European Commission

2017

Annual Activity Report

Executive Agency for Small and Medium-sized Enterprises (EASME)

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THE EASME IN BRIEF

Executive Agencies are established by the Commission in accordance with Council Regulation (EC) No 58/2003[1] with the purpose of delegating certain tasks relating to the management of Union programmes, including budget implementation. This enables the Commission to focus on its core activities and to dispose of sufficient technical expertise for the management of such programmes with the goal to achieve a more efficient implementation.

The Executive Agency for Small and Medium-sized Enterprises (EASME)[2] is entrusted with the management of parts of the following Union programmes:

- the Framework Programme for Research and Innovation (Horizon 2020) 2014-2020;
- the Programme for the Competitiveness of Enterprises and small and medium-sized Enterprises (COSME) 2014-2020;
- the Programme for the Environment and Climate Action (LIFE) 2014-2020;
- the European Maritime and Fisheries Fund (EMFF);
- the legacy of the Competitiveness and Innovation Programme (CIP) 2007-2013 limited to the following parts[3]: "Intelligent Energy Europe Programme (IEE II)" and the "Eco-innovation initiative".

The Agency's mission statement is as follows: 'We provide high quality support to our beneficiaries, turning EU policy into action. As an executive agency of the European Commission, we manage significant parts of COSME, LIFE, Horizon 2020 and EMFF. We ensure that actions funded by these programmes deliver results and provide the Commission with valuable input for its policy tasks'.

The Agency has its own legal identity and its tasks are specified in the Act of Delegation[4]. This means that EASME implements the delegated programmes autonomously with the Director acting as Authorising Officer by Delegation (AOD). EASME, like the other Executive Agencies, implements the EU programme budgets under direct management (Article 58.1a and 62.2 of the general financial regulation). To this end, the Agency mainly awards grants through open calls for proposals while a small, but increasing, share of the programmes' budgets is also implemented through procurement contracts.
The Agency has its own administrative budget for which it receives from the EU an annual subsidy (in 2017: EUR 43 million). The administrative budget covers the running costs of the Agency, mainly staff expenditure, office related costs, IT and other services. The EASME's Director is the authorising officer (AO) for this budget.
EASME operates under the control of the Commission: it reports to the Directors-General of the parent Directorates-General (DGs) and to the Steering Committee, on the performance of the tasks assigned to the Agency. The Agency implements delegated tasks in close cooperation with its seven parent DGs: (1) DG for Internal Market, Industry, Entrepreneurship and SMEs, (2) DG for Research and Innovation, (3) DG for

[1] Council Regulation (EC) No 58/2003 of 19 December 2002 laying down the statute for executive agencies to be entrusted with certain tasks in the management of Community programmes (OJ L 11 of 16.01.2003).
[2] Following the establishment of the Intelligent Energy Executive Agency (IEEA) by Commission Decision 2004/20/EC of 23 December 2003 (OJ L 5 of 9.01.2004), the Commission decided to transform the IEEA into the EACI (Commission Decision 2007/372/EC of 31 May 2007 amending Decision 2004/20/EC (OJ L 140 of 1.06.2007). End 2013, the EACI was replaced and succeeded by the EASME (Commission Implementing Decision C(2013/771/EU) of 17 December 2013 establishing the 'Executive Agency for Small and Medium-sized Enterprises' and repealing Decisions 2004/20/EC and 2007/372/EC). The related Act of Delegation (Commission Decision C(2013)9414 delegating powers to the Executive Agency for Small and Medium-sized Enterprises with a view to performance of tasks linked to the implementation of Union programmes in the field of energy, environment, climate action, competitiveness and SMEs, research and innovation and ICT, comprising, in particular, implementation of appropriations entered in the general budget of the Union) - hereinafter referred as Act of Delegation.
[3] As from 2014 the new calls for "Enterprise Europe Network", "Your Europe Business Portal", the "European IPR Helpdesk" and the "IPorta Project" are included under the umbrella of the COSME programme.
[4] Commission Decision C(2013)9414 of 23 December 2013 delegating powers to the Executive Agency for Small and Medium-sized Enterprises with a view to performance of tasks linked to the implementation of Union programmes in the field of energy, environment, climate action, competitiveness and SMEs, research and innovation and ICT, comprising, in particular, implementation of appropriations entered in the general budget of the Union as amended by Commission Decision C(2014)4636 of 11 July 2014, Commission Decision C(2014)6944 of 2 October 2014, Commission Decision C(2015)651 of 12 February 2015, Commission Decision C(2016)3684 of 17 June 2016.

Communications Networks, Content and Technology, (4) DG for Climate Action, (5) DG for Energy, (6) DG for Environment and (7) DG for Maritime Affaires and Fisheries.
In addition to the above-mentioned stakeholders, the Agency works closely with other partners such as the Common Support Centre for Horizon 2020, the Research Executive Agency (REA) for a number of logistic and administrative support services and an external contractor for certain tasks under the LIFE programme.

The year 2017 has been a year of changes in the management of the Agency. Among other nominations, in September Julien Guerrier was appointed as the new Director of the Agency.

By the end of 2017, the Agency counted 490[5] staff members managing over 3000 projects with an operational budget of EUR 1.3 billion.

[5] 434 statutory staff. In addition: 15 stagaires, 27 prestataires and 14 interimaires

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director of EASME to the College of Commissioners. It is 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[6].

Implementation of the Agency's Annual Work Programme – Highlights of the year

In 2017 the Agency continued to grow and reached cruising speed in the implementation of the new programmes. In September the new Director of the Agency was appointed. Julien Guerrier has set the following three priorities for the Agency:

- to prepare the Agency for its next mandate: the Agency should have a strong, coherent and visible mission post-2020, and the means to deliver on it;
- to ensure EASME is a top-performing Agency: EASME should deliver on all its financial performance indicators and should be a client-oriented organisation that provides high-quality services to applicants, beneficiaries and Commission services;
- to make EASME a top employer, i.e. reinforcing the Agency as a modern and attractive organisation.

Julien Guerrier, Director of EASME

Effective programmes

The 2017 **COSME** external evaluation report highlighted the good results and impacts deriving from COSME flagship initiatives managed by the Agency. It reports the efficiency and effectiveness of Enterprise Europe Network, Clusters and Erasmus for Young Entrepreneurs as well as their performance. It also shows good results achieved in other actions like Tourism actions or the EU Japan Centre.

The new scheme of Erasmus for Young Entrepreneurs launched under Framework partnership agreements is now running with organisations that have proved their ability to deliver quality and impact in previous years. This will improve the sustainability of the Network and give more confidence to entrepreneurs to join this initiative.
Under the H2020 Innovation for SME's the new pilot action Innovation Associate has started with more than 80 projects. They are delivering promising results in a large variety of topics.

Kersti Kaljulaid, President of Estonia

The Enterprise Europe Network Annual Conference 2017 was held on 20-22 November in Tallinn. The event was organised by EASME and DG GROW, jointly with the Estonian Chamber of Commerce and Industry and with support from the Luxembourg Chamber of Commerce. More than 800 participants from 61 countries gathered for three days of intensive learning, sharing and networking.

A rich programme, featuring 31 parallel sessions and 126 speakers, was put together thanks to the contributions received from the Network, Associate Members, EASME and the European Commission. 1,200 bilateral meetings took place in the matchmaking area.

[6] Article 17(1) of the Treaty on European Union.

For the first time in the history of the event, the president of the host country opened the conference with a well-received speech: Kersti Kaljulaid, President of the Republic of Estonia, introduced the audience to e-Estonia. The Commission's Vice-President for the Digital Single Market, Andrus Ansip, recognised the Network's work "helping and supporting European SMEs for almost 10 years". Kristin Schreiber, Director COSME & SME Policy at DG GROW, had a very clear message for the Network: "I personally would like to see a strong Enterprise Europe Network that can be described by two words: excellence and ambition. Please keep up the good work – we need to go further and also to make your work more visible," she said. Julien Guerrier, Director of EASME, focused on three key messages: deliver quality and impact, share knowledge to achieve excellence and tell your stories of success.

97% of participants declared they were "very satisfied" or "satisfied" with the conference and 91% "strongly agreed" that it was well organised. The conference hashtag #EEN17 was used around 1,000 times by more than 180 accounts (including Vice-President Ansip). These posts reached more than 400,000 people generating more than two million impressions and contributing to the visibility of the Network' work.

The **SME Instrument** is the EU research and Innovation funding programme that invests in high potential and high risk, disruptive innovation SMEs. In the first years of the programme, the Agency worked on setting up a sound evaluation process, getting grant preparation under way and developing a business innovation coaching system. Now the programme enlarges its operations to accommodate a growing budget.

Besides funding, the SME Instrument also offers business innovation services to accelerate the innovation process. Business innovation coaches help innovators to build up their businesses, which should also help facilitate their impact on the markets. With less than EUR 1 billion of EU funding invested in business support, the expected turnover for the funded SMEs is more than EUR 20 billion.
2017 was particularly productive in Initial Public Offerings and acquisitions. And those are only the first steps of the programme that have major impact potential.

With more than 40,000 applications received and more than 2,000 small companies funded, the SME Instrument has proven its appeal to the European innovation ecosystem.

First interim reports from Phase 2 companies revealed that SMEs recording an increase in turnover grew on average by 250% and those recording increases in employment grew by 122%.

The 2017 calls for **Climate action, environment, resource efficiency and raw materials** addressed important issues such as climate services, towards a low carbon Europe, nature based solutions for territorial resilience, water, raw materials, earth observation and cultural heritage. The first projects were also finalised and showed a glimpse of substantial potential for the whole programme.

The challenge is on the one hand to upscale investments into larger projects and to attract private investments for these projects on the other hand. The "Energy Efficiency Finance Market Place" organised in January by EASME brought together 350 participants: projects developers, cities and regions, and stakeholders from industry and financing institutions.

The results of the first 13 finalised projects under the **Horizon 2020 Energy Efficiency** calls are encouraging as well. The projects cover the entire innovation value chain, from upstream research to market uptake, in a consistent way to make sure that research is turned into innovation and then into businesses. A the same time the results of market uptake projects not only pave the way for the market penetration of innovative solutions, but they also support policy implementation.

The 12th **EU Sustainable Energy Week (EUSEW)** focused on the Clean Energy package. Organised under Horizon 2020 with DG Energy as the leading policy DG, the EUSEW received high praise by participants and showed a strong outreach to audiences

beyond those attending the policy conference. A high level jury chaired by MEP Jerzy Buzek awarded outstanding sustainable energy projects. Commissioner Arias-Cañete outlined the clean energy package and upcoming political priorities.

In 2017 **the LIFE programme** celebrated its 25th anniversary and its accomplishments over the previous 25 years. The Agency currently manages 600 LIFE projects. The projects' aim is to increase the sales of environmentally friendly products, make production more resource efficient, while creating more jobs. Building on positive feedback from the CIP Eco-innovation programme, the Agency encourages environmental projects to get commercial.

The implementation of the **European Maritime and Fisheries Fund** (EMFF) was both successful and challenging in 2017. The blue growth calls for proposals attracted a lot of demand and allowed for an excellent budget execution. EASME met the challenge of substantial amendments to the EMFF work programmes with great flexibility and resilience. While it is still early to establish the impact of the programme, 2017 confirmed good results in a.o. Maritime Spatial Planning, Marine knowledge and Scientific Advice for fisheries management, and the first outputs from the blue growth projects are promising for the coming years.

On top of the new programmes, the Agency continued to monitor 260 projects under the **Intelligent Energy Europe** (IEE) and **Eco-Innovation** programmes. This 'legacy work' is a very rich source for feedback on the results of these projects, to create in the future a favourable policy for the sustainable environment and economy in the EU.

IEE call 'Mobilising Local Energy Investments' with a budget of EUR 35 million triggered total investments of EUR 255 million, which results in a leverage factor of around 16 for every Euro of EU-contribution.

An efficient Agency

As regards the Agency's **key performance indicators,** the Agency achieved most of the targets set in the 2017 work programme. EASME reached excellent results for budget implementation (100%), as well for the time to pay (98%). The time to grant is reached for the most of the programmes delegated to the Agency and the error rate started to decrease. Finally, for the fourth year in a row, the Agency did not have any critical or very important audit recommendations.

EASME as a modern and attractive workplace

The focus of the Agency during the year was (1) increase transparency and dialogue with staff, (2) involve staff in the decision-making, (3) foster career development through training and mobility and (4) simplify procedures.

In the second half of the year, the Agency launched the Sounding Board initiative: through different working groups, the staff have the opportunity to define, share opinions and develop new ideas.

Staff engagement is a priority for internal communication activities. The Agency organised a stocktaking event to highlight achievements and discuss upcoming priorities. Initiatives such as a weekly newsletter (What's up@EASME), the monthly digital magazine (The Brief), lunchtime sessions and workshops aimed to empower staff and foster open communication. To improve dialogue with staff, the HR sector organised regular meetings with the Staff Committee.

Regarding career opportunities for staff, in 2017 EASME started the first successful job shadowing pilot. EASME also launched the development of a Competency Framework. It identified key competencies, which will serve as a basis for modernisation of current recruitment practices and help to identify the appropriate skills set for future employees.

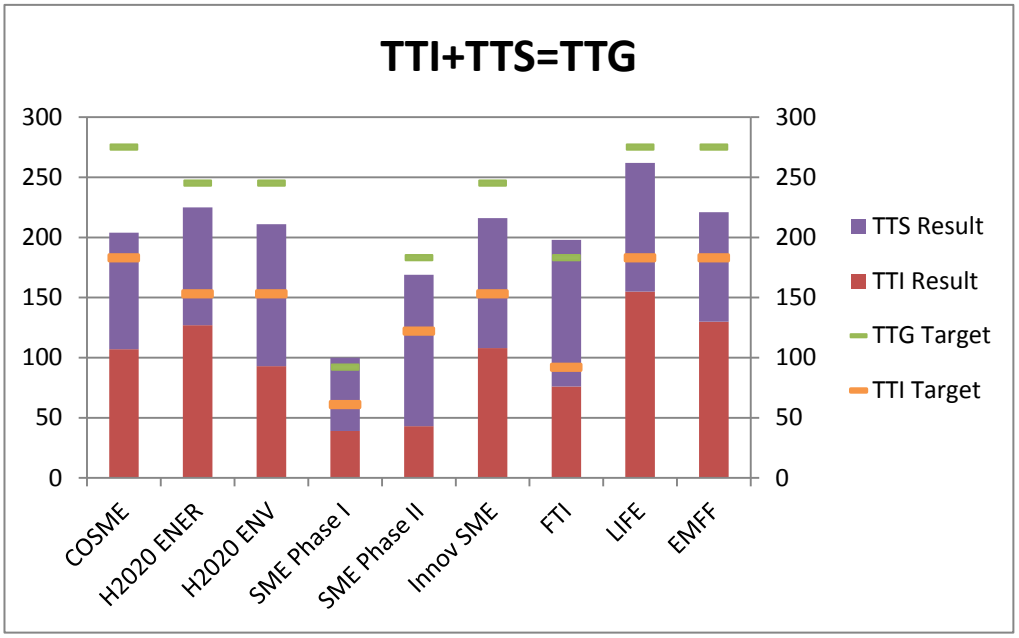
In 2017 the Agency started to offer new Career Guidance Services to staff**.** In addition, the Agency **simplified procedures** (e.g. for payments made on the administrative budget) and brought a number of decisions to a lower level thereby simplifying internal approval flows.

Key Performance Indicators (KPIs)

In 2017, the Agency continued to ensure an efficient delivery of programmes. In performing the tasks delegated to it, the Agency aims at the best possible performance. The following indicators measure the most critical aspects of the Agency's performance.

Indicator 1: time to grant[7] (time to inform+ time to sign)

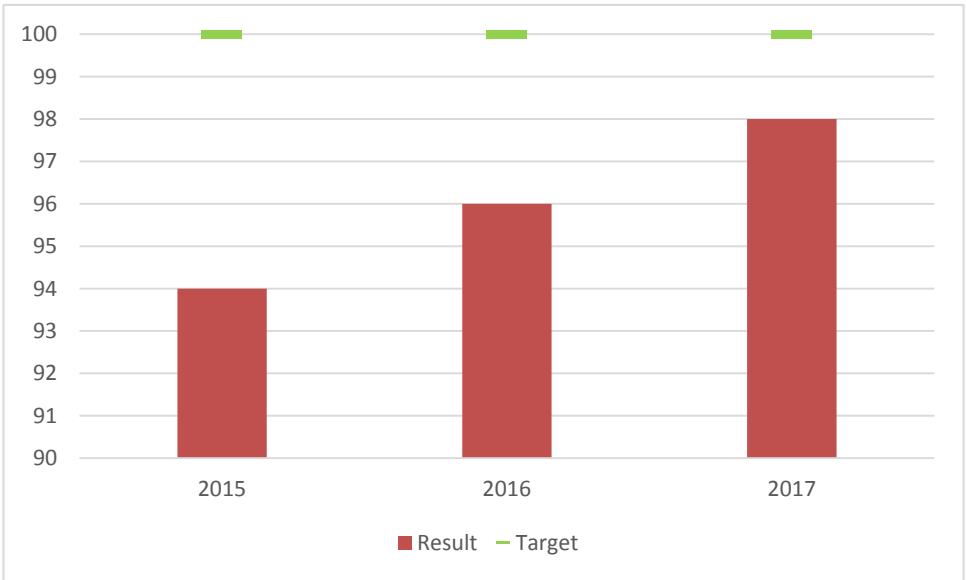
Result:



Indicator 2: time to pay

Target (2017): 100% of payments within legal deadlines

Result:

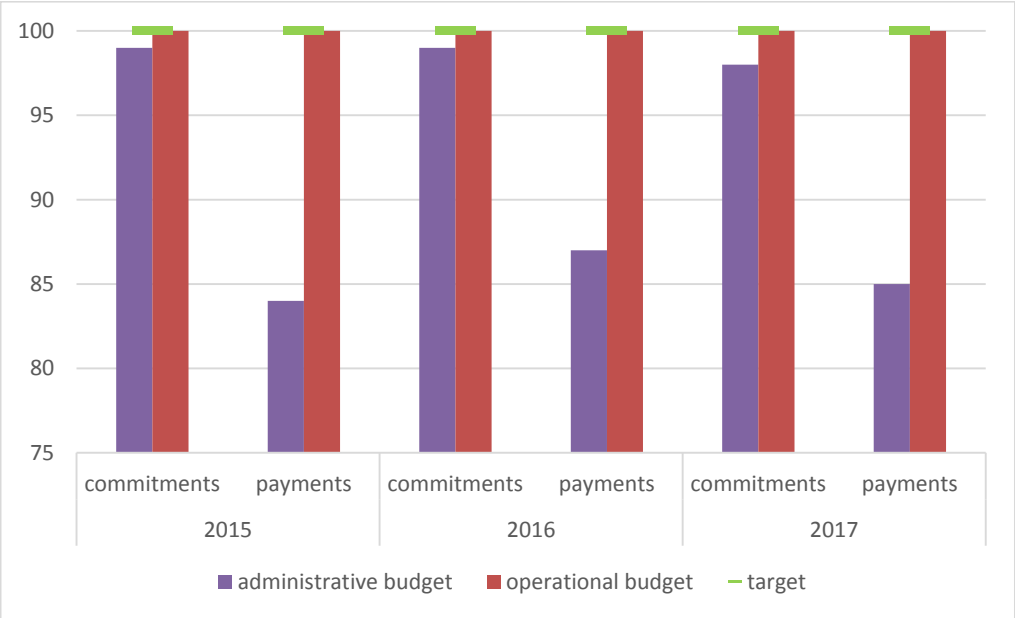


[7] The numbers in the table represent the average time to grant.

Indicator 3: % of budget execution (commitments and payments) with respect to budget appropriations

Target (2017): 100% (commitments and payments) for operational and operating budget

Result:



Indicator 4: residual error rate in financial transactions

Target (2017): IEE II, Eco-inno, EEN, COSME, LIFE, EMFF: less than 2% of the total budget for grants per programme; H2020: as close as possible to 2% (within the range of 2-5%) (as per H2020 audit strategy)

Result:

	2015	2016	2017
IEE II	2,45	3,8	[2,7 - 2,8][8]
Eco-I	1,46	6,0	[2,5 - 7,5]
EEN	1,67	1,67	1,6
H2020	N.a.	N.a.	2,2
COSME	N.a.	N.a.	N.a.
LIFE	N.a.	N.a.	N.a.
EMFF	N.a.	N.a.	N.a.

Results of the audits of the newly delegated programmes to the Agency (COSME, LIFE and EMFF) were not available as of 31/12/2017 since these programmes had not yet reached the corresponding level of maturity[9].

Indicator 5: number of critical / very important accepted audit recommendations (made by ECA and IAS) overdue for more than six months

[8] The error rates for the IEE II and Eco I given in a range, as it is depends on the number of companies' bankruptcy cases.

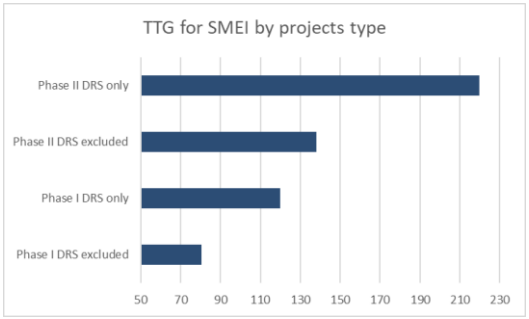
[9] For more details on COSME, LIFE and EMFF, please see page 71.

Target (2017): None
Result: No critical or very important accepted audit recommendations were overdue longer than six months

Table 1: KPIs

The average **time to grant** (TTG) for all programmes managed by the Agency (except the SME Instrument Phase I and the Fast Track to Innovation (FTI) was within target. Moreover, some programmes showed a positive trend compared to the previous year (for example COSME programme from 213 days to 204 days for the average TTG). As regards the FTI, EASME experienced difficulties in the beginning of launching the pilot programme. However, as for the latest cut-off dates the results significantly improved: from 229 days (first cut-off) to 180 days of last cut-off (on average).

As regards the SME Instrument it should be noted that the targets for TTG are more ambitious than for other parts of the programme. For example, as it is seen in the graph 1, if the security projects are exempted from the statistics, then the average TTG for the SME Instrument is 80 days. Given that the H2020 SME instrument handles approximately one quarter of all the H2020 applications, the results can be seen as encouraging.



Graph 1: TTG for SMEI

As regards **payment** times, while the total number of transactions has continued to increase compared to the previous year (+21%), the overall performance in terms of Time to Pay (all payment deadlines combined) remained excellent and even improved (from 96% to 98%). With a 30% increase compared to the previous year, almost one-third of the transactions in 2017 were payments with a legal deadline of 90 days.

In 2017, the Agency continued to ensure an efficient delivery of programmes, being in full compliance with the principles of sound financial management. The operational **budget** was fully implemented, while the implementation of the administrative budget was committed for 98% and payment implementation amounted to 85%. (For more information please see Chapter 2.1)

The multi-annual **residual error rate** was below 2% for the CIP EEN legacy programme. However, the multi-annual residual error rates for the IEE II and CIP Eco Innovation programmes were above 2%. For IEE II it is in a range of 2,7-2,8% and for the CIP Eco Innovation in a range of 2,5-7,5%. Mitigating actions have already been established aiming to reduce the multi-annual error rate (for details please see part 2).

EASME decided to report two residual error rates, in order to disclose the impact of the bankruptcy cases identified in the value-targeted audits. In the CIP Eco-Innovation programme, EASME faced six cases of beneficiaries within the value-targeted sampling which went bankrupt or under dissolution at the time of the audit.
In these bankruptcy cases, the provision of relevant supporting evidence was challenging, leading to a limitation of scope in the audit reports. As a consequence, the detected error rate of these bankruptcy cases is 45%. EASME considers that the errors identified in these audits are exceptional and not fully representative of the population[10]. Although these cases represent 6 audits out of 72 performed on the programme, their result has a significant impact on the residual error rate, leading to an increase from 2.5% to 7.5%.

[10] The interpretation of not considering the bankruptcy cases as non-representative of the audited population has been discussed with DG BUDG, which deemed it as reasonable.

Similarly, in the CIP IEE II programme, EASME faced one bankruptcy case. However, its impact on the residual error rate is less significant, leading to an increase of the residual error rate from 2.7% to 2.8%.

Finally, for the fourth year in a row, the Agency did not have **any critical or very important** audit recommendations overdue for more than six months.

Key conclusions on Financial management and Internal control

In accordance with the governance arrangements of the European Commission, the staff of the Agency 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/principles, 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/principles. The Agency has assessed the internal control systems during the reporting year and concluded that the internal control standards/principles are implemented and function as intended. Please refer to AAR section 2.1.3 for further details.

In addition, EASME 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. Further details can be found in Part 2.1.

The multi-annual residual error rate was below 2% for CIP EEN programme managed by the Agency. However, the multi-annual residual error rate for the IEE II and CIP Eco Innovation programmes was above 2.0%, at 2.7-2.8% and 2.5-7.5% respectively. For more detals on error rate range please see chapter 2.

With regards to the newly delegated programmes (COSME, LIFE and EMFF), results of ex-post audits were not available as of 31/12/2017 since these programmes had not yet reached the corresponding level of maturity. Therefore, no error rates of these programmes were available.

For Horizon 2020, ex post audits are under the responsibility of the Common Audit Service (CAS) and not EASME. For Horizon 2020, the final control objective of the Research family is to try to achieve a multiannual residual error rate as close as possible to 2%[11]. Considering that all of these grants follow the same homogeneous overall control system, a Common Audit Strategy for Horizon 2020[12] covers all the implementing bodies, including EASME.The residual error rate for the Research family is at 1.4 %, however it is expected to rise to around 2.2% when taking into account the draft audit

[11] The financial statement accompanying the Commission's proposal to the legislative authority for the Horizon 2020 regulations states: "The Commission considers therefore that, for research spending under Horizon 2020, a risk of error, on an annual basis, within a range between 2-5 % is a realistic objective taking into account the costs of controls, the simplification measures proposed to reduce the complexity of rules and the related inherent risk associated to the reimbursement of costs of the research 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 %.

[12] Common Audit Strategy for Horizon 2020was adopted on 22 February 2016.

reports, which will be finalised in 2018. The residual Error Rate derived from the Common Representative Sample for EASME participations only is estimated at 1.5%[13].

Due to the relatively low number of payments on the IEE II and ECO Innovation projects, 2.68 % and 0.88% respectively of the total payments performed by EASME in 2017, the impact of the increased error-rates on the amount at risk over the total payments performed by EASME is very limited. Mitigating actions have already been established aiming to reduce the multi-annual error rate for the CIP IEE II and Eco Innovation programmes (for details please see part 2).

As mentioned above, the Agency did not have critical or very important audit recommendations overdue for more than six months.

In conclusion, EASME 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, in his capacity as Authorising Officer for the administrative budget and Authorising Officer by Delegation for the operational budget, has signed the Declaration of Assurance albeit qualified by two reservations concerning the CIP IEE II and CIP Eco Innovation programmes (Budget line: 32.04 53 00 and 02.04 53 00 respectively).

Information to the Commissioners

In the context of the regular meetings during the year between the Director and the parent DGs on management matters, also the main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of the Agency's Steering Committee and to the parent DGs' Directors General, who have taken these into consideration in their reporting to Commissioner Mr Günther Oettinger, responsible for Digital Economy and Society, Commissioner Mr Carlos Moedas, responsible for Research, Science and Innovation, Commissioner Ms Elżbieta Bieńkowska, responsible for Internal Market, Industry, Entrepreneurship and SME, Commissioner Mr Miguel Arias Cañete, responsible for Climate Action and Energy and Commissioner Mr Karmenu Vella, responsible for Environment, Maritime Affaires and Fisheries.

[13] This rate does not take into account the audit reports which will be finalised during 2018.

1. IMPLEMENTATION OF THE AGENCY'S ANNUAL WORK PROGRAMME

The Agency's 2017 Annual Work programme (AWP) was adopted by the Agency's Steering Committee on 5 May 2017[14]. The work programme lists the main activities and outputs of the Agency that contribute to the achievement of the objectives as defined by the parent DGs. This part highlights the key achievements under the different programmes delegated to the Agency. Exhaustive reporting on the achievement of the targets as planned in the AWP can be found in annex 12.

1.1 COSME

The Programme for the Competitiveness of Enterprises and Small and Medium Enterprises (COSME)[15] – is the Union's programme to strengthen the competitiveness and sustainability of the Union's enterprises, to encourage an entrepreneurial culture and to promote the creation and growth of Small and Medium-sized Enterprises (SMEs). According to the legal basis, the overall indicative budget for the seven-year period of COSME (2014-2020) is EUR 2.3 billion.

The 2017 COSME Work Programme was adopted on 8 November 2016[16] and revised on 6 June 2017[17]. The 2017 budget amounts to EUR 304 million (including the financial instruments).
The Agency implements actions to meet the following four objectives of the COSME programme:

(I) improving access to markets, particularly inside the Union but also at global level

During 2017 EASME finalised the second cycle of the Enterprise Europe Network (EEN) grants. In total 91 consortia started to implement activities and will continue them in 2018. EASME awarded three ad-hoc grants and published six calls under this objective. EASME will sign the first grant agreements for most of these six calls during the first quarter of 2018.
In August, EASME published the final report[18] on the activities performed by the EEN during the first cycle (2015/2016). It shows that during the first two years of activity within the new COSME programme, the EEN delivered significant value to its main target group: European SMEs. During this period, the Network worked in the context of a new monitoring and reporting strategy based on result-oriented activities focusing on quality, efficiency and impact.
The results demonstrate that the Network managed to deliver on its aim to be an efficient and effective instrument to support the internationalisation and innovation of European SMEs. In some cases, the Network even exceeded key COSME indicators, such as the number of partnership agreements (PA) signed by clients: in just two years, the Network reached an average of 2,550 agreements per year.

