



# **2017**

# **Annual Activity Report**

**Directorate-General  
for Internal Market,  
Industry,  
Entrepreneurship and  
Small and Medium-  
sized Enterprises**

**(DG GROW)**



# ANNUAL ACTIVITY REPORT

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Internal Market, Industry,  
Entrepreneurship and  
Small and Medium-sized  
Enterprises

DG GROW



## Foreword of the Director-General

*2017 put Europe firmly on the way to economic recovery. DG GROW's actions to foster innovation and competitiveness have contributed to this growth. A number of challenges remain: persistent inequalities, growing international instabilities and global competition. To build a prosperous, innovative and inclusive Europe is an abiding goal of the Commission. DG GROW contributes to many Commission priorities. These include the skills agenda, digitalisation, ecological transition, circular economy and international trade negotiations. We work well with our sister Directorates General.*

*2017 was a year of delivery.*

*The COSME programme delivered on a growing amount of funds to an increasing number of SMEs. All facets of the programme – Financial Instruments, Enterprise Europe Network and Erasmus for Young Entrepreneurs – are contributing to encourage the creation of SMEs which are the main creators of jobs in Europe.*

*In space Europe is delivering the European Space Strategy. For both Galileo and Copernicus, the successful launches of new satellites increased the quality of the services provided.*

*With the new Industrial Policy Strategy, adopted by the Commission in September, we have delivered a basis from which the EU and the Member States can help European industry to continue to modernize and remain globally competitive.*

*In 2017, our DG proposed a number of measures to preserve and deepen the Single Market on goods and services, public procurement and intellectual property.*

*For defence, 2017 was a year of acceleration. Member States worked together to define their political priorities. DG GROW is in the centre of developing a co-ordinated European approach to defence industries, and to developing joint research and capabilities.*

*These big projects are highly visible. DG GROW also has day-to-day work in different industrial sectors ranging from automotive, to REACH, chemicals, medical devices and cosmetics among others. This work helps to protect citizens' health and helps to keep our industries competitive. Our financial, human and informatics resource services allow the whole DG to be efficient and the communication and interinstitutional services skilfully present our policies files to our stakeholders.*

*Our achievements come from the dedication and expertise of all staff in this DG. I express my gratitude to them for the work done in 2017. I am proud to work with such a great team. We know that 2018 will see more work – and more success stories.*

*Lowri Evans*

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# THE DG IN BRIEF

## Mission of the DG

*DG GROW works to create opportunities for all – European businesses & citizens.*

### Extended Mission Statement

"Every European citizen should benefit from a dynamic and sustainable economy, characterised by a favourable entrepreneurial climate and respect for core European values like cultural diversity, social cohesion and protection of the environment.

Working together at the European level allows us to make the best out of the opportunities and challenges arising from an increasingly digitalised global and rapidly changing world.

A vibrant economy will create ample job opportunities for a well-trained and well-skilled European workforce and offer to the consumer products and services that are safe, affordable, of good quality and produced under environmentally and socially sound conditions.

DG GROW is well placed to foster opportunities and welfare for all, allowing citizens, entrepreneurs, small and large businesses as well as their employees to reap the full benefits from a large, integrated and globally competitive single market.

Our aim is to help entrepreneurs with great business ideas obtain the necessary support to start up, grow and thrive. We want to also help them find opportunities for their innovative products and services in the global economy beyond the EU's borders.

### Environment under which the DG operates

The general environment, in which the DG operates, in both executing budget and achieving objectives, is characterised by a great variety of public and private stakeholders and entrusted entities involved. As a result, the DG has also to rely on external control systems, which are compliant with respective international standards.

In addition to the inherent risks related to the direct and indirect spending modes, the DG has to take into account other risks related to factors which could not necessarily be directly influenced by the DG or would develop despite our efforts made in mitigation, e.g. highly technical aspects of certain activities; non-occurrence of circumstances, which are an underlying assumption for an activity or extraordinary events or circumstances beyond the control of the DG.

As the majority of the DG budget is managed indirectly via entrusted entities, challenges concern mainly the respective supervision of these entities, which support the DG in achieving its objectives.

### Structure

In line with the organisation established in the Management Plan of DG GROW, 827 establishment posts were assigned to the DG at end-2017 and 161 external staff (excluding blue book trainees, interimaies and service providers).

The administrative structure of the DG was organised in four main strands, composed of 11 directorates and 47 units.

The activities under the first strand cover three directorates and report directly to the Director-General:

- Competitiveness and European Semester,
- Single Market Policy, Regulation and Implementation,
- Resources.

The second strand, directly reporting to a deputy Director-General, included directorates leading in:

- Industrial Transformation and Advanced Value Chains,
- Consumer, Environmental and Health Technologies in the Single Market and
- Innovation and Advanced Manufacturing.

The third strand, directly reporting to a second deputy Director-General, included directorates leading in:

- Modernisation of the Single Market,
- Single Market for Public Administrations,
- COSME Programme.

The fourth strand, directly accountable to a third deputy Director-General, included the Space Programmes directorates:

- Space Policy, Copernicus and Defence and
- EU Satellite Navigation Programmes.

The **accountability chain** established within the DG relies on input from other entities<sup>1</sup> so as to allow the achievement of the DG's policy and operational objectives:

- With the executive agencies, REA<sup>2</sup> and EASME<sup>3</sup>, the DG steered the implementation of Horizon 2020 and COSME.
- With the support of decentralised agencies, the DG led the successful implementation of for example: the regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), the European satellite navigation and Copernicus programmes. Annex 8 shows the complete list of agencies.
- With the support of international organisations, the DG is paving the way for the establishment of a European capacity for Earth Observation, a dedicated satellite navigation system and is monitoring EU programmes and supporting SMEs through dedicated financial instruments. Annex 6 shows international organisations.

Regarding the budget, Annex 3 shows the payment execution of the DG for 2017. The detailed distribution of the payments appropriations in 2017 is included in Section 2.

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<sup>1</sup> The reader is referred to section 2.1.1.1.

<sup>2</sup> Research Executive Agency

<sup>3</sup> Executive Agency for SMEs

## EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of a DG to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitutes the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties<sup>4</sup>.

The budget year 2017 was the fourth year of the 2014-2020 MFF with the major spending programmes COSME, Galileo, Copernicus and part of Horizon 2020 managed by DG GROW getting to implementation speed.

Regarding the Commission's prerogative on the operation and development of the Internal Market, the budgets related to goods, services and the internal market information tools were consolidated in DG GROW and mainly implemented through procurement contracts for studies and technical assistance.

In 2017, the DG together with the executive Agencies EASME and REA, achieved 100%<sup>5</sup> budget execution in commitments and 99.39%<sup>6</sup> in payments. The DG was working on several budget lines shared with other DGs such as DG ENV, DIGIT and SANTE.

2.17 % of payments were made outside legal deadlines.

Main overall time-based efficiency indicators for the DG's transactions (all management modes and types of expenditure taken together)	DG results for the reporting year
<b>Time to pay</b> (average net payment time - TTP)	17 days
Percentage of payments on time	97.8 % on time
Average days of suspension	40 days
Percentage of payments suspended	7.38 %

The following graph gives an overview of the payments outturn per Activity Based Budget (ABB) chapter for the 'Enterprise and Industry' policy area, including the administrative expenditure of 'Environment', 'Research and innovation' and 'Maritime affairs and fisheries' policy areas and the single market policy and free movement of services:

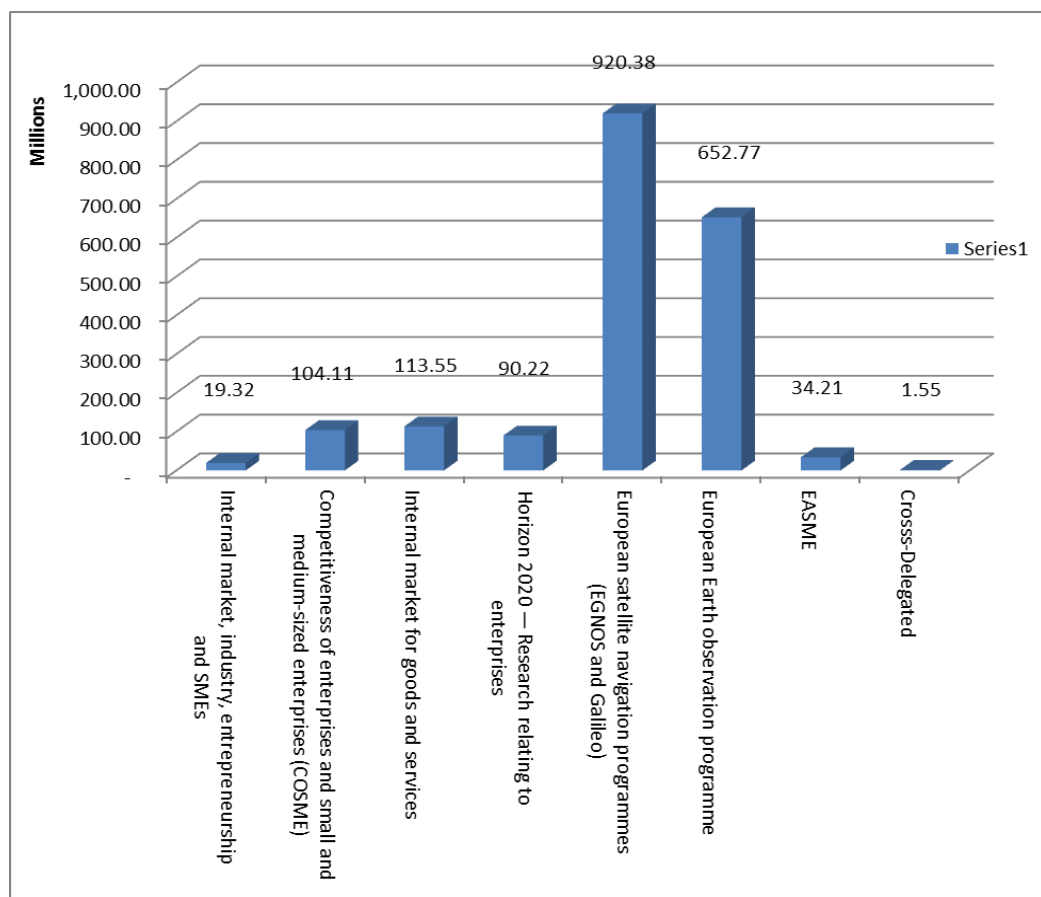
**Total amount paid in 2017, i.e. EUR 1.936 billion**

<sup>4</sup> Article 17(1) of the Treaty on European Union.

<sup>5</sup> Based on the final voted budget appropriations (C1) for the 2017 exercise.

<sup>6</sup> Based on the final voted budget appropriations (C1) for the 2017 exercise.





## a) Key results and progress towards the achievement of general and specific objectives of the DG (executive summary of section 1)

In 2017 DG GROW worked mainly towards the achievement of two priorities of the Juncker Commission: "A New Boost for Jobs, Growth and Investment" and "A deeper and fairer Internal Market with a strengthened industrial base". DG GROW was also involved in the implementation of three other political priorities: "Digital Single Market" and "A Stronger Global Actor" and "A balanced and progressive trade policy to harness globalisation". The impact and result indicators were established in the DG GROW Strategic Plan 2016-2020, the planning of outputs in the Management Plan for 2017.

Strategic Plan: [click here to get access](#)

Management Plan: [click here to get access](#)

Click on the hyperlinks for more information

### PROGRAMMES

### POLICIES

## Priority 1: Jobs, Growth and Investment

### Employment

#### Impact indicators:

✓ [Employment rate](#): 71.1%, it means +1% compared to 2016

#### DG GROW's 2017 results indicators:

✓ [Financing firms benefiting from debt financing](#) : €10.4 billion financed, target for 2017 exceeded

✓ [Erasmus for Young Entrepreneurs](#) : 5.800 exchanges

✓ [Enterprise Europe Network](#) : ca. 250.000 SMEs received support

✓ [Galileo](#) : 22 satellites in orbit, + 4 in 2017

✓ [Copernicus](#) : + 2 satellites in 2017, 6 operational services

### R&D

#### Impact indicator:

⌘ [Percentage of EU GDP invested in R&D](#) : 2.03 % in 2016, stable compared to 2015

#### DG GROW's 2017 result indicators

⌘ [Patent applications for Space projects](#) : 15 patent applications, = 0.3 per € 10m spent, still to improve to reach goal of 3 per 10m spent

#### [COSME](#)

helps create SMEs and jobs – €10.4billion financed by the COSME LGF.

#### [EUROPEAN SEMESTER](#)

to foster investments and structural reforms

#### [Circular Economy](#)

- DG GROW listed critical raw materials, - Plastics Strategy adopted

#### [Galileo](#)

+ 4 satellites in orbit. Apple, Samsung and Sony included Galileo chipsets

#### [Copernicus](#)

+ 2 sentinels in 2017 and 6 operational services, e.g. Mapping of Hurricane Harvey

#### [H2020](#)

Finances research in different areas: raw materials, space research, innovation/SMEs

#### Other policies

[SME assembly](#) with 600 participants  
- [innovation scoreboard](#) finds improvement in the EU  
- [digital transformation](#) supported  
- [collaborative economy](#) monitored  
- Awareness raised about [social economy](#)

## Priority 4 : A deeper and Fairer Internal Market with a Strengthened Industrial Base

### A strengthened Industrial Base:

#### Impact indicator:

📊 Gross value added of EU industry in GDP : 17.4%, stagnating

### A deeper and fairer Market:

#### Impact indicators:

📊 Intra-EU trade in goods : 20.3% of GDP, stagnating

✅ Intra-EU trade in services : 6.6% of GDP, increasing

#### DG GROW 2017 result indicators:

✅ Access on TRIS, TBT, SOLVIT : increasing, target 2020 achieved

- Degree of regulatory restrictions in services: indicator is being revised, no data available yet

📊 Duration of infringement procedures in key areas under DG GROW's responsibility: 25.6 months, increasing

#### Industrial Strategy

(adopted 13 Sept 2017) aims to modernise EU

#### Sectoral legislation

to ensure a level playing field and that safe products circulate in the Single Market

#### Compliance Package

(adopted 2 May 2017)

Aims to lower the administrative burden for people or companies working in another EU country and will ensure that EU rules are respected

#### Services Package

(adopted 10 Jan 2017)

to ease provision of services and mobility of professionals

#### Goods Package

(adopted 20 Dec 2017) to make selling abroad easier and to ensure that products comply with rules

#### Public Procurement Package

(adopted 3 Oct 2017)

for a modern and efficient public procurement

#### Intellectual Property Package

(adopted 29 Nov 2017)

fight against counterfeiting

#### Single Market Service Centre

growing use from citizens protecting the market from violation of EU law


#### Better Regulation

REFIT evaluations and Impact Assessments finalised

## Priority 9: A Stronger Global Actor

**DEFENCE:** DG GROW in the centre of developing a co-ordinated European approach to defence industries, research and capabilities.

### DG GROW 2017 result indicators:

 Percentage of collaborative defence equipment procurement expenditure: The percentage went significantly down in 2012 (19%) and 2013 (15.9%) and started going back to previous levels in 2014.

### European Defence Fund

DG GROW started to work on it. The Fund will be dedicated to research in innovative defence technologies and to the European Defence Industrial Development Programme

### European Defence Industrial Development Programme

DG GROW started to work on it. It shall create incentives for MS to cooperate on joint development and acquisition of defence equipment

### Geo-blocking


*(in the inter-institutional process)* ensures EU consumers no discrimination when buying products or services online in other EU MS.

### Regulation on cross-border parcel delivery services


*(in the inter-institutional process)* will make parcel delivery prices more transparent

## Priority 2: A Connected Digital Single Market

### Impact indicator:

 DESI – Digital Economy and Society Index : 0.52 in 2016, stagnating

### DG GROW 2017 result indicators:

 Share of outbound parcels in the total CEP market to EU and non EU destinations: 12.3% in 2016, increasing.

**\*Priority 6 " A balanced and progressive trade policy to harness globalisation":** DG GROW also contributes to this priority with specific actions. For example, DG GROW is involved in different dialogues with our main trading partners and is thus part of EU economic diplomacy. The DG also works to ensure elimination or reduction of barriers inhibiting EU enterprises to access markets in third countries, by Participating in negotiations.

## b) Key Performance Indicators (KPIs)

The KPIs were chosen from the result indicators in the DG GROW Strategic Plan 2016-2020. These are considered as the most relevant to illustrate the performance of the DG.

Number of firms benefiting from debt financing		
Baseline	Milestone	Target
<b>2013</b> As of 31 December 2013, €16.1 billion in financing mobilised, reaching 312,000 SMEs under SME Guarantee facility of the 2007-2013 CIP (Competitiveness and Innovation) programme	<b>2017</b> Financing mobilised from guarantees ranging from €7 billion to €10.5 billion; number of firms reached ranging from 108,000 to 161,000 under the current COSME programme	<b>2020</b> Financing mobilised from guarantees ranging from €14 billion to €21 billion; number of firms reached ranging from 220,000 to 330,000 under the current COSME programme
<b>State of play at 30/09/2017:</b> As at 30 September 2017, more than 237,000 SMEs have received € 10.4 billion of financing by the COSME Loan Guarantee Facility (LGF), enhanced through additional risk-sharing capacity from the EFSI SME window. The 2017 interim milestones for financing mobilised and numbers of firms financed are thereby already exceeded. Thanks to the important boost of the COSME LGF since 2015 through the EFSI guarantee (€ 500 million of front-loading converted in 2017 into a permanent top-up of € 550 million), also the 2020 targets will be exceeded by far.		
Percentage of the DG's primary regulatory acquis covered by retrospective evaluation findings and Fitness Checks not older than five years		
<b>2014</b> Between 2010 and 2014, 42 of 140 of the primary regulatory items under the responsibility of DG GROW were covered by evaluations or Fitness checks = 30%	<b>2017</b> Positive trend compared to baseline	<b>2020</b> Positive trend compared to interim milestone
<b>State of play at 31/12/2017:</b> Between 2013 and 2017, 27 of 121 of the primary regulatory items under the responsibility of DG GROW have been subject to finalised evaluations or Fitness checks. This represents a share of 22%. Thus, the milestone of achieving a positive trend in terms of percent covered could not be achieved compared to the baseline (30%). This is partly due to the fact that a number of evaluations planned to be finalised in 2017 had to be postponed to 2018. For example some Fitness Checks (on REACH, on the chemical legislation and the construction sector) are so extensive, that additional time is needed to complete them. Note that the number of primary legislation changes as legislation is being repealed or merged, for example from 140 in 2014 to 121 in 2017.		
Cumulative number of operational satellites (Galileo and Copernicus)		
<b>Galileo:</b> Baseline 2013: 4	12 by 2015	30 by 2020
<b>Copernicus:</b> Baseline 2014: 1	2 by 2015	8 by 2020
<b>State of play at 31/12/2017:</b> <b>Galileo:</b> By end 2017, 22 satellites are in orbit. 18 satellites are operational and four are in the testing phase. The initial services started in December 2016. Four additional satellites are planned to be launched in 2018. Both in terms of satellites (30) and services (full capacity), the 2020 targets are about to be reached. <b>Copernicus:</b> The deployment is on track with the successful launch of 2 additional Sentinels in 2017 bringing the total number of Sentinels to 6. This means Copernicus is closing in on the target of 8 by 2020. Through these satellites Copernicus has started to deliver earth observation and monitoring services in the form of high-resolution maps and other information products to help rescue operations in cases of natural disaster.		
Duration of infringement procedures in key areas under DG GROWTH's responsibility as defined in the Governance Communication (free movement of goods and market surveillance)		
24.4 months on average by end 2014	21 months on average by end 2016	18 months on average by end 2017
<b>State of play at 1/12/2017: 26.5 months</b> The 2017 target of 18 months was not achieved. The delays in handling infringement cases can be attributed to both the Member States and the Commission (translations needed, delayed answers from the Member States, delayed requests for formal steps by the Commission services, etc.). The Commission Communication of December 2016 "EU Law: Better Results through Better Application" aimed to address the long delays. It underlined the need for the Commission and the Member States to reinforce their co-operation in the application of the EU law. In particular, good co-operation will help to reduce the time needed to handle infringement proceedings.		
Result indicator relating to Internal Control: Multiannual residual error rates per Activity Based Budgeting (ABB) chapters and/or per distinct control system Sources: DG Grow control results		
<b>2017</b> High residual error rates for FP7 (2.79%) and CIP (5.49%). All other Activity based Budgeting (ABB) are below materiality.	<b>2018</b> Multiannual residual error rate per Activity Based Budgeting (ABB) chapters and/or per distinct control system as close as possible to	<b>2019-2022</b> Multiannual residual error rate at the end of the lifecycle of the expenditure programmes is below the materiality

	<p>or below the materiality level, <u>except</u> for CIP and research expenditure, where</p> <p>(i) the multiannual residual error rate for FP7 is expected to remain slightly above the materiality level since DGs cannot greatly extend their controls without adversely affecting the other objectives of the research programme;</p> <p>(ii) the multiannual residual error rate for CIP is expected to remain above the materiality level, additional audits being foreseen in the Audit Work Program for 2018 in order to clean the relevant expenditure</p> <p>(iii) the multiannual residual error for H2020 is expected to be within a range of 2-5 % in line with Regulation of the European Parliament and Council establishing Horizon 2020.</p>	<p>level, except for H2020 where the ultimate aim is to achieve a residual error as close as possible to 2 % at the closure of the multi-annual programmes, once the financial impact of all audits, correction and recovery measures have been taken into account.</p>
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## c) Key conclusions on financial management and internal control (executive summary of section 2.1)

In accordance with the governance statement of the European Commission, (the staff of) DG GROW conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards. DG GROW has assessed the internal control systems during the reporting year and has concluded that the internal control standards are implemented and function as intended. Please refer to AAR section 2.1.3 for further details.

In addition, DG GROW has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Section 2.1 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in her capacity as Authorising Officer by Delegation has signed the Declaration of Assurance, qualified by a reservation on the CIP and FP7 programmes implemented by DG GROW.

## d) Information to the Commissioner

In the context of the regular meetings during the year between the DG and the Commissioner on management matters, the main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Bieńkowska.

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

DG GROW is primarily committed to achieving two priorities of the Juncker Commission: *"A New Boost for Jobs, Growth and Investment"* (Priority 1) and *"A deeper and fairer Internal Market with a strengthened industrial base"* (Priority 4). As these occupy most of the units, the concrete policies and programmes which aim to achieve these priorities will be presented first in the text below. However, DG GROW contributes also to three other political priorities: *"Digital Single Market"* (priority 2), *"A Stronger Global Actor"* (priority 9) and *"A balanced and progressive trade policy to harness globalisation"* (priority 6). Actions targeting these objectives will then be presented.

## 1.1 Priority 1 - A New Boost for Jobs, Growth and Investment

DG GROW measures progress towards achieving the objectives of this priority by two impact indicators:

- Increase the employment rate of the population aged 20-64 from 69.2% in 2014 to at least 75% in 2020: As of the latest figure for 2016 this percentage rose to 71.1%, which points to a growing economy and that Europe is on track to recovery.

DG GROW contributes to this indicator through its spending programme COSME which directly supports enterprises through loans and other projects. This helps in particular SMEs to grow and thus create jobs. Galileo and Copernicus support job creation as they are high-tech projects which will offer economic opportunities in highly innovative areas. With its policy actions (European Semester, SME policy actions, digital transformation as well as circular, collaborative, social economy actions) DG GROW supports structural reforms and the modernisation of the EU economy, with the aim to create growth and jobs.

- Increase the percentage of EU GDP invested in R&D (combined public and private investment) from 2.01% in 2012 to 3.0% in 2020: Latest available data for 2016 are 2.03%, which means that there is practically no change since 2012.

DG GROW contributes to this indicator through the specific programmes on space research, raw materials and innovation and SMEs. Also innovation-related actions under COSME and the policy actions on innovation (Innovation Scoreboard) contribute to achieving the target.

Note that the activities of the DG have an effect on these indicators, but other factors are substantially more influential, in particular the general economic situation.

## A. Programmes

Supporting the investment into SMEs, innovation and high performing technologies are the focus of the spending programmes under the responsibility of DG GROW. This investment is already leading to more growth and jobs. These programmes are:

- The [programme for Competitiveness of Enterprises and Small and Medium-sized Enterprises \(COSME\)](#) (€ 2.3 billion for 2014-2020);
- [Research and Innovation \(Horizon 2020\)](#), including activities for space, raw



materials, and innovation in SMEs (€ 3.6 billion for 2014-2020);

- [Satellite Navigation \(Galileo/EGNOS\)](#) (€ 7.1 billion for 2014-2020);
- [Global Earth Observation \(Copernicus\)](#) (€ 4.3 billion for 2014-2020).

## 1. Competitiveness of Enterprises and SMEs (COSME)

### Financial Instruments to support SME access to finance

Two Financial Instruments figure under COSME: the Loan Guarantee Facility (LGF) and the Equity Facility for Growth (EFG) that are available since August 2014 through open calls for expression of interest published by the European Investment Fund (EIF). These instruments, managed by the EIF, facilitate access to loans and equity finance for riskier SMEs which otherwise would not have been able to get the financing they need.

Since 2015, as part of the Investment Plan of the Juncker Commission, funding opportunities under the COSME Loan Guarantee Facility (LGF) are enhanced with the support of the European Fund for Strategic Investments (EFSI). The initial front-loading mechanism of EUR 500 million was converted in 2017 into a permanent top-up of the COSME LGF budget by EUR 550 million from the EFSI guarantee. Thanks to the EFSI support, the LGF was able in 2017 to make available much more financing to riskier SMEs than what would have been possible under COSME alone. Especially start-ups and smaller SMEs which find it hardest to access finance due to their perceived higher risk or lack of sufficient collateral benefit from the enhanced LGF.

At the end of 2017, the EIF signed 87 agreements for loan guarantees for a total volume of EUR 859 million, out of which 72 agreements were backed by the European Fund for Strategic Investment (EFSI). As of 30 September 2017, more than 237,000 SMEs already received financing for more than EUR 10 billion under the enhanced LGF.

#### **DG GROW's impact indicator:**

*Exchanges between new and experienced entrepreneurs and resulting creation of companies under COSME: The interim milestones for 2017 (5,500 exchanges and 1,600 jobs created) has been overachieved (5,800 exchanges and 2,100 jobs) pointing to the success of this scheme*

Signing agreements for the Equity Facility for Growth (EFG) took longer, as equity entails more complex due diligence and fund-raising processes. At the end of 2017, the EIF has invested through the EFG in 12 funds, for a total amount of almost EUR 132 million. Of these, four were multi-stage funds combined with the InnovFin Equity Facility for Early Stage set up under Horizon 2020.

The total budget foreseen under the 2017 work programme (EUR 222.4 million) was fully implemented and even exceeded (EUR 237.5 million).

### Erasmus for Young Entrepreneurs

Erasmus for Young Entrepreneurs (EYE) holds annual calls for proposals resulting in EASME signing 24-month grant agreements and framework partnership agreements as of 2016. Not all projects that passed the evaluation could be funded over the last years because of budget constraints. Between 2014 and 2017, around 17 million have been allocated to EYE. It is implemented by a network of 175 local intermediary organisations in 33 countries (out of 38 participating). In 2017, EYE has already reached the level of 5800 exchanges between new and experienced entrepreneurs since the start of the programme.



The COSME interim evaluation confirmed the relevance of EYE: new entrepreneurs participating in the programme during 2014-2016 have created about 250 new companies and over 1000 new jobs. 58% of experienced entrepreneurs have seen an increase in turnover and 41% increased employment. In case of the experienced entrepreneurs, EYE is linked to € 203 million in additional turnover and over 1100 new jobs.

#### **DG GROW's impact indicator:**

As at 30 September 2017, more than 237.000 SMEs have received € 10.4 billion of financing by the COSME LGF, enhanced through additional risk-sharing capacity from the EFSI SME window  
2017 milestone : exceeded

In 2017 additional budget of 750.000 has been received from the European Parliament to pilot the geographical extension of the EYE programme. The implementation of this pilot project will start in 2018 and should allow about 120 European new entrepreneurs to match with experienced entrepreneurs overseas (USA, Israel, Asia).

### **The Enterprise Europe Network**

The Enterprise Europe Network services are available to SME in all regions of the EU with 479 organisations in the EU and 105 in the ten COSME participating countries. Additional organisations from Bosnia-Herzegovina and Ukraine joined the Network in 2017. Network organisations signed seven-year framework partnership agreements and specific grant agreements for 2017-2018.

As in the previous years, about two thirds of the COSME budget for access to markets has been devoted to the Enterprise Europe Network (EEN), which helps SMEs to internationalise mainly through advisory services and by finding business, technology and innovation partners abroad. Building on the positive results of its first two years of activity under the COSME programme, the EEN continued to improve the quality, the efficiency and the relevance of its services for SMEs. A new strategic vision for the EEN has been developed to adapt its services to changing business needs and to further increase the concrete positive impact on its clients' businesses.

Since its renewal in 2015, the EEN reached 8,620 partnership agreements between SMEs thanks to Network partnering services, while the new Network advisory support services gave already 3,784 clients a significant impetus to improve their competitiveness and innovation at European level. 'EEN Scale-Up Advisors' were put in place, as set out in the European Commission's 'Start-up and Scale-up Initiative', to help start-ups overcome the barriers to growth and to fully support their ambition to scale.

The quality of Network services was also reflected in the results of the COSME client satisfaction survey where 86% of respondents declared being satisfied or very satisfied with Network services.

### **Improving Framework Conditions for Competitiveness**

COSME also contributed to improve framework conditions for the competitiveness of EU enterprises, especially SMEs. In the context of the "Cluster Go international" Initiative, the COSME budget enabled the establishment of 23 new EU cluster partnerships in 2017 over 120 clusters in Europe. This initiative encourages clusters and more to the point the SMEs which are part of them, to access global value chains and find strategic partners. Similarly, the European Cluster Collaboration Platform (ECCP), after two years of

#### **DG GROW's impact indicator:**

*SME receiving business and innovation support services to increase their competitiveness in the Single Market and beyond via the EEN supported by COSME: interim milestone for 2017 was 475.000 SMEs receiving support services from the EEN. The estimate for 2017 is at 254.000 SMEs. This is because of a new method for calculating this indicator, see p. 50*

operation, is considered a leading hub for facilitating cluster collaboration at European and global level. Today, it gathers more than 720 cluster organizations with an average of 100 SMEs per cluster. With the high number of international meetings where the EECP took part, it has become a key EU instrument in supporting SME internationalization.

The programme supported EU added-value actions and transnational cooperation projects in the tourism sector. These actions helped improving the business environment for tourism enterprises, through enhanced socio-economic and market intelligence and exchange of best practices, and contributed to diversifying and increasing the visibility of Europe's transnational tourism offer. In line with the broader political priorities of the Commission, DG GROW continued to support the tourism industry. It organized the European Tourism Day (28 Nov 2017), when over 400 stakeholders could discuss the future, meaning challenges and opportunities of EU tourism. DG GROW also prepared the EU-China 2018 Tourism Year, which will strengthen our mutual connections.

Support was given to other activities as well, such as the EU-Japan Centre to intensify business exchange and the Intellectual Property Rights (IPR) Helpdesk.

### **Continuation of the programme after 2020**

In December 2017, the external support study for the COSME Interim Evaluation covering 2014-2016 was finalised. It finds that implementation is on track to reach the objectives of the legal basis. COSME actions are highly relevant in addressing economic growth and creating employment. The strength of the programme lies in the use of intermediary organisations (financial intermediaries, Enterprise Europe Network Members, intermediary organisations for Erasmus for Young Entrepreneurs and cluster organisations). COSME exploits the proximity of these intermediaries to SMEs and facilitates the integration of services provided by COSME with services provided by these national and regional intermediaries. The feed-back from beneficiaries is generally positive with a substantial majority reporting a good cost-benefit ratio for their participation. The European dimension is the added value of COSME.

The evaluation made proposals to further improve the performance of COSME: at programme level, an effort needs to be made to reduce the fragmentation of the budget into many small actions to improve efficiency and cost-effectiveness. Availability of monitoring data should be provided centrally to strategically guide implementation.

According to the evaluation the following actions are the most successful:

- The COSME Loan Guarantee Facility reaches some 10.000 new SMEs every month, with 237,000 SMEs (50% are start-ups and 90% micro firms) supported by the end of September 2017. It has a high leverage effect turning 1 euro of the EU budget into 30 euros of financing SMEs.
- The Enterprise Europe Network (EEN) provides advisory services to some 250,000 SMEs every year. An external evaluation found in 2015 that SMEs receiving EEN services have growth rates of 3.1% higher than non-EEN supported SMEs.
- The Cluster Go International action reaches 3,800 SMEs per EUR 1 million invested. The European Cluster Collaboration Platform (ECCP) gathers more than 690 cluster organisations with an average of 100 SMEs per cluster, reaching out to about 69,000 SMEs across Europe.
- The SME Performance Review and SME Envoy network provide economic information, knowledge sharing, benchmarking and exchange of good practices to Member States to ensure the coherence of SME policy in the EU.

The supporting study will feed the Commission Staff Working Document on the COSME Interim Evaluation to be transmitted to Council and European Parliament early 2018.

## 2. Horizon 2020: research relating to enterprises

The main objective of Horizon 2020 is to build a society and an economy based on knowledge and innovation across the Union by leveraging additional research, development and innovation funding and contributing to attaining R&D targets. The DG has a focus on promoting a higher participation of the private sector and of SMEs and more close-to-market research in Horizon 2020 as a lever to increase business investment in research and innovation. The DG is responsible for three areas: raw materials, SME and innovation as well as space research. The DG also promotes crosscutting objectives in other programme areas, while not being directly in charge (e.g. SME instrument, Key Enabling Technologies).

### Raw Materials

Horizon 2020 includes a dedicated part for R&I on the challenges related to the sustainable supply of non-energy, non-agricultural raw materials, with a total funding of around €600 million. Horizon 2020 is expected to contribute to the implementation of both the Raw Materials policy and the Strategic Implementation Plan of the European Innovation Partnership (EIP) on Raw Materials. These actions aim to maximise the positive impacts of the EIP on Raw Materials and achieve its targets, including innovative pilot actions, finding substitutes for critical raw materials, creating an innovation-friendly regulatory framework, and developing a proactive international cooperation strategy.

In the first four years of the Programme (2014-2017), 54 projects with over 850 participants from 45 countries have been selected in the topic of raw materials. These projects have received over EUR 290 million, i.e. the average project budget is EUR 5.4 million. Private entities represent more than 43% in terms of participations and funding received with participation and funding to SMEs above the target of 20% (once projects from SME instrument are included). Almost one third of the projects is closely related to "raw material commitments" selected under the EIP and near two thirds of the projects covers critical raw materials to some extent. Focusing on 2017, 14 projects were selected with a total contribution close to 80 million euro. Nearly 87% of the budget in the Work Programme 2017 was allocated to activities potentially generating patents.

### SMEs

Ensuring the involvement of SMEs in Horizon 2020 has been a priority in the Work Programme. The objective is that SMEs should receive, over the whole life of the programme, at least 20 % of the combined budgets of the "Societal challenges" and "Leadership in enabling and industrial technologies". 6.2 % of funds are allocated through the SME instrument designed specifically for highly innovative smaller companies (target of 7%). This dedicated SME instrument has been introduced to support close-to-market activities, with the aim to give a strong boost to breakthrough innovation. After the first three years, the results show that 23.6 % of the funding goes to SMEs, above the target of 20% (and 27% of participations). There were just under 34,960 applications to the SME Instrument across the three years with an average success rate of 7.5% (compared to 12.6% overall for Horizon 2020). This represented 5.9% of the budget for the SME instrument (as of 1/9/2016). The overall EU contribution allocated through the SME Instrument represents EUR 859.9 million to 2,319 grants.

This can be considered a successful start as regards the participation across the whole Horizon 2020 programme. In addition, Horizon 2020 has set specific measures to enhance SMEs Innovation management capacities. For instance, the Enterprise Europe Network provides innovation-focused services to around 3,150 SMEs per year.

### Space research

In 2017, the implementation of the Horizon 2020 Space work programme resulted in 33 new grant agreements in the areas of Earth observation and Space technologies bringing

the project portfolio managed by the Research Executive Agency to a total of 139.

In the area of Galileo/EGNOS downstream applications 18 new grants awarded in 2017 brought the project portfolio managed by the GSA agency to a total of 58. The implementation of projects from calls under Horizon 2020 and Galileo in 2014/15 fostered the development of new applications. These projects have already led to 22 products and 73 advanced prototypes were built. In addition, the evolution of Global Navigation technologies and infrastructure delegated to European Space Agency (ESA) under indirect management are well underway.

By the end of 2017, 15 patent applications from space research projects were introduced, which equals 0.3 per 10 million spent. As there is a time lag between the end of a project and the application for a patent, the 2020 target of 3 applications per 10 million spent may still be achieved.

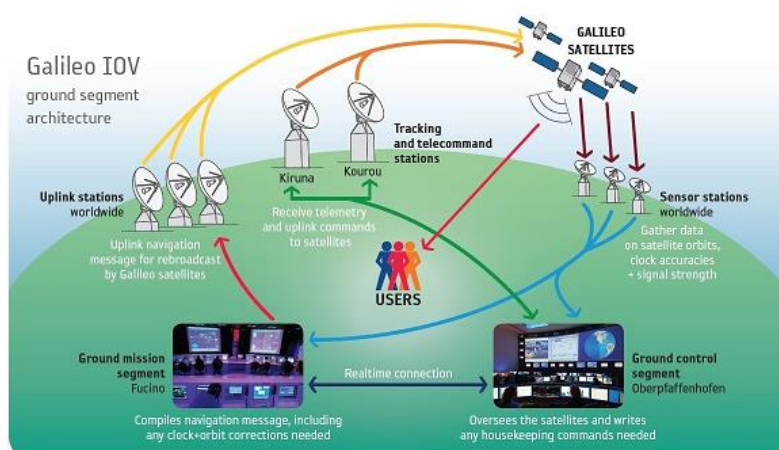
During 2017, the Executive Agency for SMEs concluded 15 new grant agreements for phase 1 projects (feasibility studies) bringing the total to 62 phase 1 projects. Also, it concluded 5 new phase 2 projects (R&D and business plan development) leading to a total of 22 phase 2 projects. The projects focus on innovative Space technologies as well as Earth observation and satellite navigation services and applications.

Key highlights during 2017 include the roll out of projects on earth observation and satellite navigation. There were potentially ground breaking services and technologies developed by European SMEs - for example, low-cost access to the international space station for experiments and technology demonstration (ICE-Cubes), microsatellite radar network for fast update arctic ice surveillance (ICEYE) and de-orbiting of space debris (D-Orbit). These projects were funded under the Horizon 2020 SME instrument.

The new work programme 2018-2020 was adopted in October 2017, the first calls opened in October 2017, deadline for submission is March 2018. Numerous information days were organised across Member States. In addition, the "European space week" was organised in Tallinn with the Estonian Presidency of the Council of the EU.

Finally, a number of studies were conducted in the context of the Space Strategy for Europe and looking at how research can be better coupled with policy. Among others, the following studies were initiated: The future of Space Research, Access-to-Space, Copernicus services support to Cultural Heritage.

### 3. European satellite navigation: Galileo



*Galileo In-Orbit Validation ground segment architecture. Credits: European Space Agency*

The objective of Galileo is to provide the EU with an independent infrastructure for

satellite navigation. The goal is also to help ensure that EU industry increases its ability to compete in the worldwide downstream market for satellite navigation as the new high-performance satellite navigation services provide considerable economic opportunities.

### Galileo service provision

Following the declaration of Initial Services on 15 December 2016, these services (Open Service, Public Regulated Service and Search and Rescue) were continuously provided throughout 2017. The level of availability and accuracy of the services was in line with the Minimum Performance Levels published in the Service Definition Documents. Some deviations were experienced in the beginning of the year for the Search and Rescue (SAR), but these were solved and performance of SAR has been in line with expectations.

As of 1 July 2017 the European GNSS Agency (GSA) has been in charge of the exploitation phase of the Galileo programme. The handover of operations from ESA to the GSA and to the Galileo Service Operator (GSOp) were successfully completed in July. The exploitation and deployment phases of the Galileo programme will run in parallel between 2017 and 2020 until the system reaches full operational capability.

The following activities were carried out to ensure the completion of the deployment phase by 2020:

- A contract for the purchase of additional satellites was signed in June 2017.
- The procedure for procuring the versions completing the ground segment was launched and will be finalised early 2018.
- The Ariane-5 launch of 4 additional Galileo satellites in December 2017 took place.
- The Galileo operational ground infrastructure was upgraded including the redundant operational Galileo satellite constellation ground control capability at the Italian Galileo Control Centre (GCC-I). In addition a new Telemetry Tracking and Command facility was deployed in Papeete (French Polynesia).

With regard to the Galileo ground-based centres, the Galileo Reference Centre (GRC) building in Noordwijk (NL) was delivered by the Dutch authorities in July 2017 and the GRC equipment will be delivered beginning 2018. The European GNSS Service Centre (GSC) in Madrid was transferred to SpaceOpal on 1st July 2017. The Integrated Logistics Centre (ILS) in Transinne (BE) was inaugurated in December 2017.

In the first half of 2017 a thorough technical investigation into malfunctions of some atomic clocks on-board of few Galileo satellites was carried out. The root cause was identified and a number of mitigation measures for the satellites in orbit and on the ground were carried out. In December 2017 four Galileo satellites were successfully launched, which increased the number of Galileo satellites in orbit to 22.

DG GROW's impact indicator:  
*Cumulative number of operational satellites and services provided:*  
22 satellites are in orbit. 18 satellites are operational and four are in the testing phase. The initial services started in December 2016. Four additional satellites are planned to be launched in 2018. Both in terms of satellites (30) and services (full capacity). 2020 targets are about to be reached.

To ensure the continuity of services after 2020, preparatory work started to develop the High Level Document on major evolution scenarios for Galileo. This Document addresses all services and also the high level objectives for the system security to adapt to the evolution of threats. The work has continued to assess the cost-benefits of each scenario, culminating in the delivery of the report on the socio-economic benefits. In parallel, an ambitious R&D programme has been implemented by the Commission on mission and services aspects as well as



through the delegation to ESA for the infrastructure elements. Finally, the roadmap for implementing the “transition batch” has been developed in such a way that it is coherent with the already established plans for Horizon 2020 R&D activities.

Regarding security, key actions included measures to ensure the accreditation of the system and initial services, and the development of operational concepts and procedures for the Public Regulated Service (PRS). Furthermore, close coordination with the European External Action Service took place in the framework of Council Decision 2014/496/CFSP. Finally, work has continued on establishing an administrative arrangement with ESA on access to PRS technology.

### **EGNOS service provision**

The European Geostationary Navigation Overlay Service (EGNOS) is a satellite based augmentation system developed by the European Space Agency and EUROCONTROL on behalf of the European Commission. It supplements the GPS, GLONASS and Galileo by reporting on the accuracy of their positioning data and sending out corrections.

The continuity and quality of the EGNOS services, which was one of the priorities in 2017, were successfully ensured. In order to guarantee the continuity of services beyond 2020, the development of a major EGNOS release version was initiated.

The uptake of EGNOS also further advanced. At the end of 2017 there were 271 EGNOS-enabled airports and 503 EGNOS-based procedures in 20 countries in Europe. In road transport the number of trucks using EGNOS for tolling was more than 1.2 million. In the agriculture domain all GNSS enabled tractors are EGNOS enabled.

### **Market uptake**

The priority of 2017 was to maximise the market uptake of Galileo and EGNOS. By 2017 several major handset manufacturers such as Apple, Samsung and Sony have included Galileo in their chipsets. Altogether, some 75 million Galileo enabled smartphones were sold in 2017.

In order to open the emergency number 112 to Galileo, the HELP112 project came to a close, having deployed a caller location solution using GNSS in emergency calls from smartphones in Lithuania and parts of Austria. A follow-up project will be implemented in 2018 and 2019. Discussions with Member States have taken place at the Space Experts Group on a Delegated Act under the Radio Equipment Directive.

Following the adoption of the eCall Regulation in April 2015, which ensures compatibility of the eCall system with Galileo and EGNOS, the relevant Commission Delegated Regulation (EU) 2017/79, was adopted in January 2017.

As part of the *Europe on the Move* initiative, the DG prepared a proposal for a Directive of the EP and the Council on the interoperability of electronic road toll systems (COM (2017) 280 final) that requires compatibility with Galileo and EGNOS..

A study on the development of a long-term roadmap for the development of standards to facilitate the integration of Galileo and EGNOS into different user applications and receivers was completed in 2017. The development of the roadmap will continue in 2018.

### **International cooperation**

Negotiations with the US and Norway for access to the Public Regulated Service continued. Progress was made with regard to the possible adoption of EGNOS in the Western Balkans and the European Neighbourhood Policy countries.

In 2017 the Commission put forward a proposal for an agreement with the Agency for

Aerial Navigation Safety in Africa and Madagascar. The Commission also put forward in 2017 a negotiating mandate for participation of Switzerland in the GSA.

By March 2017, a cooperation arrangement was signed between DG GROW and the National Space Policy Secretariat of the Cabinet Office of Japan. This arrangement aims to enhance EU-Japan policy cooperation in order to prioritise industrial sectors for utilising satellite positioning and creating new business services.

The DG co-operated with the International Telecommunication Union (ITU) in order to protect the Galileo and EGNOS frequencies.

### Implementation of the programmes after 2020

The interim evaluation of October 2017 of Galileo and EGNOS and the evaluation of the GSA stated that the implementation of the programmes between 2014 and 2016 was in line with the objectives set for this period and was carried out efficiently and in alignment with other EU policies. Technical difficulties like the initial delay of the launches and the problems with satellite clocks could be overcome or are tackled with. Stakeholders rated the overall governance of the programme as less effective leading to duplication of efforts, an issue which needs to be addressed. This evaluation will serve as an input to the impact assessment on the further implementation of the programmes.

## 4. European earth observation: Copernicus



*Artist impression of the Copernicus satellite Sentinel-5P in orbit.*

The objectives of Copernicus are to address gaps in European earth observation capabilities and to guarantee European institutions and industry independent access to earth observation data.

### The Copernicus Sentinels

In March 2017 the satellite Sentinel-2B joined the Copernicus constellation. With Sentinel-1 and Sentinel-2 twin satellites in orbit, free and open data can now be delivered with a 5-day revisit time. In addition, Sentinel-5P was launched in October, providing reliable information about atmospheric pollutants on a global scale.

The six Copernicus satellites now in orbit are producing over 12 TB of high-quality full, free, and open observation data every day – the equivalent to over 6,000 DVDs. This amount creates opportunities but also logistical challenges. 2017 saw the start of a new paradigm in respect to data access and distribution.

DG GROW's impact indicator:  
*Cumulative number of operational satellites and services provided:* The deployment of satellites is on track with the successful launch of 2 additional Sentinels in 2017 bringing the total number to 6. Thus, Copernicus is closing in on the target of 8 by 2020. All services are operational as foreseen, except for the climate change service, which is planned to become operational in 2019.

Firstly, traditional data distribution systems have been significantly strengthened by doubling the bandwidth from 10 Gbps to 20 Gbps. Secondly, the European Commission launched the Copernicus Data and Information Access Services (DIAS) to develop cloud-enabled platforms to access Copernicus data in an easier way. By providing data and information access alongside processing resources, tools and other relevant data, this initiative is expected to boost user uptake, stimulate innovation and the creation of new business models based on Earth Observation data and information. Once the DIAS services are operational, there will be no more long download times or storage issues, while all the Copernicus data and information will be available in a few clicks.

## **Six Copernicus services**

Over 743 Copernicus information products are now available from Copernicus for the support of environmental security and policies. These are some of the activities and achievements of our services:

The Emergency Management Service was activated more than 80 times in 2017 to assist civil protection authorities and humanitarian actors in emergency preparedness and response activities. Disasters covered include: storms and floods in Europe, forest fires in Spain, Portugal, Greece, hurricane Ophelia in Ireland, windfall in Poland and internationally – Hurricanes Harvey and Irma in the US and the Caribbean as well as earthquakes in Mexico and Iraq.

The Global component portfolio of the Land Monitoring Service now delivers over 20 variables linked to the water, energy, vegetation and cryosphere domains.

The Marine Environmental Monitoring Service released new waves observations and forecasts, as well as ocean monitoring indicators, and published the first Annual Ocean State Report, a first step in the development of regular annual reporting.

The Climate Change Service started delivering monthly sea ice extent and temperature anomalies maps as well as seasonal forecasts. Pilot Sectoral Information Services have also been developed to plan for the impact of climate change on specific sectors such as energy, water, agriculture and forestry.

The Atmosphere Monitoring Service is now supporting the European Air Quality Monitoring Index and delivering a global reanalysis data set for 2003-2017.

The Security Services have reached operational status and their on-demand products have been used extensively by institutional users to support EU policies, in particular border and maritime surveillance, and actions outside the EU territory.

## **Market Development**

More than 120,000 people are now registered as active Copernicus users and there has been a steep increase in the use of the Copernicus data supplied by the six services.

