-oriented and well-managed EU programmes. For the 2014-2020 Multiannual Financial Framework, performance frameworks have been included as a new compulsory element in the legal basis of the programmes and as a key pillar of the increased result orientation of this programming period. These frameworks require the establishment of clear and measureable objectives and indicators as well as monitoring, reporting and evaluation arrangements. The Commission considers that monitoring these indicators together with evaluations provides a good basis on which performance can be assessed to ensure that the programmes are on track to achieve the intended objectives. It also helps anticipate and resolve problems when they arise.

During the first years of programme implementation, performance information is essentially based on inputs (financial allocation) and, when possible, outputs. This first set of information gives a good indication of the EU budget spending and its contribution to the political priorities. As programme execution progresses, information on outcome and impact will become available, but this will only happen once sufficient time has elapsed for the money spent to produce an impact.

Audits from the European Court of Auditors also help improving the performance of programmes, operations, management systems and procedures of bodies and institutions that manage EU funds.¹⁹ Recent reports for instance confirm the need to simplify rules and to strengthen or streamline the performance framework. These lessons learned will feed into the Commission's preparation for the next generation of programmes.

Shared responsibilities for results

Approximately three quarters of the EU budget are implemented under shared management with the Member States. Although the Commission has the ultimate financial responsibility for the management of the EU budget, the responsibility for the results achieved with the EU budget is shared with a wide range of actors at European, national and regional

level. All have a part to play to ensure that every euro spent with the EU budget serves efficiently and effectively its intended purposes.

A strong catalytic effect

Working in conjunction with national budgets, the EU budget is a tool which complements policy and regulatory instruments to deliver on the EU priorities. Though it is relatively small in size (equivalent to approximately 2 % of overall public spending in the EU) it has strong leverage and catalytic effects. It has the ability to leverage funds through financial instruments; one prominent example of this is the European Fund for Strategic Investments. It can also help direct national public investments towards the commonly agreed EU objectives through co-financing.

Coherence with national budgets

The Commission works closely with Member States to ensure the complementarity of EU and national budgets and to strengthen coordination of economic policies between Member States. This work undertaken within the European Semester (including the country-specific recommendations) is essential to create synergies and minimise the fiscal burden where possible.

Multiannual nature

Unlike national budgets, the EU budget is multiannual in nature, making it primarily an investment budget. The Multiannual Financial Framework supports EU action in the medium and long-term and strives to provide a coherent and stable long-term vision for its beneficiaries and co-financing national authorities. However, the unpredictable nature of the recent crises within and outside Europe has shown that the EU budget needs also to be able to adjust swiftly to unforeseen events and to deliver rapidly on the ground. The right balance between predictability and the responsiveness of the EU budget needs constant re-assessment and re-adjustment.

2016 EU budget:

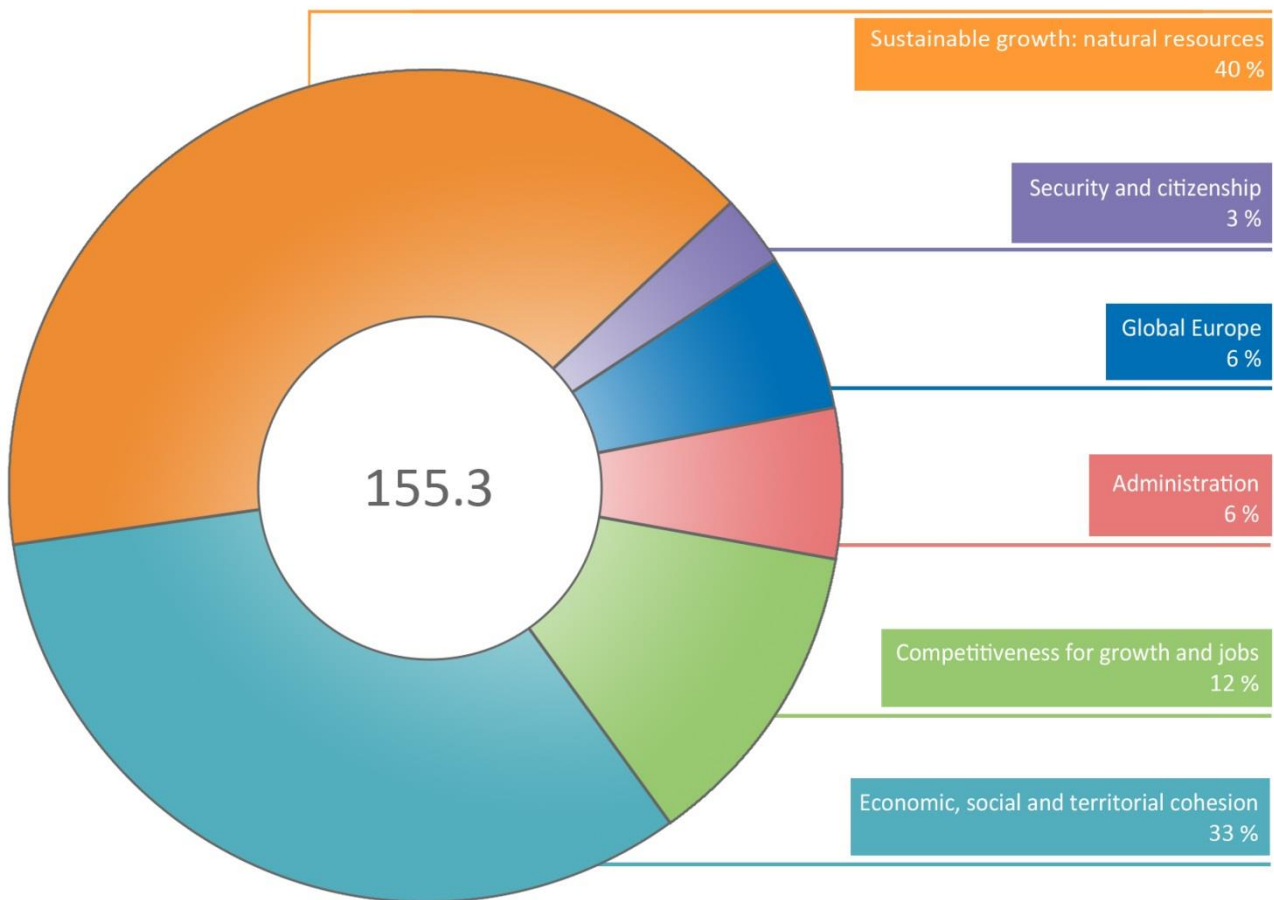


Chart: 2016 EU budget per budget heading as a percentage of the entire 2016 EU budget of EUR 155.3 billion.

The EU budget amounted to EUR 155.3 billion in 2016. About half of this (45 % or EUR 69.8 billion) was allocated to Heading 1 'Smart and Inclusive Growth' split between Heading 1A 'Competitiveness for growth and jobs' (12.2 %) and Heading 1B 'Economic, social and territorial cohesion' (32.7 %). Heading 2 'Sustainable Growth: Natural Resources' was the second largest area of the budget, accounting for 40.2 %.²⁰ In 2016, six amending budgets were adopted. Those which were not standard adjustments (for the prior year surplus or adjusting for updated legislation) were proposed to strengthen the focus on particular priority areas, such as humanitarian aid within the EU and the extension of European Fund for Strategic Investments, and to address the lower than expected payment needs mostly in the field of Cohesion. Almost 1% was spent on special instruments; the Emergency Aid Reserve, The European Globalisation Adjustment Fund and the European Solidarity Fund.

Summary account of progress on horizontal issues

The EU budget and the Europe 2020 strategy

The 2014-2020 Multiannual Financial Framework and its constituent programmes have been designed to help deliver on the commonly agreed goals of the Europe 2020 strategy, aiming at making the EU a smart, sustainable and inclusive economy by 2020.

The allocation of the EU budget to the different priorities shows that the overall structure of the 2014-2020 Multiannual Financial Framework reflects the objectives of the Europe 2020 strategy.

To measure progress towards the achievement of smart, sustainable and inclusive growth, the Europe 2020 strategy²¹ includes five headline targets on employment, research and development, climate and energy, education, and the fight against poverty and social exclusion. These headline targets have been translated by each Member State into national targets. A wide range of actions at national, EU and international levels are being carried out to deliver concrete results. The EU budget is only one of the levers contributing to the achievement of the Europe 2020 headline targets; its success depends on all the actors of the Union acting collectively.

There is a clear link between the individual targets

and the triptych of Europe 2020 priorities of smart, sustainable and inclusive growth²². The targets were chosen to be mutually reinforcing and contribute together to the three dimensions of the triptych. The targets aim to highlight a selected number of key drivers for growth of relevance for all Member States, which could guide Member States' action supported by the EU budget. They are deliberately non-comprehensive and do not capture all levers for growth.

The Europe 2020 headline targets are monitored by the Commission using nine indicators. Information on progress on these indicators is regularly updated and published on Eurostat's website.²³ The following diagram presents the latest available data²⁴ for the nine indicators. It shows the progress made since 2008 and the distance still to be covered towards the related Europe 2020 targets. The latest data indicates that indicators related to environmental targets and education are progressing towards the headline targets, while further efforts are still required in the area of employment, research and development and fight against poverty or social exclusion.

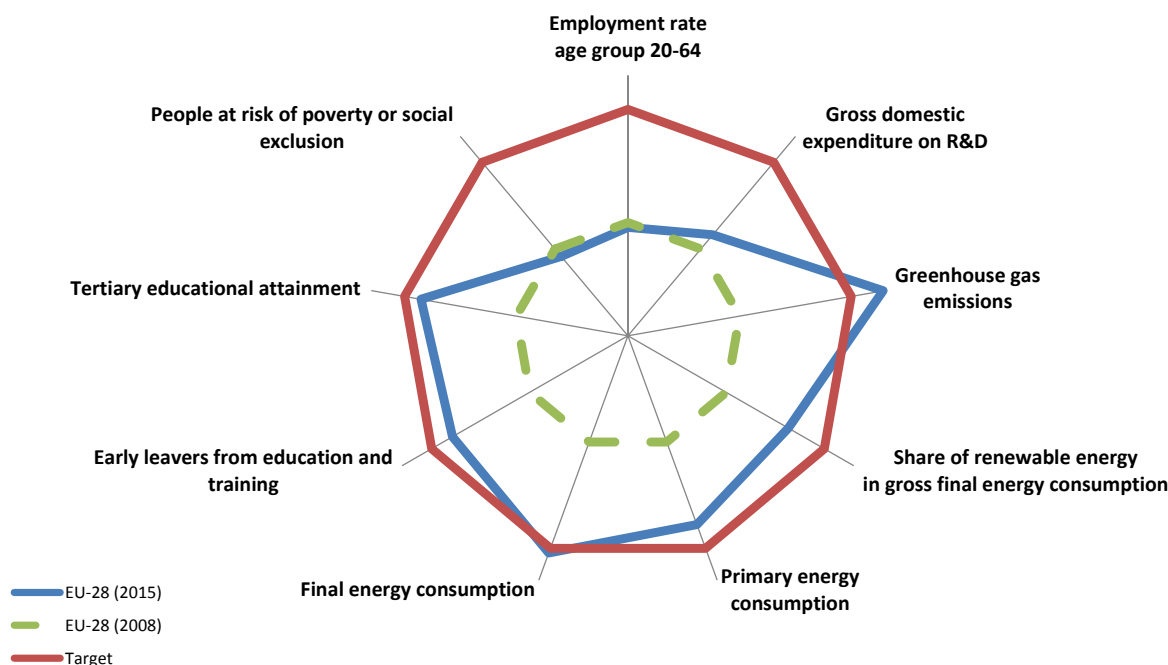


Chart: Europe 2020 headline targets – base vs 2015 vs target (100 %) – source website Eurostat

Mainstreaming of climate action and biodiversity

The EU budget is also an important tool in the achievement of cross-cutting policy objectives such as climate action and biodiversity. To respond to challenges and investment needs related to climate change, the EU has decided that at least 20 % of its budget for 2014-2020 – as much as EUR 200 billion over the whole period – should be spent on climate change-related action. To achieve this result, mitigation and adaptation actions are being integrated into all major EU spending programmes, in particular regional development and the Cohesion fund, energy, transport, research and innovation, the common agricultural policy as well as the EU's development policy. Starting from the 2014 draft budget, the estimates for the

climate related expenditures are monitored on an annual basis in accordance with the methodology based on the so-called Rio markers. **In 2016 the total contribution to the climate mainstreaming was estimated at 20.9 %.**

Similar to the mainstreaming of the climate action, the tracking procedure for biodiversity-related expenditure forecasted that 7 % of the 2015 budget and 9 % of the 2016 budget were allocated to limiting and reversing the decline of biodiversity in the EU, making an important contribution to the Europe 2020 sustainable growth objectives.

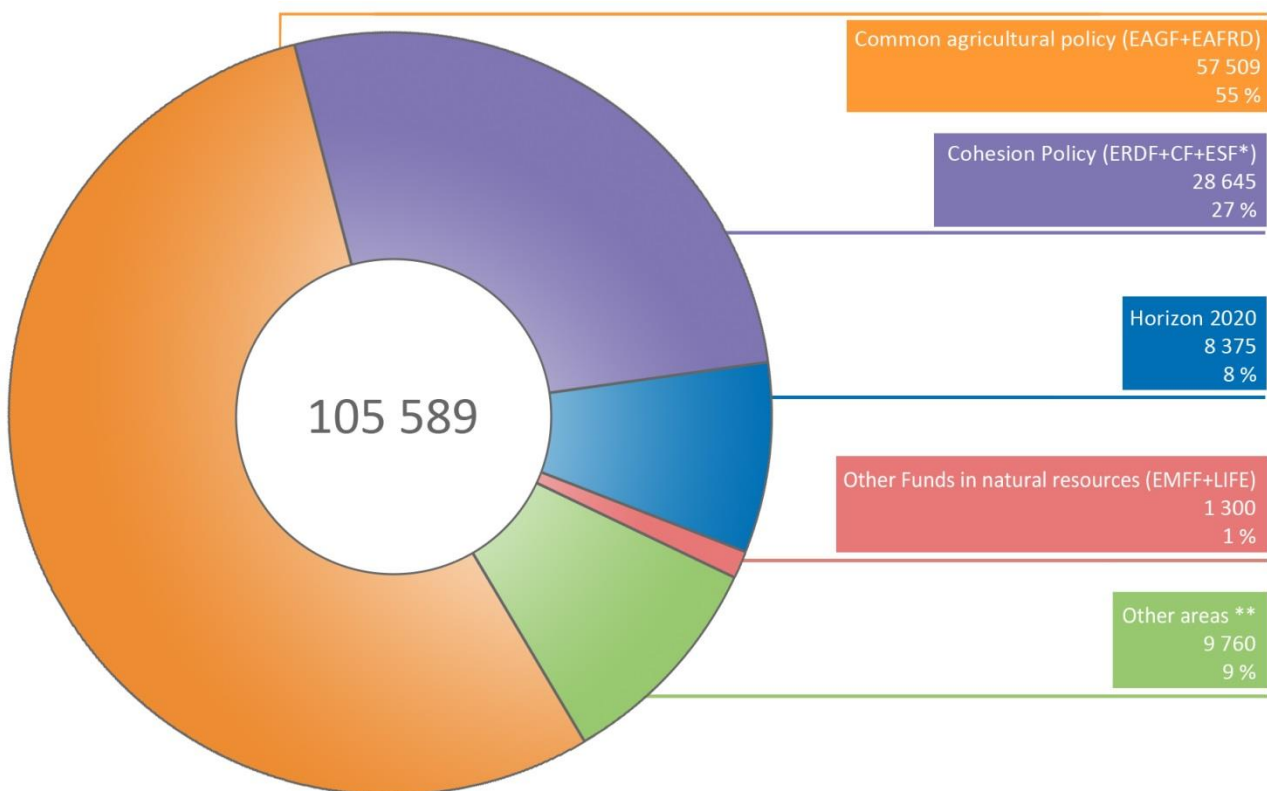


Chart: EU budget contribution to climate action between 2014 - 2017: EUR 105 589 million by EU budget area, Source Statement of Estimates 2018 -
 ***Other areas" includes expenditure in other programmes (and PS) in Heading 1a (Copernicus, Connecting Europe Facility, COSME), Heading 3 (Union Civil Protection Mechanism), Heading 4 (Union Civil Protection Mechanism, Instrument of Pre-accession Assistance II, EU Aid Volunteers initiative, Instrument of financial support for the Turkish Cypriot Community, European Neighbourhood Instrument, European Instrument for Democracy and Human Rights, Development Cooperation Instrument, Cooperation with Greenland, Instrument contributing to Stability and Peace, Partnership Instrument for cooperation with third countries and Humanitarian aid).

The EU budget and Sustainable Development Goals

2015 was a defining year for sustainable development worldwide. World leaders adopted a new global sustainable development framework: the 2030 Agenda for Sustainable Development (hereafter the "2030 Agenda")²⁵ at the 70th United Nations General Assembly on 25 September 2015, which focuses on the Sustainable Development Goals. In the same year, the Paris Climate Agreement (COP21)²⁶, the Addis Ababa Action Agenda²⁷, as an integral part of the 2030 Agenda, and the Sendai Framework for Disaster Risk Reduction²⁸ were also adopted.

The 2030 Agenda represents a commitment to eradicate poverty and achieve sustainable development by 2030 worldwide. The 17 Sustainable Development Goals and their 169 associated targets are global in nature, universally applicable and interlinked.

On 22 November 2016, the EU presented its response to the 2030 Agenda and the Sustainable Development Goals and adopted a sustainable development package²⁹. This package includes an overarching

Communication on next steps for a sustainable European future³⁰ accompanied by a Staff Working Document³¹ that describes in broad terms the contribution of the various EU policies and legislation to the Sustainable Development Goals. The achievement of the many Sustainable Development Goals will depend largely on actions taken in Member States. The EU in many areas supports, coordinates and complements Member States' policies or shares responsibility.

The EU budget complements national budgets and the wide set of EU policy and regulatory instruments which address sustainable development challenges. The Commission has already largely incorporated economic, social and environmental dimensions, which are at the heart of the Sustainable Development Goals, into the EU budget and spending programmes. The performance framework of EU spending programmes for 2014-2020 already contains relevant elements to report on the three dimensions.

The results achieved with the EU budget up to end 2016 are described in the Annual Management and Performance Report in accordance to the different levels of maturity of the programmes, ranging from input data for the early phase of the programmes to results for finalised programmes. The information presented in this report is based on the data available at the time of the Annual Management and Performance Report preparation.

1.1. Competitiveness for Growth and Jobs (Budget Heading 1A)³²

EUR 19 billion was allocated to the programmes for Competitiveness for Growth and Jobs (commitments in Heading 1A) in 2016. This represents 12.2 % of total annual budget expenditure.

The main programmes under the budget heading 'Competitiveness for growth and jobs' are:

- the Horizon 2020 Framework Programme for research and innovation;
- large infrastructure projects (Galileo, International Thermonuclear Experimental Reactor (ITER), Copernicus);
- the Erasmus+ programme funding education, training, youth and sport actions;
- the Connecting Europe Facility funding interconnections in trans-European transport, energy and ICT networks; and
- the European Fund for Strategic Investments, part of the Investment Plan for Europe.³³

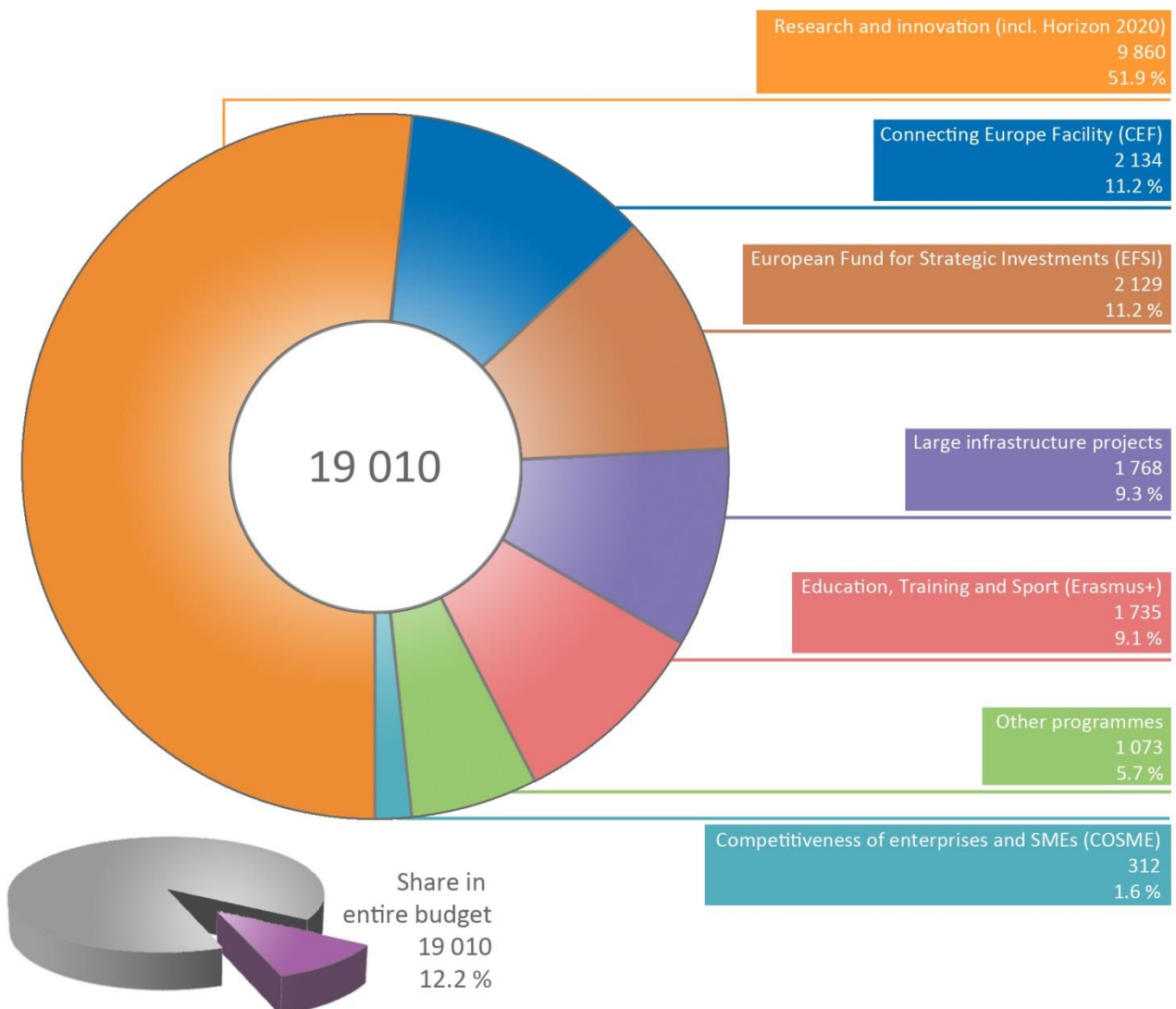


Chart: Bottom: Share for Heading 1A in the entire 2016 budget. / Top: Main programmes financed in 2016 under Heading 1A. Category 'Other programmes' include among others EU programme for Employment and Social Innovation (EASI), Customs and Fiscalis. Category 'Large infrastructure projects' includes among others Galileo, European Geostationary Navigation Overlay Service (EGNOS), Copernicus, ITER. All amounts in EUR million.

Programmes' support to the Commission priorities

The programmes under this budget heading contribute mainly to the Juncker Commission priorities of 'Jobs, Growth and Investment,' 'Digital Single Market,' 'Energy Union and Climate,' and 'Deeper and Fairer Economic and Monetary Union.' They contribute to the Europe 2020 priorities of 'smart and sustainable growth' and to 'inclusive growth' mainly through the job creation and employability effects of Horizon 2020 and Erasmus+. The programmes under this budget heading also contribute to Europe 2020 by boosting research and innovation, improving skills levels and (life-long) education, fostering entrepreneurship, facilitating the use of smart networks and the digital economy, building interconnected trans-European networks, investing in pan-European infrastructures, and aiming at greater energy and resource efficiency.

1.1.1. Progress of 2014-2020 programmes

The budget under heading 1A 'Competitiveness for growth and jobs' contributed to the Europe 2020 priorities of Smart and Sustainable Growth. The main programmes stimulated investment and job creation in a context of modest growth forecasts and a slowly recovering European economy.

With the aim to overcome the current investment gap in the EU, the European Fund for Strategic Investments, in close partnership with the European Investment Bank, continued to mobilize private financing for strategic investments in innovative and strategic projects. The EU budget supports the European Fund for Strategic Investments through the EU Guarantee Fund³⁴.

Other main programmes financed initiatives building

networks and know-how across the EU, such as the research and innovation programme Horizon 2020; the programme for the Competitiveness of enterprises and small and medium-sized enterprises (COSME); and the Connecting Europe Facility.

In addition, large-scale projects such as Galileo, Copernicus and ITER, contributed to ensuring a leading European role in the space sector and to proving that fusion can be a sustainable energy source.

To ensure that citizens can fully benefit from the opportunities created by Europe, programmes such as Erasmus+, help develop key skills for future job-seekers.

The European Fund for Strategic Investments (EFSI) – backed by the EU Guarantee Fund



As of end December 2016, i.e. half of the way into its investment period, the implementation of the European Fund for Strategic Investments was on track. The volume of investment expected to be mobilised by the approved European Fund for Strategic Investments operations stood at EUR 163.9 billion (and as of mid-May 2017 went up to more than 190 billion in all EU Member States), which is more than half of the target of EUR 315 billion by mid-2018³⁵. It is distributed across its two strands as follows:

- In the Infrastructure and Innovation Window, the European Investment Bank approved 175 projects of around EUR 94.4 billion in investment value, with European Investment Bank financing supported by the EU guarantee under the European Fund for Strategic Investments expected to amount to EUR 22.4 billion. These projects are situated in 25 Member States and thereby exceed the 2016 milestone of 20 countries.
- In the Small and Medium-sized Enterprises Window, 244 operations have been approved by the European Investment Fund for a total investment value of EUR 69.5 billion. More than 380 000 small and medium-sized companies and mid-caps in all Member States are expected to benefit.

Projects financed by the European Fund for Strategic Investments vary from backing; i) an affordable housing plan in Poland, which provides for the construction of 1300 affordable houses, ii) the construction of fourteen primary care centers across Ireland, iii) the construction of two biomass-fired combined heat and power plants, which will improve energy security and supply of electricity and iv) the roll out of a new ultra-high-speed broad band network in about 700 communes in Alsace, France. All projects can be found at the European Fund for Strategic Investments' projects map: <http://www.eib.org/efsi/map/index.htm>

The evaluation of the first year of experience with the European Fund for Strategic Investments³⁶ indicated that the EU guarantee has been an efficient and effective way of increasing the volume of European Investment Bank special activities and European Investment Fund guarantees in favour of small and medium-sized companies and mid-caps. However, new models of cooperation with national promotional banks or financial intermediaries should be developed to facilitate the deployment of risk-sharing instruments and subordinated financing under the

Horizon 2020

Progress in implementation

Following calls for proposals, interested parties can submit a proposal for financing, which is evaluated by independent experts.

By the end of 2016, over 102 000 eligible proposals had been submitted to Horizon 2020 calls. Over 11 000 grant agreements with 49 000 participations had been signed, committing an EU investment in research and innovation of around EUR 20.5 billion. The proposal success rate remained low at about 12 % (compared to 19 % in the previous EU research programme), with only a little more than a quarter of the proposals positively evaluated and selected for funding, which demonstrates the great interest in the programme and the competitiveness of the selection process.

Despite the low success rate, there are about 52 % newcomers that had not participated in the previous research programme, the Seventh Framework Programme (FP7).

Infrastructure and Innovation Window. While the EU guarantee has enabled the European Investment Bank to undertake riskier activities, the evaluation found that the European Fund for Strategic Investments is not designed to support first-loss pieces in investment platforms addressing serious market failures. Thus, the European Investment Bank has been less able to deliver long-term fixed rate financing in certain non-euro countries with less developed financial markets.

The Commission is also working on making combinations of the European Fund for Strategic Investments with other European funding.

One example is the Connecting Europe Facility Debt Instrument. This piloted new financial products for sustainable transport, such as the Green Shipping Guarantee Programme³⁷ launched in 2016, to be scaled up by the European Fund for Strategic Investments, which will potentially mobilize EUR 3 billion of investment in equipping vessels with clean technologies. The pilot phase of the programme - expected amount of up to EUR 250 million - will be supported by the Connecting Europe Facility Debt Instrument while the balance of the programme of up to EUR 500 million is supported by the European Fund for Strategic Investments.

102 000 eligible proposals
Proposal success rate below 12 %
11 108 signed grants
Participants from 131 different countries

Participants from 131 different countries (including 87 third countries) benefited from Horizon 2020 in the first three years of the programme implementation. EU-28 countries received 92.9 % of the funding while associated countries 6.5 % and third countries 0.6 %.

The efficiency of Horizon 2020 has been positively influenced by the externalisation of programme management, simplification and the creation of the Common Support Centre. The simplification effort has dramatically reduced the time-to-grant, which is now 192 days on average, a decrease by more than 100 days compared to the Seventh Framework Programme. Compared to the Seventh Framework Programme, the externalisation has increased cost-efficiency: the administrative expenditure of Horizon 2020 stays below the levels observed in the Seventh Framework Programme and below 5 % of the overall Horizon 2020 budget. Further simplification of

Horizon 2020 remains a priority to ensure the programme attracts the best researchers and innovators. A new package of simplification measures, to be applied as from 2017, will reduce administrative costs for participants and help prevent accounting errors. Moreover, they improve the funding conditions for EU-funded researchers in those countries where the disparity between EU and national projects had created an obstacle for researchers. They will also pave the way for new simplification measures under the next research framework programme.



Results

As Horizon 2020 was launched in 2014, the first projects were only signed towards the end of 2014. This implies that a meaningful volume of data concerning the activities of the projects under implementation will only be available in 2017. Notwithstanding this, some results show the good state of implementation of Horizon 2020 and that the performance is well on track to meet the objectives of

Horizon 2020.

Contribute to climate action, biodiversity and sustainable development

The contribution to climate action and sustainable development has significantly increased in Horizon 2020 compared to the Seventh Framework Programme. The preliminary results 2014-2016 indicate that the 60 % expenditure objective for sustainable development is achievable, but expenditure for climate action currently falls below the 35 % target. Particular attention - and budget – will be devoted to this objective in the work programme 2018-2020.

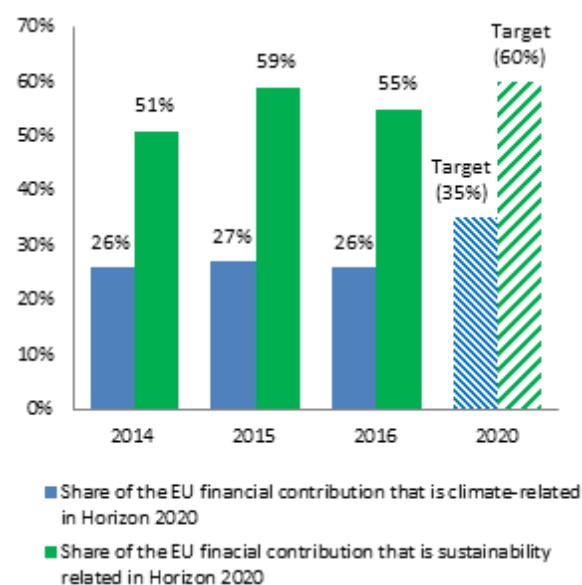


Chart: Climate-related and sustainability-related expenditure in Horizon 2020 (cumulative figures)

PROMOTioN

The project PROMOTioN ('Progress on Meshed HVDC Offshore Transmission Networks') investigates the benefits to the European electricity market of a meshed offshore transmission grid and it will develop HVDC (high-voltage direct current) technologies that will link off-shore wind parks in the North Sea and on-shore grids electricity in different countries. Currently it is the biggest energy project in Horizon 2020 with an EU contribution of EUR 39.3 million over four years. The project includes 34 partners from 11 countries, including all major HVDC manufacturers, Transmission System Operators (TSO's) linked to the North Sea, several wind turbine suppliers, offshore wind developers, leading academics and industry.

Effectiveness: The project addresses a trans-national challenge: linking off-shore wind parks to on-shore grids in different European countries.

Efficiency: A 2014 study³⁸ showed that an EU-coordinated approach on this issue will result in significant lower overall infrastructure costs and CO₂ emissions. The project is expected to realise some of this potential. It has an environmental impact because it enables an increased wind energy integration which minimizes the impact on the marine environment. In addition, innovations on component level, the reduced size and weight of offshore converter stations, and bio-degradable insulation liquids further reduce the environmental impact of the grid.

Synergy: The big players in the European HVDC industry are represented in the PROMOTioN consortium. The project will further strengthen the European leadership as knowledge center for HVDC in the world by bringing new HVDC technology innovations to a higher technology readiness levels (TRL) and thereby create jobs in Europe.

<https://www.promotion-offshore.net/>

Leverage and boost engagement of industry

Small and medium-sized enterprises have so far received over EUR 3 billion of funding. The target set by the European Parliament and Council, which stated that at least 20 % of the 'Societal Challenges' and 'Leadership in Enabling and Industrial Technologies (LEIT)' should go to small and medium-sized companies was exceeded by almost 4 percentage points. Horizon 2020 has introduced a new funding instrument specifically designed for innovative small and medium-sized companies. The attractiveness of this instrument in many of the smaller Member States proves its accessibility. In line with the target of 7 % for the overall period (as established by the co-legislators), 5.6 % of this combined budget has already been devoted to direct support to small and medium-sized enterprises through the Small and Medium-sized Enterprises instrument³⁹. Across Horizon 2020, about 21 % of all participations were participations of this category of enterprises.

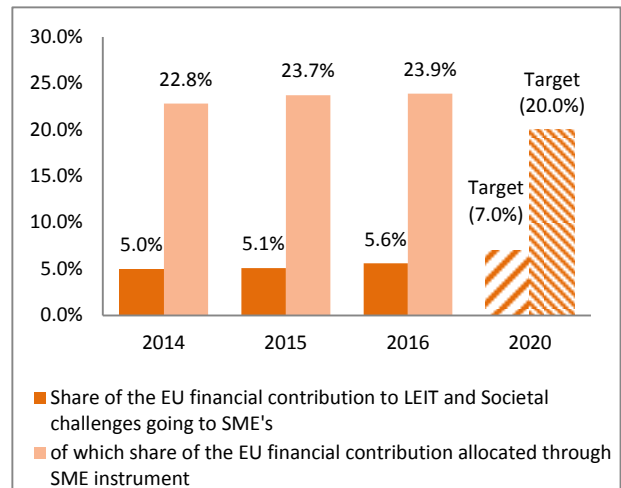


Chart: the share allocated through the SME instrument out of share of funds allocated to small and medium-sized enterprises in the Horizon 2020 societal challenges and LEIT

Industry participation – both in terms of involvement in submitted proposals and in selected projects – has shown a very encouraging trend over the past two years. 5 399 grants with at least one industry participant have already been signed⁴⁰ representing an EU financial contribution of EUR 45.7 billion.

The Fast Track to Innovation pilot – a pilot launched

in 2015 to bring close-to-market innovation by consortia to the market - has received a positive response from industry: 46 projects and 204 entities were selected for funding, with an EU contribution of EUR 98.7 million. Around 75 % of the entities selected were from industry, among which 63 % were small and medium-sized enterprises. However, with a proposal success rate of 5 % a continuation of the Fast Track to Innovation would need to consider the need for additional funding.

Finally, the role of Financial Instruments has already increased due to their leverage effect on public investment resources, their capacity to combine different forms of public and private resources, and their longer-term financial sustainability. More than 5 700 innovative companies, mainly small and medium-sized companies and small midcaps, have received funding of more than EUR 8 billion from Horizon 2020 financial instruments. This financial support has triggered more than EUR 20 billion of additional investment across the EU and associated countries. The quick build-up of the Horizon 2020

financial instruments was made possible due to a strong demand from innovative companies and through synergies with the Investment Plan for Europe/ European Fund for Strategic Investments, which provides additional resources to innovation and research activities. Out of the European Fund for Strategic Investments transactions approved by the European Investment Bank so far, 21 % are in the Research & Development and Innovation sector and two thirds of these projects have a strong Research & Development and Innovation element.

The Knowledge and Innovation Communities (KICs) funded by the European Institute of Innovation and Technology brought together around 1 000 education, business and research organisations.

They created more than 300 new start-ups, which employ around 5 500 people and attracted more than EUR 500 million from external investors.

Reinforce and extend the excellence of the EU's science

In 2016, the Marie Skłodowska-Curie actions (MSCA) celebrated their 20th anniversary and the 100 000th MSCA fellows. Between 2014 and 2016, the programme funded 25 000 researchers (approximately 11 000 PhD candidates).

In 2015, more than 33 000 researchers⁴¹ had access to research infrastructures, including e-infrastructures, through Union support. The Pan-European Research Infrastructures offers increasingly sophisticated technologies that can only be hosted in large-scale platforms that combine Research with Development and integration with validation.

In addition, the Nobel Prize in Chemistry has been awarded jointly to 3 laureates (Jean-Pierre Sauvage, Sir J. Fraser Stoddart and Bernard L. Feringa) who previously had been involved in several EU funded projects since the 4th research framework programme (FP4), including Marie Skłodowska-Curie actions and European Research Council grants.

25 000 MSCA researchers (including 11 000 PhD candidates)

Nobel Prize in Chemistry awarded jointly to 3 laureates who have been receiving funding since the fourth research framework programme

More than 33 000 researchers had access to research infrastructures supported by the EU

Horizon 2020 is also implemented through partnerships aiming to tackle the biggest challenges, support competitiveness of sectors that deliver high quality jobs, encourage greater private investment in research and innovation and develop closer synergies with national and regional programmes.

Seven Public-Private Partnerships (PPPs) address strategic technologies that underpin growth and jobs in key European sectors in fields such as innovative medicine, fuel cells and hydrogen, electronics, aeronautics and bio-based industries. A tangible metric for assessing the EU added value of the Joint Undertaking is the "leverage effect".⁴² The first estimates demonstrate that the joint undertakings are well on track to achieving and, in some cases, exceeding the legally minimum foreseen leverage effect. As the number of signed grant agreements increases, a more detailed reporting on the leverage effect will be possible. It has to be stressed, however, that the overall leverage effect can only be assessed at the end of the programme. Further investment is leveraged through contractual Public-Private Partnerships working in areas such as factories of the future, robotics and green vehicles, and also cybersecurity, for which the partnership was signed in the beginning of July 2016.

New leveraging opportunities: 5 700 innovative companies received more than EUR 8 billion from financial instruments. This has triggered more than EUR 20 billion investment in innovative projects.

COSME

COSME aims to strengthen the competitiveness and sustainability of the Union's enterprises, particularly small and medium-sized enterprises, by facilitating access to finance (60 % of budget) and access to markets (21.5 % of budget). The remaining 18.5 % is targeted to encourage an entrepreneurial culture and to promote the creation and growth of small and medium-sized companies.

Access to finance for small and medium-sized enterprises:

The COSME financial instruments build on the success of the financial instruments set up under the Competitiveness and Innovation Framework Programme (CIP) 2007-2013, which helped to mobilise more than EUR 21 billion of loans and EUR 3 billion of venture capital to over 387 000 small and medium-sized companies in Europe⁴³.

COSME provides a loan guarantee facility for financial intermediaries when they finance riskier small and medium-sized enterprises which would otherwise not be able to obtain funding. Its implementation is well on track. As of the end of 2016, a total of 67 agreements for loan guarantees



have been signed for EUR 612 million.

Thanks to these agreements, on 31 December 2016, more than 143 000 small and medium-sized companies have already received financing for more than EUR 5.5 billion under the enhanced Loan Guarantee Facility⁴⁴. Out of these small and medium-sized enterprises, 91 % have less than 10 employees and around 40 % were created less than five years ago. These Small and Medium-sized Enterprises are located in 21 countries.

As illustrated in the table below, current estimations show that foreseen 2017 milestones will be exceeded, thanks in part to the support provided under the European Fund for Strategic Investment:

	Number of small and medium-sized companies benefitting from debt financing	Financing mobilised from guarantees
Milestone for 31/12/2017	108 000-161 000	EUR 7- 10.5 billion
Situation 31/12/2016 ⁴⁵	143 000	EUR 5.5 billion

Apart from loan guarantees COSME also provides an equity facility. Due to the specificities of the risk and venture capital market, the equity facility had a slower start, with first fund agreements signed end of 2015. At the end of 2016, nine fund agreements have been signed (out of which one conditional). Under these agreements, a total amount of EUR 471 million will be invested into small and medium-sized enterprises in their growth and expansion stage. Currently, EUR 64

million has been invested into twelve small and medium-sized companies located in seven Member States.

Facilitating internationalisation of small and medium-sized enterprises and access to market:

More than two thirds of the COSME budget for access to markets is devoted to the Enterprise Europe Network (EEN), which helps small and

medium-sized companies to internationalise in particular by finding business and technology partners abroad. The Network now comprises 479 organisations within the EU and 85 in eight COSME participating countries. Out of these, 20 % are new organisations. With 5 088 partnerships signed between small and medium-sized enterprises, the Network achieved beyond its targets in the first two years. The Network also actively helps small and medium-sized companies making the most of the internal market by providing information, advice and brokerage: 56 244 advisory services were delivered and 21 676 clients attended brokerage events and company missions.

The Erasmus for young entrepreneurs' (EYE) scheme, under COSME, has reached 4 600 exchanges between new and experienced entrepreneurs since the start of the programme.

The evaluation of the programme performed in 2014 already concluded that the overall concept of the programme proved to be successful in addressing the needs of entrepreneurs in the European market. About 36.5 % of 'Erasmus for young entrepreneurs' participants started a business in the reference period and 30 % of new entrepreneurs⁴⁶ and 56 % of host entrepreneurs⁴⁷ replying to the survey recruited persons after the completion of Erasmus for young entrepreneurs.

Galileo and EGNOS - the EU satellite navigation programmes



The Galileo and the European Geostationary Navigation Overlay Service (EGNOS) programmes develop Europe's own global navigation satellite system and provide a highly accurate global positioning service under civilian control. As the new generations of high-performance satellite navigation services offer considerable economic opportunities, the programmes contribute to job creation and growth by ensuring that EU industry increases its market share in the worldwide Global Navigation Satellite System (GNSS) downstream market.

Progress on implementation

Regarding space infrastructure deployment, six Galileo satellites were launched successfully in 2016. In particular, for the first time, four navigation satellites were launched at the same time. This is an excellent achievement for Galileo and its rapid deployment pace is relatively new for the satellite navigation world. Progress can be illustrated through the below chart which compares the planned and actual progress as regards the development of the Galileo infrastructure.⁴⁸

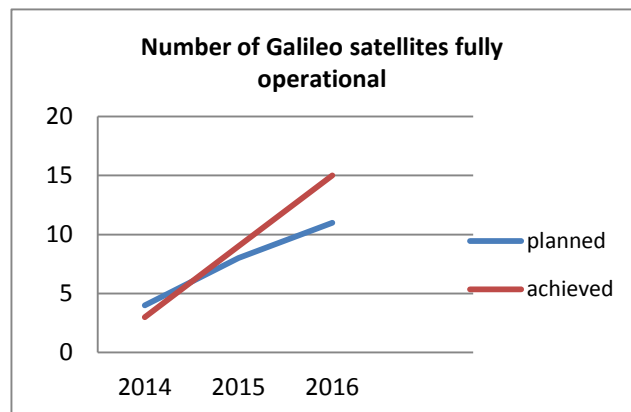


Chart: Number of Galileo satellites fully operational

By the end of 2016 the Galileo initial services were declared operational and all necessary conditions for providing the services were met.

- The services of Galileo:*
- *Open Service (OS) is free of charge to the users, providing positioning and synchronisation information intended mainly for high-volume satellite navigation applications for mass-market applications;*
 - *Contribution by the means of Galileo OS to integrity-monitoring services aimed at users of safety-of-life applications in compliance with international standards;*
 - *Commercial Service (CS) for the development of applications for professional or commercial use by means of improved performance and data with greater added value than those obtained through the OS;*

- *Public Regulated Service (PRS) restricted to government-authorized users, for sensitive applications which require a high level of service continuity;*
- *Contribution to the Search and Rescue (SAR) support service of COSPAS-SARSAT system by detecting distress signals transmitted by beacons and relaying messages to them.*

It is now ensured that the European system Galileo is positioned on the global satellite navigation market in a context where USA and Russian systems are being strengthened and the Chinese system is rapidly building up. This is the first step towards reaching full operational capability. Galileo initial services are fully interoperable with GPS, and their combined use will bring many benefits to the end user. With more satellites available, more accurate and reliable positioning will be available to end users. Navigation in cities, where satellite signals can often be blocked by tall buildings, will particularly benefit from increased positioning accuracy.

The uptake of Galileo greatly benefitted from the declaration of initial services. A range of products are now on the market which are Galileo enabled⁴⁹. Following the declaration of Galileo Initial Services in 2016, chipset and receiver manufacturers and application developers can use Galileo signals to develop their activities, and a number of Galileo-ready devices are already on the market⁵⁰. These projects have already led to 13 innovations being

Copernicus

Copernicus aims to address gaps in European Earth observation capabilities and utilisation, and to guarantee European Institutions and industry with independent access to Earth observation data and information. To achieve this, three components are financed:

1. The Space Component – including the procurement, the launch, the operations of the Sentinel satellites and the operation of the Ground Segment.
2. The In-situ component – supporting the space component and offering access to data generated by a network of national Earth observation assets to produce Copernicus products for the services component.
3. The Services component - delivering data and products freely available tailored to the needs of a wide variety of users.

Regarding infrastructure deployment, 5 Sentinel

brought to the market, 5 patents, 34 advanced prototypes, two products on the market and 223 published scientific papers. The global Navigation Satellite System market is expected to grow from 5.8 billion devices in use in 2017 to an estimated 8 billion by 2020. In 2016, detailed assessment of market uptake continued. In terms of technology penetration, the number of receiver models offering Galileo compatibility increased from 25 % in 2012 to 35 % in 2014 and today stands at nearly 40 %.

For EGNOS the rate stood at 63 % in 2015 and increased to 75 % in 2016. In the agriculture domain 80 % of Global Navigation Satellite System enabled tractors were EGNOS enabled⁵¹. At the end of 2016 there were 219 EGNOS enabled airports and 401 EGNOS based procedures in 20 countries in Europe. In road transport the number of trucks using EGNOS for tolling was 1.1 million.

The three services of EGNOS

Open service (OS): open and free of charge service for positioning and timing services (since 2009).

Safety of Life (SoL): service for safety-critical transport applications such as civil aviation which require an integrity warning system (since 2011).

EGNOS Data Access Service (EDAS): terrestrial commercial service to provide the EGNOS signal through the internet to registered users that are not in sight of the EGNOS satellites (since 2012).

satellites have been successfully launched and are currently in orbit: Sentinels 1A and 1B (polar-orbiting, all-weather, day-and-night radar imaging), Sentinels 2A and 2B (polar-orbiting, multispectral optical, high-resolution imaging) and Sentinel 3A (optical and altimeter mission monitoring sea and land parameters). In parallel, the Ground Segments for the reception, processing, distribution and archiving of data have been reinforced, so as to handle effectively the unprecedented amounts of data.

To better reach end-users, six different core services were developed or are currently being developed in different areas. The implementation of the six core Copernicus services provides a direct benefit to the service provider sector (European small and medium-sized enterprises) and creates growth and jobs. Moreover, Copernicus continued to produce substantial direct benefits for Europe's space industry in 2016, as currently more than 230 suppliers, including 48 small and medium-sized companies benefit from EUR 530 million in contracts financed by the EU.

In 2016, the Commission launched a comprehensive user uptake strategy to foster the use of Copernicus data and to stimulate new economic opportunities enabled by space data. In parallel, the Commission pursued its cooperation with international partners to promote the uptake of Copernicus globally. Arrangements on Copernicus data access and data sharing have already been signed with the United States and Australia.

Copernicus has already been providing observation data in cases of natural disasters. In 2016, a total of 38 activations of the Emergency Management Service were made, requesting 33 Rapid Mapping responses and 5 Risk & Recovery Mappings. Floods and fires across Europe dominated the activation picture. Examples of international activations during major disasters were the earthquakes in Ecuador (April 2016) and Cap Verde (August 2016), mud floods in Tajikistan (May 2016) and the tropical cyclones in Fiji (February 2016) and Taiwan (July and September 2016).

ITER

ITER is an international project aiming at advancing fusion science. The EU is part of this project. The risks and complications encountered by the project, in particular in terms of delays, risk of cost-overruns and overall governance are largely linked to the inherent first-of-its-kind nature of the project which goes beyond the current state-of-the-art of fusion technology, and to the complex governance set-up of the global consortium leading the project.

In 2015 the ITER Council approved an action plan of the ITER Organization to address the project challenges. One of the major actions of this plan was the revision of the long term schedule of the project and its associated costs, which was successfully completed in November 2016. The new schedule follows the so-called staged approach, recommended by independent experts in April 2016, which focuses first on the construction of the components essential to achieving First Plasma in 2025, followed by

Other notable achievements relate to the Copernicus Marine Environment Monitoring Service (CMEMS) becoming fully operational and supplying high value added products for example through its contribution to marine renewable energy development, the sustainable use of marine resources (fisheries, biodiversity) and the fight against pollution. The number of users regularly accessing the products offered by the Copernicus Marine Environment Monitoring Service has steadily grown and has now reached the milestone of 8 600 registered users (vs 5 000 in 2015), for the most part from the EU's coastal countries but also from 120 other countries from around the world.

Sentinel-2B is boosting EU agricultural policy

The free imagery provided by Copernicus will reveal changes over time, including the possibility to look at past records with 100 % territorial coverage. By analysing crop types, the administration can check whether a farmer benefiting from 'green payments' kept his permanent grassland or diversified his crops. The Copernicus data offers opportunities to move from on-the-spot compliance checks to remote and automated policy performance monitoring, thereby contributing to simplification, cost efficiency and better policy performance.

Moreover up and downstream sectors and Non-Governmental Organisations will have free access to the open source data for business prospects or independent policy monitoring.

successive series of installation and testing phases before starting the full performance phase (Deuterium-Tritium operation) in 2035.

The ITER construction involves over 10 million components being built around the world. About 75 % of the investment in ITER is spent on the creation of new knowledge and cutting-edge materials and technology, offering European industries and Small and Medium-sized Enterprises a major opportunity to innovate and develop 'spin off' products in sectors outside ITER remit such as the broader energy sector, aviation and hi-tech instruments like the nuclear magnetic resonance – scanners. An example of this is the successful fabrication of the superconductors and the winding packs in Europe for the ITER Toroidal Field Coils, which have never been manufactured with such size before and are therefore a major technological progress.

A total of 108 out of 136 procurement arrangements

have been signed by the ITER Organisation for the different work packages of the construction of the ITER reactor. This represents 91.1 % of the project's total in-kind value. This means that a significant part of ITER activity is now in the hands of the ITER members who will deliver the ITER components. The European Joint Undertaking for ITER (F4E), in charge of delivering the EU contribution to the ITER Organisation, has now placed most of the large value contracts (more than EUR 100 million). As of 31 December 2016, European Joint Undertaking for ITER (F4E) has signed 1 015 operational procurement contracts and 156 grants for a total of about EUR 3.1 billion (2008 value).

Parallel to the action plan of the ITER Organisation, the Governing Board of European Joint Undertaking

Erasmus +

In its third year of implementation, the Erasmus+ programme entered into a phase of greater stability compared to previous years. Changes to the programme rules were minimised to allow potential stakeholders to become further acquainted with the architecture of the programme, so that they are better able to fully exploit all the opportunities offered by Erasmus+.

Erasmus+ is well on track to meet its target of 4 million participants by 2020. By the end of 2016, most of the projects (87 %) were still ongoing with more than 2 million participants and 168 000 organisations engaged in the projects⁵². It enabled around 497 000 young people to study, train, volunteer and participate in youth exchanges abroad. The positive impact of this EU programme has been assessed: Commission reports⁵³ underlined that Erasmus students are not only more likely to be employed compared to their non-mobile peers, but also more likely to secure management positions. On average, 64 % of Erasmus students, compared to 55 % of their non-mobile peers hold such positions within 5-10 years from graduation. This holds even more true for

(F4E) approved in March 2015 an action plan to improve its functioning and also addressing the observations raised by the European Parliament and the Court of Auditors in their reports on the 2013 discharge. This action plan is currently being implemented.

In addition, in response to an audit of the Commission Internal Audit Service performed in 2016 on the supervision of ITER by the Commission, the responsible Commission service established an action plan that aims at strengthening its participation in the governance and supervision of the ITER project as a whole, and in particular at further developing the supervision of the European Joint Undertaking for ITER (F4E).

Erasmus students from Central and Eastern Europe, where around 70 % of them end up in managerial jobs⁵⁴.

