



Annual Activity Report 2022

DIRECTORATE-GENERAL REGIONAL AND
URBAN POLICY

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REGIO IN BRIEF

The Directorate-General Regional and Urban Policy (REGIO) reports to Commissioner Elisa Ferreira, responsible for Cohesion and Reforms. With approximately 700 staff members, REGIO is composed of seven directorates, one of which – the Joint Audit Directorate for Cohesion (DAC) – is shared with the Directorate-General for Employment, Social Affairs and Inclusion (EMPL).

REGIO activities are guided by the Treaties on the European Union and on the Functioning of the European Union (TFEU). Article 174 provides that, in order to strengthen its economic, social and territorial cohesion, the Union is to aim at **reducing disparities** in the levels of development of the various regions and the backwardness of the least favoured regions, and that particular attention is to be paid to rural areas, to areas affected by industrial transition, and to regions which suffer from severe and permanent natural or demographic handicaps.

REGIO delivers its objectives through the management of programmes financed under the **European Regional Development Fund (ERDF)** – supporting both the Investment for Jobs and Growth and European Territorial Cooperation goals, the **Cohesion Fund (CF)** and the **Just Transition Fund (JTF)**. The implementation of these funds enables the fulfilment of the long-term objectives of strengthening economic and social cohesion in the EU. Thanks to the policy's specific features (e.g. alignment of investments to EU-wide priorities, concentration of resources on less developed and transition regions, multiannual programming, place-based approach, multi-level governance, interregional cooperation), the supported investments bring strong European added value, while respecting subsidiarity. The funds were reinforced by the Recovery assistance for cohesion and the territories of Europe (REACT-EU) with additional allocations for 2021 and 2022, financed under NextGenerationEU, to support crisis repair measures.

REGIO also manages: the cross-border components of the **Instrument for Pre-accession Assistance (IPA-CBC)** ensuring EU financial and technical support for reforms in accession countries; the cross-border components of the **European Neighbourhood Instrument (ENI-CBC)** facilitating continuous cross-border cooperation with neighbouring countries; the **European Union Solidarity Fund (EUSF)** granting financial assistance to Member States and accession countries, mainly in the event of major natural disasters; and **Urban Innovative Actions (UIA)** and **European Urban Initiative (EUI)** for the 2021-2027 period, aimed at identifying and testing new solutions through pilot projects in cities. REGIO also manages the third pillar of the **Just Transition Mechanism (JTM)** – the Public Sector Loan Facility (PSLF) –, a new **Interregional Innovation Investment Instrument (I3)** and the **Brexit Adjustment Reserve (BAR)**, providing support to Member States, regions and sectors most affected by the withdrawal of the United Kingdom from the EU. REGIO is among the lead services implementing the **New European Bauhaus (NEB)** initiative.

Regional and urban policy is implemented under different management modes:

- **Shared management** (ERDF, CF and JTF; BAR; EUSF; IPA-CBC; ENI-CBC): the co-legislators fix the legal framework and overall funding and determine the allocations by Member State and category of region. The Commission adopts programmes and cooperates with Member State administrations in charge of the programmes' implementation including

the selection of operations, audit and control and achievement of objectives. Specific implementation mechanisms apply to the EUSF and BAR. Approximately 99.6% of all REGIO expenditure is channelled through this management mode.

- **Indirect management** (mainly UIA/EUI for the 2021-2027 period): funding is managed by partner organisations or other authorities inside or outside the EU.

- **Direct management** (technical assistance; third pillar of the JTM; investments under InvestEU - Member State's compartment; I3): EU funding is managed directly by the Commission.

EXECUTIVE SUMMARY

A. Key results and progress towards achieving the Commission's general objectives and department's specific objectives

This annual activity report is a management report of the Director-General of REGIO to the College of Commissioners. Annual activity reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties¹.

Over the last decades, regional policy has invested in reducing the disparities among Member States and their regions in the structural transformation of their economies and thanks to its specific features such as multiannual programming, place-based approaches, multi-level governance, interregional cooperation, the supported investments bring strong European added value, while respecting the principle of subsidiarity.

After tackling the negative effects of the COVID-19 pandemic in 2020 and 2021, 2022 was again a challenging year. Russia's invasion of Ukraine has caused major economic upheaval with a rise in commodity prices, disruption of energy markets and high inflation. It also triggered one of the largest and fastest refugee movements Europe has seen. As was the case in other recent crises, cohesion became one of the first responders. REGIO came forward with the Cohesion's Action for Refugees in Europe (CARE) and the Flexible Assistance to Territories (FAST-CARE) initiatives to support those fleeing the war and the ones welcoming them. Furthermore, REGIO adapted its ENI-CBC programmes to better reflect the new realities in the Eastern neighbourhood and proposed Supporting Affordable Energy (SAFE) to address the consequences of the high energy prices. All of them were adopted by the co-legislators without changes and in record time.

Overall, 98% (283) of the 2021-2027 programmes were adopted before the end of the year, paving the way for EUR 396 billion worth of investments in the key policy areas of the Commission's political priorities. REGIO negotiated programmes of high quality ensuring consistency across Member States. MyWorkplace, REGIO's new workflow system helped to handle the large volume of programmes in the last quarter of 2022.

The JTF, ensuring a just transition towards climate neutrality in Member States and regions, will invest EUR 19.2 billion in territories most affected by the transition. REGIO reviewed and approved 67 Territorial Just Transition Plans (TJTP) submitted by Member States.

In parallel REGIO progressed on all the other instruments under the 2021-2027 multiannual financial framework. The Public Sector Loan Facility (PSLF), the European Urban Initiative (EUI) and the Interregional Innovation Investments (I3) all saw their first calls. Prefinancing was paid to all Member States under the BAR. REGIO proposed to mobilise over EUR 718 million of the EUSF assistance following the natural disasters in 2021: devastating floods in Austria, Belgium, Germany, Luxembourg, and the Netherlands, the volcanic eruption in Spain and the earthquake in Greece.

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

In 2022, REGIO also published the 8th Cohesion Report describing the progress, as well as the gaps and traps of regional development, which were then discussed in the 8th Cohesion Forum. REGIO has strengthened the European Semester package with dedicated regional annexes in the country reports that should become a regular feature of the analysis and recommendations in the future as well. REGIO further embedded the regional dimension in the EU's innovation agenda.

REGIO has also prepared the most ambitious ever European Commission strategy for the outermost regions – adopted in May 2022 – which commits to stronger tailored support to these regions and to mainstreaming their specificities across all EU policies.

REGIO modernised its communication strategy, launched Kohesio to increase transparency and bring the policy closer to citizens. The 20th edition of the European Week of Regions and Cities took place in October with a record number of participants. REGIO marked the 15th anniversary of RegioStars, showcasing great projects made possible by cohesion investments, and organised the 2nd edition of the New European Bauhaus (NEB) prizes.



The urban dimension of cohesion policy has been significantly strengthened. REGIO allocated considerable funds for investment in cities, implemented directly by urban authorities. Innovative solutions and acquired knowledge will be capitalised and shared with urban authorities throughout the new 2021-2027 EUI. Under its innovation strand the first call for proposals was in support to the NEB. REGIO also coordinates the implementation of the Urban Agenda, seeking to improve the quality of life in urban areas.

REGIO also continued to promote the use of Simplified Cost Options (SCOs) and Financing Not Linked to Costs (FNLC) by offering support to Member States in designing, verifying, and submitting their SCO/FNLC methodologies with the 2021-2027 programmes.

REGIO again achieved full budgetary execution, thanks to a very effective mobilisation across the DG in the last weeks of the year.

The DAC delivered outstanding results in view of assurance in its first full calendar year of activity. Management and control systems continued to be assessed as well functioning for a vast majority of ERDF and CF programmes, thanks notably to the efforts over several years to improve some Member States' national legislations and practices on State aid or public procurement in close cooperation with audit authorities. In parallel, the creation and further implementation of the DAC also made significant headway in the harmonisation of procedures between REGIO and EMPL.

B. Key performance indicators

Progress continued on key policy performance indicators (KPI)², also broadly in line with trends observed during the 2007-2013 period.

² Reported achievements = the sum of achievements linked to CF and ERDF programmes reported by each programme, regardless of whether or not targets had been set. It expresses the most recent available estimate of the total achievements

REGIO’s online European Structural and Investment Funds (ESIF) **Open data platform**³ offers transparent and timely data on implementation and achievements of cohesion investments. It collects information measured and reported by Member States. The platform also includes a specific section on CRII(+) and REACT-EU support to counter the effects of the COVID-19 crisis as well as a new section on the 2021-2027 programmes. ERDF, CF, JTF and BAR specific performance data can also be found in the respective **Programme Performance Statements**. REGIO has defined the below KPIs in its Strategic Plan 2020-2024.

Note on the interpretation of targets and achievements (KPI charts below)

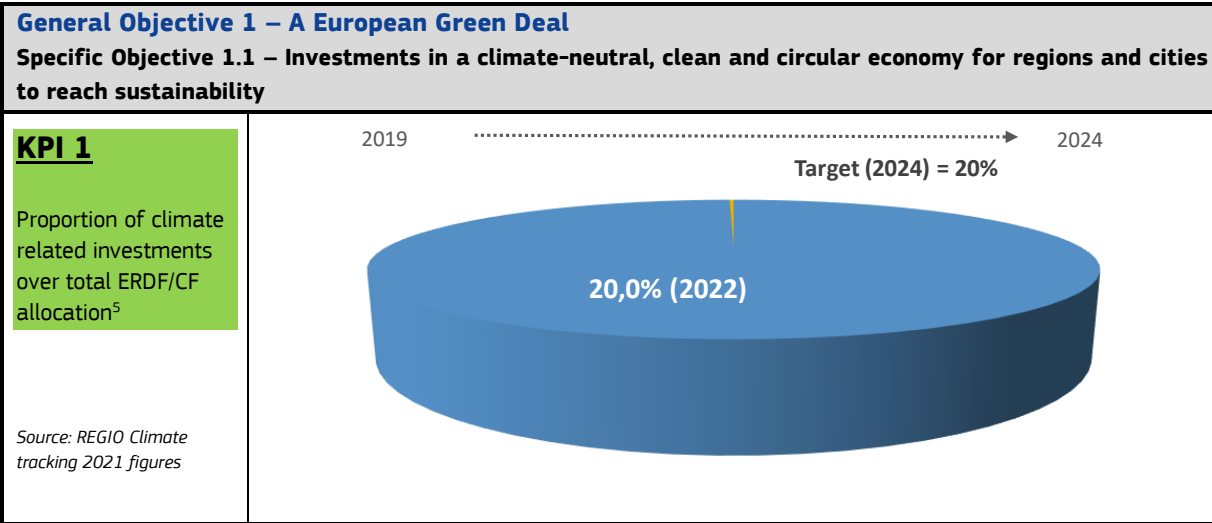
Performance information is transmitted to the Commission by Member States once per year in the 2014-2020 Annual Implementation Reports (AIR). The KPI data presented below relates to the end of 2021. 2022 data will be submitted to the Commission by the end of May 2023.

Target (end-of-period): the programmes set targets for defined indicators which they should deliver by the end of the programming period. In practice, due to the N+3 rule, 2014-2020 implementation continues until end-2023. These targets are periodically fine-tuned and may explain variations compared to last year’s (2021) AAR.

Forecasted achievements of selected projects: national authorities select projects for support under the programmes. These projects undertake to deliver in the future and at the latest by end-2023.

Reported achievements: when implemented, the actual achievements of projects are reported to the Commission.

KPI 1 – With 20%, the proportion of **climate-related over total spending**⁴ increased in 2022 and has already reached the 2024 objective.



KPI 2 - The number of **enterprises receiving support** shows good progress. The reported achievements grew by 45% compared to the previous year.

³ <https://cohesiondata.ec.europa.eu/>. Figures are constantly updated and may slightly differ from the ones in this report.
⁴ Decided amounts 2014-2020
⁵ Envelope dedicated to climate-related selected projects (EUR 58 billion) in % of total ERDF (incl. REACT-EU) and CF resources decided (EUR 291 billion).

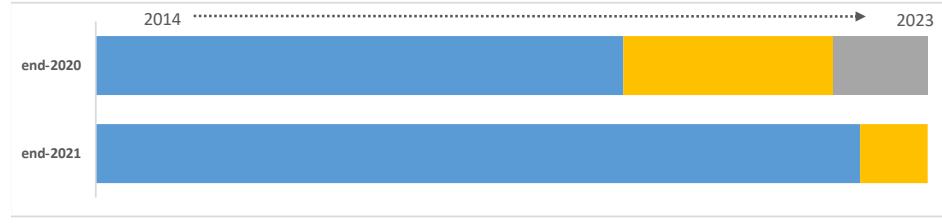
General objective 2 – A Europe fit for the digital age

Specific Objective 2.2 – Innovative and smart economic transformation across the EU

KPI 2

Number of enterprises receiving support

Source: 2014-2020 common indicator 1



	Target (End-2023)	Reported Achievements		Change (year-on-year)	Forecasted achievements of selected projects		Change (year-on-year)
End-2021	2.235.546	2.053.522	92%	45%	2.624.756	117%	32%
End-2020		1.417.018	63%		1.983.718	89%	

KPI 3 – Investments in **health and social care, education, skills and housing** also picked up with the reported achievements progressing by 29%.

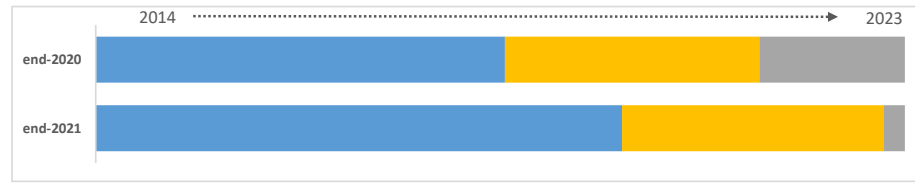
General objective 3 – An economy that works for people

Specific Objective 3.4 – Investments in health and social care, education, skills and housing to help address demographic change and social and territorial inequalities and to enhance quality of life

KPI 3

Population covered by improved health services

Source: 2014-2020 common indicator 36



	Target (End-2023)	Reported Achievements		Change (year-on-year)	Forecasted achievements of selected projects		Change (year-on-year)
End-2021	91.926.725	59.778.149	65%	29%	89.604.757	97%	19%
End-2020		46.447.988	51%		75.439.083	82%	

KPI 4 - The number of additional **households with broadband access** shows some progress. The reported achievements evolved by 3% compared to the previous year.

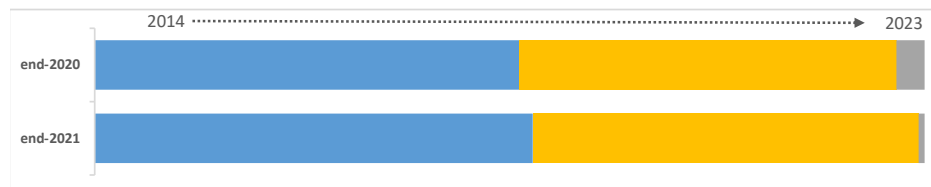
General objective 2 – A Europe fit for the digital age

Specific Objective 2.2 – Innovative and smart economic transformation across the EU

KPI 4

Additional households with broadband access⁶

Source: 2014-2020 common indicator 10



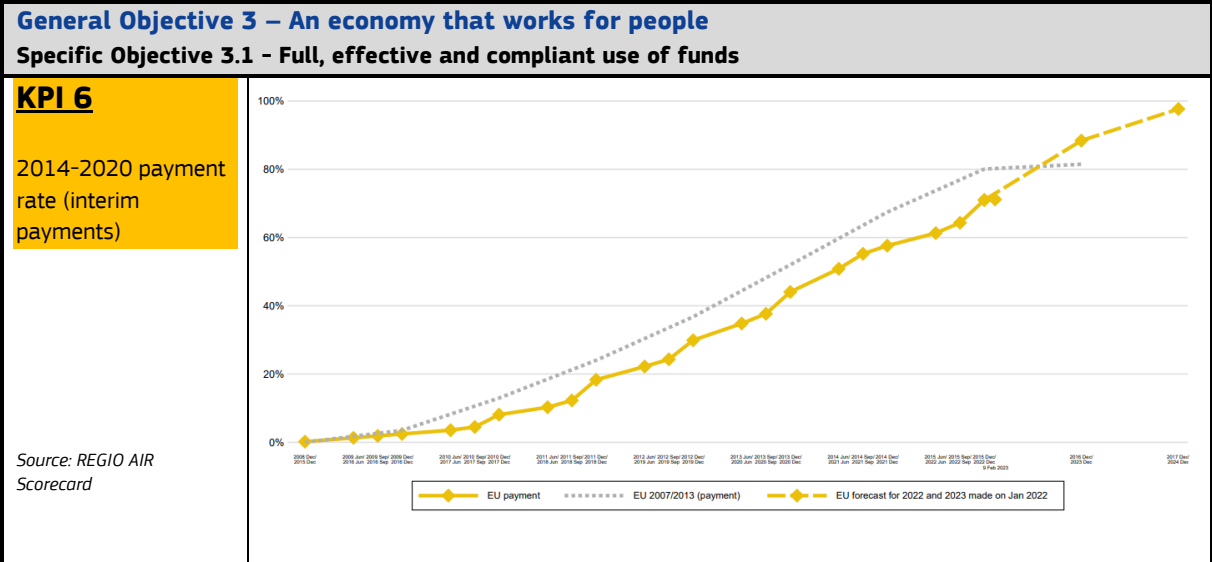
	Target (End-2023)	Reported Achievements		Change (year-on-year)	Forecasted achievements of selected projects		Change (year-on-year)
End-2021	11.958.899	6.313.361	53%	3%	11.872.979	99%	3%
End-2020		6.116.866	51%		11.558.016	97%	

⁶ Of at least 30Mbps.

KPI 5 - The residual total error rate in shared management is 1.9% (based on audit results reported for the 2020-2021 accounts submitted by 1 March 2022 and accepted by the Commission in 2022, adjusted when necessary following Commission review and audit results). **It could reach a maximum of 2.7%** due to further risks under investigation and a prudent assessment for programmes for which Member States' audit results were subject to Commission desk reviews only but not on-the-spot audit work over the programming period. REGIO has the tools to identify the concerned programmes, apply additional corrections as needed and ensure over time a residual risk below 2% for all programmes (risk at closure estimated at 1.3% for 2014-2020 programmes).

General objective 7 – Modernising the administration		
Sound financial management		
KPI 5	Target	Latest confirmed results AAR 2022 ⁸
Residual total error rate in shared management (2014-2020) ⁷ <i>Source: See section 2 on the calculation of the confirmed residual total error rate for the accounting year 2020-2021 (programmes 2014-2020)</i>	< 2%	1.9% up to 2.7 % (maximum risk)
Estimated risk at closure (2014-2020) ⁹ <i>Source: See section 2 of this report on the calculation</i>	<2%	1.3%

KPI 6¹⁰ – The payment rate¹¹ for 2014-2020 programmes has progressed¹² well in 2022. However, given that 2022 is the last-before-final year of implementation of the programmes of the 2014-2020 period, the payment rate of 79.2% is still low and catching up will have to be done in 2023.