The European Commission has been promoting the use of Copernicus data and services. These are the main activities, initiatives and instruments which were developed in 2017:

The Copernicus Relays and Academy networks, launched by the Commission at the beginning of 2017 and officially kicked-off in June at the European Parliament, are a valuable tool for developing the use of Copernicus data. These two networks gather 63 Relays and 90 Academy members that have organized more than 300 events and reached out to 30 000 potential users so far. The Copernicus Support Office, dedicated to animating the Academy and Relays networks, also started activities in 2017. The Support Office operates a helpdesk open to anyone interested in the programme. It has already handled more than 1,500 enquiries with a 97% satisfaction rate and supported more than 30 events across the participating countries.



The Copernicus Accelerator and the new Copernicus Incubation programme are the heart of the Copernicus entrepreneurship actions. Thanks to these EU-funded instruments 110 start-ups will be boosted into the market. In addition, the Copernicus Masters competition 2017, with more than 200 business ideas submitted, awarded 14 prizes for the most innovative applications at the European Space Week in Tallinn, Estonia.

The Copernicus Skills programme was also launched, with an ERASMUS+ sectoral skill alliance for Earth Observation, and with a large participation of Copernicus Academy members. In addition, a Framework Partnership Agreement was kicked off to enable co-funding of user uptake activities with Member States.

Eleven Copernicus Climathons - 24h climate change hackathons using Copernicus data - were organised in 11 European cities by the Climate-KIC (Knowledge and Innovation Community) with the support of the European Commission. Also, a total amount of € 6 million coming from different H2020 calls was dedicated to support innovation and research within the Copernicus programme.

A series of high-level events took place throughout Europe to promote Copernicus: the conference in Rome for the 60th Anniversary of the Treaties of Rome to celebrate Space for EU integration, the EU Space Week 2017 in Tallinn that showcased European Space programmes and gathered more than 1,500 attendees over 6 days, the launch ceremony of the Copernicus Relays and Academy Networks at the European Parliament in Brussels, and the four industry workshops to gather inputs from industry and users.

The European Parliament pilot project on space technologies started in November and will have a two-year duration. It will be a consultation platform in view of a possible Commission proposal establishing a space Joint Technology Initiative (JTI). In particular, it will define the possible scope, perimeter, procedures and associated governance. It will simulate JTI processes in two pilot themes (innovative materials and de-orbiting). It will also gather socio-economic data to support a possible impact assessment.

## **International Cooperation**

Copernicus is more than an EU programme operating within European borders. Copernicus Cooperation Arrangements were signed with the United States and Australia, and negotiations are ongoing with Argentina, Brazil, Chile, Colombia, the African Union Commission, India, Serbia and Ukraine. Three regional workshops have been organised in Latin America and ASEAN, promoting Copernicus solutions beyond EU borders

The European Commission has also taken over chairmanship of the Committee for Earth Observation Satellites (CEOS), an opportunity to set the agenda and move forward in key areas such as CO2 monitoring, data distribution, access, exchange, standardization and better response to user needs. This proves that the European Commission is now recognised a major Space player - in the wake of the Lisbon Treaty which gave the EU competence over Space policy in 2009, and thanks to the investments in Copernicus.

Copernicus is supported by the European Space Agency (ESA), the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT), the European Environment Agency (EEA), the European Centre for Medium-Range Weather Forecasts (ECMWF), Mercator Océan, the European Maritime Safety Agency (EMSA), the European Border and Coast Guard Agency (Frontex) and the European Union Satellite Centre (SatCen).

## **Preparation of the programmes after 2020**

The interim evaluation of Copernicus of November 2017 concluded that the programme is on track. It is set to achieve the objectives in the Copernicus Regulation, and these objectives are still relevant to EU political priorities and users' needs. The implementation of Copernicus provides tangible benefits, the main of which being the economic impacts.

However, there is still a lack of awareness in the public about Copernicus, which is a barrier to its market uptake. The results of the evaluation will flow into the preparation of the possible continuation of Copernicus after 2020.

## **B. Policies**

### **European Semester to foster investments and structural reforms**

DG GROW is part of the core group of DGs working on the European Semester. In 2017, the DG contributed with its expertise on competitiveness to the drafting of the Annual Growth Survey, 27 European Semester country reports, country-specific recommendations and the communication initiatives underpinning the European Semester autumn, winter and spring packages. DG GROW also contributed to the assessment of implementation of past recommendations and carried out in-depth analyses and studies in the policy areas falling within its remit.

The economic situation in Europe has evolved positively and progress has been made on structural reforms. Growth has been rising and unemployment is down at 7.5% in the EU the lowest level in the last eight years. Investment is recovering and public finances are improving significantly. The analysis confirms the increasing commitment of Member States to pursue structural reforms, which create the conditions for boosting investment and increasing real wage growth in support of domestic demand, supporting internal and external rebalancing in the euro area. Further structural reforms are still needed to make Europe's economy more stable, inclusive, productive, and resilient.

### **Policy actions to support SMEs**

In 2017, the SME Performance Review continued to be the Commission's main vehicle for economic analysis of SME issues. It includes the Annual Report on European SMEs and the Small Business Act (SBA) country fact sheets. These documents provide the latest statistical data and policy information on SME performance, guide policy making and feed into the European Semester Country Reports.

The 2017 annual SME Assembly under the EU presidency on the future of SME policy was held in Tallinn. The Estonian Presidency and the Commission in cooperation with the Global Entrepreneurship Network also organised the Start-up Nations Summit, a global gathering of policy makers and stakeholders. Over 600 delegates from Europe and beyond exchanged best practice and discussed future policy. Over 90% of the delegates said that they were very satisfied with the conference. The Assembly also integrated the semi-finals of the second round of Ideas from Europe, the initiative to showcase and scale European entrepreneurs with business ideas that help solve societal problems.

The "Business Planet" series promotes SME policy implementation (best practices) including available support at EU and national level. In 2017, 19 episodes of Business Planet magazine were produced and broadcasted by Euronews. The estimated number of viewers (impacts) is at 25 million and digital audience (unique users) estimated at 71 000 (audience data as at Q3 2017).

### **Assessing and guiding innovation in Europe**

DG GROW is contributing to the evidence base of innovation policy at EU, national and regional level through the publication of the yearly European Innovation Scoreboard and the two-yearly Regional Innovation Scoreboard. The latest editions of both reports were released on 20 June 2017. The findings included that – over a six-year period – innovation performance has improved in 15 EU countries. Sweden remains the EU innovation leader, while Lithuania, Malta, the UK, the Netherlands, Austria and Slovakia are the fastest growing innovators. In a global perspective, the EU is catching up with Canada and the US, but South Korea and Japan are pulling ahead. China shows the

fastest progress among international competitors.

The Innovation Scoreboards feed into DG GROW's contributions to the European Semester, along with the European Cluster Observatory, the Digital Transformation Monitor, the Key Enabling Technologies Observatory, and other analytical tools.

In 2017 DG GROW published the annual revision of the Rolling Plan for ICT Standardisation. Based on a dialogue with stakeholders, the Plan allows for more convergence between standardisation in the field of ICT towards EU policy goals.

## **Support digital transformation**

DG GROW is managing the Digital Transformation Monitor (DTM) to foster the knowledge base on the state of play of digital transformation in Europe. DG GROW also supports digital transformation in cities with the Digital Cities Challenge by offering cities free-of-charge support to develop strategic plans addressing economic growth and social welfare and press ahead with investments for their implementation.

DG GROW monitors the uptake of emerging Artificial Intelligence (AI) applications to foresee potential disruptions and new business opportunities for the EU industry and to facilitate SMEs' access to AI technologies and skills, through various initiatives, such as the Digital Cities Challenge, the pan-European Advanced Manufacturing Support Centre for SMEs; the Big Data for SMEs action to support big data solutions, and the Blueprint for Sectoral Cooperation on skills to prepare the workforce with the skills of the future.

Finally, DG GROW conducts a campaign to raise SMEs' awareness about the benefits of technological transformation. It includes around 240 events across Europe.

## **Encourage Circular Economy**

On 2 December 2015, the European Commission presented the Circular Economy Action Plan to support the EU's transition to a circular economy. In a circular economy waste and resource use are minimised, and when a product reaches the end of its life, it is re-used to create further value. This can bring major economic benefits, contributing to innovation, growth and job creation. DG GROW is contributing to this Action Plan.

The DG has issued a list of critical raw materials (CRMs), which includes raw materials of high importance to the EU economy and of high risk associated with their supply. In 2017 this list was updated, a revised methodology established and in January 2018 a Report published highlighting the potential for more circular usage of CRMs in our economy.

The DG has also delivered on all key actions scheduled for 2017 – the Monitoring Framework for Circular Economy, the analysis of options for the interface between chemicals, products and waste legislation and the Plastics Strategy, which all have been presented to the public on 16 January 2018.

In addition, In 2017 DG GROW updated the list of critical raw materials and published as part of the package mentioned above a report highlighting the potential for a more circular usage of CRMs in our economy.

## **Promote Collaborative Economy**

Following the adoption of the European Agenda on Collaborative Economy, the Commission launched in February 2017 a series of workshops for EU Member State authorities and stakeholders to present and discuss regulatory practices, focusing on collaborative short-term accommodation rental. The aim is to promote best practice across the EU and address fragmentation in the Single Market.

## Raise awareness on Social Economy

The Commission is raising awareness on the fact that social economy contributes to global growth. DG GROW launched initiatives to support the high potential for innovation and of social economy enterprises. The DG set up a Commission Task Force to coordinate the actions in support of this economic field. The Social Summit in Gothenburg in November 2017 was organized by DG GROW to promote the social economy.

### 1.2 Priority 4: A Deeper and Fairer Internal Market with a Strengthened Industrial Base

DG GROW measures progress towards achieving this priority by three main impact indicators that are currently under review.

- DG GROW is developing, within the framework of the [High-Level Round Table on Industry 2030](#), a complete set of indicators aiming at monitoring general economic developments and the evolution of policy specific goals. These indicators will provide a detailed and timely image of the state of industry, and will allow for international and sectoral comparisons.
- In the meantime, DG GROW continues measuring progress in the increase of the gross value added of EU industry in GDP. It rose from 17.1% in 2014 to 20% by 2020: The share of industry has slowly increased through 2015 and reached 17.4% in 2016, which is still far from the target. The measures foreseen in the new Industrial Policy Strategy of September 2017 are designed to address the situation. The initiative on improved market surveillance and the legislative work done in DG GROW on industrial products helps to increase trust of consumers.
- Increase the intra-EU trade in goods (% of GDP) from 20.4% in 2014. As of the latest known value in 2015, this figure has remained more or less stable with 20.3%. A number of GROW actions are intended to increase cross-border trade. The 2016 proposals on mutual recognition and the Single Digital Gateway are intended to help increase the trade in goods.
- Increase the intra-EU trade in services from 6.3% of GDP in 2014. As from the latest known value, this share has increased slightly to 6.6%. DG GROW proposed in 2017 actions to increase EU cross-border services, namely the services e-card and the other measures of the 2017 Services Package as well as the Public Procurement Package.

DG GROW uses specific objectives and their indicators to measure progress. These are: the duration of infringement procedures and the views of stakeholders in the database on technical barriers to trade notifications. A third indicator on the degree of restrictiveness is currently being revised, no recent data are available. For the available results see [Annex 12](#).

## A. Industrial Policy Strategy (13 September 2017)

As announced in the Management Plan for 2017 the DG worked on actions to strengthen Europe's industrial base. The DG organised the first Industry Day on 28 February 2017. 500 key industrial players, global trend shapers and high-level EU policymakers took stock of the EU industrial policy and debated its future. They concluded that Europe's industry is strong and has retained a leading position in many sectors in global markets. Industry accounts for two thirds of the EU's exports and provides jobs for 32 million people, with 1.5 million of these jobs created since 2013. New technologies are changing

the industrial landscape. They will create jobs, but they will also have a deep impact on the nature and availability of work. The future of Europe's industry will depend on its ability to adapt and innovate by investing in new technologies, embracing digitisation and the transition to the low-carbon and circular economy. At the same time, global competition is higher than before and the benefits from globalisation and technological progress are unevenly spread across our societies.

On 13 September, in his annual State of the Union address, President Jean-Claude Juncker stated: "I want to make our industry stronger and more competitive. The new Industrial Policy Strategy we are presenting today will help our industries stay or become the world leader in innovation, digitisation and decarbonisation." The renewed EU Industrial Policy Strategy brings together existing and new horizontal and sector-specific initiatives into a comprehensive industrial strategy. It clarifies the tasks ahead for all actors and sets out the fora – an annual Industry Day and a High Level Industrial Roundtable that will allow industry and civil society to steer industrial policy actions.

The main new elements of the EU Industrial Policy Strategy include:

- A package to improve cybersecurity of EU industry (adopted 13 September 2017);
- A proposal for a Regulation on the free flow of non-personal data helping to create a modern, common European data space (adopted 13 September 2017);
- New actions on Circular Economy, including a strategy on plastics and measures to improve the production of renewable biological resources and their conversion into bio-based products and bio-energy (early 2018);
- Initiatives to modernise the Intellectual Property Framework, including a report on the functioning of the Directive on the enforcement of intellectual property rights and a Communication on a clear European licensing framework for Standard Essential Patents (spring 2018);
- Implementation of the Blueprint for sectoral cooperation on skills in five pilot sectors: automotive, space, tourism, textile-clothing-leather-footwear and maritime technologies. Extension to six new key industry sectors: construction, steel, paper, green technologies and renewable energies, additive manufacturing and maritime shipping (start in autumn 2018). Further extension planned for 2019 for six additional sectors (decision in spring 2018);
- The launch of a new High Level Strategy Group on industrial technologies, together with DG RTD, to review the definition of Key Enabling Technologies (KETs) and make recommendations on the support needed in the next Multi-Annual Financial Framework for the development and deployment of KETs;
- The launch of a new Strategic Forum for Important Projects of Common European Interest (IPCEI) to identify the key value chains, in particular based on new technology, where Europe can become a world leader through joint investments by Member States and industries (early 2018);
- A strategy on sustainable finance to better orient private capital flows to more sustainable investments (early 2018);
- Initiatives for a balanced and progressive trade policy and a European framework for the screening of foreign direct investments that may pose a threat to security or public order (adopted on 13 September 2017);
- A revised list of critical raw materials where the Commission will continue to help ensure the secure, sustainable and affordable supply for the EU manufacturing industry (adopted on 13 September 2017);

- New proposals for clean, competitive and connected mobility, including tightened CO2 emissions standards for cars and vans, an Alternative Fuels Infrastructure Action Plan to support the deployment of charging infrastructure, and actions to foster autonomous driving (autumn 2017-spring 2018).

## B. Single Market

DG GROW translated the priority “A deeper and fairer Internal Market” into the Single Market Strategy of October 2015. This Strategy has been a flagship of DG GROW and its initiatives feature prominently in the Commission Work Programmes. In 2017 the following outputs as planned in the Management Plan were delivered by DG.

### 1. Policies for a better functioning single market

#### Services Package (10 January 2017)

*A new European Services e-card* will make it easier for business and construction services to complete the formalities for providing services abroad. Services providers will simply have to liaise with a single interlocutor in their home country. The home country interlocutor would then verify the data and transmit it to the host Member State.

*A proportionality assessment of new national rules on professional services:* Around 50 million Europeans work in professions to which access is conditional upon specific qualifications or protected titles (e.g. pharmacists or architects). While regulation is often warranted for some professional activities (e.g. to ensure health and safety), there are many cases where burdensome rules can make it unreasonably difficult for qualified candidates to access jobs. Member States are obliged to ensure that national professional requirements are justified and proportionate. To ensure a coherent approach, the Commission proposed legislation to clarify how Member States should undertake such a proportionality test before adopting or amending national rules on professional services. The Directive is currently in the inter-institutional process.

*Guidance for national reforms in regulation of professions:* The Commission offers guidance on national reform needs when regulating a number of professional services with high growth and jobs potential (for example architects, engineers, and lawyers).

*Improved notification of draft national laws on services:* EU law already requires Member States to notify changes to national rules on services to the Commission, providing the EU executive and other Member States with the opportunity to raise concerns about possible inconsistencies with EU legislation. The Commission proposed improvements to this mechanism to make the process more effective and transparent.

#### Compliance Package (2 May 2017)

With the *Single Digital Gateway* people and companies will have easier online access to information on requirements, administrative procedures and assistance services. Information on rules and explanations on procedures will be available in one additional EU language. A number of key administrative procedures will be made available online, including requests for a birth certificate, to register a car, start a business or register for social security. The initiative will benefit those doing business in another EU country, but also the many people and companies who decide to stay in their home country.

The *Single Market Information Tool (SMIT)* will allow the Commission to source readily available data (for example cost structure, pricing policy or product volumes sold) in cases of serious difficulties with the application of EU Single Market laws. This could prove valuable to collect information on geo-blocking practices, to corroborate



information on public tenders, or to obtain data on the pricing and underlying costs of cross-border parcel delivery. Such requests would be a measure of last resort and the information would be handled subject to strict confidentiality requirements.

The *SOLVIT Action Plan* will help more people and businesses to benefit from the SOLVIT services by 1) further improving quality through increased legal trainings and knowledge sharing; 2) increasing its findability, especially through the web portal Your Europe and the Single Digital Gateway; 3) upgrading its role in EU law enforcement by making a more systematic use of the evidence in SOLVIT related to breaches or gaps of EU law.

## **Public Procurement Package (3 October 2017)**

Member States are encouraged to *define priority areas for procurement* focusing on six priorities: uptake of innovative, green and social criteria in public contracts; professionalization of public buyers; better access of European SMEs to procurement markets in the EU and in third countries; more transparency of procurement data; digitalization of procurement processes; and more cooperation among public buyers.

*Voluntary ex-ante assessment of large infrastructure projects*: The Commission will set up a helpdesk to answer specific questions relating to EU legislation on projects with a value over EUR 250 million. For projects of high importance or with a value above EUR 500 million, Member States can ask the Commission to check the procurement plan for compatibility with EU laws. This will reduce uncertainties and delays.

The Commission recommended steps on how to improve the *professionalization of public buyers* to make sure that taxpayers get the best goods and services for their money.

Public consultations on *stimulating innovation through public procurement* and on *social public procurement* were launched by the DG with a view to issuing guidance.

The *Catalogue of ICT Standards for public procurement* aims at assisting and professionalising public procurers in the EU when buying modern ICT solutions.

## **Intellectual Property Package (29 November 2017)**

The package was based on the evaluation of the Intellectual Property Rights Enforcement Directive (IPRED), which concluded that IPRED was overall effective allowing for a common legal European framework. It achieved “minimum harmonisation” goals while higher order effectiveness was hampered by the actual application of IPRED in the Member States with their varying, non-harmonised civil court proceedings.

The package focuses on the fight against counterfeiting and piracy by depriving commercial-scale IP infringers of the revenue from their criminal activity. The aims are to

- Ensure an high level of legal protection and a predictable judicial framework in the EU. New guidance provides clarification on how to apply IPRED;
- Encourage industry to fight IP infringements, e.g. through voluntary agreements on advertising on websites, on payment services and on transport and shipping;
- Reduce the volume of counterfeited products reaching the EU through better cooperation with third countries and creating a watch-list of markets that are reported to facilitate substantial IPR infringement.

The package also aims at creating a fair and balanced system for Standard Essential Patents. Many key technologies that are part of global industry standards (such as WiFi or 4G) are protected by Standard Essential Patents. The DG prepared guidance for an efficient system reconciling two objectives: product manufacturers have access to technologies under transparent licensing rules and at the same time patent-holders are

rewarded for their investment and standardisation activities.

## **Goods Package (20 December 2017)**

The package includes, besides reports on the Transparency Directive 2015/1535 on accreditation and CE marking, two initiatives to improve the free flow of goods in the EU:

The mutual recognition principle ensures that products not subject to EU regulation can move freely in the Single Market, if they are lawfully marketed in one Member State. But in practice, companies wishing to sell their products in another Member State often face barriers and extra costs. To make the principle faster and simpler in practice, the Commission proposed a new Regulation on the Mutual Recognition of Goods. Companies will know if their products can be sold in another EU country in a few months, rather than years. They will be able to use a voluntary declaration to demonstrate that their products meet all the relevant requirements in their country. This will make it easier for authorities to assess whether mutual recognition should apply. A problem resolution mechanism will allow for a faster resolution of disputes between companies and national authorities.

Too many non-compliant products are on the EU market: 32% of toys, 58% of electronics, or 47% of construction products inspected do not meet the EU requirements. This endangers consumers and puts compliant businesses at a competitive disadvantage. The draft Regulation on Compliance and Enforcement will create a fairer internal market for goods through more cooperation among national market surveillance authorities. This includes sharing information about illegal products and ongoing investigations. The Regulation will help national authorities improve checks on products entering the EU. Since 30% of goods in the EU are imported, the Commission proposes to reinforce inspections of ports and external borders.

## **Preparing new initiatives for 2018**

DG GROW has worked in 2017 on the following Single Market Strategy initiatives, which are planned for adoption in 2018:

- Communication setting out best practices to facilitate retail establishment and reduce operational restrictions (planned for March 2018);
- Optimising the IP framework for industry sectors whose products are subject to regulated market authorisations (Supplementary protection Certificate (SPC)/European SPC) (planned for May 2018);
- Follow-up to the Green Paper on the protection of non-agricultural geographical indications (planned for 2<sup>nd</sup> quarter 2018).

## **Single Market Service Centre**

In 2017, DG GROW continued to manage a number of services of direct benefit to citizens and enterprises ensuring that the Single Market works well in practice. The use of these tools has been constantly increasing. Among those are the following:

- The Your Europe portal informs citizens and businesses about their rights in the Single Market and explains, in 23 languages, how EU rules work in practice.
- The Your Europe Advice service provides free of charge personal advice to citizens and businesses on their EU rights in the Single Market.
- SOLVIT helps solving citizens' and businesses' problems when national authorities in other Member States deny their EU rights.



- The Internal Market Information System (IMI) is a on-line tool for public authorities to exchange information in 12 policy areas.
- The Single Market Scoreboard gives an overview of the practical management of the Single Market covering the results achieved and conclusions drawn.



## Better Regulation

DG GROW is in charge of 121 major pieces of legislation for goods and services, which represents ca. 75 % of all EU Single Market laws.

In 2017, DG GROW continued to be among the main providers of the Commission's REFIT (=Regulatory Fitness) Programme. REFIT aims to make sure that EU law remains fit for purpose and delivers the results intended by policy makers in the most efficient and effective way. Among 73 REFIT measures listed in the 2017 REFIT Scoreboard under the priority Single Market, 19 were under the responsibility of DG GROW.

In 2017, DG GROW finalised a number of REFIT actions, which will provide real benefits to citizens and enterprises. For example:

- The Single Digital Gateway could help companies save more than € 11 billion per year, and EU citizens up to 855,000 hours of their time annually. Two REFIT Platform opinions contributed to this initiative.
- The European Services e-Card is expected to reduce cross border administrative complexity for services providers regarding the procedures covered by the initiative with up to 50%.
- DG GROW established an action plan to reduce backlogs and improve efficiency in the publication of references to standards in the Official Journal of the EU. This initiative was taken in follow-up to a REFIT Platform opinion.

## 2. Legislation for safer products for the Single Market

Better Regulation does not mean deregulation. In 2017, DG GROW continued its legislative work on industrial sectors to ensure that safe products circulate in Europe.



## *Automotive*

Throughout 2017, the Commission continued to respond to the Dieselgate: The Commission opened infringement procedures against eight Member States for breaching EU type approval legislation in December 2016 and May 2017. It continues to monitor whether EU law in this area is being correctly enforced by Member States. The Commission has supported the work of the Member States authorities by developing a common testing methodology and guidance for screening for defeat devices.

As of 1 September 2017, new car models will have to pass more reliable emissions tests ("Real Driving Emissions") as well as an improved laboratory test ("World Harmonised Light Vehicle Test Procedure") before they can be driven on European roads.

On 18 October 2017, the High Level Group GEAR 2030 issued its report on the competitiveness and sustainable growth of the EU automotive industry. The report identified two fields in which the European industry must move forward to stay globally competitive: zero emissions and zero emissions-capable vehicles as well as connected and automated driving.

On 7 December 2017, the EP, the Council and the Commission reached a political agreement to significantly raise the quality and independence of vehicle type-approval and testing as well as to increase checks of cars that are already on the EU market.

## *Chemicals*

In 2017 work continued on the implementation and evaluation of the REACH Regulation and the Fitness check on chemicals. Also, 27 authorisation decisions and 3 restrictions were adopted under REACH.

The Commission adopted a Regulation harmonising the submission to Member States' national Poison centres of information on hazardous chemicals. The harmonisation will greatly reduce the regulatory burden for chemicals companies, who currently have to cope with diverging national submission rules. It will also benefit citizens by leading to improved emergency health responses in cases of accidental chemicals poisoning.

## *Machinery*

The evaluation study on the Directive 2006/42/EC on Machinery was completed in 2017 to be followed by a Commission report to Parliament and Council in early 2018. The evaluation points to the need to align it to the New Legislative Framework, to improve clarity, improve the convergence with other EU laws and to adapt it to the challenges of the digital age such as the Internet of Things, Artificial Intelligence or robotics.

## *Lifts*

The evaluation of Directive 95/16/EC on lifts of 2017 will be followed by a report to Parliament and Council in early 2018 presenting its conclusions. Preliminary findings are that the Directive is still a relevant policy tool, contributing to a well-functioning internal market and safety and balancing costs and benefits for all stakeholders.

## *Aerosols Dispensers*

The evaluation of the Aerosols Dispensers Directive 75/324/EC of March 2017 concluded that the Directive is making significant contributions to the safety of users and the smooth functioning of the Single Market.

### *Construction products*

By setting harmonised rules for assessing the performance of construction products, the Construction Products Regulation enables Member States to ensure the safety of construction works. The Commission has launched a review of this Regulation to ensure effectiveness and efficiency as a follow up to the 2016 implementation report (COM(2016)445 final) and to two REFIT Platform opinions. This encompasses wide stakeholder consultation and various studies in support of an evaluation and an impact assessment scheduled for end-2018.

### *Medical Devices*

On 5 April 2017, EP and Council adopted two new Regulations on medical and in-vitro diagnostic medical devices to ensure that all medical devices - from heart valves to sticking plasters to artificial hips - are safe and perform well. The rules will also provide more transparency and legal certainty for producers, manufacturers and importers and thus strengthen international competitiveness and innovation in this strategic sector. On 23 November 2017, the Commission adopted its first Implementing Regulation under the two new Regulations, on the list of codes for the designation of Notified Bodies.

### *Cosmetics*

In 2017 the Commission adopted six Implementing Regulations modifying relevant Annexes of the Cosmetics regulations as regards the following substances: hair and eyelashes dyes; Benzophenone-3; Methylisothiazolinone (MI) for rinse-off; HICC, Atranol and Cloroatranol; Zinc Oxide colorant; Peanut Oil and Hydrolysed Wheat Proteins. In June the first catalogue of nanomaterials used in cosmetic products was published.

### *Toys*

In 2017 the DG continued to work on strengthened limit values for hazardous chemicals in toys, notably those that are carcinogenic, mutagenic or toxic. As proposed by the Commission, the Council adopted a strengthened limit value for lead in toys.

### *Food*

In 2017 the Council asked the High Level Forum for a Better Functioning Food Supply Chain (HLF) to address the highly sensitive issue of dual food quality. The HLF mandated the Joint Research Centre to create a harmonised testing approach for comparing the composition and sensory profile of food products. The work was launched in October 2017 first results are foreseen for 2018. Moreover, the HLF made substantial progress in reaching the consensus on the set of fair principles in addressing the dual food quality.

On top of that the Commission worked within the framework of the HLF on the elimination of barriers in the single market for food, increasing the update of digitalisation in the sector and enhancing the transparency of food prices.

### *Textiles*

On 6 January 2017, the Commission issued a standardisation request to the European Standardisation Organisations on advanced garments which provide protection against heat and flame. Such standards will facilitate the free movement of those products and ensure accurate information about their innovative characteristics.

On 20 October 2017, the Commission also adopted a Delegated Regulation on textile fibre names and related labelling and marking of the fibre composition of textile products to include a new textile fibre name and to take into account technical progress.

DG GROW co-chairs and provides the secretariat for EPAA, the European Partnership for Alternative Approaches to Animal Testing. In 2017, the Annual Forum discussed synergies between sectors as well as between the industry and regulators. In addition, concrete pioneer projects are paving the way for bigger funding initiatives, e.g. in the area of vaccines.

### **1.3 Contributing to priority 9 - A Stronger Global Actor**

DG GROW uses the following specific objective and its result indicator to measure progress towards achieving this priority:

- To achieve closer co-operation in European defence – indicator: Percentage of collaborative defence equipment procurement expenditure. The percentage is measured as a share of the total defence equipment procurement by the Member States. The percentage went significantly down in 2012 (19%) and 2013 (15.9%). The peak of the crisis and of budgetary restrictions in defence in 2012-2013 explained the decrease of the percentage in 2012 and 2013. 2014 showed a significant increase with 22.1%. This line was not continued in 2015, where again the percentage went down (18%). It is difficult to explain this decrease given the fact that National Defence Equipment Procurement went up.

On 30 November 2016, the Commission presented the European Defence Action Plan, which outlined how a European Defence Fund and other actions can support Member States' more efficient spending in joint defence capabilities, strengthen European citizens' security and foster a competitive and innovative industrial base. The initiative was welcomed by EU leaders at the European Councils in December 2016 and March 2017.

Looking ahead, and following the Commission's White Paper on the Future of Europe, the Commission on 7 June also published a reflection paper to launch a public debate on how the EU at 27 might develop by 2025 in the area of defence.

#### **European Defence Fund**

On 7 June 2017, the Commission launched a European Defence Fund to help Member States spend money more efficiently, reduce duplications in spending, and get better value for money. Announced by President Juncker in September 2016, the Fund will coordinate, supplement and amplify national investments in defence research, in the development of prototypes and in the acquisition of defence equipment and technology.

An ambitious European Defence Fund will contribute to a European Union that protects and defends its citizens, complementing other ongoing work strands, namely the Global Strategy's Implementation Plan on Security and Defence, which sets out a new level of ambition for the Union and identifies actions to fulfil it, as well as with the implementation of the EU-NATO Joint Declaration signed by the President of the European Council, the President of the Commission and the Secretary-General of NATO.

With the support of the European Parliament and Member States, the European Defence Fund can quickly become the engine powering the development of the European Security and Defence Union that citizens expect. The European Defence Fund has two strands:

#### **Research**

The research aspect of the Fund is already delivering. Starting in 2017, the EU for the first time offers grants for collaborative research in innovative defence technologies and products, fully and directly funded from the EU budget. The projects will focus on priority

areas agreed by Member States, and could typically include electronics, metamaterials, encrypted software or robotics. This will be financed with € 90 million until the end of 2019, with € 25 million allocated for 2017. A call for proposals was launched on 7 June for projects in the areas of unmanned systems in a naval environment and soldiers systems. First grant agreements were signed at the end of 2017.

In 2018, the Commission will propose a dedicated EU defence research programme with an estimated annual budget of € 500 million making the EU one of the biggest defence research investors in Europe.

### **Development and acquisition**

On 7 June the Commission proposed a Regulation of the Parliament and Council establishing the European Defence Industrial Development Programme (EDIDP) aiming at supporting the competitiveness and innovative capacity of the EU defence industry.

The programme will create incentives for Member States to cooperate on the joint development and acquisition of defence equipment and technology through co-financing from the EU budget and practical support from the Commission. Member States may for example jointly invest in developing drone technology or satellite communication, or bulk buy helicopters to reduce costs. Only collaborative projects will be eligible, and a proportion of the overall budget will be earmarked for projects involving cross-border participation of SMEs. The EU will offer co-financing with: € 500 million in total for 2019 and 2020 under the EDIDP.

A more substantial programme will be prepared for post-2020, with an estimated annual budget of € 1 billion. The programme will leverage national financing with an expected multiplying effect of 5. It could therefore generate a total investment in defence capability development of € 5 billion per year after 2020.

## **1.4 Contributing to Priority 2 - A Connected Digital Single Market**

DG GROW measures progress towards achieving this priority by these impact indicators:

- Aggregate score in Digital Economy and Society Index (DESI) EU-28<sup>1</sup>: 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. From the 2015 baseline of 0.5 the score grew to 0.52 by 2016.

DG GROW contributes to this indicator by implementing a number of actions announced in the Digital Single Market Strategy of May 2015, where DG CNECT is in the lead, and the e-commerce package of May 2016. Two actions under DG GROW responsibility are noteworthy: geo-blocking and parcel delivery. Their aim is to enhance the cross border market in the digital economy.

DG GROW uses the following specific objective and its indicator to measure progress:

- To increase the total international parcel flow – Indicator: Share of outbound parcels in the total CEP (courier, express and parcel) market to EU and non EU destinations: Latest known results are for 2016, i.e. 12.3 %. This represents a substantial rise compared to the 2014 baseline of 8.5 % and points to an increase of cross-border activities.

### **Restrict unjustified geo-blocking**

On 20 November 2017, the EP, the Council and the Commission reached a political



agreement to end unjustified geo-blocking for consumers wishing to buy products or services online within the EU. The Commission proposed this legislation – not to harmonise prices – but to ensure that in specific situations where no objective justification may exist for different treatment, EU consumers seeking to buy products and services from a trader active in the EU are not discriminated against in terms of access to on-line interface, prices, sales or payment conditions.

### **Make parcel delivery more transparent**

On 13 December 2017, the EP, the Council and the Commission reached an agreement on the Proposal for a Regulation on cross-border parcel delivery services. The Regulation will make prices for cross-border parcel delivery services more transparent and affordable and will increase regulatory oversight of the EU parcel market. This new Regulation will boost e-commerce and will allow consumers and companies, in particular SMEs, to buy and sell products and services online more easily and confidently in the EU.

## **1.5 Contributing to Priority 6 - A balanced and progressive trade policy to harness globalisation**

Through participation in international trade negotiations DG GROW worked to ensure elimination or reduction of barriers inhibiting EU enterprises to access markets for goods, services and to public procurement in third countries. In 2017, the DG mainly contributed to the following negotiations: the EPA with Japan, the implementation of CETA with Canada, the trade (FTA) and political (cooperation pillar) negotiations with Mercosur, Mexico, Indonesia and Philippines, the Investment Agreement with China, the scoping and impact assessment exercises for trade negotiations with Chile, Australia and New Zealand, and the Association Agreement(s) with Andorra, Monaco and San Marino. Following the change of the US Administration, the TTIP and the Trade in Services Agreement (TiSA) negotiations remained on hold.

DG GROW held regulatory and industrial dialogues with China, Japan and Taiwan to create a relationship of trust with the EU's main trading partners in the domains of EU's competence, ensure a level-playing field and encourage third countries to mould a predictable business environment based on EU's law, rules and standards. DG GROW has also organised the first High Level Dialogue with Ukraine and started preparing a dialogue with Iran. The DG also worked to establish an EU-US Action Plan.

DG GROW supported DG NEAR in the enlargement process as the DG responsible for five crucial chapters: Free Movement of Goods, Establishment and Services, Public Procurement, Intellectual Property Law, Enterprise and Industrial Policy.

The DG chaired the Platform on "Economic Integration and convergence with EU policies" of the Eastern Partnership (EaP), covering a variety of policies and involving 13 DGs, the six EaP countries and business stakeholders. DG GROW was also responsible for the EaP Business Development Panel – supporting private sector and SME development in Eastern partner countries – and the EaP Panel on Technical Barriers to Trade. The DG contributed to monitoring the implementation of the Deep and Comprehensive Free Trade Areas with Ukraine, Georgia and Moldova.

DG GROW continued to coordinate under the Union for the Mediterranean umbrella a regional industrial cooperation process with eight neighbour countries (Morocco, Algeria, Tunisia, Egypt, Palestine, Israel, Lebanon, and Jordan), aiming at an increased convergence of industrial policies and improvement of the business climate, development of SMEs, clusters and entrepreneurship, networking of business and business support organisations, facilitation of trade of industrial products and sharing of good practices.

As a counterpart to DG TRADE, DG GROW has ensured that EU industries and SMEs interests are taken into account in the trade defence instruments proceedings (anti-dumping or anti-subsidy measures). The DG also contributed to important structural policy issues such as the Modernisation of Trade Defence Instruments or the New Methodology for anti-dumping and anti-subsidy proceedings.

DG GROW also played a key role in the development of the EU economic diplomacy and organised regular meetings with European business organisations and national trade promotion organisations. While ensuring participation of other DGs, the EEAS and the EIB, the meetings contribute to increased EU visibility and policy impact in third countries, finding of new economic opportunities for EU companies and promulgating of EU interests whilst eliminating trade barriers in third countries.

DG GROW organised various country visits of Commissioner Bieńkowska in 2017:

In the US, the Commissioner gave the key note speech at the Space Symposium in Colorado Springs presenting the EU space programmes and the EU Space Strategy.

The Commissioner visited Serbia at the occasion of the signature of the Agreement for participation of Serbia in COSME. She re-affirmed the European future of Serbia and underlined its very good integration in EU SME and industrial policies.

In Israel the Commissioner discussed start-ups, innovation, space, defence and industrial policies with numerous interlocutors. The general message was that Israel remains a key partner for the EU and that our cooperation continues to deepen.

The visit to Singapore and Indonesia aimed at enhancing the EU's footprint in this particularly dynamic region of the world.



## **2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL**

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

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

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

### **2.1 Financial management and internal control**

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes.

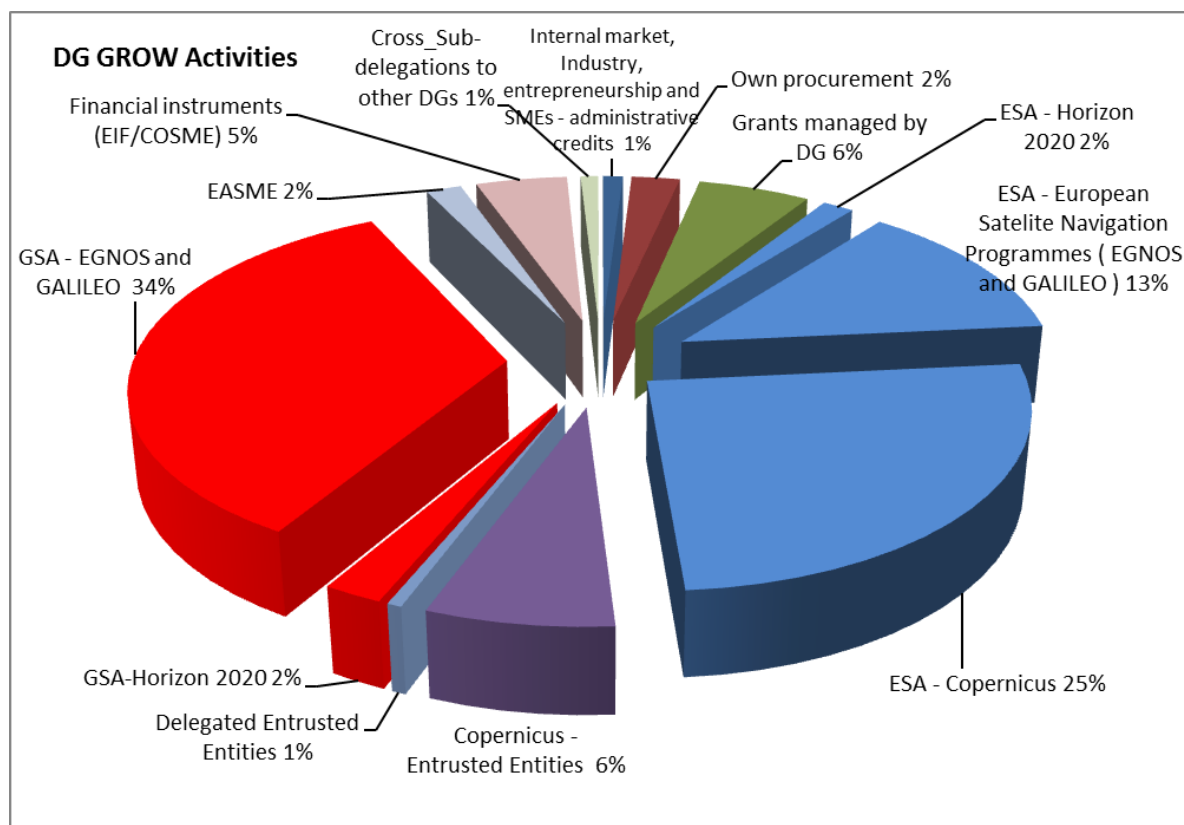
This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director-General. The reports produced are:

- the AOSD reports submitted by the Directors, which include the outcome of internal control monitoring within each Directorate;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the reports on control results from entrusted entities in indirect management as well as the result of the Commission supervisory controls on the activities of these bodies;
- the contribution of the Director in charge of the Risk Management and Internal Control at DG GROW;
- the results of ex-ante and ex-post controls;
- the analysis of reported weaknesses and exceptions of the internal control;
- the opinion, the observations and the recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG GROW.

This Section reports the control results and other relevant elements that support management's assurance. It is structured into Control results, Audit observations and recommendations, Assessment of the effectiveness of the internal control systems, Conclusions as regards assurance and the Declaration of Assurance and reservations.

DG GROW transactions are carried out under both the direct and indirect management modes. The following chart gives an overview of the types of payments made in 2017<sup>7</sup>:



<sup>7</sup> This chart represents the outturn on payment appropriations made in 2017, i.e. € 1 936 million, including the administrative expenditure and expenditure under cross-delegation executed by other DGs. The reader is referred to Table 2 in Annex 3.

## 2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives<sup>8</sup>. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

The following table shows that in 2017, the largest part of DG GROW expenditure was delegated to the European Space Agency (**ESA**) for the implementation of the GNSS (Galileo and EGNOS) and Copernicus space programmes.

With the entry into force of the 2014-2020 Multi-annual Financial Framework, DG GROW prolonged its mandate to existing entrusted entities and continued the implementation of actions through delegation agreements concluded in 2015, 2016 and 2017.

DG GROW implements its other expenditure under direct management, e.g. CIP, Standardization and research legacy, EASME subsidy<sup>[1]</sup>, own procurements.

Activity		Entrusted entity	Payments 2017	% GROW	Main ICO indicator
Direct management	Grants		42.125.991,75	2,18%	Time to pay; Time to grant; Overall cost of control; No Olaf cases; clean opinion on accounts
		EASME	34.206.725,00	1,77%	
		REA	127.019,33	0,01%	
	Procurement		47.022.333,00	2,43%	
	Crossdelegations		17.228.288,06	0,89%	Management assurance
Indirect management	Grant	ECHA	66.777.450,00	3,45%	DA objectives achieved; Time to pay; Overall cost of control; No Olaf cases; clean opinion on accounts
		ESA	771.219.226,00	39,83%	
		GSA	705.993.362,00	36,46%	
		MERCATOR	20.552.578,44	1,06%	
		ECMWF	40.249.101,90	2,08%	
		EUMETSAT	26.608.000,00	1,37%	
		FRONTEX AND EMSA	14.012.000,00	0,72%	
		EDA	10.529.000,00	0,54%	
	Delegation Agreements	EEA	27.246.000,00	1,41%	
		SATCEN -EAS	4.130.000,00	0,21%	
		EIF	88.771.822,00	4,59%	
Administrative expenses			19.310.747,20	1,00%	
<b>Total</b>			1.936.109.644,68		

### Control effectiveness as regards legality and regularity

DG GROW has set up internal control processes aimed to ensure the 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 concerned.

<sup>8</sup> Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 32).

<sup>[1]</sup> It covers the Agency's expenditure on staff and administration incurred as a result of the Agency's role in the management of measures forming part of the Competitiveness of Enterprises and small and medium-sized enterprises programme (COSME).

The control objective is to ensure that the residual error rate or the risk of error does not exceed 2 % cumulatively by the end of the programme implementation or annually, depending from the distinct control system, as determined in the materiality criteria in Annex 4.

For the 2017 reporting year, the cross sub-delegated AODs, GSA and Executive Agencies have reported reasonable assurance on the delegated budget managed by them on behalf of DG GROW.

No serious control issues were signalled by these services. From the monitoring and supervision work done, which includes regular contacts and monitoring of relevant management reports and audit reports, there are no indications that their reporting would not be reliable.

In terms of supervision of those entities as described below, the control cost is relatively limited. With regard to ESA, the Commission has reasonable assurance (see Annex 6 "DG GROW supervision of the funds entrusted to ESA") that the control mechanisms supporting the Agency's financial reporting about the implementation of the space component of the Copernicus programme and about the implementation of the EU satellite navigation programmes (EGNOS and Galileo) is reliable. Overall, the cost of monitoring and supervision controls of ESA and other international organisations, for the implementation of the space programmes represents 0.25 % (EC staff costs) of the total annual amount delegated.

In 2017, DG GROW continued the application of its monitoring and control strategy towards ESA and continued auditing all financial reports provided by the Agency.

The asset management fee paid for the fund management of the Financial Instruments capital is set up and monitored according to the relevant Service Level Agreement and Delegation Agreement.

The performance of the DG in terms of supervision of the cost-effectiveness is considered adequate.

Consequently, in view of the residual responsibility as "Parent DG" for the indirect management via external entities, it could be concluded that there are no control weaknesses affecting assurance in terms of the 5 Internal Control Objectives (except for the indirect management of grants under the Research Framework programme (FP7) implemented by external entities).

Regarding the EU funds managed directly by the DG via grants and procurement, including the administrative related expenditures, it could be equally concluded that there are no major control weaknesses affecting assurance in terms of the 5 Internal Control Objectives, except for the direct management of grants under the Research Framework programme (FP7) and the CIP programme.

As in previous years weaknesses affecting the 7th Research Framework Programme (FP7) and CIP were encountered. Although the residual amounts at risk on closure are very low (respectively €3,543 and €361,350), DG GROW maintains as explained further (see section 2.1.1.3) the existing reservations.

In the context of the protection of the EU budget, at the Commission's corporate level, the DG's estimated overall amounts at risk and their estimated future corrections are consolidated.

For DG GROW, the estimated overall amount at risk<sup>9</sup> for the 2017 payments made is € 6.898 million. This amount is the AOD's best estimation.

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<sup>9</sup> In order to calculate the weighted average error rate (AER) for the total annual expenditure in the reporting year, detected, estimated or proxy error rates have been used (not the RER).

This expenditure will be subject to ex-post controls and a sizeable proportion of the underlying error will be detected and corrected in successive years. The conservatively estimated future corrections<sup>10</sup> on these 2017 payments amount to € 2.991 million.

This is the amount of errors that DG GROW conservatively estimates to identify and correct from controls that it will implement in successive years.

The difference between the amount at risk and the estimated future corrections leads to an estimated overall amount at risk at closure of 3.907 million €.

Because of the importance of the amounts paid to the EGNOS, Galileo and Copernicus programmes, DG GROW decided to fix the error rate at 0.5%, even if the audits performed by DG GROW in 2017 on the space audited entities revealed lower error rates or absence of errors since these audits are carried out before the clearing of the costs.

For activities delegated to agencies and other grants, an error rate range between 0 % and 1.99 % is applied. The reason for this is that at the one hand, they were not covered by audits in 2017 but on the other hand, these payments concern either pre-financings (not considered risk-prone) or payments where the error rate is estimated to be below the materiality threshold, as ex-ante desk checks have been performed.

The DG will implement results from ex-post audits based on cost-effectiveness considerations, including with the respective recovery actions to ensure a further reduction of the residual error rate.

Considering the overall annual expenditure, it can be concluded that the internal control systems provide sufficient assurance<sup>11</sup>. The reader is referred to the conclusion as regards assurance in the section 2.1.4.

The table on the following page shows the estimated overall amount at risk.

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<sup>10</sup> This estimate is based on past performance, namely on the average recoveries and financial corrections (ARC) implemented since 2009 and applied to the payments of the year.