Five banks⁵⁵ and one university have so far signed up to the Erasmus+ Master Loan Scheme⁵⁶, involving the European Investment Fund. By the end of 2016 a total of EUR 159 million in student loans is available for some 11 500 master student loans, enabled through EUR 25.9 million in guarantee agreements. Although numbers surveyed were small, the feedback among beneficiaries in 2015 was encouraging with high satisfaction levels (70 %). Also 70 % noted they could not have taken on a master abroad without the support of the loan scheme; about half of the respondents were the first in their families to take a higher education degree. In this early stage of the scheme, the level of uptake is not yet meeting expectations, the European Investment Fund and the Commission are therefore seeking to expand the geographical coverage among intermediaries (banks and universities), as well as the uptake among mobile master students.

Connecting Europe Facility (CEF)



The Connecting Europe Facility (CEF) funds projects of common interest supporting interconnections in trans-European transport, energy and Information and Communication Technologies networks.

*In the area of **Transport**, support has been granted to 452 projects for a total of EUR 19.4 billion in investments across Europe.*

The grant funding to the Trans-European Network-Transport (TEN-T) projects has helped to kick off major infrastructure investments in Europe

contributed to the overall Connecting Europe Facility goals, such as bridging missing transport links and removing bottlenecks. Examples are:

*In July 2016, the first Connecting Europe Facility rail project to be completed was the Improvement of safety on the **Central Railway Line in Poland**, which was realised under the Safe and Secure Infrastructure priority. It consisted of eliminating two level crossings with local roads located on the railway. This railway is part of the Baltic-Adriatic Core Network Corridor in Central Poland. This project has contributed to improving safety and eliminating bottlenecks and allowed for the speed increase to 200 km/h on the given sections of the line. This project is a perfect example how a relatively small action (total value: EUR 4.1 million, Connecting Europe Facility grant EUR 3.5 million) can contribute to the achievement of the policy objectives.*

*The Connecting Europe Facility contribution to **Brenner Base Railunnel** - With a length of 64 km the Brenner Base rail tunnel between Innsbruck in Austria and Fortezza in Italy will be the longest high capacity rail tunnel in the world. The tunnel will reinforce considerably the competitiveness of railway traffic along the strategic Munich-Verona stretch and contribute to a better modal shift in the sensitive Alpine region.*

*In the area of **Energy** EUR 1.18 billion has been allocated to 75 actions.*

1.1.2. Results of 2007-2013 programmes

The previous edition of the Annual Management and Performance Report reported on the main ex-post

The following example financed under the first call for proposals in 2016 is illustrative of how Connecting Europe Facility key policy priorities and cross-border issues are addressed.

Construction of the first gas interconnector between Finland and Estonia to end the energy isolation (Balticconnector) - The Balticconnector and the gas pipeline between Poland and Lithuania to be completed in 2020 will allow Finland and the Baltic States to diversify their gas sources and routes. It will safeguard them against possible supply disruptions from their current single supplier. The pipeline will consist of three sections: 22 km Finnish onshore, 80 km offshore and 50 km Estonian onshore. It enables the transport of 7.2 million cubic metres of gas per day with flows running in both directions. The grant of EUR 187 million covers 75 % of the construction costs.

In the area of **Telecom**, the Connecting Europe Facility helps to deploy Digital Service Infrastructures and broadband across the EU. These digital service infrastructures will allow all citizens, businesses and administrations across the EU to fully benefit from living in a digital single market. For example, when travelling abroad a citizen will be able to enjoy the continuity of care by using cross border services to access his or her clinical information. In 2016, support in the digital services infrastructure continued. Four calls for proposals were launched with EUR 26.2 million of financing already allocated to 40 proposals under the first call.

evaluations⁵⁷ for the 2007-2013 programmes of budget heading 1A.

1.2. Economic, Social and Territorial Cohesion (Budget Heading 1B)⁵⁸

EUR 50.8 billion was allocated to the programmes under Heading 1B for 2016, which represents 32.7 % of the total 2016 EU budget.

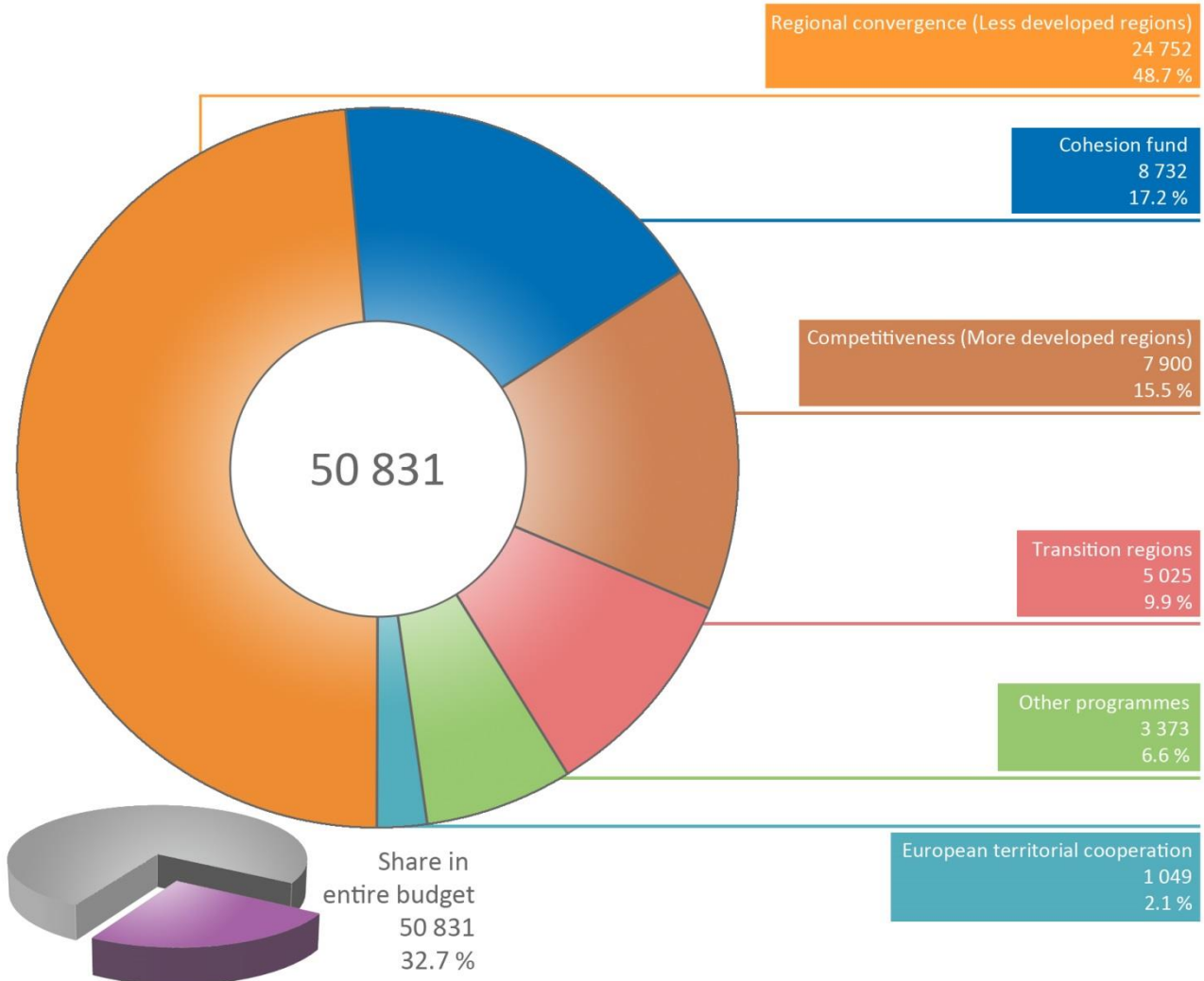


Chart: Top: Main programmes financed in 2016 under Heading 1B/Bottom: Share for Heading 1B in the entire budget. All figures in EUR million.

This heading covers the ‘European Regional Development Fund’ (ERDF), the ‘Cohesion Fund’ (CF), the ‘European Social Fund’ (ESF)⁵⁹ — including the ‘Youth Employment Initiative’ (YEI) (a specific top-up allocation), and the ‘Fund for European Aid to the Most Deprived’ (FEAD). All these programmes are delivered under shared management.

Programmes' support to the Commission priorities:

The European Regional Development Fund, Cohesion Fund and European Social Fund constitute the Cohesion Policy of the EU with a budget of EUR 351.8 billion for 2014-2020. The Cohesion Policy is the most important EU investment instrument for the delivery of the Europe 2020 objectives supporting growth and job creation at EU level and structural reforms at national level. Cohesion Policy interventions contribute to the attainment of several of the priorities of the Juncker Commission notably ‘Jobs, Growth and Investment,’ ‘Digital Single Market’ and ‘Energy Union and Climate.’ Cohesion Policy also contributes to the development of the internal market as well as a number of actions relating to the response to the refugee crisis and migration policy.

The 2014-2020 Cohesion Policy is fully aligned with the Europe 2020 strategy for 'smart, sustainable and inclusive growth'. The Cohesion Policy invests strategically in research and innovation, supports smart specialisation, small businesses and digital technologies, thereby contributing to the EU's smart growth objectives. It is also essential for EU's sustainable growth and significantly contributes to steering Europe on the path to a low-carbon economy through financing investments in energy, environment, climate and sustainable transport. In addition to investments in key infrastructures in broadband, transport or water supply, to name a few, and in addition to investments in education and training, social inclusion and professional adaptability of Europe's workforce, Cohesion Policy directly supports enterprises throughout Europe to increase their competitiveness and help them develop innovative products and create new jobs. Cohesion funding represents more than 60 % of the public investment budget in a number of Member States and it has continued to play a pivotal role in supporting long-term investment strategies, supporting structural reforms, encouraging private sector financing, addressing market failures and improving the investment climate.

Throughout 2016 efforts to strengthen the links between the EU economic governance mechanisms and Cohesion policy continued. The 2014-2020 Cohesion Policy programmes address relevant country-specific recommendations (CSRs)⁶⁰ in the context of the European Semester. The analysis carried out by the Commission in 2016 led to 66 "investment relevant" country-specific recommendations (an increase from 32 in the 2015 exercise). These country-specific recommendations related to updating and adjusting recommendations made in the 2015 semester exercises or revisiting country-specific recommendations previously made. None of the 2016 recommendations required modifications to the recently adopted 2014-2020 programmes.

In 2016 a number of proposals and adjustment have been presented in this area. For example, the Commission has carried out an adjustment of cohesion policy allocations by Member State for the years 2017 to 2020, with a total increase of EUR 4.6 billion for 2017-2020, with Greece, Italy and Spain being the main beneficiaries. This additional allocation should target youth employment, the growing challenges of the refugee and migration crisis, and investment in combination with the European Fund for Strategic Investments, taking account of the specific needs and relevance of those priorities for each Member State.

Besides this adjustment, given the ongoing economic and social challenges faced by several Member States, proposals have been presented such as: i) to the extension of the eligibility of the 10 % top-up for Member States facing temporary budgetary difficulties has been adopted in 2016 and the 85 % co-financing rate applicable to all operational

programmes supported by the European Regional Development Fund (ERDF) and European Social Fund (ESF) in Cyprus beyond the previous deadline of 30 June 2017 until programme closure, ii) the possibility to introduce a separate priority axis within a European Regional Development Fund operational programme for reconstruction operations. European Regional Development Fund support will complement the assistance provided by the EU Solidarity Fund (EUSF) for reconstruction works in response to major or regional natural disasters and iii) the establishment of the new Structural Reform Support Programme (SRSP) which will constitute an integrated instrument for providing support to Member States for the implementation of reforms across a wide range of thematic areas related to EU economic governance process and EU law, and including support for reforms identified by Member States as their own priorities.

1.2.1. Progress of 2014-2020 programmes

The Partnership Agreements introduced in the 2014-2020 period have proven to be an effective instrument for ring-fencing funding for EU investment priorities. The European Court of Auditors concluded that the new Partnership Agreements show that the Commission and the Member States have better focused the funds on growth and jobs, identified investment needs and successfully translated them into objectives and results sought⁶¹.

2016 has been the first full year of implementation - by the Member States - for the Cohesion Policy operational programmes of the 2014-2020 programming period. In these early stages of implementation, the selection of projects is a key step

towards a successful implementation of investments.

In 2016 the rhythm of project selection by the Member States accelerated with an overall selection rate reaching 26.1 % (from 4.6 % in 2015) of the European Regional Development Fund-Cohesion Fund total allocation. By the end of 2016, EUR 67 billion of European Regional Development Fund and EUR 19.1 billion of Cohesion Fund were already granted. Thanks to this investment, 59 000 European Regional Development Fund and 2 500 Cohesion Fund concrete projects are being implemented on the ground. Including national co-financing, over EUR 48 billion European Regional Development Fund and EUR 16 billion Cohesion Fund are being invested in

the real economy for supporting the EU 2020 objective on jobs and growth. The level of project selection is however uneven across programmes and Member States.

Similarly for the European Social Fund, despite a low level of certified expenditure by end 2015, the average project selection rate had exceeded 13 %. By end 2016 the project selection level had more than doubled (with over 30 %), which shows a strong acceleration of projects on the ground.

This accelerated selection of projects has not yet translated into a high absorption rate in terms of payments by the Commission⁶². The absorption rate

at the end of 2016 is lower than anticipated with overall figures of 3.7 % for European Regional Development Fund-Cohesion Fund, 2.37 % for the European Social Fund and 9.87 % for Youth Employment Initiative. The reasons for this delay are manifold: the main ones relates to the delayed designation of programme authorities and bodies, the time-lag between the selection of projects and the actual generation of first payment claims to the Commission, the prudent approach taken by some authorities in view of the strengthened requirements concerning legality and regularity and annual accounts, the responsible authorities' work on the closure process of 2007-2013 programmes.

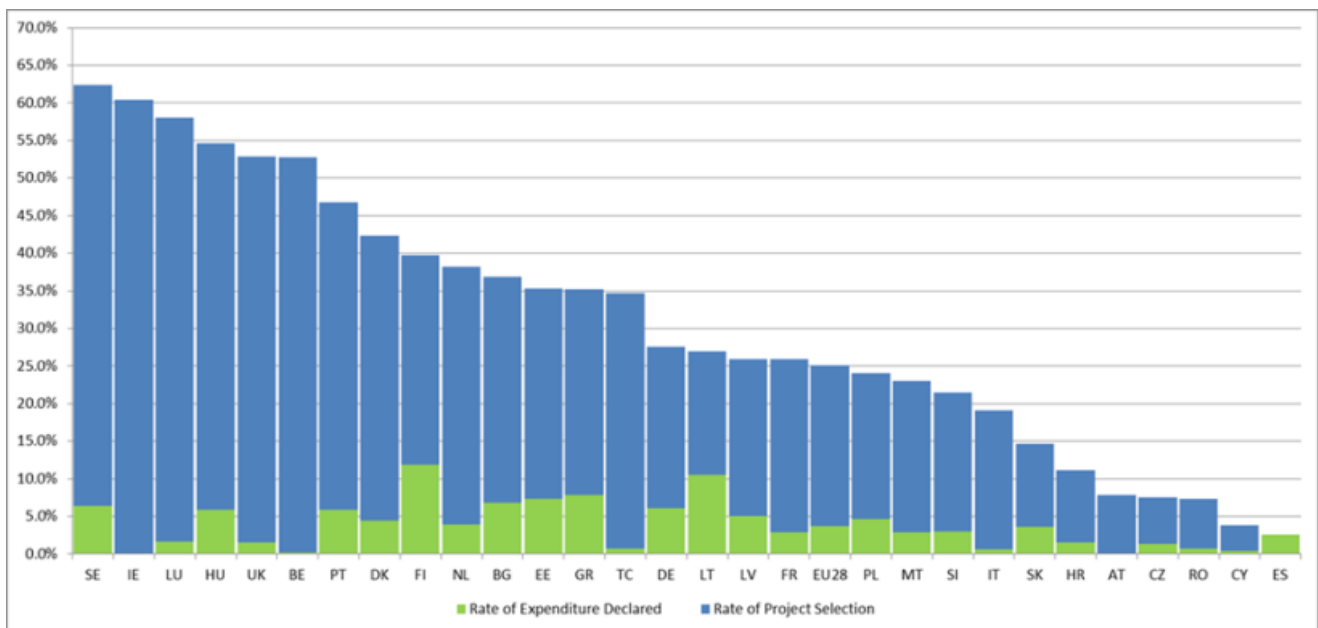


Chart:2014-2020 European Regional Development Fund Project selection and expenditure declared per Member State as of 3 January 2017

Pre-conditions for implementation⁶³

The **ex-ante conditionalities**⁶⁴ (ExACs) are one of the key new elements of the 2014-2020 European Structural and Investment Funds, aiming at increasing the effectiveness of the funds. 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 European Structural and Investment Funds as well as other public and private investments.

Member States had until 31 December 2016 to fulfil all ex ante conditionalities and will have to report to the Commission on their fulfilment at the latest by June 2017 in the Annual Implementation Reports or August 2017 in the Progress Reports foreseen in the legal basis. Where ExACs were not fulfilled at the moment of programme adoption, Member States should achieve a timely implementation of an action plan designed to ensure their fulfilment. A large share of the 660 distinct action plans applicable to European Regional Development Fund and Cohesion Fund priorities have been reported as completed by Member States by the beginning of 2017: as of 25 January 2017, 358 were completed and 115 were reported as completed but pending the Commission's assessment. 89 % of ex-ante conditionalities action plans affecting European Social Fund investments were assessed by the Commission as completed or about to be completed at the beginning of February 2017.

The relatively short timeframe of ex-ante conditionalities implementation has not allowed to fully assess their effectiveness so far. However, on the basis of a preliminary assessment of the ex-ante conditionalities mechanism, ex-ante conditionalities have contributed to improving the framework within which the EU budget operates. They ensured a direct link between the investments co-financed by the European Structural and Investment Funds and EU level policies. They contributed to the transposition and implementation of the relevant Union legislation, helped to tackle barriers to investment in the EU and supported climate change policy objectives.

Ex-ante conditionalities have triggered strategic, regulatory and institutional and administrative changes. They have also triggered policy reforms and delivery on relevant country-specific recommendations at national and regional level that should lead to more effective and efficient spending of the European Structural and Investment Funds. These benefits are not limited to the European Structural and Investment Funds, but have a positive impact on the delivery of structural changes and on improving the investment environment in the EU.⁶⁵

First data on the implementation of Cohesion Policy programmes for 2014 and 2015 were transmitted by the Member States to the Commission at the end of May 2016 and synthesised by the Commission in the European Structural and Investment Funds 2016 Annual Summary Report⁶⁶ which was the first in a series of annual reports to the EU institutions on the implementation of the European Structural and Investment Funds. Also the European Structural and Investment Funds Open Data Platform⁶⁷ has been upgraded to show the financial volume of project selection and the forecasts and achievements for common indicators as reported by the programmes in 2016.

The Open Data Platform covers more than 40 % of the EU budget and received the first European Ombudsman award for excellence in open administration in early 2017.

In the area of **smart growth**, the EUR 3.4 billion allocated to specific **research and innovation projects** under European Regional Development Fund represents 5.7 % of the 2014-2020 total planned. By end 2015, the projects selected for support under the European Regional Development Fund schemes promoting cooperation with research institute aim at supporting more than 19 000 firms (15% of the target), and 5 000 researchers benefiting from improved Research & Development infrastructure (7% of the target)⁶⁸.

Number of cooperation projects of enterprises with research institutions

36 421

Project selection in the areas contributing to the **Digital Single Market** is in full swing. Up to end 2016, around 1 200 projects were selected on the ground to support the achievement of a connected Digital Single Market, corresponding to EUR 2.6 billion of total investment (European Regional

Development Fund plus national co-financing). Through these projects, close to 80 000 additional households will obtain broadband coverage, thereby contributing to increasing the competitiveness and economic growth of concerned areas.

EU support of EUR 7.5 billion was allocated to specific European Regional Development Fund projects boosting **competitiveness of small and medium-sized enterprises** by end-2015 (8.9 % of the total planned). European Regional Development Fund financing was granted to projects supporting 113 000 small and medium-sized companies⁶⁹. Eight Member States (Germany, Spain, Finland, France, Ireland, Portugal, Sweden, United Kingdom) and several Interreg programmes provide 95 % of these forecasts; 85 000 of those companies will be supported with advice and counselling; 25 000 start-ups are forecasted; at this early stage 65 000 jobs are expected to be directly created in the supported firms. Based on the projects that were already fully implemented, reported achievements show 36 379 supported enterprises (3 238 of which were start-ups) and more than 2 500 direct jobs already created (174 of which researchers).

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. Current planning shows that EUR 20.1 billion of European Regional Development Fund and Cohesion Fund, equivalent to 8 % of the total allocations, is planned to go to financial instruments. The European Regional Development Fund is increasingly implemented via financial instruments that obtain high leverage effects on public and private investments. Not only small and medium-sized enterprises started benefitting from this (around 50 % of the European Regional Development Fund support to small and medium-sized companies will be delivered via financial instruments), but also transport and energy and circular economy related projects. Concretely, latest data shows that thanks to European Regional Development Fund interventions

implemented via financial instruments EUR 43 million of private investment has already been leveraged, matching public support to enterprises delivered in the form of grants and additional EUR 35.5 million of private investment has been leveraged, matching non-grants public support to enterprises.

In relation to **sustainable growth**, climate change mitigation and adaptation receives significant support from European Structural and Investment Funds in the 2014-2020 programming period amounting to more than EUR 114 billion of which almost half, about EUR 55 billion, comes from the European Regional Development Fund and Cohesion Fund.

Main types of investments include:

- energy efficiency investments, particularly on the energy efficiency of buildings and small and medium-sized companies;
- renewable energy and smart distribution grids, as well as for smart energy transmission and storage infrastructure and energy-efficient, decarbonised transport;
- climate change adaptation and risk prevention, supporting a broad range of measures, including flood prevention and ecosystem-based measures such as green infrastructure.

Investments are being decided at a steady pace in this area, with more than 5 000 projects already selected on the ground, corresponding to a project selection rate of around 20 % at end 2016. The decided amounts represent more than EUR 10 billion of total investment (European Regional Development Fund and Cohesion Fund plus national co-financing). In aggregate terms the European Regional Development Fund-Cohesion Fund actions in this field delivered:

Improved energy consumption classification for over 17 000 households;

294 197 kWh/year of decrease of annual primary energy consumption of public buildings;

13 227 Tonnes of CO₂ equivalent of estimated annual decrease of greenhouse gas emissions;

Flood protection measures for 6 020 additional people;

Over 13 400 hectares of habitats supported to attain a better conservation status.

Under European Regional Development Fund and Cohesion Fund no significant values were yet reported for the common indicators measuring waste recycling capacity, improved wastewater treatment or improved water supply outputs, though programmes have reported values for specific indicators. This is because the related investments - as all infrastructure

interventions - have a longer programme cycle, which requires more time for the actual achievements to become visible.

In relation to investment in strategic networks, significant TEN-T and other transport investments are planned under the European Regional Development Fund and Cohesion Fund: e.g. total length of new railway lines planned: 1 136 km (out of which 571 km TEN-T); total length of reconstructed or upgraded railway lines planned 8 610 km (out of which 4 636 km TEN-T); total length of newly built roads planned 3 414 km (out of which 2 022 km TEN-T); total length of reconstructed or upgraded roads planned 9 742 km (out of which 798 km TEN-T).⁷⁰ Overall project selection by end 2015 was EUR 4.1 billion (6.2 % of planned)⁷¹. As is the case with environment infrastructure, the specific programme cycle of transport investments explains the fairly modest physical progress reported so far (3 km of new roads built and 26 km of reconstructed or upgraded roads out of which 24 km TEN-T)⁷².

In the area of **inclusive growth**, the European Social Fund is the main fund under budget heading 1B investing in **employment, social inclusion and education**. Over EUR 168 billion in support is planned in this area, particularly from the European Social Fund, with European Regional Development Fund also investing. Projects amounting to more than 12 % of this amount (more than EUR 11.5 billion) were selected and many had already delivered support to people at the end of 2015⁷³.

In October 2016 the Commission adopted a Communication and an accompanying Staff Working Document that highlight the main achievements of the Youth Guarantee and Youth Employment Initiative (YEI) since their launch in 2013⁷⁴. The Communication shows that although youth unemployment remains a key concern in many Member States, young people's labour market performance in the EU has overall surpassed expectations since 2013. As regards YEI implementation, it has significantly progressed in the second half of 2015 and especially in 2016. By end 2016, the total eligible cost of YEI operations selected for support was over EUR 4.7 billion and over EUR 1.1 billion had been declared by beneficiaries. By the end of 2016, the Commission had received around EUR 839 million in YEI payment applications from the Member States. By end of November 2016, around 1.6 million young people had been included in YEI-supported measures. According to data from November 2016, larger Member States and main recipients of the YEI have managed to engage thousands of young people each - Italy (around 640 000 contacted or already in measures), France (162 000), Spain (277 000) and Greece (39 000).

In certain Member States however it has taken more time for getting the necessary processes and structures in place. Eight Member States had to return their YEI pre-financing to the Commission following an insufficient amount of payment applications. Evidence from the national YEI evaluations suggests that there are implementation challenges which risk inhibiting the success of the YEI, particularly in terms of the quality of delivery, effectiveness and monitoring. These challenges include: the shorter timeframe for YEI implementation compared to the European Social Fund actions; insufficient capacity of some Public Employment Services or other intermediary organisations to deliver the programme; difficulties in identifying inactive or administratively excluded people who are not in employment, education or training (NEET) (a number of Member States are addressing this by working more actively with the Non-Governmental Organisations sector and launching specific outreach measures); delays in the implementation of integrated monitoring systems for the European Social Fund operational programmes, as well as the sustainability of the offers made as a result of YEI-supported measures – in particular in a context of still very reduced labour demand in many Member States⁷⁵.



Progress can be witnessed also in the area of **social inclusion** where the data on early implementation of European Social Fund interventions is promising. Out of the 631 000 European Social Fund participants by end 2015, 39.8 % were coming from jobless households and 32.1 % were migrants, with a foreign background or belonged to a minority – showing the focus on those most in need of support. 55 000 participants already found a job⁷⁶.

2015/2016 saw the rollout of Fund for European Aid to the Most Deprived (FEAD) operational programmes on the ground. By the end of 2016 the Fund for European Aid to the Most Deprived was operational in the vast majority of Member States both in terms of provision of material assistance, as well as carrying out social inclusion activities for the most deprived persons. In June 2016 Member States submitted their annual implementation reports for 2015, which show acceleration in the implementation of programmes compared to 2014. It is estimated that 22.4 million people benefitted from the Fund for European Aid to the Most Deprived's food and material assistance cumulatively until end of 2015, out of which 50 % women, 30 % of end-recipients were children, 9 % persons aged 65 years or above, 12 % migrants, participants with a foreign background, minorities (including marginalised communities such as the Roma), 4 % persons with disabilities and 6 % were homeless persons. Over 560 000 tonnes of food were distributed cumulatively until end of 2015.

European Regional Development Fund interventions in the social inclusion area include investments in social, health, education, housing and childcare infrastructure; regeneration of deprived urban areas; actions to reduce spatial and educational isolation of migrants; business start-ups. Project selection rate for these European Regional Development Fund interventions is around 12 % at end 2016, with close to 1 000 projects already selected and being implemented. Reported progress in supporting **health infrastructure** is still marginal, as achievements

In aggregate terms, by end 2015, the European Social Fund and YEI actions delivered:

- 2.7 million participants, including 1.6 million unemployed and 700 000 inactive;
- Amongst those participants 235 000 were in employment following a European Social Fund or YEI operation, 181 000 had gained a qualification upon benefiting from an European Social Fund or YEI operation;
- 100 000 participants were in education or training thanks to European Social Fund or YEI support;
- 275 000 disadvantaged participants in European Social Fund or YEI-funded operations were engaged in job searching, education/training, gained a qualification or were in employment, including self-employment.

values provided by Member States only refer to situation at end 2015. Support to selected **integrated urban development strategies** covers 1.7 million people (5 % of the target set)⁷⁷.

Overall around EUR 6 billion has been programmed to support the **strengthening of institutional capacity and efficient public administration** purpose mainly from the European Social Fund with support also planned from the European Regional Development Fund. Over 11 % of the total budget was allocated to projects by end 2015. The operations selected by end 2015 have a total value of EUR 680 million. The projects are Interreg projects in Bulgaria, Estonia, France, Croatia, Italy and Poland. 97 000 public administration staff members had been supported by European Social Fund with and 31 projects targeting public administrations or public services at national, regional or local level been reported by the Member States. Under planned

European Regional Development Fund support the Interreg programmes had made significant progress in selecting projects for support with a financial volume of EUR 900 million of selected projects by end 2015 (7.4 % of planned)⁷⁸.

While the information reported above is based on partial data, it is already considered as indicative and worth being mentioned. This data will be further developed. The programme reporting cycle in 2017, involving programme reports to be submitted by the Member States to the Commission by end June 2017 and national progress reports by end August 2017, will provide a fuller picture of implementation, progress towards investment and policy objectives and will bring more qualitative reporting. Those reports from the Member States will be synthesised by the Commission in a strategic report by end 2017⁷⁹.

1.2.2. Results of 2007-2013 programmes

Implementation aspects

A total of 440 operational programmes (322 for European Regional Development Fund-Cohesion Fund and 118 for European Social Fund) benefited from Cohesion Policy funding in the 2007-2013 programming period for a total budget allocation of EUR 346.5 billion. National and regional public contributions – together with private contributions – brought the total investment to EUR 477.1 billion⁸⁰. Programme implementation was carried out between January 2007 and December 2015.

Implementation of the European Regional Development Fund-Cohesion Fund programmes started slowly⁸¹, picking up speed in 2012 or so in

most countries (see next chart). However, by the end of March 2016, just over 90 % of the funding⁸² available from the European Regional Development Fund and Cohesion Fund for the 2007-2013 period had been paid to Member States, with a slightly larger share being paid to EU-12 countries⁸³ (92 %) than to EU-15 ones⁸⁴ (89 %). A similar time profile is evident for both the European Regional Development Fund and Cohesion Fund, though the latter built up more slowly (as might be expected, given the fact that large infrastructure projects tend to take longer to complete) and caught up in the later years of the period.

The rate of implementation varied considerably between countries. In Romania, only 37 % of the funding for the period had been claimed by the end of 2013 and in Slovenia, only 40 %, while in Italy, Slovakia, Bulgaria, the Czech Republic and Malta, the proportion was less than 50 % (see chart below).

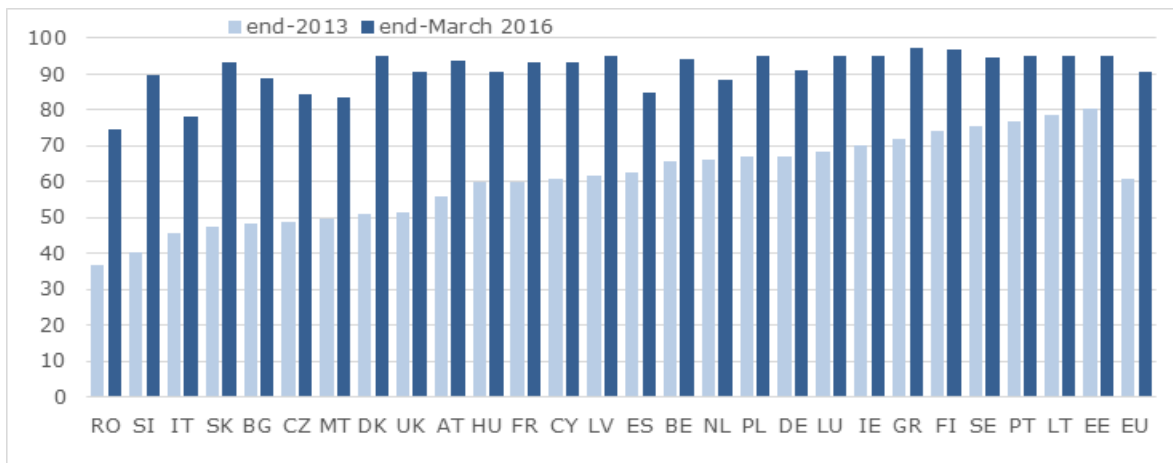


Chart: Payments relative to total funding available, European Regional Development Fund plus Cohesion Fund⁸⁵ Source: DG REGIO, Infoview database. Figures do not include ETC ("Interreg") where funding cannot easily be attributed by Member State.

In all of the countries where implementation was lagging, payments increased over the following years, and for most countries this means (taking account of the lag in payments and the fact that they are capped at 95 % until closure) that they had reached their financial implementation targets by end 2016, with only Italy, Czech Republic and Romania still experiencing some delays.

The evaluation of the European Regional Development Fund-Cohesion Fund delivery system traced these implementation delays to several key problems, particularly common in the newer Member States for which 2007-2013 was the first full period of Cohesion Policy⁸⁶:

Problems setting up systems for project preparation and selection:

- Insufficiencies in the public procurement systems;
- Setting up systems for managing and following up projects, leading to a constantly high discrepancy between contracted amounts and payments to beneficiaries; and
- High turnover among key staff in the EU-12 countries.

These issues were tackled thanks notably to specific actions put in place by the Commission and aimed at supporting Member States in their implementation efforts. The work of the Task Force for Better Implementation (TFBI) played a big role in this respect. The Task Force was set up in November 2014 with the mandate to help countries with significantly lower-than-average absorption rates to improve and accelerate implementation, with a specific focus on Member States with weaker administrative capacity.

Certain conclusions can be drawn as regards the European Regional Development Fund-Cohesion Fund implementation rates⁸⁷:

- there were considerable differences across Member States. While some (Lithuania, Estonia, Latvia, Finland, Portugal) reached the 95 % transfer limit, for others (particularly Romania, but also Slovakia, Malta and Croatia) implementation rates remained comparatively low;
- overall differences between less developed (convergence) and more developed (competitiveness) regions were relatively limited, with rates of 78.5 % and 80.4 % respectively;
- implementation rates for social inclusion, access to employment and human capital (ranging from 83.7 % to 78.1 %) were significantly higher than for strengthening institutional capacity (69 %) and promoting partnerships (64.2 %). This can be explained by the fact that for the latter areas many projects focused on the longer term and ran through the entire programming period; and
- technical assistance budgets had not been fully used, with an average implementation rate across the EU of 67.9 %. This may be explained by the fact that activities aimed at system-level changes were slower, scheduled towards the end of the period and/or more challenging to implement due to their complexity.

The implementation pattern was similar for the European Social Fund. By March 2017, expenditure amounting to 99.17 % of the overall European Social Fund 2007-2013 budget had been declared to the Commission.

Contribution to policy achievements

In 2016 the Commission finalised its ex-post evaluations of the 2007-2013 European Regional Development Fund-Cohesion Fund⁸⁸ and European Social Fund programmes⁸⁹. These two evaluations assessed the achievements of Cohesion Policy interventions in all 28 Member States and their contribution to the EU political priorities. The sections below present the results of these evaluations as well as final results based on monitoring data reported by the Member States by end March 2017 in their closure declarations⁹⁰.

Macroeconomic impact

Every region and country in the EU benefits from Cohesion Policy, also the net payers. The European Regional Development Fund-Cohesion Fund ex-post evaluation estimated that, in the EU-12 countries, the cohesion policy funds and rural development investments led to increased GDP in 2015 by 4 % above what it otherwise would have been, and in Hungary, by over 5 %. This impact is sustained (and in some cases even increases) in the longer term. In Poland, for example, by 2023, GDP is estimated to be almost 6 % above what it would be without Cohesion Policy investment in the 2007-2013 period. In regions of more developed Member States, the impact is smaller but remains positive even taking into account the fact that these Member States are net contributors to the policy.

The European Regional Development Fund-Cohesion Fund ex-post evaluation showed that one euro of Cohesion Policy investment in the period 2007-2013 is estimated to generate EUR 2.74 of additional GDP by 2023, with a total estimated return of nearly EUR 1 trillion of additional GDP by 2023. This GDP effect is of a similar scale to the entire EU budgets for 2007-2013 (EUR 975.8 billion) and 2014-2020 (EUR 908.4 billion).

Smart Growth

Results in the smart growth area are delivered both by mobilising financial resources and by contributing to the improvement of investment conditions. Programmes boost jobs, growth and investment across Europe, while focusing on the least developed areas and sectors with growth potential.

Support from the European Regional Development Fund-Cohesion Fund to small and medium-sized enterprises over the period was concentrated on **research and innovation**. Some 400 000 small and medium-sized companies across the EU received direct support and over 130 000 new

businesses were helped to start up. Although this is only 2 % of firms in the EU, support focussed on strategic enterprises – in the manufacturing sector, an estimated 15 % of small firms and over a third of medium sized firms received direct financial support. Monitoring data also indicates that this support led directly to the creation of over **1.2 million jobs** – to put this into perspective, a net total of 3 million jobs were created in the EU economy over the 2007-2013 period.

1.2 million jobs created

thanks to the support of the European Regional Development and Cohesion Funds over 2007-2013.

The major result of support was helping small and medium-sized companies withstand the effects of the crisis by providing credit when other sources of finance had dried up. It enabled small and medium-sized companies to invest in modernising or expanding plant and equipment. In addition and as part of Cohesion Policy's response to the economic crisis, eligibility rules were changed to allow the financing of working capital – this enabled firms to remain in business and to maintain employment. At the same time, European Regional Development Fund also provided support for innovation and for the adoption of more technologically advanced methods of production as well as for the development of new products. It also led to observable behavioural changes, such as small and medium-sized enterprises' owners and managers being more willing to take risks and to innovate.

Some of the programmes used European Regional Development Fund support as a test-bed for experimental and innovative policy measures instead of replicating traditional national schemes. This happened, for example, with the focus on research and innovation in Denmark, Sweden and Finland, the 'Living Labs' experiment in Puglia (Italy) or the Inno-voucher scheme in Lithuania. The evaluation concluded that this experimental approach – using European Regional Development Fund as a test-bed, instead of replicating national funding – could be more widely followed in the future since it is a way in which the European Regional Development Fund can give rise to a distinct stream of added-value for the EU which exceeds the relatively small amounts of funding involved, at least in more developed (Competitiveness) regions.

Added value of Pan-European project "Extreme Light Infrastructure – nuclear physics" Phase II of the pan-European project "Extreme Light Infrastructure – nuclear physics" in Magurele, Romania has been selected for EUR 140 million support from the European Regional Development Fund. This research project on high intensity lasers is open to researchers from public and private bodies worldwide with 100 researchers already working there and a further 100 researchers expected to join on completion. The project also brings socio-economic benefits and creates added value for the region (new jobs, modern infrastructure, business development and increased the visibility and development potential). Romania is implementing this project with two other Member States – Hungary and the Czech Republic, showing the synergy effects and efficiency gains leveraged with the contribution of EU co-financing.

An estimated EUR 6.1 billion from the European Regional Development Fund was allocated to **large enterprise support** – roughly 20 % of the total direct support to enterprise under the European Regional Development Fund. This took the form of some 6 000 projects, with an average project size of EUR 1 million. In total, roughly 3 700 individual large firms were supported bringing new technology and improved productivity to the region they operate in as well as generating spill overs to small and medium-sized companies, the human capital base and social infrastructure.

The use of **financial instruments (FIs)** increased considerably, going from EUR 1 billion in 2000-2006 to EUR 11.5 billion of European Regional Development Fund allocated in 2007-2013. Because of delays in funds being set up and monitoring systems established, it was difficult to quantify the achievements of financial instruments or assess their effectiveness compared to grants. The European Regional Development Fund-Cohesion Fund ex-post evaluation did however find that Financial Instruments played a crucial role in providing funding to small and medium-sized companies during the credit crunch of the economic crisis – this certainly contributed to many firms staying in business. The change of regulations as a response to the economic crisis, allowing Financial Instruments to finance working capital gave them a distinct advantage over grants. In Lithuania, in particular, the Managing Authority estimated that around 60 % of loans went to support working capital, keeping business afloat during the crisis. Financial Instruments also helped to maintain investment in new technology and in improving production processes more generally. The ex-post

evaluation concluded that Financial Instruments have the potential to be a more efficient means of funding investment across many policy areas, but the legal provisions were not detailed enough in 2007-2013. This, together with the inexperience of many implementing bodies, led to delays in implementation. A further challenge is spreading financial instruments beyond enterprise support, where over 90 % of 2007-2013 financial instrument funding was concentrated.

For European Social Fund, despite the difficulty of establishing any statistically significant correlation between changes in the employment rate, education indicators and the proportion of European Social Fund investments, the European Social Fund ex-post evaluation confirmed that the European Social Fund played a positive role in helping to improve Member States' performance in achieving the Europe 2020 targets for smart growth. Considerable improvements were seen over the period in the area of **education** at EU-28 level: in 2014, the rates of early school leaving decreased by 3 percentage points compared to 2008, higher education attainment rates increased by 7 percentage points over the same period and gender gaps in the key education and training indicators narrowed. In addition, expenditure on Research & Development increased, albeit minimally (by 0.2 percentage points).

Sustainable Growth

In the 2007-2013 period Cohesion Policy also made a significant contribution to the environment. The entry of the EU-12 countries into the EU in 2004 and 2007 further increased the need for investment and a substantial proportion of the European Regional Development Fund and Cohesion Fund amounts allocated to these countries went to support of such investment. Thanks primarily to European Regional Development Fund/Cohesion Fund, convergence countries in particular saw a significant **shift in the disposal of waste away from landfill towards recycling**. A substantial number of landfill sites which did not comply with EU standards were closed down. In the Czech Republic, Hungary, Lithuania, Poland and Slovenia, as well as Croatia, the proportion of waste which was recycled was increased by over 10 percentage points. Much of this shift was co-financed by the European Regional Development Fund and Cohesion Fund⁹¹. More specifically, in Poland, the share of municipal waste going to landfills was reduced from 90 % to 53 %, while the share of waste going to recycling increased from 6 % to 16 % and the share composted rose from 6 % to 13 %. In Bulgaria the proportion of waste which was landfilled was reduced from 80 % to 70 % between 2007 and 2013.

Likewise, the European Regional Development Fund/Cohesion Fund greatly contributed to improving **water and waste water treatments** primarily in Convergence regions, as well supply of clean drinking water.

Over 9 million people were connected to a new or improved supply of clean drinking water, while 11 million people were connected to new or upgraded wastewater treatment facilities.

The European Regional Development Fund-Cohesion Fund ex-post evaluation reviewed 27 operational programmes and found an overall reduction of 2904 GWh per year (enough to light the city of Stuttgart for a year) up to the end of 2013 for all **energy efficiency** measures, including 1438 GWh as a result of the measures to increase energy efficiency in residential and public buildings. To give a specific example, in Lithuania energy efficiency measures in 864 public buildings reduced consumption 236 GWh a year by end 2014, which implies a cut of almost 3 % developed regions. In particular, the additional capacity of renewable energy production reported by Member States directly resulting from supported interventions is close to reaching 5 000 MW.

Investment in **transport** has always been a major focus of support for both the European Regional Development Fund and Cohesion Fund. This continued to be the case in the 2007-2013 period, to a large extent because of the entry into the EU of the 10 Central and Eastern European Member States (along with Cyprus and Malta) in 2004 and 2007 and the need to improve their transport infrastructure. With the contribution of the European Regional Development Fund and Cohesion Fund, transport bottlenecks have been removed, travel times reduced and urban trams and metros supported. Vital to economic development and often contributing to environmental quality, this includes the construction of close to 5 800 km of roads, mostly motorways (of which 2 700 km on the TEN-T). It also includes the construction or upgrading to necessary standards of 2 600 km of TEN-T railway⁹³. A number of public transport projects were supported over the 2007-2013 period which had the effect of reducing congestion in cities and improving the urban environment as well as reducing travel times. During the public consultation carried out as part of the European Regional Development Fund-Cohesion Fund ex-post evaluation Member States highlighted the important role of cohesion policy funding in supporting large, complex projects, which were particularly evident in the rail sector. In their opinion, such projects may not have been undertaken in the absence of Cohesion Policy funding. With regard to the development of sustainable transport measures, Cohesion Policy was

in overall annual energy consumption in the country⁹². To put the above achievements into context, the reduction in respect of buildings amounts to an estimated cut of some 0.2 % in total yearly energy consumption in the countries and regions concerned, not large but significant given the relatively small amount of funding involved. The magnitude of these achievements is even bigger taking into account that by the end of 2013 only around 55 % of the total funding available for energy efficiency had been spent.

Energy efficiency thanks to European Regional Development Fund resulted in overall energy reduction of

2904 GWh

A large number of projects carried out with the support of the European Regional Development Fund to **increase electricity-generating capacity from renewables**, a significant part of which in less viewed by stakeholders as a key enabler.

Added value of Cross-border transport facilities

In the tri-lateral border area between Germany, the Netherlands and Belgium, cooperation among public transport providers has been significantly stepped up thanks to Interreg. A common platform has been created (<http://mobilitv-euregio.com>) and services are now developed in an integrated manner - with combined timetables, joint pricing and a modernized ticketing system.

In the Franco-Italian land border programme (ALCOTRA), several projects have improved local cross-border mobility via investments in joint passenger information systems, integrated bus timetables and the introduction of transport "on demand" in less populated border area.

Inclusive Growth

In this area the European Regional Development Fund and European Social Fund work together by investing both in infrastructure and in human capital in the field of education and training, active labour market policies and the inclusion of disadvantaged groups into the labour market and society.

In 2007-2013 the European Social Fund played an important role in mitigating the negative effects of the crisis and responding effectively to the associated emerging challenges. It is important to

bear in mind that the socio-economic context in which the European Social Fund Operational Programmes were designed (between 2005 and 2007) was very different from the circumstances of their implementation which were dominated by the economic and financial crisis. Nevertheless, interventions under European Social Fund 2007-2013 have been generally effective in reaching the right target groups, **integrating people into the labour market** and **improving their skills**, and generating changes in systems. In particular, the European Social Fund helped to support the most vulnerable groups in society which were especially affected by the crisis and allowed Member States to engage in a counter cyclical policy response. The European Social Fund played more important role in the less developed regions, contributing to the regional and social cohesion of the EU. The most important contribution of European Social Fund was in the area of Active Labour Market Policies, while it was more limited compared to the national expenditures in other fields, such as education and social inclusion.

The European Social Fund ex-post evaluation confirmed that the European Social Fund was highly relevant in addressing the main policy challenges towards achieving the Europe 2020 headline targets and contributing to the EU guidelines defined for labour market policies, social policies and education, while also contributing to the development of the institutional capacity to deliver policies and reforms. The European Social Fund 2007-2013 has also been an important instrument contributing to the social Open Method of Co-ordination and the Education and Training 2020 strategy. The evaluation also confirmed that the specific challenges identified by the Country Specific Recommendations were well reflected in the operational programmes co-financed by the European Social Fund.

*By the end of 2014, at least **9.4 million participants found a job** with support from the European Social Fund, **8.7 million obtained a qualification or certificate** and other positive results, such as increased skills levels, were reported by 13.7 million participants.*

Other key quantitative achievements identified by the ex-post evaluation include:

- Based on macroeconomic simulations, the investments in human capital are estimated to have had a positive impact on GDP (0.25 % increase) and productivity. These effects are much stronger in the EU-12 countries (1.5 % increase), but they are also positive for EU-15 countries (0.2 % increase).
- The European Social Fund has registered 98.7

million participations of individuals, evenly spread between the inactive (36 % of participants), the employed (33 %) and the unemployed (30 %).

- Key target groups such as low-skilled people (40 %), young people (30 %), and the disadvantaged in general (at least 21 %) were supported.
- 51.2 million participations of women were recorded in European Social Fund interventions, showing a relatively **balanced participation by gender** (52 % women versus 48 % of men) at EU level.
- At least 31.8 million positive results were achieved (i.e. improved skills and competences, increased chances in the labour market, continued education, etc.).
- At least 276 000 entities were supported and at least 109 000 products reported (i.e. online administrative services).
- The European Social Fund has provided significant support to the **modernisation, strengthening and widening of the scope of public services** such as Public Employment Services and other institutions responsible for active labour market actions.

Regarding performance in relation to targets set, the examination of the extent to which targets have been achieved shows a good performance, since by the end of 2014 targets have been met to a satisfactory level for about 64 % of the relevant indicators. By 2015 55 % of the 1 992 result indicators for which targets had been set and monitored had reached or exceeded the targets set, while another 8 % performed between 90 % and 100 %.

Overall, the achievement of the targets varied depending on the robustness of the target setting, the nature of the activities and the characteristics of the target groups as well as the nature of the objectives set. The crisis provoked a higher than expected initial demand for support for some types of activities while at the same time it made the integration of the most disadvantaged into the labour market more challenging, leading to underperformance in some cases.

The European Social Fund ex-post evaluation showed that European Social Fund 2007-2013 provided added value by broadening the scope of existing national interventions. By making use of European Social Fund interventions, Member States were able to offer more tailored and intensive services to specific target groups such as people with disabilities, young people at risk of early school leaving, or unemployed with low qualifications. These would otherwise not have had access to such services or would only have access to mainstream services. As a follow-up, some successful European Social Fund interventions were taken up into mainstream national policy, e.g. in Belgium, France, Italy, and Sweden.

As regards the European Regional Development Fund, a wide range of interventions in the area of education (close to 27 000 investments in infrastructure) and of social inclusion (more than 3 500 projects) have also been carried out, thus contributing towards the achievement of the related Europe 2020 headline targets. The main

achievements identified by the European Regional Development Fund-Cohesion Fund ex-post evaluation included: **improvement of social infrastructure** facilities with modernisation of equipment and increase of efficiency of services such as ambulances or care services (e.g. Hungary); improvement of education system in some Member States where a significant budget was deployed for **education infrastructure** (e.g. Portugal); **improvement of health systems** with the aim to improve health outcomes (Hungary and Czech Republic); **improvement of lifelong learning services** in combination with labour services to better adapt the workforce in target areas to labour market and business needs (e.g. Spain, Poland, Czech Republic or Lithuania). Some programmes used social infrastructure investments for improving the security of urban areas or for expanding and enhancing cultural heritage related education. Other social infrastructure was used in combination with various urban development actions to support cultural, sports or training facilities, as well as the establishment of **support centres for different disadvantaged groups**⁹⁴.

1.3. Sustainable Growth: Natural Resources (Budget Heading 2)⁹⁵

EUR 62.5 billion has been allocated to Heading 2 in 2016, which represents 40.2 % of the total 2016 EU budget. Heading 2 covers the two pillars of the Common Agricultural Policy (CAP): Pillar I consists of the market support measures and the direct payments financed by the European Agricultural Guarantee Fund (EAGF); and Pillar II comprises the rural development support financed by the European Agricultural Fund for Rural Development (EAFRD). The heading also covers the European Maritime and Fisheries Fund (EMFF), the international dimension of the Common Fisheries Policy (CFP) [i.e. the Regional Fisheries Management Organisations (RFMOs) and the Sustainable Fisheries Agreements (SFAs)], as well as activities in the fields of climate and environment through the Programme for the Environment and Climate Action (LIFE).

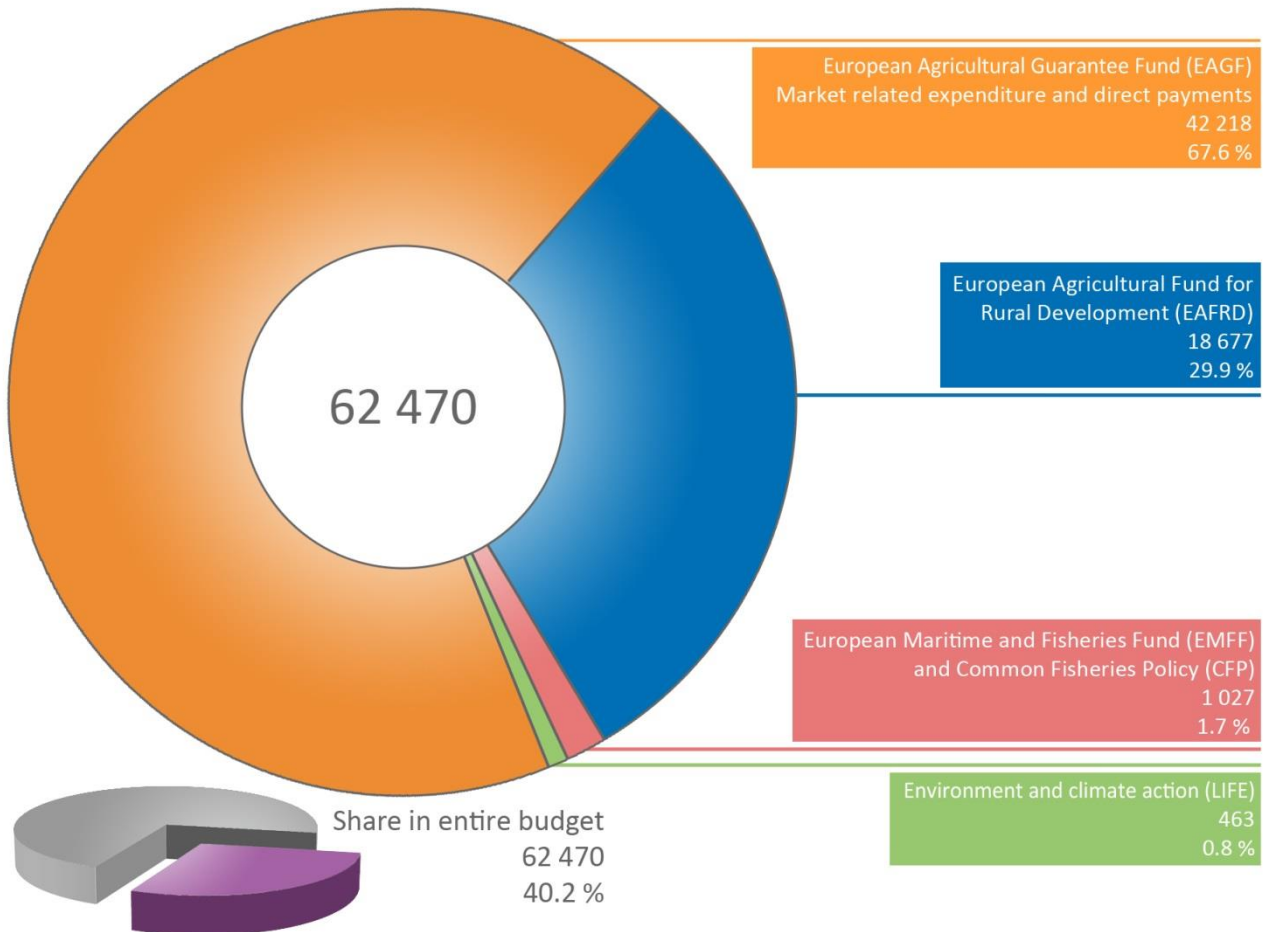


Chart: Top: Main programmes financed in 2016 under Heading 2 / Bottom: Share for Heading 2 in the entire 2016 budget. All amounts in EUR million.