In addition to the EEN's core activities a large number of the Network partners delivered Key Account Management (KAM) services to the SME instrument beneficiaries and the Innovation Management Capacity services (EIMC). In total, Network partners provided new innovation-focused services to 3,152 SMEs per year. This demonstrated a high level

[14] Ares(2017)2320075.
[15] Regulation (EU) No 1287/2013 of the European Parliament and of the Council of 11 December 2013 establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) (2014 - 2020) and repealing Decision No 1639/2006/EC.
[16] Commission Implementing Decision C(2016)7033 of 8/11/2016 on the adoption of the work programme for 2017 and the financing for the implementation of the Programme for the Competitiveness of Enterprises and small and medium-sized enterprises.
[17] file:///C:/Users/vaarima/AppData/Local/Temp/5/cosme-wp-2017_en.pdf
[18] https://www.dropbox.com/s/knoy65hvjj1syb8/EEN_Report_SME%20growth%20forecastl.PDF?dl=0

of flexibility, resource efficiency and the capacity of the Network to create synergies with other COSME-funded services.

Clients that signed Partnership Agreements or received services leading to significant impact on their business confirmed the Network's added value through impact assessment questionnaires. In addition, 86% of clients answering the COSME client satisfaction survey responded that they were 'satisfied' or 'very satisfied' with the Network's services.

In 2017, EASME gave a considerable support to the China, South-east Asia and Latin America IPR SME Helpdesks. In order to further integrate their services into a single entry point, they developed with the help of the Agency a Joint Cooperation Action Plan. This joint plan envisages a series of initiatives targeting EU SMEs that may have commercial interests in two or the three markets covered by this COSME action. The action plan encompasses:

- the organisation of joint webinars (e.g. Protecting your Brand Abroad: Understanding the IP Landscape of Latin America, China and South-East Asia);
- the joint participation in trade fairs (e.g. Vienna: East Meets West 2017, 5);
- the issuing of Joint Publications[19].

The EU Japan Centre, funded by EASME, organised 12 Policy Seminars with 1,300 participants. It delivered also five Minerva Policy Reports and sectoral studies and reports. The comprehensive ad-hoc study on "European Technologies of High Business Cooperation and investment Potential with Japan" deserves a particular mention. It identifies 185 new untapped technologies, many developed by SMEs. Among many other events organised by the EU Japan Centre (see the text box), it is worth mentioning that the EEN Service in Japan handled 422 inquiries, 110 new expressions of interests and organised 461 B2B meetings during 18 brokerage events. This led to the signature of seven Partnership Agreements between European and Japanese companies. The Cluster Support Mission service succeeded to deliver 289 B2B meetings on Biotechnologies at the brokerage event organised by EEN Japan. In addition, more than 500 B2B meetings took place during the three day partnering event BioJapan.

* The 18th EU-Japan Business Roundtable Annual Meeting took place in Tokyo and delivered 70 specific recommendations;
* 15 people from 11 Member States participated in the 52nd HR Training Program;
* 48 participants from 16 different MS joined two World Class Manufacturing topical missions;
* Three "LEAN in Europe" training sessions and 13 business training webinars were organised that gathered 1,077 participants;
* 79 European (from 20 Member States) and 37 Japanese students participated in the Vulcanus training programme.

(II) improving framework conditions for the competitiveness and sustainability of Union enterprises, particularly SMEs, including in the tourism sector

In 2017, several conferences and workshops managed by EASME took place including the Conference on Business Transfer held under the Maltese Presidency. EASME launched also the pilot call for proposals that will select European Incubation Networks of creativity driven innovation. The call addresses two sectors: the fashion and textile sector and the tourism sector.

The Agency also worked on specifications for the launching of eight blueprints on skills in various sectors like Defence, Automotive industry, Space, Tourism, Papers, Textile, Construction, Steel. These actions should deliver conclusions that will contribute to future policy developments.

[19] For example: 150 FAQs to consider when internationalising your Intellectual Property, November 2016.

Several actions were launched in the area of cluster policy: 23 new projects were awarded under the Call Clusters Go International. The activities of the European Observatory for Clusters and Industrial Change started in October via a service contract. An Ad-hoc Grant was awarded to implement the second phase of the European Cluster Excellence Initiative. The Calls European Strategic Cluster Partnerships for Smart Specialisation Investments and Clusters Go International in the Defence and Security sector were published (projects will start their activities in 2018). Concerning the call "European Cluster of Excellence", DG GROW took the decision to postpone the actions to 2018.

The main objectives of this action are to develop a web-based European Cluster Collaboration Platform and to organise cluster matchmaking events. More than 660 cluster organisations from COSME participating third-countries were registered on the platform by the end of 2017. Through this action 10 matchmaking events have been organised.

In 2016 and 2017, EU clusters participated in 4 events outside Europe (Mexico, Iran, USA, and Thailand), 2 events in Europe with delegations coming from Brazil and Thailand, and 3 events involving only clusters from European and COSME associated countries (Brussels, Paris and Thessaloniki).

At international events, in total 126 European clusters and 127 clusters from 3rd countries participated in 1,350 bilateral meetings. Until the end of the year they initiated or established 222 cluster cooperation agreements and signed 10 Memoranda of Understanding (MoU).
During the intra-European events, 167 clusters participated in 860 bilateral meetings. This led to 194 cluster cooperation agreements initiated or established.
3 months after each event, EASME received a proceeding report and a follow up report in order to verify and assess quality of the works performed and the results achieved so far. This new procedure allows a better follow-up of the action and a faster reporting on outcomes and expected impact.

The ECCP aims also at facilitating cluster cooperation beyond Europe. Third-country specific pages for a set of third countries with high potential for cluster development and cooperation are available on-line. The mapping tool for cluster organisations offered by the ECCP is also open to cluster organisations from third countries. So far, three clusters from Canada, six from Mexico, three from the USA and one from Morocco and Japan are registered on the EECP.

In 2017 EASME launched several actions in the Tourism sector such as the new European Destinations of Excellence network (EDEN) Promotion ad-hoc call. EASME managed also the large European Tourism Day Conference in November. More than 300 people representing the European Commission, Member states, the European Parliament, international organisations and private sector bodies attended the two-days meeting. They discussed a number of issues, including the investments needed on a European, national and regional level and the cooperation opportunities aiming to enhance Europe's position in the global tourism industry.

EASME sent to the 17 potential beneficiaries/countries of the EDEN an invitation to submit a proposal for the promotion of National destinations selected in previous annual COSME actions. EASME received 15 proposals. The Agency will send the evaluation report to the selected beneficiaries by the end of February 2018. During 2017 some actions from the previous COSME WP have been finalised and they showed some interesting results in the areas of tourism, cluster collaboration platform and connected and automated driving.

Under the actions facilitating *EU transnational tourism flows for seniors and young people in the low and medium seasons*, the eight selected projects contributed to the achievement of major objectives set out in the Work Programme. The key results

reached by this action go much beyond the several concrete transnational tourism products/packages introduced on the market. Indeed, projects developed and tested measurable methodologies, which are transferable to other areas. The leverage effect is therefore important and the long-term impact will certainly be significantly bigger, than the direct outcomes of the eight projects.

The Agency launched the "Public support measures for connected and automated driving" (C&AD) study, that has analysed the existing and planned public support measures offered by Europe's main competitors (namely the USA, China, Japan and Korea) in the field of C&AD. This covered the entire value chain and included all different activities needed for full automation and connected driving.

As a conclusion, the report of the study recognises that, with various EC initiatives and the active involvement of several DGs (e.g. RTD, MOVE, CONNECT and GROWTH), the EC shows ambition towards the development and deployment of C&AD. The political and private sectors' will and commitment towards the C&AD sector shows that the EU is moving in the right direction to cater for its citizens through the benefits of C&AD development and deployment. Moreover, based on strong key findings, the study established a list of recommendations for future developments.

(III) promoting entrepreneurship and entrepreneurial culture

During the year, EASME finalised the evaluation of the activities "ERASMUS for Young Entrepreneurs" and published a final report on the activities implemented under its scope. The conclusion of the evaluators is that activities have achieved their objectives fully.

More concretely, the 15 projects delivered the following results/impacts:

- Facilitating/enhancing the business development/competitiveness.
- Extending technical and managerial skills (including language skills and intercultural understanding).
- Opening new markets/internationalisation (mainly for the Host Entrepreneurs).
- Learning about the EU single market and thus making good use of EU funds and policies for entrepreneurship (mainly for the New Entrepreneurs).
- Creating new business opportunities such as joint ventures, spin-off companies, or commercial cooperation.
- Strengthening New Entrepreneurs and 'would-be entrepreneurs' self-confidence, as they are better equipped to face the upcoming challenges, thus reducing the rate of failed start-ups.

(IV) improving access to finance for SMEs in the form of equity and debt

The number of actions taken by the Agency under this objective is limited, as the management of this objective lies within the responsibility of DG GROW. In December EASME signed a new specific contract for the edition of fact sheets and case studies on access to finance. EASME will publish the first outputs by mid-June 2018.

The Enterprise Europe Network Annual Conference 2017 was held on 20-22 November in Tallinn. The event was organised by EASME and DG GROW, jointly with the Estonian Chamber of Commerce and Industry and with support from the Luxembourg Chamber of Commerce. More than 800 participants from 61 countries gathered for three days of intensive learning, sharing and networking.

A rich programme, featuring 31 parallel sessions and close to 126 speakers, was put together thanks to the contributions received from the Network, Associate

Members, EASME and the European Commission. 1,200 bilateral meetings took place in the matchmaking area, organised by the Luxembourg Chamber of Commerce.
This year's programme reflected the pioneering approach to digitalisation of the host country, offering a focus on digital disruption and transformation in SMEs. In the opening plenary, an inspiring line-up of high-level speakers addressed the audience. For the first time in the history of the event, the president of the host county opened the conference with a well-received speech: Kersti Kaljulaid, President of the Republic of Estonia, introduced the audience to e-Estonia. The Commission's Vice-President for the Digital Single Market, Andrus Ansip, recognised the Network's work "helping and supporting European SMEs for almost 10 years".
Julien Guerrier, Director of EASME, focused on three key messages: deliver quality and impact, share knowledge to achieve excellence and tell your stories of success. Finally, keynote speaker Kaidi Ruusalepp, founder and CEO of the online investment platform Funderbeam, insisted on the importance of good digital infrastructure, supported by law and policies, to allow entrepreneurs to easily build and scale businesses.

Kristin Schreiber, Director COSME & SME Policy at DG GROW, had a very clear message for the Network: "I personally would like to see a strong Enterprise Europe Network that can be described by two words: excellence and ambition. Please keep up the good work – we need to go further and also to make your work more visible," she said.

According to the post-conference evaluation form, 97% of participants declared they were "very satisfied" or "satisfied" with the conference and 91% "strongly agreed" that it was well organised. The conference hashtag #EEN17 was used around 1,000 times by more than 180 accounts (including Vice-President Ansip). These posts reached more than 400,000 people generating more than two million impressions and contributing to the visibility of the Network's work. A summary of the event on Twitter is available on Storify[20].
The Estonian Chamber of Commerce and Industry was in charge of contacting the media locally to promote the event. The Network partner promoted extensively the event in the Estonian media (Print/Online/Radio and TV): the estimated total audience reach for this media coverage 400.000 people.

Examples of the COSME projects

Some remarkable results from the implementation of the Tourism actions:

- ✓ The "Off to Spas" project developed an information 'kit' about the potential Northern European senior travellers interested in health tourism (attitudes, expectations, needs, travel behaviour). Health and medical tourism is a fast developing market and the project could be replicated as a model elsewhere.

- ✓ The "EUMillennialsTOUR" created a transnational tourism product for the school-trip tourism market, addressed to secondary schools and High Education Institutes/ACADs. It capitalises the shared value of European industrial heritage sites. This provided a model of tourism targeting youths. As a conclusion, it proves not only to be of interest for youths (comprising hands-on curriculum-linked activities) but also for a specific niche market: school trips in particular, which has great potential. It also contributed to the industrial heritage, which is also at the centre of many European tourism strategies.

The action *STATISTICS FOR FAMILY BUSINESSES* (FB) has fully achieved its objectives in providing policy-makers and relevant stakeholders with credible, comparable and systematic information

[20] https://storify.com/EEN_EU/een17-what-a-networking-marathon

and indicators on the role of the FB in national economies. European, national and regional policies can use these data as a basis for further development. Some projects collected data on FB through designated surveys while others generated data from the existing registers provided by statistical offices. The first results are:

- ✓ The methodology in the "MEPA" project (IT) aimed to create of a model for collecting FB's data at regional Veneto's region level. It provides an algorithm identifying FBs among registered enterprises. At the end of the project, the region established a permanent Observatory in charge of the analysis of small and medium sized companies listed in the Register of the Chambers of Commerce of Veneto region.
- ✓ "SDFB (NL)" project aimed to create a dedicated Family Business Register database. It enables regular production of data on FB as well as mapping the FB enterprises in the Netherlands by regions. As a result, the new register links data at sector level (turnover, employment) to (socio) economic variables. This provides new data used for dissemination purposes.
- ✓ "FABUDK" project aimed to establish a solid foundation for the production of sustainable statistics on FB in Denmark. The concept used the newly established owner register as a central data source. In the first phase, it established a database of all family owned enterprises within the non-financial market sector in Denmark. Then the project developed an algorithm to identify enterprises where one single family constitutes the majority of owners.
- ✓ "SFB-NSI" Bulgaria project created a database including information on FB. The project made some analysis on the significance of family businesses in comparison to all companies active in 2015. The project delivered a statistical mapping of family enterprises by NUTS 2 and NUTS 3 regions. It delivered also indicators and methodology for the validation and analysis of FB's 2015 data.

1.2 Horizon 2020

'Horizon 2020'[21], the EU's funding programme for research and innovation aims to stimulate the economy and secure the science and technology base and industrial competitiveness for the future, contributing towards a smarter, more sustainable and more inclusive society. It promises more breakthroughs, discoveries and world-firsts by taking great ideas from the lab to the market.

1.2.1 Innovation in SMEs

Succeeding similar activities within the Competitiveness and Innovation Framework Programme (CIP), the Agency is entrusted with the part of Horizon 2020 that is related to the specific objective "Innovation in SMEs" of "Part II Industrial Leadership": *stimulating sustainable economic growth by increasing the levels of innovation in SMEs, covering the multiplicity of needs throughout the innovation cycle for all types for innovation, thereby creating more fast-growing, internationally active SMEs.*
The Agency's role is pivotal in promoting the projects, publishing calls for tenders, evaluating and contracting proposals and tenders, monitoring projects, making recommendations and providing feedback to the parent DG.

In 2017, the Agency published five calls for proposals and one call for tender under Horizon 2020 "Innovation in SMEs" as planned in the 2017 Work programme:

[21] Regulation (EU) No 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) and repealing Decision No 1982/2006/EC and Council Decision of 3 December 2013 establishing the specific programme implementing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) and repealing Decisions 2006/971/EC, 2006/972/EC, 2006/973/EC, 2006/974/EC and 2006/975/EC.

Concerning the H2020-INNOSUP-1 action ("Clusters facilitated project for new industrial value chains"), 9 projects were under implementation in 2017, with an average budget of MEUR 5 per project. The call requires that each project dedicates at least 75% of its budget to support innovation in SMEs with direct financial support through open calls. In 2017, INNOSUP-1 projects published 10 open calls with a total budget of almost MEUR 15 available to SMEs to develop their innovation projects. As an example, in 2017 the PERMIDES project selected 88 SMEs of the biopharmaceutical sector from 17 European countries. These companies will receive innovation vouchers up to EUR 60,000 per SME to develop IT-based solutions. The total budget dedicated by PERMIDES to direct innovation support to SMEs reaches almost MEUR 3.

In the frame of the INNOSUP- (Innovation Associates) 81 projects started in 2017. Some promising ones will explore interesting fields for future research and development. Beneficiaries are SMEs that will recruit a PhD mainly via the EURAXESS database for one year. This person will also benefit from specialised trainings provided by the IMP³rove Academy. The EU funding will cover cost of salary and trainings of the recruited PhD.

Example of the Innovation in SME project

The EGGR project develops a gender screening method that makes it possible to determine the gender of fertilized breeding eggs halfway through the breeding process. The aim is to prevent the need to manually sort out newly hatched chicks and subsequently kill male chicks in the laying industry. Instead, the male eggs can be identified, removed – and subsequently used as a natural bio-reactor for the growth of microorganisms that can, for example, be used in the healthcare industry. The project therefore addresses three issues at the same time:

- the ethics of killing freshly hatched chickens,
- the reduction of waste in the poultry industry,
- the availability of cheap bio-reactor material in other industries.

1.2.2 SME Instrument

The SME Instrument (SMEI) is a new and innovative instrument for which the Commission has foreseen centralised management by the Agency. It is characterised by a continuously open call with 8 cut-off dates per year and by a bottom-up approach within a set of topics and within the frame of the H2020 societal challenges and enabling technologies.

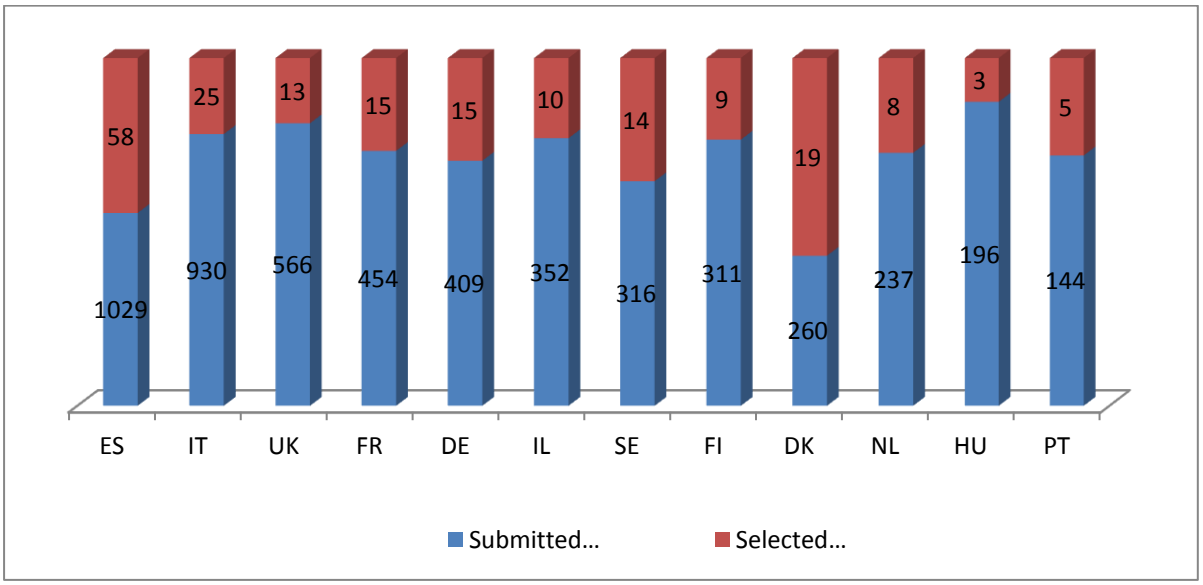
The SMEI aims to help highly innovative companies with a realistic growth prospect to realise their innovation, development and growth strategy. The Instrument provides funding for close-to-market activities, i.e. activities where the development takes place under production conditions. This includes, for instance, small test series in order to prove the viability of newly developed prototypes, test production lines, the validation of new products with respect to standards and regulations, miniaturisation of new products, etc.

In 2017, EASME received more than 10,000 applications, out of which 616 proposals (625 companies) were funded in Phase 1 and 249 proposals (273 companies) in Phase 2, for an overall amount of EUR 435,987,400 (EUR 30,800,000 and EUR 405,187,400 for Phase 1 and Phase 2 respectively).

In 2017 EASME monitored 1495 projects in total, 853 of Phase I and 642 projects of Phase 2. Out of these, 830 projects were finalised in the course of the year.

Graph 2: Phase 1 2017 SMEs' country distribution of proposals submitted versus proposals selected

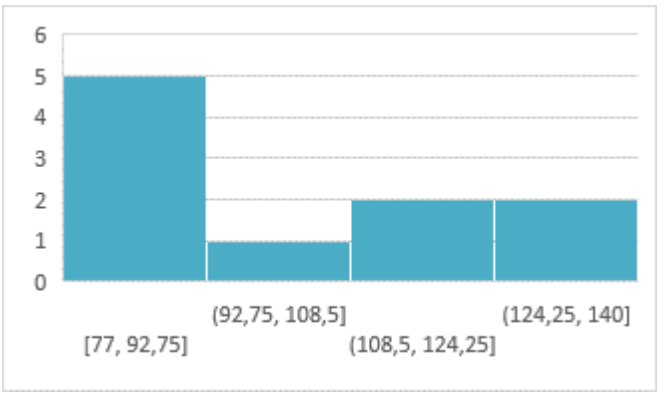
Most of the applications were submitted from Italy, Spain and the United Kingdom. While this certainly has a number of different reasons, like availability of national support systems, regional innovation capacity etc, this distribution is not very different from the one observed under the SME support schemes of the previous framework programmes.



Graph 3: Phase 2 2017: SMEs' country distribution of proposals submitted versus proposals selected

The distribution among the SMEI topics foreseen in the 2016-2017 Work Programme is strongly correlated with the assigned budget in each topic. Only the topic "Open Disruptive Innovation" is attracting a higher proportion of applications, which is not surprising given the increasing digitalisation of all industry sectors.

The overall process until the grant agreement is signed and the first financial support is given takes three months for Phase 1 and six months for Phase 2. The process of timely granting is demanding. However, about 90% of Grant Agreements (GA) are signed within target. For example, as it is seen in graph 4, the majority of the GAs were signed within the target (for 5 call cut-offs). The latest GA for 1 call cut- off was within 108 days.



Graph 4: overview of SMEI (PhI) calls meeting TTG

There are always several GAs that need more time to be finalised[22]. For instance, this is the case for the security topic (SMEInst-13-2016), which has a specific and longer security scrutiny procedure. Certain projects, especially under the health topic, need full ethics screening and a Commission decision, which extends the whole process. Moreover, in some cases the SME validation can take a considerable amount of time.

Cut-off date (2017)[23]	Number of days to sign 90% of Grant Agreements	Number of days to sign all Grant Agreements
SME-1-FEB	97	187
SME-1-MAY	90	140
SME-1-SEPT	85	On-going
SME-2-JAN	184	311
SME-2-APR	188	252
SME-2-JUNE	177	On-going

Table 2: TTG for the SME Instrument GAs for 2017 calls

Business Coaching

The SME Instrument Business Innovation Coaching empowers the SME towards the successful commercialisation of their project. The coaching considers all aspects of the company while implementing the innovation project. A coach encourages the company to reflect on its options, brings models to develop strategies, challenges self-assumptions, reflects on foreign markets and gives access to the coach's business network.

Since the start of the programme in 2014, the Agency has experience with almost 2,500 coaching activities and the coaching is now presented to the companies as an inseparable part of the SMEI package.

The coaching programme attracts highly qualified coaches from the European coaches' population. Many coaches have successfully retired from their own businesses and often have connections with investors. The coaches praise the scheme for its exceptional clientele, the high level projects and the diversity of coaching issues.

In 2017 the SMEI-coaching team handled 1,106 coaching contracts and 1,080 payments. Over 90% of the payments are handled within 16 days. Because of an IT issue with the implementation of a new contract template in April and May, the Agency was not able to produce any contracts for five weeks.

The community of Enterprise Europe Network (EEN), key account managers (KAMs) and coaches has developed further in 2017. Next to the annual newcomers training, the coaching team organised an event in September for 95 KAMs to exchange experiences. The KAMs are becoming a successful sub-network in the EEN.

In addition, EASME organised two training workshops for new coaches. In 2017, the Agency introduced the practice to coincide these trainings with the Welcome Days for Phase 2 beneficiaries. Afterwards, the Agency organised joint discussion groups about the potential and impact of business innovation coaching.

[22] In the Agency's risk assessment, the 'inability to achieve the Time-To-Grant for 100% of grant agreements' was identified as a risk since it suffices to have one grant agreement signed outside the reference period to fail on this objective. It should also be noted that the Agency is not responsible for all steps in the grant agreement preparations (i.e. participant validation, security screening) and therefore cannot control the full process and its timeliness.

[23] The results of the cut-off dates in October and November are not available yet.

Business Acceleration activities (Phase 3)

Business Acceleration Services (so called *Phase 3 of the SMEI*) are implemented through 2 contracts:

- SMEI business community and academy activities – contract signed in May, activities started in October
- Access to New Geographical Markets – Overseas Trade Fair Participation Programme – Contract signed in June 2016 with first participation to Trade Fairs in March 2017.

The objective of these activities is to accelerate the growth of funded companies by facilitating their access to private investment, finding new business partners, distributors, suppliers and clients and engaging in peer-led learning opportunities.

From October 2017, the Business Acceleration Services (BAS) were enhanced with additional event formats: investor events, corporate matching events, and academy events in addition to participation at trade-fairs. In total 11 of such events were offered, with 150 SME participations out of a total of 275 applications. These events included investor pitching organised with the Merck Start-up Accelerator, a corporate event in Sweden, four academy workshops in Brussels and three on-line live sessions covering issues such as: branding, attracting investors, partnering with corporates, and developing adequate market segmentation and distribution strategies. The participants were highly satisfied with these events.

The satisfaction of the companies about the coaching proves to be very high. EASME's coaching team received over 1,200 evaluations from SMEs, in which they were asked whether they agreed with these statements:

About KAM (*EEN. intermediate*) role

- *The KAM identified relevant coaching needs: 85 %*
- *The needs analysis already led to internal action: 75 %*
- *We were well informed about choosing a coach: 90 %*

About Impact of Coaching

- *Our decision making has improved: 83 %*
- *Our business strategy has improved: 88 %*
- *We expect the project to progress faster: 84 %*
- *We recommend coaching to other companies: 95%*

In addition to SMEI exclusive events, the Agency brought SMEs to Medica and SmartCityExpo trade-fairs in Europe. The Agency offered them access to specific brokerage and pitching events to increase their visibility and networking opportunities. 87 SMEs participated in these events and attended 583 meetings. On average, 85% of the respondents to a satisfaction survey 'recommend' or 'highly recommend' the participation in these events, with the support of BAS.

To help companies reaching out to new markets outside Europe, the Agency facilitated the participation of companies to 7 overseas trade fairs in 2017:

- Malaysia International Halal Showcase. Kuala Lumpur, Malaysia (5-8 April);
- 7th Fiber Optics Expo. Tokyo, Japan (5-7 April);
- IEexpo. Shanghai, China (5-7 May);
- BIO International Convention. San Diego, United States (19-22 June);
- TechInnovation. Singapore (19-20 September);
- Gitex Technology Week. Dubai, United Arab Emirates (8-12 October);
- Lagos International. Lagos, Nigeria (3-12 November).

101 SMEI companies reported 1,601 significant business meetings in these trade fairs around the globe. The participants were highly satisfied with the service offered (82% highly satisfied). Their main motivation to participate in the events was to identify new business partners, clients and distributors; to gain insights into foreign markets and to attract new investors.

On average, SMEs had 19 meaningful contacts per trade fair. A more detailed impact survey is planned 6 months after each trade fair.

During 2017 the Agency also developed a social community for learning, networking and deal-making for SMEI companies. Its different modules will be released as of February 2018. The social network module will increase the impact of the Business Acceleration, by connecting SMEs online for knowledge creation and business discussion. The on-line matching platform with investors will facilitate financial deal creation. Overall the different modules will allow the Agency to better tailor future services to the SMEs needs.

Results

In May 2017 the Agency finalised a report "Accelerating innovation in Europe" summarising the first three years of implementation of the SMEI. In September the update on the performance of SME Instrument's portfolio was published.

The analysis showed that the SMEI is an extremely popular and targeted scheme. It attracted 31,000 applications in 3 years. 2,457 SMEs were funded in total, 15 % of which are pre-revenue companies, which shows the high-risk approach of the programme. The SMEI remains a highly competitive programme, with a success rate (8% for Phase 1 and 5% for Phase 2) comparable to the selection rates of private investment funds and acceleration programmes offering "smart money".

The SMEI companies were popular among private investors collecting more than EUR 1billion in private equity, debt and exits. Only 3 years after the start of the SMEI, each euro invested generated 1.4 euro of private investment. This amount is prompt to be higher in the future as the leverage effect will reveal its full potential only after several years. Moreover, the SMEI shortens the average time for companies to receive the next investment from 32 to 9 months. After the grant companies raise higher investment rounds (4.3 MEUR on average) than before (2.8 MEUR).

2017 was particularly productive in Initial Public Offerings and acquisitions. Up until September, eight new SMEI companies were acquired and three went public on a stock exchange, bringing the total number of exits since the start of the programme to 18. The acquisitions are mainly by European companies and all except one preserve the existence of the SMEI company as a separate entity.