<sup>11</sup> related to control effectiveness as regards legality and regularity of the payments made in 2017 by DG GROW

	Program	Entrusted Entity	Scope: Payments made in 2017	New Prefinancings [a]	Clearing pre-financing [b]	Relevant expenditure [c]	Average Error rate (range in %) [d]	Estimated overall amount at risk at payment	Average Recoveries and Corrections [e]	Estimated future corrections	Estimated overall amount at risk at closure [f]
			As per AAR annex 3 and ABAC DWH BO reports	As per ABAC DWH BO reports	As per ABAC DWH BO reports	(2)-(3)+(4)	Detected or estimated	(range in €) = (5) x (6)		(5)x (8)	(7)-(9)
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Administrative credits	DG GROW ADMIN		19,310,747.20	9,336,911.61	0.00	9,973,835.59	0.50%	49,869.18	0.90%	49,869.18	0.00
Own Procurement	Own procurement		47,022,333.00	3,493,129.95	5,547,496.91	49,076,699.96	0.50%	245,383.50	0.90%	245,383.50	0.00
Grants	Standardisation		21,112,572.36	10,583,479.88	10,660,340.93	21,189,433.41	0.99%	209,775.39	0.90%	190,704.90	19,070.49
	CIP grants		3,427,042.65	0.00	2,545,696.85	5,972,739.50	6.95%	415,105.40	0.90%	53,754.66	361,350.74
	Research grants	FP7	127,019.33	0.00	127,019.33	4.95%	6,287.46	2.16%	2,743.62	3,543.84	
	Other grants	Other[1]	17,586,376.74	15,433,831.56	3,772,438.67	5,924,983.85	0.00% 1.99%	117,907.18	0.90%	53,324.85	64,582.32
Delegated to entrusted entities	International organisations	ESA Copernicus	492,000,000.00	492,000,000.00		0.00	0.50%	0.00	0.00%	0.00	0.00
		ESA GNSS Galileo	271,049,226.00	271,049,226.00	1,928,934.14	1,928,934.14	0.50%	9,644.67	0.00%	0.00	9,644.67
		ESA GNSS Egnos	0.00	0.00	44,514,935.43	44,514,935.43	0.50%	222,574.68	0.00%	0.00	222,574.68
		ESA Horizon 2020	8,170,000.00	8,170,000.00	3,500,000.00	3,500,000.00	0.50%	17,500.00	0.00%	0.00	17,500.00
		MERCATOR ( Copernicus)	20,552,578.44	20,552,578.44		0.00	0.50%	0.00	0.00%	0.00	0.00
		ECMWF ( Copernicus)	40,249,101.90	40,249,101.90	39,758,192.68	39,758,192.68	0.50%	198,790.96	0.00%	0.00	198,790.96
	Agencies	EUMETSAT (Copernicus )	26,608,000.00	26,608,000.00	20,501,043.14	20,501,043.14	0.50%	102,505.22	0.00%	0.00	102,505.22
		GSA	705,993,362.00	705,993,362.00	36,540,925.70	36,540,925.70	0.00% 1.99%	727,164.42	0.90%	328,868.33	398,296.09
		GSA FP7	0.00	0.00	2,971,845.04	2,971,845.04	4.95%	147,106.33	2.16%	64,191.85	82,914.48
		FRONTEx AND EMSA	14,012,000.00	12,721,000.00	5,830,492.50	7,121,492.50	0.00% 1.99%	141,717.70	0.90%	64,093.43	77,624.27
		EDA	10,529,000.00	10,529,000.00		0.00	0.00% 1.99%	0.00	0.90%	0.00	0.00
		EEA	27,246,000.00	27,246,000.00	17,429,759.95	17,429,759.95	0.00% 1.99%	346,852.22	0.90%	156,867.84	189,984.38
		SATCEN -EAS	4,130,000.00	4,130,000.00	86,301.66	86,301.66	0.00% 1.99%	1,717.40	0.90%	776.71	940.69
		ECHA	66,777,450.00	66,777,450.00	55,749,783.03	55,749,783.03	0.00% 1.99%	1,109,420.68	0.90%	501,748.05	607,672.64
	Executive Agency	EASME	34,206,725.00	34,206,725.00	35,349,604.65	35,349,604.65	0.00% 1.99%	703,457.13	0.90%	318,146.44	385,310.69
	Specialised Union body	COSME	88,771,822.00			88,771,822.00	0.00% 1.99%	1,766,559.26	0.90%	798,946.40	967,612.86
Other	Sub-delegations	Cross_Sub-delegations to JRC	15,150,773.57	0.00		15,150,773.57	0.00% 1.99%	301,500.39	0.90%	136,356.96	165,143.43
		Cross_Sub-delegations to DG RTD	528,916.69			528,916.69	4.95%	26,181.38	2.16%	11,424.60	14,756.78
		Delegated to HOME/JUST and SANCO	1,548,597.80	0.00		1,548,597.80	0.00% 1.99%	30,817.10	0.90%	13,937.38	16,879.72
Total			1,936,109,644.68	1,759,079,796.34	286,687,791.28	463,717,639.62		6,897,837.64		2,991,138.71	3,906,698.94

[1] Several heterogeneous grants related to space programmes, internal market, COSME 2014-2020, pilot projects and preparatory actions.

[a] New PF actually paid by out the DG itself during the FY (i.e. excluding any PF received as transfer from another DG)

[b] PF actually having been cleared during the FY (i.e. their 'delta' in FY actuals, not their 'cut-off' based estimated 'consumption')

[c] For the purpose of equivalence with the ECA's scope of the EC funds with potential exposure to L&R errors (see the ECA's AR methodological Annex 1.1 point 7), also our concept of "relevant exposure" includes the payments made, subtracts the new pre-financing paid out [& adds the retentions made], and adds the previous pre-financing actually cleared [& subtracts the retentions (partially) released and any deductions of expenditure made by MS in the annual accounts] during the FY. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger

[d] Although detected error rates for international organisations was near to zero we used 0.5% as a conservative estimate. The same approach was followed for admin expenses and procurement. In other cases as a conservative approach we used 1.99%

[e] Even though based on the 7 years historic average of recoveries and financial corrections (ARC), which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the AOD has adjusted this historic average. Any coding errors, ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders, other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes) have been adjusted in order to come to the best but conservative estimate of the expected corrective capacity average to be applied to the reporting year's relevant expenditure for the current programmes in order to get the related estimated future corrections.

This includes considering that the ex-post future corrections would be 0.0% for DA with International organisations as we perform the clearing of the prefinancing after audits or desk checks.

The historic average of recoveries and financial corrections (ARC) received from the central services is 0.9%. However, further to ECA/IAS recommendations, DG GROW adjusted this value for grant management expenditure and used as best estimation the difference between overall representative detected error rate and the residual error rate.

[f] amount at risk put as "zero" if negative subtraction

### Cost effectiveness and efficiency

Information related to efficiency and cost-effectiveness of controls provided further below is based on the best available information. DG GROW manages a large portfolio of heterogeneous activities in various domains, involving different ways of financial intervention. In view of this operations' array, the information on effectiveness, efficiency and cost-effectiveness of controls is presented to eloquently cover an activity by merging and generalising the information for several sub-activities.

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

The coverage of the Internal Control Objectives and their related main indicators are represented in greater detail in the following paragraphs:

#### **2.1.1.1 Budget implementation through entrusted entities**

DG GROW has entrusted the majority of its budget implementation to international organisations, executive agencies and decentralised agencies. In all these cases, the DG's supervision arrangements are based on the principle of intensive controlling of the relevant entity and where applicable participation in the entities' steering committees.

In the frame of the on-going 2014-2020 Multi-annual Financial Framework, DG GROW renewed its mandate to existing entrusted entities.

#### **(A) International Organisations**

##### Control effectiveness as regards legality and regularity

#### **European Space Agency (ESA)**

In 2017, the biggest part of DG GROW expenditure was delegated to the European Space Agency (ESA) for the implementation of the GNSS (Galileo and EGNOS) and Copernicus space programmes.

The elements that support the assurance on the achievement of the control effectiveness as regards legality and regularity are of two types:

- ESA's control results and/or assurance:

- *Opinion of the external auditor*

An Audit Commission acting as ESA's independent external auditor acknowledged the significant progress made by the Agency in addressing previous audit recommendations stemming from the qualified audit opinions on the 2010 and 2011 financial statements.



The ESA's external Audit Commission gave an unqualified opinion on the Agency's 2012, 2013, 2014, 2015 and 2016 financial statements, as ESA made significant improvements and achieved full compliance with the International Public Sector Accounting Standards (IPSAS).

- *Statement of Internal Control of the Director-General*

A Statement of Internal Control has been produced by ESA's Director-General confirming that the internal control system in place during 2017 provides reasonable assurance of achieving its operation, reporting and compliance objectives.

- *Reporting quality control at ESA*

In order to minimise any potential errors in the Annual Financial Reports submitted to the European Commission, the Agency developed a quality control on its reporting. All reports are verified by the Agency's Compliance Office before submission. Following several audits performed by the European Commission and the European Court of Auditors, the quality of the reports was significantly enhanced.

- *AOD's own control results on the ESA's operations:*

- *Results of the audits of the 2017 reports*

The DG GROW ex-post audit team continued to audit all annual financial reports (AFRs) submitted by ESA.

The samples chosen by the auditors are not statistically representative. They were chosen using different sampling methods ((i) stratified per cost segments/category and selection based on the value of transaction and/or risky profile, or ii) full scope per cost segment/category). The detected error rate is calculated as a comparison between the errors and the audited portion of the AIR.

In 2017, the ex-post audit team of DG GROW performed an audit on the Copernicus/GMES programme (2016 financial reports). It did not reveal material errors. A sample of 41 items out of 302 (for a value of €345,171,100), representing 53% of the total value claimed, was verified and only limited errors were found (detected error rate of 0.003%).

One ex-post audit on the GNSS programme (2016 FOC reports) is still in the contradictory phase. A sample of 67 items out of 285 (for a value of €403,288,430), representing 57% of the total value claimed It revealed a preliminary error of 0.3%.

Another ex-post audit on the GNSS programme (EGNOS financial report 2016) is still ongoing.

The fact that these two audits are not finalised yet, explains the low amount of clearings in 2017. Annex 6 has more detailed information.

- *Implementation of corrections*

The results of the previous financial audits are being implemented. These corrections are made at the time of the annual clearing of pre-financing payments to ESA. It can be concluded that the residual error rate is below the 2% materiality threshold.

- *Monitoring*

Errors detected in the Annual Financial Reports have no impact on the legality and regularity of the amounts paid to ESA, because amounts paid depend both on costs declared and on cash-flows forecasts. In the framework of the regular working arrangement and top level meetings between the DG and ESA, DG GROW closely monitored ESA's progress with the implementation of the programmes and the related reporting. In order to improve the financial supervision of entrusted entities regarding the financial use of EU funds, the role of the Unit GROW.02 has been reinforced as from 2017. This Unit coordinates the financial management of the Space programmes within DG GROW.

For procurement, the European Commission is represented by ESA who acts as its procurement agent by delegation. The Internal Control Template (ICT) for indirect management in Annex 5 demonstrates how the control system in place in the DG addresses the risks related to this type of expenditure.

In addition, an ex-ante assessment was finalised early 2014, covering the pillars identified in Article 60.2 of the EU Financial Regulation.

Transfers of funds to ESA are based on annual and quarterly reports submitted by ESA together with forecasts of cash-flow needs for the next period, all of which are checked before payments are made. In addition, on a yearly basis, all costs reported by ESA are verified by means of on-the-spot checks. In view of the multiannual perspective, the annual implementation reports of ESA for 2017 are due in 2018 and will only be considered for the clearing of the related pre-financing once the ex-post audit will be finalised. They will be covered in the Annual Activity Report for 2018.

Although the audited samples of financial transactions are not statistically representative, DG GROW considers that the error rates detected by its ex-post audits are a reliable indicator for the legality and regularity of the non-audited transactions.

For the GNSS programme, there are no final audit results yet. However, the preliminary error rate of 0.3% can be used as a reliable indicator because the finalisation of the audit depends only on the completion of the contradictory procedure with ESA. It will normally not result in increasing the detected error rate. In order to mitigate the risk that the actual error rate could be higher on the non-audited part than on the audited one, DG GROW decided to apply a conservative approach and to declare an error rate of 0.5% for the budget delegated to ESA.

**Other international organisations, e.g. ECMWF, MERCATOR and EUMETSAT**

The elements that support the assurance on the achievement of the control effectiveness as regards legality and regularity are mostly the same as explained under ESA.

In 2017, pre-financing payments were made to these international organisations under the respective delegation agreements followed by implementation reports. As a consequence, assurance by the entrusted entities has been provided either following dedicated audits (the audit on Copernicus funds allocated at Mercator showed a low error rate of 0.11%) carried out by DG GROW or in the form of a management declaration, stating that the information is properly presented, accurate and complete, and that the funds are used for the purpose identified in the agreement. These declarations ascertain that the controls provide the necessary guarantees concerning legality and regularity.

The control strategy of DG GROW aims at auditing every two years the financial reports

of the international organisations. In 2017, the ex-post audit team of DG GROW performed an audit at Mercator on the Copernicus programme (2016 financial report). It did not reveal material errors. A sample of 24 items out of 89 (for a value of €7,891,719), representing 41% of the total value claimed, was verified and only limited errors were found (detected error rate of 0.11%).

Although the audited samples of financial transactions are not statistically representative, DG GROW considers that the error rates detected by its ex-post audits, are a reliable indicator for the non-audited transactions. Furthermore, based on its monitoring and supervision, DG GROW considers that the level of error remains relatively stable over the years. Therefore, the error rates detected previously on the 2016 costs for the non-audited international organisations in 2017, can be used as a reliable indicator for the error rate in 2017. In order to mitigate the risk that the actual error rate could be higher on the non-audited part than on the audited one, DG GROW decided to apply a conservative approach and to declare an error rate of 0.5% for the budget delegated to the other international organisations than ESA.

#### Cost-effectiveness and efficiency

The following indicators demonstrate the efficiency and the cost-effectiveness of the internal control system in relation to **International Organisations**:

<b>Common indicators on control <u>cost-effectiveness</u></b>	<b>DG results for the reporting year</b>
Percentage of <b>overall cost of control</b> of supervision process in comparison to the total <u>annual</u> amount delegated excluding any remuneration paid.	0.25 %
Percentage of cost of <b>remuneration fees paid</b> to entrusted entities in comparison to the total annual amount delegated excluding any remuneration paid	8.33 %
<b>remuneration fees paid</b> to international organisations	€66,050,738

<b>Key DG indicators on control <u>cost-effectiveness</u></b>	<b>DG results for the reporting year</b>
Percentage of costs of control related to the <b>establishment or prolongation</b> in comparison to the total annual amount delegated	0.15 %
Percentage of costs of control related to the <b>reporting and subsequent monitoring</b> of the execution in comparison to all payments executed	0.02 %
Total costs of ex post audits	€225,300

<b>Key DG indicator on control <u>efficiency</u></b>	<b>DG results for the reporting year</b>
Average <b>time to entrust</b>	104 days

The cost of controls is highly outweighed by their benefits. The European space programmes are major industrial programmes of significant size and complexity. It is the first time that the EU, in particular the Commission, implements such programmes. In its capacity of programme manager, the European Commission is responsible for the management and coordination of these programmes and bears the overall responsibility for their implementation and operation to schedule, cost and performance. Furthermore, the European Commission owns the assets of the Copernicus and GNSS programmes on behalf of the EU. Considering the above responsibilities, the European Commission implemented controls at governance, technical, operational and financial levels. Acting as programme manager it applies control mechanisms to ensure that the technical and security requirements are fully respected.

## **(B) EU Agencies**

### *Control effectiveness as regards legality and regularity*

#### **Decentralised Agencies**

Besides the above delegation agreements, similar agreements have been concluded with the **GNSS Supervisory Agency (GSA)** in the area of GNSS exploitation activities. DG GROW also delegates to GSA the implementation of FP7 and Horizon 2020 funds. Although DG GROW remains ultimately accountable for the legality and regularity of these expenditures, it is the responsibility of GSA to set up the appropriate controls to provide the necessary assurance to its parent DG. GSA is audited annually by the ECA.

Notwithstanding the fact that the GSA's beneficiaries' inherent risk profile appears lower than the average among the EC Research Family (4,95% detected error rate), DG GROW calculated the amount at risk based on this average on the FP7 GSA payments (including clearings).

In March 2017, the GSA submitted to DG GROW the results from the audited Annual Implementation Reports for 2016 on the exploitation of GALILEO and EGNOS programmes and on the implementation of HORIZON 2020. According to the external auditor's opinion, (i) the financial information is, in all material respects, properly presented, complete and accurate; (ii) the expenditure was used for its intended purpose and (iii) accounted for in compliance with the respective contractual obligations.

In addition, as further substantiated through audits on the management control system put in place by the GSA for the implementation of the Delegation Agreements on the exploitation of GALILEO and EGNOS programmes and the implementation of the Horizon 2020 and based on the respective management Declarations of Assurance, which were submitted in February 2018 by the GSA, DG GROW has the necessary guarantees concerning the legality and regularity of the related underlying transactions.

Based on the declaration of assurance provided by the Executive Director of the GSA, DG GROW considers the implementation of the delegated funds to be legal and regular. An ex-post audit was performed in December 2017 at GSA on the 2016 annual reports for Galileo and Egnos but the final audit report has not been issued yet.

The supervision of the other agencies (EEA, Frontex, EMSA, EDA) is described in detail in Annex 8, together with that of the European Chemicals Agency (**ECHA**), of which DG GROW is also parent DG.

## Executive Agencies

In the policy domain of the DG GROW, the programme management is supported by two executive agencies: the Executive Agency for Small and Medium-sized Enterprises (EASME) and the Research Executive Agency (REA). These two agencies respectively manage the former MFF legacy actions under the Entrepreneurship and Innovation Programme (EIP) and the Space Themes of the Seventh Framework Programme for Research (FP7) as well as parts of the MFF programmes COSME and Horizon 2020.

DG GROW only supervises the control systems<sup>12</sup> of these agencies in the context of their direct delegations as AOD. Both agencies performed their ex-post audits in the context of a common audit strategy. The executive agencies' control results are either in line with those within the policy family or are slightly modified to correspond to the different profile of its sub-population of beneficiaries. EASME and REA produce their own AARs. EASME's 2017 AAR contains two reservations - one on the Intelligent Energy Europe II 2007-2013, on budget delegated by DG ENER and one on CIP Eco Innovation. REA made reservations in two areas of their operational budget, i.e. 'FP7 Cooperation Specific Programme – Space and Security themes' and 'FP7 Capacities Specific Programme – Research for the benefit of SMEs', which is in line with the reservation made by DG GROW, namely the reservation on the accuracy of FP7 grant cost claims.

In its capacity of parent DG, DG GROW pays to EASME's an operating budget. The consumption of this operating budget is duly monitored, and after the final closure of EASME's accounts, any surplus will be recovered pro-rata by the agency's parent DGs. The subsidy to REA is paid fully by DG RTD and therefore it is not covered in this report.

Despite the fact that EASME provides in its AAR 2017 a low error rate of 0.5% (increased compared to last year) on its operating budget, DG GROW maintains the same conservative approach as last year and declared a maximum error rate of 1.99%.

The supervision of the Executive Agencies continued throughout 2017. The preparation of the Annual Activity Reports of these Agencies was coordinated and reviewed by DG GROW and by the Steering Committees of the Agencies. No unexpected issues arose which would need to be raised in this report.

Overall, DG GROW considers that its supervision of Executive Agencies is effective and appropriate.

### Cost effectiveness and efficiency

The following indicators demonstrate the efficiency and the cost-effectiveness of the internal control system in relation to **EU agencies**:

<b>Common indicators on control <u>cost-effectiveness</u></b>	<b>DG results for the reporting year</b>
Percentage of <b>overall cost of control</b> of supervision process in comparison to the total annual amount delegated excluding any remuneration paid	9.39 %
Percentage of cost of <b>remuneration fees paid</b> to entrusted entities in comparison to the total annual	11.78 %

<sup>12</sup> The control systems of the Executive Agencies are similar to those of their parent DGs.

amount delegated excluding any remuneration paid	
<b>remuneration fees paid</b> to EU agencies	€80,345,121

<b>Key DG indicators on control <u>cost-effectiveness</u></b>	<b>DG results for the reporting year</b>
Percentage of costs of control related to the <b>establishment or prolongation</b> in comparison to the total annual amount delegated	0.37 %
Percentage of costs of control related to the <b>contracting and subsequent monitoring</b> of the execution in comparison to the all payments executed	0.01 %

<b>Key DG indicator on control <u>efficiency</u></b>	<b>DG results for the reporting year</b>
Average <b>time to entrust</b>	197 days

### (C) Specialised Union bodies

In line with the Financial and Administrative Framework Agreement (FAFA) between the EU and the European Investment Fund, the COSME Delegation Agreement (DA) entrusts budget implementation of the COSME financial instruments to the European Investment Fund (**EIF**). The DA covers the implementation of the two financial instruments under COSME, i.e. the Loan Guarantee Facility (LGF) and the Equity Facility for GROW (EFG).

A pillar assessment of the EIF was carried out in 2015, providing reasonable assurance to the Commission that the EIF meets the requirements of Articles 60 and 61 of the FR and confirming that the EIF can be entrusted with budget implementation tasks under indirect management.

Controls during the implementation of the COSME financial instruments relate to the selection of financial intermediaries, fund allocation between the LGF and the EFG, remuneration of the EIF, assessment of the effectiveness and efficiency of the internal control systems as well as the follow-up of any observations by internal or external auditors. The respective LGF and/or EFG steering committees ensure that the policy objectives are met and will regularly review the progress of implementation. The reader is referred to Annex 5 ICT on Financial Instruments for details on the control strategy.

Based on the management Declarations of Assurance on both financial instruments and the respective reports on audits and controls, which were submitted by the EIF in February 2018, DG GROW has a reasonable assurance in all material aspects that the EU funds transferred to EIF are used for the intended purposes, including regarding legality and regularity. This reasonable assurance is further substantiated by the audit assignment carried out by DG GROW as outlined in section 2.1.4. In March 2018, the EIF will submit to DG GROW the results from the audited Financial Statements for 2017 of both LGF and EFG. According to the external auditor's opinion, the Financial Statements 2016 (2017 figures not audited yet) of both LGF and EFG were prepared in all material

respects in accordance with the respective accounting rules. Based on the audited financial statements provided for the COSME financial instruments and as further substantiated through the risk and performance report provided by the EIF for the assets under management, the AOD has the assurance that the balance on the respective fiduciary accounts for the LGF and the EFG, including the treasury assets, are managed in accordance with the Delegation Agreement.

DG GROW also considers that the operational and financial reporting requirements set out in the DA provide sufficient and relevant information and figures to ensure sound and efficient management of the policy aspects of these financial instruments.

#### Cost effectiveness and efficiency

The following indicators demonstrate the efficiency and the cost-effectiveness of the internal control system in relation to **EIF**:

<b>Common indicators on control <u>cost-effectiveness</u></b>	<b>DG results for the reporting year</b>
Percentage of <b>overall cost of control</b> of supervision process in comparison to the total annual amount delegated excluding any remuneration paid	2.67 %
Percentage of cost of <b>remuneration fees paid</b> to entrusted entities in comparison to the total annual amount delegated excluding any remuneration paid	6.72 %
<b>remuneration fees paid</b> to EIF	€14,942,346

<b>Key DG indicators on control <u>cost-effectiveness</u></b>	<b>DG results for the reporting year</b>
Percentage of costs of control related to the <b>set-up, design and designation</b> in comparison to the total annual amount delegated	0.05%
Percentage of costs of control related to the <b>implementation by DG GROW via financial intermediaries</b> in comparison to all payments executed	0.18%



### **2.1.1.2** *Budget implementation through procurement*

Procurement under direct management represents 2.43 % of the total 2017 DG GROW expenditure. The payments made in 2017 on own procurement amount to 47.02 M€.

The Internal Control Template (ICT) n°3 for procurement in Annex 5 demonstrates how the control system in place in the DG addresses the risks related to this type of expenditure.

In 2017, 26 contracts with a value exceeding € 60,000 were awarded directly by DG GROW, representing a total contract value of € 37.2 million. The reader is referred to Annex 3, tables 11 and 12. 0.3 % of this amount was awarded following a negotiated procedure without prior publication.

The contracts awarded in 2017, mentioned above, do not include, however, contracts signed by the European Space Agency (ESA) in the name and on behalf of the Commission under ESA Delegation Agreements. As mentioned in Section 2.1.1.1, the GNSS programme is executed principally by ESA as delegated procurement agent, signing contracts on behalf and in the name of the Commission, under indirect management.

The risks related to public procurement are effectively mitigated by means of independent ex-ante verifications. Those verifications represent a second layer of control performed by the Central Financial Unit beyond the ex-ante controls carried out by each operational unit. Tender documents need approval by the independent experts of the Financial Resources and Internal Control Unit before they are allowed to be published. Tenders are evaluated by evaluation committees, as foreseen by the Financial Regulation. The absence of conflicts of interest of the evaluators is ensured. Evaluation reports also need approval by the independent experts of the Financial Resources and Internal Control unit before the authorising officer takes the award decision. For high value procurements, an ad hoc committee of senior officials examines the evaluation report before the award decision can be taken. All procedures are documented in detail in the DG GROW Manual of Budgetary and Financial Procedures. Before any payment is completed, the timely execution of the contract is checked and a financial verification is performed. All errors detected are corrected. Materiality is defined as 2 % of the payment appropriations of the ABB activity. For the contracts signed by ESA on behalf of the Commission tender documents are not checked ex-ante, but there is an ex-ante assessment of the acquisition plan, which is subject to the approval of an Ad-Hoc Committee.

### Control effectiveness as regards legality and regularity

The following indicators demonstrate the effectiveness of the internal control system in relation to procurement:

Key DG indicators on control <u>effectiveness</u>	DG results for the reporting year
<b>Complaints</b> received from unsuccessful economic providers	3
Number of new cases received by the <b>Ombudsman</b> in 2017 relating to procurement procedures	0
Number of <b>legal proceedings</b> initiated by contractors or economic providers against the Commission relating to procurement procedures	0
Number of instances of <b>overriding of controls</b> in relation to procurement procedures	2
Past due critical and/or very important audit <b>recommendations</b>	0

The procurement procedures applied in DG GROW involve a number of specific controls, which are fully in line with the applicable regulatory requirements. The benefit of these specific controls provides assurance on legality and regularity, transparency, equal treatment and proportionality of the public procurement and mitigates the risk of reputational damage.

Given the low error rate there are no indications that a higher level of checks and controls would produce any supplementary benefits.

### Cost effectiveness and efficiency

The following indicators demonstrate the efficiency and the cost-effectiveness of the internal control system in relation to procurement:

Key DG indicators on control <u>efficiency</u>	DG results for the reporting year
Average <b>time to publication</b> of selection results	82.95 days
Coverage of <b>first level ex ante</b> controls	100 % of all commitments and payments,  100 % of all tender documents and evaluation reports

Coverage of <b>second level ex ante</b> controls	100 % of all tender documents and evaluation reports
Number of <b>positive / suspensive / negative opinions</b> issued on the launch and evaluation of procurement procedures	114/28/0

<b>Common indicators on control <u>cost-effectiveness</u></b>	<b>DG results for the reporting year</b>
Percentage of <b>overall cost of control</b> of procurement process in comparison to total expenditure <u>executed</u> during the year	12.28 % <sup>13</sup>
Percentage of costs of control related to the <b>contracting and subsequent monitoring</b> of the execution in comparison to the all procurement payments <u>executed</u>	6.44 %
<b>Average number of contracts</b> per procurement control full time equivalent	26.56

The procurement procedures applied in DG GROW involve a number of specific controls, which effectively contribute to assure excellence in the quality of the selected tenders and in the quality of the delivered goods and services. Given the significant overall value of procurement managed by DG GROW under direct and indirect management, DG GROW is of the opinion that the level of efficiency and cost-effectiveness of the controls operated is adequate.

### **2.1.1.3** *Grants managed directly by DG GROW*

DG GROW has set up internal control processes aimed to ensure the 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 concerned.

In 2017, DG GROW budget was implemented through direct grants under several heterogeneous grants related to internal market (ECHA 3.45%), Research and pilot projects and preparatory actions, etc...(0.9 %), CIP ( 0.17 %), Standardisation (1.09 %).

<sup>13</sup> The result of this indicator might be perceived by the reader as rather elevated; however, the reader should also consider the following three facts. Firstly, the respective costs are legally necessary to reassure adequate level of controls, namely, to address legality and regularity requirements, especially in the context of the FP7 and CIP reservations. In addition, the amount of the funds directly managed by DG GROW, i.e. the denominator of the indicators, is relatively low to the overall budget for 2017. Last, but not least, DG GROW do not enjoy economies of scale as for example other Research DGs dealing exclusively and predominantly with direct management. As a result , it would be clearly demonstrated that the costs of DG GROW for direct management are, in fact, rather modest, especially in comparison with the criteria for entrusted entities for example as per Annex 5.

### Control effectiveness as regards legality and regularity

Whereas, DG GROW applies consistently controls to all grants in line with its procedures, the available ex post controls for grants were dedicated to the grant payments, which have greater portion of the budget managed by the DG or with the highest risk: respectively standardisation and CIP grants.

The ex-post Audit Team finalised 7 out of 8 audits planned in 2017 on CIP and Standardisation programmes, reaching reasonable audit coverage. In general, audits have a strong deterrent effect within the programmes as the beneficiaries are aware of the possibility to be selected for an in-depth financial verification.

Key DG indicators on control <u>effectiveness</u>	DG results for the reporting year
Value of <b>errors detected</b> in cost claims through targeted risk-based in-depth <i>ex ante</i> desk checks to EU contributions before being paid by the DG to beneficiaries	€ 50,104
Percentage of the errors value detected in comparison to the total value of cost claims being desk-checked	0.1 %
Value of <b>corrections</b> to cost claims implemented by means of recovery <sup>14</sup>	€ 246,007 via recoveries
Number of <b>ex-post audits</b> finalised in 2017:	13
Key DG indicators on control <u>effectiveness</u>	Multiannual Results
<b><u>FP7 Research grants</u></b>	
Representative Error Rate from the common research audit sample (CRaS) <sup>15</sup> :	4.95 %
DG GROW Residual Error Rate (RER) <sup>16</sup> :	2.79 %
<b><u>Other grants</u></b>	
<u>% of population covered:</u>	
CIP:	21 %
Standardisation:	27 %
<u>€ value coverage:</u>	
CIP:	€ 30 million

<sup>14</sup> Recovery is recuperating of debts, i.e. money, towards the EU.

<sup>15</sup> The representative error rate is the error rate derived solely from the results of audits on a representative sample of beneficiaries, extended by a statistical method to the overall population. This error rate provides an estimate of the level of error in FP7 at the time of the audits, however, indicates (i) neither the follow-up as corrections undertaken by the Commission after audits (ii) nor the net final financial impact of errors. This error rate is calculated for FP7 as a whole.

<sup>16</sup> The residual error rate, on a multi-annual basis, is the extended level of error remaining after corrections undertaken by Commission services following the carried out audits. The calculation of the residual error rate is shown in Annex 4.

Key DG indicators on control <u>effectiveness</u>	DG results for the reporting year
Standardisation:	€ 43 million
<u>Most Likely Error Rates:</u>	
CIP:	
<i>Cumulative detected error rate from non risk-based audits:</i>	6.95 %
<i>Residual error rate:</i>	5.49 %
Standardisation:	0.99 %

## (A) FP7 Grants

The Research Framework Programmes are implemented mainly through direct management, which implies direct financial contributions through co-financed contracts signed with external parties, i.e. research organisations, companies. In 2017, € 0.127 million was paid as final payments in relation to grant agreements signed prior 2017.

Since 2012, a Common Representative audit sample (CRaS) is used by the Research family DGs to identify the common errors across the whole of FP7 operations. The results of the CRaS sample indicate a common **representative error rate** amounting to 4.95 %<sup>17</sup>, whereas the residual error rate is 2.79<sup>18</sup> %. These results already include the partial results of the third and last Common Representative Audit Sample (launched in 2016). They are concordant with the general expectation that the Common Representative Error Rate resulting from audits of FP7 will be around 5% at the end of the programme.

Details on the Research services' common control strategy and on the expected evolution of the common representative error rate can be found in the AAR of DG RTD for 2017.

For FP7, the materiality is assessed in accordance with Annex 4 of this AAR. The objective is to ensure that the estimated residual risk of error is less than 2 % cumulative by the end of the programme implementation. As a consequence, although the residual amount at risk on closure is €3,543, DG GROW, in accordance with the other members of the Research Family and central services, maintains its reservation on FP7 expenditure for 2017.

In the frame of a delegation agreement, an amount of € 13 million was paid to ESA in 2017 under the « Completion FP7 » budget line. The delegation agreement signed with

<sup>17</sup> This is the error rate derived solely from the results of the CRS, extrapolated to the overall population and calculated for each FP as a whole. This error rate provides an estimate of the level of error in the given framework programme at the time of the audits, but does not factor in the follow-up and corrections/recoveries undertaken by Commission services after the audit, nor does it provide information on the net final financial impact of errors. It is based on cost statements for which the audit is completed.

<sup>18</sup> The residual error rate, on a multi-annual basis, is the extrapolated level of error remaining after corrections/recoveries undertaken by Commission services following the audits that have been made. The calculation of the residual error rate, as shown in Annex 4, is based on the following assumptions: (1) all errors detected will be corrected; (2) all non-audited expenditure subject to extension of audit findings is clean from systematic material errors so that the residual error rate can be estimated to be equal to the non-systematic error rate. The residual error rate develops over time and depends on the assumptions set out above. It remains an estimate as long as not all cost claims have been received and not all cases of extension of audit findings have been fully implemented yet.

ESA could not be assimilated to a FP7 grant. Besides, the audits performed by DG GROW revealed an error rate below 0.5% (see Section 2.1.1.1.). ESA significantly improved its financial management and received a clean audit opinion from its external auditor for three consecutive years.

## **(B) Standardisation**

As part of its political objectives in the area of **standardisation**, the European Commission concludes operating and action grants with European standardisation organisations (ESO) which function in a monopoly situation, e.g.: European Committee for Standardization (CEN), European Committee for Electrotechnical Standardization (CENELEC) and European Telecommunications Standards Institute (ETSI).

Assurance on the claimed cost is obtained by performing audits every year. The sample audited (34 standardisations agreements) was chosen using different sampling methods, i.e. value-targeted, requests from operational units (risk-based), judgmental sample (targeting grants which were not audited in previous years). Most of them were value based. Since December 2015 the ex-post auditors of DG GROW use the following twofold sampling approach for the audited grant: i) a minimum sample of 30 items per cost category within the audited project, ii) a risk based sample by consulting the operational units in order to gather specific financial risks. This sample is not statistically representative but mostly value based. If majors errors are encountered the sample is extended.

The calculation of the error rate is based on the cumulative detected error rates without taking into account the results of the risk/request based audits.

In 2017, two audits, based on requests of the operational units were planned. At year end only one audit of standardisation agreements was finalised. Only a minor error of 0.14% was detected. This audit brings the total number of audited standardisation agreements to 34 (2009-2017).

The total adjustments, based on the value-targeted sample of 28 out of 34 audited agreements, show a detected cumulative average error of **0,99 %**. The error is immaterial compared to the standard materiality criterion, which is used for the ABB activity. The low error rate is a result of, on the one hand, the correct application of the Framework Partnership Agreement (FPA) provisions, which clearly define eligible costs, and on the other hand, the application of the related control strategy.

Based on the results of the performed ex-post audits (low cumulative detected error rate), combined with the ex-ante controls performed before final payment, management considers to have a reasonable assurance on the total amount of cost paid.

## **(C) CIP grants**

In 2017, DG GROW also made payments under grant agreements with beneficiaries in the area of Competitiveness and Innovation Programme (CIP), which ran from 2007-2013 and is currently phasing out.

Although the beneficiaries and the terms of the grant agreement provisions under the different strands of the CIP programme are not fully homogeneous, typical errors concern personnel – *in-house consultants*, *owner manager costs* – and subcontracting.

Therefore, DG GROW performs preventively in-depth ex-ante controls in order to obtain further reasonable assurance for high degree of confidence that information is valid and unaltered. Consequently, these controls aim at achieving error-free payments for grants, i.e. to reduce the error rates below the materiality threshold of 2 %. Main pillars of the

dedicated ex-ante controls are (i) detailed financial statement, i.e. breakdown of all cost categories and justification of their calculations, submitted by beneficiaries and (ii) judgemental sampling of declared costs from all cost categories for verification against supporting documents.

In addition, DG GROW continues also with the detective ex-post controls. Based on the results of a non-representative sample of audits performed between 2010 and 2017 and excluding targeted risk-based audits, the indicative detected error rate is 6.95 %. Though this error rate is rather high, corrections are consistently made during the years following ex-post controls. As a result, it is at least a 21 % cleaned amount of total payments executed to the audited entities between 2008 and 2017, without taking into account the in-depth ex-ante controls. Thus, the ex-post controls bring down the above indicative detected error to the cumulative residual level of **5.49 %**.

Even if not representative, the detected and residual error rates calculated over the last years does not decrease significantly. However, similar measures decided to lower the error rate for FP7 have already been applied for the CIP and considering that the need to balance legality and regularity with other objectives, such as the attractiveness of the programme, cost of control, less administrative burden, etc., is already met, additional controls might not be appropriate.

DG GROW expects that the residual error rate is not likely to decrease under the materiality threshold at the end of the programme. As a consequence, although the residual amount at risk on closure is very low (€361,350), DG GROW maintains the existing reservation for 2017 since the multiannual residual error rate is still above the materiality threshold of 2%.

#### Cost effectiveness and efficiency

The following indicators demonstrate the efficiency and the cost-effectiveness of the internal control system in relation to grant management:

Common control efficiency indicators	DG results for the reporting year
Average <b>time to grant</b> <sup>19</sup> (Art. 128.2 FR) (TTG)	23.59 days
Average <b>time to inform</b> applicants of the outcome of the evaluation of the application (Art. 128.2 FR) (TTI)	77.59 days

The above indicators show that the majority of the calls for the year were performed as planned. As a result of the externalisation, however, the number of calls for proposals launched by DG GROW in 2017 was very limited.

In 2017, neither DG GROW, nor the Ombudsman received any complaints from unsuccessful call applicants regarding the evaluation of the proposals. There were no

<sup>19</sup> The Financial Regulation which entered into application on 1 January 2013 set out new time limits for time to grant. The time to grant is split in (i) average time to publication of selection results targeted at 6 months and (ii) the average time from the publication till the signature of grant agreements targeted at 3 months (FR 128.2). These new targets apply to the calls published after 1 January 2013.



legal proceedings initiated in this respect. This provides a good indication of the robustness of the grant award process within DG GROW.

Key DG indicators on control <u>efficiency</u>	DG results for the reporting year
Average days of <b>suspension</b>	98.35 days
Percentage of payments suspended in comparison to all payments executed	20.42 %

European Commission common indicators on control <u>cost-effectiveness</u>	DG results for the reporting year
Percentage of <b>overall cost of control</b> of grant process in comparison to the total expenditure executed <sup>20</sup> during the year	9.96 %
Percentage of costs of control related to the <b>evaluation and selection</b> procedure in comparison to the total value of grants contracted	2.21 %
Percentage of costs of control related to the <b>contracting and subsequent monitoring</b> of the execution in comparison to the all grant payments executed	6.41 %

Key DG indicators on control <u>cost-effectiveness</u>	DG results for the reporting year
Average number of <b>ongoing grant agreements</b> managed per full time equivalent	9.61
Average value of ongoing grant agreements managed per full time equivalent	€ 8.226 million
Average <b>project management costs</b> per ongoing grant agreement	€ 13,485
Total costs of ex post audits	€225,300

The ex-ante and ex-post controls significantly reduced errors in the beneficiaries' cost claims. In terms of costs, it should be considered that a significant part of them is related to the legal requirements for performing payments, namely to ensure a minimum set of controls for each transaction. In addition, the evaluation

<sup>20</sup> From the expenditure is excluded the amount delegated or subject to a distinct discharge report.

of the proposals provides assurance that only the most excellent projects, which will best contribute to the achievement of the policy objectives of the call for proposals, are selected within the respective legal framework.

Given that the overall cost of management and control of grants is 9.96 % of the grants value concerned, this is considered to be cost-effective, both overall and also when taking into account the relative number and size of the grants to be processed.

Further controls would not add significant value to the quality of the delivered results. Therefore, DG GROW does not intend to increase them, as this would adversely affect the other objectives of the programmes – attractiveness, reduction of administrative burden, etc. – and the overall result would be less cost-effective.

#### **2.1.1.4** *Cross Sub-delegations*

0.89 % of the amounts paid in 2017 from DG GROW budget lines were authorised under co- and cross sub-delegation to other DGs.

The amounts cross-subdelegated relate to services for which the Commission as a whole has decided to use the available Commission services: Pay Masters' Office (PMO), Publications Office (OPOCE), DG for Informatics (DIGIT), DG Human Resources and Security and Secretariat-General of the European Commission. Given that these Commission services duly report on these costs in the same manner as the relevant Authorising Officers by delegation, such payments are mentioned but not reported in detail in this AAR.

The Director-General of DG GROW remains ultimately accountable for the amounts sub-delegated, i.e. € 17.2 million, to other Commission services, even though the legality and regularity of the transactions implementing this budget is ensured by the management and internal control systems put in place by the Authorising Officers to whom the funds were sub-delegated. The reader is referred to a detailed list in Annex 10.

For 2017, the reports received by DG GROW from the DGs to which it sub-delegated funds provided reasonable assurance on the regularity and legality of transactions.

#### **2.1.1.5** *Fraud prevention and detection*

DG GROW has developed and implemented its own anti-fraud strategy (AFS) since 2011, elaborated on the basis of the methodology provided by OLAF. This methodology was revised at the end of 2017 and adopted in February 2018.

The AFS is an essential element in the development of a strong anti-fraud culture within the DG. It draws on existing best practices and uses existing procedures and tools as much as possible so as to avoid any new or additional burden for the services.

DG GROW puts a strong emphasis on fraud prevention by encouraging proportionate and targeted preventive ex-ante controls.

In the last quarter of 2017 a fraud risk assessment was made in DG GROW, with the participation of OLAF. This assessment confirmed that the anti-fraud strategy should focus on raising the fraud awareness of DG GROW staff in order to timely detect accumulations of anomalies likely leading to fraud. The new methodology, which takes into account the fact that most of DG GROW's budget is executed by external entities,

was approved on 15/2/2018 (ARES(2018)889794) and a reachable action plan for the years 2018-2019 has been established.

Since 2013 the fraud risk assessment is integrated in the annual risk assessment exercise. As the DG externalised the majority of its budget implementation, the AFS has been re-targeted towards the supervision of the implementation of anti-fraud strategies by the DG's entrusted entities.

An anti-fraud desk is established in the Financial Resources and Internal Control Unit. End 2017 two new staff members dedicated to internal control and anti-fraud matters joined the unit.

In principle, the controls aimed at preventing and detecting fraud are similar to those intended to ensure the legality and regularity of the transactions.

No cases were transferred in 2017 to OLAF or processed by the CGI<sup>21</sup>:

DG GROW is an active member of OLAF's Fraud Prevention and Detection Network (FPDNet) and of the Research DG family's Fraud and Irregularities in Research Committee (FAIR).

### ***2.1.1.6 Other control objectives: safeguarding of assets and information, reliability of reporting***

#### **Reliability of reporting**

DG GROW delegates the most of its budget implementation to other entities. In addition to preliminary controls performed by DG GROW prior to delegating budget to these entities, it also relies on the declarations of assurance provided by its entrusted entities. These consist of signed declarations by the managing directors of these entities, that give assurance on the overall sound financial management of the delegated resources while highlighting key issues and describing the efficient functioning, cost-effectiveness and benefits of the entities internal control systems.

As a result of the efforts deployed by the DG in the past, the reliability of the financial data provided by the delegated bodies under the space programmes in 2017 is considered reliable. All controls performed by DG GROW on ex-ante and ex-post level revealed no material misstatements on the accounts presented by the delegated bodies under the programs managed by DG GROW.

#### **Valuation and Safeguarding of assets and information**

The total asset value on the Balance sheet at end 2017 is €7.920 million. The non-current assets cover € 6.086 million of intangible assets, property plant and equipment and long-term pre-financing. Furthermore, 1.833 million of current assets consists predominantly of pre-financing managed and controlled in the context of the DG's direct and indirect management, and the € 244 million cash and cash equivalents located on the accounts of EIF.

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<sup>21</sup> DG GROW Consultative Group on Irregularities

Regarding property, plant and equipment, the EGNOS, Galileo and Copernicus assets represent the most important position on the balance Sheet of DG GROW. The accounting treatment of these assets is a complex task requiring tailored procedures and systems to ensure proper valuation and control.

With regard to **Copernicus**, two satellites (Sentinel-2B and Sentinel-5P) were launched in 2017. By end of December 2017 only Sentinel-2B had passed the In Orbit Commissioning Review and was recognised as a fixed asset. Sentinel-5P is presented in the 2017 statements as an asset under Construction. Five Copernicus satellites are now operational; their net value after application of depreciation based on 7 years expected life time, amounts to € 1.140 million. The Sentinels that have not been launched yet are considered as assets under construction until their future launch and in-orbit commissioning. Their value is € 1.443 million.

Following the December 2016 **Galileo** declaration on Initial Services, the part of the Galileo system that contributes to the operational signal is accounted as Property, Plants, and Equipment. For the satellites, as soon as they are launched and validated, they contribute to the Galileo operational services and are transferred from Assets under Construction to Final fixed Assets (PP&E). By end of December 2017 18 satellites had passed in-orbit testing and had started to incur depreciation cost. Their net book value is € 1.320 million. The four satellites that were launched in December 2017 will remain in Asset under Construction until their future validation in 2018. Together with the rest of the satellites that are currently under construction, their total value is € 620 million. The net book value of the Galileo Ground Segment in 2017 was € 1.376 million.

During 2017 the controls performed on the data provided by ESA and GSA for the valuation of the space assets were maintained. Apart from the traditional asset workshops that take place with ESA, specific workshops were organised with GSA to discuss the costs to be capitalised and the stages of operational development. A detailed reconciliation was made with the contractual milestones and their acceptance, allowing in-depth analysis of the data provided by the space delegated bodies.

In 2017 for the first time the full detail of the PP&E assets was uploaded in the SAP fixed asset sub-ledger in ABAC SAM, allowing an easy track of the underlying satellites, ground segment components and individual items. The system now automatically calculates the due depreciation and provides full transparency on the accounting records. This SAP IT project will be further completed in 2018 when a transfer of the assets under construction accounts is expected to be additionally included in the fixed asset sub-ledger.

For **Egnos**, 5 sites have been subject to on-the-spot physical inspections by the DG GROW accounting team and by GSA, mainly on the premises of industrial suppliers. The results of these inspections allow reasonable assurance as to the existence and safeguarding of the assets. This concludes the 3-year inspection programme covering 2015-2016-2017 which concludes on the assurance of the asset valuation for Egnos.

With regard to cash and cash equivalents located on the fiduciary accounts, based on the audited financial statements provided for the COSME financial instruments, the AOD has the assurance that the balance on the respective fiduciary accounts for the LGF and the EFG, including the treasury assets, are managed in accordance with the Delegation Agreement.

In conclusion, the current control arrangements for accounting and financial reporting are sufficient and work in practice as intended. Resources were used for their intended purpose. Proper safeguarding of the DG GROW assets, i.e. €7.920 million, including Copernicus assets of € 2.584 million net value, GNSS amounting to € 3.427 million as well as the financial assets managed by the EIF, i.e. € 244 million, has been ensured.

## 2.1.2 Audit observations and recommendations

This section assesses the observations, opinions and conclusions reported by auditors in their reports as well as the opinion of the Internal Auditor on the state of control, which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations. The DG is audited by both internal and external independent auditors: the Internal Audit Service (IAS) of the European Commission and the European Court of Auditors (ECA).

The Directorate-General has not received any critical recommendations arising from the IAS audits. The Director General is informed on the conclusions and the main recommendations stemming from the work of the internal and external auditors. The timely implementation of all recommendations is ensured by a regular monitoring, performed by the Unit Financial Resources and Internal Control during the year.

Based on the assessment of the risks underlying the auditors' observations combined with the management measures taken in response, the management of DG GROW is confident that the recommendations issued do not raise any material assurance implications. Therefore, the current state of play does not lead to any assurance related concerns.

There is still one open recommendation from the European Parliament resolutions on the 2014 discharge which are on track towards being implemented on time. It concerns the supervision of the correct transposition of the 2014 Public Procurement Directives into national law (ref: 2014/PAR/0437).

### Internal Audit Service (IAS)

In 2017, the IAS carried out the following assignments: *"Limited review of the calculation and the underlying methodology of the residual error rate for the 2016 reporting year in DG GROW"*, *"Supervision of the implementation of the Copernicus programme in DG GROW – Phase 1: control strategy on ESA entrusted budget"* and *"Audit on the production process and the quality of statistics not produced by DG ESTAT"*.

The limited review on "the calculation and the underlying methodology of the residual error rate for the 2016 reporting year" covered issues on the formalisation of the methodological guidance planning and organisation of the residual error rates reported in the AAR of DG GROW and their calculations reported in the AAR.

The audit report on *"Supervision of the implementation of the Copernicus programme in DG GROW – Phase 1: control strategy on ESA entrusted budget"* concluded that DG GROW's supervision strategy for the implementation of the budget entrusted to ESA is effectively designed and implemented.

In the audit report on *"Audit on the production process and the quality of statistics not produced by DG ESTAT"* IAS concluded inter alia that DG GROW should define as from 2018 a process for statistics management, provide guidelines to the units and ensure that the available expertise is adequately exploited.

In relation to the audits *"Audit on setting of objectives and measurement of performance in DG GROW"* and *"Audit of the internal control strategy of the GSA over the budget delegated by DG ENTR, focusing on procurement"*, all "Very Important" recommendations have been closed.