Programmes' support to the Commission priorities:

Actions under this heading contribute to the achievement of the Commission priorities 'Jobs, Growth and Investment,' 'Energy Union and Climate' and to some extent to the priority 'Digital Single Market.' They also contribute to the Europe 2020 objectives in the area of sustainable growth with links also to smart and inclusive growth with regard to investments contributing to job creation and innovation.

Food security and promotion of smart, sustainable and inclusive growth for EU agriculture and rural areas are the main objectives of the Common Agricultural Policy (CAP) in the 2014-2020 Multiannual Financial Framework period. Measures under the European Agricultural Guarantee Fund are focused on further improving the situation of primary producers in the food chain, strengthening the farm and agri-food sectors' ability to compete on overseas as well as domestic markets and supporting farm income through direct payments which are now largely decoupled from production. Under the second pillar of the Common Agriculture Policy, the European Agricultural Fund for Rural Development targets the economic, social and environmental well-being of rural areas, and the sustainability of the rural environment.

The core priority of the European Maritime and Fisheries Fund under the 2014-2020 financial framework is to foster the implementation of the Common Fisheries Policy by supporting environmentally sustainable, resource efficient, innovative, competitive and knowledge-based fisheries and aquaculture. Other objectives include increasing employment and fostering territorial cohesion, enhancing marketing and processing of fisheries products, as well as supporting the implementation of the Integrated Maritime Policy. The LIFE programme is a specific funding instrument dedicated to the environment and climate action, which is meant to address needs relating to environmental and climate action and operates in addition to the mainstreaming approach adopted for the 2014-2020 Multiannual Financial Framework implying that environment and climate action are an integral part of all the main instruments and interventions. LIFE is an important instrument contributing to fulfilling the EU commitments related to the achievement of the Sustainable Development Goals and the implementation of Agenda 2030.

For the European Agricultural Guarantee Fund (EAGF) the implementation during the initial years of the 2014-2020 Multiannual Financial Framework has been largely as expected with the measures bringing positive results in terms of stabilizing the agricultural markets, farmers' income and ensuring the provision of public goods which all form part of the 2016 political priorities. The financial year 2016 has been the first year for the implementation of the new system of direct payments under the reformed Common Agricultural Policy 2014-2020. Despite delays observed during 2016, Member States managed to deliver direct payments to farmers reaching an execution level of 97.8 % of their financial allocations, covering about 7 million farmers and some 90 % of the EU Utilised Agriculture Area (155.5 million hectares).

As far as the second pillar of the Common Agricultural Policy is concerned, rural development

programmes financed by the European Agricultural Fund for Rural Development (EAFRD) are more advanced in implementation compared to the other European Structural and Investment Funds (ESIF) under Headings 1B and 2 thanks to some specific provisions for a smooth transition from the previous programming period 2007-2013, which were of particular relevance for so-called 'annual measures' (agri-environmental and forestry measures, organic farming, animal welfare, etc.) representing almost half of all European Agricultural Fund for Rural Development eligible expenditure. The European Agricultural Fund for Rural Development is also much more advanced as regards the closure of rural development programmes under the 2007-2013 period. More than two thirds of these programmes were already closed in 2016 while the remaining ones are expected to be closed in 2017.

1.3.1. Progress of 2014-2020 programmes

European Agricultural Guarantee Fund (EAGF)



For the **European Agricultural Guarantee Fund**, financing direct payments to farmers and market related expenditure, the implementation during the initial years of the 2014-2020 Multiannual Financial Framework remains on track despite the need to

apply some exceptional market support measures that were adopted in years 2014-2016 (notably two packages of exceptional measures to support EU farmers mainly in the dairy sector for an overall budgeted amount of EUR 1 680 million in the budgets for 2015, 2016 and 2017).

Market related expenditure

Within the Common Market Organisation (CMO) sector-specific support programmes are operating at various points in their respective life cycles: for example, for the wine national support programmes 2014–2018 it is the second programming period since the reform in 2009; the apiculture programmes follow a three year programming period, with 2017 being the first year of the new three-year programme. In general, implementation is on track with a positive

evolution of the execution over the years. School year 2016/2017 is the last year of implementation of the school fruit and vegetables scheme and of the school milk scheme. They are brought together under a single legal framework for greater efficiency, more focused support and an enhanced educational dimension applicable as of 1 August 2017.

Additional market support measures such as private storage aid and public intervention for certain dairy products were kept in place. In addition, exceptional market measures covering targeted aid, exceptional adjustment aid and aid for milk production reduction for dairy farmers were implemented due to the particularly unfavourable market developments of 2015 and 2016. Exceptional support measures for certain producers of fruit and vegetables have been implemented since the second half of 2014 in view of the continued Russian import embargo on certain EU

agricultural products. The above measures have helped rebalance the sectors concerned. They effectively helped to increase prices for farmers, proving much-needed support to affected producers in the Member States. European agriculture showed its resilience, finding alternative markets at home and abroad (in particular in Asia and the USA), as evidenced by the trade statistics: the annual value of EU agri-food exports in 2016 reached a new record level of EUR 130.7 billion, which is about 1.5 % higher than in 2015 – yielding an export surplus of almost EUR 19 billion, despite the continued loss of the Russian market.

Nevertheless the downward price evolution in some vulnerable sectors persisted. This justifies continued intervention to keep the market in balance and support the producers in finding alternative outlets or production.

Special aid for milk producers

In the light of the declining farm gate milk prices in the EU in the first half of 2016 and the persisting supply-demand imbalance, the Commission announced an exceptional milk production reduction measure in September 2016. EUR 150 million was made available⁹⁶ for the aid for milk production reduction. The final amount of expenditure depends on the confirmed uptake of the measure.

The latest official available data (up to May 2017) show a cumulated increase of milk deliveries in 2016 in the EU of 2.8 million tons, e.g. +4.4 % compared to the same period in 2015. By June 2016, the EU average milk price had decreased by 16 % down to 25.7 cent/kg.

Under the measure, adopted in September 2016, 52 000 participant farmers reduced their milk deliveries by 852 000 tons in the 4th quarter 2016 (64 % of the total decrease in EU milk production in that period).

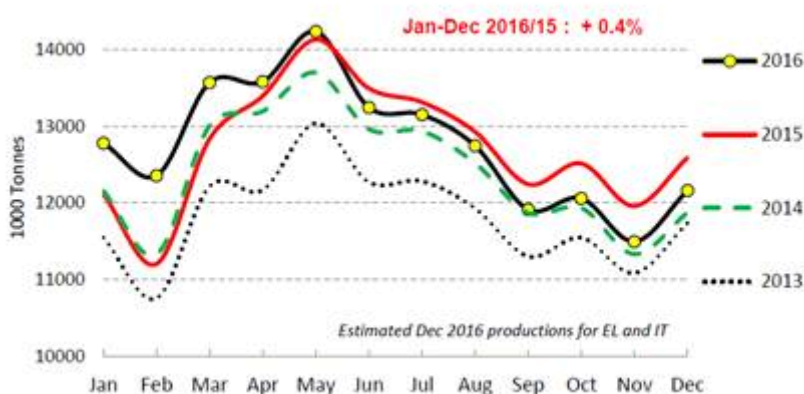


Chart: EU-Cows' milk collected. Source Estat – newcronos. Last update January 2017

In parallel, rebalancing of the market allowed the EU farmgate milk prices to rapidly pick up as of August 2016, reaching an EU average of 33.05 EUR cent/kg in December (e.g. 29 % increase since July).

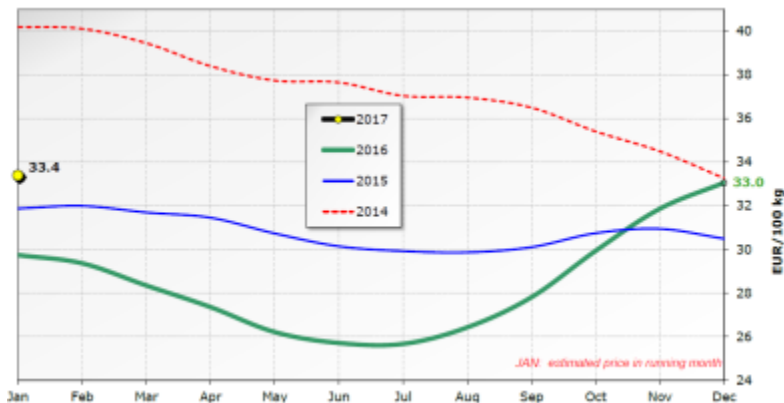


Chart: EU-Cows' milk prices paid to Producers (weighted average for entire EU)

In summary, the added value of the EU action can be corroborated as the aid for milk production reduction:

provided financial support to farmers in difficulties by rewarding those who adjusted supply to demand;

contributed to the effective rebalancing of the EU dairy market;

as an indirect consequence of the latter, influenced (together with other factors⁹⁷) the milk price recovery in the second half of 2016.

Direct payments

For direct payments, 2015 European Agricultural Guarantee Fund covered already some elements of the 2014-2020 Common Agriculture Policy, including the convergence of the direct payments' aid levels between Member States ("external convergence"). As of financial year 2016 the new structure of direct payments has been fully operational. The new elements foster that direct payments are distributed more fairly, are "greener" to promote sustainability and combat climate change, and are better targeted for example towards young farmers, small farmers or farmers in areas with natural constraints. Beyond the compulsory elements of the new direct payments scheme, Member States benefit from a significant level of flexibility in the implementation, following their main implementation choices decided in 2014⁹⁸. These choices allow Member States to target support depending on their specific context.

In 2015 (financial year 2016), first year of implementation of the reformed system, about 7 million farmers benefited from direct payments. The total determined area paid covers some 90 % of the EU Utilised Agriculture Area (155.5 million ha).

Nevertheless, the on-going implementation of the reform of direct payments affected the timing of payments by Member States to farmers in financial year 2016 which in certain cases were delayed.

The new "greening" layer of the direct payments system⁹⁹, first implemented as of claim year 2015 (financial year 2016), is intended to ensure that a majority of EU agricultural area is farmed according to basic environment and climate-friendly practices. In 2015, 75 % of utilised agricultural area was subject to at least one of the greening obligations. The estimated total for claim year 2016 is 77 %¹⁰⁰. In 2016 the Commission carried out a review of how the system had been applied in its first year¹⁰¹. This review identified weaknesses that held the greening system back from achieving its full potential, and considered possible remedies. The Commission subsequently proposed various improvements to the relevant regulation¹⁰² which are intended to apply as of direct payments claim year 2018 (2017 for those Member States which so wish).

European Agricultural Fund for Rural Development (EAFRD)

*For the **European Agricultural Fund for Rural Development** all 118 rural development programmes are up and running and are currently being implemented.*

Calls for application by beneficiaries have been published at the level of Member States and regions. At the end of 2016, around EUR 31.9 billion has been committed to projects and beneficiaries. This represents 21.3 % of the total public allocation planned for 2014-2020. As regards payments from EU budget to Member States, Member States' requests received by end 2016 amounted to a total of EUR 10.1 billion, which is 10 % of the total allocation for the European Agricultural Fund for Rural Development for 2014-2020.

In 2016, the Member States submitted their Annual Implementation Reports on the implementation in the first two years of the programming cycle i.e. 2014 and 2015. Despite the belated adoption of many programmes, mainly due to the late adoption of the legislative framework, the implementation is on the right track. In fact, in the case of the European Agricultural Fund for Rural Development, a smooth transition to the new programming period was ensured through the establishment of transitional rules, the presence of already established paying agencies (i.e. no need for new designation of authorities) and the wide use of multiannual commitments, including area-based payments.

In terms of results achievement to date, after a relatively slow start necessary for setting up the policy, a significant acceleration is expected in the coming years. Most of the programmes were approved in 2015 (just 9 rural development programmes were approved in 2014). Some results can already be pointed out, such as more than 33 % of the 2020 targets achieved in terms of percentage of agricultural land under management contracts contributing to biodiversity or 39 % achieved of the final target for percentage of rural population covered by local development strategies. 1.6 million hectares were under support to convert to or maintain organic farming (15.7 % of the farmed area to be supported)¹⁰³.

Some 300 operational groups have already been set up under the European Innovation Partnership for Agriculture Productivity and Sustainability (EIP-AGRI). These projects funded by the European Agricultural Fund for Rural Development aim to foster innovative solutions and opportunities for a competitive and sustainable farming and forestry sector. An independent study of the implementation of the European Innovation Partnership was

completed in November 2016¹⁰⁴. The study could not provide full-fledged conclusions due to the early implementation stage of the European Innovation Partnership but it did qualify the uptake of the voluntary scheme (in 96 out of a possible 111 rural development plans in 26 Member States) as "impressive", with the farmer-led approach "truly distinctive" and "highly appreciated by stakeholders". Furthermore, the pan-European approach of EIP and the ability to share lessons and form partnerships across countries and regions were seen as potentially powerful aspects of the initiative. The study reckons that there is a solid basis for external coherence with other policies (Horizon 2020, environmental and regional policies), but that at this stage there is a widespread lack of awareness of these joint opportunities and synergies. This is in part related to the fact that stakeholders are currently prioritising the rural development funding. It is expected that with the consolidation of the process across the different countries and regions in Europe, opportunities for links with related EU initiatives will be more visible through the European Innovation Partnership network.

Rural development policy and its programmes have been under the scope of the study on "Mapping and analysis of the implementation of the Common Agriculture Policy" of which the final report was published in November 2016¹⁰⁵. The study provides a comprehensive analysis about the choices that the Member States have taken in view of implementing the Common Agriculture Policy in the current programming period in the two pillars of the Common Agriculture Policy as well as a qualitative analysis of the potential impact of these choices. It confirms that the new flexibilities in the Common Agriculture Policy resulted in a more diversified implementation, with measures being used in many different ways and in wide array of combinations. Key findings of the study refer to the limited coordination between pillar 1 (direct payments) and pillar 2 (rural development support) implementation choices by Member States, and the fact that implementation choices are considered especially relevant for the general Common Agriculture Policy objective of viable food production where they were assessed as being in general more tailored to local needs than in the previous Common Agriculture Policy. In addition, Member States' choices are generally coherent, but opportunities for synergies could be better exploited, and the lack of appropriate tailoring and targeting of pillar 1 instruments and pillar 2 measures raises concern about the impact of Member States' choices.

A strong focus on simplification

In early 2015 the Commission embarked on a large-scale simplification exercise covering the entire agricultural acquis. In 2016 this exercise was followed by several changes in Delegated and Implementing Acts, in particular:

The rules related to the Integrated Administration and Control System were simplified, including the introduction of preventive preliminary cross-checks. Certain rules on direct payments were made more flexible, notably on voluntary coupled support.

In the area of the Common Market Organisation, several sector-specific rules have been simplified (e.g. in relation to public intervention, private storage and trade mechanisms – licences). These simplifications have been carried out in the framework of the alignment of the Commission-level regulations to the Lisbon Treaty. The alignment exercise will help to cut the number of regulations from more than 200 to 40. At this stage 19 new legal acts have been published in the Official Journal, 30 regulations have been repealed as a consequence of the above activity and 57 regulations have been declared obsolete.

Changes to the four basic acts of the Common Agriculture Policy for the purpose of simplification (including flexibility and subsidiarity) were proposed in the framework of the so called "Omnibus Regulation". These proposals directly follow from the comprehensive screening of the legislation of the Common Agriculture Policy in 2015 and concentrate on support for rural development (e.g. to boost the use of financial instruments), and on direct payments (with simplifications of the rules on active farmers and young farmers).

A review of certain "greening" rules after the first year of their application was carried out during 2016, in order to identify inter alia needs for simplification. Resulting from the review, the Commission is pursuing amendments of certain greening rules set in Delegated Regulation (EU) No 639/2014 to better specify what is required from farmers, eliminate certain technical requirements, provide more flexibility for farmers or alternative solutions where this would increase the environmental and climate benefit of greening and harmonise selected requirements and conditions.

European Maritime and Fisheries Fund (EMFF)

For the **European Maritime and Fisheries Fund**, the late adoption of the European Maritime and Fisheries Fund regulation (May 2014) extended the negotiation process with Member States, which was completed in December 2015. The years 2015 and 2016 were therefore dedicated to the completion of the negotiation process of these programmes and to preparatory work for implementation such as the setting up of the European Maritime and Fisheries Fund Monitoring Committees. By May 2017, 17 Member States have notified to the Commission the designation of authorities for the management of the fund, which is a prerequisite for the submission of interim payments.

Since European Maritime and Fisheries Fund implementation was still at an early stage in the Member States, little information on achievements was provided in their first Annual Implementation Reports which were due by 31 May 2016. As provided for in the Common Provision Regulation for the European Structural and Investment Funds, in the end of 2016 the Commission prepared the first common Annual Summary Report to the other

institutions covering information on all European Structural and Investment Funds¹⁰⁶. This report provides valuable information on the level of project selection, which is a key step towards a successful implementation of investments later on. For example, around 80 % of the European Maritime and Fisheries Fund projects foreseen over the period aim to strengthen **small and medium-sized enterprises** and increase the competitiveness of the fleet and of aquaculture enterprises. The start of implementation has been relatively slow as only 10 % of the projects selected until end-2015 focus on small and medium-sized enterprises development. Around 90 % of all projects selected for European Maritime and Fisheries Fund support by end-2015 promote **resource efficiency and the protection of the environment**. Most of those projects aim at protecting and restoring marine biodiversity by substantially increasing physical control of landings and lowering the volume of unwanted catches thereby supporting the implementation of the Common Fisheries Policy.

Sustainable Fisheries Partnership Agreements (SFPAs)

The Sustainable Fisheries Partnership Agreements constitute a benchmark for organising and regulating the activity of external fishing fleets. They contribute significantly to the improvement of fisheries governance in developing countries through projects in the field of fisheries management, surveillance and control, scientific capacity and research, and support to artisanal fisheries.

At the end of 2016, a total number of 14 **Sustainable Fisheries Partnership Agreements'** protocols were in force. Negotiations have been successfully completed for the renewal of the protocols with Mauritius and Comoros (the signature of the latter being dependent on improvements to be made by this country regarding conformity with Illegal, Unreported and Unregulated fishing legislation) while negotiations

are still on-going with Guinea-Bissau and Gabon. Finally, the Council has adopted negotiation directives in view of new Sustainable Fisheries Partnership Agreements with Tanzania, Kenya and Ghana. For these three countries, external evaluations have been completed as a preliminary step to the negotiation process.

The commitment appropriations in 2016 amounted to EUR 132 million and were consumed up to 98%. The payment appropriations amounted to EUR 130.3 million and were consumed up to 91 only. This is mostly due to some delays in the implementation of sectoral support programmes, contributing to the sustainable development of the fisheries sector in some of the EU partner countries.

Life programme for Environment and Climate Action (LIFE)

In 2016 the LIFE programme provided EUR 315 million to co-finance 157 new projects across 23 Member States which spur additional EUR 236 million¹⁰⁷ investments.

These projects will demonstrate best environmental and climate action practice across a range of themes (e.g. environment and resource efficiency, adaptation to climate change, nature and biodiversity, climate mitigation and governance and information) and boost the dissemination of this know-how throughout the EU. Following the introduction of a specific sub-programme for Climate Action, more than 300 applications for traditional projects focused on climate action objectives have been received, and 65 financed, based on the results of the first two calls for proposals (2014 and 2015).

Also in 2016, 52 projects from sixteen different EU Member States completed by the end of 2015 were selected for the LIFE Best awards¹⁰⁸. The projects cover a wide range of topics and subjects and were selected according to a number of criteria such as their contribution to immediate and long-term environmental, economic and social improvement, degree of innovation and transferability, relevance to EU policy and cost-effectiveness.

In addition to the six ongoing integrated projects¹⁰⁹ seven new ones were launched in the area of Nature, Water and Air in 2016. Final results from integrated projects are not yet available in this early stage of implementation but some of them are having an important catalytic effect on the ground, i.e. one of the strictest regulations for solid fuels boilers in the EU was adopted unanimously in the Malopolska region (Poland) in January 2017 as a result of a LIFE

integrated project (see example below).

Małopolska Region - air quality plan

LIFE Integrated projects use a broad, ambitious perspective. By combining funds from various sources, they bring groups of stakeholders together, empowering citizens to overcome structural barriers with long-term, sustainable solutions.

The Małopolska project is a typical example. From an initial budget of EUR 15 million, the involvement of regional authorities, 50 municipalities, and civil society has brought additional leverage of EUR 800 million. The project is bringing know-how, adding organisational capacity, and helping the Region implement an air quality plan. Early results include new legislation for domestic boiler emissions adopted unanimously in the Regional Parliament in January 2017, with the surrounding regions (Silesia, Lower Silesia, Mazovia, Lodzie and Opolskie) keen to follow suit.

In addition to grants for projects and organisations, the LIFE programme supports climate action through financial instruments. The financial instrument for energy efficiency (PF4EE) was initially expected to support total investment up to EUR 540 million. However, following the operations signed in 2015 and 2016 and in view of the projects in the pipeline, the European Investment Bank now expects to achieve EUR 1 billion of new investments in energy efficiency during the 2014–2017 pilot phase (EUR 430 million from European Investment Bank and EUR 570 million from financial intermediaries), covering 10 Member

States. Six deals were signed with intermediary banks by the end of 2016.

In 2016, in response to comments from the European Court of Auditors (2014 Statement of Assurance report), an action plan was put in place to ensure improvements on payments delays under the LIFE programme. Envisaged measures turned out to be successful; the payment delay statistics for 2016 demonstrate a rate of 3.9 % of delayed payments.

The external analytical study supporting the mid-term evaluation of the 2014-2020 LIFE programme was completed in March 2017.¹¹⁰ The evaluation was carried out at an early stage of the implementation of the programme. The majority of projects are yet to be started and there are no substantial results to be assessed at this stage. Therefore, the evaluation focused mainly on the processes put in place and the expected results based on the programme design and the project selection so far.

According to the preliminary results presented in the external study, although the projects awarded are only expected to materialise in 4-5 years, the LIFE programme is on track to meet its targets. Preliminary evidence of the aggregated overall performance for the first two years of operation of the LIFE Programme suggests that 70 % of the milestones indicated as targets in the Multiannual Work Programme 2014-2017 will be achieved for example, by targeting better conservation of 114 species, 59 habitats and 85 Natura 2000 sites. LIFE projects that have already started are expected, according to the external study, to achieve the following results:

- Reduce energy consumption (about 600 000 MWh/year) by best practice solutions;
- Increase the production of energy from renewable sources (about 500 000 MWh/year from different sources);
- Contribute to the improvement of the conservation status of 59 habitats and 114 species of European interest and 85 Natura 2000 sites;
- Reduce adverse effects of chemicals on health and environment for about 1.6 million people over 5 years;
- Equip 35 million hectares with climate adaptation measures as well as develop best practice solutions for adaptation in various areas.

The preliminary results of the mid-term evaluation also estimated that the benefit to society of some of the projects from the 2014 LIFE call for proposals will amount to EUR 1.7 billion. This figure alone

represents four times the cost of the overall LIFE budget for 2014. The study also confirmed that the programme is playing well its role of catalyst given it has been calculated that, in the case of the integrated projects, for each euro the LIFE programme finances, it is expected that a further EUR 23 will be financed from other sources for environment and climate objectives.

The EU added value of the LIFE Programme is recognised by almost all stakeholders and the general public. This stems from its support to the consistent development and application of EU environmental and climate legislation and policies across the EU. LIFE also responds to cross-border challenges which a Member State is unlikely to address alone. It allows a better sharing of responsibility and promotes solidarity for the management/conservation of EU environmental assets, and it represents an EU-level platform for sharing best practice and demonstration activities. LIFE funding supports activities that, given their nature, would not be financed at national level. It focusses on relatively small scale projects which in turn catalyse broader actions and mainstreaming of environmental policy into the major EU spending instruments. LIFE gives priority to projects that can be replicated and have the capacity to lead to marketable solutions to environmental problems (see the example below).

Innovative Technology for Low Cost Production of Energy Efficient Dye-Sensitized Solar Cells

This Swedish project proved the production potential and scalability of screen printing as a production method for manufacturing Dye-Sensitised Solar Cells (DSCs). This solar technology in combination with the chosen production method is sustainable and environmentally friendly, with no toxic emissions. The costs of producing Dye-Sensitised Solar Cells using the project technology were calculated to be no higher than 80 EUR/m² (the foreseen cost target).

The study supporting the mid-term evaluation also highlights some aspects that could be improved or further explored, such as the simplification of grant management procedures, the need for increasing the strategic focus of the programme, and the improvement of the communication strategy to better target audiences. The Commission is planning to address these aspects in the elaboration of the second LIFE multiannual work programme 2018-2020.

Implementation aspects

The **European Agricultural Guarantee Fund's** direct payments under the former regime prior to the 2013 reform of the Common Agriculture Policy were smoothly implemented with the calculation and allocations of support carried out by Member State administrations in a timely fashion. Direct payments cover annual payment schemes to farmers which are not under the "programme" approach. Hence the challenges involved are different from those arising from implementation of instruments which work on the basis of multiannual "programmes". The previous reforms of direct payments and various agricultural sectors, such as the "Common Agriculture Policy Health Check" of 2008, implied a continued process of decoupling of support from production. The calculation and allocation of support to farmers following the reforms were challenging implementation tasks, in particular for Member States' administrations but they were carried out effectively as is evidenced partly by sound budgetary execution.

For **rural development (European Agricultural Fund for Rural Development)**, a number of corrective modifications on individual Member State programmes were made throughout the 2007-2013 period taking into account the recommendations from the mid-term evaluations and incorporating additional funds addressing new challenges (Health Check) and the economic crisis (European Economy Recovery Package). Most of the changes observed have been shifts of financial allocations between measures of the same of different axis, adaptation of targeted beneficiaries and eligibility criteria. The main reasons for budget changes were changes in strategic priorities, low absorption rate as well as the need to overcome unforeseen problems or issues arising due to changed economic or wider policy/legislative contexts. The final absorption rate for 64 closed out of a total of 92 programmes for the 2007-2013 period is at the level of 99.1 %.

Until 2015 the European Court of Auditors carried out five special reports directly related to rural development¹¹¹. The key recommendations of the Court have been addressed by the Commission. In particular, the recommendations related to improving guidance and reducing obstacles to the uptake of financial instruments, were addressed in the context of the simplification modification of the European Agricultural Fund for Rural Development Implementing Act (Regulation (EU) No 808/2014) in April 2016 and the Commission proposal for the regulation modifying the sectorial basic acts (COM(2016) 605 final).

In 2016 the European Court of Auditors issued

Special report N°36/2016: An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes. The Court examined whether the rules and procedures for the closure provide a basis for the Commission and the Member States to close programmes in an efficient and timely manner. It concluded that Commission's closure guidelines concerning rural development were timely and comprehensive and provided an adequate basis for Member States to prepare effectively for closure. In addition, the Commission delivered efficiently additional support addressing Member States' needs.

As regards the **European Fisheries Fund** (EFF, predecessor of the European Maritime and Fisheries Fund), the EU fisheries sector has undergone substantial restructuring, in part also due to the global economic crisis which lead to a peak in oil process. Recent low fuel prices as well as the gradual reduction in the size of the EU fleet and further substantial restructuring have led to major changes in the sector. Over the past few years, the EU fleet registered record high-net profits (in 2014 an increase of 50 % over the level of profits in 2013) and progress has been made to bring more balance between fishing capacity and fishing opportunities across the entire EU fleet.

The external analytical study supporting the **ex-post evaluation of the European Fisheries Fund 2007-2013**, which was completed at the end of 2016¹¹² showed that the total EU payments for European Fisheries Fund by May 2015 were 71 % of the total EU funds originally programmed for the European Fisheries Fund (EUR 2 812 million paid). Despite several management issues, sometimes leading to significant de-certification¹¹³ and automatic de-commitment through the application of the N+2 rule, the documents submitted by the Member States for the closure of the European Fisheries Fund show that payments reached over 90 % of the amounts programmed. However, the administrative burden is still considered too high by several Member State managing authorities although the definition and distribution of management tasks was considered to be good overall in most Member States. In the majority of Member States, the European Fisheries Fund was implemented centrally, reflecting the relatively small scale of the sector and the programme compared to other European structural funds. In some decentralised Member States certain measures were delegated to regional intermediate bodies. The average number of administrative jobs per million euro of programmed European Fisheries

Fund is estimated at 0.3 Full Time Equivalent (estimate based on interviews with the European Fisheries Fund Management Authorities).

The external study also confirmed that the monitoring system in place did not provide robust information and that there were many data gaps. This led the

Contribution to policy achievements

Given that ex-post evaluations on the performance of the 2007-2013 Rural Development programmes were only submitted by Member States to the Commission at the end of 2016¹¹⁴, the Commission is planning a high level synthesis report for 2017. Consequently the achievements reported below for these programmes are based mainly on available monitoring information on programme implementation.

Smart Growth

In the 2007-2013 period the Common Agriculture Policy exerted a strong positive influence on the farm sector's viability by offering the sector targeted funding to improve its performance. The EU's farm sector raised its total factor productivity by 0.9 % per year between 2007 and 2013 (and by 1.8 % per year in the EU-13 countries¹¹⁵), showing clear evidence of using the factors of production more efficiently.

Rural development funding provided support for knowledge-building, investments, various forms of cooperation, and innovation. Innovation support was channelled to 156 600 farms that have introduced new products or technologies in their farm businesses. Around 3 million farmers were successfully trained and over EUR 44.8 billion invested in modernisation support to 430 000 farms. Nearly 70 000 micro-enterprises were supported or created. On the developmental side, around 2 000 cooperation projects focussing on developing new products or new techniques received support in the 2007-2013 period.

For the **European Fisheries Fund**, the external analytical study supporting the 2007-2013 ex-post evaluation concluded that an overall improvement of the fleet competitiveness was aided by the European Fisheries Fund's support by accelerating the exit of part of the unprofitable fleet, facilitating the modernisation of the remaining fleet, fishing ports and landing sites, and increasing the added-value of fish products by supporting investments in marketing and processing. In the aquaculture sector, despite an increase of production capacity, the results were below the expected objectives as the EU aquaculture production stagnated over the European Fisheries Fund period due mainly to unfavourable market conditions. The case study and analyses by spending category indicated a general consensus from beneficiaries and managing authorities that the

Commission to develop a new Common Monitoring and Evaluation System in the framework of the European Maritime and Fisheries Fund. This system, developed with the Member States is now being implemented and starts delivering better quality data.

European Fisheries Fund contributed to the economic resilience of the beneficiaries, especially in the shellfish sector. Other measures such as investments in processing by fish farmers, quality scheme certifications etc. contributed to the competitiveness of the project holders as well. However, the impact of the European Fisheries Fund on the competitiveness of the EU aquaculture as a whole seems at best marginal¹¹⁶. Regarding innovation, overall innovation for fisheries mainly focused on gear selectivity, due to regulatory requirements and landing obligation, and on fuel efficiency, due to high fuel costs. Innovations in the fisheries sector were primarily environment-oriented but they also benefitted to the competitiveness of the fleet, in particular as regards fuel-efficiency progresses¹¹⁷.

The European Fisheries Fund also introduced Community-Led Local Development (CLLD), as an innovative way of addressing the decline of the fisheries sector. Recent analysis undertaken by the Fisheries Areas Network demonstrated that Community-Led Local Development had been the main mechanism delivering support to the Small Scale Coastal Fleet. EUR 170 million were channelled towards these beneficiaries, helping them diversify their sources of income through tourism, for example, or by adding more value to their catches by short circuit forms of marketing.

Sustainable Growth

In the period 2007-2013, more than 80 % of the total Common Agriculture Policy payments were linked to the so called "cross compliance" - compliance by farmers with basic standards concerning the environment (as well as food safety, animal and plant health and animal welfare)¹¹⁸. Part of the **European Agricultural Guarantee Fund's** contribution to sustainable management of natural resources and climate action came through these measures. Furthermore, by supporting farmers, the European Agricultural Guarantee Fund enabled a retreat from potentially harmful intensive practices. Greenhouse gas emissions from the agricultural sector (including soils) continued to decline – falling by 10.1 % in the EU-28 between 2000 and 2014, i.e. by an average of 0.8 % per year.

Under **rural development** programmes various types of area-related payments were made to encourage

management practices that have a proven positive impact on biodiversity, soil, water, and air in both the farm and forest sectors. During the 2007-2013 programming period, the surface under agri-environmental schemes expanded to 47 million ha, representing more than 25 % of the EU-27 countries¹¹⁹ Utilised Agricultural Area in 2013. In particular, the support received by farmers to convert to or maintain organic farming covered 7.7 million hectares. All this played an important role in the improvement of the environmental performance of EU farming.

For the **European Fisheries Fund**, the external analytical study supporting the 2007-2013 ex-post evaluation found that at the end of the European Fisheries Fund period, the objective of adapting the EU fishing fleet capacity with the European Fisheries Fund support in terms of reduction of fleet power and gross tonnage was met. However, progress on the sustainable exploitation of fisheries is largely the result of fisheries management with an estimated net contribution of the European Fisheries Fund of around 66 % of total fleet capacity reductions. While most managing authorities recognised that the European Fisheries Fund contributed to reducing harmful environmental impacts of fishing, the uptake of projects to specifically protect and conserve biodiversity was comparatively small under the European Fisheries Fund. This is to be expected as the programme focused on fishery and aquaculture development (that either reduced harmful environmental impact or at least ensured these impacts were not at unacceptable levels) rather than biodiversity objectives. There were also other funding sources such as LIFE+, with a more specific remit on biodiversity protection and conservation¹²⁰.

Inclusive Growth

The combination of **direct payments and market measures** helped limit job and output losses.¹²¹ In 2015 the employment rate in rural areas recovered to 65 %. This was important for the EU's 11 million farms, their 22 million regular workers and for those

linked to farming — e.g. 22 million in food processing, food retail and food services, plus others in upstream or other downstream sectors (making up a sector of nearly 44 million jobs altogether). At the same time, direct payments were largely decoupled from production and farmers were free to respond to market signals.

The Common Agriculture Policy also promoted a balanced territorial development in the EU through its **rural development** measures, which supported almost 53 000 operations improving basic services in rural areas (e.g. transport; electricity; household maintenance) in the period 2007-2013. The payments resulting from application of various rural development measures benefited the vast majority of agricultural holdings and associated workers. They are a crucial element for maintaining employment.

53 000

operations improving basic services in rural areas (e.g. transport; electricity; household maintenance)

For the **European Fisheries Fund**, the external analytical study supporting the 2007-2013 ex-post evaluation concluded that processing and marketing investments contributed to maintain and create jobs and accelerated the modernisation of the industry. Sustainable development of local fisheries areas (Axis 4) enabled to maintain and create jobs and has been the main policy instrument to improve quality of life in fisheries dependent areas. In total, it is estimated that the European Fisheries Fund contributed to the creation of about 20 000 jobs. Figures on jobs maintained are not available except for Axis 4, which is estimated to have contributed to maintaining about 9 000 jobs¹²².

It is estimated that the European Fisheries Fund contributed to the creation of about

20 000 jobs.

1.4. Security and Citizenship (Budget Heading 3)¹²³

Under Heading 3, the EU budget brings together a range of programmes (EUR 4 billion representing 2.6 % of the total 2016 EU budget) supporting pressing political challenges such as security, asylum, migration and integration of third country nationals, health and consumer protection, as well as those relating to culture and dialogue with citizens. Funding is geared to projects where EU collaboration brings about significant efficiency gains.

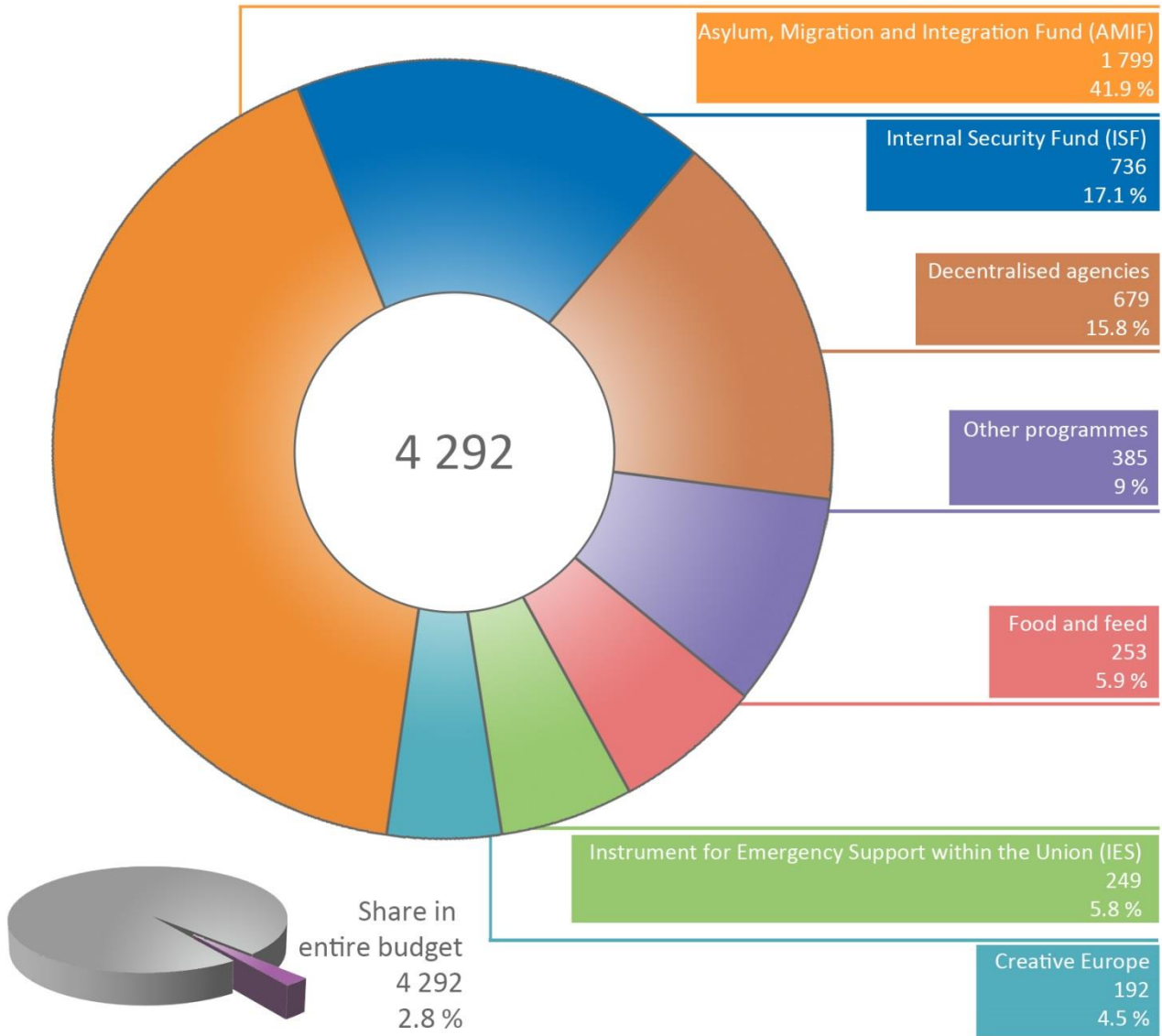


Chart: Top: Main programmes financed in 2016 under Heading 3 / Bottom: Share for Heading 3 in the entire 2016 budget. All amounts in EUR million.

Programmes' support to the Commission priorities:

The programmes under Heading 3 contribute mainly to the Juncker Commission priorities of 'Justice and Fundamental Rights' and 'Migration.' Despite the small budget involved, these programmes contribute to Europe 2020 achievements. For example, the Health Programme stands on the crossroad between smart and inclusive growth: it funds actions for the up-take of innovation in health and health care and supports Member States in their health systems' reforms and, the same time, it pursues work on the promotion of health and prevention of diseases and addresses the increasing trend of health inequalities through actions on the health of vulnerable groups and, since 2015, with a specific focus on refugees. The Asylum Migration and Integration Fund¹²⁴ contributes to inclusive growth through financing of projects for integrating non-EU nationals.

1.4.1. Progress of 2014-2020 programmes

2016 was another critical year where Europe had to demonstrate its capacity to address the migration challenges and to tackle security threats. Early data shows that the number of irregular migrants apprehended at the EU's external borders has decreased (from 1.8 million in 2015 to 0.5 million in 2016). The numbers of illegal arrivals in Greece fell dramatically owing to the implementation of the EU-Turkey Statement; however the number of illegal arrivals from Libya remains very high.

Two dedicated funds – with a combined budget of 11 billion and mainly implemented (70 %) under shared management through national programmes as well as under direct management through emergency financing - contribute to these challenges: the **Asylum, Migration and Integration Fund (AMIF)** and the **Internal Security Fund (ISF)** with its strands ISF Borders and ISF Police. In 2016, both programmes gathered pace.

AMIF – supporting Member States on migration management through actions in the field of asylum, legal migration and integration of third country nationals, return, resettlement and relocation

The Asylum, Migration and Integration Fund supports different types of projects:

- **Asylum projects:** In 2016, Member States spent EUR 49.4 million under Asylum, Migration and Integration Fund's national programmes. This provided 366 426 asylum seekers with assistance through various projects in the field of reception and asylum systems (e.g. legal aid and representation, social counselling, targeted services to vulnerable groups).
- **Legal migration and integration projects:** In 2016 Member States spent 43.8 million under Asylum, Migration and Integration Fund's national programmes to assist 1 602 041 third-country nationals through integration measures such as education and training, including language training and preparatory actions to facilitate access to the labour market, advice and assistance in the area of housing, means of subsistence and administrative and legal guidance, medical and psychological care in the framework of national, local and regional strategies.
- **Return projects:** Member States substantially stepped up their efforts in voluntary return and forced removals with support from the Fund. Member States spent EUR 105.9 million in 2016 allowing 26 187 persons to be returned through voluntary return programmes and 11 561 persons to be returned through removal operations, in accordance with the standards laid down in Union law. The Asylum, Migration and Integration Fund also funded the Integrated Return Management Application (IRMA). This is a secure platform to facilitate the joint planning of return operations and to assist the Member States and the European Border and Coast Guard in gathering and sharing information.
- **Resettlement:** On 20 July 2015, Member States agreed to resettle 22 504 persons in clear need of international protection, from third countries. The EU-Turkey Statement of 18 March 2016 provides that for every Syrian returned from the Greek islands to Turkey, another Syrian will be resettled from Turkey to the EU. In total, Member States resettled 14 205 persons in 2016, which represents a substantial increase in comparison to previous years. In accordance with Asylum, Migration and Integration Fund Regulation, a lump sum of EUR 10 000¹²⁵ or EUR 6 000 per resettled person was provided to the resettling Member State.
- **Relocation:** An additional envelope of EUR 1 040 million was allocated in 2016 to support the relocation of 160 000 persons between September 2015 and September 2017. In accordance with the Council Decisions on relocation, a lump sum of EUR 6 000 per person relocated was provided to the Member State of relocation and a lump sum of EUR 500 for Italy and Greece per relocated person. This helped to accelerate the pace of relocation transfers. By the end of 2016, relocations from Greece averaged 1 000 per month while relocations

from Italy averaged 700 per month. In total by the end of 2016, 9 923 people (2 649 from Italy and

7 274 from Greece) had been relocated; still way ahead of the target for September 2017.

The CITIES-GROW (“Integration of migrants through economic activity in cities”) project is coordinated by EUROCITIES (the network of major cities in Europe). 16 European cities participate: Athens, Barcelona, Birmingham, Brighton & Hove, Dresden, Gdansk, Ghent, Helsinki, Lisbon, Munich, Nantes, Nicosia, Riga, Rotterdam, Tampere, and Utrecht.

Under the project cities faced with common integration challenges are paired up. One is a mentoring city; sharing experience and offering independent support to the implementing city that wants to raise standards and carry out changes. Both parties benefit through sharing know-how, expertise and good practices on how to best implement concrete local actions to successfully integrate third country nationals and beneficiaries of international protection. Joint-ownership and collaboration between policy-makers as well as beneficiaries and relevant stakeholders through the establishment of support networks ensures the continuity of lessons learned beyond the project’s lifespan.

Four mentoring schemes have already been organised:

- Matching buyers and suppliers: access to public and private contracts for immigrant entrepreneurs;*
- Engaging with businesses local job agencies and local educational institutions to promote job-skills match for employment of youth with migrant background;*
- Services to promote and support migrant entrepreneurs;*
- Anti-discrimination strategies on the local job market.*

Internal Security Fund

The Commission, together with the European Border and Coast Guard (EBCG) Agency (commonly referred to as Frontex) and the Member States continued to work towards an effective presence at sea. The agency deployed on average over 600 officers each day in the Central Mediterranean, while 15 vessels, four aircraft and two helicopters were permanently deployed in the Triton joint operation throughout 2016. In the Central Mediterranean 174 500 people were rescued in 2016. In the Eastern Mediterranean, on average 760 officers each day assisted Greece in the framework of the Poseidon joint operation and 10-12 maritime assets (off-shore and coastal patrol vessels, coastal patrol boats) and other equipment (i.e. helicopters, patrol cars buses and thermos-vision vans) were deployed all along the year.

To support border management policies, Member States spent EUR 133.6 million under Internal Security Fund national programmes in 2016. This allowed Member States to increase significantly their investments in national border protection capacity, e.g. through the acquisition of high-value assets essential in the effective management of the external

borders in the current context of high migratory pressure (e.g. purchases of helicopters or boats, necessary upgrades or maintenance of IT systems).

As part of the effort to manage the migration crisis, the implementation of the 'hotspot' approach continued in Greece and Italy.

To support policies aiming at disrupting organised crime, in 2016 EUR 35 million was spent by the Member States under the Internal Security Fund national programmes for projects in the area of preventing and combating crime. These funds were essential in improving the capacity in Member States to deal with cross-border issues: for example, in 2016, 2 382 law enforcement officials were trained on cross-border-related topics (terrorism, organised crime, corruption).

In 2016, an amount of EUR 10.88 million was spent by the Member States under Internal Security Fund national programmes for projects in the area of risks and crisis. These projects focused on preventing and combating crisis situations, including terrorism, as well early warning mechanisms.

Effective border management: Hotspots receiving operational and financial support from the Commission and relevant agencies¹²⁶.

*In 2016, **Greece** established five fully functional hotspots (Lesvos, Leros, Kos, Chios and Samos). The hotspots have a combined capacity of 7 450 places and were used for the registration of migrants. As of 20 March 2016, the hotspots have been adapted to the requirements of the EU-Turkey Statement, in order to enhance the asylum process and facilitate swift returns to Turkey from the islands.*

*Four hotspots (Lampedusa, Trapani, Taranto and Pozzallo) with a combined capacity of 1 600 places were operational in **Italy** by 31 December 2016. In addition, Italy announced on 7 December 2016 that it would apply the hotspot procedure in 15 ports of disembarkation. Despite the unprecedented number of migrant arrivals in 2016, Italy made significant progress in registering and identifying migrants, increasing the overall fingerprinting rate to around 97 % for all of 2016.*

At the end of 2016, all migrants arriving in hotspot areas were screened, fingerprinted, registered and informed on follow-up procedures, in particular through the many information campaigns, the setting up of information booths, etc. In addition to security checks, the hotspot workflow and the relocation process also included integrated and systematic health checks and reception conditions were improved, with specific attention to vulnerable groups including children.

Instrument for emergency support within the EU

In 2016, the arrival of a significant number of refugees into the EU, led the EU, to establish the Instrument for the provision of emergency support within the Union (ESI)¹²⁷ in order to support national authorities' in their humanitarian response of the refugee and migration crises. Up to EUR 700 million have been allocated to ESI for the period of 2016 to 2018. In 2016, Greece was the only Member State that met the two eligibility conditions set out in the Regulation¹²⁸; all the actions funded under this

Regulation to date are aimed at tackling the humanitarian situation in Greece. By the end of 2016 more than EUR 190 million had been contracted to 14 UN agencies, international organisations and Non-Governmental Organisations to provide emergency assistance in the sectors of water, sanitation and hygiene, shelter, health, protection and education. Shelter was provided for over 35 000 refugees and 417 emergency spaces for unaccompanied minors were created.

EU Civil Protection Mechanism

In 2016 the Union Civil Protection Mechanism was activated 26 times in order to respond to disasters inside and outside the Union. The Emergency Response Coordination Centre (ERCC) – i.e. the Mechanism's operational hub – facilitated and coordinated the deployment¹²⁹ of experts and relief

items from participating states¹³⁰ in a broad range of crisis settings. In February 2016, as part of the Mechanism, and together with EU Member States, the Commission launched the European Medical Corps – a direct response to lessons learned from the international response to the Ebola crisis.

Supporting the dialogue with citizens – Europe for Citizens

The Europe for Citizens programme contributes to citizens' understanding of the EU, its history and diversity through two strands. A mid-term evaluation of the Europe for Citizens programme is ongoing and expected to be finalised in the coming months. The fund is implemented under direct management. In 2016, out of 2 496 applications received 396 proposals were selected:

The 38 supported initiatives under "European remembrance" encouraged reflecting upon the causes of totalitarian regimes in Europe's modern

history and commemorating the victims of their crimes.

The 237 town-twinning projects, 30 networks of towns and 25 civil society projects under the strand "Democratic engagement and civic participation", focused on awareness of remembrance, common history and values and on civic participation and democratic engagement in a context affected by the refugee and migration crisis, and the sustained impact of the financial crisis.

Justice Programme

In 2016, the Justice Programme (budget EUR 47.7 million) contributed to the further development of a European area of Justice. Operating grants have been awarded to 13 framework partners which are EU networks active in the fields of judicial cooperation in civil and criminal matters or access to justice. They include for example "Council of the Notariats of the EU, European Organisation of Prison and

Correctional Services, Fair Trials Europe, Victims Support Europe, and European Network of Councils for the Judiciary". The operating grants contributed to further develop the capacity of these bodies and activities funded, such as networking and awareness-raising activities, support and complement the EU policy and legislative work.

Rights, Equality and Citizenship Programme

In 2016, the Rights, Equality and Citizenship Programme operated with a budget of EUR 59.9 million. Operating grants have been awarded to seven EU networks, such as Women Against Violence, Child Helpline International and the European Network of Ombudspersons for Children. These networks are active to prevent and combat all forms of violence against children and women and to protect victims of such violence and the rights of the child. In the field of non-discrimination the funding has been awarded to five framework partners, for

instance, Transgender Europe, and Age Platform Europe. In the field of the fight against racism and xenophobia the funding has been awarded to the European Network Against Racism and in the field of gender equality to the European Women's Lobby. The networking and awareness raising activities contributed to further development of capacity of these bodies but also supported and complemented the policy and legislative work in these important areas.

Consumer Programme

The operational budget allocated to the Consumer Programme in 2016 EUR 23.7 million was used mainly to support the development of evidence-based consumer legislation; enforcement and promotion of consumer rights across the internal market through awareness raising and capacity building of consumer organisations. Annual grants to European Consumer

Centres Network (ECC-Net) account for about one third of the annual operational budget, as it is an important network for providing information and assistance to consumers to help them exercise their rights in cross-border purchases and obtain access to appropriate dispute resolution.

Food and Feed

In 2016, the implementation of the 130 national veterinary programmes, co-financed with EUR 160 million under the Food and Feed programme, progressed as foreseen. These programmes target transmissible, often epidemic animal diseases and have a direct impact on public health because of food safety issues and because some animal borne diseases are transmissible to humans. Furthermore, animal disease outbreaks can trigger significant economic costs through loss of internal EU and export markets and the direct cost of disease control on the EU and Member States' budgets. However, disease eradication is a long-term exercise that requires continuous and consistent effort over a long period of time.

Also in 2016, 22 national survey programmes for organisms harmful to plants were co-financed (+ 5 compared to 2015) to ensure early detection and

eradication of pest outbreaks. Globalisation of the plant trade together with the climate change have substantially increased the risk of plant pest infestation. Thus, early detection and control is essential to mitigate the trade and the economic consequences.