⁷ = estimated risk at payment.
⁸ These figures include ENI-CBC and IPA-CBC programmes
⁹ Estimated risk at closure for 2014-2020 ERDF/CF programmes = residual total error rate - necessary financial corrections to bring every remaining programme residual total error rate down to 2%.
¹⁰ The project selection rate used in the previous years under KPI 6 has reached its target and is at the end of the implementation of the 2013-2020 period less relevant than the payment rate, which has at this point not yet reached its maximum.
¹¹ As of 6 February, the cumulative net payments (all pre-financing + interim payments, after recoveries)
¹² 2021-2027 rate will be provided once data available, e.g. following the start of implementation of 2021-2027 programmes.

C. Key conclusions on financial management and internal control

In line with the Commission's Internal Control Framework, REGIO has assessed its internal control systems during the reporting year and has concluded that they are effective and the components and principles are present and functioning well overall. However, some improvements are needed as deficiencies were identified related to control Principles 1 and 10, notably as regards ethics and anti-fraud awareness, which require better internal communication and implementation of financial corrections. The remedial measures envisaged are the close monitoring of the procedures to ensure that all necessary financial corrections are implemented, as well as intensified communication and training actions. Please refer to section 2.1.3 for further details.

In addition, REGIO has systematically examined the available control results and indicators, as well as the observations and recommendations issued by the internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on management's assurance about the achievement of the control objectives. Please refer to Section 2.1 for further details.

In particular, for programmes under shared management (99.6% of the relevant expenditure in the reporting year), REGIO carried out **for each 2014-2020 ERDF/CF programme** an individual assessment on the effectiveness of the management and control systems and of the legality and regularity of expenditure entered in the accounts accepted in the reporting year. This approach allows to **report the differentiated situation on the assurance obtained** and **individual risk rates confirmed for each programme**, by identifying which programmes function well, which still present deficiencies and what type of remedial actions are needed, and for which programmes further financial corrections are necessary or likely to be needed.

Based on a review of all available audit results and a programme-by-programme analysis, the Directorate general concludes that:

- REGIO has robust audit evidence (including on the basis of its risk-based compliance audits) **showing a differentiated situation for its 319 ERDF/CF programmes**: the confirmed individual residual error rate is below materiality¹³ for 253 ERDF/F programmes, 10 IPA-CBC programmes and 15 ENI-CBC programmes, but still above for 41 programmes, despite the different control layers at Member States' level. Moreover, there are indications that this may be the case for 16 additional programmes. For the concerned programmes REGIO will require the application of appropriate additional financial corrections so that ultimately the 'risk at closure' for all ERDF/CF 2014-2020 programmes is below 2%, reaching an estimated 1.3%. For all previous accounting years, based on additional audit work and additional financial corrections effectively accepted and applied, **the risk at closure is confirmed to be below 2%**, as per the estimate. **This reflects REGIO's multiannual corrective capacity mechanism.**
- By end March 2023, based on all audit results including the last ones reported by audit authorities by 1 March 2023, REGIO has reasonable assurance that **management and**

¹³ A materiality threshold of 2% is defined in the regulatory framework, as applied also by ECA for its own audits

control systems function (sufficiently) well for 259 ERDC/CF programmes¹⁴ but present serious deficiencies for 35 and 1 ENI-CBC programmes (representing 7% of expenditure certified in the 2021-2022 accounts). The situation is thus positive for 88% of programmes as a result of continuous efforts by programme authorities, with the Commission's support. Weaknesses remain mainly at the level of managing authorities or their intermediate bodies (deficiencies in management verifications, the first level controls). Some errors thus continued to remain undetected at Member State level, including at the level of some audit authorities. In most cases this did not question the reliability of the audit work carried out, **except for 7 audit authorities (or their control bodies) in charge of auditing 2%** of ERDF/CF expenditure. Annexes 7C and 7D present the concerned programmes and authorities.

- REGIO **estimates the residual total error rate** (risk at payment - KPI 5) to be for the 2022 relevant expenditure for **shared management 1.9%**¹⁵ after completing the control cycle (national and European Commission), with a maximum of **2.7%** due to further risks under investigation as explained above. Therefore, as reflected in the maximum error rate, **there is a risk that material irregularities remain in the expenditure certified to the Commission for ERDF/CF in the accounts accepted in 2022.**

Reservations are made based on all cumulative audit results up to the submission of the assurance packages in March 2023 (including the most recent audit opinions and error rates submitted by audit authorities, and before REGIO could complete its audit cycle), in line with applicable criteria (presented in Annex 5). Reservations are only lifted once sufficient corrective measures have been taken. The fact that 78% **of REGIO reservations** are upheld **for less than two years** shows the effectiveness of corrective measures put in place. Please refer to section 2.1 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated.

The Deputy Director-General, in his capacity as acting Director-General and Authorising Officer by Delegation, has signed the **Declaration of Assurance**, albeit **qualified by two reservations**:

1. a reservation concerning ERDF/CF management and control systems for **56 programmes of the 2014-2020 period** (in 13 Member States and the UK), of which 11 ETC¹⁶ and 1 ENI-CBC.
2. a reservation concerning ERDF/CF management and control systems for **6 programmes of the 2007-2013 period**, in 3 Member States.

The following actions are/will be taken in this respect: each time deficiencies are identified, REGIO requires **targeted remedial actions** to improve the functioning of the (part of the) system with a view to prevent recurring irregularities and requests the necessary **additional financial corrections** for past expenditure declared. Reservations are made

¹⁴ This includes 20 programmes with only partial deficiencies.

¹⁵ All management modes and periods together present an error rate for 2022 of 1.8% - 2.7%

¹⁶ An unusual report for ETC programmes, due to a systemic issue raised on the Austrian part of a number of ETC programmes

based on all cumulative audit results up to the submission of the assurance packages in March 2023, in line with applicable criteria (presented in Annex 5) and are only lifted once sufficient corrective measures have been taken.

D. Provision of information to the Commissioner

In the context of the regular meetings during the year between REGIO and the Commissioner on management matters, the main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Ferreira, responsible for Cohesion and Reforms.

1. KEY RESULTS AND PROGRESS TOWARDS ACHIEVING THE COMMISSION'S GENERAL OBJECTIVES AND SPECIFIC OBJECTIVES OF THE DEPARTMENT

Regional policy¹⁷ programmes are delivered through shared management. Programmes are agreed with the European Commission once every seven years but can be adapted whenever necessary. They are implemented over a ten-year period by Member State authorities who report regularly on their progress.

1.1. Contribution to economic, social and territorial cohesion

One of the main aims of regional policy, as provided for in the Article 174 of TFEU is to **reduce the economic and social disparities** between EU regions and the backwardness of the least favoured ones. The performance of EU regions is constantly monitored and every three years, the main observations are collected in the Cohesion Report offering a wide overview on the state of the Union's regions and territories. The 8th Cohesion report was adopted in February 2022. It shows that cohesion policy proves on a continuous basis that it can provide much needed and very swift support to Member States, regional and local authorities in the midst of economic slowdowns and the worst crisis of recent times.

Cohesion policy has been **a major source of public investment** in many Member States. The policy continues to support economic recovery and convergence in the European Union and acts as catalyst for further public and private funding through its co-financing requirement, leverage and its role in creating investor confidence. In the policy's main beneficiaries, the so-called cohesion countries (the Member States benefiting from the CF in addition to ERDF¹⁸), the funding channeled through the policy grew from the equivalent of 34% to 52% of total public investment from the 2007-2013 period to the 2014-2020 period¹⁹.

Cohesion policy also represents good value for money: in the long run all EU regions benefit from cohesion policy. Every euro spent on cohesion policy in the 2014–2020 period is estimated to generate a return of **almost EUR 3 in the form of additional EU GDP**²⁰. The GDP per capita of less developed regions is expected to increase by up to 5% by 2023²¹.

The policy effectively contributes to **convergence**. It boosts economic growth, creates jobs and improves quality of life. The impact is particularly important in cohesion countries, contributing to a significant convergence of GDP per head. But all Member States receive cohesion funding and benefit from the policy, including from the **spill-overs** generated by

¹⁷ Where reference is made to REGIONAL POLICY throughout this document, activities of REGIO linked to ERDF and CF investments are meant. For the 2021-2027 period, the JTF is added when specified. Where COHESION POLICY is mentioned, reference is made to REGIO and EMPL combined efforts through ERDF, CF and ESF(+) investments.

¹⁸ Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia.

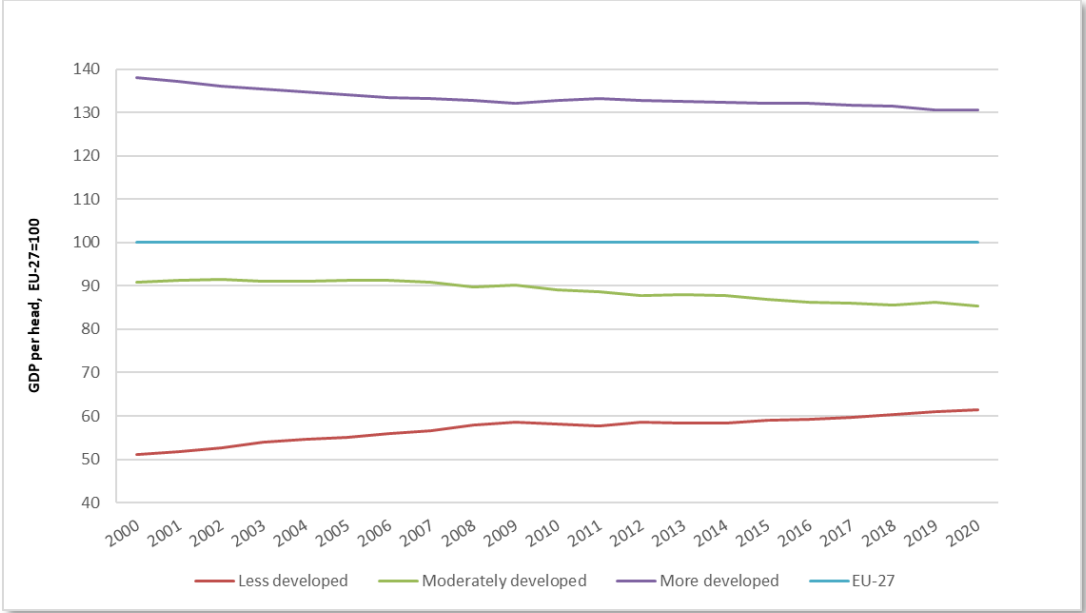
¹⁹ Source: European Commission (2022), Cohesion in Europe towards 2050, 8th report on economic, social and territorial cohesion, Luxembourg: Publications Office of the European Union.

²⁰ Source: European Commission (2022), Cohesion in Europe towards 2050, 8th report on economic, social and territorial cohesion, Luxembourg: Publications Office of the European Union. The exact figure is EUR 2.7, 15 years after the end of the period

²¹ Source: European Commission (2022), Cohesion in Europe towards 2050, 8th report on economic, social and territorial cohesion, Luxembourg: Publications Office of the European Union.

investments in less developed areas, both directly (through selling investment goods and services) and indirectly, owing to increased purchasing power of households and from increased trade²².

In 2020, GDP per head in the group of less developed regions had reached 61% of the EU average despite the economic crisis. In contrast, the group of transition regions started drifting away from the EU average after the economic crisis. In 2020, GDP per head in the transition regions corresponded to around 85% of the EU average.



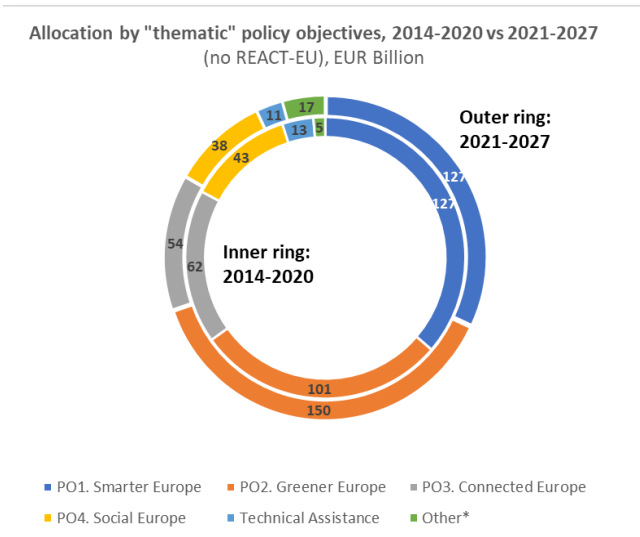
Changes in GDP per head by level of development, 2000-2020²³

1.2. Delivery of Commission priorities

Regional policy, representing almost one quarter of the total EU budget, continued throughout 2022 to contribute to the Commission priorities under individual general objectives through investments in key policy areas. 2014-2020 investments, aligned to the Commission priorities for EU2020, will run until 2023. The delivery of 2021-2027 investments has also started following the adoption of the programmes focusing mainly on four out of six political priorities of the 2019-2024 Commission (A European Green Deal, a Europe fit for the digital age, an economy that works for people and a stronger Europe in the world).

²² Source: REGIO Working Paper N° 02/2021) analyses the spatial spill-overs generated by the 2007-2013 cohesion policy programmes, with a focus on those generated in the net beneficiaries and spilling over to the policy net contributors. They find that in the long run, around 15% of the policy impact on EU GDP is due to international spill-over effects between Member States. On average, in the more developed countries (those not eligible for the CF), around 45% of the impact is due to the programmes implemented in the main beneficiaries.

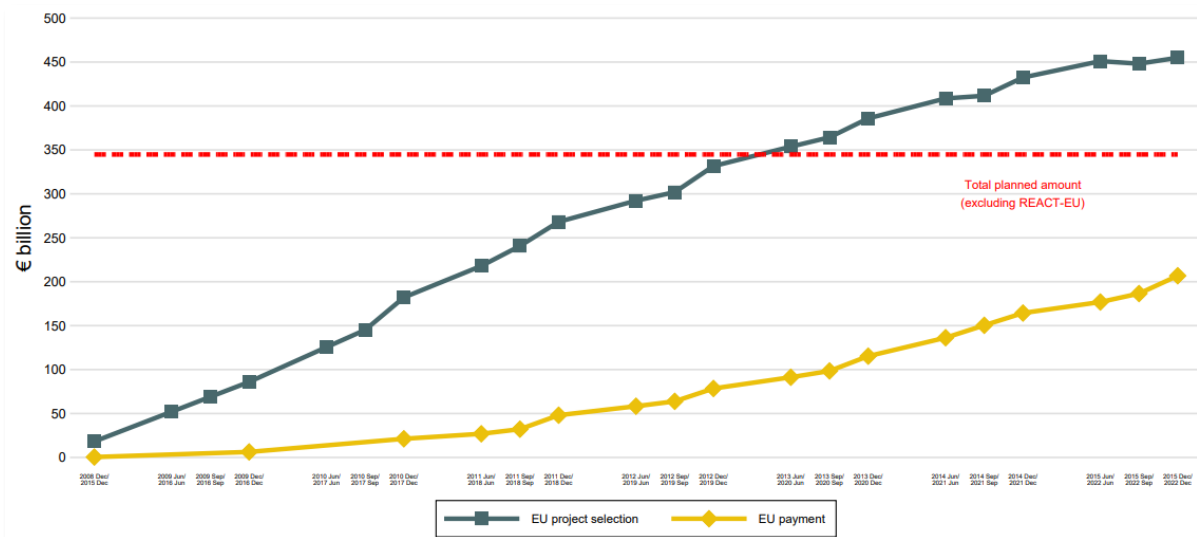
²³ Source: Eurostat [nama_10r_2gdp], ARDECO, REGIO calculations.



By the end of 2022, the total available envelope for regional policy of more than EUR **350 billion**²⁴ (ERDF+CF & national co-financing) was allocated to projects selected under 2014-2020 programmes. In the 2021-2027 period, this figure rises up to a total of EUR **396 billion** (ERDF+CF+JTF & national co-financing).²⁵

The **implementation** of the 2014-2020 cohesion policy programmes progressed well, with the full execution of the 2022 voted budget. This level of spending was supported in part by

the use of the possibility of temporary 100% EU co-financing provided by CARE between July 2021 and June 2022, and additional measures introduced by FAST-CARE.



Project selection²⁶ and interim payments²⁷ (2014-2020)

The **payment rate**²⁸ has continued to increase throughout the year and currently stands at **79.2%** of the combined ERDF and CF allocation for the 2014-2020 period.

A total of five ERDF and CF 2014-2020 programmes face decommitment for not having reached their payments target at end 2022 for a total amount of EUR 114.3 million. For four of these programmes, REGIO has received requests for exception to the de-

²⁴ In addition, almost EUR 30 billion of extra REACT-EU resources were allocated to the ERDF.

²⁵ The comparison of investment in the two periods uses correspondences between the intervention fields mapping the 2014-2020 investment according to the headings used in 2021-2027. More specifically for **POS - Europe closer to citizens**, EUR 14.2 billion, are reallocated according to the sectoral theme of the investments and spread over PO1 to PO4. The remaining EUR 5.5 billion are under "Other." "Other": residual "non-thematic" categories of expenditure (e.g. cross-financing), categories for which there is no equivalence between the two programming periods, and Interreg and JTF investment in ESF+ specific objectives

²⁶ Calculation based on total (EU plus national) eligible cost of selected projects (including REACT-EU). Public eligible cost is used where relevant.

²⁷ 206.8 billion interim payments including REACT-EU at end 2022 out of a total allocation of EUR 291.2 billion

²⁸ See footnote 10

commitment and will assess whether these requests are justified in line with the regulatory provisions.

For the **2021-2027 period** REGIO paid EUR **4 billion of prefinancing** for ERDF and CF. Additionally prefinancing payments amounted to EUR 0.2 billion for JTF, using NextGenerationEU (NGEU) funds exclusively.

In line with the 2014 “Strategy to manage change towards a more performance-based culture”, REGIO continued with the **assessment of performance of programmes** taking into consideration information submitted by Member States via the Annual Implementation Reports. Based on the overall assessment of 293 programmes, 85% were assessed as good or acceptable. There are 23²⁹ programmes, which were classified as ‘in difficulty’ and placed under close monitoring by the REGIO Board of Directors, with tailored corrective actions being designed on a case-by-case basis. Further actions are expected following the adopted FAST-CARE and SAFE package, including re-programming of still available allocations.

The Performance Action Plan for 2021-2027 builds upon the previous strategy with the aim to enhance further performance culture in shared management and addresses the reliability of performance data specifically (see more on assurance building in section 2). Additionally, the frequency of the reporting has increased, and Member States will need to report on the indicators twice a year and submit their financial data five times a year.

General objective 1: A European Green Deal



REGIO manages one of the biggest EU investment funding sources for Europe’s ambitious energy and climate policies, supporting regions and cities to reach the targets of climate neutrality and circular economy by 2050 and contributing to a just transition, also in line with the objectives of the EU’s Recovery plan.

Investments in **climate action** are expected to represent EUR **58 billion**³⁰ by 2023 in 2014-2020 programmes. In the period 2021-2027, the total amount dedicated to a greener Europe will double to **EUR 127 billion**³¹ illustrating the importance attached to the investments into European Green Deal.