In its contribution to the 2017 AAR process of DG GROW, IAS concluded that the internal control systems audited are partially effective since five very important findings remain to be addressed, in line with the agreed action plans. From the five, two are related to the limited review of the calculation and underlying methodology of the residual error rate for the 2016 reporting year in DG GROW. They are delayed. The third one relates to the audit on the production process and the quality of statistics not produced by ESTAT and concerns the management of the statistical process by DG GROW. For this one the action plan is under approval of the IAS. All these recommendations affect ICS n°5 and n°6 which are considered as partially effective by DG GROW.

The two remaining recommendations concern one audit from 2016: "IT Governance and Portfolio Management in DG GROW". These are on track to be implemented on time.

## **European Court of Auditors (ECA)**

### **ECA's Annual Report**

On 28 September 2017, the Court presented its Annual Report on the execution of the Commission's 2016 budget. The assessment of the legality and regularity of DG GROW transactions and the effectiveness of its supervisory and control systems are treated in Chapter 5 - *Competitiveness for GROW and jobs* - of the Court's Report.

Out of the 12 transactions audited by the Court, two (of which one from REA) were qualified with an error (<20%). The Court's finding related to ineligible costs of CIP and FP7 grants.

For all payments covered by this chapter, the Court concluded that the most likely error rate is 4.1% in 2016 versus 4.4% in 2015, and therefore material, as it exceeds the 2 % materiality threshold set by the Court.

ECA made a recommendation to ensure that the Commission's services take a consistent approach towards the calculation of error rates and overall amounts at risk.

### **ECA Special Reports**

In 2016 DG GROW was lead DG in 2 published special reports: *"Assessing markets needs regarding EU guarantee instruments"* and *"Performing a comprehensive ex-post evaluation of the predecessor to the Loan Guarantee Facility"*.

### **Follow-up of open ECA recommendations**

Overall, seven ECA recommendations for which DG GROW is lead DG are open. None is very important and all are on track towards being implemented on time.

## **2.1.3 Assessment of the effectiveness of the internal control systems**

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

In 2016, the Commission undertook a revision of its Internal Control Framework in order to ensure robust internal control with a consistent assessment throughout the services, while providing the necessary flexibility to allow departments to adapt to their specific characteristics and circumstances. The move from a compliance-based to a principle-based system, in line with international best practices and in particular with the 2013

COSO Framework<sup>22</sup> became effective on 19 April 2017. As 2017 is a transitional year, DG GROW decided to report on the previous Internal Control Standards. Together with the 2018 management plan, new internal control indicators were set to evaluate in 2018 the IC framework.

DG GROW has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

DG GROW annually<sup>23</sup> assesses the **effectiveness of its key internal control system**, including the internal control processes in place at the level of its implementing bodies in accordance with the applicable Commission guidance. The assessment relies on extensive monitoring throughout the reporting year, supported by various information sources such as: an assessment of compliance and effectiveness with the internal control standards; an assessment of audit findings and the implementation of recommendations; a register of detected exceptions, non-compliance events and internal control weaknesses, identified both by the management and by auditors in their audit reports; management declarations outlining the control environment and any control issue; and regular risk assessment. The opinion of the IAS was duly taken into account. Based on these elements the Internal Control Coordinator reported on the state of internal control and provided her recommendation to the Director-General.

Concerning the overall state of the internal control system, the DG complies with the three assessment criteria for effectiveness, i.e. (a) staff has the required knowledge and skills, (b) systems and procedures are designed and implemented to manage the key risks effectively, and (c) there are no instances of ineffective controls that have exposed the DG to its key risks.

The **functioning of the internal control systems** has closely been monitored throughout the year by the systematic registration of exceptions and non-compliances with the rules and procedures, and of internal control weaknesses. The underlying causes behind these exceptions and weaknesses were analysed and mitigated. All related audit recommendations were either successfully implemented as reaffirmed by auditors in their follow-ups or are currently under implementation, mitigating any significant risks. An assessment of the audit findings and the implementation of recommendations has been carried out as part of the overall assessment of the internal control system. A number of very important recommendations were issued by the IAS in the context of the Audits on the "Limited review of the calculation and the underlying methodology of the residual error rate for the 2016 reporting year in DG GROW", on "Audit on the production process and the quality of statistics not produced by DG ESTAT" and on "*Audit on IT governance and portfolio management in DG GROW*" (see more details and status of implementation under section 2.1.2), implying an impact on the level of control of the internal control system concerning ICS 5 and ICS 6. Therefore, taking a conservative approach, the implementation of the building block on "Planning and Risk Management Processes" is considered partially effective.

In its management plan for the reporting year 2017, DG GROW did not prioritise any

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<sup>22</sup> COSO is a framework released in 1992 in the United States, that was originally aimed at private companies. It is now widely applied by both private and public sectors worldwide. COSO issued an updated framework in May 2013 which introduced 17 principles that are all necessary for effective internal control. The new COSO requirements have a greater focus on governance concepts.

<sup>23</sup> "State of the internal control at DG GROW for 2017" report to be finalised in March 2018.



## Internal Control Standards.

Further enhancing the effectiveness of the DG GROW control arrangements in place by inter alia taking into account any control weaknesses reported and exceptions recorded, is an on-going effort in line with the principle of continuous improvement of management procedures, while taking into account the cost-effectiveness and risk differentiation of controls.

For the achievement of its objectives DG GROW largely relies on executive and regulatory agencies, as well as on a close cooperation with various partners and international organisations, in particular with the European Space Agency and the European Investment Fund. With the further externalisation of budget implementation, DG GROW focuses more on policy making and supervision and less on direct project management.

As a consequence, the DG main inherent risk endangering the achievement of its political objectives lies in the supervision of these entrusted entities. In view of the Space programmes, the Commission acting as a programme manager has the overall responsibility for the successfully building of Galileo and Copernicus systems, which by definition bear important inherent risk due to their complexity and technological uncertainties. Irrespectively of this risky environment, the DG is committed to deliver and correct any challenge in this respect.

As mentioned above, one of the main inherent risks concerns supervision of externalised activities of the DG implemented by regulatory, executive and decentralised agencies. In this context, there might be reputational risks linked to sensitive matters<sup>24</sup>. However, this does not have per se an impact on the declaration of assurance of DG GROW for 2017. It shall be duly reported if the risk materialises.

As a result of the effective and timely implementation of mitigation measures, none of the prominent risks for the reporting year materialised. It is worth mentioning that DG GROW enhances, as a continuous effort, the management of the available resources so to ensure smooth achievement of objectives. In this context, as of January 2016, the general principle was to put in place designated cells for financial initiation in each Directorate with a central verification counterweight in the central financial unit (GROW.R1):

- for the Directorates A, B, C, D, F, H, these financial cells are staffed with financial agents together with a Budgetary Correspondent for the budgetary coordination;
- for Directorates R, E, G and Unit 01, due to the limited number of financial transactions, the financial initiation was centralised in Unit GROW.R1 allowing for economies of scale and improved quality of the transactions;
- for Directorates I and J (Space), the Unit GROW.02 is in charge of the financial coordination and the initiation of all the financial transactions (fully in place as from 2017).

In conclusion, DG GROW has assessed its internal control system during the reporting year and has concluded that the internal control standards are implemented and functioning. In addition, standards 5 and 6 are not fully implemented and functioning as intended. Consequently further improvements are needed. This has however no impact on the declaration of assurance given.

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<sup>24</sup> The compliance with the Commission's Guidelines on the prevention and management of conflicts of interest in EU decentralised agencies, is closely monitored. For example, ECHA participates to the exchange of good practises organised by DG SANTE's task force with the agencies.

## 2.1.4 Conclusions as regards assurance

This section reviews the assessment of the elements reported above, in Sections 2.1.1 till 2.1.3, and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

The information reported in Section 2 results from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a comprehensive coverage of the budget delegated to the Director-General of DG GROW.

For financial operations managed by the DG in 2017 under FP7 and CIP, the materiality criterion is that the estimated residual risk of error is less than 2 % cumulative by the end of the programme's implementation. Since the residual error rate from the Common Representative audit Sample (CRaS) is material at the end of 2017, DG GROW, in accordance with the other members of the Research Family and central services, maintains its reservation on FP7 expenditure for 2017, even though this reservation has nearly no impact on DG GROW's FP7 activity.

Similarly, based on its own ex-post controls and according to the audit results, DG GROW, in accordance with central services, maintains for 2017 its reservation on CIP grants since the residual error rate is above the materiality threshold of 2 %.

Except for the FP7 and CIP reservations, management has reasonable assurance that overall suitable controls are in place and work as intended, risks are being mitigated and/or monitored.

Based on all the available evidence, management has reasonable assurance that overall suitable controls are in place and work as intended, risks are being mitigated and/or monitored, and improvements and reinforcements are being implemented.

The lessons learned from the indicators of ex-ante and ex-post controls together with the strengths and weaknesses highlighted in the audits conducted in 2017 lead to the conclusion that DG GROW has reasonable assurance<sup>25</sup> that its internal control system is adequately designed and works as intended.

### Overall Conclusion

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in her capacity as Authorising Officer by Delegation has signed the Declaration of Assurance, qualified by a reservation concerning the legacy programmes FP7 and CIP.

In 2017, DG GROW has managed the resources for which it was responsible to the best effect for the intended purposes, in line with the Financial Regulation and according to the principles of sound financial management, legality and regularity.

The internal control system in the DG is in place, and it functions effectively to the extent

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<sup>25</sup> Even an effective internal control system, no matter how well designed and operated, has inherent limitations – including the possibility of the circumvention or overriding of controls – and therefore can provide only *reasonable assurance* to management regarding the achievement of the business objectives and not *absolute assurance*.

that it enables the Director-General to give her assurance on the resources used. With the help of the internal control system, weaknesses could be detected and corrective measures put in place.

### **2.1.5 Declaration of Assurance**

# DECLARATION OF ASSURANCE

*I, the undersigned, Lowri Evans,*

***Director-General*** for Internal Market, Industry, Entrepreneurship and SMEs

***In my capacity as authorising officer by delegation***

***Declare that the information contained in this report gives a true and fair view<sup>26</sup>.***

***State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.***

***This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the limited conclusion of the Internal Auditor on the state of control, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.***

***Confirm that I am not aware of anything not reported here which could harm the interests of the institution.***

***However the following reservations should be noted:***

- 1) Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the 7<sup>th</sup> Research Framework Programme 2007-2013 (FP7).
- 2) Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the Competitiveness and Innovation Framework Programme 2007-2013 (CIP).

***Brussels, March 2018***

***e-Signed***

***Lowri Evans***

***Director-General of DG for Internal Market, Industry, Entrepreneurship and SMEs***

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<sup>26</sup> True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

## Reservation 1

<b>DG</b>	Internal Market, Industry, Entrepreneurship and SMEs
<b>Title of the reservation, including its scope</b>	Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the <b>7<sup>th</sup> Research Framework Programme 2007-2013 (FP7)</b> .
<b>Domain</b>	Research, direct management of grants under the 7 <sup>th</sup> Research Framework Programme (FP7).
<b>ABB activity and amount affected (= "scope")</b>	02 04 – "Horizon 2020 - Research relating to enterprises", in particular Article <b>02 04 51 'Completion of previous research framework programmes – Seventh Framework Programme – EC (2007 to 2013)'</b> : € 90,219 million as outturn on payments made in 2017 for AAB 02 04, of which € 13.551 million within Article 02 04 51, where <b>€ 0.6 million as FP7 grants</b> .
<b>Reason for the reservation</b>	At the end of 2017, the residual error rate is not below the materiality threshold foreseen for the multi-annual period.
<b>Materiality criterion/criteria</b>	The materiality criterion is the cumulative residual error rate, i.e. the level of errors that remain undetected and uncorrected, by the end of the management cycle. The control objective is to ensure that the residual error rate on the overall population is below 2 % at the end of the management cycle. As long as the residual error rate is not below 2 % at the end of a reporting year within the FP's management lifecycle, a reservation would be made.
<b>Quantification of the impact (= "actual exposure")</b>	The maximum impact is calculated by multiplying the residual error rate in favour of the Commission, i.e. 2.79%, by the sum of FP7 relevant expenditure based on cost statements actually processed in 2017, i.e. € 0.127 million final payments executed by DG GROW + € 0.5 million delegated to DG RTD + € 2.9 million cleared pre-financing GSA. Hence, the sum of FP7 relevant expenditure based on cost statements actually processed in 2017 results in € 3.626 million. This yields <b>€ 0.101 million</b> as maximum potential <u>impact</u> on FP7 relevant expenditure during 2017 based on the 2.79 % residual error rate for FP7.
<b>Impact on the assurance</b>	Legality and regularity of the affected transactions, i.e. only payments made against cost claims, interim payments and payments of balance. The assurance is affected by the above quantified maximum potential <u>impact</u> , which represents 0.02 % of the relevant expenditure made by DG GROW in 2017.
<b>Responsibility for the weakness</b>	The main reason for errors is : <ul style="list-style-type: none"> <li>- the complexity of the eligibility rules as laid down in the basic acts decided by the Legislative Authorities, based on the reimbursement of actual eligible costs declared by the beneficiaries;</li> <li>- the fact that there are many thousands of beneficiaries making claims, and not all can be fully controlled.</li> </ul> The different control provisions set out by the Commission services, along with the audit certificates on financial statements and ex-post audits, can mitigate these risks to a certain extent, but can never be carried out on 100% of the cost claims received.
<b>Responsibility for the corrective action</b>	The possibilities to simplify the FP7 rules have been exhausted. The programme is now in its final stage of implementation: the total amount paid per year will be decreasing, and therefore the financial impact too. Audits may continue at a low level in case of the identification of potential irregularities in projects. However, no further actions are programmed.

## Reservation 2

<b>DG</b>	Internal Market, Industry, Entrepreneurship and SMEs
<b>Title of the reservation, including its scope</b>	Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the <b>Competitiveness and Innovation Framework Programme 2007-2013 (CIP)</b> .
<b>Domain</b>	COSME and Research, direct management of grants under the Competitiveness and Innovation Framework Programme 2007-2013 (CIP).
<b>ABB activity and amount affected (= "scope")</b>	02 02 – "Competitiveness of enterprises and small and medium-sized enterprises (Cosme)" and 02 04 – "Horizon 2020 - Research relating to enterprises",  in particular Article <b>02 02 51 'Completion of former activities in the competitiveness and entrepreneurship domain'</b> : € 104,111 million as outturn on payments made in 2017 for AAB 02 02 for DG GROW, of which <b>€ 0.203</b> million within Article 02 02 51 <b>as CIP grants</b> . and Article <b>02 04 53 'Completion of Competitiveness and Innovation Framework Programme – Innovation part (2007-2013)'</b> : € 90.219million as outturn on payments made in 2017 for AAB 02 04 for DG GROW, of which <b>€ 3.223</b> million within Article 02 04 53 <b>as CIP grants</b> .
<b>Reason for the reservation</b>	At the end of 2017, the residual error rate is not below the materiality threshold foreseen for the multi-annual period.
<b>Materiality criterion/criteria</b>	The materiality criterion is the cumulative residual error rate, i.e. the level of errors that remain undetected and uncorrected, by the end of the management cycle. The control objective is to ensure that the residual error rate on the overall population is below 2 % at the end of the management cycle. As long as the residual error rate is not below 2 % at the end of a reporting year within the CIP management lifecycle, a reservation would be made.
<b>Quantification of the impact (= "actual exposure")</b>	The residual error rate for 2017 is 5.49 %. The maximum impact is calculated by multiplying the residual error rate in favour of the Commission, i.e. 5.49 %, by the CIP relevant expenditure (payments and clearings) based on cost statements actually processed in 2017, i.e. € 5.973. This yields <b>€ 0,327 million</b> as maximum potential <u>impact</u> on CIP payments during 2017 based on the 5.49% residual error rate for CIP.
<b>Impact on the assurance</b>	Legality and regularity of the affected transactions, i.e. only payments made against cost claims, interim payments and payments of balance. The assurance is affected by the above quantified maximum potential <u>impact</u> , which represents 0.07% of the relevant expenditure made by DG GROW in 2016.

<b>Responsibility for the weakness</b>	<p>The responsibility for the weakness lays within the Legislative Authorities for the complexity of the underlying rules as laid down in the basic acts, the Commission services for the management and control systems in place, and the beneficiaries for the correctness of cost claims and audit certificates.</p> <p>Within these limits the remedial action of the DG GROW is carried out through audit campaigns and the full and timely implementation of audit results as well as by better informing the beneficiaries and in-depth ex-ante checks.</p>
<b>Responsibility for the corrective action</b>	<p>The main corrective actions consist of in-depth ex-ante and ex-post controls and the performance of targeted audits in case of identified specific risks.</p> <p>The remaining scope to further reduce the CIP residual error will be addressed in particular through continuing control in 2018.</p>



## 2.2 Other organisational management dimensions

### 2.2.1 Human resource management

		2017					
		Target	1st quarter	2nd quarter	3rd quarter	4th quarter	Comments
STAFFING	# Officials						
	AD		524	521	524	521	
	AST+SC		299	285	277	255	
	% TA2b	<3%	1.1%	0.9%	0.6%	0.5%	
	AD/AST ratio		1.8	1.8	1.9	2.0	
	Ratio of statutory staff working > 65		0.0%	0.1%	0.0%	0.2%	
	# External staff (excluded SLB)						
	Contract agents		118	112	114	123	
	Interimaires		4	13	23	20	
	ENDs		44	38	39	42	
	Total External Staff		166	163	176	185	
	External staff / Total staff		16.8%	16.8%	18.0%	19.3%	
	NEPT (statutory code=STA)		3	2		5	
	Vacant jobs						
	Vacancy rate	<5%	3.0%	5.9%	5.3%	7.5%	
	Sensitive posts and functions						
	Managers on the same post > 5 years		3	3	4	6	
	- of which > 7 years	0	1	1	1	1	
MOBILITY	Internal mobility (cumulative)						
	AD		12	25	38	48	
	AST		18	29	31	35	
	External mobility (cumulative)						
	AD arriving		18	5	10	14	
	- of which laureates		1	3	5	5	
	AD leaving		21	9	5	13	
	Net balance		-3	-4	5	1	
	AST arriving		2	1	3	6	
	- of which laureates		1	1	2	3	
	AST leaving		7	15	10	27	
	Net balance		-5	-14	-7	-21	
	Staff on the same post > 5 years	reduce	165	164	197	198	
	AD		100	101	118	116	
	AST		65	63	79	82	

		2017					
		Target	1st quarter	2nd quarter	3rd quarter	4th quarter	Comments
RIGHTS & OBLIGATIONS	Sickness absence						
	Average number of absence days (cumulative)		4.6	7.5	10.3	14.2	
	Average number of absence days (per trimester)		4.6	2.9	2.8	3.9	
	Part time						
	% statutory staff working part time		7.8%	7.6%	5.0%	7.4%	
	AD		6.0%	5.6%	3.5%	5.2%	
	AST		13.8%	13.8%	9.5%	14.3%	
	Telework						
	% statutory staff teleworking		12.6%	12.8%	11.4%	12.8%	
	AD		9.4%	10.2%	8.4%	9.8%	
	AST		18.4%	17.5%	17.0%	18.8%	
	Complaints						
	Art 90		1	3	1		
	- of which won			3	withdrawn		
	Ethics						
Ethics requests received		40	37	26	25		
- of which approved		36	33	20	19		
EQUAL OPPORTUNITIES	% AD women (excl. mgmt)		43.3%	44.1%	44.3%	43.7%	
	% women on newly recruited AD staff (cumulative)		0.0%	0.0%	40.0%	60.0%	
	% women in DHoU functions		40.5%	40.0%	40.5%	39.0%	
	% women of newly appointed DHoUs (cumulative)		0% *	0% *	60.0%	67.0%	
	% women in middle management jobs	30%	28.6%	28.6%	35.6%	38.3%	
	% women of newly appointed middle managers (cumulative)		n/a	n/a	100.0%	100.0%	
	% women in senior management jobs		26.7%	28.6%	28.6%	28.6%	
HORIZONTAL ISSUES	Evacuation test		n/a	n/a	n/a	n/a	
	Duty Officer test (once a year)				12-13/7		

\* There were no newly appointed DHOU in quarter 1 and 2

GROW responsibility have been subject to finalised evaluations or Fitness checks. Thus, a positive upward trend could not be achieved compared to the 30% baseline of 2015. This may be due to the changing number of primary regulatory items (121 in 2017 compared with 142 in 2015) as legislation is constantly repealed or merged (see also Annex 2).

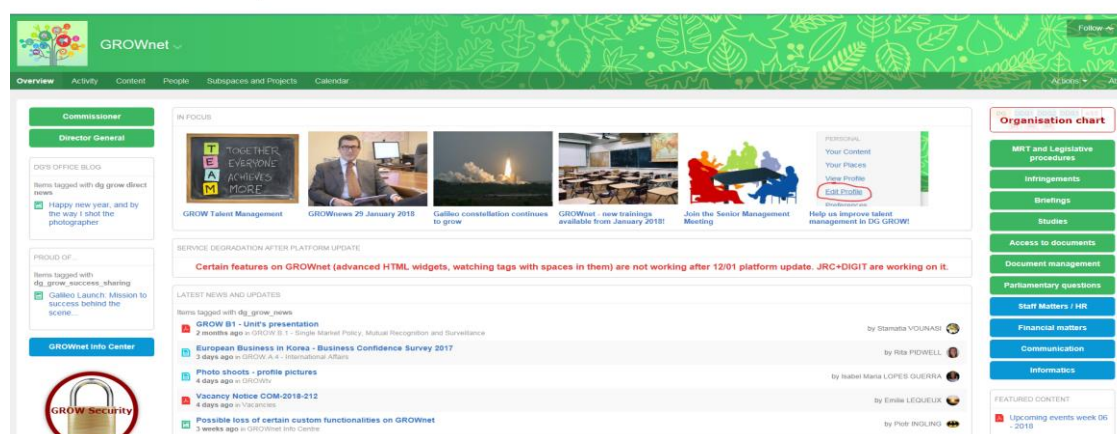
Another indicator is the percentage of Impact Assessments (IAs) submitted to the Regulatory Scrutiny Board (RSB) that received a favourable opinion on first submission. In 2017, 40% of the IAs submitted by DG GROW to the RSB received a favourable opinion on first submission. In absolute terms these are 2 positive out of 5 IAs. The target for 2020 is 50%. It is to be noted that the percentages are calculated on a relatively low number of impact assessments making it difficult to establish a valid trend. Nevertheless, there has been improvement against the baseline and between 2016 and 2017 there has been more or less stability in real numbers. This suggests that progress has been made by the DG in applying this Better Regulation tool. The GROW data are generally on par with the Commission percentages of positive first submissions: 2016 = COM average: 58% positive, 2017 = COM average: 57% positive (see also Annex 2).

## 2.2.3 Information management aspects

### Access to Documents

In 2017 the Access To Documents team processed 392 requests for access to internal and public documents. Out of this total number of requests, 21 went on to be the subject of a confirmatory request, and of those 3 remain open. The team also participated in three Ombudsman investigations. Of particular note was the marked increase in the number of voluminous requests and requests requiring coordination with other DGs.

### GROWnet



In view of the modernization of the working conditions DG GROW initiated in 2016 the implementation of a collaborative platform, i.e. GROWnet. GROWnet facilitates collaborative working methods and knowledge sharing, allows transparent flows of information and improves internal communication. As a result, GROWnet allows for exchange of opinions and ideas through online forums; storage of information and documents, creation of databases and effective search of information. GROWnet also allows creating documents in an individual or collaborative manner. Before its launch, an analysis of issues such as access to documents and treatment of classified and sensitive information was made, some of the internal workflows were analysed and simplified as well as a specific IT training was delivered to at least one person in each unit. GROWnet was launched in May 2017. By the end of 2017, 83% of Directorates and units have adopted space on the platform, thus already exceeding the 75% target for 2020.

## Briefings

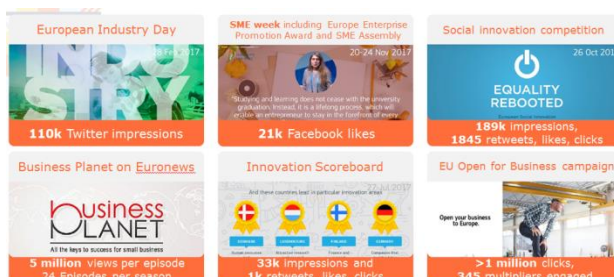
By 2017, all briefings are handled in the BASIS tool. Thus the target has been achieved. In 2017 DG GROW continued to have the highest number of briefings requests across the Commission. It organised 8 highly appreciated trainings in order to promote the efficient use of the DG internal briefings/speeches procedures and the use of new reduced template (mini-briefing) and of a newly created standards briefings platform which enabled the colleagues to cope with the high internal and external workload..

## 2.2.4 External communication activities

In 2017 DG GROW mainstreamed its external communication activities via five priorities. Under each priority a number of actions were deployed with related results.

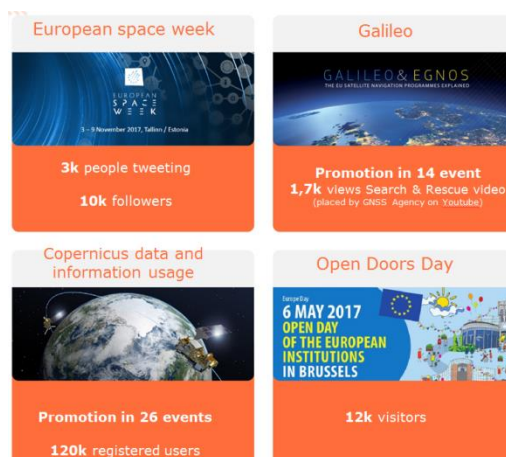
### An economy that creates jobs and prosperity

GROW's main external communication activities covered i. a. the European Industry Day, flagged under the corporate #Invest EU campaign (110k Twitter impressions), the SME Week including the Europe Enterprise Promotion Award and the SME Assembly (21k Facebook likes), the Social innovation competition (189k impressions), Business Planet Episodes on Euronews (5 million views per episode), Innovation Scoreboard (33k impressions), the EU Open for Business campaign (over 1 million clicks), the Public Procurement high level conference (1000 brochures distributed), the European Partnership for Alternative Approached to Animal Testing (21k impressions) and the High Level Forum for a better functioning of the food supply chain (29k Impressions).



### Promoting space services and data

The main external communication activities under this priority included the European Space Week (3k people tweeting with 10k followers), promotion of Galileo at 14 events, promotion of the Galileo Search and rescue service (1,700 views of the video), promotion of Copernicus data and information usage (26 events and 120k registered users) and the promotion of EU Space applications at Open Doors Day (12k visitors).



### Security and defence

The adoption of the European Defence Fund received extensive press coverage and the Dual Use awareness campaign (alerting SMEs to the possibility of financial support for the development of technologies with military and civilian use) attracted 3,000 web visitors and 337 views of the explanatory video, with a further 3,000 brochures distributed.

### The automotive sector

DG GROW supported the SPP in its media work related to the Dieselgate scandal fallout. In the second half of the year, attention focused on promoting the results of GEAR 2030.

However, this long-term strategy document did not receive major press coverage and the online report was viewed 2,000 times.

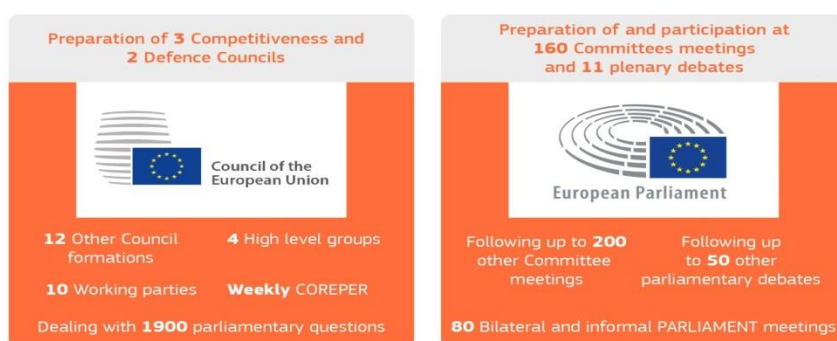
## EU rights that directly benefit citizens

The 'Your Europe' portal on Europa is the third most visited website managed by the Commission (19 million visits). The related Your Europe quiz 2017 attracted 23k participants and the Your Europe Facebook chat on regulated professions reached 650k people on social media.

## 2.2.5 Interinstitutional Relations

### HANDLING OF COUNCIL AND EUROPEAN PARLIAMENT RELATIONS

#### WORK IN NUMBERS



### HANDLING OF OTHER INTERINSTITUTIONAL RELATIONS

#### WORK IN NUMBERS



# ANNEXES

## ANNEX 1: Statement of the Internal Control Coordinator and Resources Director

*I declare that in accordance with the Commission's communication on clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission<sup>27</sup>, I have reported my advice and recommendations to the Director-General on the overall state of internal control in the DG.*

*I hereby certify that the information provided in Section 2 of the present AAR and in its annexes is, to the best of my knowledge, accurate and complete."*

*Brussels, 22 March 2018*

*e-Signed*

*Valentina Superti*

*Director Resources and Internal Control Coordinator of DG for Internal Market, Industry, Entrepreneurship and SMEs*

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<sup>27</sup> Communication to the Commission: Clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission; SEC(2003)59 of 21.01.2003.

## ANNEX 2: Reporting – Human Resources, Better Regulation, Information Management and External Communication

### Human Resources

**Objective:** The DG deploys effectively its resources in support of the delivery of the Commission's priorities and core business, has a competent and engaged workforce, which is driven by an effective and gender-balanced management and which can deploy its full potential within supportive and healthy working conditions.

#### Indicator 1: Percentage of female representation in middle management

##### Source of data:

Baseline (2015) 19%	Target 35% by 2019 <i>Indicate targets for each Directorate-General adopted by the Commission on 15 July 2015 – SEC(2015)336</i>	Latest known results 38% (31-12-2017)
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#### Indicator 2: Percentage of staff who feel that the Commission cares about their well-being<sup>28</sup>

##### Source of data: Commission staff survey

Baseline (2014) 35%	Target 50% by 2019	Latest known results 23% (staff survey 2016)
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#### Indicator 3: Staff engagement index

##### Source of data: Commission staff survey

Baseline (2014) 64)	Target 75 by 2019	Latest known results 62% (staff survey 2016)
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#### Main outputs in 2017

Description	Indicator	Target	Latest known results
To ensure an engaging environment and good working conditions, with active communication	Satisfaction survey	> % of satisfaction of the last Commission survey	No Commission staff survey done in 2017
	Use of collaborative tools, n° of newly created groups	90% of all staff using GROW's collaborative platform <sup>29</sup>	95% registered users (2017)
	Implementation rate of GROWing Together recommendations	100% implementation rate	80% implemented (2017)
A more balanced middle management	Number of female candidates applying for middle-management positions	>25% of the candidates	39% female candidates (2017)
	Number of female	30% of female middle	38% of female middle

<sup>28</sup> This indicator may be replaced by a fit@work index on which DG HR is currently working.

<sup>29</sup> This will be impacted by the development of the collaborative spaces in the DG



	<p>candidates recruited on middle-management positions</p> <p>Geographical balance of middle management</p>	<p>managers</p> <p>Increase the number of nationalities represented in middle management and deputy head of unit positions</p>	<p>managers (2017)</p> <p>Increased from 16 ( end-2016) to 19 nationalities (end-2017)</p>
To nurture the potential of our staff and offer career development perspectives, promoting a culture of internal mobility	<p>Number of internal publications</p> <p>Number of persons on their job for more than 5 years</p>	<p>&lt; 10% of non-successful publication</p> <p>Reduce the number by the end of the year via career guidance and awareness raising of internal publication</p>	<p>27% of internal publications concluded without appointment (2017)</p> <p>Increased to 200 persons (2017)</p>
To develop leadership potential	<p>Percentage of managers following individual coaching</p> <p>Percentage of deputy heads of unit having followed leadership courses in last three years</p>	<p>60%</p> <p>50%</p>	<p>50% (2017)</p> <p>19% at end-2017</p>

## Better Regulation

**Objective: Prepare new policy initiatives and manage the EU's acquis in line with better regulation practices to ensure that EU policy objectives are achieved effectively and efficiently.**

**Indicator 1: Percentage of Impact assessments submitted by DG GROW to the Regulatory Scrutiny Board (RSB) that received a favourable opinion on first submission.**

**Explanation:** The opinion of the RSB will take into account the better regulation practices followed for new policy initiatives. Gradual improvement of the percentage of positive opinions on first submission is an indicator of progress made by the DG in applying better regulation practices.

**Source of data:** Internal monitoring

Baseline 2015	Target 2020	Latest known results
53% = Commission average in 2015, GROW submitted 1 IA, which received negative opinion = 0%	Positive trend compared to DG's 2016 situation = 50% positive for DG GROW (2 positive out of 4 IAs submitted in total)	2017 = 40% positive for DG GROW (2 positive out of 5 IAs submitted in total)

**Indicator 2: Percentage of the DG's primary regulatory acquis covered by retrospective evaluation findings and Fitness Checks not older than five years.**

**Explanation:** Better Regulation principles foresee that regulatory acquis is evaluated at regular intervals. As evaluations help to identify any burdens, implementation problems, and the extent to which objectives have been achieved, the availability of performance feedback is a prerequisite to introduce corrective measures allowing the acquis to stay fit for purpose.

**Relevance of Indicator 2:** The application of better regulation practices would progressively lead to the stock of legislative acquis covered by regular evaluations to increase.

**Source of data:** Internal monitoring

Baseline 2015	Target 2020	Latest known results
Between 2010 and 2014, 42 of 140 of the primary regulatory items under the responsibility of DG GROW have been subjects to finalised evaluations or Fitness checks = 30%	Positive trend compared to interim milestone	Between 2013 and 2017, <b>27</b> of 121 of the primary regulatory items under the responsibility of DG GROW have been subject to finalised evaluations or Fitness checks = 22%
<b>Note that the number of primary legislation changes as legislation is being repealed or merged.</b>		

Main outputs in 2017			
Description	Indicator	Target	Latest known results
Finalise the REFIT legislative actions as listed in Annex 1 below and the REFIT evaluations as listed in annex 3 below	Finalisation of the REFIT actions	100% of the planned REFIT actions finalised	47% of the REFIT evaluations planned to be finalised in 2017 were effectively finalised

## Information Management

**Objective: Information and knowledge in your DG is shared and reusable by other DGs. Important documents are registered, filed and retrievable**

**Indicator 1 (mandatory – data to be provided by DG DIGIT): Percentage of registered documents that are not filed<sup>30</sup> (ratio)**

**Source of data:** *Hermes-Ares-Nomcom (HAN)<sup>31</sup> statistics*

Baseline 2014	Target	Latest known results
1,607 over a total of 46,025 documents registered in 2015 (equals to 3,49%)	0%	0.67%

**Indicator 2 (mandatory - data to be provided by DG DIGIT): Percentage of HAN files readable/accessible by all units in the DG**

**Source of data:** *HAN statistics*

Baseline	Target	Latest known results
16,333 files over a total of 17,217 (equals to 94.87%)	98%	94.62%

**Indicator 3 (mandatory data to be provided by DG DIGIT): Percentage of HAN files shared with other DGs**

**Source of data:** *HAN statistics*

Baseline	Target	Latest known results
7 files over a total of 17,217 (= 0.04%)	2.0%	0.63%

**Indicator 4: Percentage of units using collaborative tools to manage their activities**

**Source of data:** Internal monitoring

Baseline	Target	Latest known results
New indicator	2020: 75%	83% DIR/Unit space adoption 86% Active users 27% Participating users

<sup>30</sup> Each registered document must be filed in at least one official file of the *Chef de file*, as required by the [e-Domec policy rules](#) (and by ICS 11 requirements). The indicator is to be measured via reporting tools available in Ares.

<sup>31</sup> Suite of tools designed to implement the [e-Domec policy rules](#).

		14% Contributing users
<b>Indicator 5: Existence and degree of implementation of a documented strategy to harness knowledge of DG staff</b> <b>Source of data:</b> Internal monitoring <a href="https://connected.cnect.cec.eu.int/community/grow/r/3/projects/data-information-and-knowledge-asset-strategy">https://connected.cnect.cec.eu.int/community/grow/r/3/projects/data-information-and-knowledge-asset-strategy</a>		
Baseline	Target	Latest known results
Information and Knowledge management strategy (IKM) to be approved by IT Steering Committee in 2016 Q2	75-80% of the DG benefits from the IKM infrastructure by 2019	IKM strategy has been approved by the ITSC in Q4 2016. The action plan contains 15 actions/deliverables. Implementation is on track.
<b>Indicator 6 (optional): Percentage of briefings managed in accordance with a uniform business process and using a common tool (DG GROW uses the BASIS tool)</b> <b>Source of data:</b> Internal monitoring		
Baseline 2015	Target	Latest known results
1800 briefings of which 95% were managed in BASIS	100%	100% for 2017.

Main outputs in 2017:			
Description	Indicator	Target	Latest known results
Reinforcement of the knowledge management capacity in DG GROW, including the roll-out of a state of the art IT platform.	1) Deployment of the CONNECTED@GROW platform 2) Successful take-up of the new tool indicated by a number of active users	1) CONNECTED@GROW available for DG users by the end of February 2017 2) >50% active users by the end of 2017, number of open collaborative groups created (across services)	1) Connected@GROW or GROWnet was successfully launched in May 2017. 2) Latest Analytics report shows that +65 groups were created in 2017, 86% of staff were active users and the adoption/completion rate of DIR/unit spaces reached 83%.
Alignment with the strategy on data, information and knowledge management at the European Commission, notably by: <ul style="list-style-type: none"> <li>ensuring that DG GROW information assets are mapped, classified and accessible</li> <li>setting up an appropriate governance framework for data, information and knowledge management.</li> </ul>	1) DG GROW data assets are mapped and additional needs are identified 2) Available assets are shared across-DGs, in agreement with data owners 3) An appropriate governance framework for information assets is defined and developed in DG GROW	1) Initial inventory of the DG assets completed by the end of 2017 2) double at least the number of datasets which are shared on the EU Open Data Portal by the end of 2017 (currently 25 datasets are shared by DG GROW) 3) Governance structure and related processes adopted by mid-2017	1) Done 2) n.a. 3) Done The Chief Data Officer (Director Resources) is permanent member of the IT Steering Committee, which oversees the implementation of the Data and Knowledge Assets Strategy of DG GROW

## External Communication

**Objective: Citizens perceive that the EU is working to improve their lives and engage with the EU. They feel that their concerns are taken into consideration in European decision making and they know about their rights in the EU.**

### **Indicator 1: Percentage of EU citizens having a positive image of the EU**

*Definition:* Eurobarometer measures the state of public opinion in the EU Member States. This global indicator is influenced by many factors, including the work of other EU institutions and national governments, as well as political and economic factors, not just the communication actions of the Commission. It is relevant as a proxy for the overall perception of the EU citizens. Positive visibility for the EU is the desirable corporate outcome of Commission communication, even if individual DGs' actions may only make a small contribution.

**Source of data:** Standard Eurobarometer (DG COMM budget) [*monitored by DG COMM [here](#)*].

Baseline: November 2014	Target: 2020	Latest known results
Total "Positive": 39% Neutral: 37 % Total "Negative": 22%	Positive image of the EU ≥ 50%	Total "Positive": 40% Neutral: 37 % Total "Negative": 21%

### EU Open4Business campaign

The most visible communication project was the 3<sup>rd</sup> year of the EU Open4Business campaign, which ran in Bulgaria, the Czech Republic, Estonia, Lithuania and Slovenia. The campaign addressed two audiences: business intermediaries (trusted advisors) and entrepreneurs running businesses with high growth potential.

The indicators used for this campaign measure outreach to and activity by entrepreneurs in terms of the two calls to action of the media campaign, namely to contact the Enterprise Europe Network partner in their country for advice on markets, finance and partnerships, or to explore the potential of the single market through the Your Europe Business Portal (YEB).

The most significant result is the high number of impressions for social media which also triggered a high level of interest in YEB. This reflects better use of media channels which was achieved through the use of focus groups and improved market research. Both improvements resulted from lessons learned in the previous years of the campaign.

### **Main outputs in 2017 for the "Open for Business" communication campaign:**

Description	Indicator	Target/benchmark	Latest known results
Raising awareness through radio advertising	Number of radio listeners (audited figures for selected stations)	3.5 million listeners per day (spread over 5 countries)	3.53 million listeners (among the target audience) spread over 5 countries  74% of target audience (SME owners) reached by Radio
Raising awareness through print advertising	Number of newspapers readers (total readership of all selected outlets in 5 target countries).	7 million readers (readers meaning potential readers of the printed material)	8.5 million readers in all selected outlets in 5 countries.  53% of target audience (SME owners) reached by print
Raising awareness through online advertising	Number of views/impressions on social media.	8 million of ad – impressions/views (note that one individual may generate multiple impressions)	37 million impressions
Raising awareness through online advertising	Number of actions (clicks, likes, visits etc.)	More than 90.000 (1.4% action ratio, compared to 0.8% industry average)	Overall online campaign's Clicks: 1,07 million (Google Ads, Web-banners, Facebook and LinkedIn)  Social media actions (likes,

			shares, comments): 22k Social media clicks: 309k Overall online campaign's CTR: 0.85%
Call for action – visit YOUR EUROPE BUSINESS portal	Increase of web-traffic on YOUR EUROPE BUSINESS portal	At least 1000 additional visits per month (during the implementation of the campaign)	160,908 visits to YEB brought by the campaign (from 21/09/17 until 25/11/17) > 80,000 additional visits per month
Call for action – contact the Enterprise Europe Network in your country	Number of calls/emails received by the Enterprise Europe Network in the target countries	1000 (these are SMEs who are truly engaged and committed to using EEN services)	1138 calls and emails received by the EEN in 5 target countries during the campaign

## Communication spending

Annual communication spending (based on estimated commitments):			
Baseline (Year n-1):	Target (Year n):	Total amount spent	Total of FTEs working on external communication
€8,487,845	€8,565,000	€ 9.177.747,30	13*

\*FTEs in the communication unit: press, web and external communication staff.

The expenditure on communications was higher than foreseen in the Management Plan 2017. This is due to a major development of support tools for SMEs (in the context of the COSME programme), which at the beginning of the year was not classified as a communication action.

## **ANNEX 3:      Annual accounts and financial reports**

AAR 2017 Version 4

### **Annex 3 Financial Reports - DG GROW - Financial Year 2017**

**Table 1 : Commitments**

**Table 2 : Payments**

**Table 3 : Commitments to be settled**

**Table 4 : Balance Sheet**

**Table 5 : Statement of Financial Performance**

**Table 5 Bis: Off Balance Sheet**

**Table 6 : Average Payment Times**

**Table 7 : Income**

**Table 8 : Recovery of undue Payments**

**Table 9 : Ageing Balance of Recovery Orders**

**Table 10 : Waivers of Recovery Orders**

**Table 11 : Negotiated Procedures (excluding Building Contracts)**

**Table 12 : Summary of Procedures (excluding Building Contracts)**

**Table 13 : Building Contracts**

**Table 14 : Contracts declared Secret**

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2017 (in Mio €)					
			Commitment appropriations authorised	Commitments made	%
			1	2	3=2/1
<b>Title 02 Internal market, industry, entrepreneurship and SMEs</b>					
02	02 01	Administrative expenditure of the 'Internal market, industry, entrepreneurship and SMEs' policy area	37.38299286	36.05927856	96.46 %
	02 02	Competitiveness of enterprises and small and medium-sized enterprises (COSME)	262.2423736	258.0894495	98.42 %
	02 03	Internal market for goods and services	120.6986161	120.6959405	100.00 %
	02 04	Horizon 2020 - Research relating to enterprises	130.4818565	116.785284	89.50 %
	02 05	European satellite navigation programmes (EGNOS and Galileo)	1071.042552	954.7808508	89.14 %
	02 06	European Earth observation programme	622.0716157	621.5950721	99.92 %
<b>Total Title 02</b>			2243.920007	2108.005875	93.94%
<b>Title 07 Environment</b>					
07	07 01	Administrative expenditure of the 'Environment' policy area	5.285822	5.285822	100.00 %
<b>Total Title 07</b>			5.285822	5.285822	100.00%
<b>Title 08 Research and innovation</b>					
08	08 01	Administrative expenditure of the 'Research and innovation' policy area	25.972903	25.972903	100.00 %
<b>Total Title 08</b>			25.972903	25.972903	100.00%
<b>Title 11 Maritime affairs and fisheries</b>					
11	11 01	Administrative expenditure of the 'Maritime affairs and fisheries' policy area	2.948	2.948	100.00 %
<b>Total Title 11</b>			2.948	2.948	100.00%
<b>Title 17 Health and food safety</b>					
17	17 03	Public health	3.568	3.568	100.00 %
<b>Total Title 17</b>			3.568	3.568	100.00%
<b>Title 33 Justice and consumers</b>					
33	33 04	Consumer programme	0.32427745	0.32427745	100.00 %
<b>Total Title 33</b>			0.32427745	0.32427745	100.00%
<b>Total DG GROW</b>			2282.019009	2146.104878	94.04 %

\* Commitment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous commitment appropriations for the period (e.g. internal and external assigned revenue).



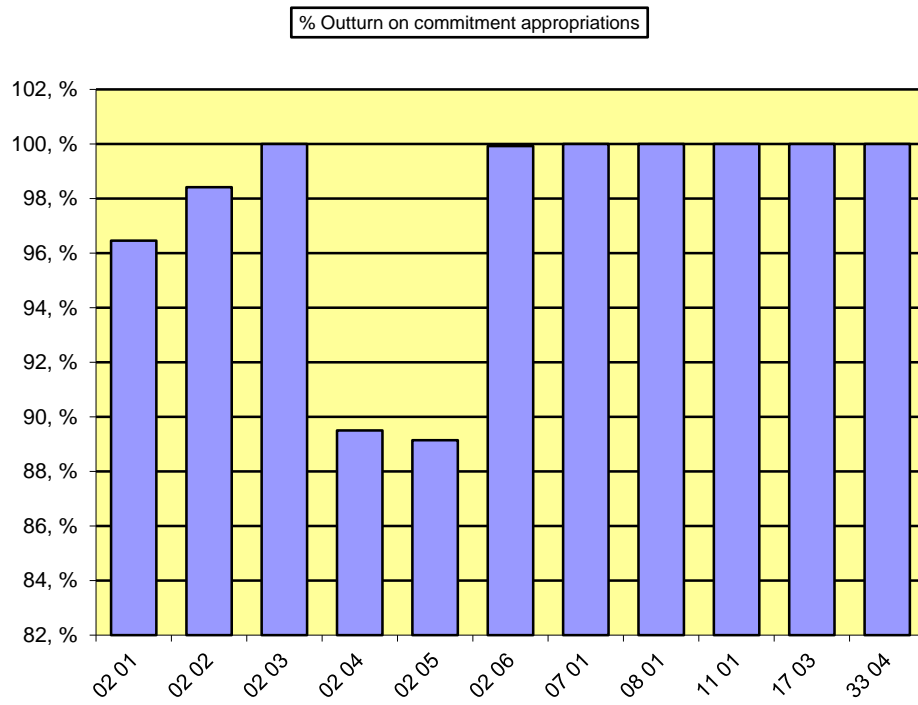


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2017 (in Mio €)					
Chapter			Payment appropriations authorised *	Payments made	%
			1	2	3=2/1
<b>Title 02 Internal market, industry, entrepreneurship and SMEs</b>					
02	02 01	Administrative expenditure of the 'Internal market, industry, entrepreneurship and SMEs' policy area	31.09207785	19.32063352	62.14 %
	02 02	Competitiveness of enterprises and small and medium-sized enterprises (COSME)	153.967947	104.111196	67.62 %
	02 03	Internal market for goods and services	113.5515345	113.5488579	100.00 %
	02 04	Horizon 2020 - Research relating to enterprises	140.5321545	90.22351515	64.20 %
	02 05	European satellite navigation programmes (EGNOS and Galileo)	1130.412796	920.3794481	81.42 %
	02 06	European Earth observation programme	653.5915117	652.7706702	99.87 %
<b>Total Title 02</b>			2223.148022	1900.354321	85.48%
<b>Title 07 Environment</b>					
07	07 01	Administrative expenditure of the 'Environment' policy area	5.285822	5.285822	100.00 %
<b>Total Title 07</b>			5.285822	5.285822	100.00%
<b>Title 08 Research and innovation</b>					
08	08 01	Administrative expenditure of the 'Research and innovation' policy area	25.972903	25.972903	100.00 %
<b>Total Title 08</b>			25.972903	25.972903	100.00%
<b>Title 11 Maritime affairs and fisheries</b>					
11	11 01	Administrative expenditure of the 'Maritime affairs and fisheries' policy area	2.948	2.948	100.00 %
<b>Total Title 11</b>			2.948	2.948	100.00%
<b>Title 17 Health and food safety</b>					
17	17 03	Public health	1.22214274	1.22214274	100.00 %
<b>Total Title 17</b>			1.22214274	1.22214274	100.00%
<b>Title 33 Justice and consumers</b>					
33	33 04	Consumer programme	0.32645506	0.32645506	100.00 %
<b>Total Title 33</b>			0.32645506	0.32645506	100.00%
	<b>Total DG GROW</b>		2258.903345	1936.109644	85.71 %

\* Payment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous payment appropriations for the period (e.g. internal and external assigned revenue).