In addition to co-financing of the national programmes, EU financial support to emergency measures is on-going in order to early contain animal diseases and pest outbreaks. Early containment is important as outbreaks can come at a huge cost for the EU budget, the national budgets, and the farming community if not treated immediately and released out of control. For example, the foot and mouth disease outbreak of 2001 which started in the UK but spread to other countries, is estimated to have cost up to EUR 12 billion.

The emergency measures against Lumpy skin disease (LSD) marked a major achievement in 2016. These were put in action immediately and managed to contain the outbreaks in Greece and Bulgaria. The EU took additional action within the emergency measures framework to fund the prompt purchase of Lumpy skin disease vaccines in a number of Balkan third countries (Serbia, Kosovo, Montenegro, and Albania) where rapid mass vaccination prevented the spread of the disease deep onto Union territory. EU-funded emergency measures blocked the spread of the disease. The EU also established an Lumpy skin disease vaccine bank to assist Member States with a quick supply of vaccines for current and future outbreaks in anticipation of future risks

Over the last couple of years EU co-financing of emergency measures made it possible to successfully contain African swine fever (ASF) introduced in the east part of the EU by wild boar movement from Belarus and Ukraine in the four Member States affected. There has been no further spread to other parts of the infected Member States or to other countries. The EU immediate, well targeted and multifaceted response to the African swine fever and Lumpy skin disease outbreaks kept the negative effects limited while the epidemics could have had devastating effects on animal health and on the sustainability of the sector.

Health programme

In 2016 the Health programme focused mainly on the Health Technology Assessment and the establishment of European Reference networks which help millions of Europeans suffering from rare diseases. Health Programme's funds were also used to support interventions for limiting the spread of Ebola and Zika by strengthening Member States preparedness and response in particular through the actions of the Health Security Committee (entry screening, medical evacuations, prevention of transmission in transport and hospital settings). Some readjustments were introduced, notably the possibility to fund actions that address refugees' health as an immediate response to the high influx of refugees into EU Member States. Eleven actions were financed for EUR 14 million to increase awareness and commitment towards improving maternal health and healthcare for refugees and migrant women, actions to improve the healthcare access of vulnerable immigrants and refugees in Europe, and actions and trainings to health professionals and law enforcement officers working with migrants and refugees.

Creative Europe Programme

The Creative Europe Programme supports the European cultural and creative sectors, in particular the audiovisual sector, in order to promote cultural and linguistic diversity and stimulate competitiveness. 56 % of the budget is dedicated to the 'MEDIA sub-programme', 31 % to the 'Culture sub-programme' and 13 % to the cross-sectoral strand. Its European added value rests on its complementarity with national public funds and in the support to transnational activities and cooperation, the fostering of economies of scale and the taking into account of low capacity countries. Moreover, with the growing

Taking the recommendations from the ex-post evaluation of the previous Health Programme under the Multiannual Financial Framework 2007-2013 into account, Commission services are carrying out an action plan to improve programme monitoring and to better report on progress and results.

The results from the mid-term evaluation of the third Health programme indicate increased ability to target important health needs where it can add value (such as anti-microbial resistance, the "e-Health" in the context of the digital single market and innovation in health and health care). It found that the third Health Programme is responsive to shifting circumstances and trends for instance in relation to a need for crisis management. The migrant crisis of 2015 presented an early and unprecedented test of the programme's adaptability, given the pan-European nature of the crisis and the strain it put on existing public health infrastructure. On the negative side, the evaluation found that it is suffering from low visibility and that its result dissemination leaves room for improvement.

number of participating enlargement and European Neighbourhood Policy countries, the programme is proving itself as a useful tool for the EU strategy on international cultural relations.

In the period 2014-2016, the programme was implemented as foreseen. In 2016, 5,408 applications for support were submitted (771 under Culture, 4 363 under MEDIA, and 274 under the Cross-Sectoral strand), of which 2 097 were selected for funding (102 for Culture, 1 983 for MEDIA and 12 under the Cross-Sectoral strand).

MEDIA

MEDIA provides the main financial support for the adaptation of the audiovisual industry to the Digital Single Market. 2016 was the 25th anniversary of MEDIA. Over this time, the MEDIA sub-programme has become recognized in the audiovisual industry at European and international level as a brand representing artistic quality and creativity. For the 4th consecutive year, the Oscar to Best Foreign Language Film went to a MEDIA supported film, *Son of Saul*. Another EU co-funded film, *Amy*, won the Oscar for Best Documentary.

Oscar to Best Foreign Language Film went to a MEDIA supported film for the 4th consecutive year.

In 2016 MEDIA provided a financial support to various initiatives and audiovisual fields:

- The Distribution automatic scheme made available EUR 20 million to facilitate the circulation of non-national films, reached an audience of 52 million people. New audiences have been targeted, for example through film festivals. An example is the Cinekid's Festival organised every year during the autumn holidays in the Netherlands, which reaches an audience of 50 000 children through over 500 audiovisual productions selected by the Festival.

Culture

Transnational cooperation projects receive the majority of the budget under the Culture programme. These projects give organisations of all sizes and nature the possibility to co-produce and contribute to capacity building by investing in skills & training, by reflecting on and testing of new business models and by tackling digitization challenges. They allow large numbers of artists and culture professionals to operate and cooperate across borders (in 2016: 31.5 % of projects). The programme also supports 23 pan-European member-based structures gathering 4 000 professional organisations for peer learning, exchanging good practices and capacity building through the programme strand 'European Networks'. Furthermore, the new action 'European Platforms' has created new and more flexible ways of boosting the international careers of emerging artists. For instance, one platform of 13 music venues has showcased the work of 837 bands from 36 different countries and helped them reach new audiences across Europe.

- MEDIA has successfully helped develop new films that are capable of reaching international audiences and acclaim. A small development grant of EUR 33 000 in 2011 led to the production of the film *Toni Erdmann*, which was released in 2016 and made 300 000 admissions in Germany in 3 weeks, 105 000 admissions in France in the first week, it was sold to 100 territories worldwide and it has been nominated for the best Foreign Language Film to the 2017 Oscars.
- MEDIA supports Europa Cinemas, a network of roughly 1 000 European cinemas in 33 European countries, screening a significant proportion of non-national European films, providing education and marketing activities. It is estimated that each euro invested in the network generates EUR 13 through additional audiences.
- In the light of a changing business and regulatory environment, MEDIA has financed a number of "accompanying measures" to support to audiovisual industry's efforts to adapt. For example, as changes to copyright regulations are proposed to increase online access, MEDIA supports the creation of ready-to-offer catalogues of European content. Overall 108 European films were made available in an average of 10 territories, for a total amount of about 950 online releases.

In 2016 alone, 520 cultural organisations expected to create 1 952 jobs were supported through projects funded by the Culture programme, which generated a total funding of EUR 93.5 million for cultural cooperation activities across Europe, combining EU co-financing and other sources of funding. This can be added up to the 147 cooperation projects selected in 2014 and 2015, which involved a total of 847 cultural organisations and helped create more than 3 288 jobs, of which 705 of a permanent nature.

As an example, a project called "Boosting careers of animation young artists with video mapping", thanks to a grant of less than EUR 300 000, will have created throughout its duration 11 temporary and 5 permanent jobs, and job opportunities for around 400 young animation artists, through a cooperation of creative industries, public institutions and European Universities of Art and Design.

1.4.2. Results of 2007-2013 programmes

In 2016 the Commission started ex-post evaluations covering 2011-2013 for three funds; the European Integration Fund (EUR 773.09 million), the European Refugee Fund (EUR 654.10 million) and the Return Fund (EUR 647.97 million), which were the predecessors of what is now the Asylum, Migration and Integration Fund (AMIF). A fourth fund, the External Borders Fund (EUR 1 654.21 million), whose types of actions are now implemented under the Internal Security Fund is being evaluated as well. Together these funds were referred to as SOLID funds and ran from 2007 to 2013 with a financial allocation of EUR 3 729.37 million with implementation continuing until 2016.

Although the Commission's evaluation report concluding on the criteria of efficiency, effectiveness, relevance, coherence and EU-added value of the funds is not yet available, preliminary findings from studies of external contractor's on absorption rates (which may still be subject to updates) and on achievements for each of the funds indicate that:

The absorption of the budget allocated to the Member States and participating countries during the period 2007-2013, until December 2016 varied from a fund to another and overtime, but all in all the absorption rates of the four funds can be considered satisfactory, also in view of the migratory pressure that imposed a constant adaptation of policies and actions to rapidly changing circumstances. The average absorption rates per fund over the period 2007-2013 were the following:

- European Integration Fund: 69.80 %
- European Refugee Fund: 76.10 %
- Return Fund: 69.31 %
- External Borders Fund: 74.66 %

The performance of the SOLID funds improved over time: the absorption rates during the period 2011-2013 increased significantly: the European Integration Fund reached 77 %, the European Refugee Fund 81 %, the Return Fund 81 % and the External Borders Fund 87 %.

European Integration Fund

The contractor's study found that achievements were particularly strong in putting the common basic principles for immigrant policy in the EU into action and in the development and implementation of the integration process of newly arrived third country nationals in Member States. The Fund supported many projects aimed at providing direct services to immigrants, such as language courses and advisory services. In total, projects implemented in 2011-2013 reached at least two million third country nationals, equivalent to approximately 10 % of all the third country nationals in the EU at the time. In terms of impact, out of the 26 Member States, 18 identified a strong impact of the European Integration Fund on

the development and improvement of the quality of introductory programmes, and observed an impact of the European Integration Fund in relation to enhancing language knowledge, supporting civic orientation and increasing knowledge of the receiving society. The European Integration Fund made an important contribution to the integration process of the third country nationals in the majority of Member States, as 22 out of 26 assessed that the European Integration Fund enabled the implementation of actions that could not otherwise have been funded from national resources, suggesting high EU added value.

Return Fund

Preliminary findings indicate that the Fund has been mostly effective in contributing to the development of an integrated return management system, and in particular in achieving a better balance between voluntary and forced return. A number of innovative tools were developed with Return Fund support to improve return management in the EU and in Member States, such as the active support of voluntary return and the implementation of multi-stakeholder approaches empowering civil society

stakeholders. The Return Fund provided an additional funding stream which led to funding of new actions or scaling up of existing actions, including those concerning the number of voluntary return activities over forced return operations. However, the effectiveness of actions aiming to foster cooperation with third countries was undermined by external factors such as the willingness of the authorities in partner countries to cooperate in the field of return and reintegration.

European Refugee Fund

During 2011-2013, the European Refugee Fund helped Member States develop and provide concrete support for asylum seekers addressing urgent and day-to-day issues. In addition, Member States organised operations of resettlement and a total of 9 058 persons were resettled with European Refugee Fund support. According to preliminary findings from the contractor reports the objectives of the Fund were adequately formulated to cover most of the existing needs in Member States concerning the improvement of national asylum systems (reception conditions of asylum seekers, integration of beneficiaries of international protection, fairer and more effective asylum procedures). The European Refugee Fund was able to adapt to increasing needs in the Member States over the period, especially the need to maintain satisfactory reception conditions despite higher asylum flows and to accelerate the asylum

procedures in EU reception countries which have become more urgent over time. In this context emergency measures were particularly relevant to address emergency situations. The European Refugee Fund provided added value to Member States and non-State actors by bringing additional funding that allowed the implementation of projects that would probably not have been implemented otherwise. It appeared to add most value in Member States that had relatively less national funding and less developed asylum systems, where it contributed to a partial (re)structuring of the asylum system. In other Member States, the added-value of the European Refugee Fund relied on an ability to finance innovative projects, providing previously non-existing services or extending the scopes of activities and addressing the needs of new and more vulnerable target groups.

External Borders Fund

Preliminary findings from the contractor's report indicate that the financial support provided by the External Borders Fund was essential for carrying out the investments needed to improve the EU external border management systems, at a time of budget austerity and increase of migratory pressure. It contributed crucially to the application of the Schengen acquis, in supporting the development and upgrading at the national level of large information system systems such as VIS¹³¹ and SIS II¹³², the capacity of Member States to undertake border surveillance and the development of consular cooperation with third countries. The Fund was particularly important in ensuring the coherence of the systems which can only become operational and effective once all the building blocks have been finalised (such as SIS II and VIS), in a context where national funding was scarce. The actions co-financed by the External Borders Fund supported effectively the Union's overall borders policy architecture. Regular border crossings have become faster thanks

to automated gates funded by the External Borders Fund. The national components of the integrated borders management system for the protection of the EU's external borders have been significantly strengthened, especially with regard to the development and implementation of the national components of the European Surveillance System; training of consulate and border officials; cooperation between different national stakeholders and EU agencies involved in border protection and a significant upgrade of the main information systems. The added value of the fund is related to the financial solidarity established through Member States facing drastically different situations at their external borders. In doing so, the fund has created a tangible solidarity between the countries most exposed to migratory pressure at the borders and the ones less exposed. Thanks to the allocation mechanism, the bulk of resources were directed to the most exposed countries (mostly south Mediterranean ones).

Food and Feed

On 26 April 2016, the European Court of Auditors published its Special Report on a performance audit on animal disease eradication programmes covering the period 2009-2014. The Court examined whether the national veterinary programmes adequately contained animal diseases by assessing the approach taken by the Commission and the Member States' programmes' design and implementation. The

Court's Special Report concluded that the approach taken by the Commission was sound and was supported by good technical advice, risk analysis, and a mechanism for prioritising resources. The Court acknowledged that there have been some notable successes, for example, decrease in the cases of bovine spongiform encephalopathy (BSE) in cattle, salmonella in poultry, and rabies in wildlife.

Health programme

The ex-post evaluation of the second Health Programme has been finalised in July 2016 and a Commission Report has been transmitted to the European Parliament and the Council¹³³

The evaluation found that the Programme delivered a range of valuable outputs with a clear link to EU health policy priorities and national priorities. The main EU added value of the funded projects and joint actions was linked to the exchange of best practices between Member States and improved cooperation through networking, for example, the pan-European cooperation between health technology assessment agencies and methodological guidance for assessing innovative health technologies which enabled decision-makers to identify innovations that really make a difference; the sharing of best practice in the area of rare diseases on development and implementation of national plans and the standardisation of nomenclatures which have helped

Member States in developing their rare diseases policies and improved health professionals' access to relevant information on rare diseases; increased and extended laboratories preparedness to detect highly infectious pathogens; improving tools to support the choice of most cost-effective prevention policies against cardiovascular diseases through scientific data and innovative tools; support to organ vigilance through the development of important principles of good practice and standard evaluation tools.

The dissemination of action outputs varies, thus it is not systematically ensured that key stakeholders are reached, or that outputs can be taken up and transformed into results and tangible impacts. While synergies with the EU research programme have been shown, there is still room for improvement in particular in relation to other EU funding instruments such as the structural funds.

1.5. Global Europe (Budget Heading 4)¹³⁴

EUR 9.1 billion of budget commitment appropriations have been allocated to the programmes under Heading 4, which represents 5.9 % of the total 2016 EU budget. To be noted that the EU development assistance is reinforced by the European Development Fund (EDF), not financed from the EU budget but from direct contributions from EU Member States.

Heading 4 of the financial framework covers all external actions undertaken by the Commission and cover broad spectrum of actions such as development assistance, pre-accession assistance and humanitarian aid or actions contributing to stability and peace promotion of Human Rights, election observation missions and many others.

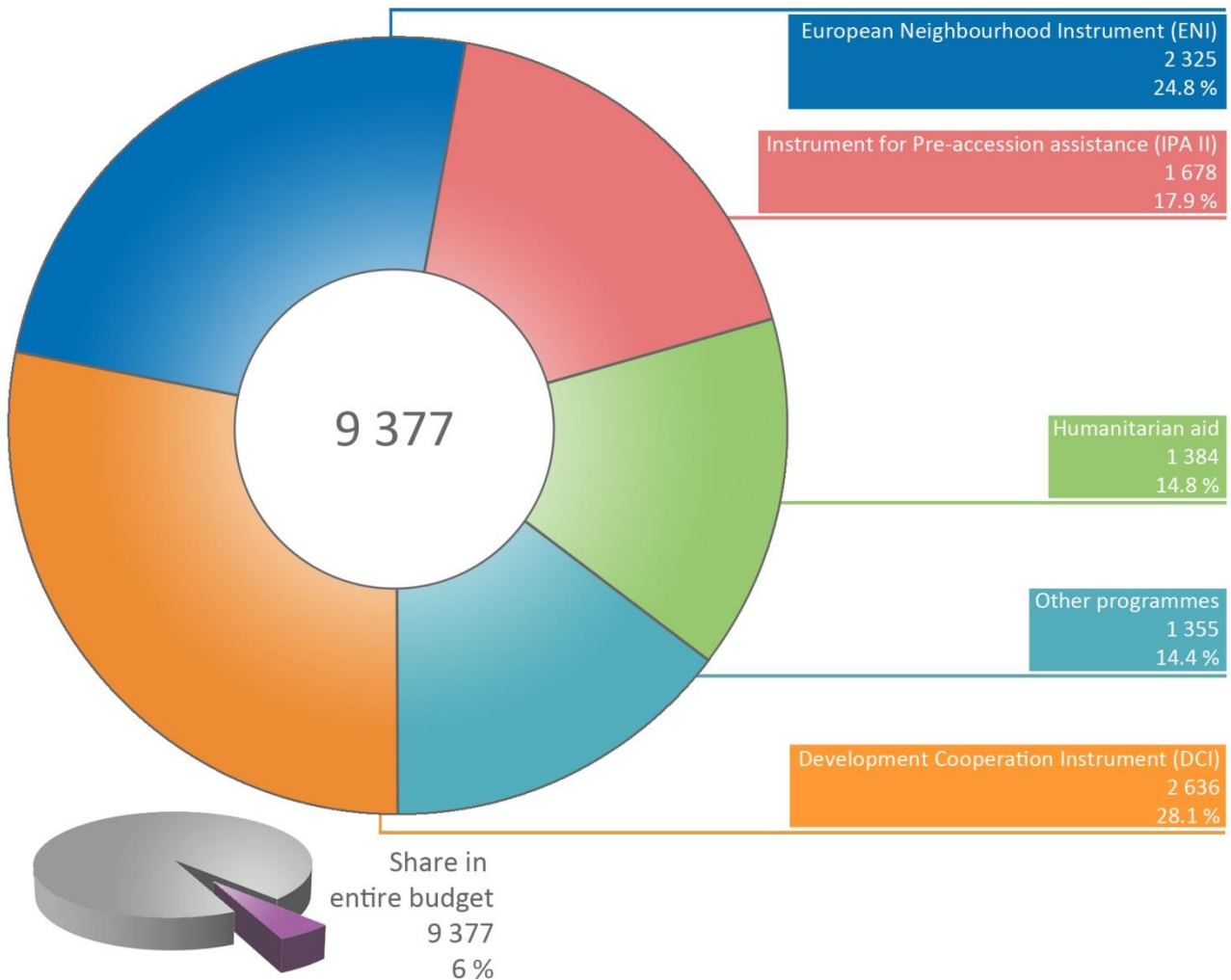


Chart: Top: Main programmes financed in 2016 under Heading 4. Bottom: Share for Heading 4 in the entire budget. All amounts in EUR million.

Programmes' support to the Commission priorities:

The programmes under Heading 4 contribute to the Juncker Commission priorities 'EU as a Global Actor' and 'Migration'. They also support in particular the external dimension of other Juncker Commission priorities such as 'A resilient Energy Union with a Forward Looking Climate Change Policy', 'Jobs Growth and Investments'; and 'An Area of Justice and Fundamental Rights based on Mutual Trusts' which includes a strong focus on security.

Many of the main actions under Heading 4 in 2016 were linked to the unprecedented scale of humanitarian crises. Not least the ongoing migration challenges in Europe's immediate neighbourhood. The Union is also addressing the root causes of migration through development cooperation and assistance with a longer-term focus.

Many of the programmes are characterised with the ability to respond rapidly and flexibly to changing political priorities and are therefore essential for the successful implementation of the EU Global Strategy of June 2016.

1.5.1. Progress of 2014-2020 programmes

In 2016 the Commission continued to be a leading actor in the international response to major humanitarian crises, both natural and man-made. It **managed an unprecedented humanitarian aid budget of about EUR 2 025 million** for food, shelter, protection and healthcare for **120 million people in over 80 countries**¹³⁵. The allocated amount of EUR 1 384 million under Heading 4 was reinforced through the mobilisations of the Emergency Aid Reserve and other sources, reaching EUR 1 603 million. Additional amounts from European Development Fund (EDF) and for emergency support in the EU were also mobilised. A significant proportion of this, including additional funding released on an ad-hoc basis, went to support refugees in the countries and regions most directly affected by the **Syrian refugee crisis**; but the EU has also contributed to alleviating acute crises in other parts of the world, with substantial contributions going to South Sudan, Yemen, Iraq, the Lake Chad Basin and countries affected by El Niño.



Another example of swift EU action and flexibility managed by the Commission is the **Facility for Refugees in Turkey**. Established in January 2016 for a two-year period, the Facility for Refugees in Turkey is a joint coordination mechanism of existing instruments (i.e. humanitarian and non-humanitarian assistance) designed to ensure that needs of refugees and host communities in Turkey are

Management and implementation of a large part of the funding under Heading 4 is taken over by international organisations, such as United Nations agencies, while the remaining part is either directly managed by the Commission centrally, indirectly by beneficiary countries or through shared management.

addressed in a comprehensive and coordinated manner. An efficient 2016 roll-out, drawing on a total budget of EUR 3 billion (EUR 1 billion from EU budget, EUR 2 billion from Member States), meant that EUR 2.2 billion had been programmed at the end of 2016, almost half contracted and close to EUR 750 million paid out.

The Facility for Refugees in Turkey also enabled the EU to launch the **Emergency Social Safety Net (ESSN)** in 2016. The Emergency Social Safety Net is a large, innovative humanitarian programme dealing with eminent needs, with an initial EU grant of EUR 348 million, implemented by the World Food Programme. It is set up to efficiently assist up to **one million of the most vulnerable refugees in Turkey** with regular cash allocations by means of electronic debit card. The first cash distributions have taken place in December 2016.

Furthermore, aside from its humanitarian assistance, the Commission also supports the longer-term livelihoods, socio-economic and educational perspectives of refugees and their host communities in Turkey. For instance, in March 2016, the contract for a EUR 37 million project ('Generation Found') on education was signed¹³⁶, implemented through UNICEF. Some of the indicative results of the project from early action-level reporting¹³⁷ suggest that under the programme, 60 000 children benefit from educational material and 10 392 children benefit from psychosocial and social cohesion programmes. 2 081 education personnel were trained and 7 950 Syrian educational personal received incentives. Three children protection units and six spaces for adolescents and young people were established.

In addition to Turkey, the Commission continued supporting other countries in Syria's immediate neighbourhood, such as Jordan, Lebanon and Iraq, where also an increasing share of the EU's **non-humanitarian aid** has been provided. The **EU Regional Trust Fund in Response to the Syrian crisis ("Madad Fund")** pools contributions from the

EU budget and Member States to finance projects focusing on longer-term economic, educational and social needs of refugees, as well as host communities and administrations. In 2016, EUR 377.8 million was adopted for new actions, contracts for EUR 321 million were signed, and EUR 129 million were disbursed to projects. By the end of 2016, the Fund has reached a total of EUR 932 million in signed contributions and EUR 767 million in actions adopted by its Board, all achieved within a period of little over 18 months, and closely approaching its target of EUR 1 billion.

Migration management and mobility remained a priority in 2016 also for the EU's **development cooperation**.

Looking at the future, the Commission also adopted in 2016 a proposal for a new **European Consensus on Development**, providing a common vision and framework of action for development policy which will apply to the EU and its Member States.

The EUR 1.8 billion **EU Trust Fund for Africa**, set up in 2016, aims at increasing capacities in partner countries to better manage migration and refugee flows, and also address the more structural root causes of irregular migration and forced displacement. Until the end of 2016, 106 projects worth EUR 1 589 million have been approved, with EUR 594 million contracted and EUR 175 million disbursed in 2016.

Building on the successful experience of the Investment Plan for Europe, the Commission proposed in 2016 an ambitious **European External Investment Plan** for Africa and the European Neighbourhood as a means to address the root causes of migration. As part of the plan, the European Fund for Sustainable Development is expected to mobilise up to EUR 44 billion investments with funds from the general budget of the Union.

In 2016, the EU's budget supported the Union's continued efforts to preserve peace, help third countries prevent conflicts, respond to crises and strengthen international security. Under the **Instrument contributing to Stability and Peace (IcSP)**, a record amount of EUR 271.5 million was committed for crisis-response in 2016, EUR 27 million for conflict prevention, peace-building and crisis preparedness actions and EUR 224.7 million for Common Foreign and Security Policy actions.

The focus on the security-development nexus was

1.5.2. Results of 2007-2013 programmes

In 2016, a number of reviews and evaluations were published providing new insights in the effectiveness of the 2007-2013 programmes.

also increased when designing other programmes and actions, in particular in sub-Saharan Africa (e.g. through the African Peace Facility).

The Commission's actions under this budget heading also contributed in 2016 to stabilising neighbourhood countries. One example is **Ukraine**, where the conflict continued throughout 2016, and where EU financial and technical assistance has been essential, for instance, in supporting the broader peace effort as well as reforms. In 2016, the EU mobilised EUR 25.6 million under the **Instrument contributing to Stability and Peace (IcSP)** to address the crisis in the country and support conflict-affected populations, of which EUR 14.6 million have already been contracted. EUR 5 million¹³⁸ was made available to the OSCE Special Monitoring Mission for an interim response programme in the country. EUR 1.2 billion of **Macro-Financial Assistance (MFA) to Ukraine** was scheduled to be disbursed in 2016, subject to the fulfilment of the policy conditions. The Macro-Financial Assistance is a programme in support of the country's external financing needs. The foreseen disbursement was delayed due to financial and economic policy conditions¹³⁹ not being met by Ukraine. Despite a change of government and with some exceptions, Ukraine pursued a steady pace in reforms across a number of sectors of the economy and society in 2016. The EU was also one of the largest humanitarian donors in Ukraine, where projects directly helped half a million people by providing food, shelter, health services and psychological help.

In 2016, EU funding has also contributed to achieving a major project milestone on the site of the Chernobyl nuclear disaster in **Ukraine**. On 29 November 2016, as part of a project aimed at reducing the radioactive release from the remains of the destroyed reactor for the next 100 years, the last section of a giant arch-shaped structure was moved onto the reactor site. The total project costs of the "**New Safe Confinement**" amount to around EUR 1.5 billion, jointly funded by the EU, Ukraine, the European Bank for Reconstruction and Development, and the international community. The EU contributed EUR 210 million under the **Technical Assistance to the Commonwealth of Independent States (TACIS)** and EUR 220 million, EUR 40 million in 2016 alone, under the **Instrument Contributing for Nuclear Safety Cooperation (INSC)**. The project is scheduled for completion by the end of 2017.

Crises response in third countries – a flexible external programme

The **Instrument for Stability (IfS)** was a strategic 2007-2013 programme, to address security and development challenges. Its **Crisis Response component (IfS CRC)**¹⁴⁰ focused on rapid and flexible initial response to political crises or natural disasters in third countries. In 2007-2013, around EUR 1 076 million from the EU budget were committed for interventions of the Crisis Response component of the Instrument for Stability.

Evaluation¹⁴¹ evidence suggests that this component of the Instrument for Stability has been valuable to the EU's external actions.

The evaluation of the Crisis Response component of the EU's Instrument for Stability (IfS CRC) 2007-2013 found that this component delivered EU added value where it filled gaps in the toolbox of existing crisis response instruments.

*The Policy Advice and Mediation Facility (PAMF) of the Crisis Response component of the EU's Instrument for Stability was particularly singled out as a positive example. The Policy Advice and Mediation Facility accounted for under 1 % of the total funding and 4 % of the projects. The facility made it possible to fund quick and focused actions in the areas of policy advice, technical assistance, mediation and reconciliation, up to an amount of EUR 2 million. The time of deployment was kept short due to the Policy Advice and Mediation Facility being based on annual standing financing decisions. This valuable characteristic made it highly complementary to existing crisis response tools of EU Member States and international donors.*¹⁴²

Interventions were shown to be most effective in delivering results when employed in coordination with political and policy dialogue and/or other funding. For instance, IfS CRC funding for **primary health care sector reform** in **Lebanon** was active alongside a country-owned process of institutional reform which amplified its impact. The IfS CRC intervention was credited with having been conducive to **reducing tensions between Lebanese citizens and Syrian refugees** by supporting access to and the improvement of health services for the vulnerable population of Lebanon¹⁴³.

The evaluation, however, also concludes that the overall impact of Crisis Response component of the EU's Instrument for Stability could have been higher if political engagement had more systematically supported interventions throughout, not only at the level of EU Delegations, but also with respect to how the instrument fit into the overall longer-term EU crisis

response.

As a further criticism, the evaluation pointed out that Crisis Response component of the EU's Instrument for Stability focused insufficiently on learning, monitoring and evaluation of its interventions. The programme could also have had a higher impact if its potential as a operational testing ground for the EU's growing need to respond to crisis had been fully recognised.

Poverty reduction – evaluation evidence from Bangladesh (2007-2013)

During the 2007-2013 period, the EU worked closely with other development partners, including Member States, on the overall objective of **poverty reduction**. This was for instance the case in the development cooperation of Denmark, Sweden and the EU with **Bangladesh**. Over the period, the three partners disbursed a total of EUR 1.38 billion, of which the EU accounted for 57 %, mainly funded through the **Development Cooperation Instrument**¹⁴⁴ (**DCI**) and the **European Instrument for Democracy and Human Rights (EIDHR)**.

A 2016 evaluation¹⁴⁵ on the development cooperation found that the EU's contribution was **particularly effective in its strategic approach of improving coherence between trade and economic development policy**. An approach which, inter alia, enabled Bangladesh to substantially increase its exports to the Union. The EU was in turn able to leverage these trade links to catalyse improvements in areas such as workers' safety in the garment industry. Other efforts, however, have not translated into tangible improvements: this particularly concerns the instrument's focus on improvements in governance and human rights.

Research & Innovation in development – evidence from a thematic evaluation

In the context of **international development**, a 2016 evaluation¹⁴⁶ shed light on impacts of EU support for international **Research & Innovation**.

During the period of 2007-2013, the EU committed around EUR 1.1 billion (including the European Development Fund) in support to development projects with a Research & Innovation component. EU funding sources included the **Development Cooperation Instrument** (DCI; both geographic and thematic lines), the **European Neighbourhood & Partnership Instrument** (ENPI) as well as the European Development Fund outside the EU budget.

The evaluation found evidence that, at a local level, development processes had benefitted from Research & Innovation results, derived from EU-supported projects. This was, for instance, the case in

the **context of agriculture development work**, but also in the area of **public health programmes** where research results on diseases and drugs were taken up. A further finding was that EU-financed ICT infrastructure had facilitated **information and knowledge exchange** as well as the formation of networks between individual researchers. The impact

at institutional level was found to be less evident.

The evaluation concludes, however, that the overall effectiveness and efficiency of the Research & Innovation support has been held back by a lack of coherent overall strategic approach.

Section 2

Internal control and financial management achievements

The second section of this report focuses on the Commission's management of the EU budget in 2016.¹⁴⁷

Sub-sections 2.1 and 2.2 of this report illustrate how the Commission strives to achieve the highest standards of financial management and internal control.

The ultimate goal is cost-effective financial management – thereby simplifying procedures, protecting the EU budget by taking preventive and corrective actions against errors and fraud, and keeping a proportionate balance between the costs and benefits of controls.

This management assessment is complemented by a summary of the conclusions of the **Internal Audit Service** (sub-section 2.3), the work carried out by the **Audit Progress Committee** (sub-section 2.4) and the **follow-up of discharge and external audit recommendations** (sub-section 2.5).

On the basis of these elements, the **Commission takes overall political responsibility for the management of the budget** (sub-section 2.6).

The overall amount at risk at closure is estimated to be less than 2 % of the total relevant expenditure.

The Commission departments' multiannual control mechanisms ensure an adequate management of the risks to the legality and regularity of the transactions.

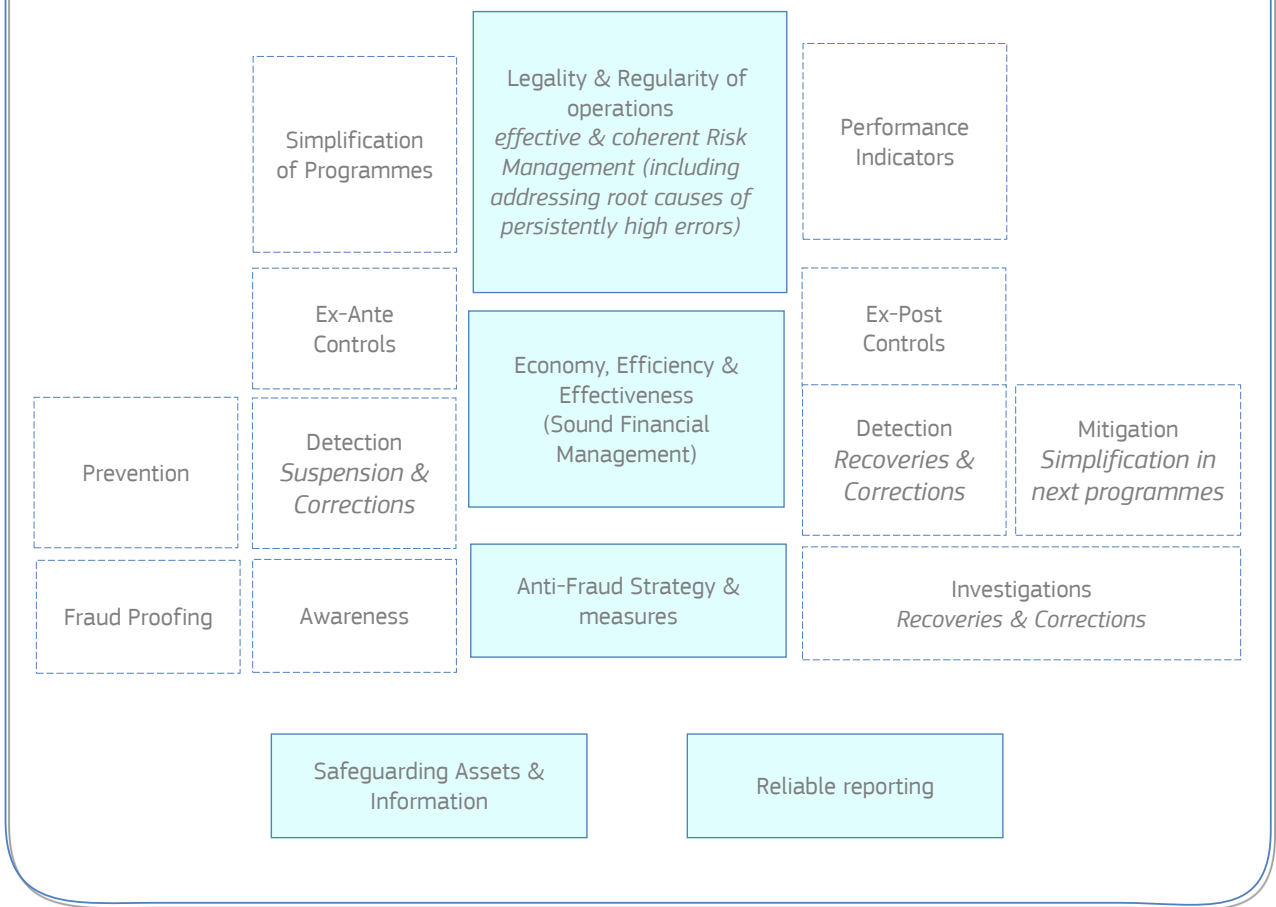
The financial corrections and recoveries made over the subsequent years do protect the EU budget overall.

Finally, the cross-cutting organisational management achievements of 2016 are highlighted in sub-section 2.7 of this report.

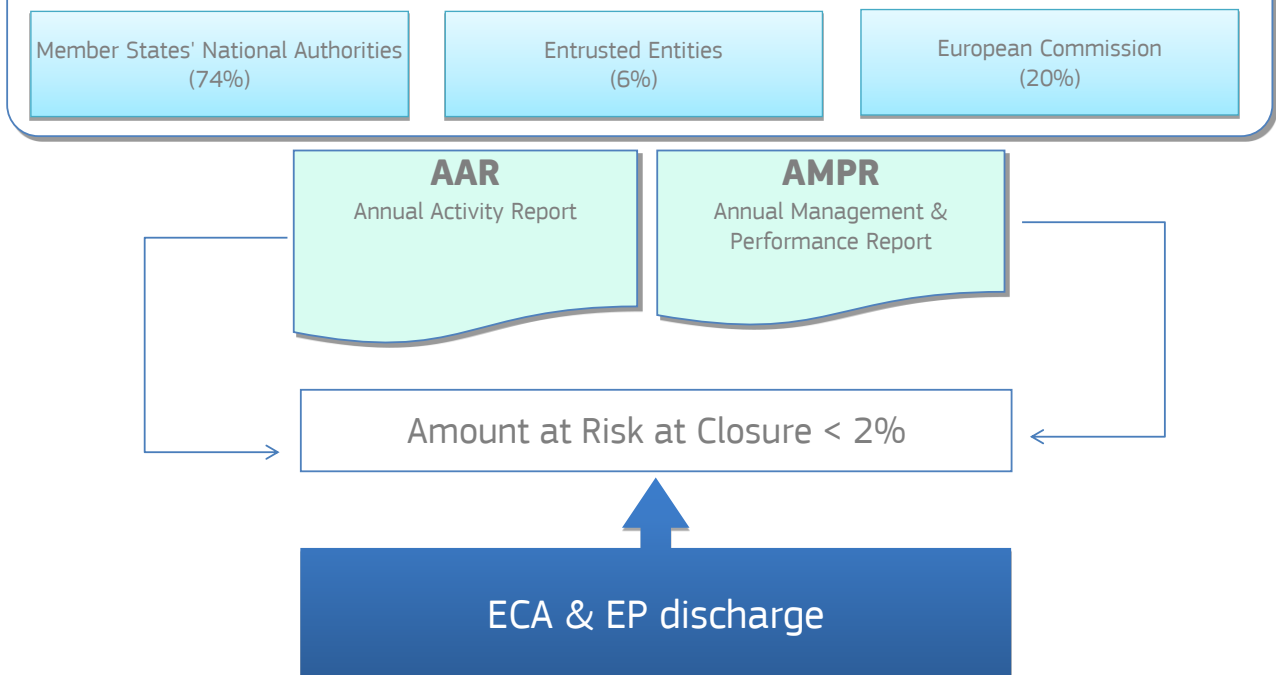
[Schematic illustration of the Commission's integrated Internal Control & Risk Management model](#)

The illustration on the next page shows how the different dimensions of the Commission's integrated Internal Control & Risk Management (ICRM) model fit together. The five Internal Control Objectives are achieved by deploying both preventive and detective/corrective measures, covering the three management modes. Moreover, in line with the programmes themselves also the control model is multiannual, both in detecting and correcting any errors (e.g. implementing results from ex-post controls) as well as feeding back lessons learned into the adjustment of future programmes (e.g. simplification of legislation) and/or control systems (e.g. making controls more risk-differentiated). During the course of the programmes' lifecycles, management reporting is being done on a yearly basis, by the Departments in their Annual Activity Reports and by the Commission as a whole in the Annual Management and Performance Report.

Internal Control & Risk Management (ICRM)



Budget implementation



2.1. Achievement of internal control objectives

The Commission applies a decentralised model of financial management. According to the Financial Regulation¹⁴⁸, the Authorising Officer of the Commission is the College of Commissioners. The College delegates financial management tasks to the Directors-General or Heads of Service who thereby become Authorising Officers by Delegation (AOD).

At corporate level, the Commission has defined common standards, specifying the minimum features of the internal control systems.

The Commission has updated its internal control framework in line with the revision of the COSO framework.

These internal control standards are based on the COSO¹⁴⁹ framework. In line with the latest COSO revision, which moves from a compliance-based to a principle-based system, **the Commission has recently updated its internal control framework** accordingly.¹⁵⁰ These revised internal control principles will become applicable to Commission departments by the end of 2017 at the latest. The purpose of this revision is to continue to ensure robust internal control while providing the necessary flexibility allowing departments to adapt to their specific characteristics and circumstances. This will be especially useful given the efforts to make control systems more risk-based and cost-effective, inter alia by increasing synergies and efficiencies.¹⁵¹

Within this framework and in accordance with the regulatory responsibility of the Directors-General as Authorising Officers by Delegation (AOD), **each Commission department** puts in place the organisational structure and internal control systems best suited to ensuring the achievement of its policy and operational objectives.

Overall, Internal Control Standards are effectively implemented and functioning.

The management of each Commission department regularly assesses the effectiveness of the internal control systems and analyses the findings resulting from this assessment.

As a result, for 2016, all Commission departments concluded that the **internal control standards are effectively implemented** and functioning¹⁵². However, 22 Commission departments reported a need to improve effectiveness in specific standards as follows:

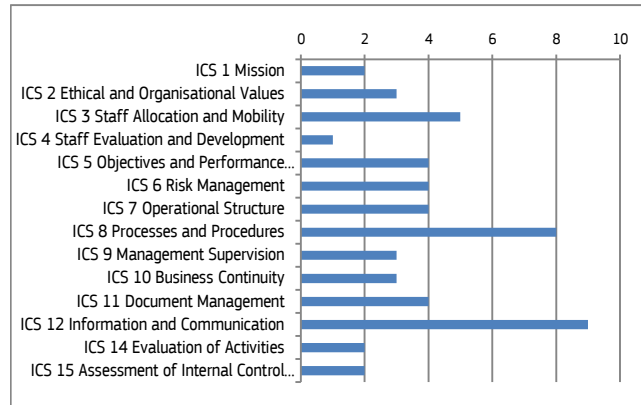


Chart: Number of standards reported for further improvements

In addition to the management's assessment of the internal control systems, **the Accounting Officer** validates the Commission departments' local financial systems. The correct functioning of the local systems which feed the Commission's central accounting system (ABAC) is key to ensure the overall reliability of the accounts. The results of the Accounting Officer's validation of the local financial systems during 2016 indicate sufficient levels of maturity and continued steady improvements. The new systems introduced in recent years for the financial management of the programming period 2014-2020 promote increased automation and more embedded controls in ensuring the respect of applicable regulations. This allows for better use of resources, reduction of errors and the standardisation of processes and procedures for the management of programmes under common regulatory provisions. Other strengths found include improved financial supervision systems and tools, good documentation of procedures and highly competent staff. Nevertheless, recommendations or reminders were issued to some services¹⁵³ about inter alia the consistency of data between local IT systems and ABAC, timeliness of recordings, quality of information registered, up-to-date guidance and documentation aligned after reorganisations or making common use of control systems.

On the basis of these assessments, the Commission departments reported on the achievement of the internal control objectives defined in the Financial Regulation¹⁵⁴. This is summarised in the following subsections concerning the efficiency of financial management, the effectiveness in managing the legality and regularity risks, the cost-effectiveness of controls and the anti-fraud strategies.

2.1.1. Efficiency of financial management

In 2016 the Commission started to review its main financial business processes in view of maintaining the highest standards in financial management in the context of decreasing resources. Areas for potential synergies and efficiency gains include simplification and harmonisation of rules and procedures, modern and interconnected financial IT systems, further externalisation and mutualising financial expertise. The focus of these measures is on **increased efficiency in financial management**: lower bureaucratic burden, proportionate cost of controls on beneficiaries, lower error rates, improved data quality, shorter "time to grant" and "time to pay" periods.

Work on **simplification** has progressed with the preparation of the re-launch of the Simplification Scoreboard. For the first time, simplification of budget implementation has been monitored not only at Commission level but also at Member State level. Work has also continued to simplify financial rules together with the Mid-Term Review of the Multiannual Financial Framework and the revision of the Financial Regulation, also in view of a stronger focus on results

through increased use of lump sums, prizes, payments based on outputs and results. See also the simplification efforts per policy area mentioned in the first section of this report.

Substantial progress has also been made in 2016 towards the digital management of grants (eGrants) and procurement (eProcurement) including the establishment of a single entry point to communicate and exchange information with stakeholders available to all services (SEDIA). Governance structures to oversee the delivery of an integrated corporate solution were put in place at the beginning of 2017.

In terms of **control efficiency**, data in annex 6 shows that the global **average net payment time** of the Commission services (21.4 days in 2016) is below 30 days and has steadily decreased further over the years. The global average gross payment time (24.9 days) is provided for the first time following a recommendation from the Ombudsman. It represents the average time to pay including any period of suspension.

2.1.2. Effectiveness of managing the legality and regularity risks

Control models

The Commission is ultimately responsible for ensuring that the EU budget is properly spent, regardless of whether the funds are implemented by the Commission departments themselves (direct management; approx. 20 %), entrusted to entities (indirect management; approx. 6 %) or executed by Member State authorities (shared management; approx. 74 %). For 80 % of the budget, the Commission is predominantly dependent on the reliability of the management and control information reported by Member States and other entrusted bodies on their own control systems. At a secondary level, but without 'duplicating' control layers, the Commission may perform audits to verify the reliability of the control systems, the control results and/or the management reports.

In all management modes, the Commission departments' **control models involve both preventive and corrective measures**.

- *Preventive*¹⁵⁵ measures typically comprise at source¹⁵⁶ and other ex-ante¹⁵⁷ controls carried out by the Commission before making a payment or accepting the expenditure made by the Member State or other entrusted body. Also, possible interruptions/suspensions of payments to Member States in case of serious deficiencies in the management and control systems have a preventive character. In addition, training and

guidance is provided by the Commission to Member State authorities or to grant beneficiaries.

- *Corrective measures* typically include financial corrections or recoveries of irregular expenditure declared by Member States or beneficiaries, following ex-post¹⁵⁸ controls carried out by the Commission after having made a payment or having accepted the expenditure made by the Member State or other entrusted body.

While all financial operations are subject to ex-ante control before payment by the Commission¹⁵⁹, the intensity in terms of frequency and/or depth of these controls depends on risks and costs involved. Consequently, risk-differentiated ex-ante controls are usually not performed on the spot (prohibitive costs/benefits balance), while ex-post controls typically are (on a representative sample basis, or based on a risk assessment).

The Commission's spending programmes and thus also the control systems and management cycles are **multiannual by design**. In fact, while errors may be detected in any given year, they are corrected in subsequent years.

Finally, sources and root causes of errors detected by the Commission or Member States through audit work are taken into account when preparing future

(simplified) legislation and when (re)designing controls in order to further reduce the level of error in the future.

In order to measure whether the EU budget is effectively protected, the Commission departments estimate and report on the "level of error" indicator and their related amounts at risk – at different stages during the cycle:

- **Amount at risk at payment** (based on the detected error rate); when ex-ante controls have been duly carried out before the payment, but no corrective measures have yet been implemented on the errors (being) found after the payment;
- **Amount at risk at reporting** (based on the residual error rate); when some corrective measures have already been implemented after the payment, but others are still expected to be implemented in successive years. However, as this concept is based on Annual Activity Reports' reservations only, it is not an "overall" concept given that it does not cover relevant expenditure which is not under reservation (i.e. for which Residual Error Rate < 2 %);
- **Amount at risk at closure** (i.e. taking into account the estimated future corrections as well);

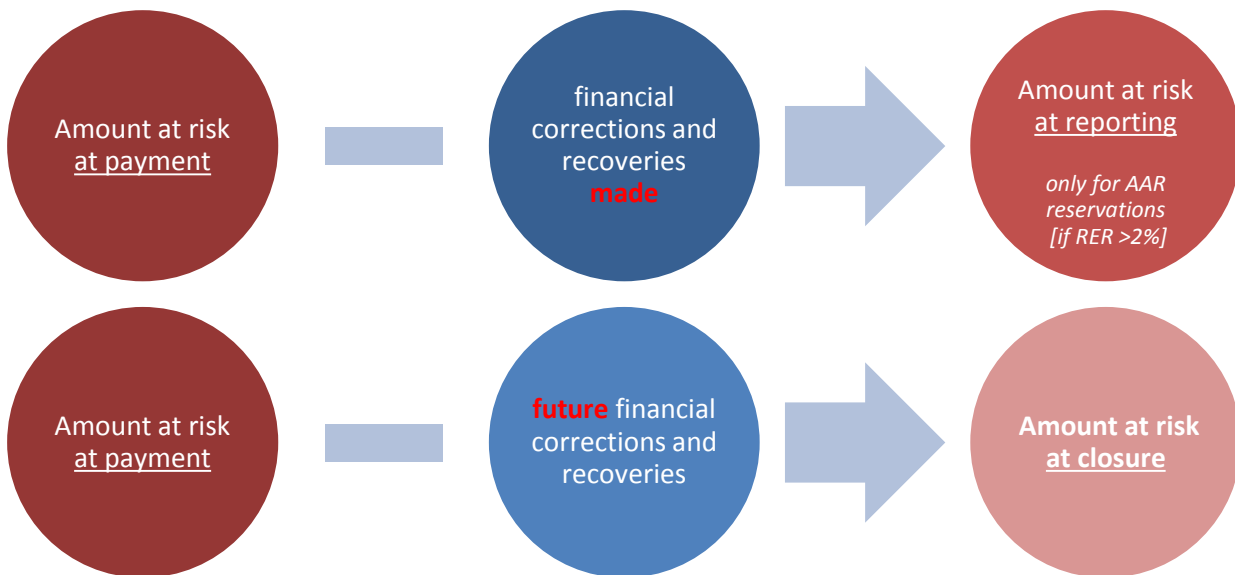
when all corrective measures in the following years have been implemented.

For the definition(s) of the amount(s) at risk and related concepts, see Annex 3.

For any given year, the Commission's ('gross') **amount at risk at payment**, after expenditure has been accepted and/or payments have been made, is higher than 2 % of the relevant expenditure. This is in line with the European Court of Auditors' own findings.

Yet, **financial corrections and recoveries** have been and will be made during the subsequent year(s), which already reduce the ('intermediate') **amount at risk at reporting**. In the meantime, for full transparency, reservations are issued for (only) those programmes for which the residual error rate (RER) would not yet have decreased below 2 % at the time of the yearly management reporting (Annual Activity Reports).

Furthermore, after also considering the **estimated future corrections** that will have been made by the end of the programmes' lifecycles, the forward-looking ('net') **amount at risk at closure** is estimated to be below 2 %.



Control results for 2016

The detailed results for the 2016 financial year are presented in the "Estimated amount at risk at closure" table on the next page.

Amount at risk at payment

Ex-post controls (e.g. on-the-spot audits) performed after payments have been authorised can still detect at least part¹⁶⁰ of the errors that would have remained undetected after the ex-ante controls have been duly performed, and pave the way to correct those (e.g. through implementation and even extrapolation of audit results).

Over the years, the Commission has been successful in improving its financial management. This is evidenced by declining levels of error not only reported by the Commission but also by the European Court of Auditors. These annual estimates went from double digit rates for some policy areas (particularly cohesion) before 2009 to considerably

lower levels at present – below 5 % in most policy areas and close to or even below 2 % in some other areas.

For 2016, based on the detected or equivalent error rates, the Commission's overall Average Error Rate is estimated to be between 2.1 % and 2.6 % (in 2015 between 2.3 % and 3.1 %) of total relevant expenditure, and the related estimated **overall amount at risk at payment** is between EUR 2.9 and 3.6 billion (in 2015 between EUR 3.3 and 4.5 billion). This decrease is mainly due to cohesion's lower inherent risk of error for programmes of the current Multiannual Financial Framework.

Policy area	Total relevant expenditure (1)	Estimated amount at risk at payment		Estimated future corrections		Estimated amount at risk at closure	
		(2) = Average Error Rate applied on (1)		(3) = Adjusted Rate of Average Recoveries and Corrections applied on (1)		(4) = (2)-(3)	
		lowest value	highest value	lowest value	highest value	lowest value	highest value
Agriculture	57 552.7	1 419.6 (2.47 %)	1 419.6 (2.47 %)	1 173.4 (2.04 %)	1 173.4 (2.04 %)	246.2 (0.43 %)	246.2 (0.43 %)
Cohesion	45 403.7	961.2 (2.12 %)	1 573.6 (3.47 %)	700.3 (1.54 %)	798.0 (1.76 %)	261.0 (0.57 %)	775.6 (1.71 %)
External relations	10 183.7	166.0 (1.63 %)	166.0 (1.63 %)	43.3 (0.43 %)	43.3 (0.43 %)	122.7 (1.20 %)	122.7 (1.20 %)
Research, Industry, Space, Energy and Transport	13 586.3	320.1 (2.36 %)	381.4 (2.81 %)	98.6 (0.73 %)	99.8 (0.73 %)	221.4 (1.63 %)	281.6 (2.07 %)
Other internal policies	4 532.0	35.1 (0.77 %)	39.4 (0.87 %)	8.1 (0.18 %)	8.1 (0.18 %)	27.0 (0.60 %)	31.4 (0.69 %)
Other services & Administration	5 869.5	12.2 (0.21 %)	14.9 (0.25 %)	0.5 (0.01 %)	0.6 (0.01 %)	11.8 (0.20 %)	14.3 (0.24 %)
Total	137 127.9	2 914.2 (2.13 %)	3 594.9 (2.62 %)	2 024.2 (1.48 %)	2 123.2 (1.55 %)	890.1 (0.65 %)	1 471.8 (1.07 %)

Table: Estimated amount at risk at closure for 2016 relevant expenditure (EUR million). See details in Annex 2-A and definitions in Annex 3.