Moreover at the request from DG RTD the Agency has contracted external experts to analyse market creating power of first finalised Phase 2 projects. The report published in November 2017 shows that despite the short time-span following the funding, 27% of companies reached a highly positive commercial success, usually illustrated by outstanding market performance or additional funds raised from investors. Another 31.4% have reached the market, an achievement that was the target of the Phase 2 grant, but do not show outstanding commercial results yet, albeit promising signs.

The experts also looked at the European added value and the nature of SMEI's contribution to companies' successes through a set of 8 case studies. The results are presented in the section below.

KEY FACTS ABOUT SME INSTRUMENT PORTFOLIO AFTER 3 YEARS OF IMPLEMENTATION

- 47% of all SMEs participating in the SME Instrument come from Spain, Italy, UK while SMEs from Iceland, Austria, Denmark, Ireland and Sweden are the most effective in applying for the programme

- Each year SME Instrument attracts more and more micro companies (less than 10 employees) that represent 50% of funded companies

- Each year SME Instrument attracts more and more startups (less than 6 years old companies) which overall represents 50% of SMEs

- 22% of SMEs are in upscaling stage, already conquering new markets

- Most funded companies are active in medical/healthcare and cleantech industries

- Manufacturing is the most common revenue model for SME Instrument companies
- 77% of SME Instrument companies address B2B users

European added value

The case studies showed the following results:

1. The SMEI Phase II support offered a **unique combination of features that are key to close-to-market innovation**:

- ✓ Market orientation. The market-oriented design of the Phase II support was critical to the supported SMEs, which mainly targeted different kinds of demonstration activities and required a support scheme that would go beyond direct funding for technological development.
- ✓ Co-funding rate, support amount and possibility of pre-payment. These were key differentiating factors compared to other regional and national funding streams, which are often based on lower amounts or less interesting funding modalities according to most interviewees.
- ✓ Possibility for single applicants. The possibility for SMEs to apply as single applicants added value compared to other collaborative Research and Innovation schemes usually found at the national and regional levels.
- ✓ Appropriate instrumental mix. The SMEI Phase II support is made of a mix of instruments (direct co-funding, business acceleration services, etc.). That was deemed appropriate to technology deployment and more specifically demonstration-related challenges.

2. **The SMEI branding had a "label effect" that offers a unique credibility stamp.** Companies benefitted from the reputational value of the SMEI. The "European stamp" was of particular value for the SMEs on European, but also world-wide markets.

3. **The support was offered at an appropriate (international) level.** The scope and ambition of the SMEI is international in nature. In that sense, the SMEI offered a particular value compared to regional, national and other EU SME innovation measures. It combined hybrid support tools with a unique internationalisation footprint. It offered an access to a wider market of competences and expertise, as well as easier links to international markets in and outside of Europe.

4. **The SMEI was perceived as complementary to other European, national and regional schemes.** Several companies experienced public support schemes in the past, prior to their SMEI experience or in combination with it. In most cases, this support was mainly mobilised for earlier developments conducted at lower Technology Readiness Level for each of the solutions depicted under the case study section. A complementary role is seen for the SMEI in that respect as it addresses different innovation stages and needs that are not only technology-related, but also market-driven.

Examples of SME Instrument projects

eVision is a very fast growing Dutch company that joined the SME instrument to develop its Predictive Vision that tackles the challenge that all high-risks industries are facing today worldwide: to decrease the likelihood of **fatal accidents at work**.
With the support of the SME Instrument, eVision has taken a structured approach to developing, testing, piloting, improving and implementing the various technological innovations required to create its Cumulative Dynamic Barrier Risk system. As the solution relies on data from various integrations, eVision has brought these live with clients frequently in the past 2 years.

"The SME Instrument grant has allowed us to uniquely and fully utilize the capacity and talent we need to develop this Predictive Risk innovation, in parallel with our core mission of creating Control of Work solutions which make hazardous industries safer and more productive. It has been, and still is, a journey, but the implementation of eVision's Cumulative Dynamic Barrier Risk solution is a major step towards true Predictive risk."

Neil Currie, eVision Co-founder

This fast growth implies for eVision: 5000 client sites live, 230 Global employees and 6 Global offices.
According to the Internal Labour Association, work-related fatalities reach 2 million annually in 2014 and priority should be given to improving safety to prevent industrial accidents, including fires and exposure to hazardous substance. This has been the focus of the process industry for years, but now the rise of digital and big data allows companies to take the next step in risk management via mitigation.

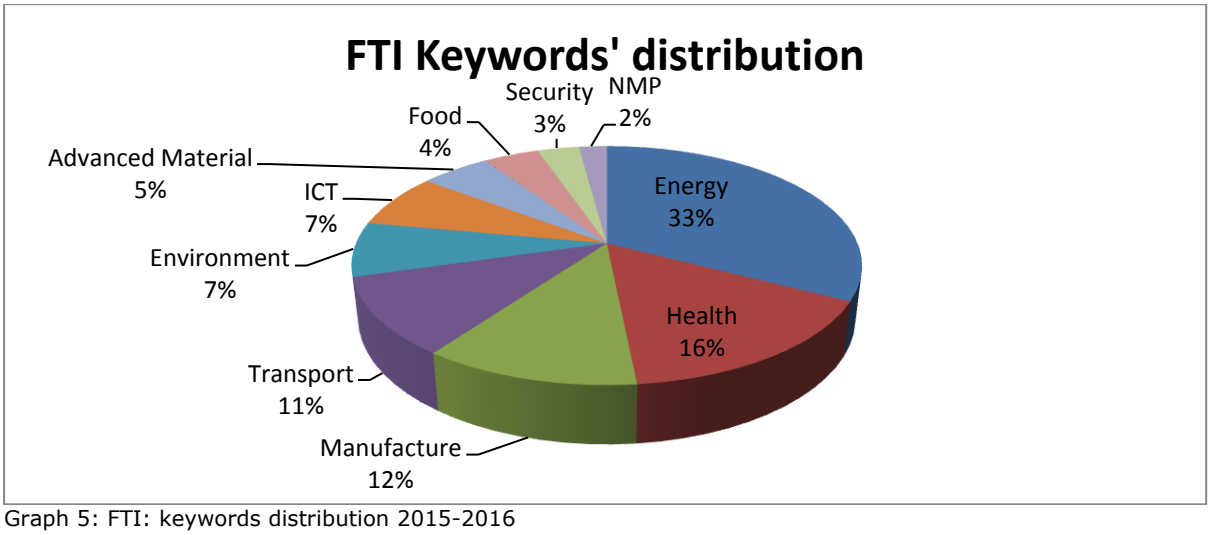
Solvoltaics is a very innovative Swedish SME active in the Solar Cell Technologies production sector via **novel nanomaterials**. With the SME instrument support, Solvoltaics wants to validate commercial performance of SOL's innovative production methodology for creating nanowire films and encapsulating them into film solar cells.
After receiving USD 17M in 2016, SolVoltaics closed in August 2017 a new record funding round of nearly 19 MEUR, the largest finance raise for a European solar technology company since 2015. The financing will be used to bring its highly anticipated solar efficiency boosting technology, SolFilm™ on the market, which promises to increase conventional solar panel efficiencies by up to 50%.

1.2.3 Fast Track to Innovation pilot scheme

The Fast Track to Innovation (FTI) Pilot scheme was implemented in 2015 and 2016. In this period the Agency received 2016 proposals from which 94 were funded. No new calls were launched in 2017. The Agency dealt with the management of funded projects, from which 3 were finalised and 64 reached an interim review.

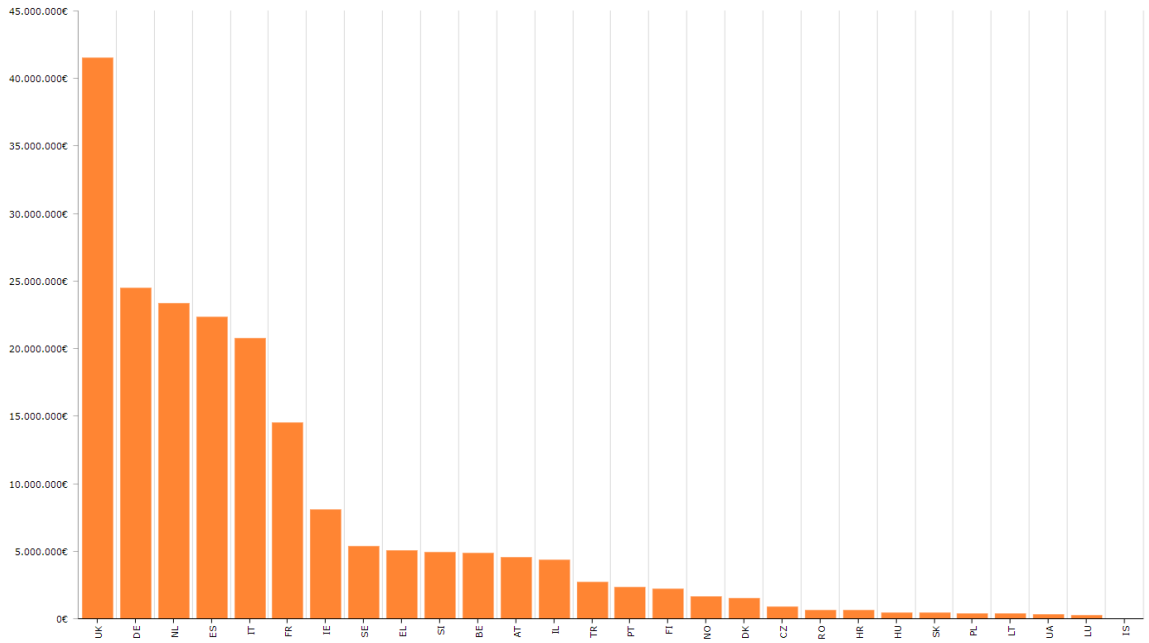
Figure 1: Figures for the FTI Pilot 2015/2016

The FTI action is a fully bottom up scheme; no topics were pre-established. However, the use of a fixed keyword was implemented for the submission of proposals in order to assist the Agency's services in better allocating proposals to experts with relevant expertise during the evaluation.



Graph 5: FTI: keywords distribution 2015-2016

The Agency allocated EUR 200 M. The projects led by UK, German and Dutch coordinators received the highest amounts of funding.



Graph 4. FTI: Grant distribution per country of the coordinators

The Commission started an evaluation of the pilot scheme. The Agency actively contributed to the assessment providing the external contractors and DG RTD with

details on evaluation and management of the 2015 selected projects. The results of the evaluation will be available mid-2018.

As of 2018 the FTI will be part of the European Innovation Council (EIC) Pilot. The Agency published the first call for 2018 on 27 October 2017.

Examples of FTI Projects

Mobile handheld high-resolution 3D-Scanner and 3D data analysis for forensic evidence

Crime is a major factor in reducing the level of **civil security**. The percentage of solved crime is less than 70% in more than half of the EU countries. In some it is less than 50%. A very important part of crime investigation is the capturing and analysis of forensic evidence. In high volume crimes, such as burglary, a common trace type are footwear and tyre track traces. At present the recording and analysis of such traces can only be mitigated (if at all) through time consuming procedures. In the previous years the FP7 project 3D-Forensics developed and evaluated a promising approach to fill gaps in the performance of actual tools. Footwear and tyre traces are captured using modern optical 3D-scanning technology and investigated using a 3D analysis software focussed on forensic end users. The project culminated in the demonstration of the system prototype outdoors under the same conditions of those typically found at crime scenes by the Dutch police from the region of Zeeland and West-Brabant.

3D-Forensics / FTI will bridge so called "valley of death" between a successful research and technological development and market introduction of innovation. It will finish off the footwear and tyre trace 3D scanning and analysis idea from an already advanced project output to make it market mature and ready for launch. In essence, 3D-Forensics / FTI will implement the last steps identified as necessary at the end of the previous FP7 project. The resulting advanced prototypes will be tested, including in "round robin" tests by six forensic end-users for performance verification. In a further phase the prototypes from a pilot line with the same or very similar specifications as the first product to be launched will be validated in a relevant accredited process. Communication with the forensic community together with the feedback from the testing and validation exercises will enable the business model to be fine-tuned and validated.

High Strength Bearing for Large-Bore LEAD FREE Engines

Lead (Pb) is a heavy metal very harmful to health and the environment. Lead is particularly harmful to children resulting in 600,000 new cases of children with intellectual disabilities every year due to lead exposure. Cost-benefit analysis suggests that, in France alone, an overall benefit of €22.72 billion/year can be achieved in terms of avoiding future medical interventions, limiting the need for special education and increasing future productivity by reducing Lead exposure.
BeLEADFREE aims to deliver novel technology (i.e.Lead-free journal bearings) to engine builders worldwide, ranging from medium and heavy-duty diesel engines (e.g. commercial road vehicles) to large four-stroke medium-speed engines (e.g. ships, engine generators or gensets). This will be achieved by optimising novel manufacturing approaches that have proven successful at TRL6 and designing and building a pilot line to manufacture Lead-free journal bearings to be validated in real engine working conditions. The completion of the project will ensure the initial market uptake of the new product and its implementation in manufacturing businesses in EU.

1.2.4 Societal challenge 'Secure, clean and efficient energy'

The European Union is advancing towards its 2020 and 2030 energy and climate targets and the transition to a low-carbon society is becoming reality on the ground. The Agency contributes to this process as it implements research and innovation projects with the specific objective of "making the transition to a reliable, affordable, publicly accepted, sustainable and competitive energy system, aiming at reducing fossil fuel dependency in the face of increasingly scarce resources, increasing energy needs and climate change."

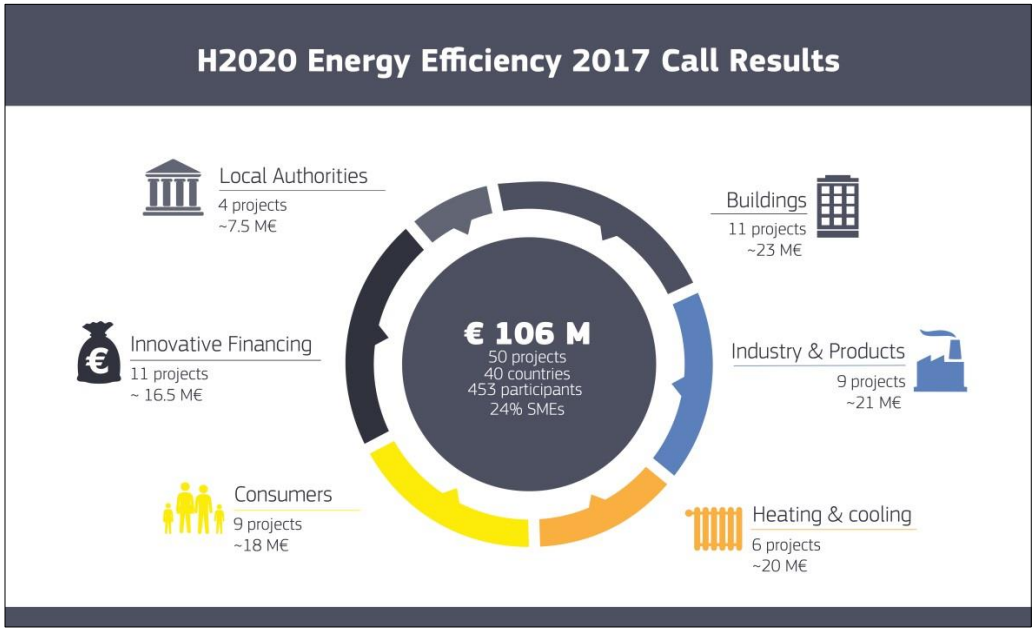
In 2017, the Agency monitored 171 on-going H2020 energy efficiency grants and 5 tenders.

H2020 Energy Efficiency calls 2017

The Agency was responsible for implementing the H2020 Energy Efficiency calls. In 2017 there were two call deadlines:

1. The first call closed on 19 January 2017 with a total budget of EUR 49 million: 105 proposals covering 6 topics were eligible. In the evaluation week between 6-10 March, a total of 28 proposals were recommended for funding and, considering the available budget, 16 grant agreements were prepared. They were all signed by 19 September, within less than 8 months. All topics were covered.
2. The second call closed on 7 June with an indicative budget of EUR 55 million. 203 proposals were evaluated covering 12 topics. The evaluation took place from 11-22 September. In total, 58 proposals were above the threshold. With the budget available the Agency started the grant preparation process of 33 proposals.

The Agency also prepared the grant agreements for 29 projects from the 2016 call (2nd deadline). All grant agreements were signed by May, within the 8 month TTG period. In addition, the ad-hoc grant for the Concerted Action on the Energy Efficiency Directive, which followed a different call deadline, was signed in February.



Graph 6: Energy Efficiency 2017 call results

The Agency is proud to have conducted the evaluation process to the highest possible standards. This was confirmed by the reports of the call Observers. According to their reports, the evaluations were conducted "*to the highest professional and quality standards.*" Moreover, one report mentions that "*the overall quality of the evaluation is considered as exceptional.*" The calibration exercise was particularly appreciated and assessed as "*the best they have observed in any evaluation observed to date.*"

The new energy efficiency projects, which started in 2017 are expected to save more than 90.000 tonnes of oil equivalent (toe) per year and generate more than EUR 390 million of investments in sustainable energy.

In order to receive proposals of high quality, the Agency actively promoted its calls, explaining the different topics to potential beneficiaries. In collaboration with DG ENER, DG CNECT, DG RTD and INEA, the Agency organised a central H2020 Energy Info Day on 23-25 October in Brussels. Around 900 persons participated and another 3500 viewers took remotely part via the webstreaming. More than 95% of the respondents to the satisfaction survey expressed a positive opinion.

Additionally, EASME presented the call in 5 national info days in the Czech Republic, Germany (Munich and Berlin), France and Portugal, 3 webinars (on public procurement, Project Development Assistance, innovative financing) and a number of conferences such as the Zagreb Energy Week, the World Sustainable Energy Days, Industrial Innovation Information Days, EePPP Buildings and SPIRE Info Day, European Utility Week or the Berlin Energy Days.

H2020 Energy Efficiency Tenders

The Agency managed a total of 4 tenders under H2020 contracts. Among them, the tender on the Sustainable Energy Investment Forums. The forums aim to initiate a dialogue between stakeholders at regional and national level, in order to improve finance for energy efficiency from public and private funds. In 2017, seven forums and two national rountables were organised with around 100-120 participants each.
In 2017 the Agency signed 5th tender. *Managenergy* is a new initiative for helping regional and local energy agencies to become leaders in the energy transition and to increase sustainable energy investments in regions and cities. The contract started with a kick-off meeting on 12 July and will deliver 8 master classes for local and regional energy agencies and 21 expert missions to energy agencies. The first output was a survey about energy agencies.

Concerted Actions under H2020

The H2020 programme funded three Concerted Actions (CA) with the objective to support the implementation of the Energy Performance of Buildings Directive (EPBD), the Energy Efficiency Directive (EED) and the Renewable Energy Sources Directive (RESD) by means of knowledge and good practice exchange between Member States. The aim of a CA is to support Members States with the implementation of these Directives. EASME's projects provide evidence-based input and contribute to discussions.
For example, during the CA-RES meeting in Bratislava on 21-22 March, with about 160 officials from 28 Ministries, regulators, TSOs, and other national authorities.

Contractors' meetings

In 2017, the Agency continued to foster synergies and exchange between on-going projects. Meetings of contractors are an effective method to enable this knowledge exchange between H2020 projects of the same topic or of similar topics. EASME organised 8 contractors meetings in total.

In May the Agency organised a contractors' meeting on local action for sustainable energy with 31 representatives from 19 projects with representatives of the Covenant of Mayors Office, DG ENER, DG REGIO, and INEA.

Policy feedback and promotion

Policy feedback is a corner stone of the project cycle and happens frequently and in many different ways such as monthly liaison meetings of Heads of Unit of EASME and DG

ENER, and frequent ad-hoc meetings and exchanges between Project Advisers and Policy Officers.

2017 was a particularly intensive year for policy feedback to DG ENER and other Commission Services e.g.:

Contribution to the revision of the EPBD: in relation to the review of the EPBD, EASME prepared references, links to documents, success stories, key figures and lessons learnt from projects as part of the preparation for trilogues. EASME also provided feedback on DG ENER's draft terms of reference for the development of a database for big data in support to the EU's Building Stock Observatory.

Revision of the Energy Efficiency Directive: EASME supported the revision of the EED intensively and from several angles. For example, the ENSPOL project fed directly into the debate on article 7 (Energy Efficiency Obligation Schemes); the Odyssee-Mure project as well as the socioeconomic research projects supported the modelling work of DG ENER; projects on Sustainable Energy and Climate Action Plans (SECAP) and Energy Management Systems supported the discussion of the exemplary role of the public sector.

Smart Finance for Smart Buildings Initiative (SFSB): Several H2020 projects managed by the Agency are continuously contributing to the development of the three pillars of the SFSB-initiative. For example, the Development Assistance Projects (PDA) managed by the Agency to help local authorities and other stakeholders prepare bankable projects have managed to ensure more than EUR 220 million investments. Another MEUR 446 is expected to be signed by ongoing projects in the coming years. The Agency fed back good practices and practical experiences to policy makers on de-risking and innovative finance models. Moreover, EASME supported the initiative with contributions to the progress report on "Accelerating Clean Energy Innovation." The SEI Forum regional conferences, national roundtables and webinars were additional focal points for policy feedback.

Heating and Cooling Strategy: the Agency published an "Overview of market uptake activities in support of the new EU Heating and Cooling strategy" with results of H2020 and IEE projects.

Energy Market Design: the Agency contributed with a focus on projects in the areas of consumers and energy poverty. EASME fed in IEE/H2020 project results at the 2nd meeting of the Energy Poverty Observatory, organised by DG ENER. The Agency also contributed to a policy meeting to start a structured collaboration between Covenant of Mayors, DG ENER and the observatory in view of the new energy poverty pillar under the Covenant of Mayors.
The Agency also participated in the Partnership Board meetings of the SPIRE (Sustainable Process Industry through Resources and Energy Efficiency) PPP and the Energy-efficient Buildings (EeB) PPP, and presented the relevant topics at the Industrial Innovation Info Days alongside colleagues from DG RTD.

Consultation Forum for Sustainable Energy in the Defence and Security Sector (CF SEDSS I): 2017 marked the end of the first phase of the CF SEDSS, which looked into the application of EU sustainable energy legislation in the armed forces in Europe. The second phase of the forum, this time to be managed as a grant by EASME, was prepared in close cooperation with DG ENER and the organiser of the forum, the European Defence Agency, started in October and will last until summer 2019. It will focus on policy implementation and Member States collaborative activities. EASME will continue to support the forum with practical advice and experiences from projects in the field of energy efficiency and sustainable energy and information about Horizon2020 funding opportunities.

Moreover, 2017 was also an important year for drafting the topics of the H2020 Work Programme for 2018-2020. EASME actively supported DG ENER and DG RTD in drafting

the topic texts and answering questions from Member States and different Commission services during the Inter-services Consultation. In total, the H2020 2018-2020 Energy Efficiency Work Programme includes 19 topics to be managed by EASME in the areas of buildings, industry and services, financing, consumers and policy-driven innovation, which all support the transition to a low carbon economy.

The Agency contributed to the different parent DGs' strategies and policy reviews, e.g. DG RTD's strategy on Accelerating Clean Energy Innovation; DG RTD's P4P (Projects for Policy) initiative and on the decarbonisation of the SPIRE industry.

In addition, the Agency provided continuous support to the work of the Energy Efficiency Finance Institutions Group (EEFIG). For example, jointly with DG ENER, the Agency organised on 18-19 January 2017 the "Energy Efficiency Finance Market Place", that brought together projects developers, cities and regions, and stakeholders from industry and financing institutions. 350 persons participated in this conference and not only learnt about 35 projects, recent policy developments and the on-going work by the EEFIG, but could also build their network of private financing institutions, the EIB, the EBRD, the Smart Cities Information System, the Covenant of Mayors office, BUILD UP and EASME. Upon request of DG ENER, a second event on 30 March 2017 with 120 participants, including representatives from the European Parliament and Permanent Representations. It showcased lessons learnt from successful Horizon 2020 projects and other initiatives across Europe to unlock and mobilise private financing for energy efficiency investments.

Conferences are an important opportunity to promote Calls, disseminate results of projects and reach out to stakeholders. In 2017 the Agency organised and took part in 47 conferences and conferences related to Energy efficiency topic.

In addition, the Agency presented the main projects' results in two conferences. The paper "When European collaboration makes energy efficiency policies more effective" was presented at the Summer Study of the European Council for an Energy-Efficient Economy (ECEEE). It explains how EASME projects are supporting energy efficiency policies.
The Agency presented a paper on 'EU support for innovation and market uptake in smart buildings under the Horizon 2020 framework programme' at the Sustainable Places 2017 conference in June in the UK. The paper covers 42 H2020 projects related to smart buildings, funded by EASME and other Agencies and DG's. The paper was later reviewed and published in the peer reviewed journal 'Buildings'.

International Policy feedback: The Director of EASME participated in the EU-Iran meeting on renewable energy. In addition, EASME provided input to the Argentine Government on results from IEE/H2020 energy education and consumer projects in view of their preparation of a G20 summit session on behavioural change taking place in February 2018.

EU added value of H2020 Energy efficiency programmes' project

The EEPLIANT project (April 2015 to June 2017) was designed to help deliver the intended **economic and environment benefits** of the Energy Labelling and Ecodesign Directives by increasing the rates of product compliance in 12 Member States. The consortium, which included twelve Market Surveillance Authorities (MSAs) from across the EU, organised coordinated monitoring, verification and enforcement activities, including product testing of LED lamps, Imaging equipment as well as space and combination heaters under 400 kW. Indicatively, for the 84 LEDs tested, most of the non-compliance encountered concerned quality and performance requirements such as brightness (luminous flux) and lifetime (lamp survival factor). In a small number of cases for these lamps, non-compliance was also found for the declared energy consumption and energy efficiency values. In response, market surveillance authorities have taken appropriate enforcement measures such as correction or amendment of

relevant documentation or packaging information (27%), voluntary sales stop or sales ban for importers/manufacturers (43%), withdrawal from the market (27%), or a product recall (2%). A qualitative review of the non-compliances detected during the inspections and testing, in particular for heaters, showed potential energy savings from the EEPLIANT project exceeding the 86GWh savings per year originally projected.

Digi-Label project aims at making the EU Energy label easier to understand and more readily available in-store and online. The project developed a digital tool, PocketWatt, which gives consumers more and better **data on the energy consumption** of appliances, televisions and lighting and allows comparing the energy efficiency and running costs of different products, both in store and on retailer websites. In 2017 the tool was piloted in UK and Spain to later be rolled out across Europe. The wider roll-out will involve Germany, Italy and the Czech Republic. The project is of particular relevance in view of the European re-scaling of the energy labels. There is an increasing interest in the project from retailers and an agreement to be involved in the project activities has been secured from Mediamarkt in Italy and Spain. Interest in the tool has also been shown from major manufacturers, such as Electrolux and Whirlpool. Collaboration is also ongoing at European level with EuroCommerce and CECED, the European Committee of Domestic Equipment Manufacturers. Meetings took place between the project relevant partners and the relevant DG ENER representatives to ensure a contribution from the project to the EU Product Registry Database.

1.2.5 Societal challenge 'Climate action, environment, resource efficiency and raw materials'

The Agency contributed to DG RTD's and DG GROW's common specific objective: to achieve a resource - and water - efficient and climate change resilient economy and society, the protection and sustainable management of natural resources and ecosystems, and a sustainable supply and use of raw materials, in order to meet the needs of a growing global population within the sustainable limits of the planet's natural resources and eco-systems.

Calls 2016 and 2017

In May the Agency signed one grant agreement for the 2016 One-Stage project (ITERAMS), which was promoted from the reserve list. In addition the Agency finalised grant agreements for the 23 projects resulting from the 2016 Two-Stage - within the TTG target.

As regards 2017 calls, EASME was responsible for coordinating the following calls:

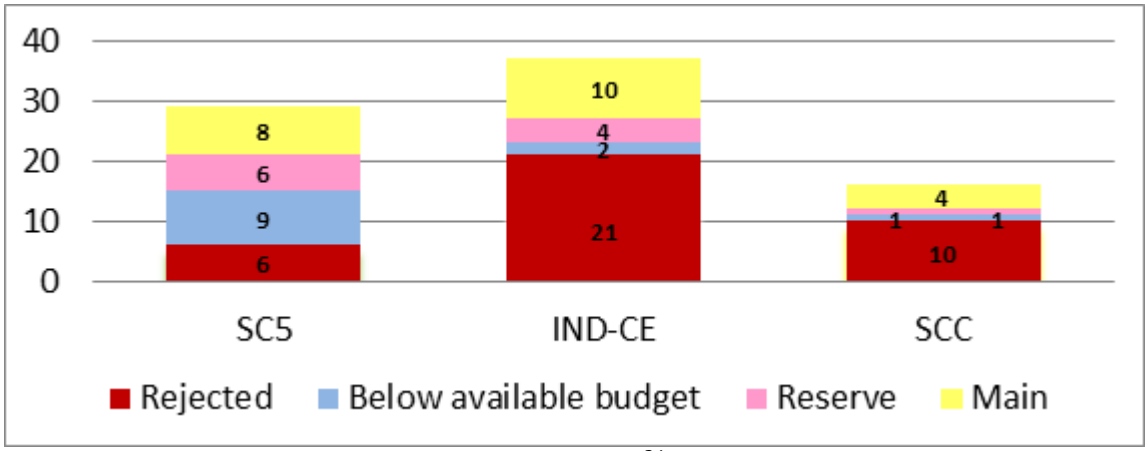
- Greening the Economy H2020-SC5-2016-2017 (One Stage and Two Stage topics);
- Industry 2020 in the Circular Economy H2020-IND-CE-2016-17 (Two Stage topics in Circular Economy section);
- Smart and Sustainable Cities H2020-SCC-2016-2017 (Two Stage topics in Sustainable cities through nature-based solutions section).