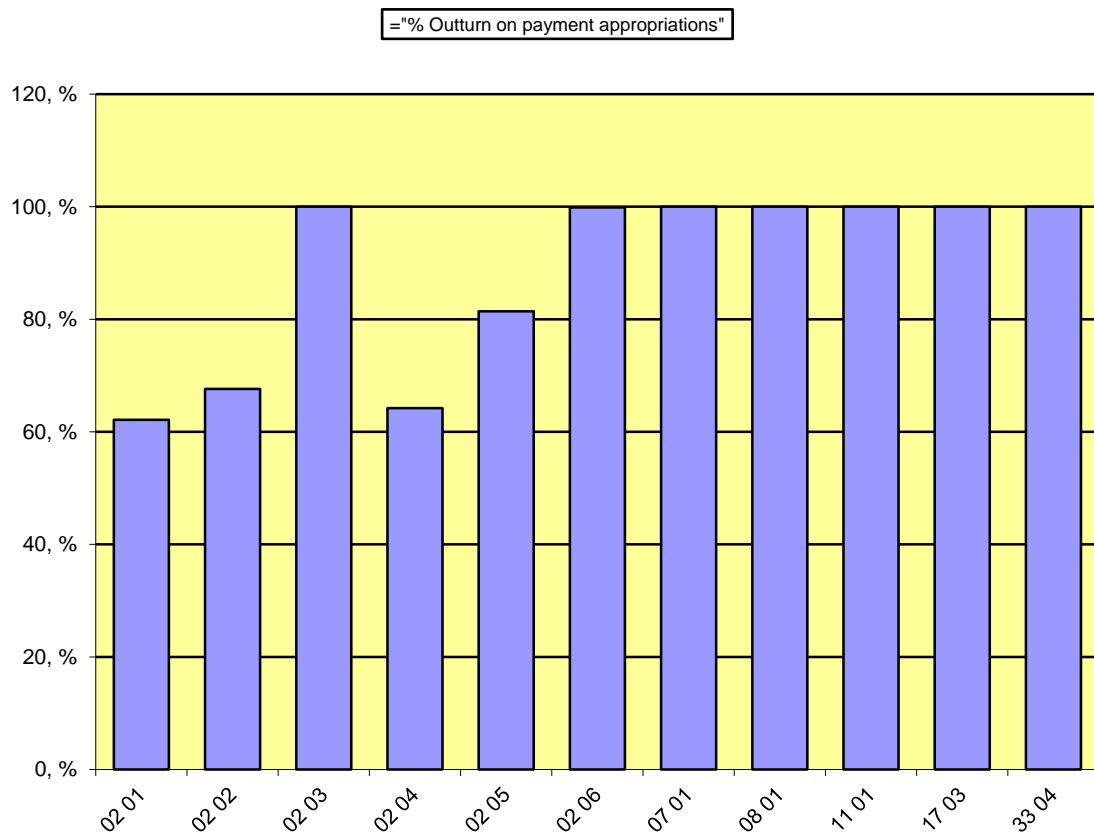
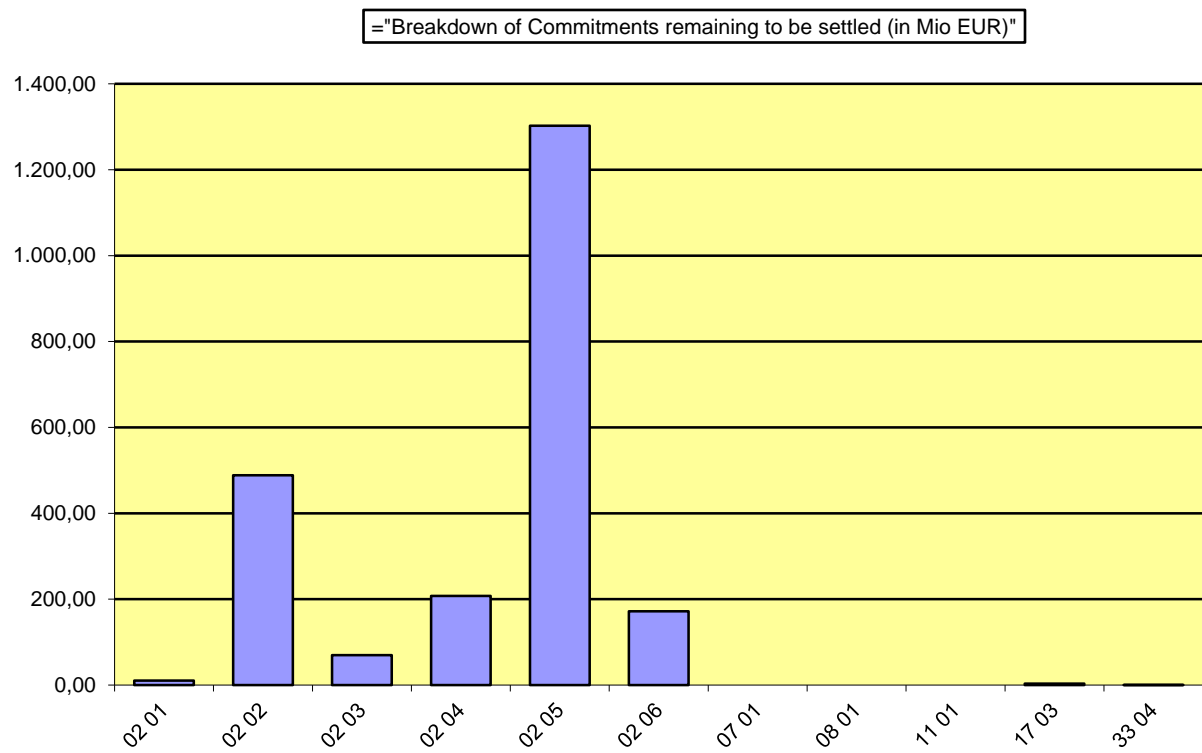


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2017 (in Mio €)									
Chapter			2017 Commitments to be settled				Commitments to be settled from	Total of commitments to be settled at end	Total of commitments to be settled at end
			Commitments 2017	Payments 2017	RAL 2017	% to be settled	financial years previous to 2017	of financial year 2017	of financial year 2016
			1	2	3=1-2	4=1-2/1	5	6=3+5	7
<b>Title 02 : Internal market, industry, entrepreneurship and SMEs</b>									
02	02 01	Administrative expenditure of the 'Internal market, industry, entrepreneurship and SMEs' policy area	34.956363	24.69	10.26249292	29.36 %	0.10	10.37	10.32
	02 02	Competitiveness of enterprises and small and medium-sized enterprises (COSME)	258.0894495	3.82	254.2689756	98.52 %	234.33	488.60	336.65
	02 03	Internal market for goods and services	120.6959405	81.86	38.83948074	32.18 %	30.75	69.59	64.97
	02 04	Horizon 2020 - Research relating to enterprises	116.785284	35.03	81.75388874	70.00 %	125.69	207.45	184.44
	02 05	European satellite navigation programmes (EGNOS and Galileo)	954.7808508	180.52	774.2586255	81.09 %	528.31	1,302.57	1268.51
	02 06	European Earth observation programme	621.5950721	462.86	158.7387836	25.54 %	13.14	171.88	203.30
<b>Total Title 02</b>			2106.90296	788.78	1318.122247	62.56%	932.332394	2250.454641	2068.199451
<b>Title 07 : Environment</b>									
07	07 01	Administrative expenditure of the 'Environment' policy area	5.285822	5.29	0	0.00 %	0.00	0.00	0.00
<b>Total Title 07</b>			5.285822	5.29	0	0.00%	0	0	0
<b>Title 08 : Research and innovation</b>									
08	08 01	Administrative expenditure of the 'Research and innovation' policy area	25.972903	25.97	0	0.00 %	0.00	0.00	0.00
<b>Total Title 08</b>			25.972903	25.97	0	0.00%	0	0	0
<b>Title 11 : Maritime affairs and fisheries</b>									
11	11 01	Administrative expenditure of the 'Maritime affairs and fisheries' policy area	2.948	2.95	0	0.00 %	0.00	0.00	0.00
<b>Total Title 11</b>			2.948	2.95	0	0.00%	0	0	0
<b>Title 17 : Health and food safety</b>									
17	17 03	Public health	3.568	0.30	3.26435232	91.49 %	0.01	3.28	0.94
<b>Total Title 17</b>			3.568	0.30	3.26435232	91.49%	0.0145785	3.27893082	0.93710126
<b>Title 33 : Justice and consumers</b>									
33	33 04	Consumer programme	0.32427745	0.02	0.30344054	93.57 %	0.06	0.37	0.37
<b>Total Title 33</b>			0.32427745	0.02	0.30344054	93.57%	0.06174924	0.36518978	0.36885239
<b>Total DG GROW</b>			2145.001962	823.31	1321.69004	61.62 %	932.4087218	2254.098762	2069.505405



**TABLE 4 : BALANCE SHEET GROW**

<b>BALANCE SHEET</b>	<b>2017</b>	<b>2016</b>
<b>A.I. NON CURRENT ASSETS</b>	<b>6086464400</b>	<b>5336663828</b>
A.I.1. Intangible Assets	5,102,697.34	5,542,333.95
A.I.2. Property, Plant and Equipment	6,005,984,468.85	5,212,352,782.27
A.I.4. Non-Current Financial Assets	24,734,349.00	12,162,196.00
A.I.5. Non-Current Pre-Financing	50,642,884.63	106,606,515.78
<b>A.II. CURRENT ASSETS</b>	<b>1833056078</b>	<b>1796921359</b>
A.II.2. Current Pre-Financing	1,585,444,771.10	1,591,962,518.98
A.II.3. Curr Exch Receiv &Non-Ex Recoverables	3,662,454.87	5,587,434.64
A.II.6. Cash and Cash Equivalents	243,948,852.00	199,371,405.00
<b>ASSETS</b>	<b>7919520478</b>	<b>7133585187</b>
<b>P.I. NON CURRENT LIABILITIES</b>	<b>-263296321.9</b>	<b>-123021830</b>
P.I.2. Non-Current Provisions	-254,304,109.90	-123,021,829.99
P.I.3. Non-Current Financial Liabilities	-8,992,212.00	
<b>P.III. NET ASSETS/LIABILITIES</b>	<b>2868101</b>	<b>-32179</b>
P.III.1. Reserves	2,868,101.00	-32,179.00
<b>P.II. CURRENT LIABILITIES</b>	<b>-103975871.1</b>	<b>-76420060.88</b>
P.II.2. Current Provisions	-57,252,515.00	-15,513,116.00
P.II.4. Current Payables	-20,050,672.22	-25,965,524.08
P.II.5. Current Accrued Charges &Defrd Income	-26,672,683.89	-34,941,420.80
<b>LIABILITIES</b>	<b>-364404092</b>	<b>-199474069.9</b>
<b>NET ASSETS (ASSETS less LIABILITIES)</b>	<b>7555116386</b>	<b>6,934,111,116.75</b>

P.III.2. Accumulated Surplus/Deficit	281,516,032.98	-395188741.8
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Non-allocated central (surplus)/deficit*	7,836,632,418.76	-6538922375
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<b>TOTAL</b>	<b>0.00</b>	<b>0.00</b>
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It should be noted that the balance sheet and statement of financial performance presented in Annex 3 to this Annual Activity Report, represent only the assets, liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and statement of financial performance they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

### **Explanatory note**

#### **A.I. NON CURRENT ASSETS**

##### **A.I.2. Property, Plant and Equipment**

The increase of the asset accounts of DG GROW reflected the operational developments under the Galileo, Copernicus and Egnos programmes.

The **Galileo** system, being EU's Global Navigation Satellite System (GNSS), was further developed in 2017 and reached gross value of € 3 588 million covering both its space and ground segments. € 1 026 million of this total is related to assets under construction which were not operational on 31/12/2017. The Galileo assets now comprise of € 2 056 million of satellites, 18 of which were fully operational end of 2017, 4 satellites launched in December 2017 but had not yet passed the in-orbit-test review and other satellites under construction which the Commission controls. The total gross value of the Galileo ground segment reached € 1 526 million. Only the part of the ground segment which contributes to the Galileo Initial Services that are operational since December 2016 is accounted as final fixed assets (€ 1 120 million). The rest of the ground segment (€ 405 million) will be transferred from assets under construction to final fixed assets once the Galileo Enhanced Services are declared and becomes operational in the future. Compared to the 2016 balance, the Galileo net value increased in 2017 by an additional amount of € 405 million.

Regarding **Copernicus**, the European Earth observation programme, in 2017 the gross balance increased to € 2 987 million. In contrast to Galileo, the EU keeps control only over the satellites which are accounted for in the EU books; the control over the Ground Segment remains with ESA, EUMETSAT or industry.



Sentinel-2B and Sentinel -5P were launched in 2017, but only S-2B reached operational level by end of 2017, thus bringing the gross Copernicus operation assets to € 1 543 million. Since the Copernicus satellites are funded not only by the EU, DG GROW recognised in 2017 income of €207,8 million related to the contributions from ESA (the European Space Agency), the Dutch and the German national space agencies. Compared to 2016, the net balance of the Copernicus assets increased in 2017 by €378 million.

Finally, the assets related to the **EGNOS** system (European Geostationary Navigation Overlay System) increased in 2017 by € 15 million, brought by new assets acquisition and capitalisation of costs incurred on the upgrade of the EGNOS system. The current net value of the EGNOS system at 31 December 2017 is € 120 million.

The valuation of the Copernicus, Galileo and EGNOS assets is based on the data provided by the European Space Agency (ESA), the European GNSS Agency (GSA), the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT) and the Copernicus Service Agency ECMWF. The calculation of the assets value follows the stages of operational development of the programmes and applied the IPSAS concepts of control of the assets.

In 2017, with the assistance of DG BUDG, DG GROW developed and implemented the fixed assets sub-ledger in SAP for operational assets, allowing transparency and visibility over the components of the reporting. In 2018 this project will be further completed to cover the assets under construction, thus minimising the manual entries into the asset accounts.

#### A.I.5. Non-current pre-financing

The non-current pre-financing amounts recognised on the balance-sheet at 31 December 2017 represent pre-financing for which the costs are expected to be incurred only after 31 December 2018. They relate mainly to advance payment under the Space Delegation Agreements. The drop in the 2017 balance reflects better forecasting on the pre-financing needs for the GSA Agency under Galileo.

### A.II. CURRENT ASSETS

#### A.II.3. Current Exchange and Non-exchange Receivables

The drop in the balance of the non-exchange receivables is mainly related to the decrease in the accrued income recognised for liquidated damages under the Galileo programme where the current open balance is €1,7 million.

#### A.II.6 Cash and cash equivalents

The cash balance is mainly related to the Financial Instruments of

the Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME), covering the funds transferred to the fiduciary bank accounts opened by the European Investment Bank (EIF) for the purpose of management of the Loan Guarantee Facility (LGF) and the Equity Facility for Growth (EFG) financial instruments. In 2017 the level of the EIF deposits with maturity shorter than 3 months has increased.

## P. LIABILITIES

### P.I.2. and P.II.2. Long-term and Short-term provisions

The increase of the provisions is related to the COSME Loan Guarantee Facility (LGF) for which an additional long-term provision of another € 131,26 million and a short-term provision of € 41,7 million is booked for expected losses that may arise from the guarantee portfolio.

**TABLE 5 : STATEMENT OF FINANCIAL PERFORMANCE GROW**

<b>STATEMENT OF FINANCIAL PERFORMANCE</b>	<b>2017</b>	<b>2016</b>
<b>II.1 REVENUES</b>	<b>-254958561.3</b>	<b>-189334923.7</b>
II.1.1. NON-EXCHANGE REVENUES	-259187815.1	-193967210.5
II.1.1.5. RECOVERY OF EXPENSES	-118,322.52	-3,165,459.73
II.1.1.6. OTHER NON-EXCHANGE REVENUES	-259,069,492.58	-190,801,750.75
II.1.2. EXCHANGE REVENUES	4229253.77	4632286.74
II.1.2.1. FINANCIAL INCOME	-1,356,291.65	-837,214.63
II.1.2.2. OTHER EXCHANGE REVENUE	5,585,545.42	5,469,501.37
<b>II.2. EXPENSES</b>	<b>1496129399</b>	<b>866039698.6</b>
II.2. EXPENSES	1496129399	866039698.6
II.2.10. OTHER EXPENSES	739,439,605.74	342,299,601.37
II.2.2. EXP IMPL BY COMMISS&EX.AGENC. (DM)	76,456,895.22	80,476,073.85
II.2.3. EXP IMPL BY OTH EU AGENC&BODIES (IM)	328,341,692.48	217,328,469.10
II.2.4. EXP IMPL BY 3RD CNTR & INT ORG (IM)	327,561,128.40	217,212,717.24
II.2.5. EXP IMPL BY OTHER ENTITIES (IM)	24,258,822.57	8,842,103.19
II.2.6. STAFF AND PENSION COSTS	-310,033.00	-445,933.87
II.2.8. FINANCE COSTS	381,287.20	326,667.67
<b>STATEMENT OF FINANCIAL PERFORMANCE</b>	<b>1,241,170,837.28</b>	<b>676,704,774.81</b>

### **Explanatory note**

#### **II.1 REVENUES**

##### **II.1.1.6. Other non-exchange revenues and II.1.2.1 Other exchange revenue**

The other non-exchange revenue relates to the non-EU funded part of the Copernicus assets and in-kind contributions received for Sentinels 2B and 5P, i.e. € 207.8 million. Furthermore, € 4.2 million of liquidated damages were related to the Galileo FOC programme.

#### **II.2 EXPENSES**

##### **II.2.10 Other expenses**

The most important expense in this category is the depreciation charge for the Space programmes. With their related assets further increasing every year, and Galileo depreciation costs calculated only since December 2016, the 2017 cost was € 320 million higher than in 2016. Additionally, € 41.4 million was accrued as cost for the funding of the executive agencies of DG GROW; € 188.6 million related to the provisions for the financial instruments, and € 14.2 million are related to the administrative and operational

fees paid to the European Investment Bank for the management of the financial instruments.

#### II.2.3 and II.2.4 Expenses implemented by other EU agencies & international organisations (Indirect Management)

The further increase of the expenses implemented by EU Agencies and international organisations is due to the Delegation Agreements for the space programmes with increase the costs reported compared to 2016. The main increase is on the new Delegation Agreement for Galileo signed with GSA Agency – in 2017 € 432 million were recognised, as compared to € 19 million in 2016.

TABLE 5bis : OFF BALANCE SHEET GROW

OFF BALANCE	2017	2016
OB.1. Contingent Assets	756691.16	870291.04
GR for pre-financing	756,691.16	870,291.04
OB.2. Contingent Liabilities	-1648491	0
OB.2.1. Guarantees given for EU FI	-1,648,491.00	0.00
OB.3. Other Significant Disclosures	-4281466491	-4924440539
OB.3.2. Comm against app. not yet consumed	-2,187,463,961.63	-2,008,537,688.95
OB.3.3.4. Galileo programme	-252,852,315.00	-522,852,315.00
OB.3.3.5. GMES programme COPERNICUS	-1,841,150,214.00	-2,393,050,535.00
OB.4. Balancing Accounts	4282358290	4923570248
OB.4. Balancing Accounts	4,282,358,290.47	4,923,570,247.91
<b>OFF BALANCE</b>	<b>0.00</b>	<b>0.00</b>

**TABLE 6: AVERAGE PAYMENT TIMES FOR 2017 - DG GROW**

Legal Times							
Maximum Payment Time (Days)	Total Number of Payments	Nbr of Payments within Time Limit	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
30	1404	1372	97.72 %	14.69460641	32	2.28 %	41.03125
45	41	40	97.56 %	15.85	1	2.44 %	49
50	2	2	100.00 %	25.5			
60	251	248	98.80 %	23.03629032	3	1.20 %	68
90	49	47	95.92 %	36.36170213	2	4.08 %	203

Total Number of Payments	1747	1709	97.82 %		38	2.18 %	
Average Net Payment Time	17.30967373			16.54066706			51.89473684
Average Gross Payment Time	20.25643961			19.34581627			61.21052632

Suspensions							
Average Report Approval Suspension Days	Average Payment Suspension Days	Number of Suspended Payments	% of Total Number	Total Number of Payments	Amount of Suspended Payments	% of Total Amount	Total Paid Amount
7	40	129	7.38 %	1747	178,594,991.85	14.77 %	1,208,872,147.96

Late Interest paid in 2017			
DG	GL Account	Description	Amount (Eur)
GROW	65010000	Interest expense on late payment of charges	22 289.00
GROW	65010100	Interest on late payment of charges New FR	745.20
			<b>23 034.20</b>

**TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2017**

Chapter		Revenue and income recognized			Revenue and income cashed from			Outstanding
		Current year RO	Carried over RO	Total	Current Year RO	Carried over RO	Total	balance
		1	2	3=1+2	4	5	6=4+5	7=3-6
52	REVENUE FROM INVESTMENTS OR LOANS GRANTED, BANK AND OTHER INTEREST	64225.67	0	64225.67	64225.67	0	64225.67	0
57	OTHER CONTRIBUTIONS AND REFUNDS IN CONNECTION WITH THE ADMINISTRATIVE OPERATION OF THE INSTITUTION	10487.25	0	10487.25	10487.25	0	10487.25	0
60	CONTRIBUTIONS TO UNION PROGRAMMES	49166374	0	49166374	48665290	0	48665290	501084
66	OTHER CONTRIBUTIONS AND REFUNDS	10600454.42	1427663.08	12028117.5	10600454.42	98498.71	10698953.13	1329164.37
90	MISCELLANEOUS REVENUE	0	48603.15	48603.15	0	0	0	48603.15
<b>Total DG GROW</b>		<b>59841541.34</b>	<b>1476266.23</b>	<b>61317807.57</b>	<b>59340457.34</b>	<b>98498.71</b>	<b>59438956.05</b>	<b>1878851.52</b>

**TABLE 8 : RECOVERY OF PAYMENTS**  
(Number of Recovery Contexts and corresponding Transaction Amount)

INCOME BUDGET RECOVERY ORDERS ISSUED IN 2017  Year of Origin (commitment)	Irregularity		Total undue payments recovered		Total transactions in recovery context(incl. non-qualified)		% Qualified/Total RC	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
2005					1	328164.8		
2008					1	10967.82		
2009					3	570000		
2011	1	2675.63	1	2675.63	3	516432.17	33.33%	0.52%
2012	1	20064.49	1	20064.49	2	54667.72	50.00%	36.70%
2013					4	2853336.13		
2014					3	107486.83		
2015					1	56452.61		
2016	1	1120	1	1120	10	5533199.08	10.00%	0.02%
No Link					5	37206410.93		
Sub-Total	3	23860.12	3	23860.12	33	47237118.09	9.09%	0.05%

EXPENSES BUDGET	Error		Irregularity		OLAF Notified		Total undue payments recovered		Total transactions in recovery context(incl. non-qualified)		% Qualified/Total RC	
	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount
INCOME LINES IN INVOICES			1	59850			1	59850	1	59,850.00	100.00%	100.00%
NON ELIGIBLE IN COST CLAIMS	11	133668.15	11	1653398.79			22	1787066.94	23	1,787,081.88	95.65%	100.00%
CREDIT NOTES	34	1425238.33	6	154841.87			40	1580080.2	67	2,431,653.14	59.70%	64.98%
Sub-Total	45	1558906.48	18	1868090.66			63	3426997.14	91	4278585.02	69.23%	80.10%
GRAND TOTAL	45	1558906.48	21	1891950.78			66	3450857.26	124	51515703.11	53.23%	6.70%



**TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2017 FOR GROW**

	Number at 01/01/2017	Number at 31/12/2017	Evolution	Open Amount (Eur) at 01/01/2017	Open Amount (Eur) at 31/12/2017	Evolution
2011	1	1	0.00 %	57,746.53	57,746.53	0.00 %
2012	3	3	0.00 %	302,090.60	302,090.60	0.00 %
2013	5	4	-20.00 %	991,591.86	973,642.10	-1.81 %
2014	2	1	-50.00 %	31,643.43	14,877.41	-52.98 %
2015	1	1	0.00 %	64,877.86	59,877.86	-7.71 %
2016	4	1	-75.00 %	86,170.27	31,604.06	-63.32 %
2017		1			501,084.00	
	16	12	-25.00 %	1,534,120.55	1,940,922.56	26.52 %

TABLE 10 : RECOVERY ORDER WAIVERS IN 2017 >= EUR 100.000						
	Waiver Central Key	Linked RO Central Key	RO Accepted Amount (Eur)	LE Account Group	Commission Decision	Comments

Total DG GROW	
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Number of RO waivers	
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**TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG GROW - 2017**

**Internal Procedures > € 60,000**

<b>Negotiated Procedure Legal base</b>	<b>Number of Procedures</b>	<b>Amount (€)</b>
Art. 134.1(b) (Without prior publication) Work of art, technical reasons or protection of exclusive rights	1	120,800.00
<b>Total</b>	<b>1</b>	<b>120,800.00</b>

**TABLE 12 : SUMMARY OF PROCEDURES OF DG GROW EXCLUDING BUILDING CONTRACTS**

**Internal Procedures > € 60,000**

<b>Procedure Legal base</b>	<b>Number of Procedures</b>	<b>Amount (€)</b>
Exceptional Negotiated Procedure without publication of a contract notice (Art. 134 RAP)	1	120,800.00
Negotiated Procedure with at least five candidates below Directive thresholds (Art. 136a RAP)	3	295,986.00
Open Procedure (Art. 104(1) (a) FR)	22	36,780,855.52
<b>Total</b>	<b>26</b>	<b>37,197,641.52</b>

**TABLE 13 : BUILDING CONTRACTS**

<b>Legal base</b>	<b>Contract Number</b>	<b>Contractor Name</b>	<b>Description</b>	<b>Amount (€)</b>

**TABLE 14 : CONTRACTS DECLARED SECRET**

Legal base	Contract Number	Contractor Name	Description	Amount (€)

## ANNEX 4:Materiality criteria

This annex provides a detailed description of the way in which DG GROW defines its materiality thresholds. These thresholds serve as a basis for determining which significant weaknesses should be subject to a formal reservation to the Director-General's declaration of assurance.

The following types of potential deficiencies could be relevant:

- Significant weaknesses in the internal control system
- Significant errors detected during ex-post controls
- Major critical issues identified by the European Court of Auditors or the Internal Audit Service
- Insufficient evidence from internal control systems or audit coverage
- Evidence that a significant risk remained unmitigated
- A significant risk for the reputation of the Commission

In case significant weaknesses are identified, a quantification of the amount at risk should be carried out, if possible.

Taking into account their different risk profiles and control and supervision arrangements, the activities performed by DG GROW have been regrouped in three areas of expenditure, for which individual materiality criteria have been defined:

1. Delegation Agreements with entrusted entities, i.e. indirect management
2. Research expenditure (FP7)
3. Other direct expenditure

### 1. Delegation Agreements with Entrusted entities, i.e. indirect management

For expenditure under joint management and indirect management, implemented by Delegation Agreements with Entrusted entities, including international organisations, the materiality threshold has been set at 2 % of undetected and uncorrected errors in the amounts of cost reported during the year or at the end of the implementation of the programmes. If the error rate exceeds the 2 % materiality threshold, a reservation should be considered.

Materiality is to be assessed per management mode.

### 2. Research expenditure, i.e. direct management

The materiality criteria for Research expenditure are defined in common agreement with the other DGs of the 'Research family' (RTD, CNECT, MOVE, ENER).

The general control objective for the Research services, following the standard quantitative materiality threshold proposed in the Standing Instructions, is to ensure for each FP, and the Coal and Steel Research Fund for DG RTD, that **the residual error rate, i.e. the level of errors which remain undetected and uncorrected, does not exceed 2 % by the end of each FP's management cycle**. The question of being on track towards this objective is to be (re)assessed annually, in view of the results of the implementation of the ex-post audit strategy and taking into account both the frequency and importance of the errors found as well as a cost-benefit analysis of the effort needed to detect and correct them.

The assessment of the effectiveness of the different programmes' control system is based

mainly, but not exclusively, on ex-post audits' results. The effectiveness is expressed in terms of detected and residual error rate, calculated on a representative sample.

## 2.1. Effectiveness of controls

The starting point to determine the effectiveness of the controls in place is the cumulative level of error expressed as the percentage of errors in favour of the EC, detected by ex-post audits, measured with respect to the amounts accepted after ex-ante controls.

However, to take into account the impact of the ex-post controls, this error level is to be adjusted by subtracting:

- Errors detected and corrected as a result of the implementation of audit conclusions;
- Errors corrected as a result of the extension of audit results to non-audited contracts with the same beneficiary.

This results in a residual error rate, which is calculated in accordance with the following formula:

$$ResER\% = \frac{(RepER\% * (P - A)) - (RepERSys\% * E)}{P}$$

where:

**ResER%** residual error rate, expressed as a percentage

**RepER%** representative error rate, or error rate detected in the common representative sample, expressed as a percentage. For FP7 this rate is the same for all Research services.

**RepERSys%** portion of the RepER% representing (negative) systematic errors, expressed as a percentage. The RepER% is composed of two complementary portions reflecting the proportion of negative systematic and non-systematic errors detected.

**P** total aggregated amount in euros of EC share of funding in the auditable population. In FP7, the population is that of all received cost statements, and the euro amounts those that reflect the EC share included in the costs claimed in each cost statement.

**A** total EC share of all audited amounts, expressed in euro. This will be collected from audit results.

**E** total non-audited amounts of all audited beneficiaries. In FP7, this consists of the total EC share, expressed in euro, excluding those beneficiaries for which an extrapolation is ongoing).

If the residual error rate is not (yet) below 2 % at the end of a reporting year within the FP's management lifecycle, a reservation must be considered.

The Common Representative Audit Sample (CRAS) is the starting point for the calculation of the residual error rate. It is representative of the expenditure of each FP as a whole.

Nevertheless, the Director-General or Director for the Executive Agencies must also take into account other information when considering if the overall residual error rate is a sufficient basis on which to draw a conclusion on assurance (or make a reservation) for specific segment(s) of FP7/Horizon 2020. This may include the results of other ex-post audits, ex-ante controls, risk assessments, audit reports from external or internal auditors, etc. All this information may be used in assessing the overall impact of a weakness and considering whether to make a reservation or not.

If the CRAS results are not used as the basis for calculating the residual error rate this must be clearly disclosed in the AAR, along with details of why and how the final judgement was made.

In case a calculation of the residual error rate based on a representative sample is not possible for a FP for reasons not involving control deficiencies<sup>32</sup>, the consequences are to be assessed quantitatively by making a best estimate of the likely exposure for the reporting year based on all available information. The relative impact on the Declaration of Assurance would be then considered by analysing the available information on qualitative grounds and considering evidence from other sources and areas. This should be clearly explained in the AAR.

## **2.2. Multiannual approach**

The Commission's central services' guidance relating to the quantitative materiality threshold refers to a percentage of the authorised payments of the reporting year of the ABB expenditure. However, the Guidance on AARs also allows a multi-annual approach, especially for budget areas (e.g. programmes) for which a multi-annual control system is more effective. In such cases, the calculation of errors, corrections and materiality of the residual amount at risk should be done on a "cumulative basis" on the basis of the totals over the entire programme lifecycle.

Because of its multiannual nature, the effectiveness of the Research services' control strategy can only be fully measured and assessed at the final stages in the life of the framework programme, once the ex-post audit strategy has been fully implemented and systematic errors have been detected and corrected.

In addition, basing materiality solely on ABB expenditure for one year may not provide the most appropriate basis for judgements, as ABB expenditure often includes significant levels of pre-financing expenditure (e.g. during the initial years of a new generation of programmes), as well as reimbursements (interim and final payments) based on cost claims that 'clear' those pre-financings. Pre-financing expenditure is very low risk, being paid automatically after the signing of the contract with the beneficiary.

Notwithstanding the multiannual span of their control strategy, the Director-Generals of the Research DGs (and the Directors of ERCEA, REA, and, for Horizon 2020, EASME and INEA) are required to sign a statement of assurance for each financial reporting year. In order to determine whether to qualify this statement of assurance with a reservation, the effectiveness of the control systems in place needs to be assessed not only for the year of reference but also with a multiannual perspective, to determine whether it is possible to reasonably conclude that the control objectives will be met in the future as foreseen.

In view of the crucial role of ex-post audits defined in the respective common audit strategies, this assessment needs to check in particular whether the scope and results of

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<sup>32</sup> Such as, for instance, when the number of results from a statistically representative sample collected at a given point in time is not sufficient to calculate a reliable error rate.

the ex-post audits carried out until the end of the reporting period are sufficient and adequate to meet the multiannual control strategy goals.

The criteria for making a decision on whether there is material error in the expenditure of the DG or service, and so on whether to make a reservation in the AAR, will therefore be principally, though not necessarily exclusively, based on the level of error identified in ex-post audits of cost claims on a multi-annual basis.

### **2.3.Adequacy of the audit scope**

The quantity of the (cumulative) audit effort carried out until the end of each year is to be measured by the actual volume of audits completed. The data is to be shown per year and cumulated, in line with the current AAR presentation of error rates. The multiannual planning and results should be reported in sufficient detail to allow the reader to form an opinion on whether the strategy is on course as foreseen.

The Director-General or Director for the Executive Agencies should form a qualitative opinion to determine whether deviations from the multiannual plan are of such significance that they seriously endanger the achievement of the internal control objective. In such case, she or he would be expected to qualify his annual statement of assurance with a reservation.

### **2.4.Research Framework programmes – specific aspects**

The control system of each framework programme is designed in order to achieve the operational and financial control objectives set in their respective legislative base and legal framework. If the effectiveness of those control systems does not reach the expected level, a reservation must be issued in the annual activity report and corrective measures should be taken.

Each programme having a different control system, the following section details the considerations leading to the establishment of their respective materiality threshold and the conclusions to draw with regard to the declaration of assurance.

### **2.5.Seventh Framework programme and the Coal and Steel Research Fund**

For the Seventh Framework programme and the Coal and Steel Research Fund, the general control objective, following the standard quantitative materiality threshold proposed in the Standing Instructions for AAR, is to ensure that the residual error rate, i.e. the level of errors which remain undetected and uncorrected, does not exceed 2% by the end of the programmes' management cycle.

The question of being on track towards this objective is to be (re)assessed annually, in view of the results of the implementation of the ex-post audit strategy and taking into account both the frequency and importance of the errors found as well as a cost-benefit analysis of the effort needed to detect and correct them.

### **2.6.Horizon 2020 Framework Programme**

The Commission's proposal for the Regulation establishing H2020 framework programme<sup>33</sup> states that:

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<sup>33</sup> COM(2011) 809/3 Proposal for a Regulation of the European Parliament and of the Council establishing Horizon 2020 – the Framework programme for Research and Innovation (2014-2020), see point 2.2, pp 98-102



It remains the ultimate objective of the Commission to achieve a residual error rate of less than 2% of total expenditure over the lifetime of the programme, and to that end, it has introduced a number of simplification measures. However, other objectives such as the attractiveness and the success of the EU research policy, international competitiveness, scientific excellence and in particular the costs of controls need to be considered.

Taking these elements in balance, it is proposed that the Directorates General charged with the implementation of the research and innovation budget will establish a cost-effective internal control system that will give reasonable assurance that the risk of error over the course of the multiannual expenditure period is, on an annual basis, within a range of 2-5 %, with the ultimate aim to achieve a residual level of error as close as possible to 2 % at the closure of the multi-annual programmes, once the financial impact of all audits, correction and recovery measures have been taken into account.

Further, it explains also that:

Horizon 2020 introduces a significant number of important simplification measures that will lower the error rate in all the categories of error. However, [...] the continuation of a funding model based on the reimbursement of actual costs is the favoured option. A systematic resort to output based funding, flat rates or lump sums appears premature at this stage [...]. Retaining a system based on the reimbursement of actual costs does however mean that errors will continue to occur.

An analysis of errors identified during audits of FP7 suggests that around 25-35 % of them would be avoided by the simplification measures proposed. The error rate can then be expected to fall by 1.5 %, i.e. from close to 5 % to around 3.5 %, a figure that is referred to in the Commission Communication striking the right balance between the administrative costs of control and the risk of error.

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 project. The ultimate aim for the residual level of error at the closure of the programmes after the financial impact of all audits, correction and recovery measures will have been taken into account is to achieve a level as close as possible to 2 %.

In summary, 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.

The question of being on track towards this objective is to be (re)assessed annually, in view of the results of the implementation of the ex-post audit strategy and taking into account both the frequency and importance of the errors found as well as a cost-benefit analysis of the effort needed to detect and correct them.

### **3. Other direct expenditure**

For other direct expenditure, DG GROW applies the proposed threshold of 2 % of payments made under the ABB activity for the given year. If the amount at risk exceeds 2 % of the ABB activity concerned, a reservation should be considered.

The amount of risk is calculated, similarly to FP7, based on the available results from ex-post results, i.e. either (overall) detected error rate or representative detected error rate,

depending on their availability and reliability.

$$\text{ResER} \% = \frac{(\text{R/DER} \% * (P - A - R))}{P}$$

where:

- ResER%** residual error rate, expressed as a percentage;
- R/DER%** (overall) detected or representative error rate calculated by excluding risk-based audits, expressed as a percentage;
- P** total payments executed under the respective programme throughout the years of implementation, expressed in euro;
- A** total EU contribution amounts audited, excluding risk based audits, expressed in euro;
- R** total EU contribution amounts verified after risk-based audits, expressed in euro;

## ANNEX 5: Internal Control Template(s) for budget implementation (ICTs)

### ICT N°1: Budget entrusted to other entities

This ICT covers: (1) the Delegation Agreements (DAs) with **ESA** for the GNSS programmes Galileo FOC and EGNOS, for the Copernicus programme under indirect management and for the GMES programme under joint management, (2) DAs with **ECMWF, EUMETSAT** and **MERCATOR** for Copernicus programme under indirect management; (3) DA with **OECD** under joint management; (4) the subsidy to the **EASME** Executive Agency for its operating budget, (4) the supervision of the budget executed on behalf of DG GROW by the **EDA, ECHA, EEA, EMSA, EUROFOUND, FRONTEX, GSA, SATCEN**, as EU agencies and by the **REA** and **EASME** Executive Agencies, and (5) cross sub-delegations to **other Commission services** (AOXD).

#### Stage 1 – Establishment (or prolongation) of the mandate to the Entrusted Entity (EE)

**Main control objectives:** Ensure that the legal framework for the management of the relevant funds is fully compliant and regular (legality & regularity), delegated to an appropriate entity (best value for public money, economy, efficiency), without any conflicts of interests (anti-fraud strategy) and gives all the references necessary for a smooth running of the new entity.

Main risks	Mitigating controls	Coverage frequency and depth	Costs and benefits of controls	Control indicators
<p>Indirect management not foreseen in Basic Act</p> <p>Delegation Act (DA) does not clearly set out :</p> <ul style="list-style-type: none"> <li>- delegated tasks, responsibilities of each involved actor</li> <li>- internal control and reporting requirements to be observed</li> <li>- arrangements for protection of EU financial interests and transparency of operations</li> <li>- right of the European</li> </ul>	<p>Creation of a checklist of <i>lessons learned</i> from prior similar DAs</p> <p>Ex-ante evaluation of new DA by ad hoc DG GROW Task Force</p> <p>Inter-service consultation of relevant Commission services</p> <p>Hierarchical validation within the authorising department</p> <p>Adoption of new DA by the Commission</p> <p>Describe modalities of cooperation, supervision</p>	<p><b>Coverage/Frequency</b> : 100 %/once</p> <p><b>Depth:</b> Checklist includes a list of the requirements of the regulatory provisions to be complied with.</p> <p><u>Factors</u> would be (i) whether it is an establishment or a prolongation, (ii) whether it involves selecting an entity and (iii) consistency with any other entities entrusted by the same DG or family.</p>	<p><b>Costs:</b> estimation of FTEs involved in the preparation and adoption work</p> <p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>- Total budget amount entrusted to the entity in case of detection of no significant (legal) errors</li> <li>- DG GROW reputation intact</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- Quality of the legal work (Basic Act, Legal and Financial Statement and DA)</li> <li>- no ECA or OLAF criticism</li> </ul> <p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>- Average cost of preparation, adoption work done compared with similar cases as benchmark</li> </ul> <p><b>Cost-Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- ratio FTEs/funds entrusted (economic</li> </ul>

Main risks	Mitigating controls	Coverage frequency and depth	Costs and benefits of controls	Control indicators
<p>Court of Auditors (ECA) and the European Anti-Fraud Office (OLAF) to comprehensively exert their competences to audit the entrusted funds</p> <p>Specific risks related to industrial procurement to be carried out by ESA on behalf of GROW in the complex oligopolistic space market</p> <p>Specific risks related to industrial procurement to be carried out by GSA in the complex oligopolistic space market</p>	<p>and reporting</p> <p>Explicit allocation of supervision responsibility to individual officials (reflected in task assignment or function descriptions)</p> <p>Ex-ante verification by DG GROW of industrial procurements procedures carried out by the EE on behalf of DG GROW</p> <p>Scrutiny verification by DG GROW of industrial procurements procedures carried out by the GSA</p>			when below 10-15 %)

## **Stage 2 – Ex-ante (re)assessment of the entrusted entity’s financial and control framework**

**Main control objectives:** Ensuring that the EE is fully prepared to start/continue implementing the delegated funds autonomously with respect of all 5 Internal Control Objectives (ICOs) (*legality and regularity, sound financial management, true and fair view reporting, safeguarding assets and information, anti-fraud strategy*).

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
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Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<ul style="list-style-type: none"> <li>- Before entrusting tasks of budget implementation to the EE, DG GROW has not obtained evidence that the financial and control framework deployed by the EE is sufficiently mature to guarantee achieving all 5 ICOs</li> <li>- The EE's own financial framework differs from the EU FR and the two parallel systems coexist with the risk of the EE's own system being applied to EU funds</li> <li>- The EE has not timely informed DG GROW about substantial changes made to its systems, rules and procedures that relate to the management of the EU funds entrusted</li> </ul>	<ul style="list-style-type: none"> <li>- DG internal or independent external ex-ante assessment, conditional to granting budget autonomy</li> <li>- Hierarchical validation within the authorising department</li> <li>- Require justification and prior consent for any deviation to financial rules (e.g. Riders or Contract Change Notices)</li> <li>- Require timely notification by the EE of any changes to its financial or control systems subsequent to the signature of the DA</li> <li>- Statement obtained from another DG which also has a DA with the EE</li> </ul>	<p><b>Coverage/frequency :</b></p> <ul style="list-style-type: none"> <li>- <u>International organisations</u>: thorough assessment of internal control systems/once, followed if necessary by ad hoc targeted system controls</li> <li>- <u>Agencies</u>: targeted system controls/ad hoc</li> <li>- <u>AOXD</u>: reliance on other DG's control system</li> </ul> <p><b>Depth:</b></p> <ul style="list-style-type: none"> <li>- 100 %</li> </ul>	<p><b>Costs:</b></p> <ul style="list-style-type: none"> <li>- estimation of FTEs involved in the ex-ante assessment process (including missions)</li> <li>- cost of outsourced independent external "pillar" (re)assessment of the EE's control system(s)</li> </ul> <p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>- Total budget amount entrusted to the EE if no significant system weaknesses are detected</li> <li>- DG's reputation remains intact</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- no ECA or OLAF criticism</li> <li>- n° of recommendations proposed to EE as result of assessment (i.e. deviations from EU FR identified)</li> <li>- quality of ex-ante assessment</li> </ul> <p><b>Efficiency Indicators:</b></p> <ul style="list-style-type: none"> <li>- Time-To-Implement recommendations (by the EE)</li> <li>- Time-To-(Re)Assess</li> </ul> <p><b>Cost-effectiveness:</b></p> <ul style="list-style-type: none"> <li>- ratio FTEs/funds entrusted (economic when below 10-15 %)</li> </ul>

### **Stage 3 – Operations: monitoring, supervision, reporting**

**Main control objectives:** Ensure that the DA objectives are achieved and that DG GROW is fully and timely informed of any relevant management issues encountered by the EE, in order to possibly mitigate any potential financial and/or reputational impacts (legality & regularity, sound financial management, true and fair view reporting, anti-fraud strategy).

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<ul style="list-style-type: none"> <li>- Low quality programme results, delayed programme implementation, non-achievement of policy objectives / desired impact on society.</li> <li>- Due to weak modalities of cooperation, supervision and reporting, DG GROW is not fully and timely informed of relevant financial and/or management issues encountered by the EE, and/or does not (timely) react upon notified issues by mitigating them or by making a reservation for them – which may reflect negatively on the DG's governance reputation and quality of accountability reporting.</li> <li>- EE's financial and control systems are not functioning as expected, even though the outcome of the system (re)assessment was satisfactory ( e.g. assets not correctly registered in</li> </ul>	<p>Detailed reporting modalities included in DA (incl. regular programme evaluation). Reinforced monitoring:</p> <ul style="list-style-type: none"> <li>- increased participation in EE's governance bodies and technical committees</li> <li>- detailed analysis of all reports submitted by the EE; if necessary, request additional ad hoc reports</li> <li>- outsourcing of technical assistance on general programme management and ad hoc topics (e.g. asset management, systems audits)</li> <li>- regular EE audits by DG GROW, IAS, ECA and close follow-up of implementation of audit recommendations</li> <li>- management review of the supervision results (e.g. monthly GROW - ESA meeting at Director-General level )</li> <li>- monthly EC/ESA/GSA</li> </ul>	<p><b>Coverage:</b> 100 % of the entities are monitored/supervised. <b>Frequency:</b></p> <ul style="list-style-type: none"> <li>- daily (operational/financial / technical issues)</li> <li>- monthly (briefings and reports for high level governance meetings)</li> <li>- quarterly (report analysis)</li> <li>- annual (AOXD reports, review of Annual Reports for reservations)</li> </ul> <p><u>In case of</u> operational / financial issues, measures are reinforced. The <b>depth</b> depends on the <u>mandate</u> given to the entity, and on the level of DG GROW access to the EE's internal control information.</p>	<p><b>Costs:</b> estimation of FTEs involved in monitoring and supervision (including missions). <b>Benefits:</b></p> <ul style="list-style-type: none"> <li>- Total budget amount entrusted to the EE if no significant (legal, management, accounting, fraud, reporting) errors are detected</li> <li>- DG's reputation remains intact</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- DA objectives achieved on time</li> <li>- cut-off and closure exercise carried out within deadline</li> <li>- relevance, reliability and quality of control data reported back by EE</li> <li>- n° of serious IAS or ECA findings on control failures</li> <li>- n° of regular monitoring actions, n° of issues under reinforced monitoring, budget % value and amount of errors detected ex-post</li> <li>- Parent DG's AAR assurance on EEs budgets</li> </ul> <p><b>Efficiency Indicators:</b></p> <ul style="list-style-type: none"> <li>- no amendments to DA to extend programme implementation deadline</li> <li>- DA renewed</li> <li>- Time-To-Implement audit recommendations</li> </ul> <p><b>Cost-effectiveness:</b></p> <ul style="list-style-type: none"> <li>- ratio FTEs/funds entrusted (economic when below 10-15 %)</li> </ul>

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
EEs accounts)	directors meeting to tackle specific issues  - set up of ad hoc GROW - EE Task Forces to tackle problematic issues - if necessary, referral to OLAF			

#### **Stage 4 – Commission contribution: payment or suspension/interruption**

**Main control objectives:** Ensure that the Commission fully assesses the management situation at the entrusted entity, before either paying out the (next) contribution for the operational and/or operating budget of the entity, or deciding to suspend/interrupt the (next) contribution (legality & regularity, sound financial management, anti-fraud strategy).

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
The Commission pays out the (next) contribution to the entrusted entity: - while not being aware of management issues that may lead to financial and/or reputational damage - despite being aware of such issues - with incorrect calculation of the cash needs of the entrusted entity - with no implementation	- Require EE to report back on management issues as soon as possible - Ex-ante operational and financial verifications leading to correction of errors and restatement of corrected contribution request - Management review of supervision results - Hierarchical validation	<b>Coverage:</b> 100 % of the contribution payments. <b>Frequency:</b> as per transfer agreement or transfer request The <b>depth</b> depends on the <u>mandate</u> of the (type of) entity, inter alia whether DG GROW has full access to the entity's internal control information.	<b>Costs:</b> estimation of FTEs involved in the ex-ante verifications <b>Benefits:</b> - value of errors detected by ex-ante controls - Total budget amount entrusted to the entity if no significant (legal, management, accounting, fraud, reporting) errors are detected	<b>Effectiveness:</b> - amount of unused operating budget recovered (if any) - budget amount of the suspended/interrupted payments (if any). <b>Efficiency Indicators:</b> - Time-To-Pay /Recover <b>Cost-effectiveness:</b> - ratio FTEs/funds entrusted (economic when below 10-15 %)

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
of the audit results by the entrusted entity	of contribution payment and recovery of non-used funds - If necessary, suspension or interruption of payments		- DG's reputation remains intact	

#### **Stage 5 – Audit and evaluation, Discharge for decentralised agencies**

**Main control objectives:** Ensuring that assurance building information on the EE's activities is being provided through independent sources as well, which may confirm or contradict the management reporting received from the entrusted entity itself (on the 5 ICOs).