The Commission and the European Court of Auditors reach the same conclusions about the nature and root causes of persistently high levels of error. Further actions are taken for those programmes with persistently high levels of error to address their root causes (see details below).

Amount at risk at reporting

Within the multiannual context of the programmes and control strategies, over the years any remaining errors that become detected will thus be corrected. Each year, when reporting in the Annual Activity Reports, the Commission departments provide an *intermediary* state-of-play of their (usually cumulative) programme expenditure, detected errors and corrections made – *up to that moment in time*.

An important consideration in implementing the EU budget is the need to ensure the proper prevention or detection and subsequent correction of system weaknesses leading to errors, irregularities and fraud.

The Commission takes preventive and corrective actions as foreseen by the EU legislation to **protect the EU budget from illegal or irregular expenditure**.

Where preventive mechanisms are not effective, the Commission, in the framework of its supervisory role, is required to apply corrective mechanisms as a last resort.

The primary objective of financial corrections and recoveries is to ensure that only expenditure in accordance with the legal framework is financed by the EU budget.

The workflow of corrective actions is as follows:



A financial correction is **confirmed** as soon as it is accepted by the Member State or decided by the Commission. A financial correction is considered **implemented** when the correction has been applied and recorded in the Commission accounts, which means the financial transaction was validated by the responsible Authorising Officer in the following cases: deduction from the interim or final payment claim, recovery order and/or a de-commitment transaction.¹⁶¹

Fund	Total EU budget payments in 2016	Total financial corrections and recoveries confirmed in 2016	% of payments of the EU budget	Total financial corrections and recoveries implemented in 2016	% of payments of the EU budget
<i>Agriculture:</i>	56 454	2 087	3,7 %	1 948	3,5 %
<i>EAGF</i>	44 084	1 387	3,1 %	1 662	3,8 %
<i>Rural Development</i>	12 370	700	5,7 %	286	2,3 %
<i>Cohesion Policy:</i>	37 134	1 204	3,2 %	943	2,5 %
<i>ERDF</i>	21 067	706	3,3 %	623	3,0 %
<i>Cohesion Fund</i>	7 449	102	1,4 %	1	0,0 %
<i>ESF</i>	8 148	389	4,8 %	235	2,9 %
<i>FIFG/EFF</i>	422	14	3,2 %	17	3,9 %
<i>EAGGF Guidance</i>	48	(5)	(11,0) %	67	140,1 %
<i>Internal policy areas</i>	23 165	309	1,3 %	318	1,4 %
<i>External policy areas</i>	10 277	173	1,7 %	175	1,7 %
<i>Administration</i>	9 325	4	0,0 %	4	0,0 %
TOTAL	136 355*	3 777	2,8 %	3 389	2,5 %

Table: Financial corrections and recoveries overview for 2016¹⁶² (EUR million)

*Excludes EUR 61 million paid out under the Special Instruments heading

In 2016, the total financial corrections and recoveries amounted to EUR 3.8 billion confirmed or EUR 3.4 billion implemented. This amount covers corrections and recoveries made during 2016 irrespective of the year during which the initial expenditure had been made. More details can be found in Annex 4.

Types of Financial Corrections in 2016 and Cumulative Results 2010-2016

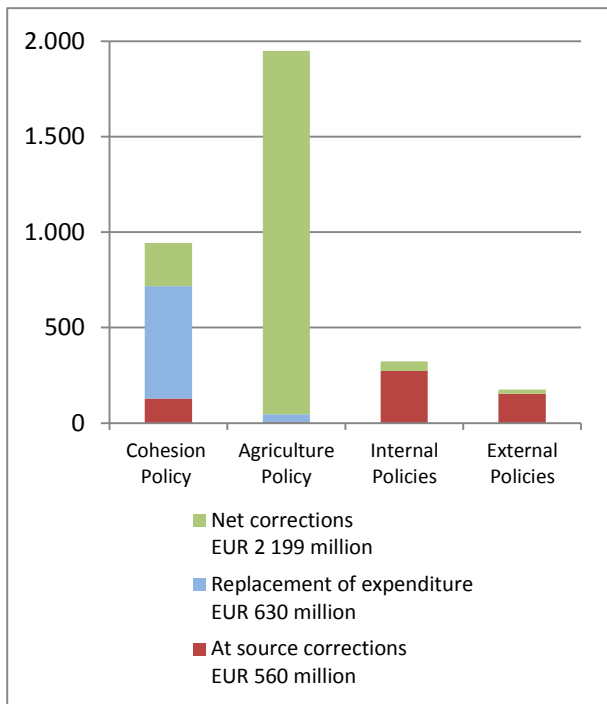


Chart: Types of financial corrections **implemented** in 2016 (EUR millions)

Net corrections leading to a reimbursement to the EU budget are characteristic for Agriculture and Rural Development and direct and indirect management.

For Cohesion Policy, net corrections are, up to the programming period 2007-2013, the exception. Under the new legal framework, the Commission retains 10 % of each interim payment until the finalisation of all control procedures. These controls ensure that no serious deficiency leading to a material level of risk in reimbursed expenditure remained undetected or uncorrected by the Member State. Otherwise the Commission must apply net financial corrections.

Cumulative figures provide more useful information on the significance of corrective mechanisms used by the Commission because they take into account the multi-annual character of most EU spending and neutralise the impact of one-off events.

For the European Agricultural Guarantee Fund (EAGF), the average correction rate for Commission financial corrections under conformity clearance of accounts for the period 1999 to end 2016 was 1.8 %

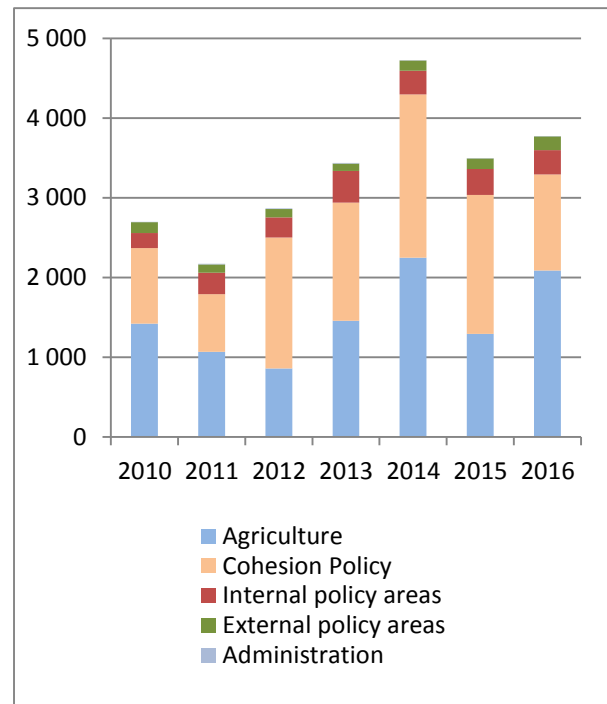


Chart: Financial corrections and recoveries **confirmed** 2010-2016 cumulative (EUR millions)

of expenditure (all of which are net financial corrections) - see Annex 4, section 2.4.

For the European Regional Development Fund (ERDF) and European Social Fund (ESF) 2007-2013 funds, at the end of 2016 the combined rate of financial corrections, based on Commission supervision work only, was 1.7 % of the allocations made - see Annex 4, section 3.4.2.

During the period 2010-2016 the average amount confirmed was EUR 3.3 billion or 2.4 % of the average amount of payments made from the EU budget, while the average amount implemented in this period was EUR 3.2 billion or 2.3 % of payments.

In view of the audited sample, part of the (cumulative) expenditure will have been fully cleaned from errors, while the other part may still be affected by similar errors. If the error rate would still be considered to be material (i.e. above the materiality criteria of 2 %) *at that stage*, then a reservation would be made or maintained in the Annual Activity Report for the programme concerned.

In their **2016 Annual Activity Reports**, 29 Authorising Officers by Delegation provided unqualified assurance, while 20 declarations were qualified with a total of 37 reservations. More details can be found in section 2.2 and Annex 2-B.

The **amount at risk at reporting** from (only) the programmes under reservations is estimated at **EUR 1.6 billion**, compared to EUR 1.3 billion in 2015. See details below in section 2.2.

Amount at risk at closure

Within the same multiannual context of the programmes and the control strategies, it is also possible to look ahead towards the end of the programme cycle¹⁶³ and estimate how much corrections are still expected to be made through the ex-post controls in the future. Indeed, as the expenditure of the current year may not yet have been subjected to (finalised) ex-post controls, the related corrections will only materialise during the subsequent year(s). The forward-looking amount at risk at closure can be derived only after taking into account *all* corrections that *already have been and/or will have been implemented by then*.

One indication for the "estimated future corrections" *could be* the historical ones (e.g. the 7-years historic average) However, programmes' features and risks as well as the related control systems' modalities and corrective capacities have evolved (e.g. simplified delivery mechanisms and/or adjusted controls). Also, the historic data is influenced by *specific* (one-off, non-structural) events. Therefore, the historic data may not always be the best basis for estimating the future corrective capacity. In those cases, the Authorising Officer by Delegation adjusts or replaces those in order to get to a better and conservative estimate.

In their 2016 Annual Activity Reports, the Commission departments have disclosed both their basis (the 7-years average of their historic actual corrections), as well as their adjustments made towards their **best but conservative estimations for the future (ex-post) corrective capacity for the current programmes**. Categories of such adjustments include neutralising any specific (one-off, non-structural) events from the past, excluding ex-ante corrective elements (e.g. recovery of unused pre-financing, credit notes for invoices), considering a more recent historic average (e.g. DG AGRI taking only the last 5 years as better basis), considering the different inherent risks and/or control modalities for the programmes delivery mechanisms (e.g. for Cohesion based on the cumulative residual risk (CRR) estimated by the Commission departments, after validation of the error rates and the financial corrections reported by the Member States' Audit and Certifying Authorities for each Operational Programme), avoiding applying the same percentage to low-risk funding of agencies etc., or even considering that the structural ex-post future corrections would be 0 (e.g. DGs with entirely ex-ante control systems and related corrections which reduce the errors upfront).

As shown in the "Estimated amount at risk at closure" table above, the Estimated Future Corrections for the 2016 expenditure are between EUR 2.0 and 2.1 billion or between 1.5 % and 1.6 % of the total relevant expenditure. This is lower than for 2015 (between EUR 2.1 and 2.7 billion, or between 1.5 % and 1.9 %), again mainly for Cohesion (which is logical given the lower estimated amount at risk at payment to be corrected, as mentioned above). In any case, compared with the actual financial corrections and recoveries in 2016 (EUR 3.8 confirmed or 3.4 billion implemented) and their

historic 7-year-average (EUR 3.3 or 3.2 billion; 2.4 % or 2.3 %), this estimate can be considered conservative.

The resulting estimated overall **amount at risk at closure** for the 2016 expenditure amounts to between EUR 0.9 and 1.5 billion, or between 0.7 % and 1.1 % of the total relevant expenditure. This is lower than for 2015 (between EUR 1.2 and 1.8 billion, or between 0.8 % and 1.3 %), again mainly due to Cohesion (consequence of the lower inherent risk of error for the programmes of the current Multiannual Financial Framework, as mentioned above).

Conclusion

Given that the **overall amount at risk at closure is estimated to be less than 2 % of the total relevant expenditure**, it is shown that the Commission departments' multiannual control mechanisms in general ensure an adequate management of the risks

relating to the legality and regularity of the transactions and that the **financial corrections and recoveries** made over the subsequent years do **protect the EU budget** overall.

The estimated overall amount at risk at closure is less than 2 %.

In the meantime, further actions are taken for those programmes with persistently high levels of error to address their root causes.

Moreover, for transparency reasons reservations are issued in the Annual Activity Reports for those programmes for which the residual error rate (RER) would not yet have decreased below 2 % at the time of reporting (see section 2.2 below).

The Commission and the European Court of Auditors reach the same conclusions about the nature and root causes of persistently high levels of error; i.e. weaknesses in management and control systems (notably in Member States, Third Countries and International Organisations/Agencies), aggravated by the complex legal framework under which the EU policies are implemented. Over the years, the most common error types which result from this combination of factors are:

- *Ineligible expenditure items;*
- *Ineligible beneficiaries/projects/implementation periods;*
- *Breach of public procurement and State aid rules;*
- *Insufficient reliable documentation to back expenditure declarations; and*
- *Incorrect declaration of eligible areas in the field of agriculture.*

However, policy areas which are subject to less complex eligibility rules¹⁶⁴ show lower levels of error, as illustrated by the error rate being significantly lower for schemes based on 'entitlement' regimes¹⁶⁵ than for costs 'reimbursement' schemes. Therefore, simplification represents the most effective way of reducing both the risk of errors as well as the cost and burden of control¹⁶⁶.

For those programmes with persistently high errors, the Commission continuously takes actions, both preventive and corrective, to address their root causes and their impact. The DGs implement targeted measures in order to strengthen the management and control systems at national, European and international levels; lessons learned from the previous programming periods have led to improvements in the design of successive generations of programmes¹⁶⁷; and the Mid-Term Revision of the 2014-2020 Multiannual Financial Framework includes a significant package of legislative proposals for simplifying¹⁶⁸ the rules applicable to the implementation of the EU budget.

More details can be found in the Commission Communication "Root causes of errors and actions taken (Article 32(5) of the Financial Regulation)" – COM(2017)124 of 28/02/2017.

2.1.3. Cost-effectiveness of the controls

One important objective of the Commission's "budget focused on results" strategy is to ensure cost-effectiveness when designing and implementing management and control systems which prevent or identify and correct errors. Control strategies should therefore consider a higher level of scrutiny and frequency in riskier areas and ensure cost-effectiveness.

The Financial Regulation¹⁶⁹ requires the Authorising Officers by Delegation (AODs) to include in their Annual Activity Reports an overall assessment of the costs and benefits of controls.

All 49 Commission departments have assessed the **cost-effectiveness and the efficiency** of their control systems. As a result, for the first time, in 2016 all Commission departments were able to reach a conclusion on the cost-effectiveness of their controls. Most departments used the costs/funds indicator in 2016. Some departments even used both indicators (costs/funds and costs/benefits) and the minority only used the costs/benefits indicator. Regarding shared management, four¹⁷⁰ DGs reporting on the cost-effectiveness of controls included also an assessment of the costs at **Member States**.

On the basis of the above assessment all Commission departments were invited to review their control systems with a view to ensuring that they remain **risk-based and cost-effective**, having due regard to the management environment and the nature of the actions financed. Increasingly the Commission departments are taking measures to improve their organisational fitness and agility:

- By the end of 2015, 25 departments had reviewed their control systems; half¹⁷¹ had taken measures to improve cost-efficiency while the others¹⁷² concluded that no changes were needed.

2.1.4. Anti-fraud strategies

The anti-fraud strategy of the Commission (CAFS) was adopted in 2011 and every Commission service has developed, implemented and regularly updated when necessary its own anti-fraud strategy for the policy area that they are responsible for. The Commission Anti-Fraud Strategy required every Commission service to have such a strategy in place

- By the year-end of 2016, 35 (out of 49) departments (71 %) had reviewed their control systems. 17 of them (49 %) have¹⁷³ adapted or will adapt¹⁷⁴ them while the remaining 18 departments¹⁷⁵ concluded that no changes were needed.

The financial importance of the 49 Commission departments varies significantly. The management of funds is **highly concentrated** among a few big spending departments (with more than 40 % of payments made by DG AGRI only and 80 % by 6 Commission services) with a long tail of other much smaller spending departments (the 'last' 5 % of payments is made by 33 (i.e. two thirds) of the Commission services).

In some areas, departments have joined their resources to **enhance the cost-effectiveness of controls**. As a practical example, through the establishment of the Common Support Centre, the departments in the Research family put together inter alia the Horizon 2020 Ex-post Audit Strategy. This serves 20 of the Authorising Officers by Delegation concerned, of which eight are DGs, four are Executive Agencies, seven are joint undertakings and one is an EU (Regulatory) agency. This in turn has led to economies of scale and enhanced the cost-effectiveness of controls in that family.

The Commission continues its efforts to boost the cost-effectiveness of controls. In this respect, the audit work of the Internal Audit Service (IAS) on the control strategies in the departments managing the main policy expenditure areas and the on-going IAS audit on the Commission's framework/arrangements for the estimation, assessment and reporting on the cost-effectiveness of controls have already provided and will continue to provide further insights.

by the end of 2013. OLAF recommends the Commission's departments updating their strategy regularly to reflect changes in the anti-fraud environment. As presented in the table below, most Commission services have presented an update of their anti-fraud strategy after adoption of the first strategy by the end of 2013.

Year of AFS update	2017 *	2016	2015	2014	2013 **	No strategy yet ***	Total
Number of Commission services	9	16	13	1	9	1	49

Table: Anti-Fraud Strategies updates by Commission services.

* 9 Commission services are in the process of adopting their updated strategy and reported to do so in 2017

** 9 Commission services have not yet updated their strategy after adoption of their first strategy by the end of 2013.

*** The Structural Reform Support Service (SRSS) was established in 2015 and is working on an anti-fraud strategy. For expenditure by the SRSS, anti-fraud measures are in place.

OLAF has presented an update of its methodology for the elaboration of an anti-fraud strategy in February 2016, after consultation of the Commission's Fraud Prevention and Detection Network (FPDNet). This update concerned mainly the further integration of the anti-fraud measures (from fraud risk identification, to control activities and monitoring) into the Commission performance cycle (as part of the changes described in section 2.7.2.) and monitoring cycle. By this integration, anti-fraud activities form an integral part of a Commission service's control activities, while maintaining the specific attention fraud requires. The Commission services that have updated their anti-fraud strategies in 2016, reported to have applied the updated methodology.

*The **Executive Agency for Small and Medium Enterprises (EASME)** has used the OLAF methodology for the update of its anti-fraud strategy which was undertaken in 2016. The Agency's fraud risk assessment is now integrated in the annual risk assessment exercise. The main fraud risks that EASME is confronted with are plagiarism and double funding, and intentional inflated or false cost claims. These risks and their mitigating actions are monitored closely in the annual risk management exercise.*

EASME takes mitigating measures and reinforced controls for these risks, while keeping an eye on the principle of costs and benefits. This means that risk-based controls are applied and that in particular high-risk projects are subject to reinforcing monitoring.

For certain risks (e.g. plagiarism), EASME participated in the testing of Horizon 2020 tools for the Horizon 2020 programmes which are applied across the Commission services active in the Research area.

The implementation of the anti-fraud strategies is regularly monitored through the Commission performance cycle. Given that every policy area has specific fraud characteristics, there is no 'one size fits all' approach in anti-fraud activities. Most Commission services organise fraud awareness raising activities such as trainings and seminars. In 2016 at least 27 services reported to have organised such activities aimed at targeted staff members, such as newcomers, financial staff and managers.

After six years of implementation, the Commission is considering the update of the Commission Anti-Fraud Strategy adopted in 2011. The objective of the Commission Anti-Fraud Strategy to improve the prevention, detection and investigation of fraud and to ensure adequate sanctioning, recovery and deterrence, is firm on the agenda of the Commission. An update of the Commission Anti-Fraud Strategy would focus on continuity of this approach, with further emphasis on integrating anti-fraud measures in the internal-control systems of the Commission, in particular as concerned the reporting on implementation of anti-fraud measures such as presented in this section.

Early Detection and Exclusion System

The Early Detection and Exclusion System (EDES) for the protection of EU financial interests has been applied since 1 January 2016. This new system was introduced following the revision of the Financial Regulation of 2015. It ensures the:

- early detection of economic operators representing risks threatening the Union's financial interests;
- exclusion of unreliable economic operators from obtaining Union funds and/or the imposition of a financial penalty on them;
- publication, in the most severe cases, on the Commission's website of information related to the exclusion and or the financial penalty, in order to reinforce the deterrent effect.

The Early Detection and Exclusion System represents a significant improvement in the application of rules on administrative sanctions with respect to fundamental rights, independent advice and transparency. In order to ensure the coherence of the system, the decisions to be taken by the EU institutions, agencies and bodies to impose a

sanction on unreliable economic operators can now only be taken after having obtained a recommendation of the new centralised Panel presided by a standing high-level independent Chair. This recommendation contains a preliminary classification in law of a conduct, having regard to established facts and other findings. The Panel assesses cases when there is no final judgment or final administrative decision.

The Panel started functioning in 2016. In that year, 21 cases related to 33 economic operators were addressed to the Panel by various authorising officers. By 30 April 2017, this had led to 14 recommendations, 3 of which were adopted in 2016.

The cases most frequently submitted to the Panel relate to serious breaches of contractual obligations and/or grave professional misconduct. An anonymised summary of cases dealt with by the Panel will be made available in a Staff Working Document accompanying the part dedicated to Early Detection and Exclusion System of the Commission's annual report related to Article 325(5) of the Treaty on the Functioning of the EU.

2.2. Management assurance and reservations

In their 2016 Annual Activity Reports, **all 49 Authorising Officers by Delegation declared having reasonable assurance** that the information contained in their report presents a true and fair view; the resources assigned to the activities have been used for their intended purpose and in accordance with the principle of sound financial management; and that the control procedures put in place give the necessary guarantees concerning legality and regularity of the underlying transactions.

The Authorising Officers by Delegation assessed the control results and all other relevant elements supporting their assurance on the achievement of the control objectives. They considered any significant weaknesses identified and assessed their cumulative impact on the assurance, in both quantitative and qualitative terms, with a view to determining whether it was material. As a result, 29 Authorising Officers by Delegation declared an unqualified assurance, while 20 declarations were qualified with a **total of 37 reservations**¹⁷⁶ for 2016.

The possible qualification of the declarations of assurance in the Annual Activity Reports with reservations is a keystone in the accountability construction. It provides transparency as regards the challenges or weaknesses encountered, on the measures envisaged to address the underlying issues, and an estimation of their impact. Although most reservations are prompted by findings regarding the management and control of past payments, they have a positive preventive future effect as well, as the action plans developed in relation to reservations aim to mitigate future risks and the remedial measures will reinforce the control systems.

The 2016 Annual Activity Reports' reservations affect all expenditure and revenue areas. In all cases, the Authorising Officers by Delegation concerned have adopted action plans to address the underlying weaknesses and mitigate the resulting risks.

When comparing the 37 reservations for 2016 to the 33 in 2015, one previous reservation was lifted¹⁷⁷, five reservations are new, two were expanded¹⁷⁸ and one became partially¹⁷⁹ quantified. Four recurrent and two new reservations are 'non-quantified'¹⁸⁰ (with no financial impact on 2016). However, the (higher) number of reservations is not necessarily the most relevant indicator, e.g. when 'new' reservations are issued for the next programming period and/or for other policy segments as well (cf. more precision and

transparency).

The five newly introduced reservations are the following:

- DG REGIO has introduced a reservation for its 'new' (current 2014-2020 Multiannual Financial Framework) European Regional Development Fund/Cohesion Fund (limited to 2 programmes in 2 Member States), albeit *non-quantified* for 2016.¹⁸¹
- DG HOME has introduced a reservation for its 'new' (current 2014-2020 Multiannual Financial Framework) Asylum, Migration and Integration Fund (AMIF) programme in 2 Member States.
- DG NEAR has introduced a *non-quantified reservation*, as it is currently not able to provide assurance for projects in Syria and Libya (linked to staff access to projects and auditors' access to documents). This highlights not only the inherent (high) risks of some policy areas but also the possibly insufficiently adjusted grant modalities (eligibility criteria) for spending programmes under such conditions.
- EASME has issued a second reservation for its segments of the Competitiveness and Innovation Programme (CIP); now also for the Eco-Innovation programme (i.e. beyond its recurrent reservation for the Intelligent Energy Europe (IEE) programme).
- DG BUDG has issued a reservation for the Traditional Own Resources (TOR) revenue, in view of OLAF's report on fraud related to the United Kingdom Customs duties. This directly affects the Commission's Traditional Own Resources, and may also indirectly affect the Value Added Tax basis of some Member States and thus the Value Added Tax-related resources, plus the Gross National Income-related balancing resources of the Commission.

Where error levels are persistently high, Article 32(5) of the Financial Regulation provides for the Commission to identify the weaknesses in the legal provisions and/or the control system, analyse the costs and benefits of possible corrective measures and take or propose suitable action. Management and control systems have been changed for the 2014-2020 programmes, but the Commission will be able to determine the effects of these new measures on the level of error only over time.

Policy area	Total 2016 payments	Payments concerned by reservations = scope	Amount at risk at reporting = exposure
Agriculture	56 794.0	24 008.6	1 001.2
Cohesion	40 383.5	5 140.7	394.0
External relations	12 373.3	3 898.0	77.7
Research, Industry, Space, Energy and Transport	14 835.7	1 707.3	135.4
Other internal policies	5 501.5	481.2	12.9
Other services & Administration	5 904.1	26.0	0.0
Total	135 792.1	35 261.8	1 621.2
Policy area	Total 2016 own resources	Revenue concerned by reservations = scope	Amount at risk at reporting = exposure
Own Resources	132 174.3	20 094.1	517.4
Total	132 174.3	20 094.1	517.4

Table: Scope and amount at risk of the 2016 reservations (EUR millions). See details in Annex 2-B.

Scope and exposure

The **scope** (payments possibly affected) of the quantified reservations amounts to EUR 35.3 billion (**26 % of payments**) for 2016. This increase compared to 2015 (EUR 29.8 billion; 21 % of payments) is mainly due to DG AGRI's European Agricultural Guarantee Fund Direct Support reservation (which affects more paying agencies in more Member States as a result of the first year of implementation of new and more demanding schemes, notably greening). Only Research has a lower scope in 2016, due to the Seventh Framework Programme (FP7) phasing out and the Horizon 2020 programme not being under reservation. The revenue affected by a quantified reservation is EUR 20.1 billion (15 % of own resources) for 2016.

The **exposure** (actual financial impact) in terms of amount at risk at reporting for the expenditure under reservation is estimated at EUR **1.6 billion**. The increase compared to 2015 (EUR 1.3 billion) is mostly due to DG AGRI's European Agricultural Guarantee Fund Direct Support reservation and is only partially offset by the better segmentations in External Relations and by Research's transition from the Seventh Framework Programme (FP7) to Horizon 2020 mentioned above. The amount at risk at reporting for the revenue under reservation is estimated at EUR 0.5 billion.

The results by policy area are shown in the table above. Detailed results by department are set out in Annex 2-B.

Progress made in 2016

Also in 2016, services continued their efforts to strengthen the assurance building in the Annual Activity Reports. Some examples of achievements:

- The External Relations DG DEVCO and DG NEAR are better 'segmenting' their assurance building for their portfolios, thereby respectively better targeting the initially overall reservation by DG DEVCO and justifying that there is no need for a reservation by DG NEAR. Both DGs thereby duly responded to the observations by the

European Court of Auditors, IAS and Central Services on their 2015 Annual Activity Reports.

- The Research DGs and Executive Agencies are duly applying the specific (risk-adjusted) 2 to 5 % materiality threshold¹⁸² foreseen in the Horizon 2020 sectoral legislation. Consequently, their declarations of assurance is not qualified with Horizon 2020 related reservations. This strategy has been endorsed by the Legislative Authority¹⁸³ from the outset of this multiannual programme, in

recognition of the inherent programme risks retained (e.g. simplifications not fully endorsed, grant delivery mechanism still predominantly based on reimbursements of eligible costs, targeting the riskier beneficiaries such as the small and medium-sized enterprises) and the control limitations set (ceiling on ex-post controls, time-limit for extending systemic audit findings to the same beneficiary's other projects). The External Relations DGs are analysing whether

differentiated materiality thresholds would create opportunities for better managing their financial risk.

- The Cohesion DGs (REGIO, EMPL, MARE) introduced an annual clearance of accounts and a 10 % retention from each interim payment made by the Commission, which guarantees the effective 'recovery' (upfront) of any potential errors detected (up to 10 %) at the time of the acceptance of the accounts.

Aspects mentioned in the 2015 Annual Management and Performance Report conclusions and/or the 2015 IAS Overall Opinion emphases of matter

The Commission departments mentioned in the 2015 Annual Management and Performance Report conclusions have addressed the points concerned during 2016 (DGs implementing the budget in shared management, DG NEAR and DG ENER).

Regarding the points mentioned in the 2015 IAS Overall Opinion, the IAS has reiterated its **emphasis**

of matter to strengthen the monitoring and supervision strategies and activities of **DGs relying on entrusted entities** to implement parts of their **budget** (yet thereby duly taking into account the different natures, origins and (sometimes limited) mandates in this context). See more details in subsection 2.3 and/or Annex 5.

Developments for 2017

The **SRSS (Structural Reform Support Service)** is a new Commission department which received status as separate Authorising Officer by Delegation in 2016. For its assurance building towards its first own Annual Activity Report, it was able to rely on the components of the control environment which were actually a continuation, together with the activities and staff taken over, from DG REGIO and DG EMPL. The SRSS budget is being expanded further. Starting in 2017, the SRSS is putting in place considerable enhancements to its (own) control system and management reporting which will allow appropriate management of this expanded budget.

EU Trust Funds¹⁸⁴ (EUTFs) are more and more used. Therefore, the related DGs¹⁸⁵ should ensure transparent and complete coverage of the EU Trust Funds in their management reporting. This entails distinguishing better between the accountability for the contributions from the EU budget and the European Development Fund paid into the EU Trust Funds as a DG, and for the transactions made out of the EU Trust Funds (i.e. with the EU, European Development Fund and other donors' funds) as a Trust Fund Manager.

Looking forward beyond 2017 and/or 2020

- While the multiannual design of the Commission's control systems is by now fully acknowledged by the **European Court of Auditors**, there is a need to further enhance the common understanding of the **types of corrections and recoveries**, their impact on the protection of the EU budget, and their presentation in the Commission's related reporting. Therefore, a joint working group has been set up in 2017.
- For analysing the control and audit results in

Horizon 2020, specific materiality criteria are being used. **The Commission considers that introducing risk-differentiated materiality criteria is an important improvement.** Therefore, and more in general, this is one of the potential references in the context of the **preparation of the post-2020 programmes**, when simplifications, synergies and efficiencies, risk-differentiated and cost-effective control systems, more appropriate materiality criteria and possibly 'common' assurance building could become more standard practices.

2.3. Assurance obtained through the work of the Internal Audit Service (IAS)

The Commission departments based their assurance also on the work done by the Internal Audit Service (IAS).

Annex 5 to this Annual Management and Performance Report includes more information on the assurance provided by the IAS. A summary report of the internal auditor's work will be forwarded to the discharge authority in accordance with Article 99(5) of the Financial Regulation. The IAS concluded that 95 % of the recommendations followed up during 2012-2016 had been effectively implemented by the auditees. Of the 413 recommendations still in progress (representing 23 % of the total number of accepted recommendations over the past five years), none is classified as critical and 170 as very important. Out of these 170 recommendations rated very important, 18 were overdue by more than six months at the end of 2016, representing only 1 % of the total number of accepted recommendations of the past five years. The IAS's follow-up work confirmed that, overall, recommendations are being implemented satisfactorily and the control systems in the audited departments are improving.

The IAS continued to carry out performance audits in 2016 as part of its work programme in response to the Commission's move towards a performance-based culture and greater focus on value for money.

(i) As regards performance management and measurement, the IAS noted that important progress has been achieved over the years with, for instance, a number of new initiatives at corporate level (see section 2.7 of this report) or positive implementation in certain areas (e.g. the audit in DG EAC resulted in a positive conclusion and showed that it is possible to implement an effective performance management framework despite the fact that the DG is confronted with a diversity of policy activities and spending programmes). However, several IAS audits (DG AGRI, DG DEVCO, DG GROW, DG MOVE) focusing on performance management and measurement at DG level revealed that significant improvements are still necessary to enhance the maturity of the DGs performance management and measurement mechanisms.

(ii) Concerning the performance in implementing policies and/or budget (operational and administrative appropriations), the IAS identified specific improvements to be made in the areas of direct management (e.g. efficiency and effectiveness of grant management in DG HOME, DG JUST, DG RTD and REA), indirect management (adequacy and effectiveness of the supervision arrangements in place in DGs and Services dealing with EU decentralised agencies in DG HOME and DG SANTE, supervision of the Fusion for Energy Joint Undertaking and of the ITER project by DG ENER), shared management (e.g. the effectiveness of simplification measures under 2014-2020 European Structural and Investment funds in DG REGIO, DG EMPL and DG MARE), and policy monitoring (e.g. the supervision by DG MOVE of the aviation and maritime security policy).

In addition, as last year (following the centralisation of the internal audit function in 2015), the IAS issued limited conclusions on the state of internal control to every DG and department in February 2017. These conclusions were intended to contribute to the 2016 Annual Activity Reports of the DGs and departments concerned. The conclusions draw particular attention to all open recommendations rated 'critical' or the combined effect of a number of recommendations rated 'very important' and in two cases (DG DEVCO and DG CLIMA) the IAS stated that the DG concerned should duly assess if they require the issuance of a reservation in the respective Annual Activity Report. In both cases the DGs have issued such reservations in line with IAS limited conclusions.

As required by its Mission Charter, the Commission's internal auditor also submitted an overall opinion, based both on its own work (2014-2016) and that of the former Internal Audit Capabilities (for the 2014 reporting year), and focusing on financial management. It considered that, in 2016, the Commission had put in place governance, risk management and internal control procedures which, taken as a whole, are adequate to give reasonable assurance on the achievement of its financial objectives. However, the overall opinion is qualified with regard to the reservations made in the Authorising Officer by Delegations' Declarations of Assurance and issued in their respective Annual Activity Reports.

In arriving at this opinion, the IAS considered the combined impact of amounts estimated to be at risk as disclosed in the Annual Activity Reports in the light of the corrective capacity as evidenced by financial corrections and recoveries of the past. Given the magnitude of financial corrections and recoveries of the past and assuming that future corrections will be made at a comparable level, the IAS considered that the EU budget is adequately protected as a whole and over time.

Without further qualifying the opinion, the internal auditor added one 'emphasis of matter', relating to the supervision strategies regarding third parties implementing policies and programmes, which is described in Annex 5.

2.4. Summary of conclusions on the work carried out by the Audit Progress Committee

The Audit Progress Committee (APC) has focused its work on four key objectives set out in its 2016 and 2017 work programmes, namely: considering the IAS's audit planning; analysing the results of internal and external audit work to identify potentially significant risks, including findings of cross-cutting thematic interest; monitoring the follow-up by Commission services to significant residual risks identified by audit work; and monitoring the quality of internal audit work and ensuring the independence of the Internal Auditor.

The APC is satisfied as to the independence and quality of internal audit work.

It has drawn the attention of the College to the following issues in particular:

The Internal Auditor's Overall Opinion for 2016 is positive but qualified with regard to the management reservations as expressed in the DGs' Annual Activity Reports, and contains one emphasis of matter related to externalisation and in particular the Commission services' supervision of agencies and third parties implementing policies and programmes. This is a cross-cutting risk that the APC has monitored as a thematic priority (see below).

The Annual Internal Audit Report confirms the APC's view that significant improvements are necessary to enhance performance management and measurement mechanisms across the Commission. DGs have set up their performance measurement systems with varying degrees of maturity and there is still a need for further work to develop a robust performance culture including the sharing of good practices throughout the Commission. The APC has raised this issue in its Annual Report 2015-2016 and will continue to prioritise this area in its work in the coming year.

The Commission's management has drawn up satisfactory action plans to address the risks identified in the IAS's reports. No critical recommendations were issued during the reporting

period. Out of a total of 258 IAS recommendations, and in six cases only after the APC's intervention, just one recommendation was finally only partially accepted (concerning DG NEAR's residual error rate methodology and calculation for 2015). However, DG NEAR has duly implemented this recommendation for 2016.

The number of overdue actions to address recommendations is the lowest since the start of reporting on the implementation of IAS and ex-Internal Audit Capabilities' recommendations. The APC's active follow-up of overdue recommendations has contributed to these results.

Following the European Court of Auditors' special report examining Commission's governance arrangements the College has increased the number of external members of the APC from two to three. Following the invitation of the College at the proposal of the APC, the IAS has launched work on the high-level governance of the Commission.

The APC has paid particular attention to externalisation. The audit report on ITER showed significant weaknesses in the Commission's supervision of the ITER project and DG ENER noted the need for additional EU funding for the ITER construction in 2021-2025. Audit work has also shown that there are important reputational and policy performance risks related to the increased reliance of the Commission on non-executive agencies and other third parties to implement the EU's policies. The APC brought these issues to the attention of the Corporate Management Board for further follow up.

The audit which the College invited the IAS to undertake on the governance, planning, monitoring and implementation of the budget line of the OLAF Supervisory Committee has been completed. While the amounts concerned are not material, the residual financial and reputational risks as described in the audit report should be addressed through effective implementation of the satisfactory action plans that have been established.

2.5. Follow-up of discharge and external audit recommendations

In its discharge recommendation adopted on 21 February 2017, the **Council** reiterated its request made in last year's discharge recommendation calling on the Commission to provide the budgetary authority with a comprehensive report on the areas where the estimated level of error identified is persistently high and outline its root causes. The Commission carried out the review and provided a report as requested¹⁸⁶. Further requests addressed to the Commission related to control mechanisms to prevent, detect and correct errors as well as to simplification measures, budgetary management and reporting on performance.

The **European Parliament** adopted its discharge resolution for the financial year 2015 on 27 April 2017 after having examined in particular the recommendation from the Council and the Court of Auditors' 2015 Annual Report and relevant special reports published in 2015. Parliament also examined the Commission's 2015 Annual Management and Performance Report for the EU budget, the Annual report on internal audits carried out in 2015, the Communication on the protection of the EU budget to end 2015, and the Report on the follow-up to the discharge for the 2014 financial year.

Parliament addressed concrete requests to the Commission on specific policy areas as well as on horizontal aspects of budget implementation and financial governance such as performance and the relating reporting, the use of financial instruments and the reporting thereon, budgetary and financial management and financial mechanisms supporting Union policies.

The **Commission** will, like every year, adopt a

comprehensive report in 2017 on the follow-up of requests addressed by the European Parliament and the Council to the Commission in due time for the start of the discharge procedure for the financial year 2016.

The past few years have also shown a continuous increase in the number and scope of the **European Court of Auditors** special reports. The Court adopted 36 special reports in 2016 (compared to 25 in 2015). The Commission is therefore facing a similar increase in recommendations and will continue ensuring that these are followed-up in an appropriate manner, including with reporting in the Annual Activity Reports. Furthermore, measures are being taken to improve the reporting on the implementation of recommendations to the Commission's Audit Progress Committee, which performs certain monitoring activities under its mandate.

The European Court of Auditors monitors the Commission's implementation of recommendations and provides feedback which helps the Commission to further strengthen its follow up activities. In its 2015 Annual Report, the European Court of Auditors assessed the Commission's follow-up of a sample of 90 audit recommendations from 11 special reports published in the period 2011-2012. Of the 83 recommendations that could be verified, the European Court of Auditors noted that the Commission fully implemented 63 % of the recommendations, 26 % were implemented in most respects and 10 % in some respects, while 1 % were not implemented.

2.6. Conclusions on internal control and financial management achievements

All Authorising Officers by Delegation have provided reasonable assurance although, where appropriate, qualified with reservations. These reservations are a keystone in the accountability chain. They outline the challenges and weaknesses encountered as well as the measures envisaged to address them and provide an estimation on their impact.

The Commission has produced a consolidated estimation of the amount at risk at closure, presenting the Commission management's view on the performance of both preventive (ex-ante, before payment) and corrective (ex-post, after payment) controls, over the multiannual control cycle.

The Annual Activity Reports demonstrate that all Commission departments have put in place solid internal controls and provide evidence of the efforts undertaken to improve efficiency and cost-effectiveness, further simplify the rules and adequately protect the budget from fraud, errors and irregularities.

On the basis of the assurances and reservations in the Annual Activity Reports, the College adopts this 2016 Annual Management and Performance Report for the EU budget and takes overall political responsibility for the management of the EU budget.

2.7. Cross-cutting organisational management achievements

In order to manage the EU budget efficiently, as well as to perform the many other duties ascribed by the Treaties, the Commission continually seeks to ensure that its own internal governance and performance management arrangements are robust, and that its human and financial resources are managed optimally. In 2016, significant progress was made in a number of areas.

2.7.1. Robust governance arrangements

The corporate governance arrangements in place in the Commission are based on a clear definition of management responsibilities and strong corporate level oversight. Since their introduction in 2000, this governance structure has proved to be robust, allowing the Commission to identify emerging issues and manage them appropriately.

In the course of 2016, the European Court of Auditors conducted an audit of the Commission's governance arrangements¹⁸⁷. This audit compared the Commission's arrangements to international benchmarks. The Court made a number of recommendations for further improvements, which were broadly accepted by the Commission.

For instance, the Commission:

- has updated its internal control framework/ to bring it in line with COSO 2013; (see section 2.1)

- is preparing an updated governance document providing a factual description of the existing governance arrangements in the Commission.
- Is integrating its financial reporting and making it more accessible for citizens. In 2015, for the first time, an Integrated Financial Reporting Package was published. This package provides a comprehensive overview of how the EU budget is supporting the Union's political priorities, and how it is spent in line with EU rules.
- Moreover, the IAS is conducting, at the Commission's request, an audit on the corporate governance and oversight arrangements concerning risk management, financial reporting and the ex-post verification/audit function.

2.7.2. Strengthened performance framework

The Commission implemented a major reform of its performance management framework in 2016 so as to strengthen the focus on results and ensure that the Commission's activities are fully aligned with the political priorities.

Under the new system, all Commission departments have produced multiannual strategic plans¹⁸⁸ setting out how they contribute to the Commission's 10 political priorities. Through these plans, departments define specific objectives and indicators against which their performance will be measured over a five-year period.

Annex 1 to this report provides a snap-shot of the current status for the impact indicators defined in the

strategic plans.

The strategic plans also introduce a harmonised approach to measuring organisational performance in areas such as human resource management, financial management and communication.

These strategic plans are supplemented by annual management plans setting out the outputs for the year and explaining how these contribute to the objectives.

The 2016 Annual Activity Reports have, for the first time, reported on the new set of objectives and related indicators defined in the strategic plans 2016-2020 and the outputs for 2016 in the management plans.

2.7.3. Synergies and efficiencies

The Commission, like any other organisation, must ensure the optimal allocation of its resources, reflecting its political priorities, legal and institutional obligations, and allowing for flexibility to adapt to policy developments. In the context of budgetary pressures and ever growing challenges ahead of the EU, it is of critical importance that resources are deployed in the most efficient manner.

By 1 January 2017 the Commission has fulfilled its commitment¹⁸⁹ to reduce establishment plan posts by 5 % between 2013 and 2017, as well as the undertaking to reduce the appropriations for external staff, with a view to reducing the number of staff by 5 %. The final result is that altogether, since 2013, the Commission has reduced 1 254 establishment plan posts and the equivalent of 552 external staff, i.e. a

total reduction of 1 806 Full Time Equivalents.

In parallel, in order to address the new challenges, the Commission has been actively redeploying posts across departments in order to transfer resources to priority areas.

The Commission has also conducted a thorough review of its support processes and working methods in order to identify potential efficiency improvements and to better harness synergies between departments. The Commission Communication on "Synergies and Efficiencies in the Commission – New Ways of Working"¹⁹⁰ of 4 April 2016 launched a new, more modern organisation of coordination and support communities in the Commission, notably in the domains of Human Resources, Information and Communication Technologies, external and internal communication, logistics, events and room management. In the different domains each relevant central service is responsible for the professionalisation of the community, the simplification of processes, and oversight of spending. The central services rely on functional reporting from domain managers. In the DGs, the

measures set out in the Communication include the modernisation of the provision of Human Resources services (by pooling the local Human Resources teams per groups of DGs while keeping a small strategic team locally), the use of common Information Technology tools and standardised equipment, integrated governance for external and internal communication, a streamlined mail delivery system and centralised management of meeting rooms and supervision of conference organisation. The implementation of these measures has started in 2016 and will continue in the coming years. By redesigning delivery models in the support and coordination functions, the Commission sets an example of how a public administration can improve service delivery and management on tight budgets.

The Commission achieved a reduction of

1 806 *Full Time Equivalents*

between 2013 and 2017

Endnotes

- 1 http://ec.europa.eu/budget/library/biblio/documents/2015/communication-protection-eu-budget_en.pdf
- 2 COM(2016) 603 final - http://ec.europa.eu/budget/mff/figures/index_en.cfm#com_2016_603
- 3 for example it would allow for payments based on conditions fulfilled, "single lump sum" covering all eligible costs of the action, priority given to simplified forms of grants and clarifying the scope of controls of simplified forms of grants.
- 4 http://ec.europa.eu/budget/fts/index_en.htm
- 5 Data as per EIB EFSI Dashboard: <http://www.eib.org/efsi/index.htm>
- 6 The ESI Funds Open Data platform provides a breakdown of the investments approved by fund, Member State and programme - <https://cohesiondata.ec.europa.eu/overview>
- 7 GSA's 2017 GNSS Market Report published on 10 May: https://www.gsa.europa.eu/system/files/reports/gnss_mr_2017.pdf
- 8 A report on the first year of implementation of Erasmus+, the EU funding programme for education, training, youth and sport between 2014-2020; Statistics on student and staff mobility numbers in the last academic year under the former Erasmus programme for higher education; A follow-up to the Erasmus Impact Study - focusing on regional analysis of the benefits of the Erasmus programme.
- 9 MicroBank (the social bank of la Caixa) in Spain was the first bank to offer Erasmus+ Master Loans in 2015. From June 2016, Banque Populaire and Caisse d'Epargne from France started providing EU-guaranteed Erasmus+ Master loans, joined in September 2016 by Future Finance Loan Corporation (from Ireland) for Master students in and out of UK. As of December 2016, outgoing students from Turkey can also apply to Finansbank.
- 10 [.http://ec.europa.eu/eurostat/documents/2995521/8001715/3-26042017-AP-EN.pdf/05e315db-1fe3-49d1-94ff-06f7e995580e](http://ec.europa.eu/eurostat/documents/2995521/8001715/3-26042017-AP-EN.pdf/05e315db-1fe3-49d1-94ff-06f7e995580e) .
- 11 In comparison, Member States resettled 8 155 people in need of protection in 2015 and 6 550 persons in 2014 (Source EUROSTAT).
- 12 COM(2016) 586 final, 14.9.2016
- 13 The Court of Auditors' estimated Most Likely rate of Error for the Commission was 3.8 % for 2015 - OJ C 375 of 13/10/2016
- 14 see also the Commission's Communication on "Root causes of errors and actions taken" - COM(2017)124 of 28/02/2017
- 15 See also the Commission's annual Report to the European Parliament and the Council "Protection of the European Union's financial interests — Fight against fraud 2015 Annual Report" (COM(2016)472 of 14/07/2016)
- 16 All acronyms for Commission's departments and Executive Agencies are available on this webpage: https://ec.europa.eu/info/departments_en
- 17 Overview of Commission's completed Evaluations and Studies in 2016 is available on: https://ec.europa.eu/info/law/law-making-process/overview-law-making-process/evaluating-and-improving-existing-laws/evaluating-laws-policies-and-funding-programmes_en#documents
- 18 This package gathered the 2015 Annual Management and Performance Report for the EU budget, the 2015 EU Annual Accounts, the EU budget 2015 Financial Report and the Communication on the Protection of the EU budget.
- 19 The European Court of Auditors adopted 36 Special Reports in 2016 covering a wide range of policy areas.
- 20 Calculated as a percentage of commitment appropriations compared to the entire budget for 2016.
- 21 'Europe 2020 – a strategy for smart, sustainable and inclusive growth' COM(2010) 2020 final.
- 22 The Europe 2020 Strategy is built on three mutually reinforcing priorities: (i) Smart growth – developing an economy based on knowledge and innovation. (ii) Sustainable growth – promoting a more resource efficient,

greener and more competitive economy, (iii) inclusive growth – fostering a high-employment economy delivering economic, social and territorial cohesion.

23 <http://ec.europa.eu/eurostat/web/europe-2020-indicators/europe-2020-strategy>

24 2015 data for all indicators except GHG emissions on which the data is from 2014

25 UN Resolution A/RES/70/1

26 UN decision -/CP.21, adoption of the Paris Agreement

27 UN Resolution A/RES/69/313

28 Adopted at the Third UN World Conference on Disaster Risk Reduction in Sendai, Japan, on March 18, 2015

29 http://europa.eu/rapid/press-release_IP-16-3883_en.htm

30 COM(2016) 739 final - https://ec.europa.eu/europeaid/sites/devco/files/communication-next-steps-sustainable-europe-20161122_en.pdf

31 SWD(2016) 390 final - https://ec.europa.eu/europeaid/sites/devco/files/swd-key-european-actions-2030-agenda-sdgs-390-20161122_en.pdf

32 The text in this section is based on the AARs of DGs RTD, GROW, ECFIN, EAC, MOVE, ENER, CNECT, as well as on the relevant Programme Statements for the programmes under this budgetary heading

33 http://ec.europa.eu/priorities/jobs-growth-and-investment/investment-plan_en

34 The EU guarantee provides a liquidity buffer for the Union budget against potential calls on EU guarantee to cover losses incurred on investments supported by the European Fund for Strategic Investments.

35 Data as per EIB EFSI Dashboard: <http://www.eib.org/efsi/index.htm>

36 https://ec.europa.eu/commission/publications/commission-evaluation-first-year-efsi_en and Draft Programme Statement EFSI; p 1.

37 The Green Shipping Guarantee (GSG) programme (Programme) is a 3-year EUR 750 million programme developed with partner financial institutions where the final beneficiary of the EIB instrument will be acceptable European shipping corporates operating in European waters.

38 'Study of the benefits of a meshed offshore grid in Northern Seas region', TE, ECOFYS, PwC; 2014 (http://ec.europa.eu/energy/sites/ener/files/documents/2014_nsog_report.pdf)

39 For the overall period of Horizon 2020.

40 Source: Corda grant signature by 1st January 2017/2014- 10/2016.

41 This amount is calculated from FP7 grants, as data from Horizon 2020 grants is not yet available.

42 Defined as the total amount of funds leveraged through an Art. 187 initiatives, including additional activities, divided by the respective EU contribution to this initiative.

43 Results of the financial instruments under the 2007-2013 Competitiveness and Innovation Framework Programme.

44 Source: Quarterly Operational Reports as at 31 December 2016 provided by the European Investment Fund (EIF) on 31 March 2017.

45 Source: Quarterly Operational Reports as at 31 December 2016 provided by the European Investment Fund (EIF) on 31 March 2017.

46 would be or established for max 3 years

47 established entrepreneurs for at least 3 years

48 In addition to the existing four satellites deployed under previous Multiannual Financial Framework, the two satellites of the first batch were launched in August 2014. The 12 other satellites of the same batch were successfully launched between March 2015 and November 2016. With 15 satellites fully operational out of the 18 in orbit, the Galileo IOC was inaugurated on 15 December 2016.

49 Further details can be found on the following website: <http://www.usegalileo.eu/EN/>

50 GSA's 2017 GNSS Market Report published on 10 May:

https://www.gsa.europa.eu/system/files/reports/gnss_mr_2017.pdf

51 Figures provided by the European GNSS Agency.

52 Source: DG EAC's web reporting tool- contracted mobilities and organisations participating in learning mobility projects over the period 2014-16.

53 A report on the first year of implementation of Erasmus+, the EU funding programme for education, training, youth and sport between 2014-2020; Statistics on student and staff mobility numbers in the last academic year under the former Erasmus programme for higher education; A follow-up to the Erasmus Impact Study - focusing on regional analysis of the benefits of the Erasmus programme.

54 http://europa.eu/rapid/press-release_MEMO-16-143_en.htm

55 MicroBank (the social bank of la Caixa) in Spain was the first bank to offer Erasmus+ Master Loans in 2015. From June 2016, Banque Populaire and Caisse d'Epargne from France started providing EU-guaranteed Erasmus+ Master loans, joined in September 2016 by Future Finance Loan Corporation (from Ireland) for Master students in and out of UK. As of December 2016, outgoing students from Turkey can also apply to Finansbank.

56 The Student Loan Guarantee facility enables students completing a full Master's degree abroad (1 or 2 years) to gain access to loans provided by participating banks and guaranteed by the EU, via its partner the European Investment Fund.

57 For a complete overview of finalised evaluations and studies of the Commission in 2016 see https://ec.europa.eu/info/law/law-making-process/overview-law-making-process/evaluating-and-improving-existing-laws/evaluating-laws-policies-and-funding-programmes_en#documents

58 The text in this section is based on the AARs of DGs REGIO and EMPL, as well as on the relevant Programme Statements for the programmes under this budgetary heading

59 Five Funds, forming the European Structural and Investment Funds (ESIF), work together to support economic development across all EU countries, in line with the objectives of the Europe 2020 strategy: European Regional Development Fund (ERDF); European Social Fund (ESF); Cohesion Fund (CF); European Agricultural Fund for Rural Development (EAFRD); European Maritime and Fisheries Fund (EMFF). The latter two are covered by Budget Heading 2 (Sustainable Growth).