- 2014-2020: thanks to ERDF and CF investments, over 15 million people will gain access to new or improved water supply. Around 70% of the targeted beneficiaries live in Romania, Greece, Portugal, Bulgaria and Czechia.
- 2014-2020: an additional 21 million people will benefit from new or improved wastewater treatment. Nearly 60% of the targeted beneficiaries will be in Spain, Italy and Poland.
- 2021-2027: will continue to support projects in the area of waste water treatment to cover over 13 million additional people. It will also invest in projects to provide additional recycling capacity for more than 11 million tonnes of waste.

²⁹ BE(1), BG(2), DE(1), ES(1), FR(1), GR(1), IT(2), RO(2), SK(3), TC(8), UK(1); of these, particular attention is paid to Scotland ERDF programme and programme Mayotte given their low absorption and in case of Scotland failure to reach the decommitment target 6th consecutive year.

³⁰ This amount and all following ones include ERDF (and REACT-EU) and CF with national co-financing included, as programmed

³¹ Climate action – greener Europe policy objective – total 127 billion including EU and national contribution (92 billion - EU only contribution)

REGIO contributed to the **REPower EU communication** through the promotion of the available cohesion policy funding and actions related to the REPower EU objectives and with commitments on new initiatives such as the launch of a new financial instrument to support energy efficiency as well as the planned adoption of a Delegated Act to speed up the design and reimbursements of energy efficiency and renewable projects through standard reimbursement schemes. REGIO contributed to environmental initiatives, such as the circular economy monitoring framework, the EU pollinators' initiative as well as to the EU Strategy on Adaptation to Climate Change. ERDF and CF provide significant EU funding to sustainable energy, in particular in **energy efficiency** and renewable energy. In 2014-2020 about EUR 30 billion are invested into the energy transition. For 2021-27 about EUR 43 billion are planned to be invested in the energy transition with the ERDF and CF, including EUR 20.6 billion on energy efficiency and EUR 8.8 billion on renewable energy.

In Austria, REACT-EU funds supported the company Kioto Solar based in Carinthia. The ERDF contributes EUR 1.4 million to the purchase of machines for a **new production line of photovoltaic modules** that can be integrated into building facades. These innovative, smart and aesthetic modules transform a building into a true solar power plant. As a result of the 7 new production lines, photovoltaic modules with dual use (winter garden, façade, carport, roofing solutions, etc.) can be produced automatically at their site in St. Veit.

REGIO contributed to designing and implementing the first actions of the **New European Bauhaus (NEB)**³², which aims to connect the European Green Deal to our living spaces and experiences and build together a sustainable, beautiful and inclusive future for Europe and beyond. REGIO successfully promoted and mainstreamed the NEB with all Member States including NEB commitments in their relevant cohesion policy programmes. With a view to facilitate the early stages of NEB delivery and practice development, REGIO led the organisation of the second edition of the NEB Prizes in 2022, awarding 20 illustrative examples of finalised projects and fresh ideas that reflect the NEB values of sustainability, aesthetics and inclusion. Furthermore, REGIO designed tools and tailored assistance for Member States to facilitate the mainstreaming of the NEB and the preparation of place-based projects based on participatory, multi-disciplinary design. With this aim, REGIO is supporting, through experts on the ground, 20 municipalities preparing NEB investments in the cohesion policy programmes.

ERDF and CF support to the renovation of buildings will continue to be a key priority, in particular as regards the support of energy efficiency in buildings.

- **2014-2020:** energy savings of 6,500 GWh/year are planned in supported public buildings. For context, the savings equate to the annual consumption of around 500,000 households.
- **2021-2027:** ERDF and CF will continue to support projects in the area of renewable energy capacity by nearly 9,600 MW.

The CF allocated EUR 114 million to the purchase of **23 electric trains for the metropolitan area of Riga, Latvia**. The new passenger trains are expected to increase the number of passengers by 2.7 million annually, shifting from less sustainable transport modes, reducing the commuting times and increasing safety and accessibility.

CF and ERDF are the key EU source to modernise the European **Network Infrastructures in Transport and Energy** systems, creating a more connected Europe and adapting it to new challenges for sustainable and smart mobility and energy supply. Over EUR **67 billion**³³ are allocated to 2014-2020 programmes to address these

³² [NEB website](#)

³³ Amount programmed under thematic objective 7 (promoting sustainable transport & removing bottlenecks in key network infrastructures), does not include transport investments under thematic objective 4 (low-carbon economy) or multi-thematic objectives

priorities with significant support to the Trans-European Transport networks. The 2021-2027 programmes will invest up to **EUR 53 billion** in a more connected Europe plus **EUR 7 billion** in smart energy systems³⁴.

- 2014-2020: thanks to ERDF and CF investments, some 5,000 km of new, reconstructed or upgraded rail track will be delivered across Europe, of which 65% of the target is in Poland, Spain, Italy and Hungary
- 2021-2027: green investments will continue to boost a climate-friendly mobility with better railway connections, sustainable urban mobility and new cycling infrastructures. A major part of these investments will also support the achievement of the REPowerEU objectives, including decarbonisation and energy transition through energy saving, development of renewable energies, energy storage, hydrogen or green infrastructures.



The work of the **S3 platform**³⁵ also continued its focus on a number of green tech related areas, in particular through the thematic platform on energy and on industrial modernisation, the latter working on areas such as batteries, hydrogen, biomass or sustainable manufacturing. Additionally, 2021-2027 programmes foresee EUR 3.4 billion of investments in green technologies.

REGIO has a particular role in ensuring a just transition towards climate neutrality in Member States and regions. The **JTF** will invest EUR **19.2 billion** in territories most affected by the transition. The investments are aimed at reskilling and retraining of workers, creation of new jobs, diversification of local economies and revitalisation of former mining sites, among others.

The preparation of the **Territorial Just Transition Plans**, outlining the transition process and the social, economic and environmental challenges continued in cooperation with Member States throughout 2022. REGIO timely reviewed and approved all **67** TJTPs submitted by Member States and only 3 plans remain to be formally submitted in 2023.

The 2021-2023 technical assistance contract to manage the **Just Transition Platform**³⁶ was signed and launched.

It offers a single access point and helpdesk for stakeholders, comprehensive technical and advisory support, the establishment of dedicated project and expert databases and the organisation of two high-level events a year.

The call for proposals of the **3rd pillar of the JTM** (Public Sector Loan Facility) was launched in July 2022. This blending Facility complements the two other pillars of the JTM to address the socio-economic challenges of the transition to climate neutrality in the most affected territories as identified in the TJTPs. REGIO is responsible for the grant component and has delegated its implementation to the European Climate, Infrastructure and Environment Executive Agency (CINEA). The European Investment Bank (EIB) is responsible for the loan component and provides advisory services via the InvestEU Advisory Hub to

³⁴ Connected Europe PO3 – only transport 53 billion total (EU 40 billion) Smart energy systems (inside PO2 greener Europe) - + 7 billion total (EU 5 billion)

³⁵ <https://s3platform.jrc.ec.europa.eu/about-us>

³⁶ https://ec.europa.eu/regional_policy/funding/just-transition-fund/just-transition-platform_en

potential applicants. The launch of the call for projects was accompanied by wide communication efforts including events targeting potential beneficiaries.

REGIO also undertook external communication actions to European citizens to showcase the contribution of cohesion policy to the delivery of Commission political priorities. For example, within the EU in my Region umbrella campaign, 11 local campaigns in 6 Member state were completed in 2022 reaching 9.9 million citizens. The 20th edition of the **EU Regions Week**, the largest EU annual event dedicated to regions, cities and European cohesion, focused on the twin green and digital transition and youth engagement. The event gathered 20,000 participants (both physically and online) and scored 80% satisfaction rate.

General objective 2: A Europe fit for the digital age

Cohesion policy provides for a unique opportunity for tackling the digital divide and reinforcing the Union's digital strategies so that digital connectivity is available to all, focusing in particular on areas where no high-speed connectivity exists or where digitalisation and access to public services is lagging behind.

In the Uusimaa region, in Finland, the ERDF co-funded the **"Digi-Flash" project**, which aims at speeding up the use of digital industry 4.0 technologies in SMEs. 53 companies participated in the project and launched research and development activities. New businesses based on renewable energy solutions or support for low carbon solutions emerged from 15 of these companies. Another 17 companies developed new or significantly improved products.

Cohesion policy supports Member States and regions by contributing to the digital transition targets along all four pillars of the Digital Compass – digital skills, digital infrastructures, digitalisation of businesses and public services. Investments in research and innovation, digitalisation, digital connectivity, competitiveness of SMEs and skills for smart specialisation will be a crucial tool for Member States to develop their strategies for economic and digital transformation and stay competitive.

A total of **EUR 16 billion** will be invested in digitalisation through the 2014-2020 programmes. Investments in 2021-2027 will help reaping the benefits of digitalisation foreseen by all Member States via 144 national and regional programmes with investments reaching nearly **EUR 20 billion** supporting **digital transition**. Out of this, over 80% will be dedicated to digital services and digitalisation of business. Support to high-speed digital connectivity infrastructures is planned by 15 Member States via 35 programmes. Additional support for rolling out digital infrastructures is envisaged by some Member States via the Recovery and Resilience Facility (RRF).

- 2014-2020: as a consequence of the investments made in the 2014-2020 period, an additional 12 million households will have broadband access of at least 30 Mbps, of which a majority will be in Spain, Italy and Poland.
- 2021-2027: ERDF and CF will help to provide over 3.1 million additional dwellings and almost 360,000 enterprises with broadband of very high capacity.

REGIO (in partnership with AGRI and CNECT) ran the **European Broadband Competence Offices (BCO)³⁷ Network and Support Facility**, which helps regional and local

³⁷ <https://digital-strategy.ec.europa.eu/en/policies/bco-network>

authorities in designing and implementing broadband connectivity projects, in particular in areas with market failures.

Promotion of innovation is also a central feature in ERDF and CF programmes. Smart specialisation strategies mobilise the innovation potential of EU regions. For this, the **Interregional Innovation Investments (I3) Instrument**³⁸ is further contributing to the development of new European value chains while fostering collaboration between less developed regions with more developed ones. Following the adoption of the first multiannual work programme for 2021-2022, first calls were published in November 2022. During 2022, the second multiannual work programme (2023-24) was defined with the further involvement of the I3 expert group and with a continued focus on green transition, digital transition and smart manufacturing. Supported projects should contribute to an exchange of experience and good practice for a better integration of less developed regions in the EU innovation ecosystem.

With ERDF help, the start-up **MakeGrowLab** from Pulawy, in the Lubelskie region, Poland, developed a material produced from biomass using micro-organisms. The Scoby Packaging Materials is a high-performance nano-fibre grown from microbes through the upcycling of local unwanted food/beverages. It can be used as an alternative to plastic packaging and as a storage vessel for food, chemistry, cosmetics, and textiles. The product is green and innovative on a global scale.

Thematic Smart Specialisation Platforms on industrial modernisation, energy and agro food continued to promote partnerships to stimulate interregional innovation investments, bringing together researchers, businesses, civil society and public administrations.

By 2023, more than EUR **62 billion**³⁹ will be invested from 2014-2020 programmes to strengthen **research, technological development and innovation**. Additional **EUR 54 billion**⁴⁰ will be dedicated to the policy objective of a smarter Europe in the 2021-2027 programmes.

- 2014-2020: investment in research & innovation is a central objective of ERDF investments: 98,000 researchers will have access to improved research infrastructure facilities. This represents 3% of all European researchers, and roughly equates to the total population of researchers in Ireland and Denmark (2019)
- 2021-2027: ERDF and CF will continue this trend with a target of creating improved infrastructure for 83,000 researchers annually.

SMEs represent 99.8% of all EU businesses. The ERDF aims at supporting the life cycle of enterprises to increase their productivity and competitiveness. To mitigate the impacts of the COVID-19 crisis, SMEs have benefitted from ERDF support to working capital with a combined value of nearly EUR 8.7 billion⁴¹.

By 2023, over EUR **58 billion**⁴² from 2014-2020 programmes are set to be invested in improving the **business environment and entrepreneurship**, while the 2021-2027 period will invest a total EUR **36.5 billion** in growth and competitiveness⁴³.

An innovative Lithuanian start-up has developed the application **Midletic** for strengthening physical and emotional health. The application helps users to identify their emotional status, taking into account energy level and mood. Using the anonymised data, the Midletic team tries to establish the emotional balance of the user. Mindletic was co-created with certified psychologists and professional mental health organisations.

³⁸ https://eisma.ec.europa.eu/programmes/interregional-innovation-investments-i3-instrument_en

³⁹ Incl. REACT-EU funds

⁴⁰ 54 billion total (smarter Europe-specific objective in PO1)

⁴¹ COVID-specific indicators measuring support to working capital.

⁴² Incl. REACT-EU funds

- 2014-2020: the ERDF provides significant support to European firms: almost 2.4 million enterprises (mainly SMEs) are targeted for support.
- 2014-2020: the ERDF investments are planned to generate around 370,000 new jobs. More than 80% of the new jobs are expected to be provided in SMEs.
- 2014-2020: around 230,000 new enterprises will receive the ERDF support to start and grow their business.
- 2021-2027: ERDF and CF will support further at least 780,000 firms.

In terms of external communication activities under this general objective, REGIO reinforced the online information available on its websites with updated content for 2021-2027 period: there were 24 million visits to the **Inforegio** website and 2.2 million users accessed to the Cohesion Open Data assets, while 210,000 connected to the website.

General objective 3: An economy that works for people



REGIO contributes to building a future-proof economy that works for people and delivers stability, jobs, growth and investment. Implementation and delivery of regional policy funds and programmes is at the core of REGIO's operations and a key to a balanced and fair economic recovery following COVID-19 and the crisis following the Russian war of aggression against Ukraine, ensuring long-term development leaving no person and no region behind.

Crisis management

Funding from the ERDF and the CF played a central role in 2022. REGIO continued to facilitate Member States' efforts in overcoming the impact of the COVID-19 pandemic through processing remaining 2014-2020 programme amendments linked to the **Coronavirus Response Investment Initiative** CRII(+) and supporting them in the programming and implementation of the substantial additional resources offered by the **Recovery Assistance for Cohesion and the Territories of Europe** (REACT-EU).

A total of over **300** CRII(+) **programme amendments** were adopted since spring 2020 in record time resulting in the redirection of close to EUR **23 billion** (in current prices) of cohesion policy funds (of which around EUR 17.2 billion from ERDF and CF), to counter the crisis caused by COVID-19.

In order to bridge the gap between initial crisis response measures and longer term recovery, the Commission reinforced the existing 2014-2020 cohesion policy programmes (ERDF, CF, European Social Fund, Youth Employment Initiative), with EUR **50.6 billion** (in current prices) of **REACT-EU** resources from the NextGenerationEU. In less than 2 years, the full amount has been used to reinforce cohesion policy programmes, of which almost EUR 30 billion through ERDF. The 2022 tranche of REACT-EU was fully programmed.

⁴³ Growth and competitiveness PO1 – 36.5 billion total (EU 23.3 billion); Skills for SMEs 2.4 billion extra total and 1.5 EU – S01.4

A dedicated **Coronavirus Dashboard**⁴⁴ data story contains detailed information on the EU cohesion policy response to the pandemic. A similar data story was launched also for REACT-EU⁴⁵.

To help Member States and regions deal with refugees fleeing the military aggression by the Russian Federation against Ukraine, the Commission has proposed the **Cohesion's Action for Refugees in Europe (CARE)**

The ERDF supported the construction of the **Greece-Bulgarian gas interconnector** in Bulgaria. The interconnector started commercial operations on 1 October 2022, with an overall length of 182 km and a technical capacity of 3 billion cubic meters/year and an option for increasing the transmission capacity. In the current geopolitical circumstances, this strategic infrastructure project is symbolic of the importance of the EU's strategic autonomy of energy supply and diversification of sources and routes.

allowing more flexibility, more liquidity and simplified procedures to support the refugees. CARE provided the possibility of 100% co-financing and to use ERDF and ESF in an interchangeable manner in view of refugee support. This proposal was further complemented with increased pre-financing to be paid related to REACT-EU resources and a simplified cost option scheme that can be used when providing support to refugees. These targeted changes to the 2014-2020 legal framework address the current needs of Member States, triggered by the migratory challenges as well as the extended impact of the COVID-19 pandemic and entered into force in April 2022.



Apart from the unprecedented influx of displaced persons, the Russian invasion of Ukraine has also exacerbated commodity prices, including for energy and food, caused renewed supply chain bottlenecks and disrupted the labour market. Cohesion funds have continued to support Member States in addressing these challenges by offering further flexibility for the implementation of cohesion policy investments through the **Flexible Assistance to Territories (FAST-CARE)** proposed by the Commission in June 2022 and adopted in October 2022. FAST-CARE includes changes to legislative frameworks of both programming periods – the 2014-2020 and the 2021-2027 – that focus on administrative simplifications, increased flexibility to use the three cohesion policy funds interchangeably (ERDF, CF and ESF) and additional liquidity through increased pre-financing.

In addition, the Commission also contributed to tackle the ongoing energy crisis through targeted amendments to 2014-2020 cohesion policy framework - **Supporting Affordable Energy (SAFE)** - in the context of REPowerEU legislative negotiations. The European Parliament (EP) and the Council reached a political agreement on REPowerEU in December 2022 and the Regulation entered into force on 1 March 2023. It allows Member States to use up to 10% of their 2014-2020 cohesion policy allocation to support vulnerable households and SMEs particularly affected by energy price increases as well as short-time work and equivalent schemes, with 100% EU co-financing.



REGIO is in the lead for the implementation of the **European Union Solidarity Fund (EUSF)**, which grants financial assistance to Member States and accession countries mainly

⁴⁴ <https://cohesiondata.ec.europa.eu/stories/s/4e2z-pw8r>

⁴⁵ <https://cohesiondata.ec.europa.eu/stories/s/REACT-EU-Fostering-crisis-repair-and-resilience/26d9-dqzy>

in the event of major natural disasters such as earthquakes, floods, droughts, forest fires or storms. Over EUR 718 million were awarded in 2022 to assist with disasters that occurred in 2021 (floods in Western Europe, volcano eruption in La Palma and the earthquake in Crete). In 2022 the Commission received a new applications from Romania relating to the drought in 2022 and from Italy regarding the floods in the Marche Region.

The **Brexit Adjustment Reserve** (EUR 5.5 billion in current prices) is a specific funding mechanism aiming at providing support to businesses and employment in the Member States, regions and sectors most affected by the withdrawal of the United Kingdom from the EU. It also assists public administrations in the proper functioning of border, customs, sanitary and phytosanitary controls and ensures essential services to the citizens and companies affected. In 2022 the second instalment of pre-financing was timely transferred to all 24 Member States that requested it. In the second half of 2022, the Commission also worked with the co-legislators to allow for transfers from BAR to the REPowerEU chapter of RRF.

2021-2027 period

Cohesion policy will play a central role in opening up new possibilities through a stronger focus on green and digital transitions. These will require significant structural changes that may create new disparities and there the policy will deploy its capacity demonstrated over the past two decades to reduce economic, social and territorial disparities. When preparing the **2021-2027 programmes**, Member States and the Commission therefore worked closely together on identifying the causes of those disparities and on programming investments that best address them.

Due to the COVID-19 crisis and the war in Ukraine, the programming faced significant delays. In 2022, the Commission intensified its programming efforts with the Member States and adopted all 27 Partnership Agreements and almost all **287 REGIO programmes** (four were adopted in the beginning of 2023 and one has not been submitted yet). Programmes are thus currently ready to deliver on the above goals.