Graph 7: the results of the one-stage call

EASME received 268 proposals submitted in the framework of the Two-Stage call (4 proposals were inadmissible or ineligible), and 133 proposals submitted in the framework of the One-Stage call (4 proposals were inadmissible or ineligible).

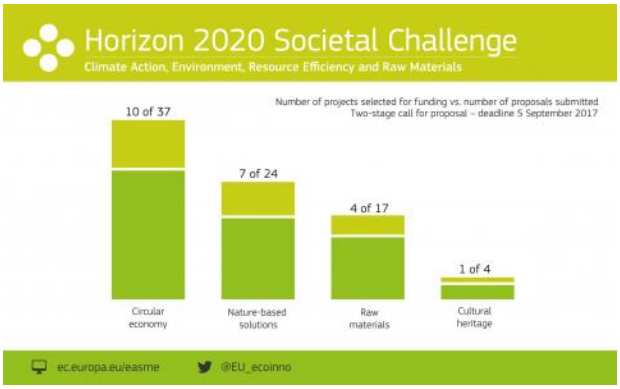
Evaluation of proposals submitted within the One Stage topics took place between March and May and 24 projects were proposed for funding. The Agency signed all the grant agreements within the TTG target and the majority of the projects already started. The total budget of these 24 projects amounts to EUR 122.5 million.

The remote evaluation of 264 proposals submitted for the first stage of the Two Stage topics took place between March and April. Following evaluations, EASME invited 82 applicants to submit their second stage proposals by the deadline of 6 September. Evaluations took place between September and October. 22 projects were proposed for funding. Following the establishment of the ranking list for the Two Stage and availability of budget, three additional proposals of the One Stage call were also proposed for funding. Currently, EASME is preparing the grant agreements.



Graph 8: Overview of proposals for Two Stage topics[24] in 2017

In 2017 EASME also managed one topic (BG-11-2017) in the framework of the call Blue Growth H2020-BG-2017-one-stage and one topic (SFS-43-2017) in the framework of the call Sustainable Food Security H2020-SFS-2017-one-stage – both under call coordination of the Research Executive Agency (REA). Evaluations took place between February and March, and one proposal was proposed for funding within each topic. EASME signed grant agreements within the TTG target and both projects already started.



Graph 9: the results of the Two-Stage call

In addition, two projects relating to "Other actions" were awarded grants without call for proposals, as indicated in the H2020 Work Programme 2016-17. One project is ongoing, and one is in the grant agreement preparation.

In November EASME organised the Information Days on the Horizon 2020 calls for 2018 of Societal Challenge 5 (SC5) Climate Action, Environment, Resource Efficiency and Raw Materials. The Information-Days lasted day and a half days, which allowed more time for thoroughly presentation of policy and topics, as well as a longer brokerage session. 460 people attended the event, and more than 1,000 followed it via web streaming.

[24] IND-CE: Industry 2020 in the Circular Economy; SCC: Smart and Sustainable Cities; CIRC:Circular Economy.

In 2017 Project Advisers were monitoring 185 running projects. Overall EU contribution to these projects amounted to EUR 1,06 billion. In addition, in December EASME started grant agreement preparation for another 26 projects, and the EC contribution to these projects will be nearly EUR 234 million.

In 2017 the first eight projects managed by EASME were concluded. Five of them (BlueSCities, MSP-REFRAM, T2gE, WATERINNEU and WIDEST) reported on the achievement of their objectives. Three others - FREEWAT, PROSUM and PPI4WASTE are at the final stage of reporting.

One of the finalised project is **ProSUM** project that has established the EU Urban Mine Knowledge Data Platform providing user-friendly, seamless access to data and intelligence on secondary raw materials. It is the first database of this kind in the European Union. The ProSUM portal addresses not only critical raw materials in the EU, but also conflict minerals and elements that are "recovery drivers" (i.e. the most profitable to recycle). It gives centralised access to charts and maps and includes a search engine currently covering over 800 data sources and documents reviewed and structured for batteries, electric vehicles, waste electric and electronic equipment and mining waste. Access to such data and intelligence will help the recycling industry and policy makers with investment decisions and interventions to increase secondary raw materials recycling.

In 2017 the Agency completed 55 mid-term review projects. Despite some initial delays (e.g. permitting for demos, financial issues of beneficiaries) the review results were positive and it is expected that the majority of projects will complete and successfully deliver results within the scheduled deadlines.
The project reviews proved to be very useful to assess and take stock of the progress so far, as well as to identify deviations from the Description of Action and receive feedback concerning the implementation of the first set of innovation actions managed in the Agency. In particular, more advanced projects, i.e. Innovation Actions, reviews are a good opportunity to visit the demonstration plants and assess their impacts on the ground.

Policy feedback and promotion:

The Agency held regular meetings with RTD and other agencies to identify potential synergies, and discuss how to maximise the benefits of EU funding and the impact of projects working in the same or closely related fields (e.g. climate adaptation, nature-based solutions, cultural heritage, cities).

The Agency was regularly liaising with parent DGs to provide feedback on the policy initiatives of DG RTD, DG ENV, DG CNECT and DG GROW. For example[25] on:

- Revision of the Ecodesign Directive;
- Revision of the Drinking Water Directive;
- Revision of the Urban Waste Water treatment Directive;
- Revision of the Water Framework Directive.

Additionally the Agency contributed to the Circular Economy Action plan, Eco-innovation Action Plan, the Green Action Plan for SMEs, etc by providing relevant information on ongoing projects. For more detailed information please see annex 12.

As regards feedback and support to policy makers, EASME (co-) organised several major public or stakeholder events. The most important ones were:

- EASME participated in the World Circular Economy Forum 2017 in Helsinki by co-organising different sessions. This brought an EU-added value by creating synergies among different funding programmes, e.g. H2020 (SC5 and SME Instrument), LIFE, and

[25] For the whole list of supported initiatives please see annex 12.

EIT-KIC. It also created networking possibilities for beneficiaries, and exposed the projects to potential investors, including EIB. Various stakeholders gave positive feedback to the Agency, mentioning that their needs couldn't have been fulfilled without a European action. SMEs participating in H2020 Societal Challenge 5, SME instrument, LIFE and CIP projects showcased their innovative solutions and their contribution to the Sustainable Development Goals. On 7 June 2017, EASME co-organised a side event - Promoting Green Investments: Matchmaking opportunities for SMEs and EU-funded Projects in the Circular Economy. The main objective of the side event was to launch ten new projects resulting from the H2020 call of 2016 on circular economy. (Please see 1.2.6 as well)

- EASME co-organised - with DG RTD and the Finnish Meteorological Institute as the host the 11th European GEO Workshop (EGW 2017, 19-21 June). 150 European stakeholders from H2020 funded projects, as well as from other national and international initiatives contributing to the Global Earth Observations System of Systems (GEOSS) attended the event. The discussions contributed to shaping the EuroGEOSS. This initiative was officially launched by Director-General of DG RTD Robert-Jan Smits at the GEO ministerial meeting in Washington D.C in November 2017. In the context of this high level meeting, a number of representatives from the H2020 Earth Observation projects actively demonstrated the high added value contribution of Europe to the international GEO initiatives, through the organisation of sessions, the participation in plenary sessions or the showcasing of videos/posters.

- In September EASME participated in the Porto Water Innovation Week. The event brought an evident EU added value as activities contributed to establishing synergies among projects and across different funding programmes, as well as EU Initiatives (EIP Water, WssTP). The event stimulated dissemination of project outputs and supported the maximisation of project impacts by addressing key enabling factors and barriers for research and innovation actions to reach the market.

- EASME contributed to the organisation of a high-level event "Nature-based Solutions (NBS): From Innovation to Common-use", which was a flagship conference of the Estonian Presidency of the Council of the EU (24-26 October, Tallinn). The conference was financed under a Horizon 2020 project managed by the Agency. EASME's director Julien Guerrier was a high-level speaker of the plenary session. EASME had its own exhibition space where H2020 and LIFE programmes were promoted. The NBS projects financed under H2020 and managed by EASME were presented.

- On 29-30 November EASME co-organised together with DG RTD and JPI climate the workshop "Climate services at work". H2020 funded climate services projects, as well as projects funded under the ERA-net ERA4CS. Beneficiaries of the LIFE, COST and C3S contracts attended the event. The main objective was to identify synergies and cooperation opportunities among each other. It also allowed users and stakeholders to get a snapshot of what is going on in the field, helping both sides to identify activities and means to maximize the projects' impact and outreach, as well as to contribute towards increased coordination, complementarity and visibility of project activities.

In 2017 the Agency systematically communicated its activities on Social Media (Twitter, LinkedIn, Facebook and Instagram) and on EASME website. EASME published 35 news articles on the Agency's website, including 18 success stories from projects. In addition, Euronews featured three of EASME projects in Futuris (iMetland, BINGO and Sponges).

The Agency contributed to the different parent DGs' strategies and policy reviews. Moreover, 2017 was also an important year for drafting the topics of the H2020 Work Programme for 2018-2020. EASME was consulted on the Work Programme 2018-2020 by DG RTD and DG GROW and provided comments at different stages. Currently, the Agency is also participating in DG RTD working group on FP9, and in the DG RTD task force on FP9 rules for participation.

Additionally, the Agency also contributed to requests, e.g. briefing, parliamentary questions, coming from DG RTD (on several issues related to e.g. water, circular economy, synergies with structural finds), DG ENV (e.g. on eco-design), and DG MOVE (e.g. circular economy in the transport sector). EASME was a member of the task team for the Circular Economy focus area, chaired by RTD. The Agency contributed to the discussion on the overall focus area content and topics, as well as to the drafting of the booklet on circular economy that was published[26] in November by DG RTD.

Examples of EU-added value of the 'Climate action, environment, resource efficiency and raw materials':

BlueSCities focused on integrating water and other sustainability elements within the smart cities approach. First of all it developed tools **to help cities become smart** and sustainable: The City Blueprint and The City Amberprint.

- The City Blueprint is a practical communicative tool that helps cities on their path to becoming sustainable water-wise cities. It is interactive and reveals at a glance where a city's strong and weak points lie and can serve as the key first step in strategic decision making and planning.
- The City Amberprint helps cities on their path to becoming smart and sustainable. The proposed indicators focus on the three categories of the smart cities approach, namely Energy, Transport and ICT; evaluate the current state of sustainability in cities and propose possible solutions.

These tools are based on a solid baseline assessment and were tested in four pilot cities. The combination of the tools is made possible via an independent software, which enables local authorities to perform a self-assessment of their status as regards the integration of the main sectors. BlueSCities developed a practical user manual for these two tools.

In addition, the project developed the Urban Water Atlas for Europe. It gathers the best practices of urban water management and demonstrates how cities are addressing the issues to become not only smart, but resilient to the water challenges which lie ahead. It features contributions from over 40 collaborators from 30 countries and describes urban water management in 46 cities.

Eurecat's Horizon 2020 project Widest successfully contributed through smart technologies to the development of a better-informed and integrated water community. Indeed, Widest has established an online Water Observatory (IWO) consisting of literature search and reviews of relevant academic references, projects initiatives, industrial publications and any other dissemination channel, where latest scientific & innovation advances are reported. In parallel, the project also developed Roadmaps to provide specific analyses and recommendations for policy makers and to enhance implementation, interoperability and business opportunities for the water community.

[26] https://publications.europa.eu/en/publication-detail/-/publication/9e143623-c92f-11e7-9b01-01aa75ed71a1

1.3 LIFE

The LIFE Programme[27] is the EU's funding instrument to support the protection of the environment and climate action. For 2017, EUR 460 million has been allocated to the Programme[28], with about EUR 300 million operational expenditure delegated to EASME.

In 2017, the Agency was responsible for the calls for action grants under the Environment sub-programme[29] and the Climate Action sub-programme, as well as the call for operating grants to NGOs that help to implement and shape EU policies on the environment and climate change. The Agency is also responsible for managing the calls for proposals for Integrated Projects on climate adaptation and mitigation and the calls for proposals for Capacity Building projects.

Altogether in 2017, EASME evaluated under the LIFE programme almost 700 proposals and funded 152 projects. EASME informed all the applicants within the legal deadline and signed 128 projects within the time to grant (9 months after the call closure). Currently, EASME manages around 600 projects for the LIFE programme. It is to note, that the Agency paid 99% of the projects within the legal deadline.

In order to support the projects in the best way, EASME follows a thematic approach with staff with experience in the covered sectors. Furthermore, EASME continues to organise thematic exchanges between projects, with inputs from DG ENV and DG CLIMA during specific sessions dedicated to policy feedback and specific impacts. This helps projects to share their results and insights with the policy makers inside the European Commission and to extract common messages and lessons learned.

The main examples of thematic meetings held in 2017:

- LIFE Platform Meeting on Invasive Alien Species (IAS):
  Invasive Alien Species and their impact to the environment are one of the key topics addressed by LIFE projects over the years. Projects should act as example for the development of further ideas and proposals. The meeting brought together LIFE projects and other organisations, to share the many experiences and case studies on this topic, assess strength and weaknesses of the LIFE programme in relation to the implementation of the EU Regulation of IAS and evaluate future challenges and opportunities, including links with other nature protection legislation and with other EU financial resources.
- In July, EASME and the Barcelona Provincial Council co-organised the LIFE Platform Meeting on Climate Action in Urban Areas. It brought together LIFE project beneficiaries, competent authorities and other stakeholders from across Europe to discuss specific actions to advance climate change mitigation and adaptation in urban areas.
- The 2017 LIFE Platform Meeting on Air Quality focuses on "Abating human exposure to air pollutants in cities".

Examples of particularly innovative air-related topics presented and discussed:

- Air pollution due to diesel vehicles, the case of the diesel-gate and real driving cars' emission calculations, reporting and labelling
- Air pollution in subways
- Air pollution due to resuspension of dusts and particulate matter
- LIFE Platform meeting on plastics in Athens: EASME and DG ENV organised the platform meeting in the National University of Athens. The aim of this meeting was to discuss and promote the contribution of the LIFE and H2020 projects to

[27] Regulation (EU) No 1293/2013 of the European Parliament and of the Council of 11 December 2013 on the establishment of a Programme for the Environment and Climate Action (LIFE) and repealing Regulation (EC) No 614/2007.
[28] Commission Implementing Decision C(2016)429 of 2 February 2016.
[29] Except for integrated projects and technical assistance projects which will be managed by DG ENV until 2017.

the relevant EC policies such as the Circular Economy package and the roadmap to develop a Strategy on Plastics in a Circular Economy.
- The aim of the LIFE Water platform in June was to provide a possibility for Water LIFE projects to meet and discuss on topics of River restoration activities.

As part of the kick-off meetings, organised every year for the newly funded projects, EASME invited coordinators of close-to-market projects and investors. The "LIFE Close-to-Market - Connecting Finance Enablers" event was a special kick-off meeting with high-level potential investors and EC representatives. One part focused on sharing and discussing visions and objectives, which determine both investment and funding strategies.
The second part was focussed around a meeting between investors, EC representatives and promising projects, the objective being to attract the interest of investors at a very early stage and kick-off a longer-term collaboration.
Based on feedback from investors, EASME designed activities to better support businesses in using their LIFE grants to get on the market.

In 2017, LIFE programme celebrated its 25 years. In this context, around 80 events took place across Europe with actions in Natura 200 sites and on nature conservation and biodiversity and EASME supported them by sending promotional tools.

As already mentioned in chapter 1.2.5, the Agency participated in the World Circular Economy Forum. EASME co-organised with Sitra the session "17 Circular SMEs meet the 17 SDGs" on 5 June securing 8 SMEs as speakers, EASME also co-organised with Switch Asia, Sitra and other stakeholders a B2I and B2B matchmaking side-event on 7 June. The matchmaking event featured SMEs and projects that received funding through LIFE, H2020, CIP Eco-innovation and SME Instrument. These events facilitated the opportunity for EASME to intensify its work on the close-to-market approach. They will also help to support LIFE and Eco-innovation projects in terms of market uptake and to attract investors for projects' continuation. EASME's cooperation in the run up and during the World Circular Economy Forum event is an excellent, concrete example of breaking silos and creating synergies between EU programmes, in particular in the context of the current post-2020 Multiannual financial framework preparation. (re. chapter 1.2.5)
The WCEF event reinforced the role of EASME as facilitator and stakeholder in Circular Economy community and point of reference for streamlining Circular Economy as a high-profile item on the Commission political agenda, combining business and sustainability issues.

Additionally, EASME participated in COP 23 in Bonn. The LIFE programme was for the first time present at the Conference of Parties on Climate Change at a side event. It helped to emphasise the impact of climate-smart investment in Europe. Six different projects were showcased to highlight how public finance can be used to unlock investments in environment protection and climate change.

As every year, EASME also organised the following events:
- LIFE Info Day in Brussels during the Green Week: the aim of this event is to promote and explain new features of the 2017 call for proposals. EASME also supported the organisation of Info Days in the Member States with the help of the external contractor, NEEMO. EASME participated in 20 of them.
- The "NCP training" which aims to support the activities of the National Contact points in the Member States attracted 100 participants from the 28 Member States.

EASME continued to provide regular policy feedback to DG ENV and DG CLIMA both at Head of Unit/Sector level and at project adviser level. This exchange of experience and good practices is important to influence the policy development direction.

EU added value of the LIFE programme's projects

The MAŁOPOLSKA Integrated Project is helping to roll-out an **air quality** plan in the Małopolska region of Poland, and regional and local air quality policies in the regions of southern Poland, Slovakia and the Czech Republic. It will improve regional cooperation in air pollution hotspots; remove barriers to funding for replacing obsolete coal boilers and raise awareness of simple tricks on how to improve local air quality. The first huge success of the project was the adoption of a regulation, which bans the use of solid fuels in the Małopolska Region.

The LIFE OPTIMELT project will carry out the first full-scale demonstration of an innovative waste heat recovery concept. The technology, called OPTIMELT, is able to use an endothermic reaction of natural gas with water vapour/CO2 in the flue gas to recover more heat than previously possible in high-temperature manufacturing processes. It serves as an add-on to existing oxy-fuel combustion furnaces, making this option more environmentally friendly and cost-effective (20% reduction in fuel and oxygen consumption).
The demonstration will be carried out in a furnace producing 105 tonnes/day of domestic glass. Specific objectives are as follows:

- Energy consumption and greenhouse gas emission savings of at least 20% compared to best available technology in the glass industry (oxy-fuel combustion), and lower nitrous oxide emissions;
- Demonstration of the economic viability of OPTIMELT technology;
- Dissemination of project results to at least 500 relevant manufacturing locations of high-temperature companies in the EU;
- Definition of technical requirements for steel and aluminium manufacturing in which OPTIMELT is applicable, so as to facilitate technology transfer to project stakeholders from these industries.

1.4 EMFF

The European Maritime and Fisheries Fund (EMFF) aims to promote competitive, environmentally sustainable, economically viable and socially responsible fisheries and aquaculture as well as to enhance the development and implementation of the EU Integrated Maritime Policy (IMP). It is one of the five European Structural and Investment Funds which complement each other and seek to promote growth and jobs in Europe.

EASME implements a large part of the policy support actions under the EMFF work programmes (WP) on behalf of DG MARE. As the table below shows, per year between 20 and 30 new EMFF actions are delegated to EASME.

Type of action	WP 2014	WP 2015	WP 2016	WP 2017	Total No of actions
Calls for tenders	9	9	13	11	**42**
Specific contracts under framework contracts	8	8	6	6	**28**
Calls for proposals	2	4	6	3	**15**
Ad-hoc grants	1	2	5	2	**10**
Union financial contribution	0	1	0	0	**1**
TOTAL	**20**	**24**	**30**	**22**	**96**

Table 3: overview of the number of delegated EMFF actions by type[30]

On 27 September[31], the 2017 EMFF WP was amended, which resulted for EASME in:

- the modification of six actions,
- the withdrawal of seven other actions,
- the merge of two actions,
- the inclusion of three new actions.

These changes resulted in a high concentration of call publications at year end. In the same period, EASME finalised the evaluation and contracting of 2016 WP actions resulting from the second amendment to this WP adopted on 24 October 2016. Detailed information on results versus targets is provided in annex 12.

Two thirds of the EMFF delegated actions from 2014 to 2017 were procurement actions (mainly open calls for tenders), while one third comprised grant actions. However, grant actions resulted on average in 4 times as many projects as the number of contracts resulting from individual procurement actions. As a consequence, the total number of grant agreements and contracts was quite balanced end 2017: 57 grants and 54 contracts.

A major change in comparison with the previous years was the steep increase of the budget for open calls for proposals in the field of blue growth. In addition, following a proposal from EASME, initially separate grant actions were clustered in larger calls under the 2017 and 2018 EMFF WPs in order to create more synergies and efficiency.

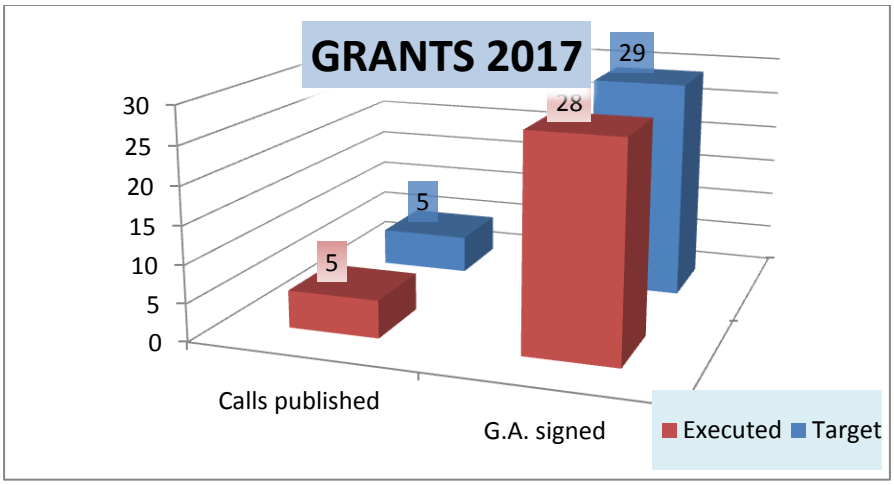
The higher number of ongoing projects and service contracts called for more resources to monitor the implementation of the actions in 2017, but the highest workload continued to come from the preparation and evaluation of delegated actions.

In terms of budget, EASME executed all commitment and payment appropriations for the EMFF by year end.

These are considerable achievements given the substantial and late changes to the 2016 and 2017 EMFF WPs and the major fluctuations that occurred in the EASME EMFF team in 2017.

[30] The final number of delegated actions differs slightly from the number of actions delegated to EASME according to the corresponding EMFF work programmes due to subsequent modifications. The table considers the amendment of the 2017 EMFF WP.
[31] Commission Implementing Decision C(2017)6382 of 27 September 2017, amending Decision C(2016)8422 of 15 December 2016 concerning the adoption of the work programme for 2017 and the financing decision for the implementation of the European Maritime and Fisheries Fund.

Grants



Graph 10: overview of grants

In 2017, EASME published as foreseen three calls for proposals and issued two invitations to apply for *ad hoc* grants.

The 2017 EASME WP target included the launch of four calls for proposals and ad hoc grants. After the amendment of the 2017 EMFF WP, this number decreased due to the merge of two initially proposed actions and two new actions in a single call to increase synergies and budget flexibility. The same amendment added also a new *ad-hoc* grant action.

EASME realised more synergies by combining in a single call for proposals the 2016 and 2017 grant actions for implementing the maritime Common Information Sharing Environment (CISE). This initiative resulted in a full take-up of the 2016 budget for maritime policy.

For the preparation and launch of the Sustainable Blue Economy call[32], the largest EMFF call for proposals hitherto in 2017, EASME effectively coordinated a large number of collaborators and organised a successful information day on 9 November, which was strongly supported by Commissioner Vella and trending on social media.

Following the second amendment of the 2016 EMFF WP adopted on 24 October 2016, EASME invested a lot in the timely evaluation and signature of grant agreements resulting from this amendment.

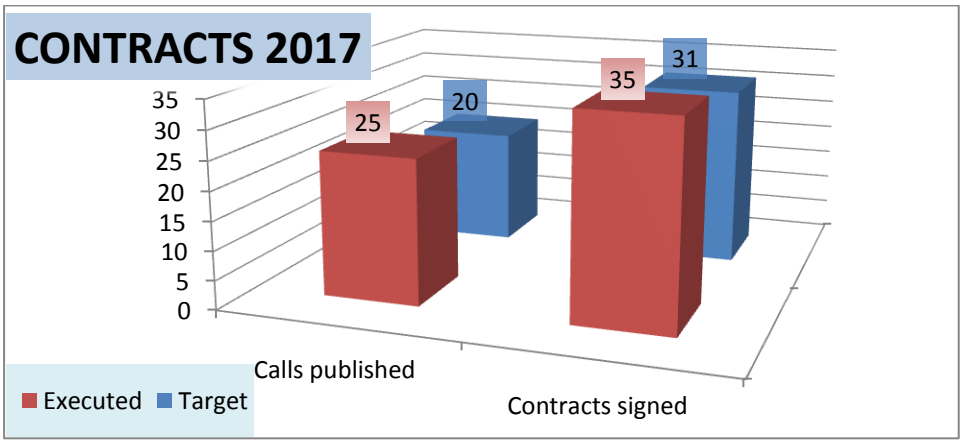
Given the increasing number of larger calls for proposals, EASME has successfully used the support of external experts for the first time for the evaluation of proposals under the 2016 Nautical Routes call.

In total, EASME signed 28 grant agreements in 2017 representing 96.6% of the target for the year.

In order to support and monitor beneficiaries, 10 project meetings were held including (group) kick-off and networking meetings, and 9 projects received a monitoring visit. EASME also assessed 88 project reports for 36 grants.

[32] EASME/EMFF/2017/1.2.1.12

Contracts



Graph 11: overview of contracts

In 2017, EASME launched:

- 12 calls for tenders,
- one invitation for a low value contract,
- one negotiated procedure without prior publication,
- 11 requests for services under framework contracts, including one with reopening of competition.

EASME achieved its target for the preparation and publication of calls.

The calls for tenders launched in 2017 included four actions from the 2016 EMFF WP, as the second amendment was adopted on 24 October 2016. It also includes two unsuccessful calls for tenders from the 2016 WP that EASME republished in 2017.

As EASME did not receive any offers for one call (*Study on engine power verification by Member States*), it launched a negotiated procedure without prior publication in accordance with Article 131.1(a) of the Rules of Application[33] and signed the contract with the successful operator before year end.

The number of requests for service launched was higher than initially expected. This compensated the underachievement for this target in 2016, which was due to the late availability of the framework contracts in that year.

After the evaluation of all received offers, EASME signed 35 new contracts in 2017.

EASME organised some 20 meetings in house and attended all other contractually planned meetings with contractors for the ongoing contracts, including during 7 missions. As previously, contracts involving a steering committee with a large number of services were particularly labour intensive in terms of organisation and given their frequency.

In 2017, EASME assessed 116 reports corresponding to 36 contracts.

[33] Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union. (OJ L 362, 31.12.2012, p.1).

Examples of the EMFF programme's projects

As the implementation of the EMFF programme kicked off end 2014, most actions started only in the second half of 2015. Therefore, the number of finalised actions was still limited in 2017; in particular grant actions are still ongoing and their final results will start appearing only in 2018-2019. Nevertheless, 2017 provided a number of interesting concrete results which demonstrate clearly the added value of the EMFF programme:

Maritime Spatial Planning (MSP) is establishing itself increasingly as an essential tool to facilitate a sustainable and conflict-free use of marine space, in which an increasing number of economic activities are taking place: maritime and coastal tourism, fisheries, aquaculture, shipping, off shore wind farms, oil and gas drilling, cables on the seabed, etc. The EMFF supports MS in their cross-boundary maritime spatial planning, with project grants managed by EASME. The Baltic SCOPE[34] project made a real difference for the collaboration between the national authorities of 6 Baltic Member States (DK, DE, EE, LV, PL and SE) on shipping, fisheries, energy, environment and maritime spatial planning (MSP). It produced e.g. a common platform for MSP in the Baltic Sea, on which the MS collected and produced a huge amount of data and maps. For example, the shipping density maps and data spanning over ten years now allow to compare the shipping data by month and ship type, which is essential information to identify maritime traffic and routes. Another example is ecosystem approach toolbox: this toolbox helped to harmonise the understanding of the ecosystem based approach (EBA), whereas before the project, the Baltic MS applied EBA differently from country to country.