60 Recommendations on how to boost jobs and growth, while maintaining sound public finances, issued annually by the Commission based on its analysis of Member States' economic and social policies.

61 Special report No 2/2017: The Commission's negotiation of 2014-2020 Partnership Agreements and programmes in Cohesion

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

63 See also special report from the European Court Auditors No 2/2017: 'The Commission's negotiation of 2014-2020 Partnership Agreements and programmes in Cohesion'.

64 Pre-conditions aimed at making sure that Member States have put in place adequate regulatory and policy frameworks and that there is sufficient administrative capacity before investments of the ESIF are made in order to maximise the performance of the funding.

65 Commission SWD "The added value of ex ante conditionalities in the European Structural and Investment Funds" –

SWD(2017) 127 final, 31.3.2017

66 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf

67 ESI Funds Open Data Platform: <https://cohesiondata.ec.europa.eu/>

68 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf, p. 8

69 Data based on projects selected (project pipeline)

70 ESI Funds Open Data Platform: <https://cohesiondata.ec.europa.eu/>

- 71 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf, p. 11
- 72 ESI Funds Open Data Platform: <https://cohesiondata.ec.europa.eu/> as well as REGIO PS on km of reconstructed TEN-T roads built
- 73 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf, p. 12
- 74 http://europa.eu/rapid/press-release_IP-16-3216_en.htm
- 75 SWD(2016) 323 final, p. 98 - http://eur-lex.europa.eu/resource.html?uri=cellar:73591c12-8afc-11e6-b955-01aa75ed71a1.0001.02/DOC_2&format=PDF. The European Court of Auditors also published a special report, No 5/2017: 'Youth unemployment – have EU policies made a difference?'
- 76 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf, p. 14
- 77 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf, p. 13
- 78 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf, p. 14
- 79 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf, p. 16
- 80 .SWD(2016) 318 final - http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp1_swd_report_en.pdf
- 81 There is a lag between spending on the ground and payment claims, then another lag to final reimbursement. Taking account of this (indicatively 3-6 month) lag, payments from the Commission to Managing Authorities is a good proxy for programme implementation.
- 82 Note that the proportion cannot exceed 95% since 5% of payments are held back until the programmes are formally completed.
- 83 Member States that joined the EU in 2004 and 2007.
- 84 Member States that were in the EU before 2004.
- 85 Note that in Greece, the payments rate was just over 97% at the end of March 2016 because of a special agreement made to release the final 5% of funding early as a result of the severe public finance problems in the country.
- 86 ..SWD(2016) 318 final - http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp1_swd_report_en.pdf
- 87 .SWD(2016) 452 final – <http://ec.europa.eu/social/main.jsp?pager.offset=5&advSearchKey=expost&mode=advancedSubmit&catId=22&policyArea=0&policyAreaSub=0&country=0&year=0>
- 88 .SWD(2016) 318 final - http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp1_swd_report_en.pdf
- 89 .SWD(2016) 452 final – <http://ec.europa.eu/social/main.jsp?pager.offset=5&advSearchKey=expost&mode=advancedSubmit&catId=22&policyArea=0&policyAreaSub=0&country=0&year=0>
- 90 Preliminary data from 2007-13 Final reports under final verification
- 91 SWD(2016) 318 final, p. 4 and 32
- 92 SWD(2016) 318 final, p. 4
- 93 SWD(2016) 318 final, p. 4

- 94 SWD(2016) 318 final, p. 32
- 95 The text in this section is based on the AARs of DGs AGRI, MARE, ENV and CLIMA as well as on the relevant Programme Statements for the programmes under this budgetary heading
- 96 The milk production reduction measure was adopted in 2016 and implemented in the autumn 2016, but with the financial year starting on 16 October according to EAGF rules, the aid formally falls under 2017 expenditure.
- 97 See https://ec.europa.eu/agriculture/sites/agriculture/files/markets-and-prices/short-term-outlook/pdf/2017-03_en.pdf
- 98 See http://ec.europa.eu/agriculture/direct-support/direct-payments/docs/implementation-decisions-ms_en.pdf and https://ec.europa.eu/agriculture/sites/agriculture/files/direct-support/direct-payments/docs/simplimentation-decisions-ms-2016_en.pdf
- 99 In full: "Payment for agricultural practices beneficial for the climate and the environment", as provided for in Arts. 43-47 of Regulation (EU) No 1307/2013.
- 100 The deadline for the relevant notifications by Member States is 15 December each year. The figure presented above for 2015 and 2016 is based on notifications from all Member States except France.
- 101 Commission Staff Working Document SWD(2016)218 of 23/06/2016.
- 102 Commission Delegated Regulation (EU) No 639/2014
- 103 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf
- 104 <https://bookshop.europa.eu/en/evaluation-study-of-the-implementation-of-the-european-innovation-partnership-for-agricultural-productivity-and-sustainability-pbKF0216023>.
- 105 <https://bookshop.europa.eu/en/mapping-and-analysis-of-the-implementation-of-the-cap-pbKF0416021/>
- 106 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf
- 107 Commission's database on projects
- 108 <http://ec.europa.eu/environment/life/bestprojects/bestenv2015/index.htm> and <http://ec.europa.eu/environment/life/bestprojects/bestnat2015/index.htm> .
- 109 LIFE Integrated Projects provide funding for plans, programmes and strategies developed on the regional, multi-regional or national level. The aim is to implement environmental legislation and goals on a wider scale and to increase the impact of the LIFE programme.
- 110 The preliminary results of the external study will be presented in a Staff Working Document summarising the results of the mid-term evaluation that will be published in mid-2017.
- 111 The topics covered by the Court were: the contribution of technical assistance to agriculture and rural development; financial instruments as a successful and promising tool in the rural development area; the cost-effectiveness of EU Rural Development support for non-productive investments in agriculture; EU support for rural infrastructure: potential to achieve significantly greater value for money; the EU priority of promoting a knowledge-based rural economy
- 112 <https://bookshop.europa.eu/en/ex-post-evaluation-of-the-european-fisheries-fund-2007-2013--pbKL0117039/>
- 113 Projects being rejected by the EU Commission after having been implemented and paid by the Member States to the beneficiary
- 114 Some evaluations are still incomplete or missing: BG, RO, ES (Galicia), FR (Hexagone only draft)
- 115 Member States that joined the EU after 2004.
- 116 External study part of the Ex-post evaluation of the European Fisheries Fund (2007-2013) Final Report: <https://bookshop.europa.eu/en/ex-post-evaluation-of-the-european-fisheries-fund-2007-2013--pbKL0117039/>
- 117 External study part of the Ex-post evaluation of the European Fisheries Fund (2007-2013) Final Report,

- p. 135: <https://bookshop.europa.eu/en/ex-post-evaluation-of-the-european-fisheries-fund-2007-2013--pbKL0117039/>
- 118 See evaluations: http://ec.europa.eu/agriculture/analysis/external/cross_compliance/index_en.htm as well as http://ec.europa.eu/agriculture/eval/reports/environment-summary/fulltext_fr.pdf
- 119 Member States that were in the EU before 2013.
- 120 External study part of the Ex-post evaluation of the European Fisheries Fund (2007-2013) Final Report, p. 140: <https://bookshop.europa.eu/en/ex-post-evaluation-of-the-european-fisheries-fund-2007-2013--pbKL0117039/>
- 121 In the agricultural sector direct payments made up an average of 46 % of farm income between 2005 and 2013, with large variations between Member States and types of farming.
- 122 External study part of the Ex-post evaluation of the European Fisheries Fund (2007-2013) Final Report, p. 137
- 123 The text in this section is based on the AARs of DGs HOME, JUST, ECHO, SANTE, EAC as well as on the relevant Programme Statements for the programmes under this budgetary heading
- 124 Supports national efforts to improve reception capacities, ensure that asylum procedures are in line with Union standards, integrate migrants at local and regional levels and increase the effectiveness of return programmes.
- 125 For persons who are resettled under the Common Union resettlement priorities (Annex III of the AMIF Regulation) or under the vulnerable groups of persons indicated in Article 17(5) of the AMIF Regulation.
- 126 See also European Court of Auditors special report no 06/2017: 'EU response to the refugee crisis: the 'hotspot' approach'.
- 127 Council Regulation (EU) 2016/369, adopted in March 2016 by the European Council
- 128 The exceptional scale and impact of the disaster give rise to severe wide-ranging humanitarian consequences in one or more Member States; and that no other instrument available to Member States and to the Union is sufficient
- 129 In its Special Report No 33/2016 'Union Civil Protection Mechanism: the coordination of responses to disasters outside the EU has been broadly effective'¹, which examined the response to three recent disasters: the floods in Bosnia and Herzegovina (2014), the Ebola virus outbreak in West Africa (2014-2016), and the Nepal earthquake (2015), the European Court of Auditors found that the Commission has been broadly effective in facilitating the coordination of responses to disasters outside the Union since the beginning of 2014.
- 130 The Mechanism's Participating States are the 28 EU Member States together with Serbia, Montenegro, Turkey, Norway, Iceland, FYROM
- 131 The Visa Information System (VIS) is a system for the exchange of visa data between Schengen States. For the purpose of the implementation of the VIS, consular posts and external border crossing points of the Schengen States should be connected to the central VIS database.
- 132 The Schengen Information System (SIS II) is a system which supports external border control and law enforcement co-operation, allowing signatories of the Schengen Agreement to share data on criminals, on people who may not have the right to enter or stay in the EU, on missing persons and on stolen, misappropriated or lost property.
- 133 See at http://ec.europa.eu/health/programme/policy/2008-2013/evaluation_en and https://ec.europa.eu/health/sites/health/files/programme/docs/ex-post_2nd-hp-2008-13_exec-sum-cwsd_en.pdf
- 134 The text in this section is based on the AARs of DGs DEVCO, ECHO, NEAR, FPI, ECFIN, as well as on the relevant Programme Statements for the programmes under this budgetary heading
- 135 The EU in 2016 — Highlights, European Commission, Brussels, 2017
- 136 First Annual Report on the Facility for Refugees in Turkey (COM(2017)130final), page 12
- 137 First Annual Report on the Facility for Refugees in Turkey (COM(2017)130final), page 12 FN42 on EUTF/UNICEF project (Ref. SC150526) "Generation Found"
- 138 CRIS decision number: 039-962; Commission Decision C(2016)753
- 139 Successful implementation of agreed economic policy and financial conditions and a continuous

satisfactory track record of implementing the International Monetary Fund programme.

140 Based on Article 3 of the IfS Regulation (EC) No 1717/2006.

141 Final Evaluation - Instrument for Stability (IfS) Crisis Response component (2007-2013); (http://ec.europa.eu/dgs/fpi/key-documents/crisis_response_component_en.htm)

142 Ibid, page 6, page 8, page 13.

143 Ibid, page15, foot note 38.

144 66% from the bilateral geographic instrument of DCI-Asia and 30 % of the disbursements from various DCI thematic instruments.

145 Joint strategic country evaluation of the development cooperation of Denmark, Sweden and the European Union with Bangladesh 2007-2013; (http://ec.europa.eu/europeaid/joint-strategic-country-evaluation-development-cooperation-denmark-sweden-and-european-union_en)

146 Evaluation of the EU Support to Research and Innovation for Development in Partner Countries (2007-2013); (http://ec.europa.eu/europeaid/evaluation-eu-support-research-and-innovation-development-partner-countries-2007-2013_en)

147 This actually covers the Commission's management of funds from the EU budget and from the European Development Funds (EDF), in both cases also including the EC contributions paid into the EU Trust Funds (but not the transactions made out of the EU Trust Funds, i.e. with the EU, EDF and other donors' funds).

148 Articles 65 and 66 of the Financial Regulation

149 The Committee of Sponsoring Organisations of the Treadway Commission (COSO) is a joint initiative of five private sector organisations, dedicated to providing thought leadership to executive management and governance entities on critical aspects of organisational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting. COSO has established a common internal control model against which companies and organisations may assess their control systems.

150 Communication to the Commission from Commissioner Oettinger – Revision of the Internal Control Framework (C(2017) 2373 of 19 April 2017)

151 See below in subsection 2.1.3 for further information on the Commission department's assessment of their control cost-effectiveness and on the actions taken

152 This assessment was still based on the previous internal control standards.

153 RTD, CNECT, DEVCO, ECHO and PMO

154 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 (Financial Regulation, article 32(2) FR)

155 e.g. interruptions, suspensions, retentions, rejection of (part of) costs claimed, recovering unused pre-financing, etc.

156 Mainly in shared management): financial corrections before declaring, accepting and reimbursing the expenditure to the Commission

157 Before accepting the expenditure, clearing the pre-financing (=transferring its ownership) and/or making the interim/final payment

158 After having accepted the expenditure, cleared the pre-financing (=ownership transferred) and/or made the interim/final payment

159 as required by the Financial Regulation, article 66(5) FR

160 These may include errors of a formal nature which, although important to address, do not always result in undue payments and therefore do not always give rise to financial corrections or recovery orders.

161 (In Cohesion this is not always a 'net' reimbursement to the EU budget, as Member States have the option to replace the ineligible expenditure with new eligible expenditure.)

162 Including financial corrections at source and corrections from financial clearance in Agriculture

163 For some programmes with no set closure point (e.g. EAGF) and for some multiannual programmes for

which corrections are still possible afterwards (e.g. EAFRD and ESIF), all corrections that remain possible are considered for this estimate.

164 Such as direct payments for the European Agricultural Guarantee Fund (EAGF), European Research Council (ERC) grants, Marie-Curie Schemes, use of Simplified Cost Options within the European Social Fund (ESF).

165 For entitlements, where payments are based on meeting certain conditions, the risk of errors is largely mitigated by the simpler nature of the information expected from beneficiaries, which can in large part even be verified before payment.

166 Complexity of the eligibility conditions has also a large impact in the cost-effectiveness of the necessary controls. In some cases, the cost of control may be disproportionately high and/or the control burden may adversely impact the effectiveness of the programme. The Commission is engaged in avoiding such cases.

167 As illustrated by the new instruments and measures of the current 2014-2020 Multiannual Financial Framework, such as for instance the 10 % retention mechanism in Cohesion, the possible implementation of net financial corrections, the new 'Audit Opinion/Management Declarations' by national authorities, the impact of the new Public Procurement Directives, the requirements resulting from the ex-ante conditionalities and simplified eligibility rules.

168 The Commission proposes in a single act an ambitious revision of the general financial rules. This act also contains corresponding changes to the sectorial financial rules set out in 15 legislative acts concerning multi-annual programmes related for instance to the European Structural and Investment Funds (ESIF) or Agriculture.

169 Article 66 (9) of the Financial Regulation

170 AGRI, REGIO, EMPL, and also EAC

171 AGRI, CNECT, DEVCO, ECFIN, ENV, EPSO, ESTAT, HOME, HR, OIB, PMO, REA, SANTE.

172 BUDG, CLIMA, EACEA, ERCEA, FPI, GROW, IAS, JUST, OIL, OP, RTD, TAXUD.

173 EASME, ECFIN, ENV, EPSC, FPI, GROW, HR, OIB, REGIO

174 CNECT, COMM, DEVCO, EMPL, ESTAT, OP, PMO, SANTE

175 AGRI, CLIMA, EAC, EACEA, ECHO, ERCEA, ENER, HOME, IAS, INEA, JUST, MOVE, NEAR, REA, RTD, TAXUD, CHAFEA, EPSO/EUSA

176 Annex 2-B shows the 2016 AAR reservations, including those newly introduced.

177 DG ENER's (non-quantified) reservation on the Nuclear Decommissioning Assistance Programme (NDAP), given the IAS's positive assessment of the progress made regarding the critical audit recommendation. In 2016, DG ENER thereby duly responded to the observations by the IAS and Central Services on 2015 by adequately and effectively implementing the remedial measures set up to address as regards this recommendation..

178 DG AGRI has included, in its recurrent reservation for Direct Support, a (non-quantified) sub-reservation for its Voluntary Coupled Support (VCS) schemes, as preliminary results from the ex-ante analysis of Member States' notification letters indicate that certain VCS measures in eight Member States may not be fully compliant with the eligibility conditions. DG AGRI has launched eight conformity desk audits, which are still at the early stage and their outcome is subject to a significant degree of uncertainty. EMPL's reservation for the 2014-2020 period is no longer only for the Fund for European Aid to the most Deprived (FEAD) but now also for the European Social Fund (ESF) and the Youth Employment Initiative (YEI).

179 HOME's (previously non-quantified) reservation on the European Refugee Fund (ERF) and the European Integration Fund (EIF), now becoming partially quantified (for ERF)

180 'Non-quantified reservations' are defined as reservations for which it is not possible to make an accurate assessment of the impact for the financial year or which cannot be quantified because they are only reputational.

181 DG EMPL has expanded its already existing 2014-2020 reservation (in 2015 only for FEAD) now to cover the ESF/YEI/FEAD management and control systems. DG MARE does not need to issue a reservation for its 2014-2020 EMFF programme.

182 In their AARs Annex 4, the Materiality Criteria state that "the control system established for Horizon 2020 is designed to achieve a control result in a range of 2%-5% detected error rate, which should be as close as possible to 2% after corrections. Consequently, this range has been considered in the legislation as the control

objective set for the framework programme." This is an alternative to the general materiality criteria usually applied by Commission services (by which the residual error rate must be lower than 2 % by the end of the implementation of the programme).

183 The Financial Statement accompanying the Commission's proposal for the Horizon 2020 regulation states: "The Commission considers therefore that, for research spending under Horizon 2020, a risk of error, on an annual basis, within a range between 2-5 % is a realistic objective taking into account the costs of controls, the simplification measures proposed to reduce the complexity of rules and the related inherent risk associated to the reimbursement of costs of the research projects. The ultimate aim for the residual level of error at the closure of the programmes after the financial impact of all audits, corrections and recovery measures will have been taken into account is to achieve a level as close as possible to 2 %."

184 Four EUTFs in 2016: the 'Bêkou' Trust Fund, i.e. the EU Trust Fund for the Central African Republic (EDF); the 'Madad' Fund, i.e. the EU Regional Trust Fund in Response to the Syrian Crisis (EU); the EU Emergency Trust Fund for Africa (EDF); the EU Trust Fund for Colombia (EU)

185 Three in 2016; i.e. DG DEVCO, DG NEAR, DG ECHO

186 COM(2017)124 of 28 February 2017

187 Special report No 27/2016: Governance at the European Commission — best practice?

188 https://ec.europa.eu/info/publications/strategic-plans-2016-2020_en

189 Inter-institutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management of 2 December 2013, OJ C 373, 20.12.2013, point 27.

190 COM(2016)170 of 4.04.2016.

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Strasbourg, 13.6.2017
COM(2017) 351 final

ANNEXES 1 to 9

ANNEXES

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT,
THE COUNCIL AND THE COURT OF AUDITORS
2016 Annual Management and Performance Report for the EU Budget**

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Annex 1: Snapshot of the Commission-wide impact indicators

These statistical indicators are high-level context indicators designed to track the longer-term and indirect impacts of EU action. They were identified in the Strategic Plans of the Commission services. This annex presents an intermediate reporting on the current trends. The values indicated in this annex are those available at the time of the preparation of the Annual Activity Reports of the DGs (January-February 2017). The latest values are available through the bookmarks and hyperlinks provided for each indicator in this annex.

General objective: A New Boost for Jobs, Growth and Investment

1. Percentage of EU GDP invested in R&D (combined public and private investment)			
Baseline (2012)	Latest known value (2014 - provisional)	Target (2020)	Source
2.01 %	2.03 %	3 %	Eurostat ¹
2. Employment rate population aged 20-64			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
69.2 %	70.1 %	At least 75 %	Eurostat
3. Tertiary educational attainment, age group 30-34			
Baseline (2013)	Latest known value (2015)	Target (2020)	Source
37.1 %	38.7 %	At least 40 %	Eurostat
4. Share of early leavers from education and training ²			
Baseline (2012)	Latest known value (2014 - provisional)	Target (2020)	Source
11.9 %	11 %	Less than 10 %	Eurostat
5. People at risk of poverty or social exclusion			
Baseline (2013)	Latest known value (2015)	Target (2020)	Source
122.7 million	118.8 million	At least 20 million people fewer than in 2008 (116.2 million)	Eurostat
6. GDP growth			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
1.6 %	2.2 %	Increase	Eurostat
7. Gross Fixed Capital Formation (GFCF) investments to GDP ratio			
Baseline (2014)	Latest known value (2015)	Target (2016-2020)	Source
19.4 %	19.5 %	21 %-22 % Mean GFCF for the period 2016-2020 having reached the range of 21 %-22 %	Eurostat

8. Labour productivity EU-28 as compared to US (US=100) ³			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
75 (US=100)	75.4	Increase	AMECO database of DG ECFIN
9. Resource productivity: Gross Domestic Product (GDP) over Domestic Material Consumption (DMC)			
Baseline (2010 – Eurostat estimate)	Latest known value (2015 – provisional, Eurostat estimate)	Target (2020)	Source
1.8 (EU-28)	2 (EU-28)	Increase	Eurostat

General objective: A Connected Digital Single Market

10. Aggregate score in Digital Economy and Society Index (DESI) EU-28 ⁴			
Baseline (DESI 2015)	Latest known value (DESI 2016)	Target (2020)	Source
0.50	0.52	Increase	DESI

General objective: A Resilient Energy Union with a Forward-Looking Climate Change Policy

11. Greenhouse gas emissions (index 1990=100)					
Baseline (2013)	Latest known value (2014)		Target (2020)	Source	
80.2	77.1		At least 20 % reduction (index ≤80)	European Environmental Agency	
12. Share of renewable energy in gross final energy consumption					
Baseline (2013)	Interim Milestone		Latest known value (2014)	Target (2020)	Source
	(2015/2016)	(2017/2018)			
15 %	13.6 %	15.9 %	16 %	20 %	Eurostat
13. Increase in energy efficiency – Primary energy consumption					
Baseline (2013)	Latest known value (2014)	Target (2020)	Source		
1 569.1 million tonnes of oil equivalent (Mtoe)	1 507.1 million tonnes of oil equivalent (Mtoe)	20 % increase in energy efficiency ⁵	Eurostat		
14. Increase in energy efficiency – Final energy consumption					
Baseline (2013)	Latest known value (2014)	Target (2020)	Source		
1 106.2 million tonnes of oil equivalent (Mtoe)	1 061.2 million tonnes of oil equivalent (Mtoe)	20 % increase in energy efficiency ⁶	Eurostat		
15. Number of Member States at or above the electricity interconnection target of at least 10 %					
Baseline (2014)	Interim Milestone (2018)	Latest known value (31 December 2016)	Target (2020)	Source	
16 Member States at or above 10 % electricity interconnection target	25 Member States at or above 10 % electricity interconnection target	17 Member States at or above 10 % electricity interconnection target	26 Member States at or above 10 % electricity interconnection target ⁷	ENTSO-e	

General objective: A Deeper and Fairer Internal Market with a Strengthened Industrial Base

16. Gross value added of EU industry in GDP			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
17.1 %	17.3 %	20 %	Eurostat
17. Intra-EU trade in goods (% of GDP)			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
20.4 %	20.4 %	Increase	Eurostat
18. Intra-EU trade in services (% of GDP)			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
6.3 %	6.5 %	Increase	Eurostat
19. Share of mobile EU citizens as % of the labour force			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
3.4 %	3.6 %	Increase	Eurostat (age group 15-64)
20. Composite indicator of financial integration in Europe (FINTEC) ⁸			
Baseline (2014)	Latest known value (September 2016)	Target (2020)	Source
0.5/0.3 ⁹	0.5/0.33	Increase	European Central Bank

General objective: A Deeper and Fairer Economic and Monetary Union

21. Dispersion of GDP per capita (Euro area MSs)			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
41.9 %	43.0 %	Reduce	Eurostat
22. Composite Indicator of Systemic Stress (CISS) ¹⁰			
Baseline (Average range 2010-2014)	Latest known value (2015 average)	Target (2020)	Source
0.25 in normal times 0.8 in a crisis mode	0.11	Stable trend	European Central Bank
23. Income quintile share ratio ¹¹			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
5.2	5.2	Reduce	Eurostat

General objective: A Reasonable and Balanced Free Trade Agreement with the U.S.

24. Share US in total EU FDI stocks (US trade / extra trade)			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
Inwards 35.0 % Outwards 32.4 % Total 33.3 % ¹²	Inwards 43.5 % Outwards 35.0 % Total 38.4 %	Increase	Eurostat

General objective: An Area of Justice and Fundamental Rights Based on Mutual Trust

25. Share of the population considering themselves as "well" or "very well" informed of the rights they enjoy as citizens of the Union			
Baseline (2015)	Latest known value	Target (2020)	Source
42 %	Next survey planned for 2019	Increase	Eurobarometer on Citizenship
26. Citizens experiencing discrimination or harassment			
Baseline (2015)	Latest known value	Target (2020)	Source
21 %	Next survey planned for 2019	Decrease	Eurobarometer on Citizenship
27. Gender Pay Gap (GPG) in unadjusted form, EU-28 ¹³			
Baseline (2013 - provisional figure)	Latest known value (2014 - provisional figure)	Target (2020)	Source
16.4 %	16.1 %	Decrease	Eurostat

General objective: Towards a New Policy on Migration¹⁴

28. Rate of return of irregular migrants to third countries			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source ¹⁵
41.8 %	42.5 %	Increase	Eurostat 1 : Return decisions Eurostat 2 : Returns
29. Gap between the employment rates of third-country nationals compared to EU nationals ¹⁶ , age group 20-64			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
Gap: 13.4 points EU nationals: 69.8 % Third-country nationals: 56.4 %	Gap: 14 points EU nationals: 70.7 % Third-country nationals: 56.7 %	Decrease	Eurostat

General objective: A Stronger Global Actor

30. GDP per capita (current prices-PPS) as % of EU level in countries that are candidates or potential candidates for EU accession			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
34 % for Western Balkans (excluding Kosovo ¹⁷) 53 % for Turkey	34 % for Western Balkans (excluding KosovoError! Bookmark not defined.) 52 % for Turkey	Increase	Eurostat
31. Ranking to measure political stability and absence of violence in countries part of the European Neighbourhood Policy (ENP) ¹⁸			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
NE: 33.89 - 4 countries above 30 NS: 11.99 - 4 countries above 10	NE: 29,84 - 4 countries above 30 NS: 12,75 - 4 countries above 10	NE: Increase the number of countries above 30 NS: Increase the number of countries above 10	Worldwide Governance Indicators (WGI) project (WB group)

32. Sustainable Development Goal 1.1.1: Proportion of population below international poverty line				
Baseline ¹⁹	Interim Milestone	Latest known value ²⁰	Target (2030) UN Sustainable Development Goals	Source
16.8 % ²¹ 27.5 % ²² (excluding the graduated countries)	Rolling On course for 2030 based on annual progress report prepared by UN Secretary General.	15.2 % (including the graduated countries - Partnership countries for which bilateral assistance is phased out) 27.0 % (excluding the graduated countries)	0 %	0 % World Bank (poverty rate); UN Population Division (population weights)

33. EU Collective Net Official Development Assistance (ODA) as a percentage of EU GNI:
a) in total, b) to LDCs (Least Developed Countries)

Baseline (2014)	Interim Milestone (2020)	Latest known value (2015)	Target (2030) ²³	Source
In total: 0.43 % To LDCs: 0.11 % ²⁴	In total: n/a To LDCs: 0.15 %	In total: 0.47 % To LDCs: 0.11 %	In total: 0.70 % To LDCs: 0.20 %	OECD Development Assistance Committee (DAC)

General objective: A Union of Democratic Change

34. Voter turnout at European Elections				
Baseline (2014)	Latest known value (insert also date)	Target (2019)	Source	
42.61 %	No new value.	Increase	European Parliament	

35. Number of opinions received from National Parliaments ²⁵				
Baseline (2014)	Latest known value		Target (2020)	Source
	(2015)	(2016)		
506	350	613	Increase	European Commission Annual report on relations between the European Commission and national parliaments

General objective: To help achieve the overall political objectives, the Commission will effectively and efficiently manage and safeguard assets and resources, and attract and develop the best talents

36. Trust in the European Commission			
Baseline (EB 83 – Spring 2015)	Latest known value (EB 85 – Spring 2016)	Target (2020)	Source
40 % tend to trust	37 % tend to trust	Increase	Standard Eurobarometer on Public Opinion in the European Union
37. Impact indicator: Staff engagement index in the Commission			
Baseline (2014)	Latest known value (2016)	Target (2020)	Source
65.3 %	64.3 %	Increase	European Commission

Annex 2: Amounts at risk & Annual Activity Reports reservations

2-A. Overall amount at risk at closure (EUR millions) reported in the 2016 Annual Activity Reports

The following table shows a consolidated overview of the overall amount at risk at closure.

To allow comparison with the previous AMPR, these groupings of Commission departments do not necessarily equal the ECA's Annual Report chapters (of which the number, the titles and even the compositions have changed in each of the at least 3 previous years). E.g. "Cohesion" includes all other DGs (beyond AGRI) which execute at least 50 % of their budget in shared management mode; i.e. not only REGIO and EMPL (which are indeed *cohesion*), but also MARE and HOME (which are resp. *natural resources* and *security & citizenship*).

DG DEVCO and the Total also include the EDFs' relevant expenditure (EUR 3350.5 million as payments made – EUR 1929.8 million as new pre-financing + EUR 1469.4 million as cleared pre-

financing = EUR 2890.0 million as relevant expenditure)

DGs DEVCO, NEAR, RTD: for reconciliation with the relevant expenditure mentioned in their Annual Activity Reports, see the explanatory footnotes to their overall amount at risk tables in their respective AARs.

DG REGIO: the retentions released were EUR 22.5 million (as mentioned in their Annual Activity Report on p. 52 and 56), the values-ranges are between *average* and *maximum* (see AAR on p. 100).

PS: As the table above is based on rounded values (EUR millions, rounded to one decimal), its totals may differ up to 0.1 with the totals from the next table (which is based on EUR units)

Policy area	Total payments (a)	New pre-financing paid (b)	Retentions made by Cohesion family DGs (c)	Pre-financing cleared (d)	Retentions (partially) released by Cohesion family DGs (e)	Total relevant expenditure (f)=(a)-(b)+(c)+(d)-(e)	Estimated amount at risk at payment (g) = Average Error Rate applied on (f)		Estimated future corrections (h) = Adjusted rate of Average Recoveries and Corrections applied on (f)		Estimated amount at risk at closure (i) = (g)-(h)	
							lowest value	highest value	lowest value	lowest value	highest value	lowest value
<i>Agriculture</i>	56 794.0	1 083.9		1 842.7		57 552.7	1 419.6 (2.47 %)	1 419.6 (2.47 %)	1 173.4 (2.04 %)	1 173.4 (2.04 %)	246.2 (0.43 %)	246.2 (0.43 %)
<i>Cohesion</i>	40 383.5	12 465.4	957.3	16 577.5	49.3	45 403.7	961.2 (2.12 %)	1 573.6 (3.47 %)	700.3 (1.54 %)	798.0 (1.76 %)	261.0 (0.57 %)	775.6 (1.71 %)
<i>External relations</i>	12 373.3	7 957.0		5 767.3		10 183.7	166.0 (1.63 %)	166.0 (1.63 %)	43.3 (0.43 %)	43.3 (0.43 %)	122.7 (1.20 %)	122.7 (1.20 %)
<i>Research, Industry, Space, Energy and Transport</i>	14 835.7	8 568.2		7 318.8		13 586.3	320.1 (2.36 %)	381.4 (2.81 %)	98.6 (0.73 %)	99.8 (0.73 %)	221.4 (1.63 %)	281.6 (2.07 %)
<i>Other internal policies</i>	5 501.5	3 257.0		2 287.5		4 532.0	35.1 (0.77 %)	39.4 (0.87 %)	8.1 (0.18 %)	8.1 (0.18 %)	27.0 (0.60 %)	31.4 (0.69 %)
<i>Other services & Administration</i>	5 904.1	91.1		56.6		5 869.5	12.2 (0.21 %)	14.9 (0.25 %)	0.5 (0.01 %)	0.6 (0.01 %)	11.8 (0.20 %)	14.3 (0.24 %)
Total	135 792.1	33 422.6	957.3	33 850.5	49.3	137 127.9	2 914.2 (2.13 %)	3 594.9 (2.62 %)	2 024.2 (1.48 %)	2 123.2 (1.55 %)	890.1 (0.65 %)	1 471.8 (1.07 %)

Policy area	DG	Total payments (a)	New pre-financing paid (b)	Retentions made by Cohesion family DGs (c)	Pre-financing cleared (d)	Retentions (partially) released by Cohesion family DGs (e)	Total relevant expenditure (f)=(a)-(b)+(c)+(d)-(e)	Estimated amount at risk at payment (g) = Average Error Rate applied on (f)		Estimated future corrections (h) = Adjusted rate of Average Recoveries and Corrections applied on (f)		Estimated amount at risk at closure (i) = (g)-(h)	
								lowest value	highest value	lowest value	highest value	lowest value	highest value
Agriculture	AGRI	56 794.0	1 083.9	-	1 842.7	-	57 552.7	1 419.6	1 419.6	1 173.4	1 173.4	246.2	246.2
Cohesion	EMPL	8 794.8	2 835.5	260.4	3 182.8	26.8	9 375.7	279.0	279.0	205.0	205.0	74.0	74.0
	HOME	2 043.9	1 564.6	-	1 074.9	-	1 554.2	29.5	29.5	15.7	15.7	13.8	13.8
	MARE	540.7	193.7	1.3	33.8	-	382.1	8.2	8.2	2.4	2.4	5.9	5.9
	REGIO	29 004.1	7 871.6	695.6	12 286.1	22.5	34 091.7	644.5	1 256.8	477.2	575.0	167.3	681.9
External Relations	DEVCO	6 615.6	3 831.7	-	2 803.3	-	5 587.2	108.3	108.3	25.5	25.5	82.8	82.8
	ECHO	2 132.1	1 769.5	-	1 074.7	-	1 437.3	17.3	17.3	5.8	5.8	11.5	11.5
	FPI	578.8	504.1	-	441.3	-	516.0	10.4	10.4	1.5	1.5	8.9	8.9
	NEAR	3 027.5	1 847.0	-	1 442.2	-	2 622.7	29.9	29.9	10.5	10.5	19.4	19.4
	TRADE	19.2	4.6	-	5.8	-	20.5	0.1	0.1	-	-	0.1	0.1
Research, Industry, Space, Energy and Transport	CNECT	2 001.5	983.0	-	896.1	-	1 914.6	74.3	95.2	11.6	11.6	62.7	83.5
	EASME	1 013.4	795.8	-	100.5	-	318.1	14.6	14.6	0.4	0.4	14.2	14.2
	ENER	1 092.6	778.0	-	742.0	-	1 056.5	10.5	10.5	2.3	2.3	8.1	8.1
	ERCEA	1 457.7	667.4	-	523.6	-	1 313.9	14.7	14.7	3.5	3.5	11.2	11.2
	GROW	1 548.0	1 371.9	-	1 652.2	-	1 828.3	16.1	16.1	4.1	4.1	12.0	12.0
	INEA	2 447.7	1 754.7	-	751.8	-	1 444.9	16.4	22.5	4.3	5.4	12.1	17.0
	MOVE	423.8	156.6	-	147.0	-	414.2	5.5	5.5	1.4	1.4	4.0	4.0
	REA	1 642.9	1 106.5	-	837.3	-	1 373.7	37.9	41.0	16.0	16.0	21.9	25.1
RTD	3 208.1	954.2	-	1 668.3	-	3 922.1	130.1	161.4	54.9	54.9	75.2	106.4	
Other Internal Policies	CHAFEA	80.7	42.4	-	30.3	-	68.7	0.8	0.8	0.2	0.2	0.6	0.6
	CLIMA	26.0	7.5	-	4.8	-	23.2	0.0	0.0	-	-	0.0	0.0
	COMM	112.4	13.1	-	9.9	-	109.2	0.7	0.7	0.7	0.7	0.1	0.1
	EAC	2 252.8	2 188.5	-	1 261.1	-	1 325.4	13.3	13.3	0.2	0.2	13.1	13.1
	EACEA	647.3	510.0	-	492.8	-	630.1	11.9	11.9	2.3	2.3	9.6	9.6
	ECFIN	1 449.9	11.2	-	2.5	-	1 441.2	-	2.9	-	-	-	2.9
	ENV	261.9	177.1	-	200.3	-	285.1	3.7	3.7	1.7	1.7	2.0	2.0
	JUST	157.1	124.5	-	106.6	-	139.1	1.8	1.8	1.1	1.1	0.8	0.8
	SANTE	409.7	167.4	-	170.0	-	412.3	2.3	3.7	2.0	2.0	0.3	1.8
TAXUD	103.8	15.4	-	9.3	-	97.6	0.6	0.6	0.0	0.0	0.6	0.6	

Policy area	DG	Total payments (a)	New pre-financing paid (b)	Retentions made by Cohesion family DGs (c)	Pre-financing cleared (d)	Retentions (partially) released by Cohesion family DGs (e)	Total relevant expenditure (f) = (a) - (b) + (c) + (d) - (e)	Estimated amount at risk at payment (g) = Average Error Rate applied on (f)		Estimated future corrections (h) - Adjusted rate of Average Recoveries and Corrections applied on (f)		Estimated amount at risk at closure (i) = (g) - (h)	
								lowest value	highest value	lowest value	highest value	lowest value	highest value
Other services & Administration	BUDG	12.4	-	-	-	-	12.4	0.1	0.1	-	-	0.1	0.1
	COMP	7.8	0.4	-	0.4	-	7.9	0.0	0.0	-	-	0.0	0.0
	DGT	19.5	-	-	-	-	19.5	-	-	-	-	-	-
	DIGIT	264.3	-	-	-	-	264.3	-	-	-	-	-	-
	EPSC	0.4	-	-	-	-	0.4	-	-	-	-	-	-
	EPSO/EUSA	18.1	-	-	-	-	18.1	0.0	0.0	-	-	0.0	0.0
	ESTAT	51.3	6.3	-	6.7	-	51.7	0.2	0.2	0.1	0.1	0.0	0.0
	FISMA	46.6	37.5	-	39.0	-	48.2	0.2	1.0	0.1	0.1	0.1	0.9
	HR	260.6	-	-	-	-	260.6	0.3	0.3	-	-	0.3	0.3
	IAS	-	-	-	-	-	-	-	-	-	-	-	-
	JRC	475.7	1.1	-	2.5	-	477.0	2.4	2.4	0.1	0.1	2.3	2.3
	OIB	390.6	-	-	-	-	390.6	0.0	2.0	0.0	0.2	-	1.8
	OIL	111.5	-	-	-	-	111.5	0.6	0.6	-	-	0.6	0.6
	OLAF	76.5	9.7	-	3.4	-	70.2	0.7	0.7	0.0	0.0	0.7	0.7
	OP	107.0	-	-	-	-	107.0	0.0	0.0	-	-	0.0	0.0
	PMO	3 953.9	-	-	-	-	3 953.9	7.5	7.5	0.1	0.1	7.4	7.4
	SCIC	53.4	0.2	-	0.2	-	53.4	-	-	-	-	-	-
SG	7.9	2.2	-	0.7	-	6.4	-	-	-	-	-	-	
SJ	3.4	-	-	-	-	3.4	0.0	0.0	-	-	0.0	0.0	
SRSS	43.1	33.8	-	3.7	-	13.0	0.1	0.1	-	-	0.1	0.1	
TOTAL		135 792.2	33 422.7	957.3	33 850.5	49.3	137 128.0	2 914.2	3 594.9	2 024.1	2 123.2	890.1	1 471.7

2-B. Summary of reservations (EUR millions) reported in the 2016 Annual Activity Reports²⁶

Policy Area	Description of reservation	Dept.	Impact on Legality and Regularity	Payments concerned = scope	Amount at risk at reporting = exposure
Agriculture	EAGF market measures (7 aid schemes in 8 MS)	AGRI	Quantified	1 394.0	66.1
	EAGF direct support (18 paying agencies in 12 MS, plus also (non-quantified) VCS schemes in 8 MS)	AGRI	Quantified	13 618.6	541.2
	EAFRD expenditure for rural development measures (20 paying agencies in 19 MS)	AGRI	Quantified	8 996.0 ²⁷	393.9
Cohesion	2014-2020 European Regional Development Fund / Cohesion Fund (2 programmes in 2 MS)	REGIO	NEW; Non-quantified	-	-
	2007-2013 European Regional Development Fund / Cohesion Fund / European Territorial Cooperation (66 programmes in 14 MS)	REGIO	Quantified	3 380.0	220.0
	2000-2006 Cohesion Fund (2 sectors in 2 MS)	REGIO	Non-quantified	-	-
	2014-2020 European Social Fund, Youth Employment Initiative, Fund for European Aid to the most Deprived (ESF/YEI/FEAD) (4 programmes in 4 MS)	EMPL	Quantified	102.0	5.3
	2007-2013 European Social Fund (23 programmes in 12 MS)	EMPL	Quantified	1 440.0	162.0
	2000-2006 European Social Fund (1 MS)	EMPL	Non-quantified	-	-
	2007-2013 European Fisheries Fund (EFF) (8 programmes in 8 MS)	MARE	Quantified	160.8	5.5
	2014-2020 Management and control systems for the Asylum, Migration and Integration Fund (AMIF) (Spain, France)	HOME	NEW; Quantified	56.2	1.1
	2007-2013 European Refugee Fund (ERF) and European Integration Fund (EIF) (both in Germany)	HOME	Quantified for ERF, Non-quantified for EIF	1.6	0.1
External Relations	Direct management grants and indirect management grants, programme estimates, International Organisations and MS Agencies	DEVCO	Quantified	3 373.0	60.1
	African Peace Facility (APF)	DEVCO	Quantified	206.2	10.5
	Common Foreign and Security Policy (CFSP) and the Instrument for Cooperation with Industrialised countries (ICI)	FPI	Quantified	272.0	7.0
	Projects in Syria and Libya, for which no assurance building is possible (no staff access to projects or auditors' access to documents)	NEAR	NEW; Non-quantified	46.8	-
Research, Industry, Space, Energy and Transport	Research FP7	RTD	Quantified	682.1	67.2
	Research FP7 - incl. funds paid to AAL Association and ECSEL Joint Undertaking	CNECT	Quantified	430.9	28.6
	Research FP7 - incl. FP7 funds paid to GSA Agency	GROW	Quantified	1.6	0.4
	Research FP7	HOME	Quantified	17.3	1.7
	Research FP7	ENER	Quantified	52.0	3.7
	Research FP7	MOVE	Quantified	2.1	0.2
	Research FP7 - Space and Security	REA	Quantified	206.9	7.1
	Research FP7 - small and medium-sized companies	REA	Quantified	172.3	10.3
	CIP (Competitiveness and Innovation Programme)	GROW	Quantified	10.8	1.2
	CIP ICT Policy Support Programme (PSP)	CNECT	Quantified	32.3	8.4
	CIP Intelligent Energy Europe (IEE II)	EASME	Quantified	40.4	3.4
	CIP Eco-Innovation	EASME	NEW; Quantified	14.5	1.6
	Coal and Steel Research Fund (CSRF)	RTD	Quantified	44.2	1.5
Other internal policies	2007-2013 Lifelong Learning Programme (LLP)	EACEA	Quantified	18.7	4.1
	2007-2013 Culture Programme	EACEA	Quantified	11.8	2.8
	2007-2013 Youth Programme	EACEA	Quantified	0.4	0.1
	Non-research grant programmes	HOME	Quantified	392.5	4.5
	Non-research grant programmes	JUST	Quantified	57.8	1.4
	EU Registry Emissions Trading System (EU ETS) - significant security weakness remaining	CLIMA	Non-quantified	-	-

Policy Area	Description of reservation	Dept.	Impact on Legality and Regularity	Payments concerned = scope	Amount at risk at reporting = exposure
<i>Other services & Administration</i>	Accountability in European Schools	HR	Non-quantified	26.0	-
TOTAL				35 261.8	1 621.2
Revenue	EU's Traditional Own Resources (TOR), in view of OLAF's report about fraud in the UK's customs duties	BUDG	<u>NEW</u> : Quantified	20 094.1	517.4
TOTAL				20 094.1	517.4

Annex 3: Definitions of the amount at risk

The Commission measures the **level of error** for assessing whether financial operations have been implemented in compliance with the applicable regulatory and contractual provisions. The level of error is defined as the **best estimation** by the authorising officer, taking into account **all relevant information** available and using **professional judgement**, of the expenditure or revenue found to be in breach of applicable regulatory and contractual provisions at the time the financial operations were authorised.

The Commission uses three indicators to measure the level of error:

- **Amount at risk** is the level of error expressed as an absolute amount, in value.
- **Error rate** is the level of error expressed as a percentage.
- **Residual error rate** is the level of error after corrective measures have been implemented, expressed as a percentage.

The level of error is measured at various moments in time:

- At the **time of payment**; when no corrective measures have been yet implemented.
- At the **time of reporting**; when some corrective measures have been implemented but others will be implemented in successive years.
- At the **time of closure**, when all corrective measures will have been implemented. *For multiannual programmes this refers to the end of programme implementation; for annual programmes this is calculated at the end of a multiannual period covering the implementation of corrective measures, depending on the programme.*²⁸

The term **corrective measures** refers to the various (*ex-post*) controls implemented after expenditure is declared to the Commission and/or the payment is authorised²⁹, aimed to identify and correct errors through financial corrections and recoveries.

The **estimated future corrections** is the amount of expenditure in breach of applicable regulatory and contractual provisions that the DG conservatively estimates it will still identify and correct through (*ex-post*) controls implemented *after* the payment is authorised, i.e. not only including corrections already implemented at the time of reporting but also those that will be implemented in successive years. The estimates can be based on the average amount of

financial corrections and recoveries in past years, but adjusted when necessary in particular to neutralise (i) elements which are no longer valid under the current legal framework and (ii) one-off events.

These concepts have the "**relevant expenditure**"³⁰ potentially at risk as calculation basis, which includes the payments made, subtracts the new pre-financing paid out (still owned by the Commission), and adds the previous pre-financing cleared (ownership transferred) during the financial year.³¹ This is a 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general accounting.

As a result, the Commission presents **three types of amount at risk**, calculated as follows:

- The overall **Amount at Risk at Payment** in the relevant expenditure is calculated on the basis of the Detected Error Rates (DER in %) or its equivalents³² for the DGs' expenditure segments, leading up to their total weighted Average Error Rates (AER). Consequently, these are 'gross' types of error rates – which are closest to the European Court of Auditors' Most Likely rate of Error (MLE, and its LEL-UEL range).
- The **Amount at Risk at Reporting** from the reservations is calculated on the basis of the Residual Error Rate (RER in %). This is typically a (cumulative) weighted average of the population segments audited and already cleaned (remaining error near 0 %) versus not (yet) audited (so presumed to be still affected by the DER). This concept assumes that the errors found and the corrections made so far in previous years (up to the time of reporting) apply similarly to the relevant expenditure of the reporting year as well. Consequently, this is an 'intermediate' type of error rate – up to that moment in the management cycle. *However, as this concept is based on (quantified)³³ Annual Activity Report Reservations only, it is not an "overall" concept given that it does not cover at all any relevant expenditure which is not under reservation (i.e. for which RER < 2%).*
- The overall **Amount at Risk at Closure** in the relevant expenditure is calculated by subtracting the Estimated Future Corrections from the Amount at Risk at Payment. Consequently, this is a 'net' type of error rate (in EUR and/or in %) – forward-looking to the point when all corrections will have been made.

Annex 4: Protection of the EU Budget

In previous reporting years, this was a separate Communication³⁴.

This Annex describes the functioning of the preventive and corrective mechanisms foreseen in the legislation and the actions taken by the Commission services to protect the EU budget from illegal or irregular expenditure. It also provides a best estimate of the effects these mechanisms generate and indicates how Member States are involved and impacted. The following information focuses primarily on the results of the Commission's supervisory role, but also provides an insight into the results of Member States' controls.

Key considerations for the protection of the EU budget

One important objective of the Commission's "budget focused on results" strategy is to ensure cost-effectiveness when designing and implementing management and control systems which prevent or identify and correct errors. Control strategies should therefore consider a higher level of scrutiny and frequency in riskier areas and ensure cost-effectiveness.

In **2016**, financial corrections and recoveries **confirmed** amount to EUR 3.8 billion. During **the period 2010-2016** the **average amount confirmed** was EUR 3.3 billion which **represents 2.4 % of the average amount of payments** made from the EU budget. The figures reported confirm the positive results of the multi-annual preventive and corrective activities undertaken by the Commission and the Member States by demonstrating that these activities ensure that the EU budget is protected from expenditure in breach of law.

Under shared management the Member States are primarily responsible for identifying and recovering from beneficiaries amounts unduly paid. Controls carried out by Member States represent the first layer of control in the activities to protect the EU budget. The Commission can apply preventive measures and/or financial corrections on the basis of irregularities or serious deficiencies identified by Member State authorities, on the basis of its own verifications and audits, OLAF investigations or as a result of audits by the European Court of Auditors.

For shared management, the Commission increasingly uses a number of preventive mechanisms and encourages Member States to address weaknesses in their management and control systems so as to prevent irregular

expenditure. The Commission applies corrective mechanisms as a last resort where preventive mechanisms were not effective.

For Cohesion and the European Agricultural Fund for Rural Development (EAFRD), the vast majority of the financial corrections confirmed/implemented in 2016 relate to the 2007-2013 programme period. The corrections confirmed or implemented during the year relate to errors and irregularities detected in 2016 or in previous years. Overall, 91 % of the total financial corrections decided have been implemented by the end of 2016.

Agriculture and Rural Development

For the **European Agricultural Guarantee Fund (EAGF)**, the average correction rate for Commission financial corrections under conformity clearance of accounts for the **period 1999 to end 2016** was **1.8 % of expenditure** (all of which are net financial corrections).

Net corrections leading to a reimbursement to the EU budget are characteristic for Agriculture and Rural Development. In 2016 the main corrections relate notably to temporary exceptional measures for markets, specific deficiencies in the Integrated Administration and Control (IACS) system in some Member States and insufficient checks of the reasonableness of costs for investments measures under Rural development.

The Commission now applies a number of newly available preventive instruments such as the interruption, suspension and reduction of EU financing with a view to better protecting the EU budget and further incentivising Member States to reduce irregular payments. In 2016, the Commission has issued EAGF related decisions for the reduction of payments of EUR 20 million, for interruptions of EUR 288 million and for suspensions of EUR 185 million.

As regards the EAGF, Member States where the Land Parcel Identification Systems do not reach the necessary quality level are required to put in place appropriate action plans while facing the risk of financing suspensions should the action plan not be properly implemented.

For the European Agricultural Fund for Rural Development (EAFRD), the Commission now interrupts payments in case of problems and has also recourse to suspensions.

In general, the Commission has launched an

ambitious simplification process intended to reduce complexity and administrative burden which will also contribute to bringing the risk of error further down.

In addition to the financial corrections, Member States' own reductions before payments to beneficiaries amounted to EUR 648 million at 31 December 2016.

Cohesion

For the European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Social Fund (ESF) 2007-2013 funds, at the end of 2016 the combined rate of financial corrections, based on Commission supervision work only, was 1.7 % of the allocations made.

For Cohesion Policy, net corrections are rather the exception under the 2007-2013 framework, due to the different legal framework and budget management type (reinforced preventive mechanism). The regulations for all programming periods enable the Commission to apply preventive measures, i.e. payment interruptions³⁵ and suspensions, and financial corrections. The regulatory provisions for the 2014-2020 period significantly strengthen the Commission's position on protecting the EU budget from irregular expenditure and foresee the application of net financial corrections.

During the 2000-2006 and 2007-2013 programming period, where the Commission identifies individual irregularities³⁶ or serious deficiencies in the Member State management and control systems, it can apply financial corrections with the purpose of restoring a situation where all of the expenditure reimbursed by the Commission is brought back in line with the applicable rules. The Member States were able to replace irregular expenditure with new eligible expenditure if they took the necessary corrective actions and applied the related financial correction. If the Member State did not have such additional expenditure to declare, the financial correction resulted in a net correction (loss of funding). In contrast, a Commission financial correction decision had always a direct and net impact on the Member State: it had to pay the amount back and its envelope was reduced³⁷. In 2016 Member States were able to replace EUR 712 million out of EUR 931 million of corrections.

The European Court of Auditors recently assessed

the effectiveness of preventive and corrective measures taken by the Commission in cohesion policy for the 2007-2013 period³⁸ and concluded that overall the Commission had made effective use of the measures at its disposal to protect the EU budget from irregular expenditure and that the Commission's corrective measures put pressure on Member States to address weaknesses in their management and control systems.

The new assurance model for the 2014-2020 programming period, set-up on a yearly basis, reduces the risk of having a material level of error in the accounts. The new legal framework foresees an increased accountability for programme managing authorities which have to apply sound verifications on time for the submission of programme accounts each year. During the accounting year the Commission retains 10 % of each interim payment until the finalisation of all national control cycle. Timely identification of serious deficiencies in functioning of the management and control system and reporting of reliable error rates is in the Member States' best interest since the Commission shall make net financial corrections in case Member States have not appropriately addressed them before submitting annual accounts to the Commission.