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
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Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<ul style="list-style-type: none"> <li>- The Commission has insufficient information from independent sources on the EE's management achievements, which prevents drawing conclusions on the assurance for the budget entrusted to the Entity – which may reflect negatively on the Commission's governance reputation and quality of accountability reporting</li> <li>- Decentralised agencies do not fully cooperate with the Discharge authorities and do not provide, as appropriate, any necessary additional information</li> <li>- The entrusted AOXD's control system is subject to AAR reservations and/or ECA criticism</li> </ul>	<ul style="list-style-type: none"> <li>- DA to specify independent audit function and cooperation with IAS and ECA</li> <li>- DG GROW own on-the-spot ex-post audits of the EE and/or its beneficiaries</li> <li>- potential escalation of any major governance-related issues</li> <li>- Interim evaluations by independent experts of achievement of policy objectives</li> <li>- if necessary, referral to OLAF</li> </ul>	<p><b>Coverage:</b> All delegation agreements are checked through samples.</p> <p>The subsidies to the EASME and GSA, the budget executed on behalf of DG GROW by them and EU agencies are checked by the European Court of Auditors. DG GROW does not perform ex-post audits on these agencies. The AOXD's systems are presumed to be up to Commission standards.</p> <p><b>Frequency:</b> once a year</p> <p>The <b>depth</b> depends on the <u>mandate</u> of the (type of) entity, inter alia whether the Commission has full access to the entity's internal control information.</p>	<p><b>Costs:</b></p> <ul style="list-style-type: none"> <li>- estimation of FTEs involved in the coordination and execution of the own audits</li> <li>- Ex-post audit mission costs</li> <li>- Cost of outsourced audits</li> </ul> <p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>- Assurance of the AOD that the population audited is clean of error</li> <li>- % rate and value of errors detected by own audits (and subsequently corrected)</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- unqualified opinion by the EE's independent external auditor on the EE's annual financial statements</li> <li>- detected error rate of own ex-post audits of EE below materiality threshold</li> <li>- n° of own audits</li> <li>- n° and amount of errors detected by own audits</li> </ul> <p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>- value of total payments audited</li> <li>- Number of audits launched in the year versus annual target</li> <li>- Number of audits closed in the year versus annual target</li> </ul> <p><b>Cost-effectiveness:</b></p> <ul style="list-style-type: none"> <li>- ratio: annual cost of own audits / amount of all errors detected</li> <li>- average cost per audit</li> </ul>

## ICT N°2: Financial Instruments

### ICT N° 2: Financial Instruments

This ICT covers: Financial Instruments entrusted to international financial institutions under indirect management (2014-2020). Delegation Agreement (DA) signed by DG GROW with the **European Investment Fund (EIF)** for the implementation of the COSME Financial Instruments, namely the Loan Guarantee Facility (LGF) and the Equity Facility for GROW (EFG).

#### Stage 1 – Set-up/design of the Financial Instrument and designation of International Financial Institution

##### Main control objectives:

- Ensuring that the Financial Instrument is adequate for meeting the policy or programme objectives (effectiveness); Compliance (legality & regularity); Prevention of fraud (anti-fraud strategy)
- Ensuring that the most promising International Financial Institution is pre-determined or selected to ensure that the Financial Instrument is implemented effectively and efficiently; Sound financial management; Legality and regularity; Fraud prevention and detection

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<p>The actions supported through the Financial Instrument do not adequately reflect the policy objectives for the COSME financial instruments as set out in the COSME Regulation 1287/2013 of 11 December 2013, specifically articles 8, 17, 18 and 19.</p> <p>The Delegation Agreement is inadequate in coverage of operational and management provisions</p>	<ol style="list-style-type: none"> <li>1. Ex-ante assessment for financial instruments has been carried out</li> <li>2. Market test conducted prior to the design of the Loan Guarantee Facility (LGF)</li> <li>3. Main principles agreed in the Financial and Administrative Framework Agreement signed with the EIF</li> <li>4. Adequacy of the</li> </ol>	<p>If risk materialises, the Financial Instrument could become irregular or miss the achievement of the policy objectives.</p> <p>Possible impact 100 % of funds involved and significant reputational consequences.</p> <p><b>Coverage / Frequency for DA:</b> 100 % / once</p> <p><b>Depth for DA:</b> In-depth control, full engagement of operational and</p>	<p><b>Costs:</b> estimation of cost of staff involved in the preparation and validation of the delegated acts of the Financial Instrument including the ex-ante evaluation.</p> <p><b>Benefits:</b> The (average annual) budget entrusted to the EIF for the COSME financial instruments</p>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>• Quality of the DA</li> </ul> <p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>• Time-to-entrust: <ul style="list-style-type: none"> <li>○ time from adoption of COSME legal base to DA signed</li> <li>○ time between signature of Financial and Administrative Framework Agreement and signature of DA</li> <li>○ time between</li> </ul> </li> </ul>

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
(no compliance with Financial Regulation (FR) art. 140 and Rules of Application (RAP) art. 217 & 222-225)	<p>Delegation Agreement (DA) signed between DG GROW and the entrusted entity (European Investment Fund – EIF):</p> <ul style="list-style-type: none"> <li>• <i>DA contains detailed provisions with regard to the follow-up on the achievement of policy objectives</i></li> <li>• <i>Fee payments to EIF are linked to achievement of measurable policy objectives;</i></li> <li>• <i>DA was approved following Commission inter-service consultation (including all relevant DGs, horizontal and operational);</i></li> <li>• <i>DA negotiations required substantial time and resources to ensure that all financial,</i></li> </ul>	financial unit resources		<p>signature of DA and calls for expression of interests published for the LGF and the EFG</p> <p><b>Cost-effectiveness:</b></p> <ul style="list-style-type: none"> <li>• Ratio: FTEs invested in the drafting, negotiation and signature of the Financial and Administrative Framework Agreement and DA / total budget entrusted</li> </ul>

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
	<p><i>operational and policy aspects are covered in sufficient detail to allow adequate management and follow-up of financial instruments until their wind-down (expected for 2034)</i></p> <p>5. Annual approval of work programme by the COSME Member State Committee</p>	<p><b>Coverage / Frequency for annual work programme:</b> 100 % / annually</p>		
<p>The selection of the International Financial Institution is not in line with FR and its Rules of Application criteria, especially 'alignment of interests'</p>	<p>Selection of the EIF as entrusted entity:</p> <ul style="list-style-type: none"> <li><i>In line with Art. 58.1(c)(iii) FR</i></li> <li><i>EIF explicitly indicated in the COSME Regulation as a possible entrusted entity for the EFG (Art. 18.4(a)) and the LGF (Art. 19.4)</i></li> </ul> <p>Alignment of interest with the EIF was achieved through:</p> <ul style="list-style-type: none"> <li><i>Requirement for</i></li> </ul>	<p><b>Coverage / Frequency:</b> 100 % / once</p>	<p><b>Costs:</b> estimation of cost of staff involved</p> <p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>Use of experienced entrusted entity in the field of European SME financing</li> <li>Single entrusted entity for both COSME financial instruments (LGF &amp; EFG) allowing full flexibility in budget implementation and</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>Use of EIF as entrusted entity allowed full flexibility in negotiations taking also into consideration the IFIs experience and procedures</li> </ul> <p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>Time-to-entrust</li> </ul> <p><b>Cost-effectiveness:</b></p> <ul style="list-style-type: none"> <li>Use of EIF avoided costly and lengthy selection procedure of International Financial Institution</li> </ul>

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
The International Financial Institution does not have the experience and financial capacities as well as the administrative and control capacities to ensure effective and sound implementation of the Financial Instrument	<p><i>systematic co-investment of EIF own resources under the EFG</i></p> <ul style="list-style-type: none"> <li><i>A fee structure to compensate the EIF for the implementation of the financial instruments which is linked to the achievement of the policy objectives</i></li> </ul> <p>Ex-ante assessment of the EIF in accordance with articles 61(1) and 60(2) FR (the so-called six pillar assessment) successfully carried out prior to the signature of the Financial and Administrative Framework Agreement</p>	<b>Coverage / Frequency:</b> 100 % / once	<p>use of funding in the most efficient and effective way</p> <ul style="list-style-type: none"> <li>Only one counter-party for DG GROW for implementation of COSME financial instruments in all participating countries to the COSME programme</li> </ul>	

## **Stage 2 – Implementation of the Financial Instrument by the International Financial Institution, via financial intermediaries**

### **Main control objectives:**

- Ensuring that the funds allocation is optimal (best value for public money; effectiveness, economy, efficiency); ensuring that the most promising Financial Intermediaries, Final Recipients are selected to meet the policy objectives (effectiveness)

- Ensuring that the remuneration paid to the International Financial Institution is adequate (cost-effectiveness)
- Compliance (legality & regularity); Prevention of fraud (anti-fraud strategy); Safeguarding of assets and information; Reliable reporting (true and fair view).

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
The call for and selection of the contracted (sub-) financial intermediaries is not in line with FR its Rules of Application criteria for eligibility or exclusion, especially 'alignment of interests' and 'no relations with offshore banking and tax havens'	<p>1. Preventive measures:</p> <ul style="list-style-type: none"> <li>• Calls for expression of interest published for the financial instruments have been built on the detailed provisions contained in the DA</li> <li>• Approval of the texts of the calls by the Designated Service (DG GROW) prior to their publication</li> </ul> <p>2. Due diligence by EIF</p> <ul style="list-style-type: none"> <li>• The EIF has to check the fulfilment of the eligibility conditions of potential financial intermediaries based on agreed procedures in the DA and/or the EIF's own procedures</li> </ul> <p>3. Pre-screening of potential financial intermediaries by DG GROW (ex-ante controls):</p> <ul style="list-style-type: none"> <li>• Information on</li> </ul>	<p><b>Coverage / Frequency:</b> 100 % / once (as continuous call for expression of interest)</p> <p><b>Depth:</b> detailed provisions determined by the EIF in accordance with the DA, including objective selection and award criteria as well as reporting details</p> <p><b>Coverage / Frequency:</b> 100 % / on a continuous basis (as applications can be submitted to the EIF by a FI at any given point in time)</p> <p><b>Depth:</b> very detailed</p> <p><b>Coverage / Frequency:</b> 100 % / on a continuous basis (as applications can be submitted to the EIF</p>	<p><b>Costs:</b> estimation of cost of staff involved in the preparation and validation of the calls and the follow-up of selection of financial intermediaries</p> <p><b>Benefit of controls:</b></p> <ul style="list-style-type: none"> <li>• A detailed call for expression of interest (including selection and award criteria + detailed reporting provisions) reduces the risk of unequal treatment of financial intermediaries applying for support and ensures uptake of the COSME financial instruments</li> <li>• Ex-ante and ex-post controls of selected financial intermediaries ensure that financial</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>• n° of (successful) challenges received from financial intermediaries on selection procedure</li> <li>• n° of rejections of selected financial intermediaries or Final Recipients</li> <li>• value of equity/loans to be cancelled as a result of these controls</li> <li>• Selected financial intermediaries meet the exclusion and eligibility criteria set out in the DA</li> </ul> <p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>• Time-to-select (e.g. time between due diligence and approval of financial intermediaries by the EIF Board)</li> <li>• Time-to-contract (e.g. time between</li> </ul>

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<p>The design of the accounting and reporting arrangements would not provide sufficient transparency (True &amp; Fair View)</p>	<p>potential financial intermediaries submitted by the EIF to DG GROW through regular pipeline reports</p> <ul style="list-style-type: none"> <li>Prior information of DG GROW on pre-selected FIs before they are being proposed to the EIF board for approval</li> </ul> <p>Implementation of accounting and reporting arrangements by the EIF in accordance with the provisions and principles set out in the DA, to be transposed also into agreements with the selected financial intermediaries where applicable:</p> <ul style="list-style-type: none"> <li>EIF is required to carry out ex-ante and ex-post controls, on-the-spot verifications</li> <li>Harmonised financial reporting has been required by the</li> </ul>	<p>by a financial intermediaries at any given point in time)</p> <p><b>Depth:</b> Basic information is provided by the EIF about the proposed transactions, allowing DG GROW to assess a limited number of eligibility criteria.</p> <p><b>Coverage / Frequency:</b> Risk-based or representative sample / on a continuous basis</p>	<p>intermediaries meet the exclusion and eligibility criteria and that COSME funding is spent in accordance with provisions of legal base and FR (avoids waste of resources)</p> <p><b>Costs:</b> estimation of cost of staff involved in accounting, analysis of reports and handling of identified deficiencies</p>	<p>the selection procedure and the signature of agreements between EIF and financial intermediaries)</p> <p><b>Cost – Effectiveness</b> Ratio: FTEs + other costs of controls (on-spot controls, outsourcing of technical assistance) / amount implemented</p> <p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>Number of verification failures detected; value of the issues concerned prevented/corrected</li> <li>Number of qualified audit opinions from independent auditors</li> <li>Quality of reports</li> </ul> <p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>Timely reporting by the International Financial Institution</li> </ul> <p><b>Effectiveness:</b> N° of non-compliance events against Financial and Administrative</p>

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
The remuneration (structure and/or level) of the International Financial Institution <sup>34</sup> and the reimbursement of any exceptional costs would not be in line with the Sound Financial Management objective (e.g. administrative fees unjustifiably high)	<p>Commission (cf. Financial and Administrative Framework Agreement and DAs)</p> <ul style="list-style-type: none"> <li>• Separate records per COSME Financial Instrument are to be kept by the EIF</li> </ul> <p>Application of the international financial and reporting standards</p> <p>Fees, including administrative fees, incentive fees, treasury management fees and any exceptional unforeseen, expenses, are defined in the Financial and Administrative Framework Agreement and the DA, including an overall cap.</p> <p>Review by the designated service of</p>	<p>100 % / annually</p> <p>100 % / on a continuous basis for a period of 7 years following the end of the implementation period or termination of the agreements concluded by the EIF with an financial intermediary or the closure of operations under a Financial</p>	<p><b>Costs:</b> estimation of cost of staff involved in the financial workflow</p> <p><b>Benefits:</b> no undue payment of fees or exceptional expenses</p>	<p>Framework Agreement /DA and internal DG GROW financial procedures</p> <p><b>Cost-effectiveness:</b></p> <p>Ratio of remuneration and costs versus actually managed funds</p> <p>Cost of control FTEs / value of errors detected</p>

<sup>34</sup> Remuneration may include administrative fees, treasury management fees and incentives as well as exceptional and unforeseen expenses.





Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
eligible financial intermediaries and Final Recipients and/or the compliance, eligibility, reporting and other contractual obligation requirements would not be respected	<ul style="list-style-type: none"> <li>Quarterly operational reporting to be provided for the implementation of LGF and EFG, including achievement of policy objectives (e.g. amount of financing / investments made available to eligible final recipients, number of eligible final recipients, leverage achieved)</li> <li>EIF is required to carry out monitoring and controls, including on-the-spot verifications, covering financial intermediaries, financial sub-intermediaries where applicable and Final Recipients and to provide an annual report on the monitoring activities carried out, summarising the findings and follow-up activities</li> </ul>	<b>Coverage / Frequency:</b> 100 % / quarterly Risk-based or representative sample / on a continuous basis for the monitoring and control activities	cost of staff involved in the monitoring and supervision <b>Benefits:</b> Regularity and legality of operations, respect of policy objectives	Reaching the indicators set out in the COSME legal base over the lifetime of the COSME programme (accumulative data)

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
	The agreements between the EIF and the financial intermediaries contain relevant reporting, monitoring and audit obligations.			

**Stage 3 - Monitoring and supervision of the Financial Instrument by the Commission, including ex-post controls and assurance building**

**Main control objectives:**

- Ensuring that the operational results (deliverables) from the Financial Instrument are of good value and meet the objectives and conditions (effectiveness & efficiency); ensuring that the related financial operations comply with regulatory and contractual provisions (legality & regularity); prevention of fraud (anti-fraud strategy); ensuring appropriate accounting of the operations (reliability of reporting, safeguarding of assets and information)
- Ensuring appropriate accounting of the repayments and assigned revenue made (reliability of reporting)
- Ensuring that the (audit) results from the ex-post controls lead to assurance for the accountable AOD (5 ICOs)

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
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Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<p>The entrusted entity provides support to activities which are not contributing to achieving the policy objectives and the implementation is not in compliance with applicable regulations and is not in accordance with the principle of sound financial management</p> <p>Internal control weaknesses, irregularities, errors and fraud are not detected and corrected by the entrusted entities, resulting in that the EU funds are not achieving the policy objectives and are in non-compliance with applicable regulations</p> <p>The Financial Instrument transactions lead to contingent liabilities for the EU</p>	<p>Monitoring or supervision of the EIF as set out in the DA and FAFA</p> <p>Regular reporting by the EIF to DG GROW (Designated Service) on the operational and financial performance, including the financial statements, management declaration, summary of audits and controls carried out during the reporting year (to be discussed also in the respective LGF and EFG Steering Committees)</p> <p>Independent audit opinion</p> <p>In case of weak reporting, negative audit opinion, high risk operations, etc.: reinforced monitoring/supervision controls, random and/or case/risk-based audits at the IFI and (sub)</p>	<p><b>Coverage:</b></p> <ul style="list-style-type: none"> <li>Step 1: Representative sample of transactions carried out</li> <li>Step 2: Identified deficiencies leading to more in-depth controls and/or audits.</li> </ul> <p><b>Depth:</b> depends on risk criteria</p>	<p><b>Costs:</b></p> <ul style="list-style-type: none"> <li>estimation of the cost of staff involved in the monitoring of the Financial Instrument.</li> <li>Cost of contracted services, if any.</li> <li>Cost of audits</li> </ul> <p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>funds used for intended purpose</li> <li>detection of any non-compliance events (value)</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>Unqualified audit opinions</li> <li>Number of control failures detected; value of the issues concerned prevented/corrected</li> <li>Detected error rate resulting from ex-post audits</li> <li>Number and value of internal control, auditing and monitoring "issues", number of interventions, number of issues under reinforced internal control, auditing and monitoring, number of critical IAS and ECA findings</li> <li>Number of cases submitted to OLAF</li> </ul> <p><b>Efficiency:</b> Timely delivery of reports and their reliability</p> <p><b>Cost-Effectiveness:</b> Management (fees) and</p>

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<p>The governance chain between the responsible and the accountable parties involved is unclear (Commission, International Financial Institution,</p>	<p>Financial Intermediary levels.</p> <p>Referring Financial Intermediaries to OLAF</p> <p>DA provisions:</p> <ul style="list-style-type: none"> <li>• EU exposure/liability limited to the EU Contribution Committed</li> <li>• Official notification procedure on the EU Contribution Committed (including repayments)</li> <li>• Currency exposure fully hedged upfront</li> </ul> <p>Regular submission of disbursement and repayment (assigned revenue) forecasts</p> <p>Reporting on financial risk &amp; off-balance-sheet liabilities</p> <p>Reporting on treasury management</p> <p>Clear provisions in the DA on governance chain and frequency/deadlines</p>			<p>supervision costs (FTE) over assets under management</p> <p>Average cost per Financial Instrument; % cost over value delegated</p> <p>Costs/Benefits ratio</p>

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
Financial Intermediaries, sub- Financial Intermediaries and Final Recipients)	of reports			

### ICT N°3: Assets

#### ICT N° 3: Assets

This ICT covers: the physical assets of the GNSS and Copernicus space programmes

#### Stage 1 – Recognition: establishment of the Commission's rights on assets in the underlying agreements

**Main control objectives:** Negotiation of contractual terms. Ensure that the legal framework (Delegation Agreements with entrusted entities) for the management of the EU assets is fully compliant and regular (legality & regularity) with an appropriate set-up of requirements related to the safeguarding of assets, inventory management and accounting information (true and fair view).

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<p>Delegation Agreement does not clearly set out :</p> <ul style="list-style-type: none"> <li>- delegated tasks</li> <li>- the requirements related to the ownership, safeguarding and management of EU property</li> <li>- internal control and reporting requirements to be observed</li> <li>- arrangements for protection of EU financial interests and transparency of operations</li> <li>- right of the European Court of Auditors (ECA) and the European Anti-Fraud Office (OLAF) to comprehensively exert their competences to</li> </ul>	<p>1) Investment of adequate time and effort in drafting the new DA:</p> <ul style="list-style-type: none"> <li>- Inter-service consultation of relevant Commission services</li> <li>- Hierarchical validation and financial circuits within the authorising department</li> <li>- Detailed and unambiguous modalities of cooperation, supervision and reporting</li> <li>- Stipulations with regard to transfer of ownership and the</li> </ul>	<p><b>Coverage/Frequency</b> 100 %/once</p> <p><b>Depth:</b> In-depth control, full investment of GROWTH operational, financial and legal units</p>	<p><b>Costs:</b> estimation of FTEs involved in the preparation and adoption work</p> <p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>- Proper safeguarding of the EU property</li> <li>- DG GROWTH reputation intact</li> <li>- Cost-efficient implementation of the Delegation Agreement</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- Quality of the legal work (Basic Act, Legal and Financial Statement and DA)</li> <li>- Timely receipt of adequate reporting in line with requirements Delegation Agreements</li> <li>- no ECA, IAS or OLAF criticism</li> </ul> <p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>- Time and average cost of preparation, adoption work done compared with similar cases as benchmark</li> </ul> <p><b>Cost-Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- ratio FTEs/funds entrusted (economic when below 2 %)</li> </ul>

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
audit the entrusted funds	detailed asset management and reporting requirements			

## **Stage 2 – Protection: recording, ensuring correct asset valuation**

**Main control objectives:** Ensuring that the Commission registers and protects its asset correctly, including the safeguarding of assets and reliable and accurate asset valuation and reporting (true and fair view)

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
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Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<p>The implementation of the Delegation Agreements entail weaknesses, which lead to the Commission's legal rights in terms of assets ownerships not being duly protected and/or registered and/or reliably reported</p> <p>Non respect of EU accounting rules regarding assets and inventories</p> <p>Inaccurate valuation of assets</p>	<p>Clear programme specific accounting guidelines, inspection, depreciation and de-commissioning rules</p> <p>Formal agreement of Accounting Officer asked for accounting decisions with a material impact</p> <p>Organisation of asset workshops with the entrusted entities</p> <p>Regular meetings of the asset working group with members from the accounting team, DG for Budget and operational units</p> <p>In depth ex-ante controls of accounting data, including sample-wise ex-ante checks of underlying cost and regular checks of inventories</p>	<p><b>Coverage/Frequency:</b> Full coverage/yearly</p> <p><b>Depth:</b> In-depth control, full investment of GROWTH accounting team in co-operation with operational units</p>	<p><b>Costs:</b> estimation of cost of staff involved. Cost of the contracted services (if applicable)</p> <p><b>Benefits:</b> The (average annual) total value of the significant errors detected and thus prevented in terms of the Commission's rights</p>	<p><b>Effectiveness:</b> Number of material internal and external audit findings about incorrect valuation of assets</p> <p>The valuation of assets within the deadlines imposed by DG for Budget</p> <p><b>Efficiency:</b> Time spent on controls related to the asset value</p> <p><b>Cost-Effectiveness:</b> Cost of valuation and accounting of the Commission's assets and evolution over time</p>

### Stage 3 – Overall monitoring of proper safeguarding of assets

**Main control objectives:** Ensuring that the Commission's property is safeguarded properly

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<p>Lack of complete and reliable assets register</p> <p>Lack of safeguarding of assets (for example assets lost, damaged or disposed without prior permission of the EU)</p>	<p>Physical inspection of assets under EU ownership</p> <p>Formal procedure for disposal of assets</p> <p>Other monitoring measures adequate to the programme (i.e. monitoring of asset performance, signal provision)</p>	<p>Performance of physical inspections on the basis of the Multi-annual assets verification programme on a risk based approach with the objective of 75 % coverage in three year time</p>	<p><b>Costs:</b> estimation of cost of staff &amp; missions involved.</p> <p><b>Benefits:</b> assurance on the existence and safeguarding of the total value of EU assets</p> <p>Budget value of items lost detected</p>	<p><b>Effectiveness:</b> Value of assets inspected per three years as % of net asset (equipment) value Number of follow-up actions</p> <p><b>Efficiency:</b> Time spent and cost of missions related to the value of assets inspected</p> <p><b>Cost-Effectiveness:</b> Cost of inspections of the EU assets and evolution over time</p>

#### Stage 4 - Ex-Post controls: supervision monitoring, reviews, audits – plus corrections

**Main control objectives:** Measuring the effectiveness of ex-ante controls; detect and correct any error with regard to the underlying cost remaining undetected after the implementation of ex-ante controls. Ensuring that the appropriate corrections are being made

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
The ex-ante controls fail to prevent, detect and correct errors in the valuation of the assets	Ex-post audits of cost reported by the entrusted entities that form the basis for the EU asset valuation	Coverage ex post audits: <ul style="list-style-type: none"><li>• Representative sample: random or MUS sample sufficiently representative to draw valid management conclusions</li><li>• Risk-based sample, determined in accordance with the selected risk criteria, aimed to maximise error correction (either higher amounts or expected error rate).</li></ul>	<b>Costs:</b> estimation of cost of staff involved in the supervision and audit strategy <b>Benefits:</b> budget value of the errors, detected by the auditors, which have actually been corrected.	<b>Effectiveness:</b> Representative error rate below 2 %. <b>Efficiency:</b> total (average) annual cost of audits compared with benefits (ratio). <b>Cost-Effectiveness:</b> Cost of ex-post audits of the underlying cost of asset valuation and evolution over time

## ICT N° 4: Procurement

This ICT covers: DG GROW own procurement under direct management, which is mostly for studies and technical assistance:

### Stage 1 – Decision to launch a procurement procedure

#### *A - Planning*

**Main control objectives:** Effectiveness, efficiency and economy. Compliance (legality and regularity).

Main risks	Mitigating controls	Coverage frequency and depth	Costs and benefits of controls	Control indicators
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Main risks	Mitigating controls	Coverage frequency and depth	Costs and benefits of controls	Control indicators
<ul style="list-style-type: none"> <li>- The procurement needs are not clearly defined or justified from an economic or operational point of view</li> <li>- Discontinuation of the services provided due to poor/late planning and organisation of the procurement process</li> <li>- Lack of expert knowledge and experience in the highly regulated field of procurement which may lead to the wrong choice of procedure/thresholds and the splitting of purchases</li> <li>- Conflict of interests</li> </ul>	<ul style="list-style-type: none"> <li>- Publication of intended procurements</li> <li>- Validation of clear definition and justification of procurement needs by AOSD before call launch</li> <li>- Detailed manual of budgetary and financial procedures available on the DG's intranet</li> <li>- Biannual in-house technical training on procurement management provided by the DG GROW Public Procurement and Grants Management Team of the Financial Resources and Internal Control unit</li> <li>- Regular information on ethics, integrity and fraud awareness to all staff involved in the procurement process</li> </ul>	<ul style="list-style-type: none"> <li>- 100 % of forecast procurements are encoded in the DG GROW Planning Tool for monitoring</li> </ul>	<p><b>Costs:</b></p> <ul style="list-style-type: none"> <li>- estimation of FTEs involved and the related contract values (if external expertise is used)</li> </ul> <p><b>Quantified Benefits:</b></p> <ul style="list-style-type: none"> <li>- Amount of rejection of unjustified purchases</li> </ul> <p><b>Non Quantified Benefits:</b></p> <ul style="list-style-type: none"> <li>- Avoidance of litigation</li> <li>- DG GROW reputation intact</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- n° of ECA observations and % error rate on choice of procurement procedure</li> <li>- n° of successful legal on errors in the procurement procedures</li> </ul>

### **B - Needs assessment & definition**

**Main control objectives:** Effectiveness, efficiency and economy. Compliance (legality and regularity).

Main risks	Mitigating controls	Coverage frequency and depth	Costs and benefits of controls	Control indicators
<ul style="list-style-type: none"> <li>- Risk of not obtaining value for money due to lack of market analysis and/or poor definition of selection criteria</li> <li>- Risk of unequal treatment resulting in litigation, due to selection criteria favouring one contractor</li> <li>- Risk of not receiving the best offers due to the poor definition of the tender specifications (disproportion between contract value and selection/award criteria, or specifications too vague)</li> <li>- Risk of non-compliance with legality and regularity and criticism on choice of procedure due to limited competition and high proportion of negotiated procedures in the very technical, complex and oligopolistic space market</li> </ul>	<ul style="list-style-type: none"> <li>- Encourage use of open procedures, even in relatively closed markets</li> <li>- Technical specifications are prepared and validated by at least 2 staff members, and approved by the responsible operational Director before call launch</li> <li>- Verification and validation of tender documents by a specialised team for Public Procurement and Grants Management in the Financial Resources and Internal Control unit before call launch</li> </ul>	<ul style="list-style-type: none"> <li>- 100 % of the specifications are verified. Depth may be determined by the amount and/or the impact on the objectives of the DG if it goes wrong</li> <li>- 100 % of the tenders above a financial threshold (e.g. &gt; € 15 000) are reviewed. Depth risk-based, depending on sensitivity</li> </ul>	<p><b>Costs:</b></p> <ul style="list-style-type: none"> <li>- estimation of FTEs involved and the related contract values (if external expertise is used)</li> </ul> <p><b>Quantified Benefits:</b></p> <ul style="list-style-type: none"> <li>- Value of contracts for which the approval and supervisory control detected material error (negative opinion issued by the DG GROW Public Procurement and Grants Management team).</li> </ul> <p><b>Non quantified Benefits:</b></p> <ul style="list-style-type: none"> <li>- Limit the risk of litigation</li> <li>- Limit the risk of cancellation of a tender</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- N° of negative Public Procurement and Grants Management opinions</li> <li>- N° of 'open' procedures or procedures where only one or no offers were received</li> </ul>

### **C – Evaluation & Award**

**Main control objectives:** Effectiveness, efficiency and economy. Compliance (legality and regularity). Fraud prevention and detection.

Main risks	Mitigating controls	Coverage frequency and depth	Costs and benefits of controls	Control indicators
<ul style="list-style-type: none"> <li>- The most economically advantageous offer is not selected due to a biased, inaccurate or 'unfair' evaluation process</li> <li>- Over-consumption of resources (human and financial) due to errors or mismanagement leading to award decisions being contested (resulting in Court and Ombudsman cases)</li> <li>- Damage to the DG's reputation if fraud or criminal behaviour is discovered (conflict of interest)</li> </ul>	<ul style="list-style-type: none"> <li>- All evaluations involve the use of opinions of more than one qualified official. The evaluation process is more regulated and formalised as the contract value increases.</li> <li>- Risk based approach: higher risk contracts have more in-depth checks</li> <li>- Review of and opinion on evaluation and award documents and process by a specialised team on Public Procurement and Grants Management in the Financial Resources and Internal Control unit before contract award</li> </ul>	<ul style="list-style-type: none"> <li>- Formal evaluation process: Opening and Evaluation committees for all tenders &gt; € 135,000 including signature of declarations of absence of conflict of interests by the committee members</li> <li>- <u>Risk based approach:</u> <ol style="list-style-type: none"> <li>1) second review of evaluation and award documents and process by an ad hoc committee of independent Directors for procurements &gt; € 10 million</li> <li>2) validation of negotiated procedures &gt; € 50 000 by the Director-General before call launch</li> <li>3) validation of negotiated procedures &gt; € 1 million by ad hoc committee of a Deputy Director-General and two independent Directors before call launch</li> </ol> </li> <li>- 100 % of the offers</li> </ul>	<p><b>Costs:</b></p> <ul style="list-style-type: none"> <li>- estimation of FTEs involved and the related contract values (if external expertise is used)</li> </ul> <p><b>Quantified Benefits:</b></p> <ul style="list-style-type: none"> <li>- Difference between the most onerous offer and the selected one</li> <li>- N° or value of contracts subject to complaints / irregularities</li> <li>- N° of procurements successfully challenged during standstill period</li> </ul> <p><b>Non quantified Benefits:</b></p> <ul style="list-style-type: none"> <li>- Compliance with FR</li> <li>- Best value for money</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- n° of ECA observations and % error rate concerning evaluation &amp; award stage</li> <li>- n° of negative Public Procurement and Grants Management opinions</li> <li>- n° of successful complaints or Ombudsman or Court cases resulting from non-compliant procurement process</li> </ul> <p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>- Time-To-Contract</li> <li>- Contract value/cost of FTEs involved in control of contracts</li> </ul>

Main risks	Mitigating controls	Coverage frequency and depth	Costs and benefits of controls	Control indicators
		are evaluated by more than one qualified official - 100 % of evaluations are checked. - Depth: required documents provided are consistent		

## **Stage 2 – Contract Management and Financial transactions**

**Main control objectives:** Ensuring that the implementation of the contract is in compliance with the signed contract

Main risks	Mitigating controls	Coverage frequency and depth	Costs and benefits of controls	Control indicators
<ul style="list-style-type: none"> <li>- Bad or non-execution by the contractor, leading to serious problems if contractual deliveries are critical and no short term alternatives are available (risk of over-dependency on certain contractors)</li> <li>- The products/services foreseen are not, totally or partially, provided in accordance with the technical description and requirements foreseen in the contract and/or the amounts paid exceed that due in accordance with</li> </ul>	<ul style="list-style-type: none"> <li>- Checks on financial capacity and viability of contractors prior to awarding the contract</li> <li>- Close monitoring of contracts, with possible on-site verifications, particularly of high value contracts resulting from negotiated procedures</li> <li>- Checks on both operational and financial issues carried out at appropriate level using the most qualified staff. As</li> </ul>	<ul style="list-style-type: none"> <li>- 100 % of the contracts are controlled, including only value-adding checks</li> <li>- For riskier operations, in-depth ex-ante verification</li> <li>- High risk operations identified by risk criteria</li> <li>- For high risk operations, reinforced monitoring of the respect of the timely achievement</li> </ul>	<b>Costs:</b> <ul style="list-style-type: none"> <li>- estimation of FTEs involved</li> </ul> <b>Quantified Benefits:</b> <ul style="list-style-type: none"> <li>- Amount of irregularities, errors and overpayments prevented by the controls</li> </ul> <b>Non quantified Benefits:</b> <ul style="list-style-type: none"> <li>- DG reputation intact</li> </ul>	<b>Effectiveness:</b> <ul style="list-style-type: none"> <li>- n° of ECA observations and % error rate relating to contract management /payment stage</li> <li>- N° of court cases resulting from contract execution problems</li> <li>- % budget execution rate – total amount committed/paid versus total budget envelope</li> <li>- % of contracts</li> </ul>



Main risks	Mitigating controls	Coverage frequency and depth	Costs and benefits of controls	Control indicators
<p>the applicable contractual and regulatory provisions</p> <ul style="list-style-type: none"> <li>- Risk of bad execution due to undetected errors on uncorrected imprecisions in offers or tendering specifications</li> <li>- Business discontinues, because contractor fails to deliver</li> <li>- Plagiarism (studies, reports)</li> <li>- Fraud</li> </ul>	<p>defined in the in accordance with the financial circuits</p> <ul style="list-style-type: none"> <li>- Possibility to run a plagiarism check of reports submitted by contractor</li> <li>- Management of sensitive functions</li> </ul>	<p>of the contract's milestones by the contractor</p>		<p>implemented</p> <ul style="list-style-type: none"> <li>- n° of open critical and/or very important audit recommendations</li> </ul> <p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>- Time-To-Pay</li> <li>- Late interest payment and damages paid (by the Commission)</li> <li>- Coverage of 1<sup>st</sup> and 2<sup>nd</sup> level ex-ante controls</li> </ul> <p><b>Cost-effectiveness:</b></p> <ul style="list-style-type: none"> <li>- Average n° of contracts per procurement control FTE</li> <li>- cost of control per running contract</li> <li>- % cost over annual amount disbursed</li> </ul>

### Stage 3 – Supervisory measures

**Main control objectives:** Ensuring that any weakness in the procedures (tender and financial transactions) is detected and corrected

Main risks	Mitigating controls	Coverage frequency and depth	Costs and benefits of controls	Control indicators
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Main risks	Mitigating controls	Coverage frequency and depth	Costs and benefits of controls	Control indicators
<ul style="list-style-type: none"> <li>- An error or non-compliance with regulatory and contractual provisions, including technical specifications, or a fraud is not prevented, detected or corrected by ex-ante control, prior to payment</li> </ul>	<ul style="list-style-type: none"> <li>- Supervisory desk review of procurement and financial transactions</li> <li>- Ex-post publication of contracts awarded (and subsequent publication in the EU Financial Transparency System)</li> <li>- Regular review of exceptions or non-compliance events reported</li> <li>- Regular review of the procurement process (self-assessment by DG Public Procurement and Grants Management Team)</li> <li>- System and transaction audits by IAS, ECA) and subsequent monitoring of implementation of recommendations for improvement</li> <li>- indicators on procurement are regularly reported</li> </ul>	<ul style="list-style-type: none"> <li>- 100 % Depth: review any significant problem that occurred</li> <li>- Public Procurement and Grants Management team examines procurement procedures</li> <li>- 100 % of the sample at least once a year to determine any errors or systemic problems or weaknesses in the procedures (procurement and financial transactions)</li> </ul>	<p><b>Costs:</b></p> <ul style="list-style-type: none"> <li>- estimation of FTEs involved in the controls</li> </ul> <p><b>Non Quantified Benefits:</b></p> <ul style="list-style-type: none"> <li>- Systematic weaknesses corrected</li> <li>- Deterrent effect</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- Amounts associated with errors detected (related to fraud, irregularities and error) and in % over total checked.</li> <li>- N° system improvements made</li> </ul> <p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>- Average time-to-contract</li> </ul> <p><b>Cost-effectiveness:</b></p> <ul style="list-style-type: none"> <li>- Proportion of overall cost of control over total expenditure (payments authorised)</li> <li>- Costs of the ex-post controls and supervisory measures with respect to the 'benefits'.</li> </ul>

## ICT N° 5: Grants

This ICT covers: DG GROW grants under direct management, awarded in the framework of FP6, FP7, CIP, COSME, Internal Market, and Standardisation, as well as other ad hoc, action and operating grants.

### Stage 1 – Programming, evaluation and selection of proposals

#### *A - Preparation, adoption and publication of the Annual Work Programme (AWP) and Calls for proposals (Calls)*

**Main control objectives:** Ensuring that the Commission receives and selects the proposals that contribute the most towards the achievement of the policy or programme objectives (effectiveness); Compliance (legality & regularity); Prevention of fraud (anti-fraud strategy)

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<ul style="list-style-type: none"> <li>- Work Programmes and subsequent calls do not adequately reflect the policy objectives, priorities are incoherent and/or the essential eligibility, selection and award criteria are not adequate to ensure the evaluation of the proposals</li> <li>- Work Programmes are inconsistent within the other family DGs and with the 7 year framework</li> <li>- Work Programmes overlap with other programmes (by other DGs, e.g. Structural Funds) and could lead to double-funding</li> <li>- Calls are tailored to the</li> </ul>	<ul style="list-style-type: none"> <li>- Hierarchical validation within the authorising department</li> <li>- Inter-service consultation, including all relevant DGs</li> <li>- Adoption by the Commission</li> </ul> <p><u>Recommended:</u></p> <ul style="list-style-type: none"> <li>- Centralised checklist-based verifications</li> <li>- Explicit allocation of responsibility to individual officials (reflected in task assignment or function descriptions)</li> <li>- Ex-post monitoring: lessons-learned survey/discussion with evaluators</li> </ul>	<p>If risk materialises, all grants awarded during the year under this WP or call would be irregular. Possible impact: 100 % of budget involved and significant reputational consequences.</p> <p><b>Coverage / Frequency:</b> 100 %</p> <p><b>Depth:</b> All Work Programmes are thoroughly reviewed at all levels, including for operational and legal aspects.</p>	<p><b>Costs:</b></p> <ul style="list-style-type: none"> <li>- Estimation of cost of staff involved in the preparation and validation of the Work Programmes and calls. Cost of contracted services, if any.</li> </ul> <p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>- Only qualitative benefits. A good Work Programme and well publicised calls should generate a large number of good quality projects, from which the most excellent can be chosen. There will therefore be real competition for funds.</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- % of n° of calls successfully concluded / number of calls planned in Management Plan/Work Programme</li> <li>- % budget execution rate grant commitments</li> </ul> <p><b>Cost-Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- average n° and value of running grants managed per control FTE</li> <li>- % cost of control for all stages over annual amount disbursed in grants</li> <li>- average cost of</li> </ul>

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
advantage of certain candidates due to undue influences from interest groups - Calls are not adequately published and do not reach all target groups			- The (average annual) total budgetary amount of the Work Programmes or calls with significant errors detected and corrected.	control per grant

### ***B – Selecting and awarding: Evaluation, ranking and selection of proposals***

**Main control objectives:** Ensuring that the most promising projects for meeting the policy objectives are among the proposals selected (effectiveness); Compliance (legality & regularity); Prevention of fraud (anti-fraud strategy)

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
- Evaluation, ranking and selection of proposals not carried out in accordance with the established procedures, policy objectives and priorities - Eligibility, selection and award criteria too ambiguous or otherwise inadequate to ensure that grants are awarded to the actions which maximise the overall effectiveness of the EU programme - Unauthorised persons may have access to the	- Selection and appointment of expert evaluators - Assessment of evaluation procedure by independent experts - Review of evaluation results by an ad hoc committee for big calls - Validation by the AO of ranked list of proposals. In addition, if applicable: opinion of advisory bodies; comitology; inter-service consultation,	- 100 % vetting (including selecting) of expert evaluators for technical expertise and independence (e.g. conflicts of interests, nationality bias, ex-employer bias, collusion) - 100 % of proposals are evaluated - 100 % of ranked list of proposals. Supervision of work of evaluators. - 100 % of contested	<b>Costs:</b> - Estimation of cost of staff involved in the evaluation and selection of proposals - Cost of the appointment of experts and of the logistics of the evaluation <b>Benefits:</b> - 'quality allocation' assurance of the whole committed budget (as it will have been checked ex-ante)	<b>Effectiveness:</b> - % of proposals evaluated within the year/proposals received - % of n° of (successful) redress challenges / total n° of proposals received - Ratio of proposals received to proposals selected ("oversubscription" rate) - No successful

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<p>electronic system for the management of the calls</p> <ul style="list-style-type: none"> <li>- Unequal treatment of applicants: inappropriate contacts and/or conflict of interests with certain applicants during the procedure</li> <li>- Monopoly of certain bodies insufficiently justified</li> </ul>	<p>adoption by the Commission; publication</p> <ul style="list-style-type: none"> <li>- Redress procedure</li> </ul>	<p>decisions are analysed by redress committee</p>	<p>and is considered reasonable in the interests of the programme)</p> <p>Qualitative benefits:</p> <ul style="list-style-type: none"> <li>- Expert evaluators from outside the Commission bring independence, state of the art knowledge in the field and a range of different opinions. This will have an impact on the whole project cycle : better planned, better executed projects</li> </ul>	<p>litigation cases</p> <p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>- Average Time-To-Publication of selection results (FR 128.2)</li> </ul> <p><b>Cost-effectiveness:</b></p> <ul style="list-style-type: none"> <li>- Average evaluation cost per proposal (external experts paid only)</li> <li>- % cost of control over annual amount disbursed in grants</li> </ul>

## Stage 2 - Contracting

**Main control objectives:** Ensuring that the most promising projects for meeting the policy objectives are among the proposals contracted; Ensuring that the actions and funds allocation is optimal (Sound Financial Management: best value for public money; effectiveness, economy, efficiency); Compliance (legality & regularity); Prevention of fraud (anti-fraud strategy)

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<ul style="list-style-type: none"> <li>- After evaluation, the description of the action in the grant agreement remains unclear or still includes tasks which do</li> </ul>	<ul style="list-style-type: none"> <li>- Systematic checks on operational and legal aspects performed before signature of the grant agreement</li> </ul>	<p><b>Coverage:</b></p> <ul style="list-style-type: none"> <li>- 100 % of the selected proposals and beneficiaries are scrutinised</li> </ul>	<p><b>Costs:</b></p> <ul style="list-style-type: none"> <li>- Estimation of cost of staff involved in the contracting process</li> </ul>	<p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>- Average Time-To-Grant</li> </ul> <p><b>Cost-Effectiveness:</b></p>

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<p>not contribute to the achievement of the programme objectives</p> <ul style="list-style-type: none"> <li>- Inconsistencies exist between the grant agreement and its annexes</li> <li>- Procedures do not comply with regulatory framework</li> <li>- The beneficiary : <ul style="list-style-type: none"> <li>▪ has overestimated the costs necessary to carry out the action</li> <li>▪ has made false declarations</li> <li>▪ lacks operational and/or financial capacity to carry out the action</li> <li>▪ is awarded several grants for a single action (double-funding by different DGs or other donors)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Project Officers implement evaluators' recommendations in discussion with selected applicants. Hierarchical validation of proposed adjustments.</li> <li>- Validation of beneficiaries (operational and financial viability)</li> <li>- Planning of (mid-term and final) evaluations.</li> <li>- Signature of the grant agreement by the AO.</li> <li>- In-depth financial verification and taking appropriate measures for high risk beneficiaries</li> <li>- Participant Guarantee Fund (FP7)</li> </ul>	<ul style="list-style-type: none"> <li>- 100 % of draft grant agreements</li> </ul> <p><b>Depth</b> may be differentiated; determined after considering the type or nature of the beneficiary (e.g. SMEs, joint-ventures) and/or of the modalities (e.g. substantial subcontracting) and/or the total value of the grant</p>	-	<ul style="list-style-type: none"> <li>- % cost of control for all stages over annual amount disbursed in grants</li> </ul>

### **Stage 3 - Monitoring the execution: Project management - operational, financial and reporting aspects**

**Main control objectives:** ensuring that the operational results (deliverables) from the projects are of good value and meet the objectives and conditions (effectiveness & efficiency); ensuring that the related financial operations comply with regulatory and contractual provisions (legality & regularity); prevention of fraud (anti-fraud strategy); ensuring appropriate accounting of the operations (reliability of reporting, safeguarding of assets and information)

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
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Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<ul style="list-style-type: none"> <li>- The actions foreseen are not, totally or partially, carried out in accordance with the technical description and requirements foreseen in the grant agreement and/or the amounts paid exceed those due according to the applicable contractual and regulatory provisions</li> <li>- Reimbursement of ineligible costs by DG GROW (e.g. due to overinflated timesheets, subcontracting of core activities or without prior tendering procedure)</li> <li>- Several authorising officers implement the same programme and do not treat the beneficiaries equally, e.g. FP7</li> <li>- Insufficient operational performance monitoring of beneficiaries by project officers</li> </ul>	<ul style="list-style-type: none"> <li>- Kick-off meetings and "launch events" involving the beneficiaries in order to avoid project management and reporting errors</li> <li>- Effective external communication about guidance to the beneficiaries</li> <li>- Operational and financial checks in accordance with the financial circuits</li> <li>- Operation authorisation by the AO</li> <li>- For riskier operations more in-depth ex-ante controls. Scientific reviews if necessary.</li> <li>- When needed: application of suspension/interruption of payments, penalties or liquidated damages, earmark projects for risk-based ex-post audit, refer grant/beneficiary to OLAF</li> </ul>	<ul style="list-style-type: none"> <li>- 100 % of the projects are controlled, including only value-adding checks</li> <li>- Riskier operations subject to more in-depth controls</li> <li>- The depth depends on risk criteria. However, as a deliberate policy to reduce administrative burden, and to ensure a good balance between trust and control, the level of control at this stage is reduced a to a minimum</li> <li>- High risk operations identified by risk criteria. Red flags: suspicions raised by staff, delayed interim deliverables, suspicion of plagiarism, unstable consortium, requesting many amendments, EDES or anti-fraud flagging, etc.</li> <li>- Audit certificates</li> </ul>	<p><b>Costs:</b></p> <ul style="list-style-type: none"> <li>- estimation of cost of staff involved in the actual management of running projects</li> </ul> <p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>- part of budget value of the costs claimed by the beneficiary, but rejected by staff</li> <li>- Reductions in error rates identified by audit certificates</li> <li>- Budget value of penalties and liquidated damages</li> <li>- Benefits due to operational review of projects and consequent corrective actions imposed on projects</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- % and value of reductions made to EC contribution paid out through the ex-ante desk checks / total value of cost claims desk-checked</li> <li>- % of payments suspended</li> <li>- n° of cost claims desk-checked</li> </ul> <p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>- % and value of reductions made to EU contribution paid through ex-ante desk checks/total value of cost claims checked</li> <li>- Average n° &amp; value of projects managed 'per' staff FTE</li> <li>- Average Time-To-Pay</li> <li>- Average payment suspension time (days)</li> </ul> <p><b>Cost-Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- % cost of ex-ante control (cost/total amount of grant payments)</li> <li>- Average project</li> </ul>

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
		required for any beneficiary claiming significant EU contribution, e.g. in FP7		management cost (staff FTE * standard staff cost) per running project

#### **Stage 4 - Ex-Post controls**

##### ***A - Reviews, audits and monitoring***

**Main control objectives:** Measuring the level of error in the population after ex-ante controls have been undertaken; measure the effectiveness of ex-ante controls by ex-post controls; detect and correct any error or fraud remaining undetected after the implementation of ex-ante controls (legality & regularity; anti-fraud strategy); address systemic weaknesses in the ex-ante controls, based on the analysis of the findings (sound financial management); ensure appropriate accounting of the recoveries to be made (reliability of reporting, safeguarding of assets and information)

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<ul style="list-style-type: none"> <li>- The ex-ante controls (as such) fail to prevent, detect and correct erroneous payments or attempted fraud to an extent going beyond an acceptable rate of error</li> </ul>	<ul style="list-style-type: none"> <li>- Ex-post control strategy: at intervals carry out audits of a representative sample of operations to measure the level of error in the population after ex-ante controls have been performed. Additional sample to address specific risks</li> <li>- Carry out audits or desk reviews of a (representative) sample of operations to</li> </ul>	<ul style="list-style-type: none"> <li>- Common Representative audit sample (CRaS); Monetary Unit Sample (MUS) across the programme to draw valid management conclusions on the error rate in the population, e.g. FP7</li> <li>- GROW own risk-based sample, determined in accordance with the selected risk criteria, aimed to maximise</li> </ul>	<p><b>Costs:</b></p> <ul style="list-style-type: none"> <li>- Estimation of cost of staff involved in the coordination and execution of the audit strategy. Audit mission costs. Cost of outsourced audits.</li> </ul> <p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>- <u>Quantifiable</u>: budget value of the errors detected by the auditor</li> <li>- <u>Non quantifiable</u>:</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- (FP7) Cumulative Common Representative Error Rate</li> <li>- (other GROW grants) Detected Error Rate</li> <li>- (FP7) Cumulative Residual Error Rate in comparison to the materiality threshold</li> <li>- Value of errors</li> </ul>



Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
	<p>determine effectiveness of ex-ante controls</p> <ul style="list-style-type: none"> <li>- Multi-annual basis (programme's lifecycle) and coordination with other AOs concerned (to detect systemic errors). In case of systemic error detected, extrapolation to all the projects run by the audited beneficiary</li> <li>- Validate audit results with beneficiary</li> <li>- If needed: refer the beneficiary or grant to OLAF</li> </ul>	<p>deterrent effect and prevention of fraud or serious error, e.g. FP7</p> <ul style="list-style-type: none"> <li>- Representative sample: random or MUS sample sufficiently representative to draw valid management conclusions (other GROW grants)</li> </ul>	<p>Deterrent effect. Learning effect for beneficiaries. Improvement of ex-ante controls or risk approach in ex-ante controls by feeding back findings from audit. Improvement in rules and guidance from feedback from audit.</p>	<p>detected</p> <ul style="list-style-type: none"> <li>- Total and Average ex-post audit cost (in-house and/or outsourced)</li> </ul> <p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>- N° of audits finalised</li> <li>- % of beneficiaries and of value covered by ex-post audits</li> </ul> <p><b>Cost-Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- Total and average ex-post audit cost</li> </ul>

## **B - Implementing results from ex-post audits/controls**

**Main control objectives:** Ensuring that the (audit) results from the ex-post controls lead to effective recoveries (legality & regularity; anti-fraud strategy); Ensuring appropriate accounting of the recoveries made (reliability of reporting)

Main risks	Mitigating controls	Coverage, frequency and depth	Costs and benefits of controls	Control indicators
<ul style="list-style-type: none"> <li>- Errors, irregularities and cases of fraud detected are not addressed or not addressed timely</li> </ul>	<ul style="list-style-type: none"> <li>- Systematic registration of audit / control results to be implemented</li> <li>- Financial and operational validation of recovery in accordance with financial circuits</li> <li>- Authorisation by AO</li> <li>- Notification to OLAF and regular follow up of detected fraud</li> </ul>	<p><b>Coverage:</b> 100 % of final audit results with a financial impact</p> <p><b>Depth:</b></p> <ul style="list-style-type: none"> <li>- All audit results are examined in-depth in making the final recoveries</li> <li>- Systemic errors are extended to all the non-audited projects of the same beneficiary</li> </ul>	<p><b>Costs:</b></p> <ul style="list-style-type: none"> <li>- estimation of cost of staff involved in the implementation of the audit results</li> </ul> <p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>- budget value of the errors, detected by ex-post controls, which have actually been corrected (offset or recovered)</li> </ul> <p><b>Loss:</b></p> <ul style="list-style-type: none"> <li>- budget value of such ROs which are 'waived' or have to be cancelled</li> </ul>	<p><b>Effectiveness:</b></p> <ul style="list-style-type: none"> <li>- Amounts being recovered and offset</li> </ul> <p><b>Efficiency:</b></p> <ul style="list-style-type: none"> <li>- Number/value/% of audit results pending implementation</li> <li>- Number/value/% of audit results implemented</li> <li>- Time-To-Recover</li> </ul> <p><b>Cost-effectiveness:</b></p> <ul style="list-style-type: none"> <li>- % cost of control for all stages over annual amount disbursed in grants</li> </ul>

## ANNEX 6: Implementation through national or international public-sector bodies and bodies governed by private law with a public sector mission (if applicable)

### Indirect management

#### I. ESA (European Space Agency)

<b>Programmes concerned</b>			
<ul style="list-style-type: none"> <li>– Global Navigation Satellite System (GNSS) programmes (Galileo and EGNOS) <ul style="list-style-type: none"> <li>– Copernicus programme, previously known as the Global Monitoring for Environment and Security programme (GMES)</li> </ul> </li> </ul>			
<b>Annual</b>	<b>budgetary</b>	<b>amount</b>	<b>entrusted</b>
(amounts transferred in 2017)			
– GNSS:	€ 271 million		
– GMES/Copernicus:	€ 492 million		
– H 2020:	€ 8,2 million		
<b>Duration of the delegation</b>			
<p>The current multi-annual Delegation Agreements were signed with the European Space Agency (ESA) in 2014 under the new EU MFF (2014-2020). Amendments to the FOC DA (GNSS) have taken place in 2015 and 2016.</p> <p>Additionally, a Delegation Agreement was signed in December 2015 related to the evolution of GNSS technology in the scope of H2020 activities for the period 2015-2020.</p>			
<b>Justification of the recourse to indirect management</b>			
<p>EC-ESA Framework Agreement of May 2004 establishing a general frame for cooperation aiming to link demand for services and applications using space systems in support of the Community policies, with the supply of space systems and infrastructures necessary to meet that demand, and which foresees that each party shall provide the other party with expertise and support in its own specific fields of competence.</p> <p>The key role, <u>competence and expertise of ESA</u> being the European agency for research and development in the space domain, was recognised by the Resolution on the European Space Policy, unanimously approved by both the Council of the EU and the Council of the ESA, in Brussels on 22 May 2007 and confirmed by a further progress report on developments in the space domain presented to the Space Council in September 2008.</p>			

### **Justification of the selection of ESA**

Indication in the legal bases: Delegation Decisions<sup>35</sup>, GNSS Regulation<sup>36</sup>, GMES Regulation<sup>37</sup> under the former EU MFF (2007-2013) and GNSS Regulation<sup>38</sup> and Copernicus Regulation<sup>39</sup> under the new EU MFF (2014-2020).