In order to support the EU MS authorities with the implementation of the MSP Directive that was adopted in 2014, the EMFF finances also an **assistance mechanism** (see also http://www.msp-platform.eu/). The MSP Platform was expanded in 2017 and the information available now includes country fiches with information on national MSP legislation and plans, a user-friendly database with 370 MSP practices and a project database with 127 MSP projects. In addition, the MSP Platform offers information on funding and training opportunities, as well as events for those responsible and concerned by MSP in the MS.

Collect once, use multiple times. This basic principle continues underpinning the European Marine Observation and Data Network (EMODnet at www.emodnet.eu), supported by the EMFF. EMODnet consists of more than 160 organisations assembling marine data, products and metadata to make these fragmented resources more available to public and private users. In 2017, an EMODnet bootcamp and hackathon took place to create innovative solutions from marine open data that will support and increase investments and initiatives in the blue economy[35]. Students and start-ups competed for awards from DataCamp, and the winning team was given the opportunity to further develop their concept at the CoFoundry incubator. Five students got the chance to develop their ideas at Open Summer of Code.

[34] EASME/EMFF/2014/1.2.1.5
[35] see http://www.emodnet.eu/missed-open-sea-lab-watch-film.

1.5 CIP-Intelligent Energy Europe Programme

The Intelligent Energy Europe programme (IEE) ran from 2003 to 2013 with a total budget of nearly EUR 1 billion. It aimed to remove the market barriers to energy efficiency and renewable energies and it covered all end-use sectors. In its second and last phase (IEE II 2007-2013), the programme supported about 500 cross-national projects with a budget of EUR 446 million.
The Agency is entrusted with the legacy management of the IEE II programme (2007-2013). It is proud to do so effectively and efficiently. For example, the Agency's average speed to assess IEE project reports and to pay beneficiaries was 66 days whilst the contractual deadline is 90 days.

In 2017, the Agency still managed 160 IEE grants. In total, there were 81 final payments, one interim payment and 42 additional payments.

Policy feedback and promotion

In 2017 the Agency continued to provide policy feedback with results from IEE-projects to DG ENER and other Commission Services. The results of these projects are valuable sources for policy-making:

- In bioenergy, EASME exchanged with the Innovative Networks Executive Agency (INEA) in areas of joint interest. For example, EASME presented the results of the impact assessment of IEE Bioenergy projects on the 16 March at the third bioenergy thematic meeting organised by INEA. During the CA-RES meeting in Bratislava from 21-22 March the IEE project "Biomass Policies" presented its main results.
- The Agency organised a lunchtime session on 18 May for DG ENER on the outcomes of the IEE ENSPOL project on art 7 of the EED. Art 7 is one of the articles of Energy Efficiency Directive under revision as part of the recently adopted Clean Energy Package for all Europeans. Moreover, during the Concerted Action EED (CA EED) in Munich on 7-8 March 2017 the IEE-project ENSPOL delivered input to the Member States.
- The Agency collated available information from IEE and Horizon 2020 projects on the transposition and implementation of Article 14-15 of the Energy Performance Building Directive (EPBD) that covers the ventilation components of heating and air-conditioning systems. In addition, the Agency collected data that could help quantify the energy efficiency impacts of these inspections. The information provided an input to DG ENER's trialogue discussions on the revision of the EPBD.
- The Agency prepared an overview for DG ENER about the state of play of the Energy Performance Certificate (EPC) databases, indicating Member States that already have an EPC database (and those not recording EPCs) whether information is public, what kind of info it includes and whether it includes actual energy use information. The overview was used to respond to a query from the Estonian Presidency in relation to the EPBD revision.
- The Agency has regularly fed in DG JUST's work on energy poverty (e.g. Vulnerable Consumer Working Group) with the results of IEE projects such as REACH, EC LINC and ACHIEVE.

The successes of the first IEE-grants on project development assistance are still being taken into account in further developing EU-support for energy efficiency financing. For example, during the Energy Efficiency Finance Market Place on 18-19 January 2017 the projects within the key area of Mobilising Local Energy Investments (MLEI) were of particular importance as they could showcase already their achievements and the concrete investment projects that were developed.

To support the implementation of the Energy Efficiency Directive (EED) in Member States, a key instrument is the Concerted Action on the Energy Efficiency Directive (CA EED) launched in 2013 under the IEE programme. With around 150 participants at each meeting, it brings together all implementing bodies of the 28 Member States responsible for the transposition and delivery of the EED at national level. During these meetings, the

results of IEE projects are regularly presented and discussed. For example, the Odyssee Mure database, which was also supported by IEE, provides data on energy efficiency and carbon emissions in all 28 Member States and Norway as well as around 2,000 energy efficiency policy measures. The database was widely used in the revision of the EED and is a resource for policy makers for the design of energy efficiency policies.

Results of the programme

2017 was the year in which most of the last IEE-projects came to an end. It was also a year of drawing conclusions from the programme and highlighting achievements. The Agency conducted evaluations in different areas.

Strengthening product market surveillance

9 projects were funded by IEE and more recently by the H2020 programmes with a total budget of over EUR 16 million which supported the implementation of the EU's Ecodesign and Energy Labelling Directives. Some of the projects randomly tested the level of compliance with the requirements for various products (refrigerators, TVs, LEDs, etc.). Others worked on capacity building and sharing of good practice between market surveillance bodies. The IEE project MarketWatch, for example, brought together 16 NGOs across the EU, and produced a retailer's guide on labelling of appliances, with a view to facilitating the proper display of energy labels when offered to consumers. The projects also supported the European Commission's Information and Communication System for the pan-European Market Surveillance (ICSMS) where real-time inspection data is synchronised and shared with national monitoring bodies.

Improve the energy performance of buildings

In total, 63 IEE-projects supported the implementation of the policies to improve the energy performance of buildings and broadly covered the areas of nearly-zero energy buildings (nZEB), (deep) energy efficiency renovation, construction skills, renewable energy integration in buildings, minimum energy efficiency requirements, Energy Performance Certificates as well as the provision of better data and tools for policy-making and scenario modelling.

A final evaluation of 63 IEE-projects by an external contractor confirmed that overall the programme was highly successful in responding to the needs, problems and challenges of the building sector and its relevant stakeholders. Some of the quantified impacts achieved include:

- Training sessions delivered to 16,000 people;
- 700 pilot projects implemented, 750 case studies produced;
- 650 policy makers engaged, 26 active networks with more than 2 500 members, 1.3 million building users engaged;
- 25 toolkits developed to support building energy performance improvement.

Mobilising large-scale investments

Within the IEE calls on "Mobilising Local Energy Investments" (MLEI), a total of 22 grants supported project development in European cities and regions. With a total budget of around EUR 21 million and EU-contribution of EUR 15.7 million they triggered by the end of 2017 total investments (projects signed) of EUR 255 million, which results in a leverage factor of around 16 for every Euro of EU-contribution. There are additional EUR 177 million of investments in sustainable energy projects expected to be signed. In total, project development assistance in IEE led to a reduction of GHG-emissions of 393 700 tCO2/a, energy savings of 755 GWh/a and renewable energy production of 570 GWh/a.

Bioenergy projects

Under IEE II, 47 bioenergy projects were supported with a total of EUR 48.3 million of EU contribution. The programme triggered over 1.65 Mtoe of bioenergy, saved 5.7

MtCO2e emissions and stimulated over EUR 900 million of investment in bioenergy. More than 2.8 million stakeholders were informed on bioenergy, more than 200 000 attended IEE II bioenergy events and 14,600 were engaged in development meetings and site visits. The programme also contributed to the development of 443 business plans and 1 536 feasibility studies, resulting in the concrete implementation of 236 biomass supply chains. These bioenergy projects have been linked directly with the development of over 400 plants across the EU representing over 165 MW. The leverage effect of one Euro of EU funding in bioenergy projects was 18.9 Euro of investments.

Sustainable transport

Under the STEER-pillar, the IEE-programme also included sustainable transport projects. In total, IEE supported 64 projects (out of a total of 373 received proposals) with a total budget of some EUR 105 Million in the fields of freight transport, clean fleets, eco-driving and training, mobility management, public transport, and active transport (walking, cycling). These projects led to the support of more than 500 local and regional stakeholders in the field of passengers and freight transport. In addition, two portals (ELTIS, Green Vehicle Portal) supported the exchange of knowledge in this area.

In addition, the Agency prepared two publications on the results of the H2020 tender on the Review of Bioenergy projects implemented under IEE II: "The role of Intelligent Energy-Europe II to biogas and biomethane uptake in Europe", Bioenergy Insight, Volume 8, Issue1, January/February 2017, and "How Intelligent Energy – Europe II supported bioenergy supply chain development in Europe", Bioenergy International, March 2017.

EU added value of the Intellegent Energy Europe Programme

Buildings are expected to meet building regulations put in place to save energy and protect the environment. Design modifications during building construction can affect **energy performance** ratings. To avoid this, the QUALICHeCK project carried several field studies. In Sweden for example, the results of the field study assessing the difference between calculated and measured energy use in buildings were used in the review of the national regulations for energy performance certificates. An Estonian field study revealed that 68% of buildings investigated did not comply with the regulations on summertime overheating. As a result, more checks on overheating are now done and discussions on quality issues have progressed. In two Source Books the project presents practical recommendations to achieve compliant input data for energy performance certificates and improved quality of construction. Identified solutions included databases of pre-calculated values, standardised product information, training, and qualification and certification schemes, which are helping to better implement the Energy Performance of Buildings Directive in several countries.

The project Energies POSIT'IF developed a "one-stop-shop" and innovative financing solutions in Ile-de-France (FR). The Region launched a semi-public Energy service company able to provide an all-inclusive **"Design-Implement-Operate"** package with guaranteed energy savings and Third Party Finance for a comprehensive deep retrofit programme for condominiums, social housing and public buildings through Energy Performance Contracts. The ESCO Energies POSIT'IF also signed a loan over EUR 100 million with the EIB based on a guarantee provided under the European Fund for Strategic Investments (EFSI), making it the first energy efficiency project to receive support under the EFSI initiative.

1.6 CIP Eco-Innovation

One of the key objectives of the Entrepreneurship and Innovation Programme (2007-2013) is to support eco-innovation. Eco-innovation projects focus on cleaner production, environmental management and new products and services to make sustainable

development become a business reality. Projects come from sectors like Food and Drink, Construction material, Water management or Waste and Recycling.

EASME published the last call for propsals in 2013, but there were still around 100 projects ongoing which will come to an end by August 2018. EASME's project advisers visited around 1/3 of them for guidance and monitoring. EASME assessed around 72 reports and issued 91.7% of payments within the legal deadline.

Lessons from the Eco-innovation programme have been intergrated in the LIFE programme, which continues to finance close-to-market projects. Under the LIFE programme more promotion and financial means are dedicated to attract and support close-to-market projects.

EU added Value of the Eco-Innovation Programme

In January, EASME went to the International Private Equity Market (IPEM 2017) in Cannes, for helping high potential innovative SMEs supported by the EC's programmes (SME-Instrument and CIP Eco-Innovation) and/or by the Enterprise Europe Network to rise equity funding. EASME's delegation was composed of 38 companies, including 5 Eco-I projects, among which Ecoprofabrics. The Coordinator of this project, Dutch Awearness, started Dutch Circular Workwear Association including "7 big producers of cooperate wear and work wear and 25 resellers in Europe" and during IPEM he found French investors to create a 10 million € fund that provides credits for the Dutch Circular Workwear Association partners to finance their production.

PV-Mo.Re.De is a mobile plant for the recycling of photovoltaic modules aimed at the **recovery of raw materials** (aluminium, glass, photo active materials, copper) and energy (CDR - Tender and Eve), capable of operating directly on the site. To date there are two mobile devices that introduce deep technological innovations in the field of recycling of photovoltaic panels, which will replace the thermal-chemical treatment (highly impactful from an ecological point of view, the production of harmful gases and hazardous waste), operate with an innovative exclusively mechanical process. The countries involved in the project are Italy (Coordinator), Spain and Belgium.

The Coordinator of the former project PHOBIOR, Ecoduna, managed to up-scale an **innovative photo-bioreactor production** of omega-3 fatty acids out of algae for human nutrition while using CO2 to nourish the algae. They grew up from a start-up enterprise at the beginning of the project to a business with 20 employees at the end of the project in October 2013. Today, more than 5 years after the project end, we can confirm the growing success as Ecoduna managed to finish the construction of their glasshouses in its expansion towards full industrial scale in order to accommodate the demand in the algae.

EcoAdd project deals with the first application of a unique **bio-based material Curran**®, which is made with CelluComp's patented bioprocess utilising vegetable waste streams to obtain a green sustainable additive Curran® that can be used as a strengthener and rheology modifier in paints & coatings. In spite of some technical and administrative obstacles and some delays, the project progressed and has a very good potential. The consortium has set up a pilot plant of 100 T/per year Dry matter, commercialised their product and has solid plans for scale up and continuation. Environmental performance compared to similar products on the market is positive and there are also opportunities for further improvement. The project created 10 additional posts since the start of the project.

The ARTICA4nr project focused on replication of the ARTICA product; a multivariable control solution for **biological nutrient removal in wastewater treatment plants** (WWTPs). By combining online sensors with control technology, operations of WWTPs are automatically optimised. Consequently, the treated water is of better quality and energy consumption is reduced. During the project lifetime, the ARTICA product has been applied to two large and two medium-sized urban WWTPs in Spain and Portugal. The ARTICA solution resulted in a reduction in Nitrogen emissions in the treated effluents of 76.7 tonN (-29%); savings in energy consumption of 736MWH (12%) and reduction in CO2 emissions of 457.5 Ton CO2 (-12%) in the plants where it had been applied, compared to the plants without ARTICA technology (average data extrapolated on a yearly basis from the four WWTPs quite positive.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section answers to the question *how* the achievements described in the previous section were delivered by the Agency. 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 Agency.
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 Heads of Unit and the Heads of Department;
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the Agency level;
- the audit reports of the ex-post control function;
- 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 of EASME.
This section reports on the control results and other relevant elements that support managements' assurance. It is structured into (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of the internal control system, and resulting in (d) Conclusions as regards assurance.

The EASME implements the delegated programmes autonomously with the Director acting as authorising officer by delegation (AOD). Accordingly, the Agency manages the EU programme budgets on a direct management mode. To this end, the Agency mainly awards grant agreements through open calls for proposals while a small share of the programmes' budgets (about 3%) is also implemented through procurement contracts. In addition, the Agency manages its own administrative budget.

OPERATIONAL Budget 2017		**OPERATING (administrative) Budget 2017**	
COMMITMENTS (C1) (Budget)	PAYMENTS (C1) (Budget)	COMMITMENTS (C1) (Budget)	PAYMENTS (C1) (Budget)
1,383,720,725	1,133,566,583	43,027,611	43,027,611

All financial operations (both operational and operating) are based on a **partially decentralised financial circuit** (with counterweight – financial part of the transaction executed by the Finance Unit).

As regards the **Operational Budget**, a total EUR 1,383,720,725 have been committed in C1 Commitment appropriations (100,00%) and a total EUR 1,133,527,411 in C1 Payment appropriations (100,00%).

Operational Budget execution per programme	**ALL fund sources** (as presented in Annex 3)		**C1 fund source**	
PAYMENTS 2017	**(million EUR)**	**%**	**(million EUR)**	**%**
COSME	130,40	11,37%	129,07	11,39%
H2020	840,02	73,22%	828,97	73,13%
EMFF	19,64	1,71%	19,64	1,73%
LIFE	116,36	10,14%	116,36	10,27%
Legacy - EEN (2007-2013)	0,00	0,00%	0,00	0,00%
Legacy - IEE II (2007-2013)	30,76	2,68%	30,00	2,65%
Legacy - ECO-I (2007-2013)	10,06	0,88%	9,49	0,84%
TOTAL	**1.147,24**	**100,00%**	**1.133,53**	**100,00%**

Table 4: EASME payments in 2017

In 2017, the Agency continued managing financial operations for the COSME, H2020, EMFF and LIFE programmes as well as for the legacy programmes (IEE II, ECO-I).
As indicated in the above table, the majority of the 2017 payment appropriations were consumed for H2020 (i.e. 73% of the total). The share allocated to COSME now represents 11% of the total payments while 10% is dedicated to LIFE.
Compared with the previous year, the total payment amount increased by EUR 133 mio (i.e. + 13%) and the most significant rise was in COSME (+ EUR 82 mio compared to 2016).

With less than 2%, the EMFF programme still represents the smallest proportion in amounts paid but, compared to 2016, the total amount paid has increased by +150%.
Finally, the share of the legacy has continued to significantly decline in 2017 representing 3.5% of the total payment appropriations.

In addition to the highlights with regard to programme implementation mentioned under chapter 1, the table below shows the results against the targets as given in the 2017 Work Programme.

Specific objective: the resources of the Agency are managed according to the principle of sound financial management and its underlying transactions are legal and regular.

Indicator: time to pay (source of data: EASME.C1)

Baseline (2016)

96% of all payments within legal deadlines

Legal deadline	Result 2016
30 days	96%
45 days	97%
50 days	100%
60 days	99%
75 days	100%
90 days	97%

Target (2017)

100% of all payments within legal deadlines

Legal deadline	Target
30 days	100%
45 days	100%
50 days	100%
60 days	100%
75 days	100%
90 days	100%

Current situation (as achieved)

98% of all payments within legal deadlines

Legal deadline	Result 2017
30 days	98%
45 days	100%
50 days	100%
60 days	100%
75 days	100%
90 days	98%

<table>
<tr>
<td>Average number of days to pay (legal deadlines):
<table><tr><th>Legal deadline</th><th>Average 2016</th></tr><tr><td>30 days</td><td>14 days</td></tr><tr><td>45 days</td><td>31 days</td></tr><tr><td>50 days</td><td>27 days</td></tr><tr><td>60 days</td><td>31 days</td></tr><tr><td>75 days</td><td>46 days</td></tr><tr><td>90 days</td><td>53 days</td></tr></table></td>
<td>Average number of days to pay (legal deadlines):
<table><tr><th>Legal deadline</th></tr><tr><td>30 days</td></tr><tr><td>45 days</td></tr><tr><td>50 days</td></tr><tr><td>60 days</td></tr><tr><td>75 days</td></tr><tr><td>90 days</td></tr></table></td>
<td>Average number of days to pay (legal deadlines):
<table><tr><th>Legal deadline</th><th>Average 2017</th></tr><tr><td>30 days</td><td>12 days</td></tr><tr><td>45 days</td><td>26 days</td></tr><tr><td>50 days</td><td>29 days</td></tr><tr><td>60 days</td><td>40 days</td></tr><tr><td>75 days</td><td>33 days</td></tr><tr><td>90 days</td><td>53 days</td></tr></table></td>
</tr>
<tr><td colspan="3">Indicator: % of budget execution (commitments and payments) with respect to budget appropriations (source of data: EASME.C1)</td></tr>
<tr><td>Baseline (2016)</td><td>Target (2017)</td><td>Current situation (as achieved)</td></tr>
<tr><td>Operational budget[36]:
100% in commitments
100% in payments</td><td>Operational budget[1]:
100% in commitments
100% in payments</td><td>Operational budget[1]:
100% in commitments
100% in payments</td></tr>
<tr><td>Operating budget:
99% in commitments
87% in payments</td><td>Operating budget:
100% in commitments
100% in payments</td><td>Operating budget:
98% in commitments
85% in payments</td></tr>
</table>

Table 5: payment times and budget execution

Overall, the objectives of the Agency are well met in 2017.

In terms of Time to Pay (TTP), while the total number of transactions has continued to increase compared to the previous year (+21%), the overall performance in terms of TTP (all payment deadlines combined) remained excellent and even improved (from 96% to 98%). With a 30% increase compared to the previous year, almost one-third of the transactions in 2017 were payments with a legal deadline of 90 days.

With regard to the budgetary execution, the operational budget was executed at 100,00% both in commitments and payments and the performance on the operating budget remained similar to the previous year.

The **Operating Budget** adopted in 2017 amounted to EUR 43,027,611. A total[37] EUR 42.044.994 have been committed, out of which a total EUR 36,644,553 have been paid in 2017.

[36] C1 appropriations.
[37] C1 appropriations.

OPERATING BUDGET 2017		COMMITMENTS (million EUR)		PAYMENTS (million EUR)	
		Appropriations authorised	MADE	Appropriations authorised	MADE
Title 1	C1 fund source	31.933	31.243	31.933	30.705
	C8 fund source	0	0	645	527
Title 2	C1 fund source	6.767	6.509	6.767	4.951
	C8 fund source	0	0	1.249	1.060
Title 3	C1 fund source	4.328	4.293	4.328	989
	C8 fund source	0	0	2.548	2.248
Total		**43.028**	**42.045**	**47.470**	**40.480**

Table 6: administrative budget per title

The division of the administrative budget per programme delegated to the Agency is shown in the table below[38].

Programme	Budget (C1) 2016 (million EUR)	Budget (C1) 2017 (million EUR)
COSME	7.005	8.821
H2020	21.799	25.973
LIFE	4.472	5.286
EMFF	2.573	2.948
TOTAL	**35.849**	**43.028**

Table 7: administrative budget per programme

In addition, on a continuous basis the Agency carries out an Accounting Quality Exercise which aims at ensuring the accuracy of the accounting data in the IT financial systems. During 2017, EASME tested financial transactions in the area of expenditure, pre-financing, commitments, guarantees, recovery orders, fixed assets, cut-off and others. Those tests concluded that financial transactions were recorded according to Financial Regulation and internal guidelines.

This section reports the control results and other relevant elements that support management's assurance. It is structured into (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of the internal control system, and resulting in (d) Conclusions as regards assurance.

2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives[39]. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5

[38] Initial foreseen 'ex ante'-budget, not actual costs paid by parent DGs 'ex post'.

[39] 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).

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.

Coverage of the Internal Control Objectives and their related main indicators

- *Control effectiveness as regards legality and regularity*

EASME 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.

The programmes managed by EASME are implemented on direct management basis, which implies direct financial contributions through co-financed contracts signed with external parties. To have reasonable assurance that the payments authorised are accurate and compliant with the applicable and contractual provisions, EASME carries out ex-ante and ex-post controls. The ex-post control strategy and the recovery process contribute to the legality and regularity of expenditure on a multi-annual basis by systematically detecting and correcting errors. These elements complement the ex-ante controls embedded in EASME's programme management processes.

- *Legacy programmes (CIP Intelligent Energy Europe II, CIP Enterprise Europe Network, CIP Eco Innovation) and COSME, LIFE and EMFF*

Regarding the legality and regularity of the underlying transactions, the objective is to ensure that the estimated residual error rate is less than 2%, at the end of the implementation of the programme. The residual risk of error is estimated by the residual error rate; it is obtained from an examination of value targeted sampled transactions[40] and calculated on a cumulative multi-annual approach, including all audits closed by the end of the reporting year.
For the audited population, from the total amount of errors detected, the Agency deducts any corrections made when implementing the audit results. The remaining errors reported to the total amount paid by EASME gives the residual error rate for the audited population.
The residual error rate of the programme is the weighted average of the residual error rate applied to the audited part and the error rate presumed to be affecting the non-audited part[41].

For 2017, EASME considers that there are two reservations applicable to the legacy programmes, one for the CIP IEE II and one for the ECO I programmes (Budget line: 32.04 53 00 and 02.04 53 00 respectively), for which the residual error rate is estimated at a range of [2.7-2.8%] and [2.5-7.5%] respectively.

EASME has decided to report for 2017 two residual error rates with minimum and maximum ranges, in order to disclose the impact of the bankruptcy cases identified in the value-targeted audits. In the CIP Eco-Innovation programme, EASME faced six cases of beneficiaries within the value-targeted sampling which went bankrupt or under dissolution at the time of the audit.

In these bankruptcy cases, the provision of relevant supporting evidence was challenging, because supporting documents were not available, proper assistance was not provided by the beneficiaries due to lack of staff and accounting systems were not

[40] Such sampling is not fully statistical representative. However for the EASME programmes populations, based on our experience from managing the legacy programmes and to the best of our knowledge, there are no indications, at ex-post level, for inherently higher error rates in the larger participations; thus the value – targeted audits are considered as being a non-biased 'proxy', i.e. at least random enough to enable drawing conclusions from them. In accordance with DG BUDG guidelines, this approach is considered the second-best alternative as a proxy to a fully representative or random sample.
[41] We consider that the part of payments which remain un-audited and un-corrected are affected by errors of the magnitude of the representative detected error rate.

accessible, leading to a limitation of scope in the audit reports. As a consequence, the detected error rate of these bankruptcy cases is 45%. EASME considers that the errors identified in these audits are exceptional and not fully representative of the population[42]. Although these cases represent 6 audits out of 72 performed on the programme, their result has a significant impact on the residual error rate, leading to an increase from 2.5% to 7.5%.

Similarly, in CIP IEE II programme, EASME faced one bankruptcy case. However, its impact on the residual error rate is less significant, leading to an increase of the residual error rate from 2.7% to 2.8%.

As regards the newly delegated programmes (COSME, LIFE, EMFF)[43], the Agency performed two pilot audits: one on COSME and one on LIFE Operating Grant, in order to prepare the related audit work programmes. The Agency considers that the results of these pilot audits are not representative due to their specific audit scope. However, the Agency launched a batch of audits on COSME in December 2017. Moreover, in 2018, the Agency plans to launch a batch of audits on LIFE Operating Grants and further audits on COSME, in line with EASME ex post control strategy. Therefore, the first indications for the error rates on these two programmes (detected and residual) are expected for the next annual report.

Since LIFE Action grants and EMFF programme did not yet reach the corresponding level of maturity (i.e. have not reached yet an adequate number of final payments, with only 2 low value payments on LIFE technical assistance grants and 5 payments on EMFF, out of which 2 have low amounts); accordingly, no audit results are available as of 31 December.

- *Horizon 2020*

For Horizon 2020, ex post audits are under the responsibility of the Common Audit Service (CAS). For Horizon 2020, the final control objective of the Research family is to try to achieve a multiannual residual error rate as close as possible to 2%[44]. Considering that all of these grants follow the same homogeneous overall control system, a Common Audit Strategy for Horizon 2020 was adopted on 22.02.2016 and covers all the implementing bodies, including EASME.

The Common Representative Sample (CRS) provides an estimate, via a representative sample of cost claims across the Research and Innovation family, of the overall level of error in the Research Framework programmes, across all services involved in its management[45]. The CRS is complemented by 'risk-based' audits; audits selected according to one or more risk criteria. These audits are intended to detect and correct as many errors as possible, for instance by targeting the larger beneficiaries and through identification of possibly fraudulent operators. These audits are also referred to as 'corrective' audits.

Given the relatively early stage of the Horizon 2020 programme lifecycle overall, by the end of 2017 a limited number of cost claims totalling 4.1 billion euros of requested funding had been received for the Research Family as a whole. The first Horizon 2020

[42] The interpretation of not considering the bankruptcy cases as non-representative of the audited population has been discussed with DG BUDG, which deemed it as reasonable.
[43] For more details on the ex post audits on the newly delegated programmes, please refer to page 71.

[44] The financial statement accompanying the Commission's proposal to the legislative authority for the Horizon 2020 regulations states: "The Commission considers therefore that, for research spending under Horizon 2020, a risk of error, on an annual basis, within a range between 2-5 % is a realistic objective taking into account the costs of controls, the simplification measures proposed to reduce the complexity of rules and the related inherent risk associated to the reimbursement of costs of the research 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 %.
[45] For more details, please refer to Annex IV, materiality criteria.

audits were launched in the middle of 2016 and further audits were launched in 2017. The first Common Representative Sample (CRS), a Common Risk Sample and an Additional Sample[46] have been selected. In total, by December 2017, 625 participations had been selected for audit, covering all the services, including EASME, signing grants in Horizon 2020.

As of 31 December, the CAS finalised the audit of 392 participations (385 on 2017 selection of 625 participations and 7 on the 2018 selection). This includes 110 participations out of 142 selected participations in the first CRS.
The error rates are as follows: overall detected error rate is estimated at 1.5%. The detected error rate based on 110 out of 142 participations selected in the first CRS is estimated at 1.6%. However, it is expected to rise to around 2.8% when taking into account the draft audit reports which will be finalised during 2018. The residual error rate for the Research family is at 1.4 %, however it is expected to rise to around 2.2% when taking into account the draft audit reports which will be finalised in 2018. The residual Error Rate derived from the CRS for EASME participations only is estimated at 1.5%[47].

As the audit results of the participations selected through the CRS is not yet complete, these error rates are preliminary estimations and should not be considered yet as fully representative of the expenditure covered. In addition, the first CRS was taken at an early stage of the programme. The nature of expenditure in the first years of the programme may not be totally representative of the expenditure across the whole period of expenditure. As the ex post audit strategy is multi-annual, the error rates, and especially the residual error rate, should be considered over time, in a multi-annual perspective as well. In particular, the cleaning effect of audits over time tend to increase the difference between the representative/detected error rate and residual error rate, with the residual error rate being at a lower rate towards the end of the programming cycle.

The first audit results suggest that the detected (and in future representative) error rate will remain within the established range between 2-5%. In conclusion, the Agency considers that the error rate will fall within the range established in the Financial Statement[48], so it does not consider that a reservation is needed for Horizon 2020 expenditure.