For the period 2014-2020, for ERDF/CF the Member States have applied financial corrections totalling EUR 11 million, while the financial corrections imposed for ESF/YEI and FEAD amounted to EUR 6 million.

Direct and Indirect Management

The Commission has established a control framework in direct and indirect management which focuses on ex-ante checks on payments, in-depth ex-post checks carried out at the beneficiaries' premises after costs have been incurred and declared, and verification missions to international organisations. Net corrections leading to a reimbursement to the EU budget are characteristic for direct and indirect management.

Specific control frameworks are put in place for spending under direct and indirect management covering primarily the grant management process, because this addresses existing risks.

1. Financial corrections and recoveries at end 2016

1.1. Financial corrections and recoveries 2016

MFF Heading	Total EU budget payments in 2016	Total financial corrections confirmed in 2016	Total recoveries confirmed in 2016	Total financial corrections and recoveries confirmed in 2016	% of payments of the EU budget	Total financial corrections implemented in 2016	Total recoveries implemented in 2016	Total financial corrections and recoveries implemented in 2016	% of payments of the EU budget
Smart & inclusive growth	56 265	1 193	266	1 459	2.6%	856	277	1 133	2.0%
ERDF	21 067	706	-	706	3.3%	623	-	623	3.0%
Cohesion Fund	7 449	102	-	102	1.4%	1	-	1	0.0%
ESF	8 148	386	3	389	4.8%	232	3	235	2.9%
Internal policies	19 601	N/A	263	263	1.3%	N/A	273	273	1.4%
Sustainable growth: natural resources	57 411	1 745	363	2 108	3.7%	1 862	183	2 046	3.6%
EAGF	44 084	1 286	100	1 387	3.1%	1 544	118	1 662	3.8%
Rural Development**	12 370	458	242	700	5.7%	243	43	286	2.3%
FIFG/EFF	422	8	6	14	3.2%	10	7	17	3.9%
EAGGF Guidance	48	(7)	2	(5)	(11.0%)	65	2	67	140.1%
Internal policies	487	N/A	13	13	2.6%	N/A	14	14	2.8%
Security & citizenship	3 077	6	27	33	1.1%	6	26	32	1.0%
Migration and home affairs	2 393	6	-	6	0.3%	6	-	6	0.2%
Internal policies	684	N/A	27	27	3.9%	N/A	26	26	3.8%
Global Europe	10 277	N/A	173	173	1.7%	N/A	175	175	1.7%
External policies	10 277	N/A	173	173	1.7%	N/A	175	175	1.7%
Administration	9 325	N/A	4	4	0.0%	N/A	4	4	0.0%
Administration	9 325	N/A	4	4	0.0%	N/A	4	4	0.0%
TOTAL	136 355*	2 944	833	3 777	2.8%	2 724	665	3 389	2.5%

Table 1.1: Financial corrections and recoveries overview for 2016³⁹ in EUR millions

* Excludes EUR 61 million paid out under the Special Instruments heading.

** The Rural Development amounts include EUR 173 million of financial clearance decisions of 2015 that were reported as a reduction of the annual amounts in the 2015 Communication on the protection of the EU budget (COM(2016) 486 final of 18/7/2016).

1.1.1. Agriculture and Rural Development

The **financial corrections**⁴⁰ confirmed by the Commission in 2016 reflect the significant efforts made by the Directorate General for Agriculture and Rural Development (DG AGRI) in accelerating the conformity clearance processes, including processing long outstanding procedures. As regards correcting irregularities committed by the beneficiary,

Member States must record and report on the **recovery**⁴¹ of the amounts unduly spent within the annual financial clearance exercise. Recovering irregular payments directly from the final beneficiaries is the sole responsibility of the Member States.

1.1.2. Cohesion

2007-2013 programming period

Financial corrections under **ERDF/CF** in 2016 remained high as compared to previous years⁴², thus confirming the multi-annual corrective capacity of the policy. This is also the result of the strict policy of interruption/suspension procedures by the Commission since the beginning of the programming period and the fact that we are at the closure of the programming period, with the last possibility for the Member States to declare new expenditure, after the application of the financial corrections requested by the Commission.

The Member States with the highest corrections in 2016 were Hungary (EUR 211 million), Greece (EUR 101 million), Spain (EUR 89 million) and Slovakia (EUR 41 million). As a result, at end 2016 the cumulative amount of financial corrections for 2007-2013 confirmed by Member States as consequence of the Commission supervisory role is EUR 2.9 billion⁴³.

For **ESF** the total amount of financial corrections confirmed in 2016 stands at EUR 256 million and in cumulative figures at EUR 1 454 million. There were no financial corrections decided by a Commission decision. The total amount of financial corrections

implemented in 2016 stands at EUR 102 million out of which EUR 53 million have been confirmed in 2016 and EUR 49 million in the previous years. The total amount of financial corrections implemented for ESF stands at EUR 1 240 million in cumulative figures. 85 % of financial corrections confirmed during the year 2016 and previous years for the programming period 2007-2013 have been implemented, leaving an amount of EUR 213 million to be implemented at closure. Member States with the highest level of financial corrections implemented in 2016 are Spain (EUR 35 million), UK (EUR 18 million) and Romania (EUR 16 million).

2014-2020 programming period

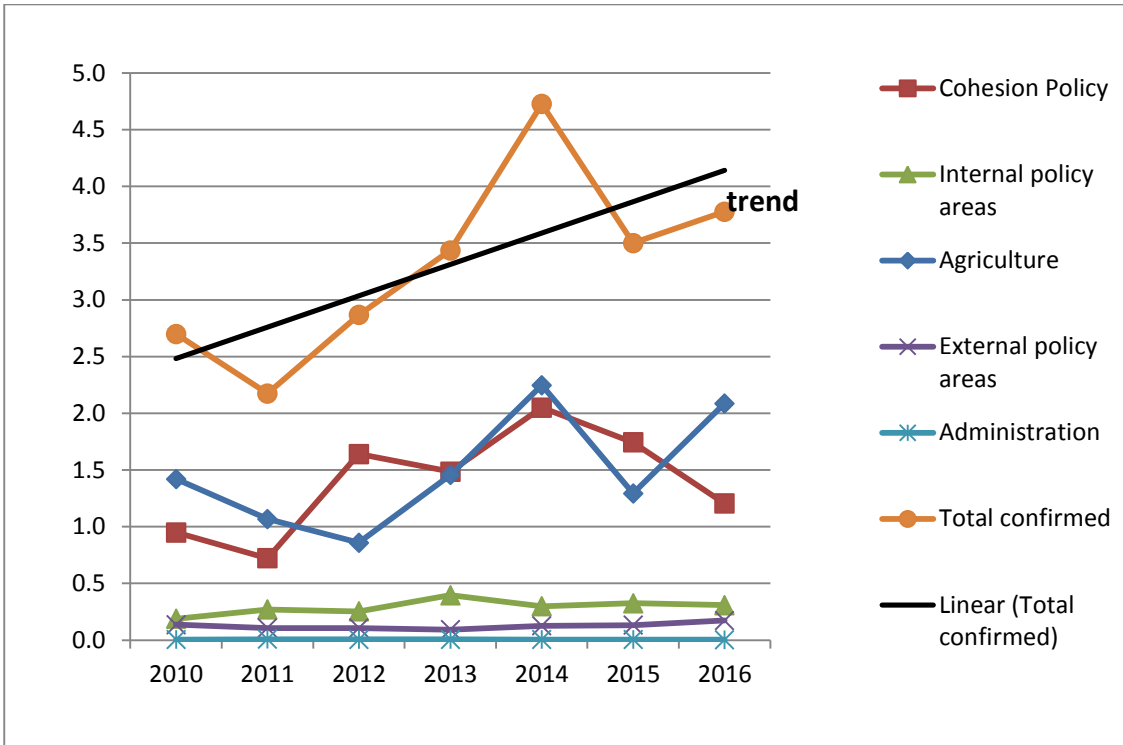
The process for the designation of programme authorities and bodies, which is a key step towards the effective implementation of new operational programmes, has continued throughout 2016 under close monitoring by the Commission services, with large number of mainstream programmes now having finalised their designation. However, no expenditure was certified in the annual accounts submitted to the Commission in 2016 and nor were any financial corrections imposed by the Commission following its audit activity.

1.2. Cumulative financial corrections and recoveries to end 2016

Cumulative figures provide useful information on the significance of the corrective mechanisms used by the Commission, in particular as they take into account the multi-annual character of programmes and projects and neutralise the impact of one-off events.

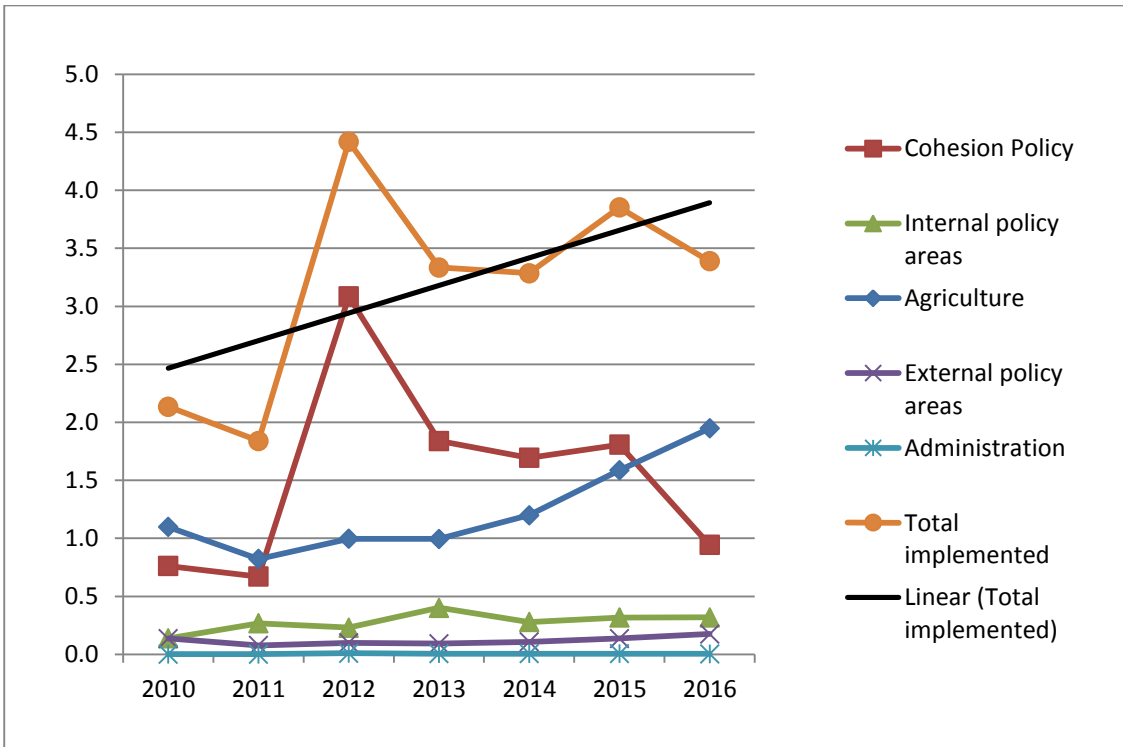
1.2.1. Period 2010-2016

The graphs below show the evolution of financial corrections and recoveries confirmed and implemented during the last 7 years.



Graphs 1.2.1: Financial corrections and recoveries 2010-2016 Financial corrections and recoveries confirmed 2010-2016 (EUR billions)

The average confirmed financial corrections 2010-2016 amount to EUR 3.3 billion which represents 2.4 % of average budget payments.



Financial corrections and recoveries **implemented** 2010-2016 (EUR billions)

The average amount of financial corrections and recoveries **implemented** for 2010-2016 was EUR 3.2 billion, which represents 2.3 % of the average amount of payments from the EU budget in that period.

1.2.2. Financial corrections implementation percentage at end 2016

	Programming Period			Cumulated EAGF decisions	Total financial corrections confirmed at end 2016	Implementation % end 2016	Financial corrections confirmed at end 2015	Implementation % end 2015
	1994-1999 Period	2000-2006 Period	2007-2013 Period					
Agriculture	-	144	1 067	13 081	14 291	88.5%	12 692	85.4%
EAGF	-	-	-	13 081	13 081	89.1%	11 766	85.7%
Rural Development	-	144	1 067	N/A	1 211	82.2%	926	81.3%
Cohesion Policy	2 281	9 052	5 802	N/A	17 136	92.4%	15 943	93.4%
ERDF	1 341	5 792	3 371	N/A	10 505	91.8%	9 800	92.1%
Cohesion fund	268	843	949	N/A	2 060	92.9%	1 958	97.6%
ESF	569	2 111	1 454	N/A	4 134	94.8%	3 748	98.4%
FIFG/EFF	100	136	28	N/A	264	64.8%	256	63.0%
EAGGF Guidance	3	171	-	N/A	174	100.0%	181	60.1%
Other	-	-	-	N/A	38	99.5%	32	100.0%
Total	2 281	9 196	6 869	13 081	31 466	90.6%	28 666	89.9%

Table 1.2.2: Cumulative financial corrections confirmed & implementation percentage to end 2016 in EUR millions

1.2.3. Cumulative recoveries 2010-2016

The tables below provide the amounts of recoveries confirmed and implemented for the period 2010-2016. See also section 1.3.1 below concerning the impact on the EU budget.

Recoveries	Years							Total
	2010	2011	2012	2013	2014	2015	2016	
Agriculture:								
EAGF	178	174	162	227	213	117	100	1 172
Rural Development	114	161	145	139	165	206	242	1 172
Cohesion	24	50	22	83	35	5	10	229
Internal policy areas	188	270	252	393	293	302	303	2 001
External policy areas	137	107	107	93	127	132	173	876
Administration	5	8	7	6	5	5	4	40
Total	646	770	695	941	838	767	833	5 490

Table 1.2.3: Recoveries confirmed 2010-2016 in EUR millions

Recoveries	Years							Total
	2010	2011	2012	2013	2014	2015	2016	
Agriculture:								
EAGF	172	178	161	155	150	155	118	1 090
Rural Development	114	161	166	129	167	152	43	932
Cohesion	25	48	14	81	32	7	12	219
Internal policy areas	162	268	229	398	274	293	313	1 937
External policy areas	136	77	99	93	108	136	175	824
Administration	5	2	9	6	5	5	4	36
Total	614	734	678	862	736	749	665	5 038

Table 1.2.4: Recoveries implemented 2010-2016 in EUR millions

1.3. Impact of financial corrections and recoveries

1.3.1 Impact on the EU budget

Financial corrections and recoveries may or may not have an impact on the EU budget:

Replacement of expenditure refers to the possibility under cohesion legislation for Member States to replace ineligible expenditure with new eligible expenditure, thus not losing EU funding (i.e. not a net correction as there is no return of money to the EU Budget).

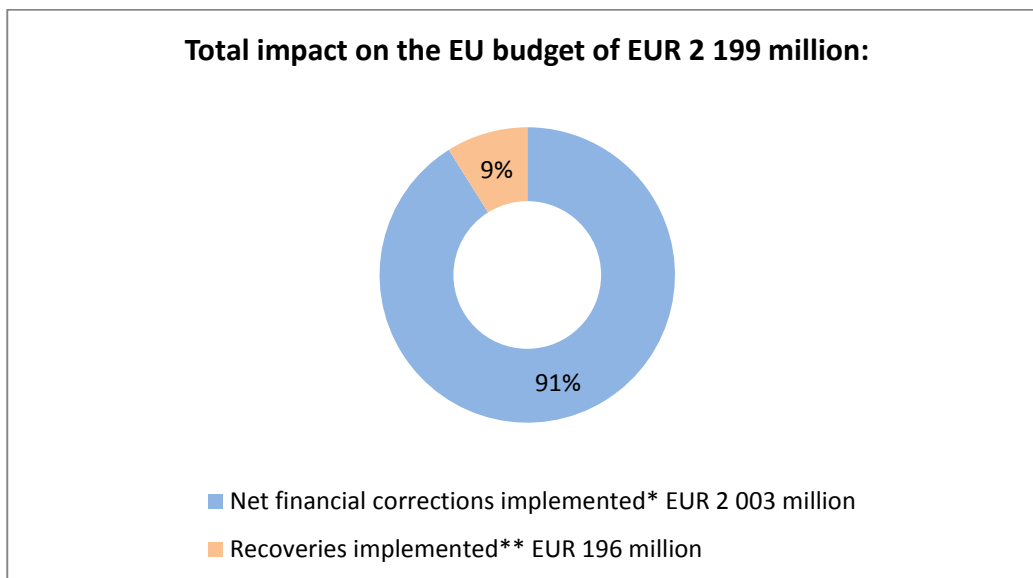
A **net financial correction** is a correction that has a net impact on the EU budget, (i.e. the corrected and recovered amounts are reimbursed to the EU budget).

Agriculture and Rural Development corrections (EAGF, EAFRD, EAGGF) lead almost always to a reimbursement to the EU budget whereas, due to the legal framework, for Cohesion Policy, the return of previously paid amounts to the EU budget were generally the exception during the implementation of the programmes.

Under the legal framework applicable for Cohesion Policy up to the 2007-2013 programming period, a real cash-flow back to the EU budget occurs only:

- If Member States are unable to present sufficient eligible expenditure;
- After the closure of programmes where replacement of ineligible by eligible expenditure is no longer possible;
- In case of disagreement with the Commission.

However, a significant change was introduced for the 2014-2020 period: the Commission has the obligation to apply a net financial correction when serious deficiencies in the effective functioning of the management and control system not previously detected, reported nor corrected at Member State level are discovered by EU audits after the submission of the assurance packages. In such cases, the possibility of previous programming periods for the Member State to accept the correction and to re-use the EU funds in question is removed.



Graph 1.3.1: Impact on the EU Budget 2016

* The main expenditure chapters concerned are 0502, 0503, 0504, 1303, 1304, 0402, 1106 and 1803.

** Excluding "At source" recoveries. The main expenditure chapters concerned are 0502, 0503, 1303, 1304, 0402 and 1106. For more information on recoveries see 1.2.3.

Revenues arising from net financial corrections and recoveries are treated as assigned revenue⁴⁴, noting that the Commission implements recoveries also "at source" by deducting ineligible expenditure (which has been identified in previous or current cost claims) from payments made. In general, assigned revenue goes back to the budget line or fund from which the expenditure was originally paid and may be spent again but it is not earmarked for specific Member States.

1.3.2. Impact on national budgets

Under shared management, all financial corrections

and recoveries have an impact on national budgets

regardless of their method of implementation. It has to be underlined that even if no reimbursement to the EU budget is made, the impact of financial corrections is always negative at Member State's level. This is because in order not to lose EU funding, the Member State must replace ineligible expenditure by eligible operations. This means that the Member State bears, with its own resources (from the national budget), the financial consequences of the loss of EU co-financing of

2. Agriculture and rural development

2.1. Preventive actions

Preventive actions by the Member States

A compulsory administrative structure has been set up at the level of Member States. The management, control and payment of the expenditure is entrusted to accredited paying agencies (PAs). Compliance with strict accreditation criteria is subject to constant supervision by the competent national authority (at ministerial level). The directors of PAs are required to provide an annual management declaration on the completeness, accuracy and veracity of the accounts, as well as a declaration that the system in place provides reasonable assurance on the legality and regularity of the underlying transactions. The annual accounts, the functioning of the internal control procedures and the legality and regularity of the expenditure of PAs are verified and certified by the Certification Bodies (an independent external audit body), which also reviews the compliance with the accreditation criteria. The management declarations are also verified by the above-mentioned certification bodies, which are required to provide an annual opinion. For each support scheme financed by the EAGF or EAFRD, the PAs apply a system of exhaustive ex-ante administrative controls and on-the-spot checks prior to any payment. These controls are made in accordance with precise rules set out in the sector specific legislation. For the majority of these aid schemes Member States are required to send statistical information on the checks carried out and their results on a yearly basis to the Commission.

Preventive actions by the Commission

The Commission now applies a number of newly available preventive instruments such as the interruption, suspension and reduction of EU financing with a view to better protecting the EU budget and further incentivising Member States to reduce irregular payments. The Commission may interrupt payments for the second pillar (EAFRD) and reduce or suspend the payments for both pillars

expenditure considered ineligible under the EU programme rules (in the form of opportunity cost) unless it is possible to recover the amounts from individual beneficiaries. This is not always possible, for example in the case of flat-rate corrections at programme level (due to deficiencies in the national administration managing the programme) which are not directly linked to individual irregularities at project level.

(EAGF and EAFRD). The Commission has decided to reduce payments by EUR 20 million, to interrupt EUR 288 million and to suspend EUR 185 million for EAGF in 2016.

First, where the declarations of expenditure or the annual accounts do not enable the Commission to establish that the expenditure has been effected in accordance with Union rules the Commission may reduce or suspend the payments to the Member State under both pillars.

Secondly, the Commission may reduce or suspend monthly (EAGF) or interim (EAFRD) payments where *"one or more of the key components of the national control system in question do not exist or are not effective due the gravity or persistence of the deficiencies found"*⁴⁵ (or there are similar serious deficiencies in the system for the recovery of irregular payments) and:

- either the deficiencies are of a continuous nature and have already been the reasons for at least two financial correction decisions,
- or*
- the Commission concludes that the Member State concerned is not in a position to implement the necessary remedial measures in the immediate future, in accordance with an action plan with clear progress indicators to be established in consultation with the Commission.

For **EAFRD**, the new Common Provisions Regulation (CPR)⁴⁶ also provides for the interruption of interim payments by the Authorising Officer by Delegation (i.e. the Director-General) as an additional, quick and reactive tool in case of concerns about the legality and regularity of payments.

For **EAGF**, the rhythm of the monthly payments would not allow for using such an interruption procedure. For EAGF suspensions of payments in the monthly payments due to deficiencies in the control system were made for a total amount of EUR 185 million (France and Poland). There were no

reductions in the monthly payments due to deficiencies in the control system in 2016. The other reductions concern overruns of ceilings, deadlines and other eligibility issues.

The interruptions and reductions / suspensions are provisional. Where relevant these could be

accompanied by an audit. If the deficiency is confirmed, the relevant expenditure is definitely excluded from EU funding by application of a financial correction under the conformity clearance procedure.

2.2. Corrective actions

For **EAGF**, financial corrections are executed by deducting the amounts concerned from the monthly payments made by the Commission in the second month following the Commission decision on a financial correction to the Member State concerned.

For **EAFRD**, the financial corrections are executed through a recovery order requesting the Member State concerned to reimburse these amounts to the EU budget mostly executed by set-off in the reimbursement in the following quarter. It therefore

occurs that decisions adopted in the end of year N are only executed at the beginning of year N+1.

Furthermore, the execution of the decision may be delayed due to instalment and deferral decisions. Up to end 2016, instalment decisions for corrections of EUR 3.3 billion have been adopted. Deferral of reimbursement of financial corrections ending re-payment in 2016 concerned Greece (EUR 504 million) and Portugal (EUR 109 million).

2.3. Deficiencies in Member States' management and control identified and measures undertaken

The main root causes of errors leading to corrections have been:

- Errors in non-compliance
- Eligibility conditions not met
- Breach of procurement rules

These were addressed putting in place action plans which identify the deficiencies for the PAs concerned and define remedial actions to be implemented by the PAs.

In general, the Commission has launched an ambitious simplification process intended to reduce complexity and administrative burden which will also contribute to bringing the risk of error further down.

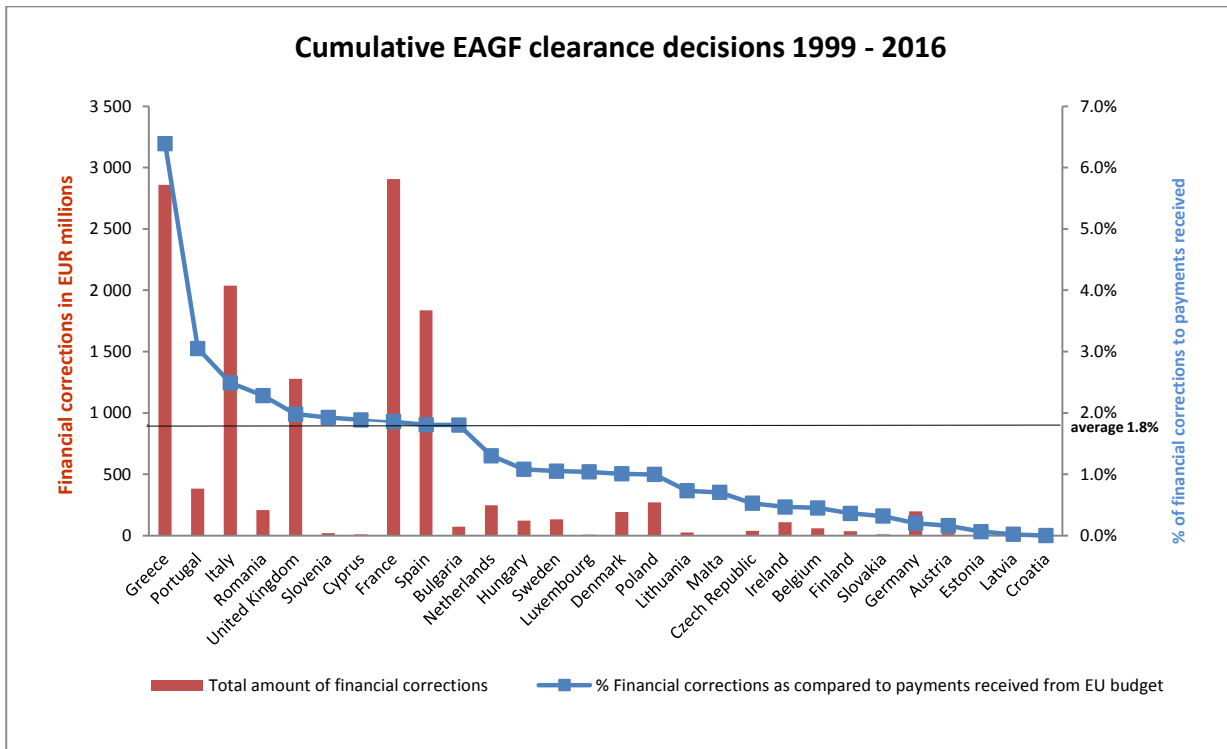
management and control identified and

2.4. Cumulative figures

Concerning **EAGF**, the average correction rate per financial year for the period 1999-2016 has been **1.8 %** of expenditure. Once decided by the Commission, the corrections are automatically implemented unless a Member State has been granted the possibility of paying in three annual instalments.

Member State	EAGF payments received from EU budget	% of payments received as compared to total payments	Cumulated EAGF financial corrections at end 2016	% as compared to payments received from EU budget	% as compared to total amount of financial corrections
Belgium	13 374	1.8%	60	0.5%	0.5%
Bulgaria	4 001	0.5%	72	1.8%	0.6%
Czech Republic	7 395	1.0%	39	0.5%	0.3%
Denmark	19 085	2.6%	192	1.0%	1.5%
Germany	97 916	13.2%	198	0.2%	1.5%
Estonia	866	0.1%	1	0.1%	0.0%
Ireland	23 163	3.1%	108	0.5%	0.8%
Greece	44 779	6.1%	2 861	6.4%	21.9%
Spain	101 813	13.8%	1 838	1.8%	14.1%
France	156 554	21.2%	2 908	1.9%	22.2%
Croatia	443	0.1%	-	-	-
Italy	81 721	11.1%	2 037	2.5%	15.6%
Cyprus	511	0.1%	10	1.9%	0.1%
Latvia	1 255	0.2%	0	0.0%	0.0%
Lithuania	3 329	0.5%	24	0.7%	0.2%
Luxembourg	545	0.1%	6	1.0%	0.0%
Hungary	11 269	1.5%	122	1.1%	0.9%
Malta	43	0.0%	0	0.7%	0.0%
Netherlands	18 879	2.6%	246	1.3%	1.9%
Austria	12 607	1.7%	20	0.2%	0.2%
Poland	27 113	3.7%	270	1.0%	2.1%
Portugal	12 510	1.7%	382	3.1%	2.9%
Romania	9 148	1.2%	209	2.3%	1.6%
Slovenia	1 051	0.1%	20	1.9%	0.2%
Slovakia	3 334	0.5%	11	0.3%	0.1%
Finland	9 510	1.3%	34	0.4%	0.3%
Sweden	12 624	1.7%	133	1.1%	1.0%
United Kingdom	64 499	8.7%	1 278	2.0%	9.8%
Total	739 336	100.0%	13 081	1.8%	100.0%

Table 2.4: EAGF Cumulative financial corrections decided under conformity clearance of accounts from 1999 to end 2016; Breakdown by Member State in EUR millions



Graph 2.4: EAGF Member States' cumulative financial corrections under conformity clearance of accounts from 1999 to end 2016 as compared to payments received from the EU Budget

2.5. Member States corrections

Member States are required to put in place systems for ex-ante controls and reductions or exclusions of financing:

- For each aid support scheme financed by EAGF or EAFRD, ex-ante administrative and on-the-spot checks are performed and dissuasive sanctions are applied in case of non-compliance by the beneficiary. If on-the-spot checks reveal a high number of irregularities, additional controls must be carried out.
- In this context, the by far most important system is the Integrated Administration and Control System (IACS). The IACS covered in the financial year 2016 93.9 % of EAGF and Rural Development expenditure.
- A detailed reporting from Member States to the Commission on the checks carried out by them and on the sanctions applied is foreseen in the legislation and enables a calculation, for the main aid schemes, of the level of error found by Member States at the level of the final beneficiaries.

These reports from the Member States disclose the preventive effect of the ex-ante, administrative and on-the-spot controls carried out, which led to corrections amounting to EUR 648 million. The most important corrections related to Spain (EUR 114 million), Poland (EUR 111 million) and Romania (EUR 73 million).

Table 2.5: Member States own corrections in 2016 applied before payments to beneficiaries are executed (in addition to Commission reporting⁴⁷)

EUR millions

Member State	EAGF Market Measures	EAGF Direct Payments	EAFRD	Total 2016
Belgium	1.9	3.3	1.0	6.2
Bulgaria	0.1	14.8	7.2	22.1
Czech Republic	0.0	1.4	3.1	4.6
Denmark	0.3	1.0	1.6	2.9
Germany	3.3	18.7	11.1	33.1
Estonia	0.0	0.7	1.3	2.0
Ireland	0.1	0.4	1.0	1.4
Greece	0.4	15.7	5.2	21.4
Spain	30.2	65.3	18.7	114.2
France	5.8	23.6	4.2	33.6
Croatia	0.0	6.7	2.3	9.1
Italy	5.3	51.1	14.0	70.4
Cyprus	0.1	0.8	0.1	1.1
Latvia	0.0	1.4	0.8	2.2
Lithuania	0.0	2.2	3.6	5.8
Luxembourg	0.0	0.2	0.1	0.3
Hungary	2.9	35.6	5.8	44.3
Malta	0.0	0.1	0.6	0.7
Netherlands	9.1	17.4	3.7	30.2
Austria	0.4	1.3	3.2	4.9
Poland	1.6	93.7	16.1	111.4
Portugal	1.1	5.0	10.8	16.9
Romania	1.5	50.5	20.8	72.8
Slovenia	0.1	0.2	1.6	1.9
Slovakia	0.0	4.1	8.4	12.6
Finland	0.0	3.4	1.0	4.5
Sweden	0.5	3.2	2.1	5.7
United Kingdom	0.1	10.1	1.7	11.9
Total	64.8	431.9	151.4	648.2

3. Cohesion policy

3.1. Preventive actions

The regulations for all programming periods enable **the Commission to apply preventive measures**, i.e. payment interruptions⁴⁸ and suspensions, and financial corrections. The Commission policy on interruption and suspension of payments operates on a preventive basis, triggering the interruption of interim payments as soon as there is evidence to suggest a significant deficiency in the management and control system of all or part of an operational programme, thus avoiding the reimbursement by the EU budget of amounts which might be affected by serious irregularities. As regards **ERDF / CF** and **ESF** programmes, it is worth underlining that the remedial action plans agreed by the Member States as a result of the Commission's supervisory role 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. Expenditure declared to the Commission is thus already net of irregular amounts.

Similarly, warning letters sent out by the Commission 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 Commission / Member States in this case as this effect is more difficult to quantify.

Interruptions and suspensions are only lifted on the basis of reasonable assurance on the implementation of corrective measures and / or after financial corrections have been implemented.

It has to be highlighted that for the 2014-2020 programming period, the Commission is adapting its approach on interruptions/suspensions to the new assurance model, in particular taking account of the retention of 10 % on each interim payment. It will also continue to ensure preventive capacity building actions with programme authorities to improve the quality of spending and to cooperate closely with audit authorities under the single audit principle to timely and effectively address risks and ensure that reliable audit results are reported to the Commission. Should there be identified serious deficiencies in the management control system for which the estimate impact is above 10 % – in application of paragraphs a) or b) of Article 31(3) of Regulation 480/2014, an interruption will be launched, or in the absence of a payment application, a letter will be sent to warn of a possible interruption and financial correction if the issue is not resolved or the relevant expenditure is not withdrawn at the time of submission of accounts for further verifications⁴⁹.

Interruptions

Fund	Cohesion policy: 2007-2013 programming period							
	Total open cases at 31.12.2015		New cases 2016		Closed cases during 2016		Total open cases at 31.12.2016	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
ERDF & CF	51	1 730	64	2 633	66	2 675	49	1 688
ESF	26	762	9	267	22	648	13	381
EFF	2	8	17	127	4	45	15	90
Total	79	2 500	90	3 027	92	3 368	77	2 159

Table 3.1: Interruptions in EUR millions The table above presents for the ERDF & CF, the ESF and the EFF, a view on the evolution of the interruption cases both in number and in amount. The opening balance includes all the cases still open at end 2015, irrespective of the year when the interruption was notified to the Member State. The new cases only refer to the interruptions notified in the year 2016. The closed cases represent the cases for which the payment of cost claims resumed in 2016, irrespective of the year when the interruption started. The cases still open at end 2016 represent the interruptions that remain active at 31 December 2016, i.e. the payment deadline of cost claims is still interrupted pending corrective measures to be taken by the Member State concerned.

Concerning ERDF and CF, the 49 payments that remained interrupted at the end of 2016 concern mainly Spain (39). For ESF, the 13 payments that remained interrupted at the end 2016 represent

Germany (3), Spain (2) and Italy (8) of which 11 were already interrupted at the end of 2015. There was one new interruption in 2016 related to programming period 2014-2020 concerning the

Youth Employment Initiative France, for which the payment remains interrupted at the end 2016. Concerning the EFF, the 15 payment applications that remained interrupted at the end 2016 represent Italy (14) and Spain (1). 2 out of these 15 payment applications were already interrupted at the end of 2015.

Suspensions

Concerning **ERDF** and the **Cohesion Fund** and the 9 suspension decisions still in force at end 2015⁵⁰, the decision was taken in 2016 to lift 7 suspension decisions following completion of the required corrective measures by the Member States.

The other 2 suspension decisions related to Spain remain in force at the end of 2016. 1 new suspension decision was adopted in 2016, relating to Hungary, leading to a total number of 3 suspension decisions active at the end of 2016.

The Commission services detected serious deficiencies in the management and control system

of the programme 'Social Infrastructure' in Hungary, which affected the reliability of the procedures for certification of payments. These deficiencies were related to the management verifications and the organisation of the management and control bodies. The corrective measures taken by Hungarian authorities were not sufficient in relation to the corrective actions requested by the Commission in its letter of 29 September 2015. Therefore, pursuant to Article 92 of Regulation (EC) No 1083/2006, the interim payments from the European Regional Development Fund for the programme "Social Infrastructure" were suspended.

Concerning **ESF**, 15 operational programmes were suspended at the end of 2015, of which 8 were lifted during 2016. 1 suspension decision was adopted and lifted in 2016 (Belgium). At the end of 2016, suspensions concerning 7 operational programmes are still in force (Germany (1), Italy (3) and Spain (3)).

3.2. Corrective actions

For Cohesion policy where the Commission identifies individual irregularities (including the ones of systemic nature) or serious deficiencies in the Member State management and control systems, it can apply financial corrections with the purpose of restoring a situation where all of the expenditure declared for co-financing from the European Regional Development Fund, Cohesion Fund or European Social Fund and reimbursed by the Commission is brought back in line with the applicable rules.

During the 2000-2006 and 2007-2013 programming periods, **Member States were able to replace irregular expenditure with new expenditure** if they took the necessary corrective actions and applied the related financial correction. If the Member State did not have such additional expenditure to declare, the financial correction resulted in a net correction (loss of funding). In contrast, a Commission financial correction decision had always a direct and net impact on the Member State: it had to pay the amount back and its envelope was reduced (i.e. the Member State could spend less money throughout the programming period). In 2016 Member States were able to replace EUR 712 million out of EUR 931 million of corrections.

Net corrections are rather the exception under the 2007-2013 framework, due to the legal framework and budget management type (reinforced preventive mechanism). The regulatory provisions for the 2014-2020 period significantly strengthen the Commission's position on protecting the EU budget from irregular expenditure. This is mainly due to the

set-up of a yearly basis of the new assurance model for the 2014-2020 programming period, which reduces the risk of having a material level of error. In fact, the new legal framework foresees an increased accountability for programme managing authorities which have to apply sound verifications on time for the submission of programme accounts each year. The Commission retains 10% of each interim payment until the finalisation of all national control cycle. Timely identification of serious deficiencies in functioning of the management and control system and reporting of reliable error rates is in the Member States' best interest since the Commission shall make net financial corrections in case Member States have not appropriately addressed them before submitting annual accounts to the Commission.

Financial corrections reported in 2016 for the ERDF/CF 2007-2013 programming period remained high compared to years prior to 2015, thus confirming the multi-annual corrective capacity of the policy. This is also the result of the strict policy of interruption/suspension procedures by the Commission since the beginning of the programming period and the fact that we are approaching the closure of the programmes, with the last possibility for the Member States to declare new expenditure, after the application of the financial corrections requested by the Commission.

As regards the other programming periods, EUR 8 million new financial corrections have been reported for the closure of the 2000-2006 programmes while no corrections have been imposed yet by the

Commission for the new programming period. As a result, at end 2016 the cumulative amount of financial corrections for all programming periods

confirmed by Member State as consequence of the Commission supervisory role is around EUR 12.6 billion.

3.3. Deficiencies in Member States' management and control identified and measures undertaken

As mentioned above, under shared management Member States are primarily responsible for the effective and efficient functioning of the management and control systems at national level. Nevertheless, the Commission seeks to ensure that the national systems better prevent errors before certification and takes a number of actions such as capacity building actions in Member States, pursuing further the single audit approach, carrying out complementary risk-based audits and exercising a strict supervision over programme management, using the available legal tools such as **interruptions, suspensions** and, where necessary, **financial corrections**.

During the 2007-2013 period, the Commission put in place targeted actions to improve the administrative capacity in the Member States, which continue under the 2014-2020 period. Cross-cutting initiatives to mitigate the main risks and weaknesses identified include notably:

A general administrative capacity initiative with the following measures already implemented or on-going:

A peer-to-peer exchange of expertise between authorities managing and implementing ERDF and CF programmes⁵¹. By December 2016, 110 exchanges have been approved and of these, 74 exchanges involving 1 148 participants have been implemented with positive feedback.

- A strategic training programme for Managing, Certifying and Audit Authorities and Intermediate Bodies on the implementation of the 2014 – 2020 Regulations (574 people trained).
- A Competency Framework for efficient management and implementation of ERDF and the Cohesion Fund, aimed at supporting further professionalisation of the fund management.
- Specific workshops in cooperation with OLAF in the 15 most affected Member States on implementing effective and proportionate anti-fraud/anti-corruption measures to increase the awareness of risks and greater acceptance that preventive measures are possible (incl. promoting the use of 'Arachne').
- Pilot Integrity Pacts in cooperation with Transparency International. 17 pilot Integrity Pacts are being set up in 11 Member States to run for a period of four years from 2016.

A dedicated action plan on public procurement for strengthening capacity in that field in close cooperation with DG Internal Market, Industry, Entrepreneurship and SMEs, other ESI Funds DGs and EIB. The action plan includes:

- Public Procurement Guidance for Practitioners on the avoidance of errors in ESI funded projects was published in October 2015 in all EU languages.
- Monitoring of the ex-ante conditionality action plans on public procurement with a focus on those Member States which are still implementing their action plans.
- A public procurement stock-taking study including more than 50 good practice examples in public procurement across the EU, has been widely disseminated.
- Promotion of transparency and open data on public procurement, including through the initiative for pilot Integrity Pacts mentioned above.

A State aid action plan designed in close cooperation with DG Competition. It aims at increasing awareness and understanding of the subject, at improving the co-operation between the various actors involved in the monitoring of State aid in the Member States, and providing pro-active support to the EU Member States and regions in the correct application of State aid rules. It includes measures for:

- Reviewing existing good practices and their dissemination.
- Strategic training programmes, including expert and country specific seminars.
- Exchanges between the Commission and Audit Authorities, for further dissemination of audit checklists adapted to the 2014 GBER (General Block Exemption Regulation) revisions.
- Customised assistance to Member States not fulfilling the ex-ante conditionality on State aid to help them implement their action plan.

As regards **ESF**, ineligible costs continues to be the main source of error, together with ineligible projects / beneficiaries and then public procurement issues. The Commission has initiated targeted measures to address root causes of errors in these areas.

3.4. Cumulative figures

3.4.1. Cohesion Policy: ERDF & ESF 2000-2006

Member State	ERDF+ESF contribution amount	% of contribution amount to total contributions	Financial corrections confirmed	Percentage of financial corrections in relation to the ERDF+ESF contributions	Share of financial corrections imposed compared to total financial corrections
Belgium	1 979	1.0%	19	1.0%	0.2%
Czech Republic	1 443	0.7%	6	0.4%	0.1%
Denmark	608	0.3%	1	0.1%	0.0%
Germany	27 387	13.8%	53	0.2%	0.7%
Estonia	306	0.2%	2	0.5%	0.0%
Ireland	3 003	1.5%	36	1.2%	0.5%
Greece	20 054	10.1%	1 212	6.0%	15.3%
Spain	40 229	20.3%	3 508	8.7%	44.4%
France	15 224	7.7%	482	3.2%	6.1%
Italy	27 612	14.0%	1 693	6.1%	21.4%
Cyprus	52	0.0%	-	0.0%	0.0%
Latvia	517	0.3%	4	0.8%	0.1%
Lithuania	772	0.4%	3	0.3%	0.0%
Luxembourg	80	0.0%	2	2.3%	0.0%
Hungary	1 709	0.9%	13	0.8%	0.2%
Malta	57	0.0%	-	0.0%	0.0%
Netherlands	2 695	1.4%	44	1.6%	0.6%
Austria	1 654	0.8%	4	0.2%	0.1%
Poland	7 015	3.5%	180	2.6%	2.3%
Portugal	18 149	9.2%	190	1.0%	2.4%
Slovenia	218	0.1%	2	0.9%	0.0%
Slovakia	1 225	0.6%	45	3.7%	0.6%
Finland	1 824	0.9%	0	0.0%	0.0%
Sweden	1 696	0.9%	12	0.7%	0.1%
United Kingdom	16 739	8.5%	324	1.9%	4.1%
Interreg	5 645	2.9%	69	1.2%	0.9%
Total	197 893	100.0%	7 903	4.0%	100.0%

Table 3.4.1: Programming period 2000-2006 - ERDF & ESF Financial corrections confirmed at 31 December 2016; Breakdown by Member State in EUR millions

For **ERDF** at the end of 2016, the Commission had closed 378⁵² out of a total of 379 programmes (compared to 361 at end of 2015). The remaining programme (OP Sicily) was closed in May 2017 after the official acceptance of the closure declaration by the Member State.

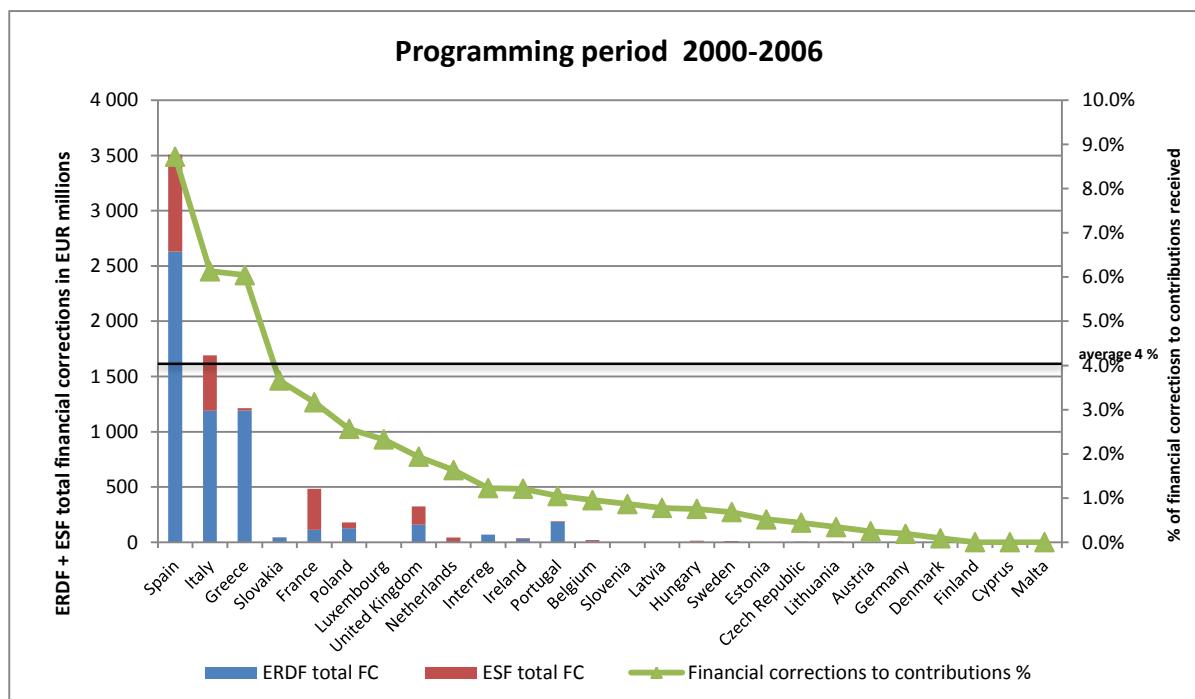
Financial corrections imposed by the Commission to all Member States cumulatively up to the end of 2016 are EUR 5.8 billion⁵³, representing around 4.5 % of the total allocations for all 2000-2006 programmes. This process can be broken down into EUR 4.1 billion of financial corrections during the life cycle of the programmes and another EUR 1.6 billion of financial corrections applied at closure of the programmes. The main Member States concerned

are Spain (EUR 2.6 billion), Italy (EUR 1.2 billion) and Greece (EUR 1.2 billion).

For **ESF**, the Commission has closed all 239 programmes proceeding to 29 partial and 210 full closures leaving remaining EUR 338 million which corresponds to EUR 100 million of suspended operations following judicial proceedings, and EUR 238 million of not released commitments related to ongoing financial correction procedures for Italy (Sicily). At the end of 2016 the total amount of financial corrections confirmed for 2000-2006 programming period - taking into account financial corrections in progress - amounted to EUR 2.4 billion, representing 3.5 % of the ESF

allocation. This process can be broken down into EUR 1.2 billion of financial corrections during the life cycle of the programmes and another EUR 1.2 billion applied at closure. Comparing to 2015, no new

financial corrections have been reported. Only financial corrections in progress in 2015 were accepted during 2016 for which the pre-contradictory procedures were lifted and closure completed.



Graph 3.4.1: Member States' cumulative financial corrections confirmed at 31 December 2016 for ERDF & ESF programming period 2000-2006 as compared to contributions received

3.4.2. Cohesion Policy: ERDF / CF & ESF 2007-2013

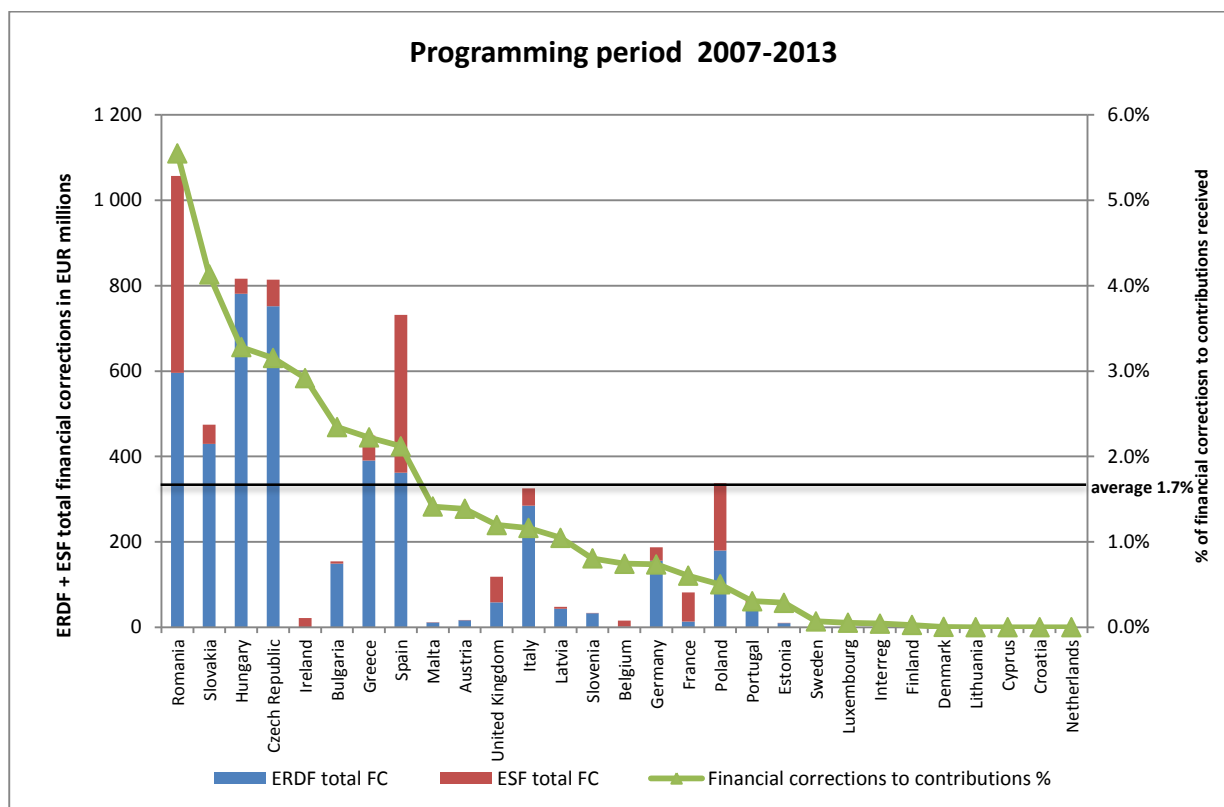
The lower volume of financial corrections reflects the improved capacity of the management and control systems to detect problems and to correct errors before expenditure is declared to the Commission, as reflected in the lower error rates for cohesion policy in the period 2007-2013 compared to the period 2000-2006. Reference is also made to the corrections made by Member States in this period.

Member State	ERDF/CF+ESF contribution amount	% of contribution amount to total contributions	Financial corrections confirmed	Percentage of financial corrections in relation to the ERDF/CF+ESF contributions	Share of financial corrections imposed compared to total financial corrections
Belgium	2 059	0.6%	15	0.7%	0.3%
Bulgaria	6 595	1.9%	155	2.3%	2.7%
Czech Republic	25 819	7.5%	814	3.2%	14.1%
Denmark	510	0.1%	0	0.0%	0.0%
Germany	25 458	7.3%	188	0.7%	3.2%
Estonia	3 403	1.0%	10	0.3%	0.2%
Ireland	751	0.2%	22	2.9%	0.4%
Greece	20 210	5.8%	449	2.2%	7.8%
Spain	34 521	10.0%	732	2.1%	12.7%
France	13 546	3.9%	82	0.6%	1.4%
Croatia	858	0.2%	-	0.0%	0.0%
Italy	27 940	8.1%	325	1.2%	5.6%
Cyprus	612	0.2%	0	0.0%	0.0%

Member State	ERDF/CF+ESF contribution amount	% of contribution amount to total contributions	Financial corrections confirmed	Percentage of financial corrections in relation to the ERDF/CF+ESF contributions	Share of financial corrections imposed compared to total financial corrections
Lithuania	6 775	2.0%	0	0.0%	0.0%
Luxembourg	50	0.0%	0	0.1%	0.0%
Hungary	24 893	7.2%	817	3.3%	14.1%
Malta	840	0.2%	12	1.4%	0.2%
Netherlands	1 660	0.5%	-	0.0%	0.0%
Austria	1 170	0.3%	16	1.4%	0.3%
Poland	67 186	19.4%	338	0.5%	5.8%
Portugal	21 412	6.2%	66	0.3%	1.1%
Romania	19 058	5.5%	1 057	5.5%	18.3%
Slovenia	4 101	1.2%	33	0.8%	0.6%
Slovakia	11 483	3.3%	474	4.1%	8.2%
Finland	1 596	0.5%	0	0.0%	0.0%
Sweden	1 626	0.5%	1	0.1%	0.0%
United Kingdom	9 878	2.9%	118	1.2%	2.1%
Interreg	7 956	2.3%	3	0.0%	0.1%
Total	346 496	100.0%	5 774	1.7%	100.0%

Table 3.4.2: Programming period 2007-2013 – ERDF / CF & ESF Financial corrections confirmed at 31 December 2016; Breakdown by Member State in EUR millions

As 2007-2013 programmes are multi-funds, no split is given between ERDF and CF in the above table.