In early 2023, REGIO put forward the first initiative under the European Year of Skills, a **Communication on Harnessing Talent in Europe's regions** that sets out the drivers and asymmetric impact of the regional disparities caused by the demographic transition on our societies and economies. Notably, the Communication identifies two sets of regions, representing 30% of the EU population that are particularly exposed to the negative impact of demographic trends. To further support the capacity of these regions, the Communication sets a new "talent booster mechanism" structured around eight pillars with measures that will be implemented from 2023. The main aim of the mechanism is to support regions to develop new approaches to demographic transition and talent development, attraction and harnessing. A dedicated webpage and events will additionally favour extensive exchange of experiences and dissemination of knowledge and good practices among regions.

For the 2021-2027 period, Member States need to comply with certain **horizontal or thematic enabling conditions** as laid down in annexes III and IV of the CPR, which are prerequisite conditions for the effective and efficient implementation of the specific

objectives of the funds⁴⁶. If horizontal or thematic enabling conditions are not met, expenditure for the corresponding specific objectives can be submitted in a payment application to the Commission but will not be reimbursed. Enabling conditions include the four horizontal enabling conditions on the 'Effective monitoring mechanisms of the public procurement market', 'Tools and capacity for effective application of State aid rules', as well as the 'Effective application and implementation of the Charter on Fundamental Rights of the European Union', a cornerstone of the EU acquis, and the 'Implementation and application of the United Nations Convention on the rights of persons with disabilities' (UNCPRD). Member States had to self-assess in their programmes whether the enabling conditions linked to the selected specific objectives are fulfilled. With the input of other competent Commission services, REGIO and EMPL reviewed and the Commission decided whether they agreed with the Member State's own assessment on the fulfilment of enabling conditions. When necessary, REGIO or EMPL provided recommendations to Member States to improve the situation.

For adopted ERDF, CF and ESF+ programmes, around 2/3 of the applicable **thematic enabling conditions** were assessed met. The allocation that cannot be reimbursed due to remaining unfulfilled enabling conditions account for around 22% of the allocation for Jobs and Growth. REGIO and EMPL are monitoring progress in the concerned 22 Member States and 152 programmes.

As for **horizontal enabling conditions**, all Member States fulfil them, apart from Hungary and Poland⁴⁷. In the case of **Poland**, the Member State itself considers that the horizontal enabling condition on the Charter of Fundamental Rights is not yet met. The Commission services are in dialogue with the Member State to ensure that the requirements of the enabling condition are fully met. This covers notably the institutional and procedural arrangements that are necessary to ensure respect of all relevant principles of the Charter in the implementation of the Funds at all stages. In the case of **Hungary**, whilst the Authorities assessed that they fulfil the horizontal enabling conditions on the Charter of Fundamental Rights, the Commission considered that the implementation of the Funds risks violating the Charter. The Commission considers that the provisions of Hungary's law prohibiting access to content that portrays homosexuality or sex change for persons under the age of 18, serious risks to academic freedom and the right to asylum have a concrete and direct impact on the compliance with the Charter in the implementation of certain specific objectives of three cohesion policy programmes (and of the Asylum Migration and Integration Fund respectively). For the concerned parts of those programmes, Hungary is therefore currently not fulfilling the horizontal enabling condition on the EU Charter of Fundamental Rights. The Commission's concerns can be lifted when Hungary has put in place the necessary arrangements that will ensure that the implementation respects the Charter, and when the Commission has agreed that these arrangements remedy the deficiencies. On judicial independence, the Commission considers that Hungary is committed to remedy the deficiencies, as the recovery and resilience plan submitted by Hungary includes reforms aiming at the strengthening of judicial independence. Therefore, the horizontal enabling condition on the Charter of Fundamental Rights will be reassessed and may be considered fulfilled once Hungary has taken the measures on the judiciary to which it has committed under the country's Recovery and Resilience Plan and has

⁴⁶ Similar to ex ante conditionalities under 2014-2020 programmes

⁴⁷ In addition, Cyprus declared the enabling condition on the Charter as unfulfilled regarding its AMIF and BMVI programmes.

resubmitted its self-assessment to the Commission in line with the procedure foreseen in Article 15(3) and (4) CPR.

Moreover, for **Hungary**, the Council also decided in December 2022 specific measures to protect the Union budget against breaches of the principle of the **rule of law (general regime of conditionality)**. Among others, Hungary was asked to take remedial measures to improve its management and control system for cohesion policy. This was also reflected in an “**Administrative Capacity Building Roadmap**” attached to the adopted Partnership Agreement. This Roadmap aims to improve the transparency of and competition in public procurement, and to improve the prevention, detection and correction of fraud, corruption and conflict of interest. Remedial measures under the general regime of conditionality are also translated into milestones to be fulfilled as part of the Hungarian RRP. Similarly, under the rule of law action plan, measures to improve the independence and operational autonomy of the cohesion policy audit authority were requested. Altogether these measures should contribute to the sound management of EU funds, including cohesion policy programmes in Hungary.

Complementarity with other investments

The coordination between cohesion policy and the **Recovery and Resilience Facility** continued to feature prominently in the past year, given the substantial support the Facility provides to reforms and investments, in view of promoting complementarity between the two support instruments. All Partnership Agreements have been geared to address the relevant European Semester country-specific recommendations appropriately and to take into account the National Recovery and Resilience Plans. REGIO contributed to the Recovery and Resilience Plans implementation in all Member States, working closely with SG RECOVER and ECFIN, notably through the assessment of payment requests. Cooperation has been put in place between the Commission audit services in charge of auditing the implementation of RRP and cohesion policy programmes.

Structural reforms have much potential to underpin ERDF, CF and JTF investments, making them more effective. In view of this REGIO has identified and communicated to REFORM potential priority areas for support under the Technical Support Instrument (TSI) that can enhance the effectiveness, efficiency and sustainability of investments under these funds. This served as input for REFORM’s bilateral meetings with Member States that prepare for the launch of the annual call of the TSI. REGIO has also reviewed under a tight schedule 375 Member State requests under the call.

Contribution to social, migration and gender issues

The legislative framework for 2021-2027 proposes a dedicated policy objective entitled “**A more social and inclusive Europe implementing the European Pillar of Social Rights**”. It provides an overall framework for investments in areas such as health and social care, education and training, skills, employability and housing.

The total amount programmed for the period 2014-2020 in the above areas⁴⁸ equals almost EUR **31 billion**, which complements the activities financed by the European Social Fund (ESF).

Overall ERDF support to health care increased significantly from the originally planned EU amount of EUR 5.6 billion to over EUR **18.2 billion** by the end of 2022⁴⁹, thanks to the reallocations that made use of the flexibilities provided by CRII(+) and additional resources under REACT-EU.

The 2021-2027 programmes will add EUR **28.5 billion** investment in areas such as labour market infrastructure, education and training, health care, culture and sustainable tourism and integration of marginalised communities and third country nationals.

- 2014-2020: thanks to the ERDF investments, nearly 93 million people will benefit from improved health services, of which more than half are in Spain and Poland. In Spain 3 out of 4 persons will be served by the improved services.
- 2021-2027 will extend this and support 60 million more people per year in increasing the capacity of health care facilities, mostly in Spain, Poland and Greece.

Regarding mainstreaming equality into cohesion policy, 12 out of 14 actions linked to the external dimension of the 2022 equality mainstreaming work plan were achieved. In line with the EU **Gender Equality Strategy**⁵⁰ for 2020-2025, REGIO subscribed to effective integration of the gender dimension in cohesion policy supported actions. The already advanced legal framework was further reinforced, for example, with a gender tracking methodology for ERDF, CF and JTF which later has also been applied to the technical assistance budget managed by REGIO. The 2021-2027 Partnership Agreements and programmes were systematically screened to ensure that non-discrimination is a horizontal principle and the inclusive growth priorities were supported. An internal tool for the visualisation of the planned gender-related expenditure under ERDF, CF and JTF was prepared and a data story on supporting gender equality actions is available on the Open Data Platform⁵¹.

Dissemination efforts were also stepped up in 2022 as regards the **Toolkit on the use of EU funds for the integration of people with a migrant background**, providing the main messages on the use of EU Funds in tackling educational and spatial segregation.

ProFIT Loans in Brandenburg, Germany is a successful financial instrument supporting research, development, and innovation projects. Support is limited to a maximum of EUR 3 million in loans (and EUR 3 million in grants) per project. Investitionsbank Brandenburg implementing the ProFIT Loans, paid so far, loans to 71 final recipients in the total volume of EUR 75 million. The positive impact of this instrument on innovation in Brandenburg results in its continuation in the 2021-27 period.

Uptake of financial instruments

A wider uptake of **financial instruments**, including InvestEU, was further promoted. Overall the increased use of financial instruments will ease access to finance for SMEs in particular those affected by COVID-19. By 2023, a little over EUR **29 billion** of the ERDF and CF allocation for

⁴⁸ Corresponding to thematic objectives 8, 9 and 10 under the 2014-2020 programmes. ERDF and national co-financing.

⁴⁹ ERDF only. The following 4 intervention fields have been considered for calculating this amount: Health infrastructure (incl. equipment) and ICT solutions addressing healthy, active ageing & e-Health

⁵⁰ https://commission.europa.eu/strategy-and-policy/policies/justice-and-fundamental-rights/gender-equality/gender-equality-strategy_en#gender-equality-strategy-2020-2025

⁵¹ <https://cohesiondata.ec.europa.eu/stories/s/gkxm-7hxd>

the 2014-2020 period (8.3%⁵²) is planned to be invested in projects via loans and guarantees funded under financial instruments, primarily for SMEs. The disbursement rate of ERDF and CF contributions to financial instruments increased from 72% to 78%⁵³ as of end 2021.

- 2014-2020: 678,000 final recipients were supported via financial instruments, including 593,000 SMEs.
- 2014-2020: EUR 48 billion of financing was disbursed in the form of loans or equity to final recipients
- 2021-2027: more than a third of the planned financial instruments amount (EUR 18 billion) will support SME investments, 20% is planned for investments on energy efficiency and 17% on renewable energy. This means that nearly EUR 6 billion will be invested to cover investment gaps for energy transition and low-carbon economy, sectors crucial for the success of the Green Deal. Also, the financial instruments allocations for research, digitalisation, territorial development, labour infrastructure and transport demonstrate the continued interest in using the vehicle of financial instruments in sectors traditionally dominated by grants.

Support to Member States

Good governance is a crucial element of economic development and requires efficient and effective administrations and **administrative capacity** at national, regional and local level to prepare, manage and implement investment projects. Experience shows that Member States and regions with weak institutions have significant problems absorbing available EU Funds and using them in the best way and in compliance with all applicable rules. To step up assistance and support a more strategic approach for capacity building in 2021-2027, REGIO promoted the development of roadmaps for strengthening of administrative capacity and supported Member States in their efforts to develop such roadmaps. By the end of 2022, roadmaps for administrative capacity building had been finalised in 14 Member States.

Administrative capacity roadmaps

- 5 roadmaps developed as a pilot are being implemented in 5 Member States (BG, EL, ES, HR, PT).
- Roadmaps for 2021-2027 are finalised in **10 Member States** (CZ, EE, HR, HU, IT, LT, LV, PT, SI, SK). Work is ongoing in 3 additional Member States.

REGIO continued to support Member States by making available several tools and services. This included provision of tailored assistance on various topics supporting implementation, (including on roadmap development, selection of operations, public procurement, eCohesion, control and audit arrangements, etc.) through its peer learning tools REGIO Peer2Peer Communities and TAIEX-REGIO Peer2Peer exchanges of best practices. In 2022, 392 participants joined 21 such events.

JASPERS continued providing advisory support to Member States, including on JTF. ES, CZ, HR, RO and PL Country Work Programmes have been validated. Advanced drafts of PT, BG and EL Work Programmes are available and will be validated in the first semester of 2023. In addition, a strategy on the transfer of knowledge and a document on JASPERS' reporting and monitoring requirements were adopted by its Steering Committee of December 2022.

⁵² Of the overall programme amounts for all forms of financing (about EUR 350 billion).

⁵³ ERDF+CF amounts invested in final recipients EUR 18,533 million / ERDF+CF amounts paid to FIs EUR 13,428 million

REGIO also continued to promote the use of **Simplified cost options** (SCOs) and **Financing not linked to Costs** (FNLC) by offering support to Member States in designing, verifying and submitting their SCO/FNLC methodologies with the 2021-2027 programmes. As a result of this work, 109 SCO methodologies from 10 Member States and covering EUR 4.4 billion as well as 4 FNLC schemes from 4 Member States and covering EUR 1.2 billion were adopted as part of the new programmes. In addition, work has progressed on the two ongoing studies on the development of EU level SCOs in six policy areas under the ERDF/CF – due to REPowerEU, priority was given to setting up EU level SCOs on energy efficiency and renewable energy. The Transnational Network (TN) of ERDF/CF SCO practitioners allowed for further exchange of experience and good practices with a focus on helping Member States in their preparations for the 2021-2027 period, contributing to the development of EU level SCOs and bringing further simplification in the areas of management verifications and digitalisation of practices.

Transnational Network activities:

- 3 meetings (more than 100 representatives of managing and audit authorities for each meeting)
- 3 focus group meetings on the development of EU level SCOs;
- 1 multi-country workshop
- 6 case reports on digitalisation of practices and procedures
- kick-off meeting of the Working group on Risk-based management verifications

Commission activities:

- bilateral meetings with 12 Member States and one SCO/FNLC workshop for national authorities (Romania)
- 2 ongoing studies on setting up SCOs at EU level in 6 policy areas under preparation

To **enhance simplification** in the implementation of ERDF/CF programmes, REGIO screened 114 draft programmes for simplification measures, of which almost 50% have been amended to introduce measures to further simplify their implementation in 2021-2027. REGIO also worked closely with Member States to identify best practices regarding the digitalisation of practices and procedures of ERDF/CF programmes and to support ERDF/CF managing authorities in designing and implementing risk-based approaches for their and their implementing bodies' management verifications.

In view of the upcoming closure of the 2014-2020 period and to provide an adequate methodological framework, the **Closure Guidelines**⁵⁴ were adopted. To promote and explain the Guidelines, as well as discuss detailed questions, 15 seminars for authorities of 22 Member States, Interreg programmes and the UK were held, and five more are planned. In addition, audit strategies based on risks were discussed with audit authorities to prepare for closure. Progress was also achieved in 2022 regarding the closure of the remaining open and pre-closed 2007-2013 programmes.

In terms of **evaluation activities**, REGIO launched in 2020 its ex-post evaluation strategy for the 2014-2020 period by defining the pillars of a major exercise, which will be fully completed in 2025. As to the 2014-2020 ex-post evaluation contracts, nine contracts were signed in 2022. REGIO will finalise the tendering of the "Institutional capacity and reform work package" in early 2023. Equally, the evaluation helpdesk continued to provide support to Member States to reinforce their evaluation capacity. All methodological supports were successfully delivered and a summer school was organised for evaluation experts in Members States.

⁵⁴ Guidelines on the closure of operational programmes adopted for assistance from the ERDF, the ESF, the CF and the European Maritime and Fisheries Fund (2014-2020), [C\(2021\)7303](#)

Territorial and urban activities

REGIO plays a significant role in promoting a balanced development of all European regions and all types of territories with more than 1,800 integrated territorial and local strategies supporting **integrated territorial approaches** in both urban and non-urban areas under ERDF and CF programmes⁵⁵.

A new policy objective ‘a **Europe Closer to citizens**’ proposed for 2021-2027 will go one step further offering tailor-made support to investment strategies of regions, cities, rural and local communities - more than 2,500 integrated territorial and local strategies are planned. In this regard, REGIO supports the uptake of the functional area approach through a joint technical assistance project implemented by the World Bank. Moreover, as a result of cooperation with JRC, REGIO published a Self-Assessment Tool for Sustainable Urban Development strategies and Handbooks of Sustainable Urban Development Strategies and Territorial and Local Development Strategies.

The **urban dimension** of cohesion policy has been significantly strengthened. In the 2014-2020 period - around **EUR 135**⁵⁶ billion of the funding is allocated for investment in cities, of which some EUR 21 billion is implemented directly by urban authorities. In the 2021-2027 period a minimum of 8% of ERDF will be allocated to sustainable urban development investments.

- 2014-2020: More than 42 million people live in areas with integrated urban development strategies, of which over half will be in France, Germany and Romania. In France and Romania, 23% and 27% respectively of the population will benefit from these strategies.
- 2021-2027: 380,000 people are to benefit from the inclusion of marginalised populations, most of which will be in Italy.

Urban Innovative Actions⁵⁷ is an instrument allowing the Commission to directly support cities to test new solutions with a budget of EUR **372 million** for the 2014-2020 period, implemented via indirect management. In 2022, additional 19 UIA projects have completed their activities. However, some of the remaining projects have experienced problems inherited from unfavourable external conditions (e.g. disruption in supply chains, construction costs rises) or specific to the solutions tested (e.g. data protection rules, legal permits) that resulted in delays and needs for adjustments. REGIO will continue to closely monitor these projects.

In Cadiz, Andalusia, Spain, the ERDF has co-financed the **regeneration of 100 social housing** units. This project aims to improve energy efficiency and reduce CO₂ emissions in buildings and in infrastructure and public services, to reduce the final energy consumption of the residential sector by 15 %.

Innovative solutions and acquired knowledge will be capitalised and shared with urban authorities throughout the new 2021-2027 **European Urban Initiative** with a budget of **EUR 450 million**. A pillar assessment was carried out (see Annex 7M for details). Under its innovation strand the first call for proposals was launched in October 2022 in support to the NEB with a budget of EUR 50 million to finance up to 12 NEB demonstrators. Beyond the investment support to innovation, the EUI will include a strand of work dedicated to capacity building, knowledge transfer and information and communication to allow urban authorities to address their complex challenges. In addition, under REGIO’s technical

⁵⁵ More information on territorial, urban and local strategies available on the REGIO-JRC mapping tool [STRAT-Board](#)

⁵⁶ This figure includes the EU contribution as well as the national contribution, corresponding to the ERDF and CF. See the [ODP](#).

⁵⁷ [UIA website](#)

assistance budget a call for applications to support local authorities for the incubation of NEB investments in cohesion policy was successfully launched. 87 proposals from 18 Member States were received and following the evaluation, 20 selected proposals are being supported.

REGIO is also coordinating the implementation of the **Urban Agenda** for the EU, seeking to improve the quality of life in urban areas. The 2021 Ljubljana Agreement sets out operational framework of the renewed Urban Agenda. In 2022 REGIO has been supporting the scoping process for two new partnerships. REGIO also co-leads the delivery of the



Communication on **a long-term vision for the EU's rural areas** (LTVRA). The balanced and integrated territorial development of all areas, including rural areas is at the core of this Communication in line with the territorialisation of 2021-2027 cohesion policy. The Vision comes with the Commission Rural Action Plan jointly steered by REGIO and AGRI. REGIO is currently implementing a number of

horizontal actions as part of this Action Plan, such as the Tool Kit on access to and combination of EU funding for rural areas. An integral part of this tool kit is the Handbook on Integrated Territorial Development. The EU Rural Observatory was launched by REGIO and JRC and the Rural pact by REGIO and AGRI. A "Rural Pact community" was created around the vision's shared goals and will contribute to the debate on how to develop and implement it. The community counted more than 1,200 subscriptions at the end of 2022.