- *Estimated overall amount at risk at payment and overall amount at risk at closure*

In the context of the protection of the EU budget, at the Commission's corporate level, the Agency's estimated overall amounts at risk and their estimated future corrections are consolidated.
For EASME, the weighted average detected error rate of the legacy programmes (CIP EEN, CIP IEE II, ECO I programmes) and Horizon 2020, based on the Agency's multi-annual ex-post audit strategy was calculated at a range of [2.82-2.89%][49]. It should be

[46] This last sampling accommodates special needs of certain stakeholders with regard to audit coverage and selection method. In addition, top ups, which are participations of selected beneficiaries which are added to the selected participations, are included in the total participations selected.
[47] This rate does not take into account the audit reports which will be finalised during 2018.
[48] The interpretation of not considering the bankruptcy cases as non-representative of the audited population has been discussed with DG BUDG, which deemed it as reasonable.
[49] This weighted average detected error rate takes into account the detected average error rates of the legacy programmes, which includes min-max ranges for EEN (1.8%), CIP IEE II (2.9%-3.0%) and CIP Eco-Innovation (2.9%-8.6%) as well as Horizon 2020 (2.82%). For Horizon 2020, in line with the Research family, the detected error rate is 2.82% based on the participations included in the Common Representative Sample at family level and which include the draft audit reports to be finalised in 2018.
The weighted average detected error rate was calculated as follows:
sum of payments made in 2017 for each of the programmes for which a detected error rate is available as of 31/12/2017 multiplied by the respective (ranges of) detected error rates divided by the sum of the payments.
Details are as follows:
EEN (0*1.8%)+Eco-Innovation (10,063,503.48*[2.9%;8.6%]+IEE II (30,757,038.73*[2.9%;3.0%]+H2020 (840,019,154.36*2.82%), leading to a subtotal of [24,876,377-25,471,217] divided by the sum of payments made in 2017 of the related programmes (880,839,697), which results in a weighted average error rate of [2.82%;2.89%].

noted that the vast majority of the payments performed in 2017 were related to the newly delegated programmes (H2020, EMFF, LIFE and COSME).

However, as explained above, there are no audit results on COSME, LIFE and EMFF as of 31 December[50]. Therefore, the first indications for the error rates (detected, representative and residual) on those programmes are expected for the next annual reports. Based on a conservative approach, the Agency applied the same weighted average detected error rate of [2.82-2.89%] to the newly delegated programmes.

For EASME, the estimated overall amount at risk for the payments of the operational budget made in 2017 is [19,949,815.48-20,445,023.66] EUR. This expenditure will be subsequently subject to ex-post controls and a sizeable proportion of the underlying error will be detected and corrected in successive years.

As far as the operating budget is concerned, given the fact that it has been continuously audited by the European Court of Auditors without producing any material findings, the Agency considers the risk of error as low (i.e. around 0.5%). The estimated amount at risk for the payments of the operating budget made in 2017 is 202,398.78 EUR.

The estimated overall amount at risk for the payments made in 2017 is [20,152,214.26-20,647,422,.45] EUR, corresponding to an overall average error rate of [2.69-2.76]%. This is the AOD's best, conservative estimation of the amount of relevant operational and operating expenditure during the year (EUR 747.92 million) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

DG BUDG provided the overall average corrective capacity of EASME at 3.5% of the average annual payments concluded by the Agency. However, the corrective capacity based on the ex-post controls conducted by the Agency on interim and final payments over the last four years (2014-2017), is estimated at 0.15%. Taking the most conservative approach, the Agency applied the corrective capacity based on ex-post controls to estimate the future corrections.

The conservatively estimated future corrections for those 2017 payments made are EUR 1,061,160.40. This is the amount of errors that the Agency conservatively estimates to identify and correct from controls that it will implement in the successive years.
The difference between the estimated overall amount at risk and the conservatively estimated future correction leads to the estimated overall amount at risk at closure of [18,888,655.08-19,383,863.27] EUR.

[50] For more details, please refer to page 71.

Table X - Estimated overall amount at risk at closure

EASME	Payments made (FY; m€)	New prefinancing [plus retentions made] (in FY; m€)	Cleared prefinancing [minus retentions (partially) released and deductions of expenditure made by MS] (in FY; m€)	Relevant expenditure (for the FY; m€)	Average Error Rate (weighted AER; %)		Estimated overall amount at risk at payment (FY; €)		Average Recoveries and Corrections (adjusted ARC; %)	Estimated future corrections [and deductions] (for FY; €)	Estimated overall amount at risk at closure (€)	
(1)	*(2)*	*(3)*	*(4)*	*(5) = (2) - (3) + (4)*	*(6)*		*(7) = (5) x (6)*		*(8)*	*(9) = (5) x (8)*	*(10) = (7) - (9)*	
	as per AAR annex 3, table 2	as per ABAC DWH BO report on prefinancing	as per ABAC DWH BO report on prefinancing		Detected error rates, or equivalent estimates				based on 7Y-avg historic ARC (as per ABAC DWH BO report on corrective capacity)f: (3.5%), but adjusted to be the best but conservative estimate for the current MFF (0.15%)			
					Min	Max	Min	Max			Min	Max
OPERATIONAL BUDGET (€)	1,147,242,698.70	724,035,291.68	284,232,858.20	707,440,265.22	2.82%	2.89%	19,949,815.48	,20,445,023,66	0.15%	1,061,160.40	18,888,655,.08	19,383,863.27
OPERATING BUDGET (€)	40,479,756.37	0.00	0.00	40,479,756.37	0.50%		202,398.78		0.00%	0.00	202,398.78	
TOTAL (€)	1,187,722,455.07	724,035,291.68	284,232,858.20	747,920,021.59	2.69%	2.76%	20,152,214.26	20,647,422.45	0.14%	1,061,160.40	19,091,053.86	19,586,262.05

OPERATIONAL BUDGET (m€)	**1,147.24**	**724.04**	**284.23**	**707.44**	**2.82 %**	**2.89%**	**19.95**	**20.45**	**0.15%**	**1.06**	**18.89**	**19.38**

OPERATING BUDGET (m€)	**40.48**	**0.00**	**0.00**	**40.48**	**0.50%**		**0.20**		**0.00%**	**0.00**	**0.20**	
TOTAL (m€)	**1,187.72**	**724.04**	**284.23**	**747.92**	**2.69%**	**2.76%**	**20..15**	**20.65**	**0.14%**	**1.06**	**19.09**	**19.59**

NB: In line with DG BUDG instructions on Annual Activity Report, the split is made between the operational budget and the operating budget, as the 'relevant expenditure' is not available per programme.

[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] In Cohesion, the (10%) retention made/released by the Commission

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

[d] 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 accounting.

[e] For some programmes with no set closure point (e.g. EAGF) and for some multiannual programmes for which corrections are still possible afterwards (e.g. EAFRD and ESIF), all corrections that remain possible are considered for this estimate

[f] [*preferably to be*] differentiated at a level lower than the DG total

[g] In Shared Management, e.g.: "validated/adjusted error rates", "residual error rates at MS-level, as reported by the MS Audit Authorities and applied/adjusted/projected by the DG", etc.

[h] DG BUDG provided the overall average corrective capacity of EASME at 3.5% % of the average annual payments concluded by the Agency. However, EASME decided to adjusted to the best but conservative estimate for the current MFF This estimation is based on historic average of recoveries and financial corrections derived from audits closed during the period 2014-2017.

The estimated overall amount at risk for the 2017 relevant expenditure is [19,949,815.48-20,445,023.66]. This expenditure will be subsequently subject to ex post controls by the Agency (and by CAS for Horizon 2020 expenditure) and a sizeable proportion of the underlying error will be detected and corrected in successive years, after the Agency has authorised the payment (i.e. not including those implemented at the time of reporting but also those that will be implemented in the successive years by the Agency). The conservatively estimated future corrections for those 2017 expenditure are 1,061,160.40 EUR. This is the amount of errors that EASME conservatively estimates to identify and correct from controls that it will implement in the successive years.

In 2016 Annual Activity report, the Agency used the corrective capacity based on ex post controls conducted for the period 2009-2016, which included two programmes related to the programming period 2000-2006 which were closed (IEE I and Marco Polo I) and one programme which was transferred to another organisation (Marco Polo II). This year, following an IAS limited review, the Agency decided to change methodology, in order to estimate future recoveries and

corrections on a more recent historical average, taking into account the implementation of the ex post audits closed during the period 2014-2017, corresponding to the implementation of the MFF 2007-2013 (IEE II, Eco-Innovation and EEN).

For the newly delegated programmes (COSME, LIFE, EMFF and Horizon 2020) related to the programming period 2014-2020, as no indications for the future corrective capacity are available at the moment (for more details, please refer to page 71), the Agency has decided to use the corrective capacity based on ex post controls related to the legacy programmes (period 2007-2014) as best and conservative estimate.

We consider this approach to be the most conservative, as the Agency compares the errors corrected following ex post audits on the legacy programmes during the period 2014-2017 against the total operational payments made during the years 2014-2017. To be noted that the share of payments of the legacy programmes during that period decreased from 82.7% in 2014 to 3.5% in 2017. Therefore, the Agency expects that the actual 'future corrections' to be higher than the estimated future corrections mentioned above in the table. [*This may include considering a more recent historic average (e.g. AGRI taking the last 3 years as basis), considering the possibilities and/or limitations for ex-post control as altered for the current programmes delivery mechanisms (e.g. Cohesion/Research), or even considering that the ex-post future corrections would be 0.0% (e.g. DGs with entirely ex-ante control systems)*

Overarching objective: The Authorising Officer by Delegation should have reasonable assurance that resources have been used 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 including prevention, detection, correction and follow-up of fraud and irregularities.

Objective 1: Effective and reliable internal control system giving the necessary guarantees concerning the legality and the regularity of the underlying transactions	
Indicator 1: Estimated residual error rate **Source of data:** EASME multi-annual ex-post control strategy, H2020 audit strategy	
Target	Result
• IEE II, Eco-innovation, EEN, COSME, LIFE, EMFF: less than 2% of the total budget for grants per programme H2020: as close as possible to 2% (within the range of 2-5%) (as per H2020 audit strategy)	• IEE II: [2.7–2.8%] • Eco-Innovation: [2.5–7.5%] • EEN: 1.6% • H2020 : 1.4% at Research family level It is expected to rise to around 2.2% when taking into account the draft audit reports which will be finalised in 2018 • COSME, LIFE, EMFF: N.A.[51]
Indicator 2: Estimated overall amount at risk for the year for the entire budget under EASME's responsibility. **Source of data:** EASME	
Target	Result
Below the materiality threshold of 2%	[2.69-2.76%] [20,152,214.26-20,647,422.45] EUR
Indicator 3: Estimated future corrections **Source of data:** DG BUDG data on past recoveries	
Target	Result
All corrections as proposed in the ex-post audits implemented	1,061,160.40 EUR

Based on the information and the assessment of the available elements, the Agency concludes that there are two reservations applicable to the EASME for the reporting year 2017: one for the CIP IEE II and one for the CIP ECO - Innovation programme (Budget line 32.04 53 00 and 02.04 53 00 respectively) for which the residual error rate is estimated at [2.7-2.8%] and [2.5-7.5%][52] respectively.

The share of the CIP legacy has significantly decreased in 2017 representing less than 3.5% of the total payment appropriations. Both programmes CIP IEE II and CIP Eco-Innovation are now in their final stage of implementation, with few open projects and low amounts of payments to come in the next years.

Given the level of the error rates above the materiality threshold of 2%, EASME has implemented an action plan with intensified ex-ante controls since the introduction of the reservation, namely 2015 on CIP IEE II and 2016 on CIP Eco-Innovation.

Specifically, the Agency has implemented the following remedial actions: (a) a workshop, with the operational and financial teams of EASME, to share lessons learned from the

[51] For more details, please refer to page 71.
[52] For more details on the range min-max used, please see section 2.1.1

results of the ex-post controls, with the aim to prevent and detect errors earlier enhancing further the impact of its ex-ante controls; (b) a communication campaign to all IEE and Eco-Innovation beneficiaries involved in on-going projects about the most common sources of errors and useful tips on how to avoid them; (c) a revision of the guidelines for ex-ante checks for the CIP Eco Innovation programme.
In 2018, the Agency will continue to implement the audit results aiming to reduce the errors remained uncorrected in the audited population and will continue to perform corrective audits, taking into account cost effectiveness considerations, with the view to reduce the residual error rate for both legacy programmes.

As regards the newly delegated programmes, EASME performed two pilot audits with in house resources on COSME and LIFE, in order to prepare the respective audit work programmes. The Agency launched 11 audits on COSME in December 2017; in 2018, the Agency plans to launch a batch of audits on LIFE Operating Grants as well as further audits on COSME. For both programmes, the first indications for the error rates (detected and residual error rates) are expected to be available in 2018.

As regards LIFE action grants and for EMFF, no audits have been launched in 2017, as this type of multiannual grants have not reached yet the corresponding level of maturity, with few interim or final payments on grants made (2 final payments of low amounts on LIFE technical assistance grants and 5 payments, out of 2 of low amount, on EMFF grants). Therefore no detected or residual error rates of this type of actions were available as of 31 December.

For Horizon 2020, the residual error rate for the research family is at 1.4%, expected to rise to around 2.2% when taking into account the draft audit reports which will be finalised in 2018. The residual Error Rate derived from the CRS (Common Representative Sample), including only EASME participations, amounts to 1.5%[53]. However, those error rates are only preliminary estimations. The CRS is not yet complete, and so is not yet fully representative of the expenditure that it covered.

Objective 2: Effective and reliable internal control system in line with sound financial management.	
Indicator 1: conclusion reached on cost effectiveness of controls **Source of data:** EASME calculations	
Target	Result
Controls are cost effective	Controls are cost effective
Indicator 2: benefit of controls vs cost of controls **Source of data:** EASME calculations	
Target	Result
Benefit of controls outweigh the cost of controls	Benefits outweigh the cost of control with a ratio of 1,8[54]. Benefits grant management = EUR 42.3 M Costs grant management = EUR 23.5 M
Indicator 3: the ratio of administrative costs compared to the operational budget implemented **Source of data:** EASME calculations	
Target	Result
Below 5.5%	3.2%
Indicator 4: number of critical / very important accepted audit	

[53] This rate takes into consideration only the EASME participations selected for the Common Representative Sample and includes the audit reports finalised by the end of 2017.
[54] Stage 1 benefits are not quantifiable, thus Stage 1 is not included in this calculation. Costs related to Stage amount to 14,2 MEUR.

recommendations overdue by more than six months **Source of data:** IAS issue track; internal follow-up	
Target	Result
None	None

Cost-effectiveness and efficiency

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

The conclusions on the cost-effectiveness of controls are both based on two factors:

1) Costs of control over the value of the related funds managed[55] is 3,2% which is in line with the average of the Research Family.

2) The overall comparison of the costs and benefits of controls, applied on grant direct management, the core activity of EASME[56]. As further detailed below on page 72, the benefits of grant management outweigh the costs of controls with a factor of 1,65.

Further, the Agency demonstrates satisfactory results for the three efficiency indicators time-to-inform, time-to-grant and time-to-pay.

Control results for grants under direct management

The control system for grant direct management is divided into four distinct stages: 1) programming, evaluation and selection of proposals, 2) contracting, 3) monitoring and 4) ex-post controls. Key indicators have been defined for each stage covering control effectiveness and control efficiency. An overview of all costs and benefits (quantifiable and non-quantifiable) and cost-effectiveness ratios of the internal control system is presented further.

As the Agency manages both legacy programmes and new programmes delegated since 2014, the stages applicable to the various programmes are different according to the status of their lifecycle:

[55] This ratio covers all the payments on the operational budget versus all payments on the administrative budget. Given that the Agency manages as well procurement to a limited extent, this ratio covers the cost-effectiveness of the totality of activities carried out by the Agency, including grant management and procurement. 3,2% = 36.6 MEUR / 1,15 billion EUR.

[56] Structured in line with the internal control template in annex 5.

Programme	Stage 1 Evaluation and Selection	Stage 2 Contracting	Stage 3 Monitoring	Stage 4 Ex-post Controls
Legacy CIP EEN	N/A	N/A	x	x
Legacy CIP IEE	N/A	N/A	x	x
Legacy CIP Eco Innovation	N/A	N/A	x	x
COSME	x	x	x	N/A
H2020 - Innosup	x	x	x	x
H2020 SME & FTI	x	x	x	x
H2020 Energy	x	x	x	x
H2020 Environment & Resources	x	x	x	x
LIFE	x	x	x	N/A
EMFF	x	x	x	N/A

Stage 1: programming, evaluation and selection of proposals

The first stage encompasses the preparation, adoption and publication of the Annual Work programme and calls for proposals as well as the evaluation, ranking and selection of proposals and informing the applicants on the results. The main control objectives are to ensure that the Agency selects the most promising proposals contributing the best towards the achievement of the programme and operational objectives, and compliant with the eligibility, selection and award criteria.

Key controls include the thorough screening of proposals for eligibility, selection and award criteria, the evaluation of proposals by up to 5 independent experts and a panel review for the ranking of proposals. The list of approved proposals is checked for legal compliance by the AOSDs before it is submitted for a Commission inter-service consultation. These are key checks to ensure the excellence of the proposals to be funded and the legality and regularity of operations, since a compliance deficiency in the selection process would affect the regularity of all the ensuing grants.

Key indicators

1a) Control effectiveness ratios

Control effectiveness ratios - calls	COSME	H2020 INNO-SUP	H2020 SME & FTI	EMFF	H2020 ENERGY	H2020 ENV & RESOURCES	LIFE
% number of calls successfully launched / number of calls planned in the (revised) AWP	66.7%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
% of budget value implemented / budget allocated *(for commitments from calls 2016 managed in 2017)*	96.1%	97.0%	99.9%	100.0%	99.8%	100.0%	99.8%
% of budget value implemented / budget allocated *(for commitments from calls 2017 managed in 2017)*	60.2%	44.0%	72.0%	13.1%	43.6%	35.7%	100.0%

The Agency concluded successfully all the calls planned in the 2017 Annual Work Programme, for the programmes delegated as from 2014, with the exception of the COSME programme, where 34% of the calls have been withdrawn or have been postponed.

The budget allocated for calls published in 2016 has been fully implemented (or committed) for most of the programmes in 2017. For calls published in 2017, the Agency started to commit funds which will be further managed in 2018.

As mentioned earlier, the legacy programmes are currently being phased out and no new calls have been launched since 2014.

Control effectiveness ratios - proposals	COSME	H2020 INNO-SUP	H2020 SME & FTI	EMFF	H2020 ENERGY	H2020 ENV & RESOURCES	LIFE	TOTAL
Submitted proposals	103	128	12935	199	241	598	642	14846
Inadmissible proposals	0	1	47	0	0	7	0	55
Ineligible proposals	5	5	102	9	0	8	0	129
Withdrawn/duplicate proposals	0	3	42	0	2	4	0	51
Eligible proposals (subject to evaluation)	98	122	12744	190	239	579	642	14614
Proposals selected for funding - "main" list	36	16	673	24	28	76	184	1037
Proposals selected for funding - "reserve" list	7	15	0	3	25	60	22	132
Total selected proposals for funding	43	31	673	27	53	136	206	1169
% success rate : number of selected (funded) vs eligible proposals	43.9%	25.4%	5.3%	14.2%	22.2%	23.5%	32.1%	8.0%

Following the evaluation of proposals against a set of eligibility, selection or award criteria, and depending on the nature of the programme, about 5.3 to 43.9% of the eligible proposals were recommended to receive funding. As pointed out in part 1 of this report, the H2020 SME-Instrument continues to attract a record number of proposals showing a great interest of SMEs in the funding scheme, resulting in a wider range of selecting the best proposals.

Control effectiveness ratios - evaluation review requests	COSME	H2020 INNO-SUP	H2020 SME & FTI	EMFF	H2020 ENERGY	H2020 ENV & RESOURCES	LIFE
Proposals evaluated	98	119	12744	190	308	579	642
Evaluation review requests received	0	1	89	5	4	7	21
Evaluation review requests leading to a re-evaluation ***(target <=1)***	0	0	0	0	1	0	1
% of evaluation review requests vs proposals evaluated ***(target < 3%)***	0.0%	0.8%	0.7%	2.6%	1.3%	1.2%	3.3%
% of review requests leading to re-evaluation vs proposals evaluated	0.0%	0.0%	0.0%	0.0%	0.3%	0.0%	0.2%

The Agency received a very low number of evaluation review requests ranging from 0% to 3.3% of the number of proposals evaluated; with the exception of LIFE programme, all the requests for evaluation review were below the target of 3%. Only two review requests led to a re-evaluation of the proposals, representing respectively 0,3% and 0.2% of the proposals evaluated for the concerned programmes H2020 Energy and LIFE respectively. The overall low number of redress procedures provides a good indication of the robustness of the grant award process and assurance on the effectiveness of the internal control system.

1b) Control efficiency ratios

Control efficiency - Average time to inform (TTI)	COSME	H2020 INNO -SUP	H2020 SME phase I	H2020 SME phase II	FTI	EMFF	H2020 ENERGY	H2020 ENV & RESOURCES	LIFE
Target TTI	183	153	61	122	92	183	153	153	183
Result TTI	107	108	39	42	76	130	127	93	155

The evaluation exercises have been carried out in an efficient manner. For all programmes the average time-to-inform results demonstrate a faster response to the applicants then the scheduled target.

1c) Benefits stage 1

The benefits of the programming, evaluation and selection of proposals are not identifiable in quantitative or monetary terms.

In qualitative terms, the benefit of the evaluation and selection stage is the identification of proposals that best address the objectives and priorities of the work programmes which, thanks to their high maturity, have the best chances for successful completion within the eligibility period, and which provide the highest EU added value for the completion of the respective policy targets.

Stage 2: contracting

The second stage concerns the final selected proposals and the adjustment phase of contracts. The overall control objective of this stage is to ensure that the actions and funds allocation is optimal (best value for public money) and that each of the selected proposals is translated into a legally binding grant agreement allowing for sound management. The adjustment process excludes work not directly contributing to the achievement of the programme objectives, substantiates the project costs, and determines the duration of the project and the contribution from the EU budget.
Key controls include: the implementation of the evaluators' recommendations; the hierarchical validation of the proposed adjustments; the verification of the operational and financial viability and the signature of the grant agreements by the AOSD.

Key indicators

2a) Control cost-effectiveness

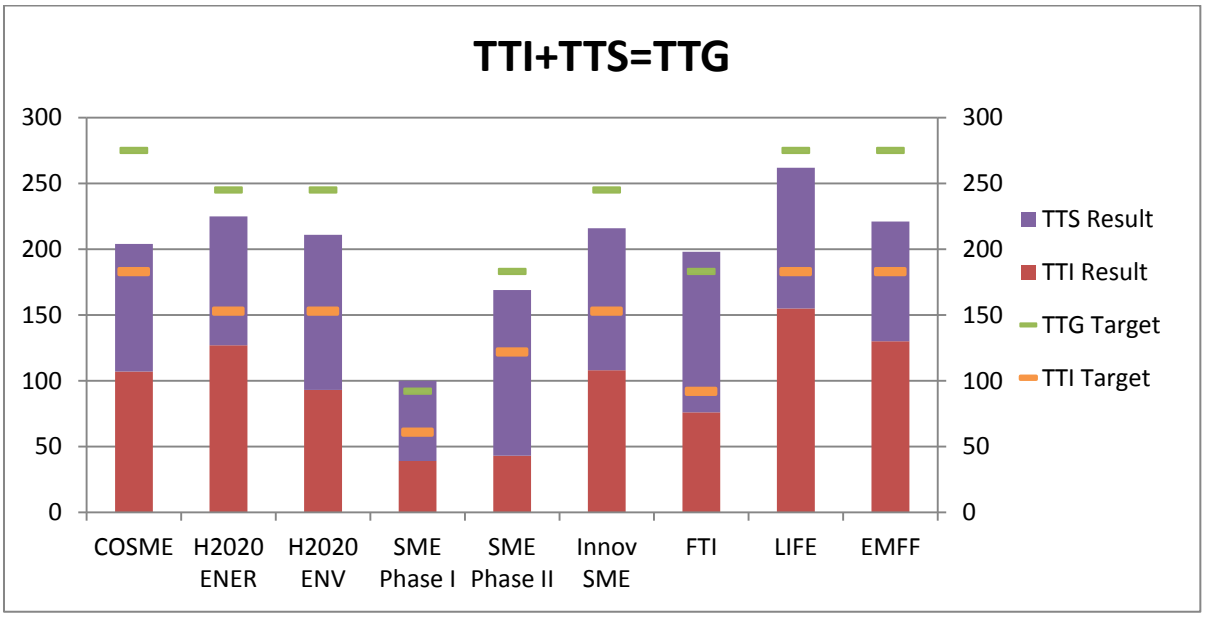
The financial impact of the adjustment process is defined as the reduction, expressed as a percentage, of the EC contribution to the grant agreements as a result of the adjustment process itself. Detailed figures are shown below:

Financial impact of the adjustment process	COSME	H2020 INNO-SUP	H2020 SME & FTI	EMFF	H2020 ENERGY	H2020 ENVIRONMENT & RESOURCES	LIFE	TOTAL
Number of GA signed	173	100	851	27	27	63	154	1395
EC funding requested in proposals	€105,898,294.05	€30,972,109.25	€452,258,654.26	€17,955,224.00	€48,757,879.88	€348,513,139.16	€270,334,570.00	€1,274,689,870.60
EC funding provided in signed GA	€105,329,560.26	€30,843,822.25	€451,788,483.11	€17,348,125.00	€48,650,703.50	€348,302,135.50	€258,746,010.00	€1,261,008,839.62
Difference EC funding	€568,733.79	€128,287.00	€470,171.15	€607,099.00	€107,176.38	€211,003.66	€11,588,560.00	€13,681,030.98
Reduction rate	0.54%	0.41%	0.10%	3.38%	0.22%	0.06%	4.29%	1.07%

The adjustment rate varies from 0.06% to 4,29%. In the case of H2020 programmes, given that no adjustment phase is foreseen, the difference between the recommended funding and the final awarded grant is rather limited. As a consequence of the grant preparation phase, a total of EUR 13.7 million was reduced from the awarded funding. This can be considered as a quantifiable benefit of the contracting phase in 2017.

2b) Control efficiency
The table below gives an overview of the average time to grant of the various programmes managed by the Agency.

Control efficiency - Average time to grant (TTG)	COSME	H2020 INNO -SUP	H2020 SME phase I	H2020 SME phase II	FTI	EMFF	H2020 ENERGY	H2020 ENV & RESOURCES	LIFE
Target TTG	275	245	92	183	183	274	245	245	274
Result TTG	204	216	100	169	198	221	225	210	262



The average time to grant is below the target for all programmes, except for the SME Instrument Phase I and the Fast Track Innovation Instrument (FTI) where the limits of 3 and 6 months are exceeded by 8 and 15 days respectively (during 2016 the delay was around 50 days). EASME aims to improve its performance in these two programmes; a specific team has been set up to handle grant agreement preparation for the SME instrument phase 1. Following a continuous improvement purpose, the new team has reviewed all the communications with the beneficiaries during the Grant agreement preparation. Thanks to these improvements, for 2018, the Agency expects to achieve the target.

FTI pilot was finished in 2016, and there was no call for 2017. The results of FTI pilot for 2017 come from the last cut-off from 2016. FTI pilot was launched under the ambitious premise of a 6 months TTG, two months shorter than the rules for collaborative projects in H2020. The overall results of the pilot were positive and FTI will be launched again in 2018 under the EIC pilot umbrella.

Substantial changes in the implementation will be performed. In particular, under EIC pilot umbrella, a dedicated team will implement the whole grant cycle for FTI call.

Stage 3: monitoring the execution

This stage covers the monitoring of the operational, financial and reporting aspects related to the project and grant agreement. The main control objectives aim at ensuring that the operational and financial results from the projects are of good value, meet the objectives, and comply with regulatory and contractual provisions.

Key controls include instructive guidelines for beneficiaries, operational and financial ex-ante checks, on the spot monitoring visits, suspension of payments when needed and submitting cases to OLAF in case of suspicion of irregularities/fraud.

Key indicators

3a) Control cost-effectiveness

Detected errors ex-ante controls = benefits stage 3	COSME	H2020 INNO-SUP	legacy CIP EEN	H2020 SME & FTI	EMFF	H2020 ENERGY	legacy IEE	H2020 ENV & RESOURCES	LIFE	legacy CIP ECO-Innovation	TOTAL
value of cost claims controlled ex-ante	€125,968,254	€12,034,274	€0	€300,723,666	€10,451,025	€55,115,436	€95,616,802	€95,815,823	€24,928,383	€25,303,670	**€745,957,332**
value rejected costs	€2,236,589	€45,838	€0	€10,739,715	€49,304	€726,996	€8,237,851	€91,004	€1,537,197	€2,786,632	**€26,451,126**
% detected errors ex-ante controls	1.78%	0.38%	0.00%	3.57%	0.47%	1.32%	8.62%	0.09%	6.17%	11.01%	3.55%

The ex-ante controls aim to identify and prevent irregularities, allowing for immediate correction and avoid time-consuming recovery actions. As can be concluded from the table, the ex-ante controls result in a considerable amount of detected errors and rejected costs in the cost claims submitted by the beneficiaries for a total value of more than EUR 26 million. This can be considered as a quantifiable benefit of the contracting phase in 2017.