Graph 3.4.2: Member States' cumulative financial corrections confirmed at 31 December 2016 for ERDF / CF & ESF programming period 2007-2013 as compared to contributions received

For ERDF / CF programmes, the Commission has imposed around EUR 4.3 billion of financial

corrections⁵⁴ cumulatively since the beginning of the 2007-2013 programming period (which includes

EUR 1.4 billion of financial corrections applied by the Member States before or at the same time of declaring the expenditure to the Commission as a result of requested remedial actions). The main Member States concerned are Hungary (EUR 781 million), Czech Republic (EUR 752 million), Romania (EUR 596 million), Slovakia (EUR 429 million), Greece (EUR 390 million), Spain (EUR 362 million) and Italy (EUR 284 million).

For **ESF**, the Member States with the highest level of cumulative amount of financial corrections confirmed are Romania (EUR 461 million), Spain (EUR 369 million) and Poland (EUR 158 million). At this stage of the implementation and almost at closure of the programmes the cumulative amount of financial corrections stands at EUR 1.5 billion representing 1.9 % of the ESF allocation.

3.5. Member States corrections

Under the regulations for the 2007-2013 programming period, Member States have to report annually to the Commission the corrections⁵⁵ stemming from all controls performed. The Commission is performing risk-based audits and desk reviews to test the reliability of these figures as part of its assurance process.

Member State	ERDF/CF	ESF	EFF	Total
Belgium	4.8	31.9	0.0	36.7
Bulgaria	106.6	10.0	-	116.6
Czech Republic	389.6	14.8	0.3	404.7
Denmark	0.7	0.1	1.1	1.9
Germany	544.7	258.5	1.9	805.2
Estonia	25.5	1.1	2.8	29.4
Ireland	5.5	30.1	0.2	35.8
Greece	666.1	74.3	77.2	817.6
Spain	1 307.7	518.0	60.3	1 886.0
France	225.4	111.2	4.7	341.3
Croatia	2.1	0.4	0.0	2.5
Italy	566.9	142.9	11.6	721.4
Cyprus	9.2	1.9	0.7	11.8
Latvia	49.1	2.8	1.9	53.8
Lithuania	20.6	1.2	1.8	23.7
Luxembourg	-	0.2	-	0.2
Hungary	582.5	6.7	0.1	589.3
Malta	-	0.0	0.1	0.1
Netherlands	24.3	6.1	6.8	37.2
Austria	20.7	9.2	0.1	29.9
Poland	850.9	11.9	6.5	869.3
Portugal	299.0	79.3	14.6	392.9
Romania	386.4	85.7	24.3	496.4
Slovenia	105.1	8.5	0.0	113.7
Slovakia	140.9	16.3	0.9	158.1
Finland	2.8	1.4	1.0	5.2
Sweden	8.3	2.3	0.4	11.0
United Kingdom	251.3	81.9	8.1	341.3
Cross-border	58.3	-	-	58.3
TOTAL IMPLEMENTED	6 655.1	1 508.7	227.6	8 391.4

Table 3.5: Cumulative corrections at end 2016 reported by Member States for Cohesion Policy period 2007-2013⁵⁶ in EUR millions

It is highlighted that the Commission has taken a prudent approach⁵⁷, due to certain weaknesses in the Member State figures, so as to ensure that the amounts are not overstated – as a result some of them may in reality be higher. This, however, has no impact on the reliability of the Commission's own figures. The cumulative amounts

(above) in question are very significant and when added to the results of the Commission's work, give a very clear indication of the success of the controls put in place by both parties.

Financial corrections declared by the Member States for Cohesion Policy period 2014-2020⁵⁸

In February 2017 the Member State authorities have submitted the certified accounts for the second accounting year. According to the information received in the assurance packages, following the results of audit of operations, for ERDF/CF the Member States have applied financial corrections totalling EUR 11 million. The financial corrections imposed for ESF/YEI and FEAD amounted to EUR 6 million.

4. Direct and indirect management

For direct and indirect management expenditure, the Commission has control frameworks in place to prevent, detect, correct and thus deter irregularities at the different stages of the grant management process in order to achieve both operational and financial objectives. An overview of the controls made in two key areas of direct and indirect management expenditure, research and international aid, are given below.

For **Research expenditure**, the control framework applicable to both direct⁵⁹ and indirect⁶⁰ management modes starts with the development of a work programme, which goes through a wide-ranging consultation process to ensure that it best meets the expectations of all stakeholders and will maximise the research outcome. Following the evaluation of proposals, further controls are then carried out as the selected proposals are translated into legally binding contracts. Project implementation is monitored throughout the lifetime of the project. Payments against cost claims are all subject to ex-ante checks according to standard procedures, which include an audit certificate given by a qualified auditor. As well as standard controls, additional, targeted, controls can also be carried out according to the information received and the risk of the transaction.

A main source of assurance comes from in-depth ex-post checks carried out on a sample of claims, at the beneficiaries' premises, after costs have been incurred and declared. A large number of these in-depth checks are carried out over the lifetime of the programme. Any amounts paid in excess of what is due are recovered, and systemic errors are extended to all ongoing participations of a beneficiary.

In the field of **International Cooperation and Development**, the Commission has established a control framework to prevent, detect, correct and thus deter irregularities at the different stages of the implementation of funding, applicable to both management modes (direct and indirect⁶¹) used for this implementation. This strategy starts from the choice of the most appropriate tool when drafting the planning documents and the financial decisions, and translates into the actual checks carried out at all stages of the implementation. From the point of view of financial control, the system is made up of a number of instruments systematically applied to the implementation of contracts and grants for all management modes: ex-ante checks on payments, audits carried out by the Commission and foreseen in an audit plan, expenditure verifications carried out prior to payments by beneficiaries of grants, verification missions to international organisations and an overall ex-post control on the basis of the Residual Error Rate study carried out every year.

The EU financial interests are therefore safeguarded, in addition to all the other possible means offered by the Financial Regulation, by the Commission's ex-ante control of individual transactions as well as subsequent controls or audits, and by the resulting recovery of any unduly disbursed funds where the agreed procedures have not been respected, or where the activities were not eligible for EU financing.

5. Detailed financial corrections and recoveries information

5.1. Net financial corrections 2016

Confirmed

MFF Heading	Net financial corrections confirmed in 2016*	Financial corrections with replacement of expenditure and other corrections confirmed in 2016	Total financial corrections <u>confirmed</u> in 2016
Smart & inclusive growth	114	1 079	1 193
ERDF	(2)	707	706
Cohesion Fund	(10)	112	102
ESF	126	260	386
Sustainable growth: natural resources	1 739	6	1 745
EAGF**	1 279	7	1 286
Rural Development	458	-	458
FIFG/EFF	10	(1)	8
EAGGF Guidance	(7)	-	(7)
Security & citizenship	1	5	6
Migration and home affairs	1	5	6
TOTAL	1 854	1 090	2 944

Table: in EUR millions

* A total of EUR 669 million remain to be classified and is treated as non-net corrections in this table.

** For the purpose of calculating its corrective capacity in the AAR, DG AGRI takes into account only the amounts related to conformity clearance decisions adopted by the Commission and published in the Official Journal of the EU and deducts the corrections in respect of cross-compliance.

Implemented

MFF Heading	Net financial corrections implemented in 2016	Financial corrections with replacement of expenditure and other corrections implemented in 2016	Total financial corrections <u>implemented</u> in 2016
Smart & inclusive growth	146	710	856
ERDF	26	597	623
Cohesion Fund	(6)	7	1
ESF	126	106	232
Sustainable growth: natural resources	1 854	9	1 862
EAGF	1 537	7	1 544
Rural Development	243	-	243
FIFG/EFF	8	2	10
EAGGF Guidance	65	-	65
Security & citizenship	1	5	6
Migration & home affairs	1	5	6
TOTAL	2 000	724	2 724

Table: in EUR millions

The impact of the correction mechanism varies depending on the budget implementation type, the sectorial management and the financial rules of the policy area. In all cases, the correction mechanisms aim at protecting the EU budget from expenditure incurred in breach of law.

5.2. Breakdown of flat-rate⁶² corrections 2016

Flat rate corrections are a valuable tool that is used when the related amount cannot be quantified on the basis of a representative statistical sample or when the impact on expenditure of individual errors cannot be quantified precisely. However, this means that the Member State subject to a flat correction normally bears the financial consequences as these corrections are not directly linked to individual irregularities at project level, i.e. there is no individual final beneficiary to recover monies from.

	Total financial corrections confirmed (EUR million)	Flat-rate financial corrections* confirmed in 2016 (EUR million)	Total financial corrections implemented (EUR million)	Flat-rate financial corrections* implemented in 2016 (EUR million)
Agriculture***				
EAGF	1 286	828**	1 544	-
EAFRD	458	244**	243	-
Cohesion				
ERDF & CF****	808	425	624	333
ESF	386	186	232	217
EAGGF guidance	(7)	(7)	65	-
EFF/FIFG	8	-	10	-
Internal policies	6	5	6	5
TOTAL	2 944	1 681	2 724	555

* Includes extrapolated corrections.

** This represents a best estimate. The majority of financial corrections integrate amounts based on precise calculations and flat rates.

*** Implemented flat-rate figures for Agriculture are not available.

**** Breakdown of flat-rate corrections available only for MFF 2007-2013.

5.3. Breakdown of financial corrections made at source 2016

Member State	At source financial corrections confirmed in 2016 (EUR million)	At source financial corrections implemented in 2016 (EUR million)
Belgium	0	0
Bulgaria	-	0
Czech Republic	0	3
Germany	0	0
Ireland	0	0
Greece	3	3
Spain	(1)	(1)
France	1	1
Italy	0	0
Lithuania	(2)	(2)
Hungary	167	(11)
Netherlands	0	0
Poland	(3)	48
Portugal	0	0
Romania	68	77
Slovakia	1	0
Sweden	0	0
United Kingdom	0	0
TOTAL	234	118

At source financial corrections are applied by the Member State authorities before or at the same time that new expenditure is declared to the Commission. In the majority of the cases they are the result of flat rate corrections imposed for deficiencies in the management and control system, identified following the Commission audits⁶³.

In 2016, the main financial corrections at source concern **ERDF/CF** and **ESF**.

For **ERDF/CF** the most significant confirmed corrections at source concern Hungary (EUR 165 million) and Romania (EUR 62 million) and for **ESF**, Romania (EUR 7 million) and Hungary (EUR 3 million).

5.4. Breakdown by Member State: Financial corrections in 2016 compared to EU payments received

Member State	Payments received from the EU budget in 2016 (EUR million)	Financial corrections confirmed in 2016 (EUR million)	Financial corrections confirmed in 2016 % as compared to payments received from the EU budget in 2016	Financial corrections implemented in 2016 (EUR million)	Financial corrections implemented in 2016 as % of payments received from the EU budget in 2016
Belgium	918	(3)	(0.3%)	5	0.6%
Bulgaria	2 208	21	1.0%	41	1.8%
Czech Republic	4 483	35	0.8%	16	0.4%
Denmark	1 042	3	0.3%	2	0.2%
Germany	7 760	15	0.2%	70	0.9%
Estonia	564	(2)	(0.3%)	0	0.0%
Ireland	1 764	80	4.5%	75	4.2%
Greece	5 382	254	4.7%	324	6.0%
Spain	10 536	596	5.7%	212	2.0%
France	9 437	345	3.7%	666	7.1%
Croatia	807	0	0.0%	0	0.0%
Italy	10 190	255	2.5%	432	4.2%
Cyprus	135	0	0.0%	0	0.0%
Latvia	680	0	(0.1%)	0	0.0%
Lithuania	1 293	1	0.1%	6	0.5%
Luxembourg	69	0	0.0%	0	0.0%
Hungary	4 270	445	10.4%	(8)	(0.2%)
Malta	158	12	7.3%	11	7.3%
Netherlands	1 058	10	0.9%	60	5.6%
Austria	1 487	33	2.2%	(1)	0.0%
Poland	10 087	200	2.0%	161	1.6%
Portugal	3 101	85	2.8%	110	3.5%
Romania	7 129	249	3.5%	192	2.7%
Slovenia	418	0	0.1%	6	1.3%
Slovakia	2 570	56	2.2%	113	4.4%
Finland	1 161	0	0.0%	(1)	(0.1%)
Sweden	1 143	13	1.2%	12	1.0%
United Kingdom	5 145	241	4.7%	217	4.2%
INTERREG	201	1	0.5%	1	0.4%
TOTAL	95 197	2 944	3.1%	2 724	2.9%

Negative amounts displayed in the above table may be due to Court of Justice judgements annulling financial correction decisions.

5.5. Agricultural amounts recovered from final beneficiaries by the Member States in 2016 as reported in the context of the annual financial clearance

Member State	EAGF	EAFRD	Total 2016
Belgium	9.3	0.7	10.0
Bulgaria	2.4	3.9	6.3
Czech Republic	0.6	1.3	1.9
Denmark	0.9	2.1	2.9
Germany	9.9	6.6	16.5
Estonia	0.5	1.0	1.5
Ireland	4.5	2.3	6.8
Greece	5.0	15.0	19.9
Spain	13.1	26.4	39.5
France	11.2	4.7	15.8
Croatia	1.0	0.1	1.1
Italy	17.8	54.1	71.9
Cyprus	0.3	0.1	0.4
Latvia	0.4	0.8	1.2
Lithuania	1.2	1.3	2.6
Luxembourg	0.1	0.1	0.2
Hungary	3.0	4.9	7.9
Malta	0.2	3.1	3.3
Netherlands	2.4	1.0	3.4
Austria	2.1	4.2	6.3
Poland	4.0	18.7	22.8
Portugal	5.0	15.3	20.3
Romania	16.0	28.2	44.2
Slovenia	0.0	0.5	0.5
Slovakia	1.7	4.2	5.9
Finland	0.8	0.9	1.6
Sweden	0.5	0.9	1.4
United Kingdom	4.5	5.2	9.7
Total	118.4	207.6	326.0

Table :in EUR millions

The above table sets out the amounts recovered in 2016 from the beneficiaries by the Member States (as reported by Member States in their debtors' ledger) and reimbursed to the Commission. These amounts are treated as **assigned revenue** for **EAGF**, while the amounts recovered for **EAFRD can be reallocated to the programme concerned**.

Annex 5: Assurance provided by the Internal Audit Service

The Commission also based its assurance on the work done by the Internal Audit Service (IAS), its principal findings and recommendations, and information from the Audit Progress Committee (APC). The APC supports the Commission in ensuring the independence of the internal auditor and that audit recommendations are properly taken into account and receive appropriate follow-up.

The IAS has provided in its 2016 Internal Audit Report according to Article 99 (3) of the Financial Regulation conclusions on performance audits completed in 2016, made reference to the overall opinion on financial management for the year 2016 and reported on progress in implementing its audit recommendations.

The IAS concluded that 95 % of the recommendations followed up during 2012-2016 had been effectively implemented by the auditees. Of the 413 recommendations still in progress (representing 23 % of the total number of accepted recommendations over the past five years), none is classified as critical and 170 as very important. Out of these 170 recommendations rated very important, 18 were overdue by more than six months at the end of 2016, representing 0.99 % of the total number of accepted recommendations of the past five years. The IAS's follow-up work confirmed that, overall, recommendations are being implemented satisfactorily and the control systems in the audited departments are improving.

The IAS continued to carry out performance audits in 2016 as part of its work programme in response to the Commission's move towards a performance-based culture and greater focus on value for money. The IAS conclusions on these audits related to:

- Performance management and measurement: the IAS noted that important progress has been achieved over the years with, for instance, a number of new initiatives at corporate level or positive implementation in certain areas (e.g. the audit in DG EAC resulted in a positive conclusion and showed that it is possible to

implement an effective performance management framework despite the fact that the DG is confronted with a diversity of policy activities and spending programmes). However, several IAS audits (DG AGRI, DG DEVCO, DG GROW, DG MOVE) focusing on performance management and measurement at DG level revealed that significant improvements are still necessary to enhance the maturity of the DGs performance management and measurement mechanisms.

- Human Resources management: in general, the audits concluded that the DGs and Executive Agencies have taken adequate measures to manage the Human Resources challenges to which they are confronted. Weaknesses were found and action plans are being implemented for DG ENV (monitoring and comparing workloads within the DG) and for the REA (selection process for contractual agents).
- IT management: several audits confirmed that there is room for improving the IT governance and portfolio management in DG GROW, the IT security in DG JRC, the effectiveness of measures taken to handle manual interventions in the "ABAC" IT system in DG BUDG, the physical security of the alternate data centre in the Publications Office, as well as the effective implementation of the electronic exchange of social security information project in DG EMPL.
- Other non-financial processes: in the areas of anti-fraud activities for traditional own resources, managing and sharing data on agro-environmental-climate issues, better regulation and ex-post audits by the Common Audit Service in the Common Support Centre, the audits showed that further steps are necessary to increase the overall performance of these processes.
- Based on the audits of performance in implementing policies and/or budget (operational and administrative appropriations), the IAS identified specific improvements to be made in the areas of:
 - Direct management: efficiency and effectiveness of grant management (DG HOME, DG JUST, DG RTD and REA),

efficient and effective use of external contractors working intra-muros in the Commission premises, effectiveness of the cooperation between EASME and its parent DG,

- Indirect management: adequacy and effectiveness of the supervision arrangements in place in DGs and Services dealing with EU decentralised Agencies (DG HOME, DG SANTE) and F4E/ITER (DG ENER),
- Shared management: efficiency of the monitoring of the voluntary coupled support scheme in DG AGRI and the effectiveness of simplification measures under 2014-2020 European Structural and Investment funds (DG REGIO, DG EMPL and DG MARE),
- Policy: supervision of the aviation and maritime security policy (DG MOVE).

In addition, as last year (following the centralisation of the internal audit function in 2015⁶⁴), the IAS issued limited conclusions on the state of internal control to every DG and department in February 2017. These conclusions were intended to contribute to the 2016 Annual Activity Reports of the DGs and departments concerned. The conclusions draw particular attention to all open recommendations rated 'critical' or the combined effect of a number of recommendations rated 'very important' and in two cases (DG DEVCO and DG CLIMA) the IAS stated that the DG concerned should duly assess if they require the issuance of a reservation in the respective Annual Activity Report. In both cases the DGs have issued such reservations in line with IAS limited conclusions.

Without further qualifying the opinion, the internal auditor added one 'emphasis of matter' highlighting issues that require particular attention as follows:

Supervision strategies regarding third parties implementing policies and programmes

Although it remains fully responsible for ensuring the legality and regularity of expenditure and sound financial management (and also the achievement of policy objectives), the Commission is increasingly relying on third parties to implement its programmes. This is mostly done by delegating the implementation of the EC operational budget (under indirect management mode) or certain tasks to third countries or international organisations, to National Agencies, Joint Undertakings, non-EU bodies and EU Decentralised Agencies. Moreover, in some policy areas, greater use is made of financial instruments under the 2014-2020 Multiannual Financial Framework or third parties/non-EU bodies

As required by its Mission Charter, the Commission's internal auditor also submitted an Overall Opinion, based both on its own work (2014-2016) and that of the former Internal Audit Capabilities (2014), and focusing on financial management. It considered that, in 2016, the Commission had put in place governance, risk management and internal control procedures which, taken as a whole, are adequate to give reasonable assurance over the achievement of its financial objectives. However, the overall opinion is qualified with regard to the reservations made in the Authorising Officers' by Delegation Declarations of Assurance and issued in their respective Annual Activity Reports.

In arriving at this opinion, the IAS considered the combined impact of amounts estimated to be at risk as disclosed in the Annual Activity Reports in the light of the corrective capacity as evidenced by financial corrections and recoveries of the past. Given the magnitude of financial corrections and recoveries of the past and assuming that similar levels of corrections will relate to payments made in 2016, the IAS considered that financial corrections and recoveries are estimated to be of a sufficient magnitude to protect adequately the EU budget in total (not for all individual policy areas) and over time (sometimes up to several years). This multi-annual character of the control systems is the reason why a positive (though qualified) overall opinion can be expressed despite the estimated level of amounts at risk for 2016 being (temporarily) just above the materiality threshold of 2%.

(e.g. national authorities or private investors) funds. Such instruments and alternative funding mechanisms entail specific challenges and risks for the Commission, as highlighted by the European Court of Auditors.

To fulfil their overall responsibilities, the operational DGs have to oversee the implementation of the programmes and policies and provide guidance and assistance where needed. The DGs therefore have to define and implement adequate, effective and efficient supervision/monitoring/reporting activities to ensure that the delegated entities and other partners

effectively implement the programmes, adequately protect the financial interests of the EU, comply with the delegation agreement, when applicable, and that any potential issues are addressed as soon as possible.

The IAS recommended in a number of audits that certain DGs' control and supervisory strategies should set out more clearly their priorities and needs as regards obtaining assurance on sound financial management in those EU and non-EU bodies. In particular, the control strategies did not sufficiently take into account the different risks involved in entrusting tasks to the delegated entities and independent sources were not effectively used to build up the assurance. These DGs should

undertake more effective and efficient supervisory activities.

Furthermore, the objectives of the supervisory/monitoring/reporting activities and how to assess their effectiveness were not sufficiently clear and the supervisory controls were limited in practice.

The IAS notes the recent initiative undertaken by the central services to develop specific guidance to the partner DGs on relations with their decentralised agencies, which covers, among other things, monitoring programming, performance and budgetary issues.

Annex 6: Compliance with payment time limits (Article 111.5 RAP)

The **statutory time limits** for payments are laid down in the main body of the Financial Regulation⁶⁵. There are also some exceptionally applied time limits which are detailed in sector-specific regulations.

Article 92 of the Financial Regulation foresees that payments to creditors must be made within deadlines of 30, 60 or 90 days, depending on how demanding and complex it is to test the deliverables against the contractual obligations. Most of the payments have to be executed within 30 days (in volume a global average of 85% in 2014, 87% in 2015 and 2016). For contracts and grant agreements for which payment depends on the approval of a report or a certificate, the time limit for the purposes of the payment periods is no longer automatically suspended until the report or certificate in question has been approved.

The period of two months remains valid for payments under Article 87 of the Regulation of the European Parliament and the Council⁶⁶ laying down the general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund.

Compliance with payment time limits has been reported by the Services in their Annual Activity Reports since 2007⁶⁷. In accordance with the applicable rules, the payment times reported in this annex have been calculated as follows:

For payments related to contracts and grant agreements signed before 2013 the time limits specified in the Financial Regulation of 2007 are applied.

- where the payment is contingent upon the approval of a report, the time from approval of the report until payment;
- where no report is required, the time from reception of the payment request until payment.

For payments related to contracts and grant agreements signed as from 2013, the Financial Regulation of 2012 is applied:

- where no report is required and where the payment is contingent upon the approval of a report, the time from reception of the payment request until payment.

The Commission's global average payment time is monitored by the Accounting Officer. It has evolved as follows in recent years:

	2014	2015	2016
Global average net payment time	28.2 days	24.9 days	21.4 days
Global average gross payment time	31.7 days	28.6 days	24.9 days

The data shows that the global average net payment time of the Commission services is **below 30 days since 3 years** (for all time limits combined) and has steadily decreased in 2016. Services are encouraged to continue their efforts in this regard and to implement follow up measures whenever payment time problems are identified. The global average gross payment time is newly provided following a recommendation from the Ombudsman. It represents the average time to pay including any period of suspension.

The table below illustrates the evolution of the "**late payments**" i.e. *payments made after expiry of the statutory time limit in recent years*. The data used has been extracted from the ABAC accounting system:

	2014	2015	2016
Late payments in number	19.8 %	17.9 %	12.4 %
Late payments in value	23.3 %	17.5 %	8.5 %
Average number of overdue days ⁶⁸	52.1 days	39.5 days	39.1 days

The number of late payments and the amounts associated with them have decreased significantly in 2016. This result is believed to be linked to the more stringent requirements associated with the FR 2012. Another reason is

associated with the sufficient availability of payment appropriations. The average number of overdue days (delays calculated in days), for all time limits combined is stabilized since 2 years.

Concerning the *interest paid for late payments*⁶⁹ (see figures in the table below) the total amount paid by the Commission in 2016 decreases sharply when compared to previous years. The abnormally high amount of interest paid in 2014 and 2015 was mainly due to the lack of payment appropriations.

	2014	2015	2016
Interest paid for late payments	3 027 123.88 EUR	2 064 949.02 EUR	685 645.20 EUR

In general, payments delays and interest paid are a consequence of payment shortages. For that reason DG BUDG has summarised some possible measures which could be applied by the Authorising Officer to actively manage payment appropriations.

Other **causes of late payments** include the complexities of evaluating the supporting documents that are a prerequisite for all payments. This is particularly onerous when the supporting documents are reports of a technical nature (in average 15% of the payments in 2014, 13% in 2015 and 2016) that sometimes have to be assessed by external experts. Other causes are associated with difficulties in

coordinating the financial and operational checks of payment requests, and issues with the management of payment suspensions.

The 2009 Communication establishing Commission-internal payment targets provided a clear incentive to services to reduce their payment times. There is scope for reducing payment times further. When setting up action plans in this area, services' should focus on further reducing late payments from their current levels of 12.4 % of payments in terms of their number, 8.5 % of their value. **The aim is to meet the statutory payment time for every payment.**

The table that follows gives a detailed overview of the suspensions of payment.

	2014	2015	2016
Total number of suspensions	27 004	27 254	26 595

Suspensions are a tool that allows the responsible authorising officer to withhold temporarily the execution of a payment because the amount is not due, because of the absence of appropriate supporting documentation or because there are doubts on the eligibility of the expenditure concerned. It is a basic tool for the authorising officer in the payment process towards avoiding irregular or erroneous payments and fundamental towards ensuring sound financial management and protecting the Union's financial interest.

Annex 7: Summary of Waivers of recoveries of established amounts receivable (Article 91.5 RAP)

In accordance with Article 91(5) of the Rules of Application, the Commission is required to report each year to the budgetary authority, in an annex to the summary of the Annual Activity Reports, on the waivers of recovery involving 100000 EUR or more.

The following table shows the total amount and the number of waivers above 100000 EUR per Directorate-General/Service for the EU budget for the financial year 2016. There was no transaction of this type and value for the European Development Fund in the reporting year.

EC budget:

Directorate-General/Service	Amount of waivers in EUR	Number of waivers
COMP	6 185 582.11	1
DEVCO	309 311.27	1
EACEA	120 455.30	1
ENER	737 905.16	4
JUST	100 691.05	1
MARE	7 520 000.00	1
NEAR	1 135 914.80	5
RTD	1 218 242.23	3
Total:	17 328 101.92	17

Guarantee Fund:

Directorate-General/Service	Amount of waivers in EUR	Number of waivers
GF (FP7)	832 753.56	6

Annex 8: Report on negotiated procedures (Article 53 RAP)

1. Legal basis

Article 53 of the Rules of application of the Financial Regulation requires authorising officers by delegation to record contracts concluded under negotiated procedures. Furthermore, the

Commission is required to annex a report on negotiated procedures to the summary of the annual activity reports (AAR) referred to in Article 66.9 of the Financial Regulation.

2. Methodology

A distinction has been made between the 46 Directorates-general, services, offices and executive agencies which normally do not provide external aid, and those three Directorates-general (DEVCO, NEAR and FPI) which conclude procurement contracts in the area of external relations (different legal basis: Chapter 3 of Title IV of Part Two of the Financial Regulation) or award contracts on their own account, but outside of the territory of the European Union.

These three Directorates-general have special

characteristics as regards data collection (decentralised services, ...), the total number of contracts concluded, thresholds to be applied for the recording of negotiated procedures (EUR 20 000), as well as the possibility to have recourse to negotiated procedures in the framework of the rapid reaction mechanism (extreme urgency). For these reasons, a separate approach has been used for procurement contracts of these three Directorates-general.

3. Overall results of negotiated procedures recorded

3.1. The 46 Directorates-general, services or offices, excluding the three "external relations" Directorates-general

On the basis of the data received, the following statistics were registered: 86 negotiated procedures with a total value of EUR 404 million were processed out of a total of 606 procurement procedures (negotiated, restricted or open) for contracts over EUR 60 000 with a total value of EUR 2465 million.

For the Commission, the average proportion of negotiated procedures in relation to all procedures amounts to 14.2 % in number (17.6 % in 2015), which represents some 16.4 % of all procedures in value (7 % in 2015).

An authorising service shall report to the institution if the proportion of negotiated procedures awarded in relation to the number of the contracts is "distinctly higher than the average recorded for the Institution" i.e. if it exceeds the average proportion by 50 %, or if the increase from one year to the next is over 10 % in the proportion.

Thus, the reference threshold for this year is fixed at 21.3 % (26.4 % in 2015).

Some 9 Directorates-general or services out of the 46 exceeded the reference threshold and 9 increased in addition, their number of negotiated procedures by more than 10 % in the proportion of the negotiated procedures launched last year (5 Directorates-general or services exceeded both indicators). Among these 13 DGs or services, it should be noted that 6 Directorates-general concluded only one to four negotiated procedures, but the low number of procedures conducted by each of them (up to 8), makes their average high. Consequently their results are to be considered as non-significant.

To be noted that, 21 out of 46 Directorates-general have not used any negotiated procedure, including 7 services that awarded no contract at all.

The assessment of negotiated procedures compared with the previous year shows a decrease in the order of 3.4 percentage points in terms of relative number and an increase of 9.4 percentage points in terms of relative value.

3.2. The three "external relations" Directorates-general

On the basis of the data received, the following statistics were registered: 97 negotiated procedures for a total value of contracts of EUR 99 million were processed out of a total of 420 procedures for contracts over EUR 20 000 with a total value of about EUR 880 million.

For the three "external relations" Directorates-general, the average proportion of negotiated procedures in relation to all procedures amounts to 23.1 % in number (28.7 % in 2015), which represents some 11.2 % of all procedures in value (20.2 % in 2015).

4. Analysis of the justifications and corrective measures

The number of negotiated procedures in 2016 compared to 2015 has considerably decreased (from 117 to 86), while the overall number of procurement procedures has decreased (from 665 to 606).

The following categories of justifications to call for a negotiated procedure have been presented by those Directorates-general who exceeded the thresholds:

- **Statistical deviations** due to the low number of contracts awarded under all procedures. Indeed 11 out of these DGs have carried out less than 15 procurement procedures as a whole.
- **Objective situations of the economic activity sector**, where the number of operators may be very limited or in a monopoly situation (for reasons of intellectual property, specific technical expertise, confidential information, exclusivity rights etc.). Monopoly situations are met inter alia, in the climate change domain (COP meetings), in the health area, for example for the purchase of vaccines and antigens for animal diseases or building domain (technical captivity due to legal status of the economic operator i.e. the state owned firm S.T.I.B). Situations of technical captivity may also arise especially in the IT domain (owner of software, electronic databases licences or maintenance of complex servers hosting critical information systems) or in the nuclear research domain (purchase of guaranteed access rights in the Jules Horowitz Reactor (JHR).
- **Situations of emergency or crisis** that cannot be foreseen in advance by the contracting authority, as is the need to ensure contractual continuity of critical secured and highly available network services to key applications in the context of police cooperation, asylum policy, foreign policy, civil protection, money laundering.
- **Similar services/works** as provided for in the initial tender specifications. Some services in charge of large inter-institutional procurement procedures realise during the implementation of the contract (most likely in Framework contract procedures) that the needs initially foreseen do

Thus the reference threshold for this year is fixed at 34.6 % (43 % in 2015) which represents an increase of 50 % the average proportion of 2015. No Directorate-general exceeds the reference threshold of 43.0 %.

If compared with previous year, these Directorates-general have registered a decrease of 5.6 percentage points in number of negotiated procedures in relation to all procedures and a decrease of 8.9 percentage points in terms of relative value.

not often match with the consumption trend during the execution of the contract. Therefore, the leading service must start a negotiated procedure on behalf of all Institutions to increase the ceiling of the framework contract in question.

- **Additional services** not included in the initial contract which become necessary, due to unforeseen circumstances.
- **Unsuccessful open or restricted procedure**, leading to a negotiated procedure.

Regular available measures are proposed or implemented by the Central Financial Service and Directorates-general concerned to redress the use of negotiated procedures when other alternatives could be available:

- An **improved programming** of procurement procedures.
- **Improvement of the system of evaluation of needs**. The Commission's horizontal services will continue their active communication and consultation policy with the other DGs, institutions, agencies and other bodies along the following axes:
 - permanent exchange of information via regular meetings with user services and agencies in appropriate fora;
 - ad-hoc surveys prior to the initiation of (inter-institutional) procurement procedures for the evaluation of needs;
 - better estimate of needs of inter-institutional framework contracts and better monitoring with semester consumption reports from user services or agencies;
- **Training and improved inter-service communication**. The Central Financial Service provides regular practical training sessions on procurement.
- Regular update of **standard model documents and guidance documents** on procurement.

Annex 9: EU Trust Funds (Article 187.10 FR)

Comprehensive and detailed report to the European Parliament and the Council on the activities supported by Union trust funds, on their implementation and performance, as well as on their accounts. (FR Article 187.10) For the EUTFs' performance and results aspects, see AMPR subsection 1.5.

The Financial Regulation allows the European Commission to create and administer Union Trust Funds in the field of external action: these are multi-donor trust funds for emergency, post-emergency or thematic actions.

A Trust Fund is both a legal arrangement and distinct financial structure relying on a pool funding mechanism, in which several donors jointly finance an action on the basis of commonly agreed objectives and reporting formats. Trust funds have many advantages, such as flexibility, speed of decision-making and the possibility to pool funding from different sources and donors:

EU Trust Funds enhance the international role of the EU, as well as strengthen the visibility and efficiency of its external action and development assistance.

Another advantage is faster decision-making process in the selection of the measures to be implemented in comparison with traditional multiannual programmes devoted to development cooperation. This can prove crucial in emergency and post-emergency actions, the categories of measures (together with thematic actions) for which EU Trust Funds may be established.

One more benefit is the leverage of additional resources to devote to external action, since the establishment of an EU Trust Fund requires at least one additional donor.

Donors to an EU Trust Fund may be individual Member States as well as other entities. The pooling of resources could also increase coordination between different EU donors in selected areas of intervention, for example if individual Member States decide to channel at least part of their national bilateral assistance through EU Trust Funds.

In order for an EU Trust Fund to be created, it must meet a number of conditions, including EU added value (its objectives can be better met at EU than at national level), additionality (the trust fund should not duplicate already existing and similar instruments) and managerial advantages.

The European Parliament and the Council have a right of scrutiny when the draft implementing act relates to a basic act adopted under the ordinary legislative procedure. The European Commission

submits the draft decision to create an EU Trust Fund to the competent committee provided for in the basic act governing the instrument, which should provide the EU's financial contribution to the new Trust Fund. By means of such committees, the representatives of the Member States control the Commission's exercise of implementing powers.

After the adoption of the establishment and financing decisions, the following step is the signing of the constitutive act of the EU Trust Fund by the European Commission and the donors. The constitutive act details some important features of the Trust Fund, including its specific objectives, the rules for the composition and the internal rules of its board, as well as the duration of the trust fund, which is always limited in time. EU Trust Funds have so far all been set up for an initial 60 months (five years), apart from the Colombia EUTF set up in December 2016 for four years.

Financial contributions to an EU Trust Fund are lodged in a specific bank account. EU Trust Funds are not integrated in the EU budget, but their management needs to be in accordance with the Financial Regulation to the extent necessary to ensure proper use of public resources. The European Commission is empowered to adopt delegated acts laying down detailed rules on the management, governance and reporting of the EU Trust Funds.

EU Trust Funds are implemented directly by the European Commission, which is authorised to use up to 5% of the resources pooled in a trust fund to cover its management costs. In the case of emergency or post-emergency EU Trust Funds, budget implementation may also be indirect, with the possibility to entrust relevant tasks to other entities, such as third countries and their designated bodies or international organisations and their agencies. In addition to the specific objectives of a given trust fund, implementation must comply with the principles of sound financial management, transparency, proportionality, non-discrimination and equal treatment.

Each EU Trust Fund has its own governing board,

which decides on the use of the pooled resources. The board ensures representation of the donors and is chaired by the European Commission, whose positive vote is required for the final decision on the use of the resources. Member States that do not contribute to the trust fund participate as observers. An EU Trust Fund acts collectively on behalf of the EU and all the contributors to its financing.

As far as control and audit mechanisms are concerned, the provisions of the Financial Regulation and its rules of application include a series of safeguards. For example, each year EU Trust Funds are subject to an independent external audit. In addition, the powers of the European Court of Auditors and of the Commission's internal auditor over EU Trust Funds are the same as those they exercise over the other activities of the European Commission.

With regard to reporting obligations, the European Commission is to submit an annual report on each EU Trust Fund to the EP and the Council. The

annual report must be exhaustive and include detailed information on the activities supported by the trust fund, their implementation and performance as well as their accounts. The Commission also reports on a monthly basis to the European Parliament and the Council on the budgetary implementation of the EUTFs.

The following EU Trust Funds have been established:

- the EU Trust Fund for the Central African Republic: 'the BÊKOU EUTF' (EDF),
- the EU Regional Trust Fund in Response to the Syrian Crisis: 'the MADAD EUTF' (EU Budget),
- the European Union Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa: 'the AFRICA EUTF' (EDF),
- the European Union Trust Fund for Colombia: 'the COLOMBIA EUTF' (EU Budget).

The BÊKOU EUTF

The BÊKOU EUTF (which means 'hope' in Sango, the primary language spoken in the Central African Republic) was established on 15 July 2014, by the European Union (represented by DG DEVCO, DG ECHO and the EEAS) and three of its Member States: France, Germany and the Netherlands. The Fund was established with the objective to support all aspects of the country's exit from crisis and its reconstruction efforts. It was furthermore designed taking into consideration the need to better link the

reconstruction/development programmes with the humanitarian response (Linking Relief, Rehabilitation and Development - LRRD) in order to rebuild the capacity of the country.

In total 5 EU Member States and other donors have, by the 15 May 2017, contributed to this EUTF. The priority sectors that the Trust Fund supports include health, food security, access to water and reconciliation within Central African Republic society.

The MADAD EUTF

The EU Regional Trust Fund in Response to the Syrian Crisis, the 'Madad Fund', ('Madad' broadly means 'helping together' in Arabic), was established on 15 December 2014.

By way of a revised Commission establishment decision in December 2015, and subsequent adoption by the Trust Fund Board in March 2016, the scope of the Madad Fund has been expanded to also cover support to internally displaced persons (IDPs) in Iraq fleeing from the interlinked Syria/Iraq/Da'esh crisis, to provide flexibility to support affected countries also with hosting non-Syrian refugees, and to provide support in the

Western Balkans to non-EU countries affected by the refugee crisis.

By 15 May 2017, the Madad Fund reached a total of EUR 1 303 million in signed contributions from 22 EU Member States (EUR 92 million), Turkey (EUR 24 million) and regular EU financing instruments (EUR 1 186 million). The majority of this funding has already been allocated to concrete projects.

Over EUR 440 million have been contracted to implementing partners in 14 large programmes with a duration of 24 to 48 months. The Madad Fund is an important implementation channel also for the Facility for Refugees in Turkey, with some 10% of

the Facility's budget to be channelled via the Trust Fund.

These programmes support refugees and host communities in their needs for basic education and

The AFRICA EUTF

The EUTF for Africa was established on 12 November 2015. It provides a rapid, flexible and effective response to root causes of irregular migration and displaced persons in Africa as well as to the crisis in the Sahel and Lake Chad, the Horn of Africa, and the North of Africa regions. It has since then been extended to Ghana, Guinea and Ivory Coast.

It aims to help fostering stability and contributing to better migration management. In line with the EU development-led approach to forced displacement, it also helps addressing the root causes of destabilisation, forced displacement and irregular migration, by promoting economic and equal opportunities, security and development.

The EU provides support to the three regions to face the growing challenges of demographic pressure, environmental stress, extreme poverty, internal tensions, institutional weaknesses, weak social and economic infrastructures and insufficient resilience to food crises, which have in some places led to open conflict, displacement, criminality, radicalisation and violent extremism, as well as irregular migration, trafficking in human beings and the smuggling of migrants.

child protection, training and higher education, better access to healthcare, improved water and wastewater infrastructure, as well as support for projects promoting resilience, economic opportunities and social inclusion.

The EUTF for Africa benefits a comprehensive group of African countries crossed by the major migration routes. These countries are part of the following regional operational windows:

- Window A: Sahel and Lake Chad: Burkina Faso, Cameroon, Chad, the Gambia, Mali, Mauritania, Niger, Nigeria, Senegal, Ghana, Guinea and Cote d'Ivoire.
- Window B: Horn of Africa: Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan, Tanzania and Uganda.
- Window C: North of Africa: Algeria, Egypt, Libya, Morocco and Tunisia.

In addition to the countries mentioned above, neighbouring African countries may also benefit, on a case by case basis, from EUTF for Africa projects with a regional dimension in order to address regional migration flows and related cross-border challenges.

Activities funded under the EUTF for Africa are implemented through a range of operating partners, including EU Member States cooperation agencies, NGOs and international organisations. Several implementation modalities are envisaged: delegated cooperation, calls for proposals, budget support, blending and direct awards in particular situations. Priorities of the EUTF for Africa have been identified through a dialogue with African partners and relevant local, national and regional stakeholders

In 2016 a total of 106 projects worth EUR 1 589 million have been approved by the EUTF as follows: 65 programs covering all 9 countries in the Sahel/Lake Chad region for a total amount of EUR 918.5 million; 35 programs in the Horn of Africa region for a total amount of EUR 606 million, and 6 programs in the North of Africa region for a total amount of EUR 64.5 million.

In total 25 EU Member States and two other donors (Switzerland and Norway) have, by mid-May 2017, contributed to this EUTF.

The COLOMBIA EUTF

The signature of the constitutive agreement of the EU Trust Fund for Colombia took place on 12 December 2016. The EUTF set to have close to EUR 95 million at its disposal, from the EU budget and from contributions of 19 EU Member States (Croatia, Czech Republic, Cyprus, France, Germany, Hungary, Italy, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Spain, Sweden, the United Kingdom, Slovakia and Slovenia).

The Trust Fund will help to support the implementation of the peace agreement in the early recovery and stabilisation phases of the post conflict. The overall objective is to help Colombia to secure a stable and lasting peace, to rebuild its social and economic fabric, and to give new hope to the people of Colombia.

The **EUTFs' annual reports by their Trust Fund Managers** (as Authorising Officers by Sub-

Delegation), can be found as annexes of the Annual Activity Reports of DG DEVCO and DG NEAR:

DG DEVCO

- EUTF "Bêkou"
- EUTF "Africa" - Horn of Africa Window
- EUTF "Africa" - Sahel and Lake Chad Window
- EUTF "Africa" - North of Africa Window

DG NEAR

- "Madad" Fund – The EU Regional Trust Fund in response to the Syrian crisis
- EUTF "Africa" - North of Africa window

Endnotes to the annexes

- 1 Please note that Eurostat periodically revises its published data to reflect new or improved information, also for previous years. The latest published data is available by clicking on "Eurostat".
- 2 The share of 18 to 24 year old persons who have at most lower secondary education and are not in further education and training.
- 3 Gross domestic product at 2010 reference levels per hour worked (purchasing power parity adjusted).
- 4 DESI is a composite index that summarises relevant indicators on Europe's digital performance and tracks the evolution of EU Member States in digital competitiveness. The closer the value is to 1, the better. The DESI index is calculated as the weighted average of the five main DESI dimensions: 1 Connectivity (25%), 2 Human Capital (25%), 3 Use of Internet (15%), 4 Integration of Digital Technology (20%) and 5 Digital Public Services (15%). The DESI index is updated once a year.
- 5 No more than 1 483 Mtoe of primary energy consumption.
- 6 No more than 1 086 Mtoe of final energy consumption.
- 7 Spain and Cyprus to follow later.
- 8 The FINTEC indicator is a scale-free measure normalized to always lie between 0 and 1; 0 means no cross-border integration, 1 means full integration; for the price-based part 1 would mean total absence of any price differentials for comparable money market instruments; for the volume-based part, full integration would mean lack of any home bias on the side of investors.
- 9 The first entry is the price-based, the second the volume-based indicator value.
- 10 CISS measures the state of instability in the euro area financial system. It comprises 15 mostly market-based financial stress measures split into five categories: financial intermediaries sector, money markets, equity markets, bond markets and foreign exchange markets. It is unit-free and constrained to lie within the interval (0, 1).
- 11 The ratio of total income received by the 20 % of the population with the highest income (top quintile) to that received by the 20 % of the population with the lowest income (lowest quintile).
- 12 The figures were calculated subtracting "Special Purpose Entities" FDI from "Total" FDI in order to have "non-SPE" FDI figures that can be comparable with other international data.
- 13 The unadjusted Gender Pay Gap (GPG) represents the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees.
- 14 The indicator measures the % of effected returns compared to return decisions issued by the Member States.
- 15 Eurostat collects both the nominator and the denominator annually from the Ministries of Interior / Border Guards / Police of the Member States. The data depend very much on national circumstances and policies. In addition, the time lag between the return decision and its execution means that the reference population of the nominator and denominator are not the same.
- 16 Host-country nationals and other EU nationals counted together.
- 17 This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.
- 18 The indicator measures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism. Higher values in percentile rank indicate better governance ratings.
- Neighbourhood East (NE): Number of countries in a percentile rank above 30.
- Neighbourhood South (NS): Number of countries in a percentile rank above 10.
- 19 Computed on country level data from 2012 or before, drawing on World Bank data for the poverty rates, and UN Population Division data for the weights; extracted in November 2016 to take into account the revisions in the poverty line from \$1.25 to \$1.90.
- 20 Computed on country level data from 2014 or before, drawing on World Bank data for the poverty rates, and UN Population Division data for the weights; extracted in November 2016.
- 21 Including the graduated countries - Partnership countries for which bilateral assistance is phased out).

22 For the calculation of the baseline beneficiary countries under the Development Cooperation Instrument and European Development Fund have been taken into account. Beneficiaries under the European Neighbourhood Instrument and EU- Greenland Partnership Instrument have been excluded.

23 Council Conclusions of 26 May 2015, in the framework of the 2030 Agenda for Sustainable Development.

24 Based on analysis of final 2014 ODA spending by EU Member States and non-imputed spending by the EU institutions as reported by the OECD DAC. Final data for two EU Member States was not available so earlier data was extrapolated.

25 The number of opinions to a certain degree depends on the number of legislative proposals and policy communications put forward by the Commission.

26 'Scope' or 'payments concerned' and 'amount at risk at reporting' or 'exposure from the reservations' are reported in the reservation templates of the Annual Activity Reports.

27 For AGRI's EAFRD reservation, the scope is based on relevant expenditure (interim payments and cleared pre-financing)

28 For some programmes with no set closure point (e.g. EAGF) and for some multiannual programmes for which corrections are still possible afterwards (e.g. EAFRD and ESIF), all corrections that remain possible are considered for this estimate.

29 or equivalent, such as after the expenditure is registered in the EC accounting system, after the expenditure is accepted or after the pre-financing is cleared. In any case, this means after the preventive (ex-ante) control measures have already been implemented earlier in the cycle.

30 equivalent to the European Court of Auditors' methodology (European Court of Auditors 2015 Annual Report methodological Annex 1.1 point 7)

31 "Payments made" are covered by the Delegated DG for (only) Co-Delegations Type 2; they remain with the Delegating DG for Cross-SubDelegations and (even) for the ('split') Co-Delegations Type 3. "Pre-financings paid/cleared" are covered by the Delegated DG for Cross-SubDelegations and for (both) Co-Delegations Types 2 and 3. In both cases, Co-Delegations Type 1 are 'divided' between DGs, with each DG fully covering its own 'share' of (both) payments and pre-financings.

32 In Shared Management, these are rather the "adjusted error rates" (AGRI, AAR p. 65), the "reportable error rates" (REGIO, AAR p. 100), the "average error rates" (EMPL, AAR p. 78).

33 'Non-quantified reservations' are defined as reservations for which it is not possible to make an accurate assessment of the impact for the financial year or which cannot be quantified because they are only reputational.

34 Communication on the protection of the EU budget COM(2016) 486 final of 18/7/2016.
Communication on the protection of the EU budget COM(2015) 503 final of 8/10/2015.
Communication on the protection of the EU budget COM(2014) 618 final of 29/9/2014.
Communication on the protection of the EU budget COM(2013) 682 final/2 of 30/9/2013.

35 Not for the 2000-2006 period.

36 Including the ones of systemic nature.

37 The Member State could spend less money throughout the programming period.

38 Special Report No 4/2017 "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"

39 It should be noted that due to the rounding of figures into millions of euros, some financial data in the tables below may appear not to add-up.

40 For the purpose of calculating its corrective capacity in the AAR, DG AGRI takes into account only the amounts related to conformity clearance decisions adopted by the Commission and published in the Official Journal of the EU and deducts the corrections in respect of cross-compliance infringements.

41 As regards recoveries by Member States, DG AGRI uses the amounts reported in their debtor's ledger.

42 Except for the financial corrections reported in 2015, which had their peak since the beginning of the 2007-2013 programming period (see also page 11 of last year's Communication on the protection of the EU budget COM(2016) 486 final of 18/7/2016).

43 The amount does not include the financial corrections "at source".

44 Article 21(3)(c) of the Financial Regulation.

45 Art. 41 of Reg. 1306/2013.

46 Regulation (EU) N° 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Funds, the European Social Fund and the Cohesion Fund repealing Regulation (EC) N° 1083/2006 – OJ L 347, 20.12.2013, p. 320.

- 47 Stemming from Member States' control statistics reported to the Commission.
- 48 Not for the 2000-2006 period.
- 49 For deficiencies in the management and control system for which there is evidence that the level of required financial correction should not exceed 10 % (paragraph d) of Regulation 480/2014), no interruption needs to be launched. Instead, a letter will be sent to the Member State to inform them that they should resolve the issue (i.e. relevant expenditure to be deducted) by the submission of the accounts; otherwise the Commission will launch an interruption and/or a financial correction.
- 50 Spain: DGCI IB (involved in 12 programmes), DGI (involved in 2 programmes), Melilla regional part, ICEF-IFM (involved in 1 programme); ETC: Slovakia-Czech Republic, Greece-Italy; UK: Lowlands and Uplands; Hungary (8 programmes); IPA CBC (Adriatic programme - TA priority) and IPA CBC (Adriatic entire programme).
- 51 'Technical Assistance and Information Exchange instrument TAIEX-REGIO PEER 2 PEER'.
- 52 These programmes include also the ones 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 378 programmes closed, 20 are thus currently "partially" closed.
- 53 This amount does not include the at source financial corrections applied by the Member States before declaring the expenditure to the Commission, since there was no legal requirement to report such amounts. Consequently, the Commission does not have such information.
- 54 Including financial corrections at source.
- 55 At source corrections are excluded from this annual reporting, in line with the legal framework applicable for 2007-2013.
- 56 In addition to Commission reporting.
- 57 In order to eliminate the risk of double counting, the amounts reported in this section are calculated as the difference between the cumulative amounts reported by the Member States (Art. 20 reports on withdrawals and recoveries) and the financial corrections reported by the Commission (table 1.2.2 above).
- 58 This information has been transmitted in the assurance packages received in February 2017 for the second accounting year and is still under assessment by the Commission services (information as reported by the Member States, pending the Commission verifications).
- 59 Research budget implemented by the Commission and Executive Agencies.
- 60 Implementation of Research budget entrusted to joint undertakings.
- 61 Budget implementation by international organisations.
- 62 For ERDF/CF, flat rate corrections should be seen as an estimation of the financial corrections (flat-rate and / or extrapolated) which are not directly linked to individual operations/projects. It needs also to be underlined that in some cases the amounts of corrections communicated by the Member States cover both individual and flat rate/extrapolated corrections; for reporting purposes these amounts are included under the typology (individual or flat rate) which is considered prevalent. These two limitations do not have an impact on the reliability of the global amounts reported.
- 63 As a result, the eligible expenditure declared to the Commission is capped to the amount after the deduction of the flat rate correction.
- 64 Following a Commission decision, the internal audit function was centralised in 2015 in the IAS. The former Internal Audit Capabilities of the Commission's DGs and services ceased to exist on 15 February 2015.
- 65 Commission Delegated Regulation (EU) N° 1268/2012 of 29 October 2012 (OJ L 362, 31.12.2012, p.1).
- 66 Regulation (EC) No 1083/2006 of the European Parliament and of the Council laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion fund and repealing Regulation (EC) No 1260/1999 (OJ L 210, 31.7.2006, p. 25).
- 67 Based on available data in ABAC as of end of the financial year 2007.
- 68 i.e. above the statutory time limit.
- 69 i.e. no longer conditional upon the presentation of a request for payment (with the exception of amounts below 200 euros).

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