Cooperation across borders

The four **EU Macro-regional strategies**⁵⁸ (MRS) facilitate multi-stakeholders cooperation across regions and provide an integrated framework to address together across borders common challenges faced by a defined geographical area. Four annual fora were organised as well as one high-level group meeting with a focus on territorial embedding and implementation of green and digital transition and on communication. Furthermore, the 4th Biennial Report on the implementation of EU macro-regional strategies was adopted.

It is also important that EU policies are designed and implemented to take into account the challenges and potential of cross-border regions. REGIO made a substantial contribution to identifying cross-border barriers of a legal or administrative nature. With REGIO's support, over **80%** of 2021-2027 Interreg programmes include the new Interreg-specific objective "**Better cooperation governance**".

In 2022, the actions implemented by the **Border Focal Point** continued across four clusters: governance, labour markets, public services and green transition. The mapping of cross-border public services such as access to healthcare, education or public transport was finalised and the results published.

- By end 2022, 120 pilot projects were supported under the **Border Focal Point's flagship project "b-solutions"**. Border obstacle cases were prepared to give wider visibility to border barriers and to provide inspiration for solving these bottlenecks along borders in the EU, out of which 30 were supported in 2022.

⁵⁸ The EU Strategies for the Baltic Sea Region, for the Danube Region, for the Adriatic and Ionian Regions and for the Alpine Region

As for the cross-border governance, supported by the EP Pilot action, REGIO selected actions of five cross-border regions in 2022 which will continue in 2023-2024. In the framework of the European year of Youth, REGIO increased the involvement of **Interreg Volunteer Youth** trainees in Interreg programmes and projects. The initiative deployed 138 volunteers in 2022, reaching a total of over 800 since March 2017.

In May, the Commission adopted a Communication setting out a new strategy for **the outermost regions**, as envisaged in the Commission work programme for 2022. It reflects concerns across all EU policies, to provide specific opportunities for these regions under various EU programmes as well as fully tailored support. In 2022 REGIO mainstreamed outermost regions' specificities in close to 20 Commission initiatives, including legislative proposals, policy initiatives, annual work plans and calls for proposals under various EU programmes. REGIO strengthened the dialogue with the outermost regions at Commissioner and Director level meetings, and held inter-service groups and workshops, for example on climate action and on the Connecting Europe Facility. Furthermore, REGIO implemented a number of projects, e.g. to support cultural activities, to foster good practices in climate-change related actions with their neighbours and to beef up the potential for value chains in these regions.

In the **French outermost region of La Réunion**, the ERDF invested EUR 8 million to help tourism business maintain and gradually resume their activities. This took the form of a **flat-rate support for working capital in SMEs** that helped reduce the negative effects caused by the COVID-19 outbreak which hit the region very hard. For the first time, such a scheme was deployed via a dedicated digital platform, reducing red tape.

In terms of external communication activities, REGIO organised the **8th Cohesion Forum**, in which over 2,000 participants including high-level representatives from the EU institutions such as the President of the European Commission, Ms Ursula Von der Leyen, Member State's governments and regional and local authorities gathered to reflect with stakeholder



on the major challenges of cohesion policy. With the aim of bringing cohesion policy achievements closer to EU citizens, REGIO not only continued with the updates of the **Open Data Platform** to make it more reliable, transparent and user-friendly, but it also extended the Platform to cover the 2021-2027 period. The regional campaigns under **#EUInMyRegion**, which aims at featuring EU action for the Regions throughout

Europe, reached over 9.9 million contacts. REGIO also received over 750 applications on the **Youth4Regions** project for aspiring journalists. The **Smart regions** TV episodes reached over 8 million individuals, and trainings organised for the INFORM EU network of communication officers were followed by over 3,000 persons. Finally, 2022 marked the occasion of the 15th anniversary of the **RegioStars**. A celebratory ceremony was organised in November with the attendance of the Commissioner for Cohesion and Reforms, Ms Elisa Ferreira.

General objective 4: A stronger Europe in the world



The objective of REGIO's action in third countries is to contribute to the strategic objectives and priorities of the Commission and EU external relations by strengthening its role through policy dialogues and management of cooperation with EU strategic partners, enlargement (IPA-CBC) and neighbouring countries including the neighbours of the EU outermost regions located in the Atlantic and Indian

Oceans, in Latin America and the Caribbean, while supporting EU regions and cities. Territorial cooperation programmes and projects involving EU and non-EU countries are particularly important for the promotion of key European priorities in the areas of environment and climate protection, social and health support, the need for which does not stop at the EU's external borders.

The 2021-2027 programming Framework for Interreg NEXT programmes was adopted in August 2022 and the financing agreement template for the partner countries prepared. Each partner country has received or will receive a specific version applicable to their participation in the various cooperation programmes. The financing agreements should be concluded by end of 2023.

REGIO aims also to streamline its contribution to the **EU enlargement process** in close coordination with EEAS and other Commission services. As Ukraine and Moldova were granted candidate status in June 2022, REGIO has been providing assessment on the capacity of Ukraine and Moldova to uphold obligations under Chapter 22 on regional policy and coordination of structural instruments. New work streams are being put in place to reflect changes in the Western Balkans, where Bosnia Herzegovina has received candidate status and negotiations have been opened with Albania and North Macedonia. In addition, the Macro-Regional Strategies (Adriatic-Ionian and Danube) offer opportunities to deepen partner countries' participation in key EU initiatives like the Green Deal.

Following the Russian war of aggression against Ukraine, with Belarussian support, the implementation of **ENI-CBC** programmes with Ukraine, Moldova, Russia and Belarus was significantly disrupted. REGIO suspended all financing agreements with Russia and Belarus. A regulation⁵⁹ creating targeted provisions for the implementation of all cooperation programmes facing disruption was adopted in November 2022. It allows for a flexible approach when it comes to implementation of programmes and projects in Ukraine and Moldova and implementation of projects only in Member States without Russian and Belarussian partners.

Despite the circumstances, five **Interreg NEXT** cross-border cooperation programmes and two Interreg NEXT transnational programmes involving Neighbourhood partner countries were adopted in 2022 and will continue to play an important role in the EU external policy toolbox. In addition, Ukraine and Moldova are being added as new partners in a number of relevant programmes such as the Danube and Interreg Europe. Two of the adopted Interreg NEXT programmes are located in the Southern neighbourhood.

In 2022, REGIO continued the negotiations with third countries and regional organisations to promote participation in the 2021-2027 **outermost regions' cooperation programmes** and aiming at a better combination between ERDF and NDICI/OAD⁶⁰ funds. 50 agreements with seven third countries were closed, notably in the Madeira-Azores-Canarias programme (covering Cap Vert, Mauritania, Gambia, Senegal, Ivory Coast, Ghana and Sao Tome and Principe), the Amazonia and the Guyana programme. In addition, most of the Multiannual Indicative Programmes managed by INTPA and the EEAS that will be operating in the Indian Ocean, West Africa, the Caribbean and Amazonia, mention the INTERREG programmes as potential tools for implementing cooperation.

⁵⁹ Regulation 2022/2192

⁶⁰ Neighbourhood, Development and International Cooperation Instrument / Overseas Association Decision (which means funding for development countries, in our case important for the outermost programmes that cooperate with other parts of the world).

Policy dialogues with strategic partners continued in 2022, contributing through concrete deliverables to the EU's global relations with non-EU countries, notably India, Colombia, China and Japan. The **International Urban and Regional Cooperation programme** (IURC), for which REGIO leads on the development and steering, continues to be successfully implemented with the participation of 138 cities and 51 regions from the EU and 18 countries in Asia and the Americas. 43 thematic networking events have been organised including the first in-person IURC global annual event in Brussels, regional events in North America, Latina America and Japan, as well as events at the last World Urban Forum. The **International City Partnerships** (ICP) continues to be successfully implemented, involving 14 EU and 14 non-EU cities from Asia, Canada and South Africa, and four thematic networks established on the themes of circular economy, energy transition, air quality and inclusion of migrants and refugees. On the Urban European and Latin American and Caribbean cities network (URBELAC), the last edition was successfully concluded, including two in-person events organised and five pilot projects identified.

At multilateral level, REGIO steered three new Voluntary Commitments towards the implementation of the **UN New Urban Agenda** (NUA) while updating its three historical voluntary commitments in order to accelerate the delivery of the NUA. These commitments relate to using of the Degree of Urbanisation, extending the International Urban and Regional Cooperation Programme (IURC), enhancing support to external cooperation and international partnerships, supporting the Horizon Europe Mission on Climate-Neutral and Smart Cities as well as introducing the NEB to start a global conversation on this cultural movement. In this respect, cohesion policy, together with the development cooperation policy, are major instruments to support the NUA ambition.

A new strand of work on urban development has started. In September 2022, a first Ministerial meeting of the **G7 on urban development** took place in Potsdam. REGIO intervened on the EU perspective regarding cooperation on urban development, urban development challenges and principles, and international action.

In the framework of the **Union for the Mediterranean** (UfM), REGIO co-piloted with the Kingdom of Jordan the implementation of the Strategic Action Plan 2040 on urban development and its accompanying plan on affordable and sustainable housing which were adopted by UfM Member States in July 2021. Also, REGIO launched the procedural preparations for the forthcoming third UfM urban ministerial. REGIO also steered the UfM Conference on Sustainable Urbanisation through Port City Transformation, held in Barcelona in September 2022.

Finally, REGIO undertook external communication actions to showcase its contribution of cohesion policy to the delivery of Commission political priorities. Under this General Objective, for example, it successfully organised the **Interreg Annual Event** in October with the participation of some 500 colleagues from the Interreg programme authorities. Specific attention was paid to cooperation with neighbouring countries, and in particular Ukraine and Moldova.



2. MODERN AND EFFICIENT ADMINISTRATION AND INTERNAL CONTROL

2.1. Financial management and internal control

Assurance is provided on the basis of an objective examination of evidence 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. The results are explicitly documented and reported to the Director-General. The following reports / documentation have been considered:

- the annual reports by Authorising Officers by Sub-Delegation (AOSD);
- the reports on control results from managing and audit authorities in the Member States (assurance packages and in particular annual control reports and audit opinions received by 15 February/1 March) and the exhaustive desk review carried out thereof by the DAC) as well as the results of the Commission activities to supervise these authorities (the audit reports of the DAC following (mainly risk-based) on-the-spot verifications and ex post supervision and controls through exhaustive desk reviews of all available audit results);
- the results of internal control and risk monitoring at DG level;
- the reports from the entrusted entities (to which REGIO has given cross sub-delegations). In 2022, REGIO has not given any such delegations;
- the reports on recorded exceptions, non-compliance events and any cases of 'confirmation of instructions' (Article 92(3) of the FR);
- opinion, observations and recommendations reported by the Internal Audit Service;
- observations and recommendations reported by the European Court of Auditors;
- information received from the European Anti-Fraud Office (OLAF), including follow-up given by the authorising officers by sub-delegation to final case reports.

The systematic analysis of the available evidence provides sufficient guarantees as to the completeness and reliability of the information reported and results in the full coverage of the budget delegated to the Director-General of REGIO.

This section covers the control results and other relevant elements that support management's assurance. It is structured into four sections: 2.1.1 Control results, 2.1.2 Audit observations and recommendations, 2.1.3 Effectiveness of internal control systems, and resulting in 2.1.4. Conclusions on the assurance.

2.1.1. Control results

This section reports and assesses the elements identified by management which support the assurance on the achievement of the internal control objectives (ICO)⁶¹. REGIO's assurance building and materiality criteria are outlined in the annual activity report Annex 5. The annual activity report Annex 6 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems.

In line with the 2018 Financial Regulation, REGIO's assessment for the new reporting requirement is as follows: no cases of "confirmation of instructions" (new FR Art 92.3); no cases of financing not linked to costs (new FR Art 125.3); no Financial Framework Partnerships >4 years (new FR Art 130.4); no cases of flat-rates >7% for indirect costs (new FR Art 181.6); no cases of "Derogations from the principle of non-retroactivity of grants pursuant to Article 193 FR" (new FR Art. 193.2).

Overview table of payments in 2022 (amounts in EUR million)

Activities	Payments made	% of total
2021-2027	4,213.0*	7.63%
2014-2020	47,634.6	86.26%
2007-2013	607.2	1.10%
pre-2006	2.9	0.01%
EUSF	30,1	0.05%
Brexit Adjustment Reserve	2.543.9*	4.61%
European Urban Initiative	36.8	0.07%
Urban Innovative Actions	52.1	0.09%
Pilot projects and preparatory actions	2.1	0.00%
Administrative support and technical assistance	99.6	0.18%
Total	55,222.18	100.00%

*Exclusively advance payments based on the regulation

1. Effectiveness of controls

a) Legality and regularity of the transactions

REGIO uses internal control processes to ensure sound management of risks relating to the legality and regularity of the underlying transactions it is responsible for taking into account the multiannual character of programmes and the nature of the payments concerned.

The benefits resulting from the controls are further described in Annex 6 under column "Cost-Effectiveness indicators". Annex 7A provides further details about the control

⁶¹ 1) Effectiveness, efficiency, and economy of operations; 2) reliability of reporting; 3) safeguarding of assets and information; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) 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 36.2). The 2nd and/or 3rd Internal Control Objective(s) (ICO) only when applicable, given the DG's activities.

architecture applicable to the funds under shared management and in particular cohesion policy funds. A glossary to explain the concepts most commonly used in this report is comprised in Annex 7R.

The assurance model and the conclusions on the legality and regularity of expenditure for direct and indirect management is described in Annex 7M.

Shared management 2014-2020: assurance building process

The below section provides an overview of how REGIO obtains assurance for each programme, deals with material error rates and what actions it takes to improve the situation.

The DG reviews all cumulative audit information available for each programme to identify the need for reservations in line with the materiality criteria disclosed in Annex 5, and additional corrective measures required to protect the EU budget. The legal framework (CPR) provides **increased safeguards for assurance**. The Commission applies a 10% retention on all interim payments during the year, thus effectively protecting the EU budget until controls are completed at Member State level and annual programme accounts are accepted. For programmes where serious deficiencies persist at the moment of settling the accounts, and in situations where the balance would be positive, the payment of the balance is interrupted.

Impact of programmes annual accounts (2021-2022)

1. **EUR 2.4 billion ERDF/CF contribution** (EUR 3 billion of total expenditure) prudently withdrawn from accounts (temporarily or definitively based on managing authorities' work and follow up to EC requests for corrections)
2. Including **EUR 330 million ERDF/CF** (EUR 526 million of total expenditure) contribution at least as definitive corrections (audit authorities' work)

Programme managing authorities carry out management verifications before certifying expenditure to the Commission. Audit authorities report (a) on the effectiveness of management and control systems throughout the year (system audits) and (b) once a year audit opinions and representative error rates based on audits carried out during the year. **Programme authorities** have an interest to **apply appropriate corrections** in programme's annual accounts to be able to re-use such expenditure. Otherwise, should **serious deficiencies** in the management and control system of the Member State be identified by the Commission or the European Court of Auditors after the accounts were submitted, and which were not identified, reported and corrected by the Member State's authorities, **net financial corrections** may apply. It should be noted, however, that the provisions for net financial corrections adopted by the co-legislators in the CPR are subject to strict cumulative legal requirements, considerably limiting their scope of application and in practice leading to considerable challenges for the Commission in applying such net financial corrections⁶². However, the mere legal possibility for net financial corrections contributes to further discipline the implementation of the funds (see the Member States' corrective capacity section below – pages 44-47).

With respect to the legality and regularity of the transactions for the 2014-2020 period, the objective is to ensure that the **residual risk of error for each programme**, estimated through the residual total error rate of the amounts certified in the year N-1 accounts (after the control cycle is completed at national level and the required financial

⁶² See for more details in Annex 7H. The legal conditions for net financial corrections were simplified in the 2021-2027 CPR.

corrections were implemented by the programme authorities), is **below the materiality level of 2%** in the annual accounts.

Therefore, REGIO assesses audit results reported for each programme, carries out its on-the-spot audits as per its risk-assessment and audit strategy, adjusts error rates when deemed necessary based on its own audit results and imposes the required corrective actions. This includes system improvements (through remedial action plans required from the concerned programme authorities) and financial corrections. REGIO has the legal tools to implement these additional corrections and uses them, if necessary, to eventually bring each concerned programme's residual risk below the 2% materiality threshold, after due contradictory procedures. The thus adjusted reported error rates of the previous year (after REGIO could implement its audit cycle) constitute the best indicator for the legality and regularity of the relevant expenditure reported in the annual activity report.

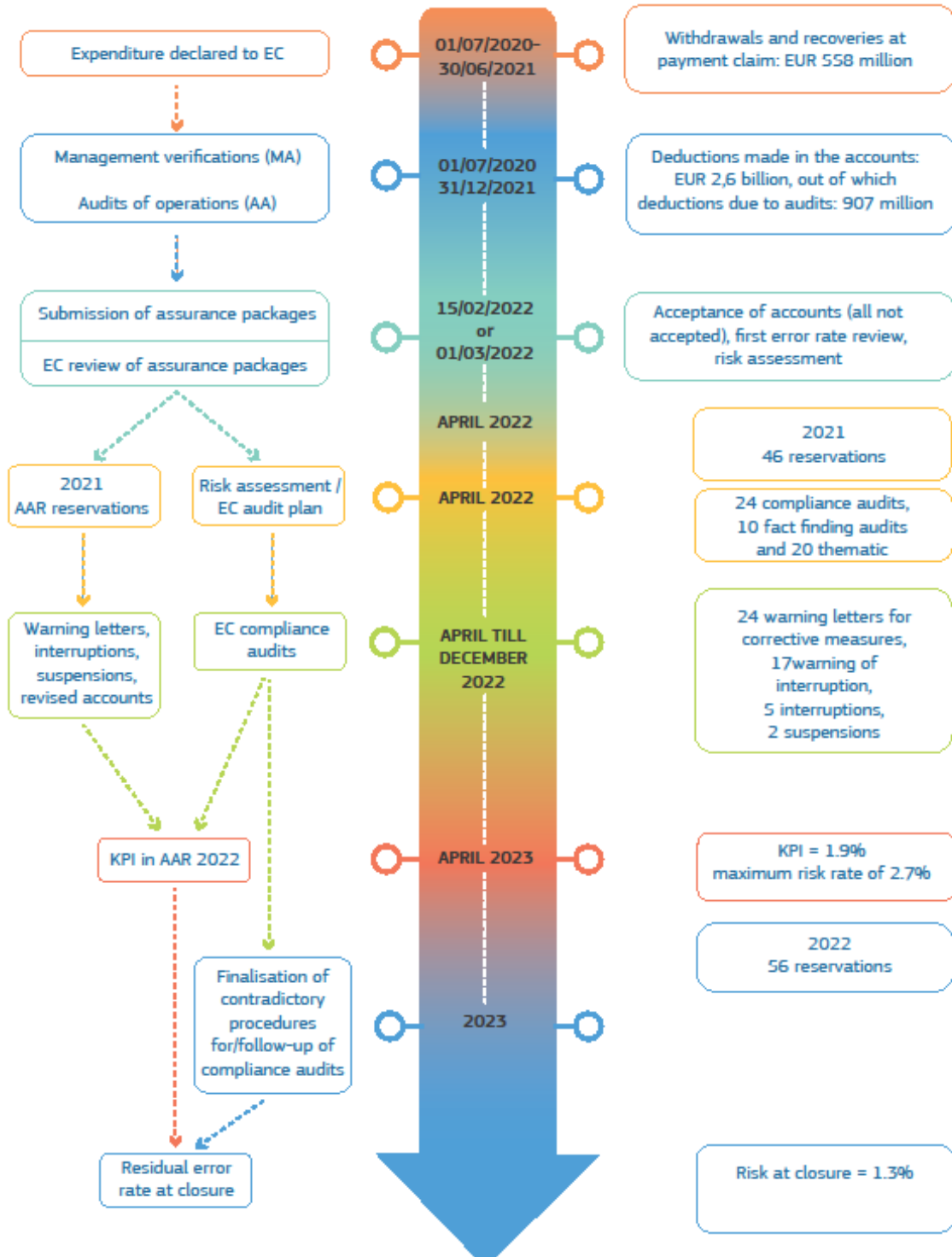
This strengthened assurance model for 2014-2020 is ensuring overall lower error levels for the reporting year compared to the 2007-2013⁶³, as demonstrated below. However, despite such improvements over time, the error rate (once the control cycle was completed) remains above the 2% materiality level for a number of individual programmes, each year. This illustrates that **detecting appropriately all material errors remains a continued challenge for programme authorities. REGIO is therefore applying various actions to improve the situation and to further reduce the risks** associated with ERDF/CF expenditure declared and to ensure a risk at closure below 2%, overall and for each programme.