Compared to previous year, the total value of rejected costs by the ex-ante controls increased significantly by 65%. In addition to the substantially higher overall amount of cost claims controlled ex-ante, such increase in absolute terms of error detection is mainly due to the fact that in 2016, for the newly delegated programmes, the major part of payments was related to pre-financings, where no ex-ante controls were performed. During 2017 the effort of ex-ante controls focused on interim payments. No ex-ante controls were performed on the legacy programme CIP EEN as it was on its final stage. (The ex-ante controls on the legacy programme IEE are related to final payments.) This explains to a certain extent the generally lower ex-ante error rates for new programmes and higher ex-ante error rates for legacy programmes. In terms of percentage, the detected error rate decreased for all programmes, except for the H2020 SME-Instrument & FTI programmes and H2020 Environment & Resources. The overall reduction of the average detected error can be attributed to preventive and educative measures taken versus beneficiaries to increase compliance with the grant agreement rules.

3b) Control efficiency

Control efficiency - Average time to pay	COSME	H2020 INNO-SUP	legacy CIP EEN	H2020 SME & FTI	EMFF	H2020 ENERGY	legacy IEE	H2020 ENV & RESOURCES	LIFE and CIP ECO-Innovation
% of payments within the legal deadlines	99.9%	100.0%	N/A	97.4%	100.0%	99.0%	N/A	99.4%	97.4%

As can be seen from the table above, the vast majority of the payments of the Agency are performed within the legal deadlines[57].

Stage 4: managing ex-post controls and implementing results

Ex-post controls are a key element of the control strategy of the Agency. The main control objectives of this stage include detecting and correcting any error or fraud remaining undetected after the implementation of ex-ante controls, address systematic

[57] See part 2.1. page 51.

weaknesses in the ex-ante controls, and ensuring that the (audit) results from the ex-post controls lead to effective recoveries.

Key controls encompass ex-post controls carried out on a multi-annual basis and based on value-targeted sampling and completed with a number of risk-targeted audits to address specific risks for the legacy programmes and on COSME, LIFE and EMFF programmes. The ex-post control audits are mainly performed by an external independent contractor, closely monitored by the Agency's ex-post control team.

For H2020, ex post controls are under the responsibility of the Common Audit Service. The Common Representative Sample (CRS) provides an estimate, via a representative sample of cost claims across the Research and Innovation family, of the overall level of error in the Research Framework programmes, across all services involved in its management, including EASME. Moreover, the CRS is complemented by 'risk-based' audits, selected according to one or more risk criteria relevant for the overall population.

The corrective actions (recovery, offsetting against subsequent payment, payments) are implemented in accordance with the financial circuits and authorised by the AOSD.

As outlined earlier, the Agency focused mainly on the legacy programmes, in particular CIP IEE II and CIP Eco Innovation programmes, given the level of the error rates, above the materiality threshold of 2%.
As regards the newly delegated programmes, the Agency performed one pilot audit on COSME and one pilot audit on LIFE Operating Grant. However, due to their specific audit scope, the Agency considers that these audits do not provide representative results. EASME launched 11 audits on COSME in December 2017; in 2018, the Agency plans to launch a batch of audits on LIFE Operating grants as well as further audits on COSME, in line with the EASME ex post control strategy. Therefore, the first preliminary results are expected in 2018.
Since LIFE Action grants and EMFF programme did not yet reach the corresponding level of maturity (i.e. have not reached yet an adequate number of final payments, with only 2 low value payments on LIFE action grants and 5 final payments on EMFF, out of which 2 have low amounts), no audit results are available as of 31 December. In accordance with our ex post control strategy, the first audit results on LIFE action grants are expected in 2019, as final payments will start to be performed in 2018. As regards EMFF, a pilot audit to prepare the related audit work programme is planned in 2018, depending on the resources available.

Key indicators

4 a) Control effectiveness

The main legality and regularity indicator in this stage is the error rate detected by ex-post audits. Because of its multi-annual nature, the effectiveness of the control strategy of the Agency can only be fully measured and assessed in the final stages of EASME's multi-annual programmes, once the ex-post control strategy has been fully implemented and errors have been detected and corrected.

The Agency's ex-post control strategy for the legacy programmes and COSME, LIFE and EMFF aims to detect and correct the most significant errors. The Agency focuses on value-targeted audits (aiming at cleaning the largest amount and thus maximising assurance). This approach is based on selection criteria such as high amounts granted, high number of projects and geographical balance. This approach is considered more control-effective, result in higher returns on investment, has a dissuasive effect and is cost-effective. In addition to the value-based sampled audits, also exceptional and unique risk-targeted audits can be performed to a limited extent following the operational

unit's field and desk controls indicating important risks, issues or problems. Due to their specific nature, error rates of these "targeted" audits are not included in the detected error rate calculated on the total sample.

For Horizon 2020, the CRS provides an estimate, via a representative sample of cost claims across the Research and Innovation family, of the overall level of error in the Research Framework programmes, across all services involved in its management, including EASME. Moreover, the CRS is complemented by 'risk-based' audits, selected according to one or more risk criteria relevant for the overall population.

- **Legacy programmes**

Multi-annual key indicators (ex-post controls 2008-2017)	**IEE II**	**IEE II**	**CIP EEN**	**CIP Eco Innovation**	**CIP Eco Innovation**
	Minimum	**Maximum**		**Minimum**	**Maximum**
Number of ex-post controls	119	119	62	74	74
Ineligible costs = detected error	823,774	847,211	694,275	551,464	1,896,280
Cost accepted and paid ex-ante	28,260,454	28,448,033	38,329,483	19,052,077	22,018,238
Detected error rate	2.9%	3.0%	1.8%	2.9%	8.6%
Errors corrected (recovery orders recorded in ABAC before	693,166	716,603	562,523	343,474	1,298,970
Errors not corrected	130,608	130,608	131,752	207,990	597,310
Uncorrected error rate	0.5%	0.5%	0.3%	1.1%	2.7%
% budget value parts audited *target 5% - 20% by 2020*	7.04%	7.04%	13.08%	19.56%	19.56%
% budget value parts not audited	93.0%	93.0%	86.9%	80.4%	80.4%
(% audited * uncorrected error rate)+ (% non audited * detected error	2.7%	2.8%	1.6%	2.5%	7.5%

On a multi-annual basis, the cumulative residual error rate is below the 2% threshold for CIP EEN programme[58]. In 2017, the Agency launched the last five audits on the CIP EEN legacy programme. The first audit results of this audit campaign are concordant with the previous results, with an expected residual error rate below 2% at the end of this programme.

For the CIP IEE II and CIP Eco Innovation programmes, given the results of the audits that took place in the course of 2017, the cumulative residual error rates at the year-end are estimated at [2.7-2.8%] and [2.5-7.5%] respectively, above the materiality threshold of 2% foreseen for the multi-annual period. In line with the guidance

[58] On a multi-annual basis, risk-targeted audits are not included in the calculation of the detected error rate.

developed by DG BUDG on error rates, value at risk and materiality criteria, the Agency decided to maintain the reservation for the CIP IEE II and CIP Eco Innovation programme, as explained in part 2.1.1.

For the CIP Eco Innovation and CIP IEE II legacy programmes, EASME has decided to report this year two separate residual error rates (minimum and maximum residual error rates), in order to disclose the impact the bankruptcy cases identified among the value-based audits on the error rates. In CIP Eco-Innovation programme, EASME faced six cases of beneficiaries, sampled based on value-targeted selection, which were bankrupt or under dissolution at the time of the audit. In these bankruptcy cases, the provision of relevant supporting evidence was challenging, because supporting documents were not available, proper assistance was not provided by the beneficiary because of staff reduction and accounting systems were not accessible, leading to a limitation of scope in the audit reports. EASME considers that the errors identified in these audits are exceptional and not fully representative of the population. Although these cases represent 6 audits out of the 72 performed on the programme, their results lead to an increase of the residual error rate, from 2.5% to 7.5%.
Similarly, in CIP IEE II programme, EASME faced with one bankruptcy case. Its impact on the residual error rate is less significant, leading to an increase of the residual error rate from 2,7% to 2,8%.

- **Newly delegated programmes**

COSME: A pilot audit was performed with in house resources and finalised in 2017. The main objective was to develop the related audit work programme. Given its specific audit scope, the Agency considers that this audit does not provide representative audit results. In addition, in December 2017, the Agency launched 11 audits on COSME; the first indications for the error rates (detected and residual error rates) are expected to be available in 2018. In 2018, the Agency plans to launch further audits on COSME, in line with EASME ex post control strategy.

LIFE: A pilot audit of a LIFE Operating Grant was performed with in house resources in 2017. The main objective was to develop the related audit programme. Given its specific audit scope, the Agency considers that this audit does not provide representative audit results. In 2018, the Agency plans to launch a batch on LIFE Operating grant audits, in line with EASME ex post control startegy.
As regards LIFE action grants, no audits have been launched yet, as this type of multiannual grants have not reached yet the corresponding level of maturity, with only 2 final payments of low amounts on technical assistance grants made. Therefore no detected or residual error rates of this type of actions were available as of 31 December. In accordance with our ex post control strategy, the first audit results on LIFE action grants are expected in 2019, as final payments will start to be performed in 2018

EMFF: No audits have been launched yet, as this programme had not yet reached the corresponding level of maturity, with only 5 final payments on grants made as of 31 December, out of which 2 with low amounts. Therefore, no detected or residual error rates of this programme were available as of 31 December. A pilot audit, to prepare the related audit work programme, is planned in 2018, depending on the resources available.

Horizon 2020: The residual error rate for the research family is at 1.4%, expected to rise to around 2.2% when taking into account the draft audit reports which will be finalised in 2018. The residual Error Rate derived from the CRS, for EASME participations only, amounts to 1.5%[59]. However, those error rates are preliminary estimations. The

[59] This rate takes into consideration only the EASME participations selected for the Common Representative Sample and includes the audit reports finalised by the end of 2017.

CRS is not yet complete, and so is not yet fully representative of the expenditure that it covered. As the ex-audit strategy is multi-annual, the error rates, and especially the residual error rate, should be considered over time, in a multi-annual perspective as well.

4 b) Control Efficiency

Recovery status (ex-post controls 2008-2017)	IEE II	IEE II	CIP EEN	CIP Eco Innovation	CIP Eco Innovation	H2020	TOTAL	TOTAL
	Minimum	Maximum		Minimum	Maximum		Minimum	Maximum
% of value RO over detected error	84.1%	84.6%	81.0%	62.3%	68.5%	0.0%	**73.0%**	**72.4%**
detected error amount	823,774	847,211	694,275	551,464	1,896,280	121,277	2,190,790	**3,559,043**
errors corrected (before 31.12.2017)	693,166	716,603	562,523	343,474	1,298,970	0	1,599,164	**2,578,097**

From all the detected errors, overall a range of [72.4-73%] is recovered.
The remaining [27-27.6%] is mainly linked to final audit reports which have been issued near year-end and for which the recovery order is expected to be issued in the first quarter of 2018.

The recovery status is higher in the scenario which includes bankruptcy cases as value-based audits in the calculation of the error rate, for both programmes CIP IEE II and CIP Eco Innovation. In case of a bankruptcy, in order to protect as much as possible the financial interests of the Agency, the recovery order is issued immediately after the closure of the audit. This is to ensure, to the maximum extent possible, that the debt is registered before the bankruptcy decision is declared by the Court.

As concerns Horizon 2020, this is the first year with audit results. No recovery orders were issued by 31 December, as the audit reports were closed towards the end of the year. However, the Agency launched the recovery order procedure which should be completed in 2018.

Cost effectiveness: costs and benefits per stage

STAGES	BENEFITS	staff costs	external /other costs	COSTS	Ratio benefits/costs
Stage 1: evaluation and selection	€0	€2,925,597	€5,726,399	€8,651,996	0.00
Stage 2: contracting	€13,681,031	€2,925,597	€0	€2,925,597	4.68
Stage 3: monitoring the execution	€26,451,126	€13,583,131	€7,194,971	€20,778,103	1.27
Stage 4: ex-post controls and recoveries	€2,170,246	€1,462,799	€507,288	€1,970,087	1.10
TOTAL	**€42,302,404**	€23,622,762	€13,428,658	**€34,325,783**	**1.65**

The above table gives an overview of all benefits quantified per stage, as described in each stage section[60], and has been compared to the overall costs. The staff costs of controls related to the four stages of grant management have been estimated taken into account all (i) direct costs, namely the staff of the operational and finance units directly dealing with grant management and (ii) indirect and overhead costs by applying an allocation key of about 75%[61]. The external costs include expenses paid for evaluation

[60] For stage 4, ex-post controls and recoveries, the benefits are calculated for the ex-post controls carried out in 2017, in order to compare costs and benefits on the same annual basis. The figures can therefore not be compared with the figures of the table under 4a) which reflects the multi-annual and cumulative indicators. Further the benefits for 2017 include as well the results of the risk-targeted audits as they contribute to detect and correct errors, in addition to the value-targeted audits. See annex 5. These figures do not include Horizon 2020 audits, managed by the Common Audit Service (CAS).

[61] The repartition of staff workload over the 4 stages has been estimated as follows: 14% for stage 1, 14% for stage 2, 65% for stage 3 and 7% for stage 4. The number of Full Time Equivalent (FTE) per stage has been multiplied with the commission standard costs (136.690 EUR for Officials and Temporary Agents, and 72.800 EUR for Contractual Agents).

and monitoring experts, missions, and the external contractor dealing with ex-post control audits.

As regards Horizon 2020, the audits are performed by the Common Audit Service. Therefore, the part of costs dedicated to ex post audits and the related benefits, covering all implementing bodies of the Research family (DGs, executive agencies and joint undertakings) are not reported in this report[62].
As can be concluded from the results, the total benefits of controls for grant management outweigh the total costs with a ratio of 1,65[63].

In addition there are a number of **qualitative** benefits resulting from the controls operated during the different control stages:

Stage 1: a properly designed Work Programme and well published calls generate a large number of good quality projects, from which the excellent ones can be chosen. Expert evaluators bring independence, state of the art knowledge in the field and a range of different opinions, with positive impact on the whole project cycle: better planned and better executed projects. Selection controls ensure that the most merited projects are funded.

Stage 2: The whole committed budget is checked for appropriateness (exclusion of actions not directly related to the achievement of programme objectives), enhancing the prevention of future errors and leading to a higher assurance on the achievement of the project objectives and results.

Stage 3: Monitoring, processing amendments and scrutinising costs claimed by beneficiaries contribute to the legality and regularity of the transactions. While the benefits of this stage materialise mainly in financial terms, the qualitative benefits generated by these controls are the identification of actions not directly linked to the programme objectives and therefore an overall improvement of the financial efforts carried out by the Agency.

Stage 4: Ex-post controls have a deterrent and learning effect for beneficiaries, helping to reduce errors in future cost declarations. It enhances the beneficiaries' discipline for correctly reporting eligible costs by demonstrating that their probability to be audited is not negligible. It contributes to the improvement of ex-ante controls and clarification of rules and guidance by feeding back findings from ex-post audits.

General Conclusion

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

EASME has quantified the cost of resources and inputs required for carrying out the controls described in Annex 5 and estimates, as far as possible, their benefits in terms of amount of errors and irregularities prevented, detected and corrected by these controls. Overall, in 2016 the estimated quantifiable benefits exceeded the costs with a factor of 1,65. Compared to last year, the grant management projects have reached the later stages of the project implementation cycle which generates more quantifiable benefits.

[62] For more details, please refer to DG RTD Annual Activity Report.
[63] Since the benfit for Stage 1 are not quantifiable, the ratio of 1,65 is calculated considering the benefits and costs for stage 2, 3 and 4. If the costs of Stage 1 are taken into account, the overall ratio would result in 1,23, where the costs of the four stages are absorbed by the benefits of the last three stages.

In addition, there are a number of non-quantifiable benefits resulting from the controls operated during the grant management process, such as the evaluation and selection of projects that would contribute to the achievements of the policy objectives, and the deterrent effect of ex-post controls. The necessity of these controls is considered undeniable, as the totality of the appropriations would be at risk if they were not in place.

Further EASME's overall management and control cost for the operational budget is limited to 3,5%, which is below the target set at 5,5% in line with the ratio of 2016 (3,1%) but decreasing from 2015 (5,5%). This demonstrates that the Agency evolved from the phase-in period to a full implementation phase, resulting in increased payments.

Finally, as outlined in section 2.2 on economy and efficiency initiatives, the Agency has foreseen in leaner and less burdensome controls by reducing the number of actors for certain approval flows, delegating low risk transactions to lower hierarchical levels and handling approval flows in a different, more efficient way. Furthermore the EASME control strategy foresees risk-based controls, by differentiating the type of controls in function of the risk represented by the transactions (less controls for low risk transactions).

Fraud prevention and detection

Main outputs in 2017:		
Output	**Indicator**	**Result**
Anti-fraud awareness training sessions	% of newcomers trained	100% of the newcomers trained
Regular monitoring of Anti-fraud Strategy, fraud risks and reporting to management	Follow up report	Anti-fraud action plan monitored and reported in July 2017 and January 2018. A fraud risk assessment has been carried out in November 2017.

EASME has developed and implemented its own anti-fraud strategy since 2013[64], elaborated on the basis of the methodology provided by OLAF. A fully-fledged update of the EASME anti-fraud strategy has been performed in December 2016[65].
As part of the yearly EASME risk assessment exercise, a fraud risk assessment was carried out in November 2017, taking into account several sources: input of the Agency's workgroup, relevant audit work (IAS, ECA, ex-post controls), conclusions from fraud cases, workshops organised by OLAF and information exchanged in the relevant networks (FAIR, FPD).
The Agency monitors twice a year the implementation status of the anti-fraud action plan. Actions defined as priority were carried out as planned in 2017. The Agency organised two training sessions on fraud prevention and detection, one in cooperation with OLAF and compulsory for newcomers, and a second one targeted to Financial Officers and Project Advisers.
During the reporting year, no new cases were transmitted by the Agency to OLAF. The EASME Anti-Fraud Committee[66], which has an advisory role to the Director on external fraud cases, has met once in 2017 to discuss a specific project with potential irregularities, following a complaint to OLAF by a beneficiary regarding the coordinator.

[64] EASME's first anti- fraud strategy was adopted on 17.12.2013
[65] Final version issued on 28 February 2017.
[66] Set up in June 2014 ARES(1867632), by decision of the Director

The internal analysis brought to the conclusion that this was not a fraud case. OLAF has been informed about the results of the EASME Anti-Fraud Committee accordingly.
The Agency actively participates in the Fraud and Irregularities in Research Committee (FAIR), chaired by DG RTD as well as in the Fraud Prevention and Detection Network (FPD Net) meetings, chaired by OLAF.

2.1.2 Audit observations and recommendations

This section reports and assesses the observations, opinions and conclusions reported by auditors in their reports as well as the limited conclusion 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 Agency is audited by independent auditors: the Commission Internal Audit Service (IAS) and the European Court of Auditors (ECA).

The following audits were carried out during the reporting year and resulted in the following conclusions:

IAS

- Audit on the effectiveness of the management of the COSME programme by EASME[67]:

  The audit resulted in three audit findings: one very important recommendation related to the cooperation between EASME and its parent DG for implementing the COSME programme and two important recommendations on the improvement of the planning, reporting and the implementation of COSME delegation actions. In the meantime one recommendation has been closed by the IAS[68]. The two other recommendations have been considered implemented by the Agency by the beginning of 2018 and will be followed up by the IAS during the coming months

- Audit on the Management of Human Resources in EASME[69]:

  The audit highlighted three important recommendations to (i) complete the HR strategy, (ii) to improve a few aspects in the recruitment and selection process and (iii) to map skills/competencies and to further develop the workload assessment. The Agency submitted an action plan assessed as satisfactory by the IAS. All actions are ongoing and will be implemented during the course of 2018.

- Audit on H2020 Project Management in EASME[70]:

  The audit report resulted in one important recommendation to elaborate plagiarism checks and one issue for consideration to formalise certain project management practices. The Agency will submit its action plan in February 2018.

- Follow up audits:

  The IAS has launched follow up audits on recommendations assessed as "ready for review" by EASME for the audits on COSME, LIFE and H2020 SME. All recommendations are implemented and have been closed by the IAS. [71]

[67] IAS final audit report issued on 13 January 2017 and EASME action plan on 26 January 2017
[68] See footnote below on the follow up audits
[69] IAS final audit report issued on 23 June 2017 and EASME action plan on 19 July 2017
[70] Final audit report issued by the IAS on 25 January 2018

ECA

Administrative budget

With regard to the Agency's administrative budget, for which it receives a subsidy from the EU budget, the Court examines the Agency's accounts and financial transactions in accordance with Article 248 of the Treaty on an annual basis.

The ECA audit on the 2016 annual accounts took place in March 2017. The Court expressed the opinion that the Agency's 2016 annual accounts presented fairly its financial position. The transactions underlying the annual accounts were legal and regular in all material aspects. Two comments were raised related to reducing (i) the carry-over of committed appropriations to 2017 and (ii) the cancellation of carry overs from the previous year. These points do not call the Court's positive opinion into question and have been properly addressed in the Agency's replies and actions.

Operational budget

The Court sampled 2 transactions for the DAS 2016 and 11 transactions for the DAS 2017 operational budget:

DAS 2016
Two H2020 SMEI grant agreements were audited for respectively the DAS of DG RTD and DG MOVE. None of them resulted in a quantified error rate. For the second transaction, the ECA raised a few methodology findings related to personnel costs. In this respect, the Commission[72] disagreed with the audit finding that the monthly hourly rate option in the H2020 personnel costs calculation would not provide a fair estimate of the incurred costs and is in breach of the financial rules. Although the ECA maintained its finding, it was not raised anymore in subsequent H2020 samples for the DAS 2017.

DAS 2017
Out of 11 transactions audited, 4 have been closed during the reporting year with the following results:

- Two COSME grant agreements (DAS DG GROW): no audit findings;
- One H2020 FTI grant agreement (DAS DG RTD), resulting in an error rate of 1% for overcharged personnel costs. The ECA classified the error as non-detectable. The Agency has undertaken corrective actions to address the audit findings;
- One Eco Innovation grant agreement (DG GROW), resulting in an error rate of 16,9% following an incorrect hourly rate for personnel costs and over claimed trainee costs. The ECA classified the error as non-detectable. Apart from recovering the over claimed amount, the Agency applies as well reinforced ex-ante controls on cost claims in the context of the ex-post control results for the Eco Innovation programme.[73]

Implementation of audit recommendations

All audit recommendations have been accepted by management and are being implemented as foreseen without significant delays. None of the very important recommendations are overdue for more than six months.[74]

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[71] 1 important audit recommendations for COSME, 3 very important audit recommendatons for LIFE, and 1 very important recommendation for H2020 SME.
[72] Since the finding was related to the H2020 methodology, the Common Legal Support Service (RTD) was involved in the Commission's reply as well as the H2020 Common Audit Service (CAS). The CAS accompanied the Court for this transaction and issued its own audit report on behalf of the Commission.
[73] See section on the actions undertaken following the reservation on Eco Innovation
[74] Neither the "important" recommendations are overdue for more than six months

Conclusions:

The Agency does not have any critical new or outstanding audit recommendations, nor a combined effect of a number of very important recommendations, which could have a material impact on the achievement of the internal control objectives and the assurance.
Audit recommendations due in 2017 have been implemented in a reasonable time frame without significant delays. The action plans for ongoing audit recommendations - due in 2018 - are closely monitored and are on track.
The IAS concluded that "The internal control systems audited are effective."

2.1.3 Assessment of the effectiveness of the internal control systems

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

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

Further to the adoption of the new Internal Control Framework, 2017 was a transitional year allowing the Agency to choose to report either on the previous Internal Control Standards (ICS) or the new Internal Control Framework (ICF).

EASME opted-in early for replacing the previous Internal Control Standards with the new Internal Control Framework (ICF) with the aim of allowing sufficient time for preparations and for communicating the main changes as well as gradually starting the embedding process. Since then the framework has been in the process of being embedded in the Agency and subject to ongoing collaboration projects with the parent DGs and other Executive Agencies. After its adoption in April the new framework continues to be a part of ongoing communication activities but was initially notified to the whole Agency staff. As a result of the significant management changes in Q4 2017, a specific introductory debriefing, focussing on the main changes, was given to the Agency's management in October.

The Agency monitors the performance of the internal control systems in order to determine whether they work as intended and ensure that any control weakness in the system is detected, analysed and considered for improvement and then corrected with cost effective measures if necessary. These reviews are based on the following sources of data: i) an anonymous self-assessment, iCAT questionnaire, ii) follow up on the implementation of the actions in the improvement plan iii) gap assessment between the previous Internal Control Standards and the new Internal Control Framework, iv) a registry of exceptions and non-compliance events recorded during the year, v) results of the risk assessments, vi) relevant audit results, vii) monitoring the anti-fraud action plan and viii) declarations of assurance by Authorising Officers by sub-delegation. The results of these ongoing activities are continually used as building blocks for the overall assurance building process. The assessment of effectiveness is based on these sources of information and professional judgement. The methodology to assess the overall effectiveness of the internal control system during the transitional year is inspired by the implementation guide of the Internal Control Framework of the Commission.

The Agency carried out an assessment to identify possible compliance gaps between the previous ICS and the new ICF and as a result detected two points of focus: i) the whistleblowing policy and ii) the update of the list of sensitive functions. The update of the list of sensitive functions remains to be followed up in so far as it has not been a main priority for the Agency that has been on a constant growth trajectory.
The iCAT opinion survey results are used as a building block for the overall assurance building process. During the transitional year from ICS to ICF the scope of the survey exceptionally engaged only management roles and functions since the timing was not adequate to involve larger grouping of staff in this exercise.

In 2017, 66 % of the nominated respondents provided their personal perception on 16[75] Internal Control Principles resulting in a total overall effectiveness rate of 80% (2016[76]: 75,6%, 2015: 79%). In accordance with the results, and in discussions with some concerned key process owners, three main areas have been pinpointed for further improvements[77]: the whistleblowing policy, the risk assessment process and the business continuity plan.

The Agency considers transparency, open communications and feedback as key management principles in its internal communication. According to the results of the iCAT survey, internal communication with the staff was seen to be effective, timely and relevant as it scored the highest by the respondents. The results show however, that separate communication lines such as the whistleblowing[78] procedure should be further improved as it is not currently available and thus not yet well known in the Agency. As a consequence the availability of the procedure is considered a point of focus for improvements in 2018.

The Agency performs risks assessment, which are fully integrated into the annual planning process. Based on the opinions of the iCAT respondents, the measures for ensuring effective risk management are in place and functioning as intended. The reported strengths are in areas of periodic assessments taking into account changes, in awareness of anti-fraud strategy and in the risk management process being used as a working tool and potential escalation mechanism. However the risk management process would benefit from a possible redesign to be seen as less formalistic.

The current Business Continuity Plan of the Agency is based on corporate guidance ensuring that specific plans are in place in case of a major business disruption. The Business Continuity Plan has been communicated and tested by a selection of key staff. Based on the feedback provided by the focus group the Agency's management and staff consider themselves to be equipped to continue to work in case of major business disruptions. However, further areas of improvement were identified with regards to communication and accessibility. The Agency will seek out alternative options to improve the effectiveness by organising a wider reaching communication campaign on continuity plans. The Agency plans to focus on improving the level of awareness and building capacity in case of a major business disruption.

The minor improvements which have been detailed for the three specific areas are aimed at boosting already well established areas. The minor deficiencies do not belong to any

[75] Principle 2 was not included in the iCAT survey as the management structures are comprehensive and subject to AoSD reporting (AoSD declarations)
[76] Previous iCAT surveys were limited to the priority standards: ICS3 staff allocation and mobility, ICS 7 operational structure and ICS 8 processes and procedures
[77] The questions scoring under 70 % (weighted average). These questions do not indicate any deficiencies that could have a significant impact on component level or affecting assurance.
[78] Percentage results are weighted average

one principle or component therefore these deficiencies alone or in combination do not negatively impact the functioning of the overall internal control system due to the existence of counter measures.

EASME has assessed the internal control system during this reporting year and has concluded that overall it is effective and that the components and principles are present and functioning as intended with reference to the new Internal Control Framework. However, an exception is to be stated as regards the legacy programmes affected by reservation; in this sense, there is some room for improvement. The remedial measures envisaged are reported in the AAR and listed in the Internal Control Improvement Plan for 2018, as well as the mitigating measures to address the reservations. These improvements do not have a significant impact on the overall assurance, taking into account the limited share of the legacy programmes with reservation (3.5%) over the total payments executed by the Agency in 2017.

2.1.4 Conclusions as regards assurance

This section reviews the assessment of the elements reported above and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.
The information reported stems from the results of management assessment and relevant audits. These 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 EASME.

The audit results, the internal control assessment and the control indicators do not reveal any significant weaknesses and do not fulfil any of the materiality criteria laid down in Annex 4 to the AAR with the exception of the ex-post controls of CIP IEE II and CIP ECO - Innovation programmes. For these programmes, given the results of the audits that took place until the end of 2017, the cumulative residual error rate is estimated at [2.7-2.8%] and [2.5-7.5%][79] respectively, above the materiality threshold of 2% foreseen for the multi-annual period. Therefore, in the context of the 2017 AAR, two reservations are maintained concerning the CIP IEE II and CIP ECO - Innovation programmes (Budget line: 32.04 53 00 and 02.04 53 00 respectively).