### **Summary description of the implementing tasks entrusted to ESA**

- industrial procurement activities for the completion of the infrastructure
- system design, integration, validation and technical management activities
- project management and system prime activities
- implementation of risk management methods
- qualification of operation processes and procedure
- signal provision
- for Copernicus Space Component, in cooperation with EUMETSAT, performs Joint Operations Management

As detailed in section 2.1.1.1 (A) of this report, 39.83 % of the DG GROW budget is delegated to the European Space Agency (ESA):

- 35 % for the GNSS programmes (EGNOS and Galileo)
- 64 % for the Copernicus programme
- 1 % for Horizon 2020

This annex provides details on the DG's supervision of ESA as Entrusted Entity.

### **ESA and its role in European space activities<sup>40</sup>**

Contrary to the EU which is supranational, ESA is an entirely independent intergovernmental organisation with 22 Member States. Not all EU Member States are members of ESA and not all ESA Member States are members of the EU. The two institutions have different ranges of competences and are governed by different rules and procedures. The two organisations share a joint European Strategy for Space and have developed the European Space Policy together.

ESA has been coordinating space activities through European programmes for more than 30 years. Its programmes are designed to find out more about Earth, its immediate space environment, our solar system and the universe, as well as to develop satellite-based technologies and services, and to promote European industries.

The ESA Council is ESA's governing body and provides the basic policy guidelines within which ESA develops its space programmes. Each Member State is represented on the ESA Council and has one vote, regardless of its size or financial contribution. The EU as an institution is not a member of ESA.

### **EU/ESA cooperation in space: the general framework**

<sup>35</sup> Commission Decision C(2008)8556 final of 17.12.2008 delegating powers to ESA in accordance with article 54 (2) (c) of Council Regulation (EC)1605/2002, for the performance of tasks linked to the implementation of the Galileo Deployment Phase (2008-2013), and C(2013)9015 lastly amending the delegation of powers to ESA

<sup>36</sup> Regulation EC/683/2008 of 09.07.2008

<sup>37</sup> Regulation (EU) 911/2010 of 22.09.2010

<sup>38</sup> Regulation (EU) 1285/2013 of 11 December 2013 on the implementation and exploitation of European satellite navigation systems and repealing Council Regulation (EC) No 876/2002 and Regulation (EC) No 683/2008 of the European Parliament and of the Council

<sup>39</sup> Regulation (EU) 377/2014 of 3 April 2014 establishing the Copernicus Programme and repealing Regulation (EU) No 911/2010

<sup>40</sup> <http://www.esa.int/ESA>

The EU/ESA cooperation is a unique partnership of two leading European-level organisations providing joint leadership for Europe in the field of space. This cooperation was born from the shared belief that each partner needs the other to deliver on the public policy objectives, provide an appropriate political profile and a more coherent framework of space activities in Europe.

The cooperation has long-standing roots, with parallel EU and ESA Council Resolutions already in the 1990s, and in 2000 the creation of the first joint EC-ESA Paper, the European Strategy for Space, already showing the need for the two organisations to work together to develop the space policy agenda of Europe. Proposed by the Commission in 1999, the Galileo programme for radio navigation by satellite constituted the first large space project jointly funded by the Union and ESA.

This fruitful cooperation resulted in the conclusion in 2004 of the EC-ESA Framework Agreement, aiming at the progressive development of an overall European Space Policy by providing a common basis and appropriate operational arrangements for an efficient and mutually beneficial cooperation. In 2008, 2012 and 2016, the framework agreement was extended for a further 4 years.

## **DG GROW/ESA Delegation Agreements**

### **GNSS Programmes (Galileo FOC and EGNOS)**

According to EC Regulation 1285/2013 the Commission is responsible for the management of the European Global Navigation Satellite System (GNSS) programmes (Galileo and EGNOS). Within this legal framework the Commission entrusted ESA with the implementation of the Galileo Deployment Phase and the further implementation of the EGNOS Programme.

The Commission delegates to ESA the industrial procurement activities necessary for the implementation of the Full Operational Capability (FOC) phase of the Galileo programme and the development of the EGNOS programme. The measures financed under the GNSS Regulation must be implemented in accordance with the EU Financial Regulation *"without prejudice to measures required to protect the essential interests of the security of the EU or public security or to comply with EU export control requirements"*<sup>41</sup>. The Delegation Agreement signed with ESA states that the procurement activities entrusted to ESA are implemented *"in full coordination with the Commission and in accordance with the EU Procurement Rules and specific guidelines of the GNSS Regulation"*.

The final decision concerning the award of the contracts as a result of Galileo FOC and EGNOS tenders is taken by the Commission following a recommendation of ESA. The contracts are signed by ESA in the name and on behalf of the Commission. ESA acts as an agent or representative of the EC, who remains the contracting authority.

ESA has a budget for its own operating costs under the three delegation agreements and provides details of the costs in its reports to the EC. This is valid for the costs until 30/6/2014 for Galileo FOC. As from 1/7/2014, ESA received for Galileo FOC a fixed remuneration covering all the tasks performed by ESA. For the EGNOS DA ESA provides details of its operating costs in its reports to the EC in relation to the activities covered still by this Delegation Agreement. A major part of the ESA remuneration for EGNOS activities is covered by the Working Arrangement (EGNOS) signed between GSA and ESA in 2015.

## **GALILEO**

The implementation of the Galileo programme is technically and financially complex. It

<sup>41</sup> Chapter V of GNSS Regulation 1285/2013

consists of three phases: In Orbit Validation (IOV) (2003-2015), deployment phase (2008-2020) and exploitation phase (as of 2014).

### **Development phase: Galileo IOV (In-Orbit Validation)**

Galileo's Development phase was partly financed by the EC and partly by ESA until 2008. An additional budget of **€ 559.5 million** was necessary to ensure the completion of this phase. The grant covering IOV tasks was extended until mid-2018 in order to cover the finalisation of running industrial contracts.

### **Deployment phase: Galileo FOC (Full Operational Capability)**

A multiannual Delegation Agreement was signed between the Commission and ESA on 19 December 2008 for the Galileo FOC activities. Under this agreement, particularly complex contracts were awarded for each of the six work packages foreseen, using the Competitive Dialogue procedure<sup>42</sup>. This Delegation Agreement (ESA FOC) amounts to € 2,472.8 million.

A second Delegation Agreement for an amount of € 1,770 million was signed in July 2014 covering the Deployment phase for the 2014-2020 period (ESA FOC-DC). On October 26<sup>th</sup> 2016, an amendment was signed to review the ESA remuneration with an additional amount of € 715 million, making the total current delegated amount of €2,485 million. Under this second FOC Delegation Agreement, ESA signed in 2016 three new contracts related to the preparatory tasks for the acquisition of the 3<sup>rd</sup> batch of satellites (LLI) and contract change notices (in particular for the extension of the hosting sites and for the operations).

## **EGNOS**

In April 2009 the EC acquired the ownership of EGNOS. In October of that same year, the EC declared that EGNOS' basic navigation signal was operationally ready as an open and free service.

The European GNSS Agency (GSA), who is responsible for the operations of EGNOS signed a contract with ESSP for the provision of EGNOS services until 2021. The contract will secure the continuous and safe provision of the three services offered by EGNOS (Open Service (OS); Safety-of-Life (SoL); and Commercial Service or "EGNOS Data Access Server" (EDAS)) and covers also maintenance and upgrading the EGNOS system infrastructure.

In parallel, a Delegation Agreement for the further development of EGNOS was signed in 2008 and lastly amended in 2014 between the EC and ESA for a total amount of € 161.5 million. The estimated costs for the tasks carried out by ESA include the industrial procurement activities (€ 118.8 million), the Artemis signal provision (€ 4.3 million) and the ESA costs as design and procurement agent (€ 38.4 million).

In 2016, ESA signed 6 contracts change notices (5 related to the Framework Contract #2 and one to the PCIP-6).

## **Horizon 2020 ACTIVITIES**

A Delegation Agreement was signed on December 2<sup>nd</sup> 2015 related to the evolution of

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<sup>42</sup> Cf. Art 125 of the EU FR Implementing Rules (as applicable before the 2012 revision of the EU FR)

GNSS technology for the period 2015-2020. Three transfers of funds for an amount of €150.3 million have been signed so far covering activities taking place within the period 2015-2017.

### **Amounts entrusted by DG GROW to ESA in 2017**

The Commission transfers funds into ESA's account twice a year upon the submission of a detailed forecast of cash needs and quarterly implementation reports. ESA makes disbursements from a dedicated bank account. The account makes it possible to identify the transfers made by the Commission and to distinguish operations covered by the Delegation Agreement from ESA's other operations. A specific tool was developed to control at milestone level the good recording of cost and payments in one specific year. It improves considerably the ex-ante controls done by the Commission.

Funds transferred by DG GROW to ESA in 2017 under the GNSS Delegation Agreements amounted to **€ 271,0** million for Galileo FOC, **€ 8,2 million** for H 2020 activities.

### **DG GROW supervision of the funds entrusted to ESA**

According to provisions contained in the Delegation Agreements, monitoring of the implementation of the delegated funds can be structured under four main headings:

1. **Regular monitoring of activities**, including programme management, through desk monitoring and participation in ESA relevant meetings:
  - The Commission attends ESA Council meetings as well as subordinate bodies for all matters related to the GNSS programmes.
  - Programme management meetings between ESA, GSA and the Commission are held in general every month to review the monthly report/dashboard and in particular the management and technical implementation of the programme. The Commission also closely monitors the technical implementation of the programme through on-the-spot visits or through ESA segment project reviews with ESA segment responsables.
  - A monthly Directors meeting has been set up to discuss the status of the programme and the way forward.
  - The Commission follows very closely the procurement procedures carried out by ESA by participating in key stages of the process and in many meetings dedicated to procurement. Moreover, the final decision concerning the award of any contract is taken by the Commission. Before the contract award decision is taken by DG GROW (upon recommendation from ESA), the DG GROW Public Procurement team performs tailor-made independent ex-ante verifications at the key stages of the GNSS procurement procedures (call launch, tender evaluation, post-information and contract signature). Open procedures equal or superior to € 10 million and negotiated procedures equal or superior to € 1 million are submitted to the review of an Ad Hoc Committee composed of at least two Directors and one Deputy Director-General, independent from the GNSS programmes.
  - The Commission has the right to attend every meeting related to the implementation or procurement of activities funded under the Delegation Agreements. The Commission therefore attends in the Galileo and EGNOS Program change control Boards, Tender Steering Committees, ESA Tender Evaluation Board and Galileo and EGNOS Project Change Control Boards.
  - Reporting and recording of exceptions: each deviation from an established policy or procedure made under exceptional circumstances is documented and justified and

approved at the appropriate level. A register is maintained and the relevant information systematically screened to identify significant risks.

- A joint EU-ESA task force has been established during 2012 to examine appropriate actions to be taken in light of audit findings, with also a view towards establishing suitable implementation/control mechanisms for post-2013 EU-ESA partnership arrangements.

DG GROW carries out its own ex-post financial audits of each programme's Annual Financial Report (AFR) in view of reconciliation with ESA's annual financial statements:

#### **Result indicators: Indicators of annual error – IOV Grants**

<i>(Amounts in €)</i>	Reported by ESA	Commission Audit report	Adjustment	Detected error rate	Implemented amount via clearing of pre-financing	Amount to be implemented
	(1)	(2)	(3)=(1)-(2)	(4)=(3)/(1)	(5)	(6)
Financial Report for 2009	256 900 000	256 529 000	371 000	0,14 %	371 000	0
Financial Report for 2010	113 040 381	110 567 684	2 472 697	2,19 %	2 472 697	0
Financial Report for 2011	117 836 629	114 953 662	2 882 967	2,45 %	2 882 967	0
Financial Report for 2012	58 350 348	58 350 348	0	0,00 %	0	0
Financial Report for 2013	6 307 959	6 307 959	0	0,00 %	0	0
Financial Report for 2014	2 847 843	2 847 843	0	0,00 %	0	0
Financial Report for 2015	5 580 237	5 324 079	256 158	4,59 %	256 158	0

Payments on IOV grants are expected be finalised in 2018.



**Result indicators: Indicators of annual error – GALILEO FOC and EGNOS programmes**

<u>GALILEO FOC &amp; FOC-DC</u>						
(Amounts in €)	Reported by ESA	Commission Audit report	Adjustment	Detected error rate	Implemented amount via clearing of pre-financing	Amount to be implemented
	(1)	(2)	(3)=(1)-(2)	(4)=(3)/(1)	(5)	(6)
Financial Report for 2009	49 013 000	46 109 000	2 904 000	5,92 %	2 904 000	0
Financial Report for 2010	440 797 905	440 428 411	369 494	0,08 %	369 494	0
Financial Report for 2011	379 188 767	378 652 378	536 389	0,14 %	536 389	0
Financial Report for 2012	342 192 607	340 360 802	1 831 805	0,54 %	1 831 805	0
Financial Report for 2013	398 992 495	397 591 998	1 400 497	0,35 %	1 400 497	0
Financial Report for 2014	365 152 925	365 065 529	87 396	0,02 %	87 396	0
Financial Report for 2015	462 861 925	462 861 925	0	0,00 %	0	0

<u>EGNOS</u>						
(Amounts in €)	Reported by ESA	Commission Audit report	Adjustment	Detected error rate	Implemented amount via clearing of pre-financing	Amount to be implemented
	(1)	(2)	(3)=(1)-(2)	(4)=(3)/(1)	(5)	(6)
Financial Report for 2009	9 083 677	8 779 763	303 914	3,35 %	303 914	0
Financial Report for 2010	8 938 034	10 819 473	-1 881 439	0 %	0	0
Financial Report for 2011	20 852 645	20 437 965	414 680	1,99 %	414 680	0
Financial Report for 2012	17 179 905	17 115 843	64 062	0,37 %	64 062	0

Financial Report for 2013	47 296 592	47 086 921	209 671	0,44 %	209 671	0
Financial Report for 2014	25 047 048	21 666 079	3 380 970	13,50%	3 380 970	0
Financial Report for 2015	20 981 911	20 975 658	6 253	0,03%	6 253	0

- DG GROW ex-post control team audits all annual financial/implementation reports (AFRs/AIRs) submitted by ESA. In 2017, the audits on the 2016 financial reports were performed. The FOC and EGNOS audits of the 2016 financial reports were launched in 2017 but are still waiting finalization. The results of audits are implemented through a reduction of the total eligible amount. Errors detected in the AFRs/AIRs have no impact on the legality and regularity of the amounts paid to ESA, because amounts paid depend both on costs declared and on cash-flows forecasts.
- The DG GROW GNSS Programme team closely monitors the implementation of previous years' audit results and takes the necessary measures to deduct non-implemented adjustments from following payments.

## 2. Monitoring through ESA reports

- The Agreement obliges ESA to provide details of the activities carried out in the following reports: quarterly, annual, ad-hoc and final reports which contain detailed information about the implementation of the contracts, the costs incurred, an update on estimated completion date and milestones and, in the final report, an inventory list of the assets handed over to the Commission. These reports include Key Decision Points (milestones for the implementation) of the GNSS programmes, through which it is possible to assess whether functional, financial or scheduling targets are met and if corrective measures are necessary.
- In the Annual Implementation Report ESA notably provides an overview of the year, an overview of the content of the risk register over the past year, including the results and effectiveness of any risk analysis and mitigation actions and a summary of the audits carried out by ESA and their main findings.
- Dedicated teams of technical and legal DG GROW staff carefully analyse these ESA reports and carry out on-the-spot visits when necessary.

## 3. High level management reporting

- Monthly meetings are held between the DG GROW and ESA Directors-General. The Director-General is briefed about all problems detected and which need to be addressed by ESA.
- Key DG GROW reports are prepared on the management of EU funds by ESA:
  - The DG GROW Management Plan (MP) shows the specific objectives and tasks necessary to achieve the general objectives. A set of indicators facilitates the monitoring process.
  - Mid-term report on the achievement of the objectives set in the MP.
  - Monthly financial monitor of budget execution.

- Biannual report to the Commissioner on management and internal control issues.
- DG GROW Annual Activity Report (AAR).

#### **4. External (performance) monitoring by independent bodies:**

- In 2013 and 2014, a re-assessment of ESA's control systems (accounting, internal control, own audit and procurement procedures) was outsourced by DG GROW to an independent external audit firm. Both assessments confirmed that ESA applies the EU procurement rules and its own audit, accounting and internal control rules and procedures which offer guarantees equivalent to internationally accepted standards.
- OLAF and the Court of Auditors or their representatives may also conduct documentary and on-the-spot checks on the use made of the EU funds under the Delegation Agreement. Due to the high amount of the payments to ESA and the Court's sampling methodology, audits are performed on a regular basis by the Court of Auditors.
- Feedback from the DG GROW Internal Audit Capability (IAC), the Commission's Internal Audit Service (IAS) and the European Court of Auditors (ECA) is provided. DG GROW systematically monitors the implementation of the action plans resulting from these financial and performance audits and duly reports on progress.
- Independent experts assist the Commission with regard to programme implementation and make recommendations in particular regarding risk management.
- In addition, the Director General of ESA asked an independent Commission composed of experts from leading Space Agencies to perform an analysis and to provide recommendations on plausible further improvements in the operational management of Galileo. This analysis resulted in five recommendations, which were addressed in 2014.
- The Galileo Inter-institutional Panel facilitates close cooperation between the EP, Council and the Commission and allows the three institutions to closely monitor GNSS programme implementation, international agreements with non-EU countries, the preparation of satellite navigation markets, the effectiveness of governance arrangements and the annual review of the work programme.

### **Copernicus Programme**

The Copernicus programme, previously known as Global Monitoring for Environment and Security (GMES) is an EU-wide flagship programme that aims to support policymakers, business, and citizens with improved environmental information. Copernicus integrates satellite and in-situ data with modelling to provide user-focused information services. The Copernicus programme reached full operational status in 2014 for the infrastructure and is aiming to put in place all the necessary agreements for services by mid-2016. It is an EU-led initiative carried out in partnership with the Member States and ESA.

The origin of GMES date back to May 1998, when institutions involved in the development of space activities in Europe made a joint declaration known as the "Baveno Manifesto". The Manifesto called for a long-term commitment to the development of space-based environmental monitoring services, making use of, and further developing, European skills, and technologies.

The GMES-Copernicus concept was first presented to the EU Gothenburg Summit in 2001 and resulted in a Council Resolution requesting the Commission and ESA to proceed with its implementation. Following an exploratory initial phase undertaken in 2001 – 2003, the EU and ESA jointly proposed a 2004 - 2008 action plan enabling to meet the Council's request.

In 2005, the Union made the strategic choice of developing an independent European Earth observation capacity to deliver services in the environmental and security fields, which resulted ultimately in Regulation (EU) No 911/2010 of the European Parliament and of the Council of 22 September 2010 on the European Earth monitoring programme (GMES) and its initial operations (2011 to 2013).

In the phase before 2006, EU and ESA contributed to the **development** of GMES-Copernicus through their respective funding programmes of the 6<sup>th</sup> EU Research Framework Programme and the ESA Earth Watch Programme with an amount of around € 200 million. After 2006, further funding needed to be foreseen for the preparation and operation of the GMES-Copernicus **services**, as well as for the development of a dedicated **GMES-Copernicus Space Component (GSC)** of 5 Sentinel satellites.

Whereas the development of GMES-Copernicus services was continued (with increasing mutual technical consultation) within the separate funding programmes at EU and ESA, a mechanism was sought to contribute funding from the multi-annual EU 7<sup>th</sup> Research Framework Programme to the ESA GSC Programme as adopted by ESA Member States Council in late 2005.

A GMES Delegation Agreement formalising a contribution of € 624 million was signed by EU and ESA on 28 February 2008 (amended on 28 January 2009). This Delegation Agreement was amended in June 2011, enhancing the contribution to a total amount of **€ 728** million from FP7 and the GMES regulation budgets.

The GMES Delegation Agreement defined the modalities for (i) cooperation of the Parties in the development of the Space Component and (ii) the budget implementation tasks entrusted to ESA in the framework of the FP7 Specific programme "Cooperation" and its theme "Space". It contains provisions as to the overall limit for ESA system design, integration, validation and technical management as well as for ESA management activities. It foresees a budget for ESA's own operating costs, of which ESA provides details in its reports to the EC. The annual amounts paid to ESA were not calculated on the basis of actual cost incurred in that period, but were fixed in the text of the Delegation Agreement and subsequent transfers were agreed as cash advances.

In 2013 the Commission proposed a new Regulation under the new MFF for the continuation of the GMES programme under the name Copernicus which was adopted in the second quarter of 2014.

In implementing the tasks assigned to it under the delegation agreement, ESA applies its own audit, accounting, internal control and procurement rules and procedures which offer guarantees equivalent to internationally accepted standards.

In 2014, a new Copernicus Delegation Agreement for **€ 3 148 million** (2014-2021) was signed with ESA for the continued development of the dedicated Copernicus satellites (Sentinels). The transfers of funds to ESA under the Copernicus Delegation Agreement are based on annual and quarterly reports submitted by ESA together with forecasts of cost and cash-flow needs for the next period.

## **1. Amounts entrusted by DG GROW to ESA in 2017**

Two Delegation Agreements are still running in parallel. In 2016, transfers were made to ESA only under the Copernicus Delegation Agreement signed in 2014. The amounts to be transferred to ESA are made annually by way of a cash advance. The pre-financing for

2017, at the total amount of € 492 million, was aimed at covering the expenditure for construction and launch services, operations, access to contributing missions data, pre-financing of payments and the internal costs of the agency for the implementation of the Copernicus activities.

## **2. DG GROW supervision of budget entrusted to ESA**

Supervision of the tasks delegated to ESA is in line with the management mode chosen for the implementation of the Delegation Agreement, which implies reliance on ESA's own control mechanisms. Against this background, monitoring of the Delegation Agreement is carried out through:

The Copernicus ESA Delegation Agreement (Article 11) has established the key institutional guarantee of the Procurement Board, as a special body under the Agreement designed to optimise the execution of the procurements to be made by ESA. That arrangement takes due account of the respective roles and responsibilities of both ESA and the Commission during the execution of such procurements and provides a timely and cost effective procedure for management of the process. It is composed of Commission staff, subject to pertaining rules of conflicts of interest and it is being chaired by a Commission authorising officer under the Financial Regulation.

**Regular monitoring of the co-funded activities** including desk monitoring and participation in ESA's relevant meetings as appropriate (Article 20.4 of the Copernicus ESA DA):

- The Commission attends ESA Council meetings as well as subordinate bodies for all matters related to GMES-Copernicus.
- The Commission also has the right to attend all meetings related to the review of system design and development as well as the evaluation of tenders for development activities co-funded under the Agreement.
- The Commission reserves the right of auditing the procedures applied by ESA and the way the costs have been calculated. In 2016, DG GROW carries out its own ex-post financial audits of the 2015 Annual Implementation Report of the EU-ESA Copernicus Agreement in view of reconciliation with ESA's annual financial statements.

## Result indicators: Indicators of error – GMES/COPERNICUS

(Amounts in €)	Reported by ESA (EC accepted costs)	Commission Audit report (eligible costs)	Adjustment	Detected error rate	Imple- mented amount via clearing of pre- financing	Amount to be implem- ented
	(1)	(2)	(3)=(1)- (2)	(4)=(3)/( 1)	(5)	(6)
Financial Report for 2009	80 401 424	79 566 603	834 821	1,04 %	834 821	0
Financial Report for 2010	137 657 344	113 959 263	23 698 081	17,22 %	23 698 081	0
Financial Report for 2011	171 487 659	171 029 224	458 435	0,27 %	458 435	0
Financial Report for 2012	104 124 840	102 058 630	2 066 210	1,98 %	2 066 210	0
Financial Report for 2013	78 518 254	78 524 613	-6 359	0,00 %	-6 359	0
Financial Report for 2014	136 135 061	136 133 236	1 825	0,001%	0	1 825
Financial Report for 2015	183 930 223	183 930 223	0	0,00%	0	0
Financial Report for 2016	651 537 638	651 527 254	10 384	0,003%	10 384	0

DG GROW ex-post controls cover all Annual Financial Reports (AFR) submitted by ESA. The audit of the 2016 financial reports was finalised in October 2017. Regular Audits and corresponding corrections ensure that, on a multi-annual basis, the total amount paid under the Delegation Agreement will be compliant with the eligibility rules and will not exceed the limits defined in the Delegation Agreement.

- Due to the amount of the payments to ESA and the Court's sampling methodology, audits are performed on a regular basis by the Court of Auditors. (Article 29 of the Copernicus ESA DA).

### 3. Monitoring through ESA reports

The Delegation Agreement obliges ESA to submit to the Commission quarterly implementation reports, Annual Financial Reports to account for the use of EU and ESA funds spent on the development of the various GMES-Copernicus system components, a final report summarising the implementation of tasks covered by the Agreement as well as ad-hoc reports including information equivalent to that provided by the Commission to the Copernicus Programme Committee. (Article 19 of the Copernicus ESA DA)

Furthermore it foresees that ESA provides to the Commission its reports on ex-post controls in place – amongst others the audit of the Agency's financial statements provided by the independent ESA Audit Commission.

### 4. High level management reporting:

Monthly meetings are held between the DG GROW and ESA Directors-General. The Director-General is briefed about all problems detected and which need to be addressed by ESA.

Key DG GROW reports are prepared on the management of EU funds by ESA:

- The DG GROW Management Plan (MP) shows the specific objectives and tasks necessary to achieve the general objectives. A set of indicators facilitates the monitoring process.
- Mid-term report on the achievement of the objectives set in the MP.

## **5. External (performance) monitoring by independent bodies:**

- Regular re-assessments, conducted in the past by independent external audit firms, of ESA's control systems (accounting, internal control, own audit and procurement procedures) confirm that ESA applies the EU procurement rules and its own audit, accounting and internal control rules and procedures which offer guarantees equivalent to internationally accepted standards.
- OLAF and the Court of Auditors or their representatives may also conduct documentary and on-the-spot checks on the use made of the EU funds under the Delegation Agreement. Due to the high amount of the payments to ESA and the Court's sampling methodology, audits are performed on a regular basis by the Court of Auditors.
- Feedback from the Commission's Internal Audit Service (IAS) and the European Court of Auditors (ECA) is provided. DG GROW systematically monitors the implementation of the action plans resulting from these financial and performance audits and duly reports on progress.

## **II. Additional Entrusted entities for Copernicus Infrastructure and Services**

Pursuant to the Articles of the Delegation Agreement, the Entrusted Entity shall apply its audit, accounting, and procurement and grant award procedures, as laid down in its Financial Regulation. The EC has ascertained that the newly entrusted entities below comply with the requirements set forth in Article 58 of the EU Financial Regulation 966/2012 and that the delegation of budget implementation tasks ensures compliance with the principles of sound financial management, non-discrimination and visibility of Union action foreseen in Article 60 of the EU Financial Regulation. This was achieved by the performance of an independent external ex-ante assessment prior to the signature of a Delegation Agreement.

The budget is implemented through procurement and own activities. All three Copernicus Delegation Agreements foresee in Article 5 direct costs for the implementation of the entrusted tasks as well as indirect costs linked to the implementation of the entrusted tasks. The remuneration costs are identified in the Agreement and do not exceed 7% of the total of the direct eligible costs.

The Copernicus Delegation Agreements foresee two requests for payment each year to cover the expenditure needs of the respective Entity. At this stage compliance with the DA articles related to the monitoring of the action is verified, i.e.: approval of the quarterly implementation report covering the preceding financial year and prior adoption of the Copernicus annual work programme.

Financial audits of the entrusted entities will be performed on a yearly basis and for the first time in 2016. All entrusted entities will also undergo compliance audits during the lifetime of their delegation agreements.

**EUMETSAT**  
**(European Organisation for the Exploitation of Meteorological Satellites)**

<p><b>Programmes concerned</b></p> <p>Copernicus Infrastructure</p>
<p><b>Annual budgetary amount entrusted</b></p> <p>Amounts transferred in 2017: € 26.6 million</p>
<p><b>Duration of the delegation</b></p> <p>The multi-annual Delegation Agreements were signed with the European Space Agency (ESA), EUMETSAT, Mercator Océan and ECMWF in 2014, in line with the current EU MFF (2014-2020).</p>
<p><b>Justification of the recourse to indirect management</b></p> <p>The key objectives of EUMETSAT being the European Organisation for the Exploitation of Meteorological Satellites are to establish, maintain and exploit European systems of operational meteorological satellites, and to contribute to the operational monitoring of the climate and the detection of global climatic changes. Its role as a contributor to the GMES/Copernicus programme was recognised by the Council Resolution on Taking Forward the European Space Policy adopted on 26 September 2008.</p> <p>EU Regulation No 377/2014 of 3 April 2014 which established the Copernicus Programme confirmed EUMETSAT as an Entrusted Entity to take over responsibilities in operating the dedicated missions and providing access to contributing mission data.</p>
<p><b>Justification of the selection of EUMETSAT</b></p> <p>The Copernicus Regulation stipulates that the Commission shall conclude delegation agreements with ESA and with the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT) entrusting them with tasks related to the Copernicus space component for the period 2014-2020.</p>
<p><b>Summary description of the implementing tasks entrusted to EUMETSAT</b></p> <p>According to its mandate and expertise EUMETSAT has been entrusted with the operations of dedicated satellites and instruments (Jason-3, Sentinel 3 for marine observations and Sentinels 4, 5 and 6) and the respective ground segment, including the distribution and dissemination of Copernicus data. The financing specified above covers the expenditure for operations, access to contributing missions data, pre financing of payments and the internal costs of the agency for the implementation of the Copernicus activities.</p>



### Result indicators: Indicators of error – EUMETSAT/COPERNICUS

(Amounts in €)	Reported by Eumetsat	Commission Audit report	Adjustment	Detected error rate	Implemented amount via clearing of pre-financing	Amount to be implemented
	(1)	(2)	(3)=(1)-(2)	(4)=(3)/(1)	(5)	(6)
Financial Report for 2014	339 061	339 061	0	0,00%	0	0
Financial Report for 2015	5 788 694	5 788 694	0	0,00%	0	0

### Mercator Océan

#### Programmes concerned

Copernicus Services - Marine Environment Monitoring Service

#### Annual budgetary amount entrusted

Amounts transferred in 2017: € 20.5 million

#### Duration of the delegation

On 11 November 2014, a Delegation Agreement was signed with Mercator Océan for a total contract value of € 144 million for the seven years of the new MFF (2014-2020).

#### Justification of the recourse to indirect management

In the implementation of the Copernicus service component, the Commission may rely, where duly justified by the special nature of the action and specific expertise, on competent entities, such as the European Environment Agency, the European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union (FRONTEX), the European Maritime Safety Agency (EMSA) and the European Union Satellite Centre (SATCEN), the European Centre for Medium-Range Weather Forecasts (ECMWF), and other relevant European agencies, or other bodies potentially eligible for a delegation in accordance with the Financial Regulation.

### Justification of the selection of Mercator Océan

The Copernicus Regulation foresees that the Commission may conclude delegation agreements with competent entities entrusting them with tasks related to the Copernicus service components for the period 2014-2020.

### Summary description of the implementing tasks entrusted to Mercator Océan

Coordination of the technical implementation of the Marine Environment Monitoring Service (MEMS) and dissemination/archiving activities, as defined in Annex I of the Copernicus Delegation Agreement.

In 2016, the Entrusted Entity ramped up Phase I Operation of the Marine Environment Monitoring Service comprising the following main technical aspects of operationalization activities:

- Organisation of routine hand-over between continuous model development/maintenance and operational implementation;
- Monitoring of production suites (input data acquisition, error handling, dissemination and archive);
- Maintenance of reference documentation for products (description, quality information);
- Consolidation of annual report for the description of ocean state for global ocean and the regional seas in support of environmental assessment;
- Consolidation and upgrade of the data dissemination tools and interfaces to meet the needs and technological readiness of users;
- Preparation of service performance reports based on statistical data, benchmarking and performance assessments.

### Result indicators: Indicators of error – MERCATOR/COPERNICUS

(Amounts in €)	Reported by MERCATOR	Commission Audit report	Adjustment	Detected error rate	Imple- mented amount via clearing of pre- financing	Amount to be imple- mented
	(1)	(2)	(3)=(1)- (2)	(4)=(3)/ (1)	(5)	(6)
Financial Report for 2014	181 128	180 341	786	0,43%	786	0
Financial Report for 2015	11 323 190	11 308 825	14 366	0,13%	14 366	0
Financial Report for 2016	19 328 239	19 319 822	8 417	0,11%	8 417	0

## ECMWF (European Medium Range Weather Forecasting Centre)

<b>Programmes concerned</b> Copernicus Services
<b>Annual budgetary amount entrusted</b> Amounts transferred in 2017: € 40,2 million
<b>Duration of the delegation</b> On 11 November 2014, a delegation agreement was signed with ECMWF for a total contract value of € 291 million for the seven years of the MFF (2014-2020).
<b>Justification of the recourse to indirect management</b> In the implementation of the Copernicus service component, the Commission may rely, where duly justified by the special nature of the action and specific expertise, on competent entities, such as the European Environment Agency, the European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union (FRONTEX), the European Maritime Safety Agency (EMSA) and the European Union Satellite Centre (SATCEN), the European Centre for Medium-Range Weather Forecasts (ECMWF), other relevant European agencies, groupings or consortia of national bodies, or any relevant body potentially eligible for a delegation in accordance with the Financial Regulation.
<b>Justification of the selection of ECMWF</b> The Copernicus Regulation foresees that the Commission may conclude delegation agreements with competent entities entrusting them with tasks related to the Copernicus service components for the period 2014-2020.
<b>Summary description of the implementing tasks entrusted to ECMWF</b> Coordination of the technical implementation of the Atmospheric Monitoring and Climate Change services and dissemination/archiving activities, as defined in Annex I of the Copernicus Delegation Agreement. In 2016, the Entrusted Entity provided the Copernicus Atmosphere Monitoring Service in operational mode and carried out the proof-of-concept phase of the Copernicus Climate Change Service, involving in particular the following activities: <ul style="list-style-type: none"><li>• Provision of data and products in an operational mode according to the product portfolio of CAMS and the ramp-up planning of C3S;</li><li>• Development and procurement of the infrastructure required for the provision of both services, this includes the maintenance of back-up systems and service recovery mechanisms;</li><li>• Support of users through helpdesk, documentation, and preparation of training;</li><li>• Change management and corresponding continuous development work for the integration of newly available input data and response to user requests and findings from wider research activities; this includes the uptake of either test data sets or actual data from Sentinel missions;</li><li>• Communication and outreach to link existing and new users with the operational service.</li></ul>

## **ANNEX 7: EAMR of the Union Delegations**

Not applicable to DG GROW.

## ANNEX 8: Decentralised agencies (if applicable)

A decentralised agency<sup>43</sup>, also referred to as traditional or regulatory agency, is an EU body governed by European public law. Decentralised agencies carry out technical, scientific or managerial tasks that help the EU institutions make and implement policies. They also support cooperation between the EU and national governments by pooling technical and specialist expertise from both the EU institutions and national authorities.

Decentralised agencies are located across the EU. They are governed by an Administrative or Management Board, which as a rule is composed of representatives of all Member States, and which defines the agency's operating guidelines within the legal framework established by the legislator. The Board is also responsible for the adoption of the agency's work programme and budget.

Most decentralised agencies are funded entirely by contributions from the EU budget, as described above. Some agencies, however, depend fully or partially on other revenue, such as revenue received from industry (fees).

The two agencies under the responsibility of DG GROW are the European Chemicals Agency (**ECHA**) and the European GNSS Agency (**GSA**).

Furthermore, DG GROW has delegated budget implementation to the European Environment Agency (**EEA**), the European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union (**FRONTEX**), the European Agency for Maritime safety (**EMSA**), European Defence Agency (**EDA**) the European Foundation for the Improvement of Living and Working Conditions (**EUROFOUND**) and the European Union Satellite Centre (**SatCen**).

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<sup>43</sup> [http://europa.eu/about-eu/agencies/index\\_en.htm](http://europa.eu/about-eu/agencies/index_en.htm)

The table below provides the main details for the above decentralised agencies:

Agency	Policy concerned	GROWTH payments to Agency in 2017 (in € million)	
		Subsidy*	Entrusted amount**
ECHA	Chemicals – implementation of <b>REACH and CLP Regulations</b>	65,8	0,9
GSA	<ul style="list-style-type: none"> <li>➤ <u>Mandated activities:</u>  <b>GNSS programmes – EGNOS and Galileo</b>  <i>Security (security accreditation, operation of Galileo Security Monitoring Centre)</i>  <i>Commercialisation of the systems</i></li> <li>➤ <u>Delegated activities:</u>  <b>GNSS programmes – EGNOS and Galileo</b>  <b>EGNOS exploitation</b>  <b>Galileo exploitation</b>  <i>Contribution to the development of PRS (Public Regulated Service)</i>  <i>Preparatory activities for exploitation of the systems</i>  <b>GNSS-related research</b>  <i>7th research Framework Programme (FP7) H2020</i></li> </ul>	28,4	677,5
EEA	Space – GMES/Copernicus programme (European Land Service, and in-situ data coordination)	0 <sup>44</sup>	27,2 <sup>45</sup>
FRONTEX	Space – Copernicus programme – Copernicus Security Service	0	6,9 <sup>46</sup>
EMSA	Space – Copernicus programme – Copernicus Security Service	0	7,1 <sup>47</sup>
EDA		0	10,5
SATCEN-EAS	Industrial policy – manufacturing.	0	4,1 <sup>48</sup>

\* For operational implementation by the agency on behalf of DG GROW

\*\* To cover part of the administrative costs of the agency

<sup>44</sup> Pursuant to Article 5.1(ii)b) of the DA, the EEA is remunerated with EUR 680.000 per year to cover the administrative expenditure, including staff costs, necessary for the performance of the DA.

<sup>45</sup> DG GROWTH did not execute payments to GSA in 2015. The reader is referred to section 2.1.1.1. (C)

<sup>46</sup> Post signature pre-financing.

<sup>47</sup> Post signature pre-financing.

<sup>48</sup> Pre-financing payments

## **European Chemicals Agency (ECHA)**

ECHA is located in Helsinki and started operating in June 2007. Its mission is to ensure a high level of protection of human health and the environment in the EU, to ensure consistency in chemicals management across the EU and to provide technical and scientific advice on safety and socio-economic issues related to the use of chemicals.

The Agency is responsible for co-ordinating the duties introduced by the REACH Regulation (EC) N°1907/2006, the Regulation (EC) N° 1272/2008 on the classification, labelling and packaging of substances and mixtures, the biocides regulation (EU) N° 528/2012 and more recently was entrusted the responsibility of the recast PIC regulation (EU) N° 649/2012 which concerns export and import of dangerous chemicals. It manages the registration, evaluation, authorisation and restriction processes for chemical substances and the harmonisation of classification and labelling processes. These processes are designed to provide additional information on chemicals, to ensure their safe use and to enhance the competitiveness of the EU industry.

In accordance with the REACH Regulation (No 1907/2006), ECHA is financed through fees paid by industry and by a possible EU balancing subsidy as referred to in Article 185 of the General EU Financial Regulation.

A balancing subsidy of € 65,8 million was paid to ECHA in 2017.

The ECHA's governing body, the Management Board, is composed of representatives from the Member States, the European Parliament, the European Commission (DG GROW, DG ENV, DG SANTE), and three members representing industry, trade unions and NGOs. The Agency has established a Member State Committee, a Risk Assessment Committee and a Socio- Economic Analysis Committee, and a Forum of national enforcement authorities.

### Supervision mechanism

The DG GROW unit in charge of REACH has very frequent contacts on a day-to-day basis with ECHA which enables constant monitoring of its functioning. These contacts include numerous meetings and various other forums, e.g. video conferences.

In addition to this, the following other supervision mechanisms are in place:

- A DG GROW Deputy Director-General is a member of ECHA's Management Board (MB) as one of the three Commission representatives. He participates in four working groups (WG) of the MB:
  - WG for planning and reporting, including preparation of ECHA's work programme
  - WG for audit
  - WG for transfers of a portion of the fees from ECHA to Member States
  - Advisory WG on the dissemination of public information on chemical substances
- Participation as observers to the following bodies of the Agency:
  - MB and its working groups "planning and reporting", "audit", "transfer of fees" and "dissemination of public information on chemical substances"
  - Member State Committee (MSC)
  - Committee for Risk Assessment (RAC)
  - Committee for Socio-economic Analysis (SEAC)
  - Forum for Exchange of Information on Enforcement (FORUM)
  - HelpNet
- Participation as members to the following networks convened by the Agency:
  - Security Officers Network
  - REACH Communicators' Network

- The following reports were generated on the working of the Agency:
  - ECHA 2017 General Report, covering financial as well as operational activities
- The balancing subsidy was paid in three instalments and against the provision of a cashflow in accordance with the arrangements agreed in the MoU signed with the Agency on payment of EU subsidy.

#### Supervision activities performed in 2017

Besides the participation in the governance bodies listed above in 2017 DG GROWTH:

- *Budget of the Agency – procedure for the Draft Budget 2018*
  - evaluated the request for appropriations and staff coming from the Agency and followed up on the budget procedure.
- *ECHA's draft Single Programming Document (SPD) 2018-2020*
  - contributed to the preparation of the SPD 2018-2020. The Commission also issued an opinion on the SPD in September 2017
- *Discharge 2016*
  - followed up the discharge for financial year 2015 and 2016;
- *Common Approach on decentralised agencies*
  - participated in the network of desk officers for agencies coordinated by the Secretariat General and contributed to the follow-up of the Common Approach on decentralised agencies managed by the Secretariat General
- *HR*
  - implemented the Roadmap of the Common Approach on EU decentralised agencies endorsed in July 2012 by the European Parliament, the Council and the Commission.
  - Drafted and adopted decision in relation to the implementing rules of the Staff Regulation in decentralised agencies.
  - Completed the selection procedure for the future Executive Director post and provided the appointing authority of ECHA (the Management Board) with the list of shortlisted candidates.

#### Internal Audit Service (IAS)

According to ECHA's Financial Regulation, the Internal Auditor for ECHA is the Internal Auditor of the European Commission (IAS).

In 2017 the IAS performed a Risk Assessment of ECHA. The assessment presents the key risks and proposes topics for future IAS audits for 2018-2020.