The graph below illustrates the assurance building process for programme accounts submitted and accepted in 2022, as a result of the complete audit cycle reported in the 2022 AAR.

⁶³ When the error rate was between 5%-7% over time with a starting point above 12%.

Assurance building process for ERDF/CF programme accounts submitted and accepted in 2022 (annual accounts 2020-2021)

REGIO Assurance process building for programme accounts submitted and accepted in 2022



The residual total error rate (KPI 5) for ESI Funds is robust and gives a fair view

RTER: 2020-2021

(before taking account of impact of financial instruments advances)

- 278 programmes with RTER ≤2%
- 41 programmes with RTER >2%

REGIO carries out systematic desk audit work to assess the situation for **each programme** and accounts accepted in the reporting year. It discloses in the AAR **individual confirmed error rates for each programme** following the completion of its annual audit cycle; these error rates are based on Member States' reporting in the annual control reports received and assessed in 2022, that is either confirmed, where contradictory procedures are completed⁶⁴, or adjusted, as needed, on the basis

of REGIO's audit review and results.

REGIO also aggregates programme error rates to report a total, weighted average error rate for ERDF/CF. This is the key performance indicator on legality and regularity (KPI 5) for the annual activity report. It is calculated for the previous (2020-2021) accounting year once the control cycle is completed and is considered the best estimate for the risk on expenditure in the reporting year. In the current annual activity report, **KPI 5 is 1.9%** with an estimated prudent **maximum of 2.7%** to take into account potential additional risks, estimated using flat rates for each individual programme depending on their specific situation⁶⁵. KPI 5 has been calculated after neutralising the impact of advances paid into financial instruments, in line with the ECA's 2016 recommendation and with prudent adjustments made when necessary. The maximum value of KPI 5 also includes a conservative approach when only desk audit work was carried out over the period for a programme and when additional audit work is still required under ongoing contradictory procedures, taking also account of previous years' audit results for a programme when available. REGIO estimates that this **KPI 5** and its estimated maximum value reflect a **robust, reasonable and fair estimate of the overall risk at payment for all programmes taken together, following the programme-by-programme analysis carried out.**

It is therefore concluded on the basis of this range for KPI 5 that, **overall for ERDF/CF, there is a material level of irregular expenditure remaining in the accepted accounts** despite the control layers and corrections already applied at Member State's level. Indeed, for **41 programmes in 10 Member States and ETC, the individual residual total error rate remains above 2%**⁶⁶ despite the national controls carried out. The maximum error rate at 2.7%, beyond the materiality level, also reflects this risk. For those programmes where evidence indicates a remaining error rate above 2%, as well as for any other risks that may materialise and increase further the error rate following the signature of this AAR, REGIO will carry out the necessary additional corrective actions to

⁶⁴ Confirmed error rates are reported once the national and EU audit cycle is completed.

⁶⁵ Namely to consider additional risks that may be present in that part of the audit sample of the audit authority that was not covered by the Commission services' audits, as well as additional risks identified during the Commission services' desk reviews or during ECA audits but not yet communicated. This additional risk is estimated at flat rate where no detailed audit information was available at the date of concluding on the assurance. For programmes not audited by the Commission services or by ECA but for which the audit authority was audited for another programme, the maximum risk is calculated based on the average increase of the error rate due to Commission or ECA audits for the audited programmes of the same audit authority in the last three years. This maximum error rate also prudently includes, for programmes only subject to a desk review and where no re-performance audit was carried out, the risk of errors potentially undetected through the desk review and is estimated via flat rates: 2% for RTER confirmed below 2%, 5% for RTER confirmed below 5%, and 10 % for RTER confirmed above 5%.

⁶⁶ AT, BE, CZ, ES, FR, IT, MT, PL, PT, SK and ETC.

ensure that the error rate falls below 2% for each and every programme concerned and overall for the Funds by the end of the programming period.

The list of confirmed total error rates and total residual error rates by programme, as well as the Commission opinion on the functioning of each management and control system, are disclosed in Annex 7B⁶⁷. **REGIO has therefore robust audit evidence showing a differentiated situation for the 319 programmes concerned⁶⁸.**

A differentiated situation: identifying and correcting programmes at risk

2020-2021 accounting year

- **294 ERDF/CF programmes** in total
- **286 accounts** with ERDF /CF expenditure

REGIO bases its assurance on audit results obtained from programme authorities every year for each programme and complements such audit information **by its own audit results.**

Following the reception of the **assurance packages by 1 March 2022** (accounts from the accounting year 2020-2021 accepted in 2022), the DAC auditors carried out a **thorough desk review of the Annual Control Reports (ACRs)** and assessed the reported total and residual error rates and audit opinions against all cumulative audit information⁶⁹ in view of deciding on reservations qualifying the assurance declaration in the 2021 AAR (published in June 2022).

Desk review of AA' audit results received in 2022

346 system audits

5 819 (parts of) operations audited
Statistical sampling covering 94% of the total certified expenditure
11% of expenditure audited

In 2022 REGIO audits covered

1. **24** Compliance audits (in 14 Member States and the UK covering 30 assurance packages and 65 programmes)
2. **10** fact finding missions (so 34 audit missions in total contributing to review the work of audit authorities)
3. **20** thematic audits (88 OPS in 13 Member States) of which four conflict of interest audits

Subsequently, for a number of programmes/audit authorities for which specific risks have been identified during this process, the DAC carried out in 2022 and early 2023 **on-the-spot compliance audits** to re-perform the work done by the concerned audit authorities. For details on the DAC audits performed, see Annex 7F.

Out of the **30 assurance packages audited**, the DAC identified further irregularities to the ones detected by audit authorities and **re-calculated residual risk** at this stage of the contradictory procedure **in 13 assurance packages** covering 15 programmes (50% of the ACRs reviewed or 25% of the programmes covered). In **eight cases (1 CZ, 2 ES, 1 IT, 1 SK, 2 FR, 1 PL)** the DAC recalculated **RTER above 2%** from an error rate initially reported by the concerned audit authorities below materiality. This shows weaknesses in the management verifications carried out in first instance by managing authorities to prevent and detect irregularities. It also demonstrates weaknesses in the work of a limited number of audit authorities which failed to detect all irregularities: REGIO **requested**

⁶⁷ With a view to the implementation of provisions in Article 78 Regulation 2021/1060 on conditions for enhanced proportionate (controls and audits) arrangements of Common Provision Regulation for 2021-2027, see Annex 7B.

⁶⁸ 294 ERDF/CF programmes, 15 ENI-CBC programmes and 10 IPA-CBC programmes

⁶⁹ The desk review of 100% of received annual control reports and audit opinions takes also into account the cumulative knowledge and previous audit work carried out on the audit authority and programmes concerned. It entails communication with the programme audit authorities to clarify information from the annual control reports, possibly completed by fact-finding missions. For the assurance packages received in 2022, REGIO was able to recalculate the reported residual error rate for 80 programmes based on the desk review of assurance packages.

improvements for 7 audit authorities (or their control bodies) out of the 81 audit authorities in charge of auditing ERDF/CF programmes – in charge of auditing 2.1% of ERDF/CF allocations (deficiencies identified last year for a number of audit authorities were remedied for 5 out of the 8 audit authorities, while issues were raised this year for other 4 audit authorities or control bodies).

At programme level, for the accounts accepted in 2022, REGIO confirmed a **residual total error rate below materiality for 278 programmes** (87%, including in some cases adjustments without a material impact)⁷⁰, and above materiality for **41 programmes**⁷¹. For these programmes (but in CZ and SK) the residual total error rate above 2% is the result of **REGIO's re-calculation or re-assessment at flat rate** (pending all audit information). For ten programmes, the residual total error rates are prudently re-calculated to consider draft ECA reports identifying errors with financial impact and for which the contradictory procedure is ongoing. For two programmes in FR and PL, the material recalculated residual total error rates have led REGIO to conclude on deficiencies at the level of the control body. For the remaining programmes, the recalculation is due to individual errors which do not put in question the overall reliance that REGIO can put on the work of the concerned audit authorities.

REGIO took these results into account to assess the need for adjustments to the reportable error rates for the next **accounting year 2021-2022** (assurance packages received by 1 March 2023).

For that accounting year, all but five assurance packages⁷² were received by 1 March 2023.

The most recent audit findings and audit opinions reported in these assurance packages, **adjusted when considered necessary** based on experience obtained from the results of the assessment of reported errors in the previous year(s) and with all other relevant information available to the Commission, **were the basis to decide on the need for reservations in this 2022 annual activity report.**

2021-2022 accounting year
319 programmes in total
308 accounts with expenditure
(ERDF, CF, IPA, ENI)

REGIO has carried out an assessment⁷³ (desk review) of the information in the annual control reports and checked whether the reported audit opinions are in line with all other relevant information available to the Commission. This assessment was completed at the time of signature of this annual activity report for all programmes.

⁷⁰ In addition, for 38 OPs (2 DE, 9 FR, 17 GR, 1 LT, 2 PL, 7 SE), the estimated residual total error rate is above 2% only once the advance payments to financial instruments are removed (however, the residual total error rates reported by the audit authorities or recalculated by the Commission are below 2%).

⁷¹ 1 AT, 1 BE, 2 CZ, 2 ES, 5 FR, 7 IT, 1 MT, 3 PL, 10 PT, 1 SK and 8 ETC. Moreover, there are indications that there can be additional programmes concerned (for 16 programmes, the total residual total error rate is confirmed below 2% but the maximum residual error rate calculated by the DAC, for the purpose of KPIS, is above).

⁷² 1 FR, 1 DE, 1 IT, 2 ETC

⁷³ In particular, the following aspects have been analysed, as part of the consistency checks carried out: have the Member States authorities taken appropriate preventive and corrective actions to follow-up the interruptions and warnings issued by the Commission; that audit conclusions reported by the audit authorities are in line with the national system audit reports transmitted to the Commission during the period, and with the results of the Commission's own on-the-spot audit work; and that, in case REGIO does not rely on the audit work performed by the audit authority, there is an analysis of the risk for the expenditure certified.

Following its assessment, REGIO concludes as of mid-April 2023 that **308 accounts with expenditure can be accepted**⁷⁴. The Commission expects to formally accept these accounts by 31 May 2023, in line with the regulatory deadline.

Regarding the residual total error rates reported in the latest assurance packages received by 1 March 2023 (either as reported by the audit authority or adjusted by the DAC auditors and therefore considered as 'reportable' for this AAR), REGIO notes that for 101 programmes the audit authorities reported a total error rate (a measurement of the effectiveness of management and control systems) above 2%, however the concerned programme authorities applied sufficient financial corrections in the reported accounts in 70 cases to bring the residual risk below or equal to 2%. **For the remaining 31 programmes**, the accounts submitted by 1 March 2023 **are still affected by material residual total error rates** and REGIO will apply additional financial corrections, as necessary, upon finalisation of the assessment and resulting contradictory procedure. These programmes are put under reservation as the relevant expenditure in the reporting year is materially affected (see Annex 9), in line with the materiality criteria foreseen in Annex 5.

Spain – double funding detected by an audit authority

The control body of Andalucía identified that additional staff hired to reinforce the regional health system against the COVID-pandemic was co-financed at the same time by ESF (via SCOs) and by ERDF (real costs). The irregular expenditure has been quantified for ESF for a total of EUR 30 million with a resulting total error rate above 7%. The necessary financial corrections have been implemented in the accounts and the system was reinforced to exclude double funding in the future.

Romania – unjustified use of negotiated procedures

In a Romanian programme with expenditure funded by REACT-EU, the contracting authorities excessively used negotiated procedures without launching parallel transparent procedures and without justifying in each case the need for this exceptional procedure. The managing authority did not identify this incorrect practice through its management verifications, nor did they correct it. This practice is contrary to the Public Procurement Directives, the ECJ Jurisprudence and the Commission Guidance on using the public procurement framework in the emergency situation related to the COVID-19 crisis.

In 2022, the Commission requested audit authorities to pay particular attention to new risks related to the multiplication of Funds (and additional funding under NGEU), in particular the risk of funding of the same expenditure twice from different funding source so-called **'double funding'**, in particular with the RRF⁷⁵, **conflict of interest, fraud or corruption**. Moreover, audit authorities and the Commission audits continued to be particularly attention to the **risks linked to the flexibilities introduced with the CRII/CRII+ amendments** as well as **to the unjustified use of emergency public procurement procedures**. This risk materialised in some cases. REGIO paid attention in its desk assessment of annual control reports whether such risks were audited, identified and whether appropriate corrective measures were taken.

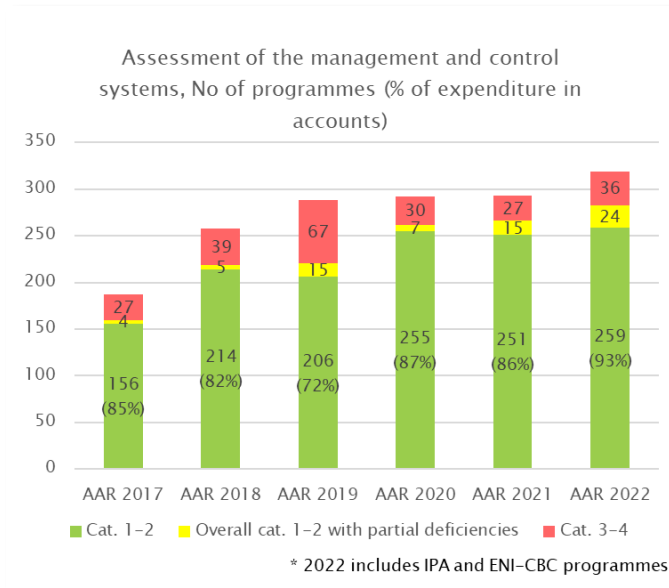
Based on its assessment of all national and audit results received and analysed by REGIO at the date of this report, including audit opinions provided by audit authorities in the latest annual control reports, as per the results of their system audits and audits on operations, and taking account of its own audit results

⁷⁴ Acceptance of the accounts is independent from the review of the legality and regularity of expenditure, followed up separately, in line with Article 139(5) CPR.

⁷⁵ To address these risks more effectively and to enhance the assurance, REGIO/EMPL and ECFIN agreed on concrete actions to enhance the cooperation between their respective audit services (e.g. systematic exchange of audit reports and of any information on serious risks identified, coordination (to the extent possible) of on-the-spot audits, sharing of the DAC assessment of national management and control systems for common bodies etc. which will contribute to their respective risk assessments and preparation of audit plans). These actions have been formalised in a Memorandum of Understanding signed between the services in April 2023.

and further EU audit results, REGIO can conclude by mid-April 2023 that **management and control systems**:

- **function well or sufficiently well for 259 ERDF/CF programmes** (88%), covering 93% of expenditure under assessment⁷⁶ (in addition, 14 ENI-CBC and 10 IPA-CBC also function adequately). This provides assurance that the underlying transactions and expenditure declared in these accounts, as well as expenditure further declared by these programmes in 2022 under the on-going accounting year 2022-2023, are not affected by a risk of material level of irregularities.



- **present serious deficiencies for 35 and 1 ENI-CBC programmes**⁷⁷, representing 7% of expenditure certified in the 2021-2022 accounts. For these programmes, the management and control system works only partially and substantial improvements are needed.

In line with the materiality criteria, **REGIO issues reservations in the annual activity report** for all programmes or part of

programmes for which the management and control system is assessed as not functioning sufficiently well (assessed in category 3 or 4), and with a risk for the EU budget estimated above the 10% payment retention⁷⁸. In 2022, **56 programmes**⁷⁹ from the 2014-2020 period are in reservation⁸⁰. The reasons for reservations (which might be cumulative) are: significant deficiencies in the functioning of the management and control system (17 containing two cases of possible suspicions of fraud or corruption) or in part of the system (14 cases). In addition, programmes with residual rate above the materiality level of 2% (12 cases⁸¹) deficiencies in the functioning of the management and control systems combined with residual rate above the materiality level of 2% (13 cases).

⁷⁶ This includes 20 programmes with only partial deficiencies, as shown on the graph.

⁷⁷ 1 AT, 1 BG, 1 CZ, 1 DE, 8 ES, 8 FR, 1 HU, 3 IT, 1 PL, 8 ETC, 1 UK.