Remedial actions were introduced since 2015 and will continue in 2018. The Agency has intensified further its ex-ante controls on the CIP IEE II and CIP ECO - Innovation programmes, in an effort to detect and correct errors earlier in the lifecycle of the projects.
More specifically, the Agency has already implemented:
- A workshop, with the operational and financial teams of EASME, to share lessons learned from the execution of the ex-post controls, prevent and detect errors earlier enhancing further its ex-ante controls;
- A communication campaign towards all CIP IEE II and CIP ECO - Innovation beneficiaries involved in on-going projects. It highlighted the most common sources of errors and provided useful tips in order to avoid them.
- A number of ad hoc missions by financial officers, for CIP ECO - Innovation programme, took place at the premises of a list of beneficiaries identified as 'critical' with the aim of clarifying potential questions and anticipating good practices for internal control and accurate reporting.
Moreover, the Agency will continue its effort to reduce residual error rate for the CIP IEE II and CIP ECO - Innovation programmes.

[79] For more details on the minimum-maximum rates used, please see section 2.1.1.

In 2018, the Agency will continue to implement the audit results aiming to reduce the errors remained uncorrected in the audited population and will continue to perform corrective audits by taking into account cost-effectiveness considerations, with the view to reduce the residual error rate for both legacy programmes.

At the end of 2017 the EASME had no critical or new outstanding audit recommendations, nor a combined effect of a number of very important recommendations. Audit recommendations due in 2017 have been addressed within a reasonable time frame without significant delays.

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 the Agency has reasonable assurance[80] that its internal control system is adequately designed and that it works as intended.

Overall Conclusion

In conclusion, management has reasonable assurance that, 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, in his capacity as Authorising Officer by delegation has signed the Declaration of Assurance, albeit qualified by two reservations concerning the CIP IEE II and CIP ECO – Innovation programmes.

[80] 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*.

2.1.5 Declaration of Assurance [and reservations]

DECLARATION OF ASSURANCE

I, the undersigned,
Director of the Executive Agency for Small and Medium-sized Enterprises
In my capacity as authorising officer for the operating (administrative) budget and authorising officer by delegation for the operational budget.

Declare that the information contained in this report gives a true and fair view[81]*.*
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 opinion of the Internal Auditor on the state of control 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 Executive Agency for Small and Medium-sized Enterprises or those of the Commission here. However, the following reservations should be noted:

- *For the ABB activity 32.04: Legacy programme of the Competitiveness and Innovation Framework Programme - Intelligent Energy Europe II.*
- *For the ABB activity 02.04: Legacy programme of the Competitiveness and Innovation Framework Programme – ECO Innovation.*

Brussels, on 15 March 2018

e-signed

Julien Guerrier

[81] 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

DG	EASME
Title of the reservation, including its scope	Reservation concerning the rate of residual error within cost claims in the CIP Intelligent Energy Europe II (IEE II) 2007-2013
Domain	Direct management mode - grants paid by EASME.
Programme in which the reservation is made and total (annual) amount of this programme	CIP IEE II programme (2007-2013): Budget line: 32.04 53 00 EUR 30.76 M of payments performed in 2017
Reason for the reservation	At the end of 2017, the multi-annual residual error rate is above the materiality threshold foreseen for the multi-annual period.
Materiality criterion/criteria	The materiality criterion is the 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 programme management lifecycle. As long as the residual error rate is not (yet) below 2% at the end of the reporting year within the CIP IEE's II management lifecycle, a reservation would be made.
Quantification of the impact (= actual exposure")	The maximum impact is calculated by multiplying the residual error rate by the amount of CIP IEE payments[82] based on cost statements authorised in 2017 by EASME i.e. EUR 28.33 M. The latter amount includes the full grant value of the grants for which the balance payment was made in 2017 e.g. interim-final payments performed in 2017 and their related pre-financing payments cleared this year. It is estimated that the residual error rate is at [2.7-2.8%][83]. Thus, the estimated impact in 2017 ranges from EUR [764,964.79-793,296.82].
Impact on the assurance	Legality and regularity of the affected payments made against cost claims. Corrective actions have already been established and performed by EASME. The residual error rate of the CIP IEE II programme 2007-2013 is above the materiality threshold of 2% for the legality and regularity of the financial transactions, and leads to this reservation. However, its effect on the overall declaration of assurance is limited, considering that the amount at risk corresponds to 0.07% of the total budget execution in terms of payments in 2017 within the Agency[84].
Responsibility for the weakness	The main reasons for errors are: - 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 beneficiaries; - The fact that due to the high number of beneficiaries, ex-ante checks are performed on a sampling basis for each cost statement EASME improved its ex-ante financial guidelines and communicated it towards beneficiaries. The above can mitigate these risks to a certain extent.
Responsibility for the corrective action	In 2017, the Agency has continued to perform intensified its ex-ante controls on the CIP IEE II programme, in an effort to detect and correct errors earlier in the lifecycle of the projects. Specifically, since the introduction of the reservation in 2015, the Agency has implemented

[82] Payments made in 2017, minus new pre-financing paid out, plus previous pre-financing cleared, including recovery orders.
[83] For more details on the minimum and maximum error rate, please refer to section 2.1.1.
[84] 764,964.79/1,147,242,698.70= 0.07%; 793,296.82/1,147,242,698.70=0.07%

	the following remedial actions:(a) the results of recent audits were analysed in order to find out the root causes of the errors (b) a workshop, with the operational and financial teams of EASME, to share lessons learned from the results of the ex-post controls, with the aim to prevent and detect errors earlier enhancing further its ex-ante controls; (c) a communication campaign to all CIP IEE II beneficiaries involved in on-going projects about the most common sources of errors and useful tips on how to avoid them; (d) close monitoring of implementation of audit results in order to reduce the residual error rate for the audited population (e) the ex post audit coverage was further increased in 2017, with the aim to maximise the cleaning effect and reduce the residual error rate at the end of the multi-annual ex-post audit strategy. Moreover, the Agency will continue to address the issue during the course of 2018 aiming to reduce the final multi-annual error rate at the end of the multi-annual ex-post audit strategy for the CIP IEE II programme. The following actions will take place: (a) close monitoring of implementation of audit results in order to reduce the residual error in the audited population; (b) further launch a number of corrective audits based on cost effectiveness considerations to increase the audit coverage and maximise the cleaning effect with the aim to reduce the residual error rate at the end of the multi-annual ex post audit strategy. As of 31 December, the residual error rate of the IEE II programme amounts to [2.7-2.8%]. Similarly to CIP Eco Innovation programme, we have decided to report in 2017 two residual error rates, to disclose the impact of the bankruptcy case identified in the value-targeted sampled audits. There was one case of bankrucpty in IEE II programme. In this case, the provision of the relevant supporting evidence was challenging due to lack of supporting documents, proper assistance not provided by the beneficiary because of staff reduction and accounting systems not accessible. The errors identified in this audit are considered exceptional and not fully representative of the population. The results in terms of (lower) error rates are already partially visible in AAR 2017, as the residual error rate decreased from 3.8% to [2.7-2.8%]. However, the overall results in terms of (lower) error rates are expected for AAR 2018 as the measures described above will take time to have a full impact. The reason being that there are audits contracted in 2017 which are still ongoing and there is a minimum 1-year gap between closing projects and audit results becoming available.

Action Plan to address the reservation for IEE II

Since the introduction of the reservation for CIP IEE II programme in 2015, the following action plan has been implemented:

A) Training

The results of ex-post audits were analysed in order to find out the root causes of the errors. In 2016, the Agency organised a workshop with the operational and financial teams of EASME, to share lessons learned from the results of the ex-post controls, with the aim to prevent and detect errors earlier enhancing further its ex-ante controls. During the workshop Financial Officers and Project Advisers were trained on the most common errors identified during the ex-post controls. Additionally, the procedure of ex-ante controls was reviewed and a brainstorming session on how to improve ex-ante controls took place.

B) Communication / Guidance to Beneficiaries

During 2016 a communication campaign targeting beneficiaries of on-going projects took place. During this communication the most common errors identified at ex-post control level were disseminated to all project coordinators. In addition, on a continuous basis, during the meetings between project advisers and beneficiaries, specific points on financial management and control were raised.

The results, of the first two actions, in terms of (lower) error rates are already partially visible in AAR 2017, as the residual error rate decreased from 3.8% to [2.7-2.8%]. However, the overall results in terms of (lower) error rates are not expected before AAR 2018 as the measures described above will take time to have a full impact. The reason being that there are audit reports contracted in 2017 which are still ongoing and there is a minimum 1-year gap between closing projects and audit results becoming available.

C) Continued audit and control

EASME is closely monitoring the implementation of audit results in order to reduce the residual error in the audited population. Before launching new audits on the legacy programmes in 2018, an analysis of the cost-effectiveness of a further increase of the ex-post coverage will be performed, in order to ensure that potential corrections within the audited population will remain higher than the cost of the audits and the internal resources allocated to their quality review. Based on the outcome of this analysis, an appropriate number of audits might be launched.

Reservation 2

DG	EASME
Title of the reservation, including its scope	Reservation concerning the rate of residual error within cost claims in the CIP Eco-Innovation programme 2007-2013
Domain	Direct management - grants paid by EASME.
Programme in which the reservation is made and total (annual) amount of this programme	CIP Eco-Innovation programme (2007-2013): Budget line: 02.04 53 00: EUR 10.06 M of payments performed in 2017
Reason for the reservation	At the end of 2017, the multi-annual residual error rate is not below the materiality threshold foreseen for the multi-annual period.
Materiality criterion/criteria	The materiality criterion is the 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 programme management lifecycle. As long as the residual error rate is not (yet) below 2% at the end of the reporting year within the Eco-Innovation's management lifecycle, a reservation would be made.
Quantification of the impact (= actual exposure")	The maximum impact is calculated by multiplying the residual error rate by the amount of CIP Eco-Innovation payments[85] based on cost statements authorised in 2017 by EASME i.e. EUR 8.64 M. The latter amount includes the full grant value of the grants for which the balance payment was made in 2017 e.g. interim-final payments performed in 2017 and their related pre-financing payments cleared this year. It is estimated that the residual error rate is at [2.5-7.5%][86].Thus the estimated impact in 2017 ranges from EUR [215,942.09-647,826.26].
Impact on the assurance	Legality and regularity of the affected payments made against cost claims. Corrective actions have already been established and performed by EASME. The residual error rate of CIP the Eco-Innovation programme 2007-2013 is above the materiality threshold of 2% for the legality and regularity of the financial transactions, and leads to this reservation. However, its effect on the overall declaration of assurance is limited, considering that the amount at risk corresponds to a range of [0.02-0.06%] of the total budget execution in terms of payments in 2017 within the Agency[87].
Responsibility for the weakness	The main reasons for errors are: - 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 beneficiaries; - The fact that due to the high number of beneficiaries, ex-ante checks are performed on a sampling basis for each cost statement; - the high risk profile of beneficiaries in CIP Eco-Innovation programme, i.e. "one-time beneficiaries" not used to EU funding rules, majority of SMEs, in some cases set up specifically for the implementation of the CIP Eco-Innovation funded project, beneficiaries which do not have robust internal controls in place. EASME improved its ex-ante financial guidelines and communicated it towards beneficiaries. The above can mitigate these risks to a certain extent.

[85] payments made in 2017, minus new pre-financing paid out, plus previous pre-financing cleared, including recovery orders.
[86] For more details on the minimum and maximum error rate, please refer to section 2.1.1.
[87] 215,942.09/1,147,242,698.70=0.02%;647,826.26/1,147,242,698.70=0.06%.

Responsibility for the corrective action	In 2017, the Agency has continued to perform intensified ex-ante controls on the CIP Eco-Innovation programme, in an effort to detect and correct errors earlier in the lifecycle of the projects. Specifically, since the introduction of the reservation in 2016, the Agency has already implemented the following remedial actions: a) the results of recent audits were analysed in order to find out the root causes of the errors (b) a workshop, with the operational and financial teams of EASME, to share lessons learned from the results of the ex-post controls, with the aim to prevent and detect errors earlier enhancing further its ex-ante controls; (c) the guidelines for ex-ante checks have been revised in 2015 (d) a communication campaign to all ECO Innovation beneficiaries involved in on-going projects about the most common sources of and useful tips on how to avoid them have been provided; (d) reinforced monitoring, with visits on the site by the financial officer in order to detect and address any potential error at an early stage of the project; (f) close monitoring of implementation of audit results in order to reduce the residual error rate for the audited population (g) the ex post audit coverage was further increased in 2017, with the aim to maximise the cleaning effect and reduce the residual error rate at the end of the multi-annual ex-post audit strategy; Moreover, the Agency will continue to address the issue during the course of 2018 aiming to reduce the final multi-annual error rate at the end of the multi-annual ex-post audit strategy for the Eco-Innovation programme. Specifically the following actions will take place: (a) close monitoring of implementation of audit results in order to reduce the residual error in the audited population; (b) further launch a number of corrective audits based on cost effectiveness considerations to increase the audit coverage and maximise the cleaning effect with the aim to reduce the residual error rate at the end of the multi-annual ex post audit strategy. As of 31 December, the residual error rate of the CIP ECO Innovation programme amounts to [2.5-7.5%]. We have decided to report in 2017 two residual error rates, to disclose the impact of the bankruptcy cases identified in the value-targeted sampled audits. In all the cases of bankruptcy, the provision of the relevant supporting evidence was challenging due to lack of supporting documents, proper assistance not provided by the beneficiary because of staff reduction and accounting systems not accessible. The errors identified in these audits are considered exceptional and not fully representative of the population. The results in terms of (lower) error rates are already partially visible in AAR 2017, as the residual error rate decreased from 6.0% to a range of [2.5%-7.5%]. However, theoverall result in terms of (lower) error rates are expected to be fully available for AAR 2018 as the measures described above will take time to have an impact. The reason being that there are audits contracted in 2017 which are still ongoing and there is will be a minimum 1-year gap between closing projects and audit results becoming available.

<u>Action Plan to address the reservation for Eco-Innovation</u>

Since the introduction of the reservation for CIP Eco Innovation programme in 2016, the following action plan has been implemented:

A) Training

The results of ex-post audits were analysed in order to find out the root causes of the errors. In 2016, the Agency organised a workshop with the operational and financial teams of EASME, to share lessons learned from the results of the ex-post controls, with

the aim to share lessons learned from the results of the ex-post controls, prevent and detect errors earlier enhancing further its ex-ante controls took place in 2016. During the workshop Financial Officers and Project Advisers were trained on the most common errors identified during the ex-post controls. Additionally, the procedure of ex-ante controls was reviewed and a brainstorming session on how to improve ex-ante controls took place.

B) Communication / Guidance to Beneficiaries

During 2016 a communication campaign targeting beneficiaries took place. During this communication the most common errors identified at ex-post control level were disseminated to all coordinators of still on-going projects. In addition, on a continuous basis, during the meetings between project advisers and beneficiaries, specific points on financial management and control were raised.

C) Improvements of the working methodology

The methodology for processing second pre-financing and final payments for CIP ECO-Innovation was updated, including revised financial guidelines and updated template for financial statement (with modified hourly rate calculation table).

The first audit results of the projects applying this new ex-ante methodology are positive: in two instances, the audit did not lead to any adjustment and in one case, to an additional payment. However, those results have a limited impact on the residual error rate, as only three audits had in scope payments processed with this new ex-ante methodology have been audited so far and the calculations of the residual error rate as well as the ex-post audit strategy are multi-annual.. Further results are expected to be visible in the next annual report.

D) Continued audit and control

EASME is closely monitoring the implementation of audit results in order to reduce the residual error in the audited population. Before launching new audits in 2018, an analysis of the cost-effectiveness of a further increase of the ex-post coverage will be performed, in order to ensure that potential corrections within the audited population will remain higher than the cost of the audits and the internal resources allocated to their quality review. Based on the outcome of this analysis, an appropriate number of audits might be launched.

The results in terms of (lower) error rates are already partially visible in AAR 2017, as the residual error rate decreased from 6.0% to a range of [2.5%-7.5%]. However, the overall results in terms of (lower) error rates are not expected before AAR 2018 as the measures described above will take time to have a full impact.

2.2 Other organisational management dimensions

The Agency is continuously trying to improve its functioning with a view of investing its resources in the most economical and efficient manner.

In 2017, the two following initiatives have been launched:

1) Introduction of the 'Speedwell' IT-application

The purpose of SPEEDWELL is to replace the paper workflow for the payments made on the administrative budget by a fully electronic workflow. Main advantages are: reduced use of paper, speedier approval times and better guarantees for business continuity (the IT-system sends notifications of tasks to a pool of actors with the same role).

During 2017, the first phase for implementing the Speedwell tool consisted in reviewing and updating the guidelines on the implementation of the administrative budget. This included as well the simplification of workflows and financial circuits, in order to support a smooth and fast processing of transactions in Speedwell. The guidelines and workflows are ready for endorsement, allowing a full implementation of the Speedwell tool in the first quarter of 2018.

2) To identify and exchange best practices in project management

The first phase of this project consisted in the review of the project management practices for the units managing the H2020 programmes. Since this area was also covered by the IAS audit on H2020 Project Management in EASME (see section 2.1.2 on audits), the Agency relied on the audit results and additional information gathered from the audit team. Although the H2020 programmes are in general managed in a harmonised manner, a few different and/or best practices were identified with regards to (i) additional guidance on top of the H2020 procedures and the EASME Manual of Procedures , (ii) monitoring plan and reinforced monitoring, (iii) management supervision and (iv) additional tools on top of COMPASS/Sygma.
The Agency will further build on these results and assess which actions will be undertaken in this respect in 2018.

Moreover, the Agency continued to simplify and improve approval flows by delegating low risk transactions to lower hierarchical levels, by reducing the number of actors, and by further working paperless to the maximum extent possible.
A Sounding Board platform has been created in order to gather and discuss the suggestions from staff on different topics, amongst others on "bringing decisions to a lower level" and "knowledge sharing".

2.2.1 Human resource management

The main objectives of the HR Sector in 2017 were defined in line with the multi-annual HR strategy that was adopted in 2017. It focuses on four goals:

A. Staffing: achieve 96% of posts filled by the end of the year;
B. Increase career development opportunities for staff;
C. Develop the Managerial Excellence programme;
D. Keep a high level of staff engagement.

The HR Sector also provides HR services to its staff: management of contracts, rights and obligations, financial entitlements, training, time management and performance management.

A. Staffing

General Overview

EASME's establishment plan foresees a total of 447 staff in 2017. The Agency reached a total of 434 staff on 31 December, thus achieving 97% of its staffing plan, which is slightly above the target of 96% as set in the AWP. To be noted, with the recruitments done on 1/1/2018, 100% of the 2017 establishment plan posts were filled.

Out of the 434 staff, EASME employed 29 seconded officials, 72 temporary agents and 333 contract agents. In 2017 in total EASME grew by 4% in comparison to 2016.

The below table provides an overview of staff figures in the years 2016 and 2017:

	Staff on 31/12/2016	**Staff on 31/12/2017**	**Foreseen by 31/12/2017**	**% of the plan for year 2017**
Seconded Officials	26	29	33	88%
Temporary Agents	68	72	77	94%
Contract Agents	323	333	337	99%
Total	**417**	**434**	**447**	**97%**

Table 8: number staff overview by contract type

See annex 2 for more detailed breakdown of figures provided in the above table.

Out of the 333 Contract Agent posts, only 4 posts remained vacant by the end of 2017. There were also 9 vacant Temporary Agent (TA) posts of which 4 were planned for Seconded Officials. EASME experienced some delays in recruiting Seconded Officials. The delays were generally caused by lack of interest in joining the Agency and lengthy procedures, which were also often slightly different depending on the parent DG. EASME is planning to fill these posts in the first half of year 2018 and is liaising with the respective parent DGs to speed up the recruitment and identification of the suitable candidates.

EASME faced some further challenges related to the structural understaffing within the LIFE programme. In March it sought an approval from the Steering Committee to allow EASME to use more flexibility and to reallocate its resources in order to ensure proper implementation of the LIFE programme[88]. In addition to the continued reduction in internal horizontal charges related to LIFE programme and the CIP Eco-innovation programme (11% instead of 20% as for the other programmes), EASME redeployed 3 posts foreseen for H2020 Energy Efficiency and 1 post foreseen for H2020 Environment and Resources. The purpose of this action was to keep the number of staff working within the LIFE programme the same as in 2016. EASME also reallocated its resources within the central finance unit in accordance with the workload.

[88] The use of this limited and temporary flexibility mechanism is in line with the Communication Chapeau and the Agency's specific financial statement.

The below table is an overview of final figures by department:

	Staff on 31/12/2016	Staff on 31/12/2017	Foreseen by 31/12/2017	% of positions filled
Department A	148	150	156	96%
Department B	111	120	121	99%
Department C	158	158	167	95%
Director's Office	0	6	3	200%[89]
Total	**417**	**434**	**447**	**97%**

Table 9: staff overview by department

Recruitment

In 2017, EASME increased its total number of staff by 17 new positions: 3 Seconded Officials, 4 Temporary Agents and 10 contract agents.
The new Director, Mr Julien Guerrier, joined EASME on 16 September.
EASME hired 45 Temporary Agents (TAs) and Contract Agents (CAs) and offered internal mobility opportunities to 16 people: 7 agents moved to a different sector and 9 agents moved to a different unit. This represented 3.8% of the total number of staff throughout the year.
A total of 28 staff left EASME in 2017. Estimated turnover rate was 6.58% which represented a slight decrease in comparison to a 6.84% turnover rate in 2016. Most of the staff who left did so due to employment opportunities within different European institutions.

EASME organised 52 selection procedures in total. These selection procedures were for different profiles: Project Officers, Project Advisers, Administrative Officers, IT Officer, Senior Financial Adviser, Senior Adviser Strategy & Coordination, Senior Legal Adviser, HR Adviser, Head of Sector, Procurement Adviser etc. Out of 52 selection procedures, 17 were organised externally to establish reserve lists, of which 6 were for temporary agent posts and 9 were for contract agent posts.

In total the EASME recruitment team screened more than 1900 CVs and conducted over 450 interviews. It established reserve lists for various profiles which largely covered EASME's recruitment needs for 2017 and 2018.
A regularly updated planning[90] of selection procedures is available on EASME's intranet and external website. It provides an insight into EASME's long term recruitment needs and career opportunities within the Agency as well as ensures the transparency and the widest reach out of the selection process.

[89] Staffing level in the Director's office remained 0% following previous director's retirement on 1 August 2016. New director arrived on 16 September 2017 and decided to reshuffle some staff to facilitate his work in EASME. Staff in the Director's office exceeded establishment plan by 100% because 4 staff members were reassigned from Department C.0 to the Director's office.
[90] https://ec.europa.eu/easme/sites/easme-site/files/selection_procedures_planning_final.pdf

B. Career opportunities for staff

In 2017 the main focus of the team was on increasing the career opportunities for staff and developing a Managerial Excellence programme. These goals stemmed from the results of the 2016 staff engagement survey and the HR action plan developed afterwards. The targets set for 2018 (the time when the next survey will be conducted) are ambitious: to increase the satisfaction of the staff with the career opportunities offered by 10%.

In the category C*areer Opportunities for Staff* to go from 32% to 42% and in *Managerial Excellence* from 50% for middle management to 60% and from 60% for line management to 70%. Therefore the main actions were developed around these two areas.

Regarding career opportunities for staff, in 2017 EASME started the first successful **job shadowing** pilot. This project provided staff with the possibility to experience a different work environment and duties. This also allowed them to understand how other units work and what processes they use, and to make useful contacts. Overall, more than 60 colleagues participated in the project. The final evaluation will be done at the end of January 2018 and it is planned to extend the project to other executive agencies and DGs.

EASME also launched the development of a **Competency Framework.** It identified key competencies which will serve as a basis for modernisation of current recruitment practices and help to identify the appropriate skills set for future employees; as well as to customise training and professional development.

EASME trained its HR Officers who started offering the new **Career Guidance Service** to staff. Its purpose is to provide support to staff in discovering their potential, to provide advice and guidance and to enable them to make the most of their career.

C. Managerial excellence programme

In order to keep the high staff engagement index of 2016 (70%) EASME set an ambitious goal in increasing the satisfaction of staff with EASME middle and senior management (HsoD and HsoU) from 50% to 60% and for line management (HsoS) from 60% to 70%.

Through a series of workshops organised by EASME and facilitated by experts, managers were given an opportunity to acquire and supplement their skills and techniques and to enhance their leadership abilities.

As an important step in the management development programme, EASME launched a **360° feedback exercise** for managers which provided them with an opportunity to better understand their strengths and weaknesses. In December, EASME also developed a Management Charter and asked staff' comments and feedback.

In December EASME's management developed a **Management Charter** and launched a consultation with EASME staff and Staff Committee. The development of the Management Charter received a strong management' engagement in the process and a wide appreciation of staff.

D. Staff engagement

Along with the actions developed by the internal communication team, the HR Sector supported the creation of the bottom-up **initiative "The Sounding Board"** aimed at creating space and possibilities for staff to create focus groups around certain topics of

importance and to make concreat improvements and changes with the goal of making EASME a modern and attractive place to work. 11 different working groups were created by the end of 2017.

In addition, during the year, EASME introduced **EASME TED Talk sessions** for its staff. It is a way to encourage staff to network and to discover new theories and ideas. TED Talk videos are successful or inspiring ideas, projects and solutions presented by people who created or executed them. These videos cover very different topics and can provide staff with different perspectives which could be used to enhance their knowledge or experience, or could be applied in their own projects.

EASME successfully continued its **Newcomers on-boarding plan.** It consisted of a series of meetings and activities which helped new staff member to settle in quickly and get to know the workspace, colleagues and the organisation.

2.2.2 Better regulation (only for DGs managing regulatory acquis)

n.a.

2.2.3 Information management aspects

As for the detailed reporting on this component, please refer to Annex 2.

2.2.4 External communication activities

The communication activities were developed to contribute to the overall objective shared across all Commission services. The Agency's specific communication objectives are to:

(A) promote our programmes and its objectives to potential applicants and stakeholders through events, social media channels and tools;
(B) ensure a link between our external communication activities and internal staff engagement to ensure excellence and service orientation.

A. Promoting programmes managed by EASME

In the 2017, the Agency reached out to its stakeholders and key target audiences to promote the programmes and services offered by EASME. At the core of it all was **raising awareness of our funding opportunities** to potential applicants and **promoting funded projects and their successes** – which all support parent DGs in their policy objectives. The work plan was fully implemented while tasks were added throughout the course of the year.

The 12th **EU Sustainable Energy Week (EUSEW):** The Agency co-organised EUSEW in close cooperation with DG ENER. The Agency contributed with its expertise to the selection of meetings at the policy conference as well as to the Sustainable Energy Awards. EUSEW was also used to disseminate results of projects. The Agency organised for example, in cooperation with INEA, a session on new ways of empowering consumers for the energy transition. The session showcased results on current H2020 projects. In total, 21 H2020 Energy Efficiency and 6 IEE projects and initiatives were featured in sessions, at stands, or presented their activities and outcomes at the EUSEW17 policy conference and networking village.

In October EASME coordinated the **Horizon 2020 Energy Info Day**. Over three days, more than 1000 participants attended thematic sessions and over 3000 follow the sessions online to learn about the upcoming programme priorities and use the opportunity to meet potential project partners through dedicated matchmaking activities.

All events organised by EASME are used to create **synergies across programmes**. During the EUSEW, for example, SME Instrument companies in the field of Energy Efficiency pitched their projects and products. In addition, two more info-days were organised as well as other networking and stakeholder activities. For the first time during our events, a tool to engage with on-site and online participants was used. During two info days, we received almost 500 questions and with the voting system, participants were actively involved and helped to shape the event.

Social media remained a main channel to inform and connect with stakeholders across Europe.

Another highlight was the launch of the **European Innovation Council (EIC) pilot**. The SME Instrument is now part of the EIC. For that reason, the Agency contributed to the Communication Strategy and supported promotional activities. The website and branding was adapted accordingly.

The Agency supported project beneficiaries through info sessions and a **webinar on how to communicate** with impact. The event was followed by more than 1000 participants from all over Europe.

In 2017 the Agency organised a very successful information day on 9 November gathering more than 170 participants from 19 countries for the launch of the "Sustainable Blue Economy Call". The key note speech was given by Commissioner Vella, who emphasised the importance of the EMFF calls for proposals to deliver concretely on the maritime policy. The live tweeting from the event was very successful, with @EU_EASME coverage of the event reaching around 30.000 impressions and more than 180 retweets. EASME regularly promotes its projects and calls on the social media channels (Twitter, LinkedIn). The tweet announcing the launch of the Sustainable Blue Economy call resulted in some 17.500 impressions, which suggests a high interest for funding opportunities in this field.

The **data hub** sharing information about the programmes beneficiaries and projects was developed last year. In 2017, 8 programmes were added to the data hub, which shows how useful the application is and how easy it can be used.

B. Staff Engagement

Staff engagement is a priority for internal communication activities. The Agency organised a stocktaking event to highlight achievements and discuss upcoming priorities. Initiatives such as a weekly newsletter (What's up@EASME), the monthly digital magazine (The Brief), lunchtime sessions and workshops on a range on communication aspects (videos with mobile phone, delivering impactful speeches, how to be an EU/EASME ambassador, how to assess the communication strategy of your project) and the launch of Pulse Check a quick poll aimed to empower staff and foster open communication.