In 2017, the Internal Audit Capability of ECHA carried out assurance audits on

- Substance evaluation process under REACH
- Capacity building of ECHA's scientific and regulatory staff
- Restrictions under REACH

Actions plans have been put in place and their implementation is supervised by the Management Board through its Working Group on Audit Matters.



## **European GNSS Agency (GSA)**

The European Global Navigation Satellite Systems Agency (GSA<sup>49</sup>) was created by Regulation 912/2010 of 22 September 2010<sup>50</sup>. The current legal base aligns the Agency's mandate with what is stipulated in the GNSS Regulation (No 1285/2013) and further develops the work the Agency has to undertake in the domain of security.

Among other tasks, GSA performs the implementation of the Galileo and EGNOS programmes, including programme management tasks, and is accountable for them. Those tasks are entrusted by the Commission by means of delegation agreements adopted on the basis of a delegation decision, and include:

- a) operational activities including systems infrastructure management, maintenance and continuous improvement of the systems, certification and standardisation operations and provision of services
- b) development and deployment activities for the evolution and future generations of the systems, and contribution to the definition of service evolutions, including procurement
- c) promoting the development of applications and services based on the systems, as well as raising awareness of such applications and services, including identifying, connecting and coordinating the network of European centres of excellence in GNSS applications and services, drawing on public and private sector expertise, and evaluating measures relating to such promotion and awareness-raising
- d) promoting the development of fundamental elements, such as Galileo-enabled chipsets and receivers

The main supervising body is the Agency's Administrative Board where the Commission is represented with four votes, alongside the Member States which have one vote each.

The GSA Regulation (EU) N° 912/2010 has been amended by Regulation (EU) N° 512/2014 of 16 April 2014, through which its contents have been aligned to the new GNSS Regulation. The Regulation:

- a) ensures an independent security accreditation scheme
- b) incorporates relevant elements of the Common Approach agreed between Council, Parliament, and Commission with respect to decentralised agencies to improve the coherence, effectiveness, accountability and transparency of these agencies, and
- c) ensures appropriate staffing of the GSA.

At the end of 2017, GSA had 116 staff and a budget of € 28.4 million.

### Supervision mechanism

As concerns the Agency's **mandated activities**, the Commission's supervision is exercised as laid out in the Agency's basic act which confer certain responsibilities to the Administrative Board (of which the Commission is a member), and more specifically: Board appointing, adopting the Work Programme, supervising the budget and overseeing the set-up and operation of the Galileo Security Monitoring Centre.

The Regulation also bestows additional rights on the Commission, namely the right of veto over the Work Programme and over the exercise of disciplinary authority over the Executive Director and the responsibility for preselecting the list of candidates for the post of the Agency's Executive Director.

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<sup>49</sup> Formerly known as the GNSS Supervisory Authority.

<sup>50</sup> REGULATION (EU) No 912/2010 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 22 September 2010 setting up the European GNSS Agency, repealing Council Regulation (EC) No 1321/2004 on the establishment of structures for the management of the European satellite radio navigation programmes and amending Regulation (EC) No 683/2008 of the European Parliament and of the Council and amended by Regulation 512/2014 of 16 April 2014. The Regulation 912/2010 entered into force on 9 November 2010.

As far as the **delegated activities** of the Agency are concerned, the Delegation Agreements in force provide for regular reporting from the Agency to the Commission on the work it has carried out and supervision of Agency's procurement activities by the Commission through a right of scrutiny before the launch of procurement processes and before the award of these procurements.

#### Supervision activities performed in 2017

In addition to the above, DG GROW also processed the budget request coming from the Agency and followed up on the budget procedure.

DG GROW participated actively in the meetings of the Administrative Board that took place in the course of 2017. It regularly informed the Board members of the state of play in other areas of the GNSS Programmes and intervened in discussions to ensure overall coherence of activities, in line with its mandate as manager of the GNSS Programmes.

The Commission exercised the supervisory tasks provided for in the existing delegation agreements. Regular implementation reports and procurement documentation submitted by the Agency were revised for Galileo and EGNOS.

The Agency is closely involved in the security management of Galileo and the activities to achieve security accreditation prior to satellite launches. It also manages activities related to satellite navigation market preparation. For both areas, regular coordination meetings were organised between the Commission and the Agency.

At the end of 2017 the audit on the annual financial/implementation reports for 2016 submitted by GSA for Egnos and Galileo were performed by the DG GROW ex-post audit team. The results of the audit still have to be finalized.

## ***European Environment Agency (EEA)***

EEA has been identified as the organisation entrusted to implement the pan-European and local components of the GMES/Copernicus Initial Operations Land Monitoring Services. The implementation of this land monitoring service builds on the successful experience by EEA and European Environment Information and Observation Network (Eionet) with GMES land precursor services 2006, especially Image 2006, CORINE change layer 2000-2006, and the first high resolution layer on imperviousness, which provided an indicator for the level of anthropogenic sealing of soils.

### **DA GMES Land Monitoring services (2011-2015)**

Pursuant to the Regulation (EU) No 911/2010 of the European Parliament and of the Council of 22 September 2010 on the European Earth Monitoring Programme (GMES/Copernicus) and its initial operations (2011 to 2013), a Delegation Agreement was signed between the Commission and the EEA. The period of execution was between May 25th, 2011 and December 31st, 2015. The tasks delegated to EEA under this Agreement related to the coordination of the technical implementation of the pan-European continental and local components of the GMES/Copernicus land monitoring service as well as to dissemination, archiving and cataloguing of the information and products generated by the above referred components of the GMES/Copernicus land monitoring service. The GIO final report was delivered in March 2016.

### **DA Copernicus (2014-2020)**

As from the 1st of December 2014, EEA assumed the role of technical coordinator of the Pan-European and Local components of the Copernicus land monitoring service (DA signed on December 1<sup>st</sup> 2014). The Copernicus land monitoring service is operational, and provides geographical information on land cover, land use, vegetation state and the water cycle.

The indicative profile of commitments in the budget of the EU for the entrusted tasks to be carried out by the EEA over the operational implementation phase 2014-2020:

- Pan-European component and local component: € 79 million
- Cross-cutting in situ component: € 8 million.

### **Supervision mechanism**

Pursuant to Article 14 of the Copernicus EEA DA, the Agency is to carry out its own ex-ante and ex-post controls including, where appropriate, on-the-spot checks on risk-based samples of transactions to ensure that the implementing transactions are legal and regular and that actions financed from the Union Budget are effectively carried out and implemented correctly.

The Agency has to comply with strict reporting obligations, set in Articles 21 to 24 of the DA, providing for regular annual implementation reports, quarterly reports, plus ad hoc and final reporting in view of the respective circumstances. Article 21 also requires the annual accounts to be accompanied by an opinion or draft/preliminary opinion of an independent audit body.

Then, in Article 28 it is foreseen, and it is regularly implemented, that the Agency activities shall be in their turn subjects to checks, audits, investigations and evaluations by the Commission, OLAF and the European Court of Auditors.

All these measures, taken in conjunction, provide for solid supervision system of the respective agency's implementing activities.

In the beginning of 2018 the audit on the annual financial/implementation report for 2016 submitted by EEA for Copernicus was performed by the DG GROW ex-post team. The results of the audit still have to be finalized.

## ***European Border and Coast Guard Agency (FRONTEX)***

The European Commission signed a Delegation Agreement on November 10<sup>th</sup> 2015 with FRONTEX to implement satellite-based information services dedicated to border surveillance, as part of the Security Service of Copernicus (the European Earth Observation and Monitoring Programme).

FRONTEX has to work with Member States and relevant actors in close cooperation with the Commission, making use of Earth Observation data and European industry capacities for increased border situation awareness and improved assessment of risk.

A service portfolio has been agreed with FRONTEX, with services grouped in three main categories: Land, Maritime and Environmental, all contributing to increasing situation awareness in South European and Western borders.

In 2017, Frontex continued the delivery of eight operational services and worked on the development of three new services to be included in the service catalogue in 2018. The Agency has noted a significant increase in the numbers of delivered satellite imagery in comparison to 2016 resulting from increased number of requests.

The delegation agreement defines the means by which the FRONTEX can implement the entrusted tasks, in particular the budget and the actions to be implemented, in full compliance with Article 61(3) of the Financial Regulation and Article 40 of the rules of application of the Financial Regulation.

The agreement has been negotiated on the basis of the implementation framework set by the relevant Commission Implementing Decision Commission Implementing Decision<sup>51</sup> that authorised the Director-General of DG GROW to sign it after prior information to the Commission. The implementation period of the agreement runs until 31 December 2021. The maximum EU budget delegated amounts to €47,5 million. These appropriations shall cover:

- (a) expenditure related to the implementation of the procurement and grant activities;
- (b) the remuneration of the Agency for the implementation of the entrusted tasks.

### Supervision mechanism

The Commission, under the lead of DG GROW, monitors and assesses on a regular basis the implementation of the tasks delegated to FRONTEX. Such process is based, in particular, on the completion of the milestones as defined in the annual work programmes submitted by FRONTEX (Article 21 of the DA).

The agreement ensures that the Commission, the European Anti-fraud Office (OLAF) and the Court of Auditors or their authorised representatives, may at any time during the implementation of the entrusted tasks and up to five years after the payment of the balance carry out checks and audits on the implementation of the entrusted tasks (Article 24 of the DA).

The Commission may also carry out interim or final evaluations of the impact of the implementation of the entrusted tasks evaluated against the objectives of the Copernicus programme (Article 19 of the DA).

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<sup>51</sup> Commission Implementing Decision of 29.09.2015 on a delegation agreement with the European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union in the Framework of the Copernicus programme (C(2015)4340 final).

FRONTEX sets up and ensures the functioning of effective and efficient internal control systems, which are aimed at providing reasonable assurance as to the achievement of the internal control objectives as defined in article 32(2) of the Financial Regulation including notably the reliability, completeness and valuation of the inventories of the tangible and intangible assets produced or acquired under the programme (Article 7.2 of the DA).

The contracts tendered by FRONTEX do provide the ownership of all tangible and intangible assets developed or created to the European Union under the delegated activities (Article 18 of the DA).

Supervision activities (conducted on a regular annual basis)

The operational and budgetary discharge supervision is mainly based on the evaluation and verification of the submitted by the entrusted entity Annual Implementation report (AIR), and the intermediate submitted on the Semestrial implementation reports (SIR) (Articles 20 and 21 of the DA).

No regularities or weaknesses in the performance by the Entrusted Entity of the delegated tasks have been spotted for the year 2017.

## ***European Maritime Safety Agency (EMSA)***

With the Delegation Agreement signed by the European Commission with the European Maritime Safety Agency (EMSA) on December 3rd, 2015 the Agency is entrusted with the operation of the Maritime surveillance component of the Copernicus Security Service.

EMSA is committed to support the monitoring of the maritime areas, within and outside the European Union, using space data fused with other sources of maritime information.

Activities from the end of 2015 and throughout 2017 have been concentrated on the mobilisation of user communities, validating their requirements and building up capacities in EMSA to supply services onwards.

The delegation agreement defines the means by which the EMSA can implement the entrusted tasks, in particular the budget and the actions to be implemented, in full compliance with Article 61(3) of the Financial Regulation and with Article 40 of the rules of application of the Financial Regulation.

The agreement has been negotiated on the basis of the implementation framework set by the relevant Commission Implementing Decision<sup>52</sup> that authorised the Director-General of DG GROW to sign it after prior information to the Commission. This Decision lays down the actions to be implemented, the amount of the entrusted funds and the conditions for their management in view of ensuring that tasks will be carried out within the limits of the budget allocated, the schedule foreseen and the performance expected. The implementation period of the agreement runs until 31 December 2021. The maximum EU budget delegated amounts to EUR 40 million. These appropriations shall cover:

- (a) expenditure related to the implementation of the procurement;
- (b) the remuneration of the Agency for the implementation of the entrusted tasks

### Supervision mechanism:

The Commission, under the lead of the Copernicus services unit of the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs and involving other services as appropriate, shall monitor and assess on a regular basis the implementation of the tasks delegated to EMSA. Such process is based, in particular, on the completion of the milestones as defined in the annual work programmes submitted by the entrusted entity (Article 7.2 and 19 of the DA).

The agreement ensures that the Commission, the European Anti-fraud Office (OLAF) and the Court of Auditors or their authorised representatives, may at any time during the implementation of the entrusted tasks and up to five years after the payment of the balance carry out checks and audits on the implementation of the entrusted tasks (Article 26 of the DA).

The Commission may also carry out interim or final evaluations of the impact of the implementation of the entrusted tasks evaluated against the objectives of the Copernicus programme. (Article 17 of the DA)

EMSA sets up and ensures the functioning of effective and efficient internal control systems which are aimed at providing reasonable assurance as to the achievement of the internal control objectives as defined in Article 32.2 of the Financial Regulation (article 32(2)) including notably the reliability, completeness and valuation of the inventories of the tangible and intangible assets produced or acquired under the programmes. (Article

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<sup>52</sup> Commission Implementing Decision of 19.11.2015 on a delegation agreement with the European Maritime Safety Agency in the framework of the Copernicus programme (C(2015)3006 final).

7.2 of the DA)

The contracts tendered by the entrusted entity shall provide for the Union with ownership of the results produced/developed in the process of implementation of the Copernicus tasks. (Article 16.1 of the DA).

Supervision activities conducted on a regular annual basis

The operational and budgetary discharge supervision is mainly based on the evaluation and verification of the submitted by the entrusted entity Annual Implementation report (AIR), and the intermediate submitted on Semestrial implementation reports (SIR) (Articles 19 and 20 of the DA).

No regularities or weaknesses in the performance by the Entrusted Entity of the delegated tasks have been spotted for the years 2015, 2016 and 2017.

### ***European Defence Agency (EDA)***

The European Defence Agency performs tasks relating to the implementation of the Pilot Project on Common Security and Defence Policy (CSDP) research, including programme management tasks, and is accountable for them. Those tasks are entrusted to it by the Commission by means of a delegation agreement and include the call preparation, evaluation follow-up and administrative management of the project on behalf of the Union for three defence technology research projects.

The main supervising body is the Agency's Steering Board in which the Commission is represented without vote, alongside the Member States which have one vote each.

#### Supervision mechanism

A Delegation Agreement is in force between the Commission and the Agency. EDA provides a regular reporting on the Agency's relevant activities to the Commission.

#### Supervision activities performed in 2017

The Commission exercised the supervisory tasks provided for in the existing delegation agreement. Regular implementation reports and in particular documentation regarding the call for proposals submitted by the Agency were revised. The Commission also participated as observer at the evaluation of the proposals.

In 2016, EDA awarded grants for three defence technology projects to be completed by November 2017 and May 2018.



## ***European Foundation for the Improvement of Living and Working Conditions (EUROFOUND)***

In 2016, DG GROW continued to follow the implementation of the Delegation Agreement signed in May 2015 with EUROFOUND. It concerns the Pilot Project on the Future of Manufacturing (FOME). While having a key focus on manufacturing, the project has 5 main objectives/tasks:

1. the development of a manufacturing employment outlook (including scenario building and game changers, and analysis of wages, employment, productivity, etc.);
2. the establishment of a reshoring monitor;
3. an analysis of the internationalization of SMEs and entrepreneurs ('born globals');
4. the development of regional industrial policy capacities (related to smart specialization) and
5. a comparative review and analysis of dual apprenticeship programmes.

Beyond its industrial policy context and focus on developing regional industrial policy capacity, the project will have a very clear employment dimension, addressing questions related to resource reallocation, job creation and reintegration into the labour market, restructuring trends, the gender dimension, skills/reskilling/upskilling, vocational training, entrepreneurship, and SME internationalisation and engagement in markets outside the EU.

In accordance with the delegation agreement, the implementation of the pilot project is subject to the monitoring of an Inter-Service Steering Group (ISSG) chaired by DG GROW and including representatives of other Commission Services and EU social partner organisations.

### Supervision mechanism:

All the contracts awarded as a result of the implementation of the entrusted tasks will be in line with the public procurement rules as set in the Financial Regulation.

EUROFOUND shall carry out ex ante and ex post controls including, where appropriate, on-the spot checks on samples of transactions to ensure that underlying transactions are legal and regular and that actions financed from the Union budget are effectively carried out and implemented correctly. EUROFOUND will take account of risk and cost-efficiency considerations when designing its control approach.

EUROFOUND provides to the Commission an annual report on the implementation of the entrusted tasks and its accounts on the expenditure incurred in the implementation of the entrusted tasks.

The Commission, including the European Anti-fraud Office (OLAF), and the Court of Auditors may at any time during the implementation of the entrusted tasks and up to five years after the payment of the balance carry out checks and audits on the implementation of the entrusted tasks.

In addition, the Commission may carry out interim or final evaluations of the impact of the implementation of the entrusted tasks measured against the objectives concerned.

### ***European Union Satellite Centre (SatCen)***

The European Union Satellite Centre (EU SatCen, previously called EUSC) is an agency of the European Union (EU) since 1 January 2002.

SatCen's Director reports to a Governing Board chaired by the EU's High Representative for Foreign Affairs and Security Policy. The Board comprises one representative of each EU country and one Commission delegate.

On 6 October 2016, DG GROW signed the Copernicus SatCen Delegation Agreement. The agreement completes the operational architecture of the Copernicus Security Service and enables the deployment of its last component - the Support to EU External Action (SEA) service, with SatCen as Service operator.

The Copernicus Security Service will contribute to a number of crucial EU policies by improving crisis prevention, preparedness and response capacities, namely for enhanced border and maritime surveillance, and in support of the EU's external policies.

In implementing the service, SatCen will work in cooperation and build up synergies with the service operators for the two other components of the Copernicus Security Service, already put in place from the end of 2015. Frontex will act as service operator for border surveillance and the EMSA will implement the maritime surveillance component.

The indicative profile of commitments in the budget of the EU for the entrusted tasks to be carried out by SatCen over the operational implementation phase 2016 to 2021: € 28,3 million.

#### Supervision mechanism

The Delegation Agreement is in force between the Commission and the Agency as from 6 October 2016. SatCen will provide a regular reporting on the Centre's relevant activities to the Commission.

## ANNEX 9: Evaluations and other studies finalised or cancelled in 2017

Definitions: A study is defined as 'a document resulting from intellectual services necessary to support the institution's own policies or activities. A study is financed through the EU budget. It may be produced inside the institution or commissioned from external experts, generally through procurement procedures'. Please note that Eurobarometers are studies.

An evaluation is defined as 'an evidence-based judgement of the extent to which an intervention has been effective and efficient, relevant given the needs and its objectives, coherent both internally and with other EU policy interventions and achieved EU added-value<sup>53</sup>'. Thus evaluations are a subset of studies - whilst all evaluations are studies, not all studies are evaluations.

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<sup>53</sup> Better Regulation Guidelines, SWD(2015) 111 final.

ANNEX 9: Evaluations and other studies finalised or cancelled during the year								
No used in Annex 3 MP2017	Title	Reason <sup>1</sup>	Scope <sup>2</sup>	Type <sup>3</sup>	Associated DGs	Costs (EUR)	Comments <sup>4</sup>	Reference <sup>5</sup>
<b><u>I. Evaluations</u></b>								
<b><u>a. Evaluations finalised in 2017</u></b>								
1	Evaluation of the <b>Market Surveillance</b> Regulation	L	Reg. EC 765/2008 Single Market Strategy [COM(2015)550]	R	SG, ENV, JUST, MOVE, TAXUD, CL IMA	200,00	Back-to-back with Impact Assessment	<a href="#">SWD(2017) 469 final; SWD(2017) 470 final; Study: Ex-post evaluation of the application of the market surveillance provisions of Regulation (EC) No 765/2008</a>
2	Evaluation of <b>Mutual recognition</b> regulation (764/2008)	REFIT/L	Reg. EC 764/2008 Single Market Strategy [COM(2015)550]	R	SG, ENV, SANTE	150,00	Complementary to the "evaluation on the implementation of the principle of mutual recognition" (completed in 2015).	<a href="#">SWD(2017) 475 final; SWD(2017)476 final; Study: Study on the costs and benefits of the revision of the Mutual Recognition Regulation (EC) No 764/2008</a>
11	Evaluation of ECHA	REFIT/L	Reg; 5EC)1907/2006	R	ENV, SANTE, SG	265,00	Supportive evaluation study to evaluation of REACH but also covering other ECHA activities. The evaluation of ECHA has been merged with the evaluation of REACH. There is no separate SWD.	<a href="#">Study: Study to gather further information to be used in support of an Impact Assessment of potential options, in particular possible Amendments of REACH Annexes, to modify requirements for registration of low tonnage substances (1-10t/year) and the CSA/CSR Reg</a>

14	Evaluation of the existing relevant framework for the <b>Single Digital Gateway</b>	L	Regulation (EU) No 1024/2012	R	SG	0	Internal evaluation. Back-to-back Evaluation and Impact Assessment.	<a href="#">Annex III to the SWD(2017) 213; Studies: Study on administrative formalities of important procedures and administrative burden for businesses;</a>  <a href="#">Study on information and assistance needs of businesses operating cross-border within the EU, including gap and cost analysis - EU Law and Publications</a>
18	Evaluation of the enforcement of intellectual property rights ( <b>IPRED</b> )	REFIT	Dir. 2008/48/EC	R	SG,CNECT, SJ, TAXUD, COMP	259,950	The evaluation has not been followed by legislative proposal. External study concluded in July 2017.	<a href="#">SWD(2017) 431 final; SWD(2017) 432 final; Study: Support study for the ex-post evaluation and ex-ante impact analysis of the IPR enforcement Directive (IPRED)</a>
19	Evaluation of <b>Remedies Directive</b>	REFIT	Dir. 2007/66/EC	R	SG, JUST,ENV,REGIO	491,725	Mixed Evaluation with one supportive study.	<a href="#">SWD(2017) 13 final; Study: Economic efficiency and legal effectiveness of review and remedies procedures for public contracts</a>
21	Evaluation of the SME instrument and the activities under Horizon 2020 Work Programme " <b>Innovation in SMEs</b> "	LMFF	HORIZON 2020 (Reg. EC 1291/2013)	E	SG, RTD	139,650	This evaluation is linked to the Interim Evaluation of Horizon2020. There is no separate SWD.	<a href="#">SWD(2017) 220 final; SWD(2017) 221 final;SWD(2017) 222 final; Study: Evaluation of the SME instrument and the activities under Horizon 2020 Work Programme "Innovation in SMEs"</a>
22	Interim evaluation of <b>Space research</b> and innovation under H2020	LMFF	HORIZON 2020 (Reg. EC 1291/2013)	E	SG, HOME, RTD	249,900	This evaluation is linked to the Interim Evaluation of Horizon2020. There is no separate SWD.	<a href="#">SWD(2017) 220 final; SWD(2017) 221 final; SWD(2017) 222 final; Study: Interim evaluation of space research and innovation under Horizon 2020</a>
23	Interim evaluation of the <b>Copernicus</b> programme	LMFF	COPERNICUS	E	SG, ENV,CLIMA,RTD,HOM E,MARE,ECHO, MOVE	150,000		<a href="#">SWD(2017) 347 final; Study: Interim evaluation of Copernicus</a>

24	Interim evaluation of the European GNSS programmes (EGNOS and <b>Galileo</b> ) and evaluation of the European GNSS Agency	LMFF	Reg. (EU) 1285/2013; Reg. 512/2014 amending Reg. 912/2010	E	SG, LS, BUDG, HR, ECFIN, MOVE, CNECT, RTD, OLAF, JRC, COMP, TRADE, EEAS	250,000	The two Evaluations of Galileo and GNSS Agency have been merged.	<a href="#">SWD(2017) 346 final; Study: Mid-term review of the Galileo and EGNOS programmes and the European GNSS Agency</a>
<b><u>b. Evaluations cancelled in 2017</u></b>								
25	Evaluation of the existing relevant framework for the Single Digital Gateway	L	Various measures included in the SDG, PSC, PCP, CPCP, Your Europe, Your Europe Advice, SOLVIT and EEN	R	SG	42,370	The true number for this evaluation is #14	
27	Review of Regulations EU 2015/1095 and 2015/1094 on <b>ecodesign</b> and energy labelling requirements for professional <b>refrigeration</b>	L	Reg. 1095/2015	R	SG, ENER, ENV	150,000	Technical application review, not fully-fledged evaluation.	
28	Review of Regulations EU 1253/2014 and 1254/2014 on <b>ecodesign</b> and energy labelling requirements for <b>ventilation</b> units.	L	Reg. 1253/2014 Article 8	R	SG, ENER, ENV	175,000	Technical application review, not fully-fledged evaluation.	
32	Report on the use of the delegation of power in <b>the Drug Precursors Regulation</b>	L	Reg. (273/2004)	R	SG,TAXUD	TBD	Report on technical progress, not fully-fledged evaluation.	

34	Review of technical progress impacting the exemptions of the <b>Explosive Traceability Directive</b>	L	Dir. 2008/43/EC	R	SG, HOME		Review on technical progress, not fully-fledged evaluation.	
35	Review of the single market for <b>parcel delivery services</b>	L	Draft regulation COM(2016) 285 and Parcel Roadmap COM(2013)866	R	SG	300,000	Not fully-fledged evaluation.	
36	Review of the <b>Postal Services Directive</b>	L	Dir. 97/67/EC	R	TDB	700,000	Not fully-fledged evaluation	
40	Evaluation of the <b>Concession Directive</b>	L	Dir. 2014/23	R	SG	TBD	Evaluation postponed to the next Commission.	
<b>II. Other studies finalised or cancelled in 2017</b>								
<b>a. Other studies finalised in 2017</b>								
31	Impact of taxes on the competitiveness of European Tourism and investment in tourism					163100		<a href="https://ec.europa.eu/growth/content/study-impact-taxes-competitiveness-european-tourism-eu-tourism-tax-tool_en">https://ec.europa.eu/growth/content/study-impact-taxes-competitiveness-european-tourism-eu-tourism-tax-tool_en</a>
Not in MP 2017 but approved via ad-hoc procedure in 2017	Study on Data in platform-to-business relations					87000		<a href="https://publications.europa.eu/en/publication-detail/-/publication/04c75b09-4b2b-11e7-aea8-01aa75ed71a1/language-en">https://publications.europa.eu/en/publication-detail/-/publication/04c75b09-4b2b-11e7-aea8-01aa75ed71a1/language-en</a>
<b>b. Other studies cancelled in 2017</b>								

A2	Local labour market effects of trade integration		COSME support measure GRO/SME/16/C/0 41	E	TRADE		Preliminary discussions with DG TRADE revealed lack of support for study due to policy considerations	
13	Assessment and development of test procedures for a variety of measures linked to the review of the General Safety Regulation						Replaced by a similar study for 2018	
14	Technical study on detailed analysis for equivalent and harmonized measures						Closely linked to TTIP negotiations. At this point not necessary + replaced by more urgent Cost-effectiveness analysis of clustered vehicle safety	
15	Technical study for harmonization of world-wide frontal crash standards						Closely linked to TTIP negotiations. At this point not necessary	
22	The establishment of common training principles for specific professions						Study cancelled as DG COMM has not accepted the survey proposal.	
25	Study on the legal assessment for the creation of a unitary supplementary protection certificate (SPC)						The study was cancelled because the ratification process of the unitary-patent package is delayed	



26	Study on preparation impact assessment of the patent and supplementary protection certificates (SPC)						The impact assessment has not been done because we are not currently in a position to propose amendments to the SPC Regulation for several reasons: a number of landmark referrals are pending at the CJEU and an overwhelming majority of stakeholders said in the public consultation that they do not want to improve implementation via legislative changes but via guidelines, etc.	
34	Collusion - Study on targeted legal issues and MS practices on integrity							
37	Feasibility study: European competence model for PP						Going straight to the main study in 2018	
41	Assessment of financing gaps in the field of alternative sources of finance						Other studies had made this study redundant	
42	Blockchain-based crowdfunding						Other studies had made this study redundant	
<sup>1</sup> Reason why the evaluation/other study was carried out, please align with Annex 3 of the MP 2016. The individual symbols used have the following meaning: L - legal act, LMFF - legal base of MFF instrument, FR - financial regulation, REFIT, REFIT/L, CWP - 'evaluate first', O - other (please specify in Comments)								
<sup>2</sup> specify what programme/regulatory measure/initiative/policy area etc. has been covered								
<sup>3</sup> FC – fitness check, E – expenditure programme/measure, R – regulatory measure (not recognised as a FC), C – communication activity, I – internal Commission activity, O – other – please specify in the Comments								
<sup>4</sup> Allows to provide any comments related to the item (in particular changes compared to the planning). When relevant, the reasons for cancelling evaluations/ other studies also needs to be explained in this column.								
<sup>5</sup> For evaluations the references should be 1) number of its Evaluation Staff Working Document and number of the SWD's executive summary; 2) link to the supportive study of the SWD in EU bookshop. For other studies the references should be the link to EU bookshop or other reference where the 'other study' is published via different point.								

## ANNEX 10: Annex related to the crossed sub-delegations

<b>2017 - Activities covered by crossed sub-delegations granted by DG GROW Authorising Officer by delegation to other Directors General</b>		
<b>DG</b>	<b>Article/Item</b>	<b>Activity</b>
DG DIGIT	02.010201.00.02.20 %	Technical Assistance
Eurostat, the statistical office of the European Union (ESTAT)	02.060100%	Delivering operational services relying on space-borne observations and in-situ data (Copernicus)
DG Human Resources and Security (HR)	02.0450%	Appropriations accruing from contributions from (non-European Economic Area) third parties to research and technological development (2014 to 2020)
Joint Research Centre (JRC)	02.0601% 02.0651%	Delivering operational services relying on space-borne observations and in-situ data (Copernicus) Completion of European Earth monitoring programme (GMES)
DG for Neighbourhood and Enlargement Negotiations (DG NEAR)	02.027710	Preparatory action — Euromed innovation entrepreneurs for change
Publications Office of the European Union	02.045100%	Completion of previous research framework programmes — Seventh Framework Programme — EC (2007 to 2013)
The Office for Infrastructure and Logistics in Brussels (OIB)	02.010403%	Support expenditure for European satellite navigation programmes
DG RTD	02.045100%	Completion of previous research framework programmes — Seventh Framework Programme — EC (2007 to 2013)
ECFIN	02.027710%	Technology Transfer Pilot project

<b>ANNEX 11:</b> <b>Specific annexes related to "Assessment of the effectiveness of the internal control systems"</b>
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Annex 11 not used by DG GROW (to be provided only if needed).

## ANNEX 12: Performance tables

### 3. ANNEX 12: Performance tables

<b>General objective 1: A New Boost for Jobs, Growth and Investment</b>		
<b>Impact indicator 1: Employment rate population aged 20-64</b>		
<b>Source of the data:</b> Eurostat		
<b>Baseline 2014</b>	<b>Interim Milestone</b>	<b>Target (Europe 2020 Strategy)</b>
69.2%	./.	at least 75%
<b>Latest known value (2016) : 71.1%</b> Compared to 2015, the employment rate increased by 1 percentage point. This growth could be the result of the implementation of National and European policies but also be linked to the international economic recovery.		
<b>Impact indicator 2: Percentage of EU GDP invested in R&amp;D (combined public and private investment)</b>		
<b>Source of the data:</b> Eurostat		
<b>Baseline 2012</b>	<b>Interim Milestone</b>	<b>Target (Europe 2020 Strategy)</b>
2.01%	./.	3.0%
<b>Latest known value (2016 –provisional): 2.03%</b> There is no evolution from 2015 to 2016.		
<b>Specific objective 1.1: To support SME creation and growth</b>		Related to spending programme COSME
<b>Indicator 1: Financing mobilised and number of firms benefiting from debt financing</b>		
<b>Source of data:</b>		
COSME Loan Guarantee Facility (LGF): European Investment Fund quarterly operational report. A quarterly summary update of the main implementation data is available on <a href="http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/implementation_status.pdf">http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/implementation_status.pdf</a>		
<b>Quality of data:</b> <b>Good</b>		
The data are reported back from the intermediary organisations to the European Investment Fund.		
<b>Baseline 2013</b>	<b>Interim Milestone 2017</b>	<b>Target 2020</b> (target from the COSME legal base)
As of 31 December 2013, EUR 16.1 billion in financing mobilised, reaching 312,000 SMEs (SME Guarantee Facility under the former CIP programme 2007-2013)	Financing mobilised from guarantees ranging from EUR 7 billion to EUR 10.5 billion; number of firms reached ranging from 108,000 to 161,000 under the current COSME programme	Financing mobilised from guarantees ranging from EUR 14 billion to EUR 21 billion; number of firms reached ranging from 220,000 to 330,000 under the current COSME programme
<b>Latest known results (if possible at 31/12/2017):</b> As at 30 September 2017, more than 237,000 SMEs have received € 10.4 billion of financing supported by the COSME LGF, enhanced through additional risk-sharing capacity from the EFSI SME window. The 2017 interim milestones for financing mobilised and numbers of firms financed are thereby already exceeded. Thanks to the important boost of the COSME LGF since 2015 through the EFSI guarantee (€ 500 million of front-loading converted in 2017 into a permanent top-up of € 550 million), also the 2020 targets will be exceeded by far.		
<b>Result indicator 2: Exchanges between new and experienced entrepreneurs and resulting creation of companies</b>		

<b>Source of data:</b> Erasmus for Young Entrepreneurs statistics, the mid-term evaluation of COSME realised in 2017 <b>Quality of data:</b> <b>Good</b> The basic data come from a survey among EYE participants. The resulting data are thus based on estimates. Even though it is not possible to make a claim of 'causality' between EYE and the results, evidence suggests that they are strongly linked / attributed to the programme.		
Baseline 2015	Interim Milestone 2017	Target 2020 (target set at DG level)
3,600 exchanges over the last 5 years created around 1,300 jobs	5,500 exchanges by 2017, resulting in the creation of around 1,600 jobs	10,000 exchanges by 2020, resulting in the creation of around 3,000 jobs
<b>Latest known results (if possible at 31/12/2017):</b> In 2017 the Erasmus for Young Entrepreneurs' (EYE) scheme has already reached the level of 5800 exchanges between new and experienced entrepreneurs, and proved to be successful in addressing the needs of entrepreneurs in the European market. Based on a survey covering participants between 2014 and 2016 the new entrepreneurs created 251 new companies and about 1000 jobs while the host entrepreneurs claimed to increase their employment by another 1100 jobs.		
<b>Result indicator 3: SME receiving business and innovation support services to increase their competitiveness in the Single Market and beyond via the Enterprise Europe Network (EEN)</b> <b>Source of data:</b> EASME: Enterprise Europe Network Progress Report and intermediary reports <b>Quality of data:</b> <b>Good</b> The data comes from the Network members which have to follow monitoring and reporting guidelines. A dedicated unit in EASME monitors the data collection by the members.		
Baseline 2014	Interim Milestone 2017	Target 2020
As of 31 December 2014, 3.1 million SME received support services	number of SME receiving support services from the EEN: 475.000 per year	number of SME receiving support services from the EEN: 500.000 per year
<b>Latest known results:</b> Numbers for 2017 are not available yet because of the 2-year duration of the grants, however about 254.000 SMEs received support in 2016 and expected to be similar for 2017. The result is lower than the originally target value because of a new method for calculating this indicator (and not because of lower service level from the Network). Upon their request to reduce the administrative burden, the Network has been asked to report on high-value-added services only. Network partners keep on providing information services to large numbers of SME clients, but no longer need to record them.		
<b>Result indicator 4: Patent applications in the different enabling and industrial technologies for Space Projects</b> <b>Sources of data:</b> Internal monitoring of the Cooperation projects under the Space research objective of Horizon 2020, plus additional information from project partners on patent applications <b>Quality of data:</b> <b>Limited</b> While the budget allocated can be traced from the project database, the information from project partners on patent applications may not cover all applications, as patents could be applied after the end of the EU-funded project.		
Baseline	Interim Milestone 2015	Target 2020 (target from the H2020 legal base)
This indicator is a new approach, therefore no baseline	40% of the budget is allocated to activities potentially generating patents	3 patent applications per €10 million funding
<b>Latest known results at 31/12/2017:</b> P By the end of 2017, 15 patent applications from space research projects were introduced, which equals 0.3 per 10 million spent. Patent applications are usually filed towards the end or even after the end of projects. Thus, it is too early to have reliable data on patent applications for projects in Horizon 2020. Overall, in the Horizon 2020 interim evaluation, only 153 patent applications were reported.		
<b>Specific objective 1.3: To achieve full capacity for Galileo and Copernicus</b>		Related to spending programmes Galileo and Copernicus

<b>Indicator 1: Galileo infrastructure: Cumulative number of operational satellites</b> <b>Source of data:</b> European Global Navigation Satellites Systems Agency (GNSS Agency); European GNSS Service Centre <a href="https://www.gsc-europa.eu/system-status/Constellation-Information">https://www.gsc-europa.eu/system-status/Constellation-Information</a> <b>Quality of data: Good</b> The GNSS Service Centre provides online information status information on declarations of new Galileo services based on the signals received from the satellites by the Galileo ground stations.		
<b>Baseline 2013</b>	<b>Interim Milestone 2015</b>	<b>Target 2020</b> (target from the Galileo legal base)
4	12	30
<b>Latest known results at 31/12/2017:</b> 22 satellites are in orbit. 18 satellites are operational and four are in the testing phase. Target for 2020 should soon be achieved as 4 additional satellites are supposed to be launched in 2018. Both in terms of satellites and services, the 2020 targets are about to be reached.		
<b>Result indicator 2: Galileo services provision: Number of services implemented</b> <b>Source of data:</b> European Global Navigation Satellites Systems Agency (GNSS Agency); European GNSS Service Centre <a href="https://www.gsc-europa.eu/notice-advisory-to-galileo-users-nagu-2016063">https://www.gsc-europa.eu/notice-advisory-to-galileo-users-nagu-2016063</a> Further declarations will be issued here: <a href="https://www.gsc-europa.eu/system-status/Constellation-Information">https://www.gsc-europa.eu/system-status/Constellation-Information</a> <b>Quality of data: Good</b> The GNSS Service Centre provides online information status information on declarations of new Galileo services based on the signals received from the satellites by the Galileo ground stations.		
<b>Baseline 2014</b>	<b>Interim Milestone 2016</b>	<b>Target 2020</b>
0	4	Full operational capability of all Galileo services
<b>Latest known results at 31/12/2017:</b> Galileo initial services were declared operational on 15 December 2016. These include the Galileo Initial Open Service, the Galileo Initial Public Regulated Service, the Galileo Initial Search and Rescue Service. The Commercial Service Demonstrator became also operational in 2016 and will be connected to Galileo in 2018.		
<b>Result indicator 3: Cumulative number of operational satellites under Copernicus and deployment per year of specific service components</b> <b>Source of data:</b> ESA and EUMETSAT as well as services by EEA, ECMWF, Mercator Ocean, JRC, Frontex, EMSA and SatCen <a href="http://www.copernicus.eu/main/satellites">http://www.copernicus.eu/main/satellites</a> <b>Quality of data: Good</b> Data on the operation of the satellites and the services are provided by ESA and EUMETSAT. The European Space Agency (ESA) is responsible for the development of the space segment component of the Copernicus programme and operates the Sentinel-1 and Sentinel-2 satellites. ESA will deliver the land mission from Sentinel-3 and will operate Sentinel-5P. EUMETSAT is responsible for operating the Sentinel-3 satellites and delivering the marine mission and will also operate and deliver products from the Sentinel-4, and -5 instruments, and the Sentinel-6 satellites.		
<b>Baseline 2014</b>	<b>Interim Milestone 2015</b>	<b>Target 2020</b> (target from the Copernicus legal base)
1	2 Services already to operational in 2015 are Emergency Mapping, Early Warning System of Floods, Pan-EU land service, EU local Land service, Global land service, and provision of access to reference data access = 6 components responding to Copernicus Regulation Art 5(1e) and Art	8 Services on Global Hot spots, Border Surveillance, Maritime Surveillance, External Action Service, Early Warning System Forest fires will be added = 5 components operational (2016). Marine Environment, and Atmosphere service to be fully operational (2017).

	5(1c).	Climate change service to be operational (2019).  Furthermore Climate change service to be operational (2019).
<p><b>Latest known results (at 31/12/2017):</b>  Following the successful launch of 2 further satellites in 2017, Copernicus services are benefitting from over 12 TB of high quality space data every day, supplied from the 6 dedicated Sentinel Satellites in orbit. The total data distributed to some 115 000 users exceeds now 42 Pbyte, with services supplying over 743 information products.</p> <p>Services operational at end of 2017 are Emergency Mapping, Early Warning System of Floods and Forest Fires, Pan-EU land service, EU local Land service, Global land service including Hot Spot monitoring, and provision of access to reference data access; Marine Environment, and Atmosphere service; Security service components of Border Surveillance, Maritime Surveillance, External Action Service = 13 components responding to Copernicus Regulation Art 5(1a,b,c,e,f).</p>		

## Priority 2 - A Connected Digital Single Market

General objective 2: A Connected Digital Single Market		
<p><b>Impact indicator: Aggregate score in Digital Economy and Society Index (DESI) EU-28</b>  Explanation: 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.  <b>Source of the data:</b> DESI</p>		
Baseline DESI 2015	Interim Milestone	Target 2020
0.5	./.	Increase
<b>Latest known value: DESI 2016: 0.52</b>		
Specific objective 2.1 : To increase the total international parcel flow		
<p><b>Result indicator: Share of outbound parcels in the total CEP (courier, express and parcel) market to EU and non EU destinations</b>  <b>Source of data:</b> Data collected from national postal operators  <b>Quality of data: Limited</b>  A combined figure for inbound and outbound cannot be used as it would overstate the proportion of cross-border parcels due to double counting (e.g. a BE to FR parcel would count twice as outbound in BE and inbound in FR). Using outbound rather than inbound excludes distortions from inbound Asian e-commerce and the focus of the indicator should be the EU. Even though outbound does include parcels being sent to non-EU destinations, to the extent that these parcels are being sent by EU retailers, growth is still positive.</p> <p>The quality of the indicator is limited as Member States do not always report the data in time. The 2016 data for example are based on 20 countries only. Data for DE and FR, which have high parcel volumes, are not included. Nevertheless, the number and countries for which data is available has improved compared to 2015. The quality of the data will further improve when the parcel regulation comes into force and all Member States have to report.</p>		
Baseline 2014	Interim Milestone 2017	Target 2020

8.5% <sup>54</sup>	Annual increase	Annual increase
<b>Latest known results at 31/12/2016:</b> Latest known results are for 2016, 12.3 %. This is a substantial increase compared to the 2014 baseline of 8.5 % and points to an increase of cross-border activities.		

## Priority 4: A Deeper and Fairer Internal Market with a Strengthened Industrial Base

General objective 4: A Deeper and Fairer Internal Market with a Strengthened Industrial Base		
<b>Impact indicator 1: Gross value added of EU industry in GDP</b> <b>Source of the data:</b> Calculation based on EUROSTAT data		
Baseline 2014	Interim Milestone	Target 2020 (the target is confirmed in the Mission Letter to Commissioner Bieńkowska)
17.1%	Annual increase	20%
<b>Latest known value (2016): 17.4%</b>		
<b>Impact indicator 2: Intra-EU trade in goods (% of GDP)</b> <b>Source of the data:</b> Eurostat		
Baseline 2014	Interim Milestone	Target 2020
20.4%	./.	Increase
<b>Latest known value (2015): 20.3%</b>		
<b>Impact indicator 3: Intra-EU trade in services (% of GDP)</b> <b>Source of the data:</b> Eurostat		
Baseline 2014	Interim Milestone	Target (2020)
6.3%	./.	Increase
<b>Latest known value (2015): 6.6%</b>		
Specific objective 4.1: To reduce regulatory restrictions in services and goods		
<b>Result indicator: Degree of regulatory restrictiveness in business services</b> <b>Source of data:</b> DG GROW Business services – Assessment of Barriers and their Economic Impact <a href="http://ec.europa.eu/growth/single-market/services/economic-analysis/index_en.htm">http://ec.europa.eu/growth/single-market/services/economic-analysis/index_en.htm</a> <b>Quality of Data: Limited</b> The assessment only focusses on four key business services sectors: accountants, architects, engineers and Lawyers. The overall assessment of restrictiveness is based on the analysis of the following seven regulatory barriers: reserved activities, authorisation requirements, compulsory chamber membership requirements, restrictions on corporate form, shareholding structures & multidisciplinary activities, insurance requirements, tariff restrictions, and restrictions on advertising		

<sup>54</sup> The original baseline of 7.6 % was changed to 8.5% as better data with a wider coverage became available



The assessment also includes the analysis of non-regulatory barriers, namely the provision of information on legal requirements and the completion of procedures online through the Points of Single Contact (one common assessment covering the four business services sectors assessed).

The figure below shows the overall results of the assessment on restrictiveness, taking into account the results of the 8 barriers assessed cumulatively.

High (low) scores indicate higher (lower) restrictiveness.

Baseline 2014	Interim Milestone 2017	Target 2020 (linked to the Single Market Strategy)
	Reduce restrictiveness of national services regulation by 10%	Reduce restrictiveness of national services regulation by 20%

#### Latest known results at 2014:

No update has been done since the 2015 study on the "Assessment of Barriers and their Economic Impact". Therefore the latest known value is the 2014 baseline. DG GROW is currently working on a revised methodology.

### Specific objective 4.2: To create a culture of compliance and smart enforcement

#### Result indicator 1: Duration of infringement procedures in key areas under DG GROW's responsibility (free movement of goods and market surveillance)

**Source of data:** Internal Market Scoreboard

[http://ec.europa.eu/internal\\_market/scoreboard/performance\\_by\\_governance\\_tool/infringements/index\\_en.htm](http://ec.europa.eu/internal_market/scoreboard/performance_by_governance_tool/infringements/index_en.htm)

**Quality of data:** **Good**

The duration refers to pending infringement cases not yet sent to the Court (pre-litigation stage) as of 1 December of a given year. The average duration is calculated in months from the sending of the letter of formal notice.

The average case duration is above 3 years. Depending on the situation, the delays can be attributable to the national authorities or the Commission.

The shorter the duration, the more efficient was the procedure. A short duration also indicates a successful negotiation process.

Baseline 2014	Interim Milestone 2016	Target 2017 (defined in the Governance Communication, COM(2012)259)
24.4 months on average	21 months on average by end 2016	18 months on average by end 2017

**Latest known results at 01/12/2017:** The average duration of infringement procedures under the responsibility of DG GROW was **26.5 months** at 1 December 2017. Thus the 2017 target of 18 months was not achieved. The delays in handling infringement cases can be attributed to both the Member States and the Commission (translations needed, delayed answers from the Member States, delayed requests for formal steps by the Commission, etc.). The Commission Communication of December 2016 "EU Law: Better Results through Better Application" aimed to address the long delays.

It underlined the need for the Commission and Member States to reinforce their co-operation in the application of the EU law. In particular, good co-operation will help reduce the time needed to handle infringement proceedings.

**Result indicator 2: Number of consultations/information of the 98/34 and technical barriers to trade (TBT) notifications database measuring the awareness among stakeholders**

**Source of data:** TRIS and TBT databases

**Quality of data:** **Good**

- TRIS: Member States notify their legislative projects regarding technical regulations for products and Information Society services to the Commission and to the other Member States, which assess these projects in the light of EU legislation.

- TBT: This database provides a notification system allowing Member States and the Commission (i) to notify draft technical regulations for goods under their responsibility; and (ii) to become acquainted with proposed national technical regulations for goods and check these to ensure that these are compatible with TBT-WTO rules.

Baseline 2013	Interim Milestone 2016	Target 2020 (target set at DG level)
605.000	Yearly increase of at least 10%, leading to ca. 1 060 000	1 400 000

**Latest known results (at 31/12/2017):** With 1.8 million views on these databases, the DG over-achieved its target for 2020 already in 2017. This success can be attributed to the growing use of the single Market Service Centre (SOLVIT, Your Europe, etc.) and to the good IT design of the databases. Thus, awareness among stakeholders about the opportunities of the Single Market seems on the rise. The measures of the compliance package of May 2017 will further raise this awareness and will contribute to strengthening the Single Market.

**General objective 5: A Stronger Global Actor<sup>55</sup>**

**Specific objective 4.3: To achieve closer co-operation in European defence**

**Result indicator: Percentage of collaborative defence equipment procurement expenditure**

**Explanation:** The percentage is measured as a share of the total defence equipment procurement by the Member States

**Source of data:** European Defence Agency

<http://www.eda.europa.eu/info-hub/publications/publication-details/pub/defence-data-2014>

**Quality of data:** **Limited**

All 2012-2014 figures on collaboration are partial, as several Member States could not provide the data.

Baseline 2010	Interim Milestones		Target 2027 (after the first phase of the future EU research programme + 15 full years after transposition of the Defence Procurement Directive)
	2016	2018	
22.4%	22.5%	23%	Gradual increase leading to over 25%

<sup>55</sup> The impact indicators available for this General objective are not relevant for the defence-related policies of DG GROW. As the enhanced co-operation among Member States is at the core of the European Defence Action Plan, progress will be measured by the result indicator on collaborative defence equipment procurement.