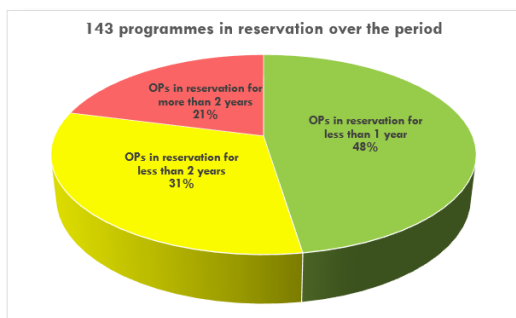
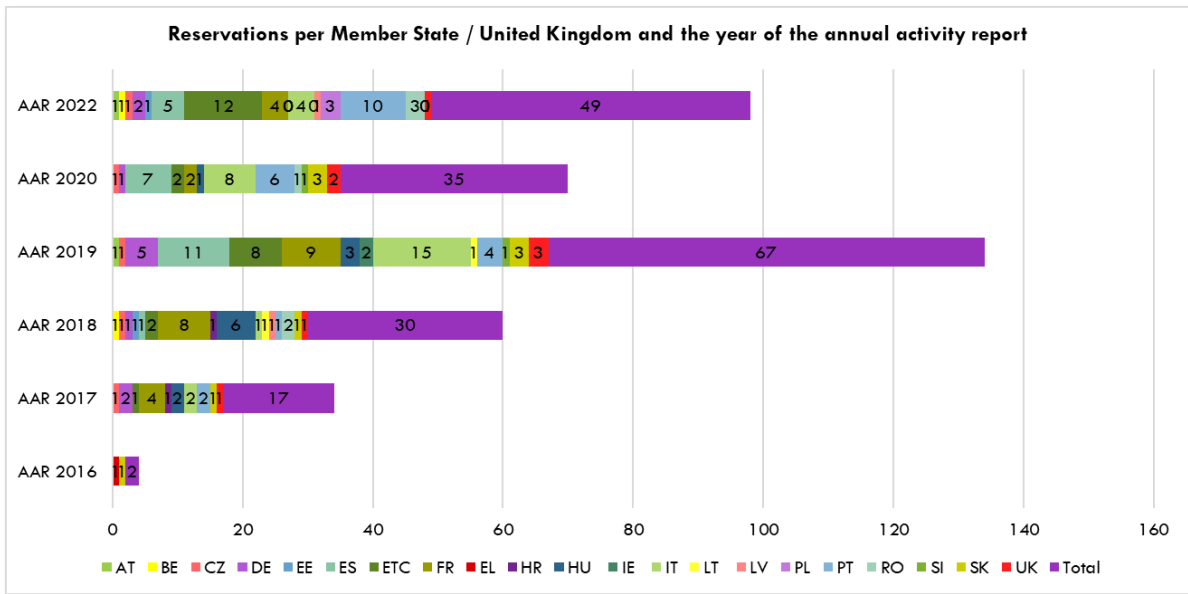
⁷⁸ Criteria for reservations and the definition of categories 3 and 4 are explained in Annex 5.

REGIO applied an exception in 2022 for one ETC programme (EL/IT) where the recalculated error rate was slightly above 10% due to a scope limitation for an operation fully withdrawn by the managing authority. As no further irregularity materially affected the programme, REGIO considered that this individual withdrawn operation was not an indication of a serious deficiency in the programme.

⁷⁹ Of which 11 ETC programmes and one ENI-CBC.

⁸⁰ See Annex 9.

⁸¹ Including for 10 programmes in PT covered under a single sample for which REGIO prudently re-assessed the RTER at flat rate to 2.5%, based on the previous years' audit results that could continue to impact the last reported audit results.



Reservations are only lifted once programme authorities have taken sufficient corrective measures. The fact that **78% of REGIO reservations are lifted in less than two years** shows the effectiveness of corrective measures put in place.

REGIO also **systematically transmits suspicions of fraud to OLAF**, and applies

financial corrections (9 cases in 2022) based on OLAF final case reports received, following a contradictory procedure with the authorities and beneficiaries concerned (see section b) Fraud prevention, detection, and correction below).

To conclude, REGIO has the tools to analyse the individual situation of each programme and to report in the AAR the specific, individual weaknesses identified (see Annex 7B for the situation of all programmes, 7C for a list of programmes with identified serious deficiencies and 7D for a list of audit authorities with serious improvements needed).

The multi-annual corrective capacity to bring the risk at closure < 2%

Programme authorities withdraw important amounts from the programme accounts, each year, when they detect irregularities or when doubts arise concerning expenditure previously declared during the year: **EUR 2.4 billion of EU contribution** in the accounts received by 1 March 2023 (corresponding to EUR 3 billion of total expenditure⁸² deducted). Some of these deductions concern prudent, temporary withdrawals pending

⁸² In total expenditure declared (including public –European and national- and private contributions).

further verifications on the legality and regularity of the concerned expenditure⁸³. Part of these temporary withdrawals may be re-declared (and subject to audits by audit authorities) once the respective managing authorities have ascertained the regularity of the concerned expenditure⁸⁴; otherwise, the withdrawn expenditure becomes a definitive correction⁸⁵. These definitive implemented corrections were the result of management verifications, audits by audit authorities (EUR 330 million of EU contribution) or follow-up to accepted findings from Commission and ECA audits or OLAF investigations⁸⁶.

This considerable corrective capacity of Member States reflects the impact of the legal provision on possible net financial corrections if Member States do not detect, report and correct serious irregularities in first instance. Therefore, despite the strict criteria foreseen in the legal framework for the Commission to implement net financial corrections leading to the absence of such Commission decision so far, **the mere existence of this legal provision has in practice increased the corrective action by Member States**, thus reducing the need for the Commission to step in, for ex. through formal Commission decision for financial corrections.

Spain - EIF reinforced its supervision over financial institutions and loans

Following an audit of the European Court of Auditors to the Operational Programme SME Initiative in Spain and its follow-up by DAC, the European Investment Fund (EIF) implemented an action plan to review retroactively their portfolio of investments. The outcome of this review was the exclusion from ERDF support by the programme authorities of an irregular amount of EUR 1.5 billion. Following the reported system deficiencies, EIF has reinforced its supervision and the financial intermediaries (banks) systematically checked the SME status of all mandates to ensure their eligibility. The DAC has carried out a follow-up to assess these improvements.

In addition, the programme authorities have withdrawn additional EUR 13,8 million of management fees as consequence of the reduction made to the portfolio due to the ineligible transactions identified in the Action Plan. Since the programme submitted their closure proposal, this reduction in management fees is a definitive net reduction.

In addition to the Member States' corrective capacity, if it detects system deficiencies at the level of managing or audit authorities throughout the year, or confirms an error rate above 10% for a programme, **REGIO uses the regulatory tools** at its disposal to **stop payments** (interruptions, suspensions, see details in Annex 7G). REGIO also requests **remedial actions from the concerned programmes to improve the functioning of the**

management and control systems and concerned authorities with a view to prevent irregularities from recurring⁸⁷. REGIO does not resume payments until it has audit evidence that the systems were improved and/or appropriate financial corrections applied.

REGIO has in place an effective mechanism for correcting additional errors when Member States failed to do so (or not sufficiently) in first instance. Since the beginning of the

⁸³ Estimated by REGIO at 50% of these total amounts withdrawn on average for cohesion policy; REGIO can only establish an estimate since the regulatory basis does not require Member States to provide separate figures in the accounts, apart for definitive corrections stemming from audits.

⁸⁴ In 2022 REGIO requested audit authorities to provide an audited reconciliation, in view of and by closure, of all amounts cumulatively withdrawn since the start of the period.

⁸⁵ As a follow-up to an ECA recommendation in their 2020 Annual Report, REGIO has requested information from audit authorities how much of these temporary withdrawals were re-declared as eligible expenditure in the accounts submitted by programme authorities. This information is therefore being assessed by REGIO for each programme as part of the assurance package assessment. A complete picture will be presented at closure.

⁸⁶ EUR 121 million of EU contribution.

⁸⁷ This includes the follow-up to agreed ECA findings on individual operations, which may point to the need for system improvements for the audited programmes. See in particular ECA recommendations in their 2021 and previous Annual Reports, which are systematically followed up (page 57 below).

programming period, **REGIO's corrective capacity amounts in total to EUR 467 million of additional corrections** (EU contributions)⁸⁸.

And as a last step of the assurance process, where REGIO re-calculated a residual total error rate above 2% for a programme, it **required additional financial corrections** to the Member States to bring the programme's residual risk below 2%, following due contradictory procedures to respect the right of defence. REGIO estimates that, for the accounting year 2021-2022 under review, once the required additional financial corrections will have been applied, the **'risk at closure'** will come **down to 1.3%**, well below materiality⁸⁹. For previous AARs, this led to **additional corrections of EUR 247.9 million cumulatively** (in EU contribution) since the start of the programming period (see table with applied corrections for each accounting year in Annex 7H). REGIO can thus report that, following corrective measures taken and additional financial corrections effectively accepted / implemented following previous annual activity reports, **the risk at closure for all previous accounting years is now effectively below 2%** based on evidence, as estimated in previous years' annual activity reports. **This confirms the effectiveness of the Commission's multiannual corrective capacity mechanism.**

See Annex 7G for further details on the number of payments interrupted, warning letters sent, suspension procedures opened and Annex 7H for the financial corrections in 2022.

Actions undertaken in 2022 to improve the programme authorities' administrative capacity and effectiveness of management and control systems

REGIO undertakes each year several actions to improve the effectiveness of management and control systems in reducing the error rate (see more details and examples of the actions undertaken in 2022 in Annex 7E):

- **Supporting the managing and the audit authorities to improve their administrative capacities** through guidance, targeted support, continuous training and professional development, transnational networks to simplify procedures and to avoid gold-plating.

Sharing audit know-how: The DAC shared and discussed with audit authorities and managing authorities their audit findings. Programme authorities can thus benefit of the experience and improve their understanding, detection capacity and audit and control work in various areas.

In 2022, the Commission also adopted Delegated act 2023/67 for off-the-shelf sampling, to provide further legal certainty in the use of statistical methods, and discussed with the audit authorities the updated audit methodologies related to the assessment of management and control systems, accounts, annual control report and audit opinion. These tools will help audit authorities in their work for the 2021-2027 period, and will provide a harmonised methodology for audit opinions allowing comparing and using reported audit results. The audit methodologies are also shared with managing authorities who can thus usefully have clarity on how auditors will assess their work, for example the effectiveness of management and control systems.

Errors and irregularities should be detected and corrected by managing authorities in the first instance. When it is identified that managing authorities missed errors, REGIO requires targeted remedial actions to improve the concerned authorities' quality and quantity of verifications carried out before declaring expenditure.

Audit authorities are a second control layer and verify whether managing authorities worked effectively to prevent errors. When REGIO identifies that individual audit authorities do not appropriately, exhaustively, or timely detect errors, it provides them targeted and

⁸⁸ Financial corrections accepted by the Member States in the year, as a result of DG EMPL audits, follow up to ECA audit findings and to OLAF investigations; details are available in annex 7H.

⁸⁹ The amount at risk at closure in the 2022 AAR is calculated by applying the estimated risk at closure to the 2022 relevant expenditure.

technical support to ensure that these audit authorities improve their detection capacity and work up to expected standards. REGIO requires that the concerned audit authorities apply targeted actions to improve their audit methodology and capacities.

- **Promotion of less error-prone SCO and FNLC** by providing assistance and support to programme authorities to prepare and assess the planned SCOs and FNLCs for 2021-2027 programmes as well as to understand the requirements in terms of control (see page 28 for further details on SCO and FNLC).
- Provision to Member States, free of charge, of the **data mining tool Arachne** to increase capacities to detect irregularities, fraud suspicions or possible conflicts of interest. REGIO and EMPL promoted further the use of the tool in 2022 to reluctant Member States, achieving some progress in SE and DE for example, and developed further some functionalities of the tool, for example to help managing authorities carry out ex ante verifications before granting funds or benefit from a new indicator on fund concentration under beneficial owners of recipients of EU funds (including their contractors).

Tackling the non-detection of errors by some audit authorities

When DAC identifies errors not detected by an audit authority, it carries out an assessment to verify if the non-detection is punctual or due to a more systemic issue (lack of appropriate checks, gap in the audit approach or wrong interpretation of the applicable rules). Recommendations to strengthen or correct their approach are addressed to the audit authority and dedicated work sessions are organised, as needed.

For example, non-detected errors in the areas of public procurement (cartel in AT), State aid (SK), retrospective projects (IT), conflicts of interests (PL) were reported in 2022 and are under contradictory procedure or led to implementation of corrective measures, including additional financial corrections.

- **Continuous monitoring and analysis of the root causes of errors** that remained non-detected by managing and/or audit authorities, with the results feeding the annual risk assessment for selecting programmes in view of subsequent risk-based audits. REGIO also **encourages audit authorities to report back and discuss with managing authorities the errors that they missed** in order to improve their preventive and detective capacity, e.g. by putting in place further guidance or targeted trainings for the concerned desk officers.

More details on the most common irregularities reported in 2022 by audit authorities (i.e., not detected by managing authorities) and by REGIO (i.e. additional errors not detected by both audit and managing authorities) are presented in Annex 7I, in accordance with the common typology of errors agreed and shared between the Commission and the Member States.

Shared management 2021-2027: assurance building process

The assurance building process for 2021-2027 is based on the 2014-2020 one as described in Annex 6 and 7A (main changes relate to the level of retention by the Commission on interim payment claims during the accounting year, set at 5% in the regulation instead of 10% in the previous CPR and on the inadmissibility of accounts with residual error rates above 2%).

One simplification in the 2021-2027 is the carry-over of well-functioning management and control systems, thus ensuring a seamless transition between programming periods (with authorities and well-established procedures already in place). In the case where systems needed to be adjusted, audit authorities are required to carry out preventive system audits within 21 months of adoption of the programme, to confirm the effective set-up and functioning of the new system. REGIO has also planned in its audit strategy to carry out a

number of early preventive system audits, to obtain direct re-assurance, in full coordination with audit authorities.

Overall, during the accounting year 2021-2022 and in the second semester of 2022 **Member States did not declare expenditure to the Commission that did not make interim payments** to the 2021-2027 programmes⁹⁰.

A specific feature of the 2021-2027 period is the need for Member States to **comply with thematic and horizontal enabling conditions** (for more information see part 1 of this AAR, section General objective 3). The possibility to reimburse expenditure to the Member States in each specific area is conditioned to the continued compliance with enabling conditions.

For adopted ERDF, CF and ESF+ programmes, around 2/3 of the applicable **thematic enabling conditions** were assessed met. The allocation that cannot be reimbursed due to remaining unfulfilled enabling conditions account for around 22% of the allocation for Jobs and Growth.

Until it assesses the horizontal enabling condition related to compliance with the Charter of Fundamental rights as fulfilled, the Commission would not be able to process interim payments for **Polish and Hungarian programmes** (with the exception of technical assistance or operations contributing to the fulfilment of the enabling conditions), should either Member State decide to declare expenditure (see details in part 1, pages 25-26).

Moreover, for **Hungary**, the verification of compliance of the 2021-2027 cohesion policy programmes with the policy objectives (including the implementation of the horizontal enabling conditions) and the design of a solid management and control system for cohesion policy expenditure ran in parallel to the processes under the **General regime of conditionality mechanism** (under which the Council in December 2022 found that certain remedial measures proposed by Hungary had not been fully or correctly implemented⁹¹) and the approval of the Resilience and Recovery Plan (RRP). Most of the remedial measures proposed by Hungary under the general regime of conditionality have an overarching scope and go beyond the legal remedies under the sectorial regulations. There are however key synergies between the sectorial regulations, the general regime of conditionality and the Recovery and Resiliency Facility. The measures taken under these regulatory frameworks are complementary and aim, among other things, to strengthen further control mechanisms, notably on public procurement (to increase transparency and competition), and to enhance the prevention, detection and correction of fraud and conflict of interest. One of the measures taken under the general regime of conditionality, in particular, aims at improving further the independence of the joint audit authority for cohesion policy and the RRP through its operational and financial autonomy. It is expected that the actions under

⁹⁰ Apart from the regulatory advances paid at the adoption of programmes that are, by definition, free of risk.

⁹¹ The Council found that the remedial measures adopted by Hungary present significant weaknesses that seriously compromise their adequacy to address the identified breaches of the principles of the rule of law and as a result there remained a high risk for the Union budget. On this basis the Council suspended 55% of the budgetary commitments under three ERDF/CF/JTF programmes (Environmental and Energy Efficiency OP Plus), Integrated Transport OP Plus, Territorial and Settlement Development OP Plus). The Commission could therefore adopt these programmes in December 2022 but REGIO suspended the related commitments (respectively EUR 352.1 million, EUR 305.1 million and EUR 386.8 million) until this measure is lifted. Under the general regime of conditionality, a measure can be lifted if the Commission finds that, following further remedial measures, the breaches have been brought to an end or that they do not affect or seriously risk affecting the sound financial management of the Union budget or the protection of the financial interests of the Union in a sufficiently direct way.

these three legal strands will contribute positively to sound management and to the effective functioning of management and control systems for EU cohesion policy programmes in Hungary. REGIO will continue to closely monitor the effective implementation of all relevant implementation steps and enabling conditions with the other Commission services involved.

Shared management 2007-2013: assurance building process

Closure status

99% of the 322 programmes fully closed (276) or pre-closed (44) for the uncontested part

2 programmes remain open.

Updated **residual risk rate at closure is 0.3%**

In 2022 three programmes were fully closed⁹² and one Italian programme was pre-closed triggering a payment of EUR 603 million. Only two programmes (1 HU, 1 RO) remain fully open due to on-going serious litigations. Two (IT, ETC) out of 8 pending reservations were resolved, in one case following acceptance of the required corrections by the Member State.

In 2022 REGIO paid EUR 550 million from the ERDF for 2007-2013 programmes. Additional financial corrections as a result of the Commission supervisory role were confirmed for an amount of EUR 172.3 million (see Annex 7J).

Taking into account all additional financial corrections implemented after closure and up to end 2022, REGIO is able to conclude that **the residual risk rate** applied to the expenditure certified for the whole **2007-2013 period is now 0.3%**. The list of the 2007-2013 ERDF/CF programmes with error rates/residual risk rates and closure status is presented in Annex 7J. This low updated residual risk at closure confirms the **effective implementation of the programmes multi-annual corrective capacity** and that closure acted as an additional filter to correct any remaining material level of errors.

For 6 ERDF/CF programmes in 3 Member States (2 IT, 1 HR and 3 RO), serious issues remain and therefore the Commission will not authorise the closure payment as long as the relevant level of financial correction is not accepted and implemented by the Member States (or through a Commission decision). These programmes are put in (non-financial) reservation because of the level of financial corrections still to be implemented, due to the significant deficiencies detected, that exceeds the financial retention of 5% of the overall allocation made at programme level (see Annex 9). REGIO continues to monitor the process with the concerned Member States with the objective to (pre)close these programmes as soon as possible.

Other management modes and other Funds assurance building process

The assurance building processes and the control results for ENI-CBC, EUSF, direct and indirect management are described in detail in Annexes 7K, 7L and 7M respectively.

Conclusion on the protection of the EU budget in 2022

REGIO's portfolio consists of segments with a very low error rate, i.e. programmes with reported error rates below 2%, segments with an error rate between 2% and 5% and a few segments with a relatively high error rate, i.e. programmes with reported error rates above 5%. This is, respectively, thanks to the inherent risk profile of the programmes/beneficiaries,

⁹² 1 BG, 1 CZ and 1 PT.

including the complexities of underlying transactions in such programmes, and the respective performance of the related management and control systems. For those programmes with control weaknesses, the (root) causes of the issues as well as the management actions taken to address these weaknesses are indicated in Annexes 7B, 7C and 7D.

Through recoveries and financial corrections, Member States and the Commission have in place an effective mechanism for correcting errors, see Annex 7H.

REGIO's relevant expenditure, the estimated overall risk at payment, estimated future corrections and risk at closure are set out in table "Estimated risk at payment and at closure" below.

The **estimated overall risk at payment** for 2022 expenditure amounts to **EUR 866.1 – 1,249.9 million**, representing **1.8% – 2.7%**⁹³ (maximum estimation) of the DG's total relevant expenditure for 2022. This includes all management modes and all periods and is the AOD's (Authorising Officer by Delegation) best, conservative estimate of the amount of relevant expenditure during the year not in conformity with the contractual and regulatory provisions applicable at the time the payment was made.

This expenditure will subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in subsequent years. The conservatively **estimated future corrections** for 2022 expenditure amount to **EUR 262.3 – 646.1 million**. This amount corresponds to the conservatively estimated future corrections for 2022 expenditure.

The difference between these amounts (risk at payment – estimated future corrections) results in the **overall⁹⁴ risk at closure estimated at EUR 603.8 million**, representing **1.3%** of the DG's total relevant expenditure for 2022. There is an increase of 0.2 percentage points compared to 2021 (1.1%) mainly due to an increase of the number of 2014-2020 programmes with the maximum risk at closure of 2% (105 in 2022 compared to 89 in 2021), the increase of the expenditure affected by these programmes and the increase of the average risk at closure rate.

For an overview at Commission level, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated in the AMPR.

The below table gives an **overview of the preventive and corrective measures for 2022**.

⁹³ Note that the error rate for ERDF/CF 2014-2020 (KPI 5) is 1.9%-2.7%

⁹⁴ All management modes and all periods.

(EU contributions)	Preventive Measures (mio EUR)	Corrective measures (mio EUR)
Implemented by the Member States	1,880	524
of which from Member States controls	1,880	403
- ERDF /CF 2014-2020	1,880	403
of which from EU controls ⁹⁵	0⁹⁶	121
- ERDF / CF 2014-2020	0	121
- ERDF / CF 2007-2013	0	0
Implemented by the Commission	0	120.5
of which from Member States controls	0	0
of which from EU controls	0	120.5
ERDF / CF 2007-2013 and previous programming periods	0	120.5
REGIO total	1,880.0	644.5

Based on all the above, REGIO presents in the following Table an estimation of the risk at payment and risk at closure for the expenditure managed during the reporting year:

Table: Estimated risk at payment and at closure⁹⁷ (amounts in EUR million, EU contributions)

REGIO (1)	Relevant expenditure (2) m EUR	Estimated risk (error rate %) at payment (min. – max.) (3)		Estimated future corrections and deductions (min. – max.) (4)		Estimated risk (error rate %) at closure (5)	
		m EUR	%	m EUR	%	m EUR	%
2021-2027	0.0	0.0	0.5	0.0	0.0	0.0	0.0
2014-2020	45,557.7	861.7 – 1,245.5	1.9 – 2.7	262.3 – 646.1	0.6 – 1.4	599.4	1.3
2007-2013	840.1	2.4	0.3	0.0	0.0	2.4	0.3
pre-2006	35.0	0.2	0.5	0.0	0.0	0.2	0.5
European Solidarity Fund	347.8	1.6	0.5	0.0	0.0	1.6	0.5
European Solidarity Fund	6.2	0.03	0.5	0.0	0.0	0.03	0.5
Brexit Adjustment Reserve	0.0	0.0	0.5	0.0	0.0	0.0	0.0
European Urban Initiative	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Urban Innovative Actions	81.0	0.3	0.3	0.0	0.0	0.2	0.3
PP / PA	1.8	0.01	0.5	0.0	0.0	0.01	0.5
PP / PA	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Admin. & tech. assistance	82.7	0.0	0.0	0.0	0.0	0.0	0.0
Admin. & tech. assistance	2.3	0.01	0.5	0.0	0.0	0.01	0.5
DG total	46,954.7⁹⁸	866.1 – 1,249.9	1.8 – 2.7	262.3 – 646.1	0.6 – 1.4	603.8	1.3

⁹⁵ Accepted by Member States as a result of Commission controls and audits (additional corrections to ensure a risk at closure below 2% not included), OLAF investigations or ECA audits.

⁹⁶ Expenditure not declared in first instance in payments claims by the Member States as a result of Commission supervisory role ("ex ante corrections") are not reflected in this table (for example, public procurement expenditure in Hungary to the extent of EUR 340 million preventively not declared in 2022 in payment claims to the Commission by the programme authorities as a result of DAC audits)

⁹⁷ The full detailed version of the table is provided in Annex 9.

⁹⁸ Relevant expenditure = payments made (EUR 55,222.2 m) minus pre-financing, plus cleared pre-financing, plus 10% retention, minus deductions and cleared amounts.

b) Fraud prevention, detection, and correction

Together with EMPL and MARE, REGIO is implementing a Joint Anti-Fraud Strategy (JAFS) established on the basis of a 2019 risk assessment and covering the period 2020-2025. The JAFS is fully embedded and aligned with the objectives of the Commission's 2019 over-arching Anti-fraud Strategy (CAFS). The implementation of the JAFS is being monitored and reported to the management yearly with the AAR.

During 2022, **all actions planned by the CAFS** were successfully implemented or are continuously being implemented. They included the following key anti-fraud measures:

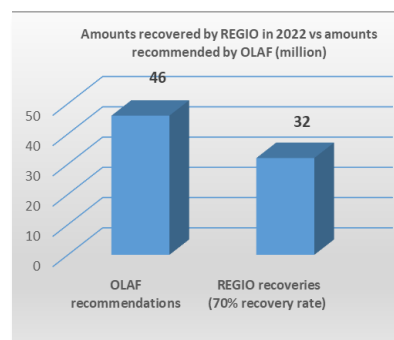
- Review and improve the ARACHNE risk scoring tool. Continue to promote its use among Member State authorities. In 2022, a new major release improving the reporting and introducing a new ex-ante calculation module was made available to the MS as of mid-June; new fields and a new indicator related to the required data on beneficial owners for beneficiaries, their contractors and recipients of financial instruments were introduced in the tool; and further promotion campaigns to Member States still reluctant to use the tool brought fruit (e.g. new pilot used in SE and increasing interest by the Federal Ministry of Finance in DE).
- Provide technical assistance to Member States through various spending programmes, including the EU Anti-Fraud Programme.
- Encourage Member States to put in place national anti-fraud strategies, provide advice and support in this respect and, where appropriate and possible, reinforce Member States' obligations for the post-2020 MFF throughout the anti-fraud cycle.
- Promote integrity pacts for safeguarding EU funds against fraud and corruption.
- Closely monitor Member States' follow-up of OLAF's financial recommendations. DAC ensures a regular follow-up of all recommendations from OLAF addressed to REGIO and EMPL, through a close monitoring of all the fraud cases for both DGs, from the opening by OLAF to the closure of the case by the DG concerned.

Regarding the JAFS, in 2022 the following key anti-fraud measures were implemented:

- The European Institute Public Administration (EIPA), organised trainings, which were provided by experts with the participation of the DAC and were followed by a total of 101 practitioners from almost all Member States.
- REGIO participated with OLAF in 10 antifraud network meetings (FPDNet), in 18 bilateral meetings targeting specific fraud cases and in 6 meetings on more general topics, allowing to enhance its knowledge basis and to increase cooperation on fraud prevention.
- The DAC in collaboration with REGIO created in 2022 a new e-learning module focusing on anti-fraud awareness raising.
- In order to support the programme authorities in strengthening their work to identify and prevent fraud and corruption affecting cohesion policy funds, the European Commission invited Member States to make systematic use in the project selection, award and implementation phases of the Commission data-mining and risk-scoring tool **ARACHNE** and in particular of its newly released ex ante module (as per Action

No2 of JAFS). The use of the tool, which remains currently voluntary, can help the programme authorities to identify, among others, possible risks of irregularities and fraud. In 2022, the number of connections and active users increased, while additional progress was obtained with Member States so far reluctant (SE, DE) following dedicated workshops organised jointly by EMPL/DAC where live presentations of the tool were provided (SE, DE, DK, NL). Finally, new fields and indicators related to the data on beneficial owners required under the 2021-2027 CPR for beneficiaries, their contractors and recipients of financial instruments were introduced in the tool. The use of such data will increase the transparent information available to programme authorities and the Commission on the use of cohesion funding and may help pro-actively to address potential conflict of interest.

REGIO ensured a regular follow-up of OLAF's financial recommendations (more details in Annex 7N). During 2022, REGIO completed the follow-up of nine OLAF final case reports with financial recommendations issued in the period 2018-2022. REGIO recovered EUR 32 million related to cases as from 2010, which corresponds to a **recovery rate of 70%** of the financial recommendations from OLAF for these cases⁹⁹.



REGIO has also ensured that Member States put in place effective and proportionate anti-fraud measures, specifically following adoption of CRIII/CRII+ and REACT-EU crisis response measures to mitigate the effects of the pandemic. Moreover, a more detailed analysis of new emerging risks will be carried out during 2023, in particular related to the start of the 2021-2027 period.

On the basis of the available information, **REGIO has reasonable assurance that the anti-fraud measures in place concerning cohesion policy are overall effective.**

In relation to the effective implementation of mitigating actions by Member States to avoid conflicts of interest, REGIO has continued to carry out targeted thematic audits in relation to programmes considered at risk.

In 2022, REGIO carried out or launched **four audits (2 RO, MT and BG)** to cover the measures taken by specific programmes or Member States to avoid **conflicts of interest**. For the programmes at risk REGIO considered that overall measures are in place to avoid conflicts of interests, subject to some recommendations for further improvements in the systems.

⁹⁹ In 4 cases, the financial recommendation could not be implemented by REGIO (100% non-recovered) and in 1 case, the recommendation was only partially implemented by REGIO (80% implemented). The reasons include: lack of substantiation and quantification of the irregularity by OLAF, absence of a legal basis to launch a financial correction procedure, the proposed flat rate correction suggested by OLAF was disproportionate, or, REGIO considered the clarifications and arguments by the national authorities provided sufficient grounds to close the follow-up without recovery. This is the reason why the amounts recovered by REGIO in 2022 were inferior to the ones recovered in 2021.

- c) Other control objectives: safeguarding of assets and information, reliability of reporting

Safeguarding of assets and information

REGIO manages a number of intangible assets (EUR 13.4 million, see Annex 3, table 4), IT applications that continued to be developed:

- **SFC**, acting as an interface between Member States and the Commission for the management of structural funds; and
- **MyWorkplace**, as the workflow system supporting all decisional, financial and audit procedures for the current programming period.

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

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

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

Reliability of reporting and accounting

After the specific audits it has carried out¹⁰⁰, REGIO draws reasonable assurance on the reliability of performance data indicators from the audit results reported by audit authorities (including on the effectiveness of systems in place to ensure the reliability of performance data, key requirement KR6) and performs also direct testing during its on-the-spot compliance audits. Since 2019, system audits on KR6 are indeed part of the audit authorities' audit plans. They also have the obligation to review the reliability of reported performance data as part of their audits of operations. Results of such audits are reported in system audit reports and in the annual control reports reviewed by REGIO. Furthermore, geographical units check the plausibility and consistency of data reported in the annual implementation reports. Deficiencies in the reliability of performance data or monitoring systems detected either by the Commission or audit authorities are closely followed up and can lead to a procedure for suspending interim payments, as provided by the legal provisions. No such procedure was launched in 2022.

The 2014-2020 Closure guidelines adopted in October 2021 and revised in December 2022 contain information about the obligations with regard to performance data reliability at closure and the related reporting expected in the audit authorities' final annual control reports. Dissemination of these guidelines within REGIO and in the Member States is conducted through webinars and trainings.

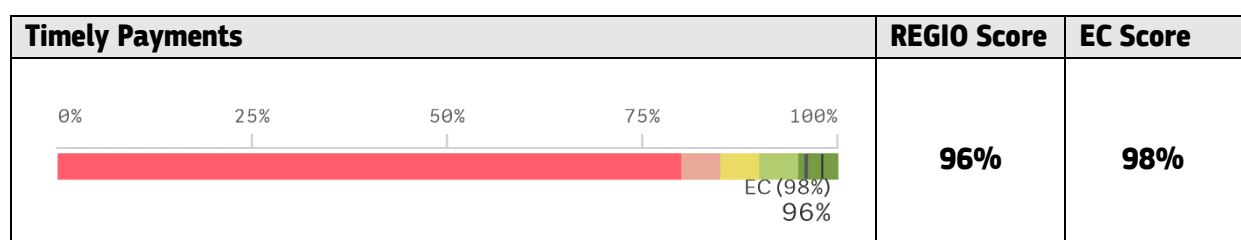
¹⁰⁰ 26 audits carried out in 14 Member States in 2017 and 2018

2. Efficiency of controls

REGIO has assessed the efficiency of its control systems. This section outlines the main indicators used to monitor the efficiency of the control systems.

REGIO manages funds under several management modes:

Management mode	Payments in 2022 (million EUR)	% of Payments
Shared management	55,020	99.6%
Indirect management	142	0.3%
Direct management	60	0.1%



The rate of timely payments is at commission average (98%) if expressed in numbers. The relatively large amount of a small number of late payments explains a lower score when weighted by amount. See Annex 4 for all control indicators.

REGIO considers its controls to be efficient, all its ten indicator results being at a (very) satisfactory level.

Please refer to section 2.2.4 for an example on initiatives to improve economy and efficiency of financial and non-financial management.

3. Economy of controls

REGIO quantifies the costs of the resources and inputs required for carrying out controls described in Annex 6 and compares them to the volume of payments registered in the reference year. See Annex 7 for more details on cost of controls.

The annual overall REGIO cost is estimated at **0.18%** (EUR 99 million)¹⁰¹ of total payments of the year, which increased by 11.5% compared to 2021 (0.16%).¹⁰² This is mostly due to the increase of staff costs, e.g. the cost of civil servants (the large majority of REGIO staff) increased by 9% since last year. The cost is also higher because the denominator (total payments) are over 2% lower than in 2021. Most staff costs included in the calculation correspond to supervisory and control activities by geographical and audit units.

The cost of control under **shared management** alone was **0.17%** (EUR 92 million).

¹⁰¹ Excludes evaluation activities

¹⁰² Costs considered: staff in geographical desks (controls in design, implementation and monitoring); staff involved in audit (assessment of management and control systems in Member States, including the Commission's ex-post audits); staff acting as service providers to geographical desks (competence centres and units responsible for financial instruments); share of staff involved in financial circuits; staff responsible for legal affairs and IT systems; the cost of IT tools (development/maintenance) supporting control activities and the costs related to outsourced audit work.

In relation to the cost of controls in Member States, a study¹⁰³ assessed the cost at Member State level for the 2014-2020 period and concluded that **2.2%**¹⁰⁴ of the total eligible costs for ERDF is spent on administrative tasks by programme authorities, compared to an overall 4% for ESIF in general: ERDF and CF have the **lowest** administrative costs for managing and controlling per million Euros of eligible funding.

The estimated annual overall REGIO costs amount to **1.5%** (EUR 2.1 million) of total payments of the year managed through **indirect management**.

The estimated annual overall REGIO costs amount to **8%** (EUR 4.8 million) of total payments of the year managed under the **direct management** mode.

4. Conclusion on the cost-effectiveness of controls

Based on the most relevant key indicators and control results, REGIO has assessed the effectiveness, efficiency and economy of its control system and reached a **positive conclusion on the cost-effectiveness of the controls** for which it is responsible.

2.1.2. Audit observations and recommendations

This section sets out the observations, opinions and conclusions reported by auditors – including the limited conclusion of the Internal Auditor on the state of internal control. Summaries of the management measures taken in response to the audit recommendations are also included, together with an assessment of the likely material impact of the findings on the achievement of the internal control objectives, and therefore on management's assurance.

1. European Court of Auditors

The **Statement of Assurance** concerning cohesion policy (REGIO and EMPL funds together) **in ECA's annual report for 2021** focused as per the Court's methodology on the audit work already performed at national level to establish the level of error in declared accounts, before the Commission could complete its own audit work described above.

For its annual report the ECA reviewed 33 assurance packages for 2014-2020 programmes (31) and 2007-2013 closures (2). Audit authorities had reported 56 quantifiable errors in the sample examined in those assurance/closure packages for the 225 transactions the ECA sampled, which mainly concerned ineligible costs and infringements of internal market rules (public procurement). The ECA identified and quantified 30 additional errors that had not been detected by the audit authorities. Taking account of the errors previously found by the audit authorities and corrections already applied (total of EUR 458 million for both programming periods), **the ECA estimated the level of error to be 4.1% in 2021 for cohesion policy funds** (compared to 3.5% in 2020, 4.4% in 2019 and 5.0% in 2018).

¹⁰³ From 2018: https://ec.europa.eu/regional_policy/en/information/publications/studies/2018/new-assessment-of-esif-administrative-costs-and-burden. A new study will be tendered out with first results in 2024 or 2025.

¹⁰⁴ EUR 22,600 per EUR 1,000,000 of eligible funding

The Commission notes that more than one third of the ECA error rate estimate refers to just one national programme supported by the European Social Funds and reflects an implementation issue specific to one Member State. In addition, the Commission underlined in its replies to the ECA's report that in the case of two ERDF transactions from one 2007-2013 programme, the ECA identified issues for which, however, the Commission considered that there is no legal basis that would allow imposing financial corrections. REGIO considered that the error rate reported in its 2021 AAR (1.9% with a maximum rate of 2.5%), resulting from a detailed analysis of the situation of each programme, reflects a fair estimate of the level of risk. It also noted that the maximum value of the error rate for cohesion policy as reported in the AMPR (2.5%) falls within the ECA error range estimate for the third year in a row.

REGIO systematically follows up the accepted recommendations issued by the ECA in its Annual Reports and ensures for all cases that corrective measures take place, including financial corrections where legally possible, or that appropriate remedial action plans are implemented in the concerned systems to prevent errors in the future. In its 2021 Annual report, the ECA assessed that the recommendations issued in previous years whose implementation date was due, have been implemented, either fully or in most/some respects. Regarding the five recommendations issued in the 2021 Annual report for cohesion policy, the Commission accepted all of them except one related to the request to provide information in the AARs on ongoing rule of law procedures against Member States. REGIO has taken different follow-up actions, in particular, to address system issues with respect to reimbursing beneficiaries when SCO schemes are applied to determine the EU contribution (ECA recommendation on Ireland), so that the reimbursement between all stakeholders are based on the same methodology. More generally, (ECA recommendation on audit sampling), during its 2022 Annual Coordination Meetings with audit authorities the Commission discussed the sampling methods and audit trail requirements they have to respect. During the Technical meeting held in December 2022 as well as during the closure workshop at the 2022 Homologues Meeting, it also requested audit authorities to provide more information, in the annual control reports until closure, on the follow-up given by programme authorities in the accounts on amounts under ongoing assessment (article 137 paragraph 2 of CPR), in line with the related recommendation issued by the ECA in its 2020 Annual report.

The ECA's assessment of the work of audit authorities: In 2021, the ECA assessed the work of 23 out of the total number of 116 audit authorities for cohesion, in 19 Member States and the UK.

The additional errors the ECA detected in its sample of transactions already examined by the audit authorities led them to conclude that the residual rate for 12 of the 31 assurance packages for the 2014-2020 period (corresponding to 39% of the expenditure sampled) was actually recalculated above 2%, although it was reported to be below. The ECA notes that the Commission had already adjusted and reported in its AARs a residual error rate above 2% for 9 of these 12 assurance packages. The ECA concluded that, taking into account both Commission's adjustments and their own findings, controls currently in place do not sufficiently offset the high inherent risk of error in this area, in particular regarding the management verifications. The ECA however identified and reported an example of good practice of cooperation between managing and audit authorities aiming at improving the quality of checks and consequently reducing the number of residual errors when the expenditure is declared to the Commission.

The Commission noted in its replies that most of the irregularities identified by audit authorities and the Commission concern the same main categories, as those identified by the ECA. This shows that audit authorities appropriately detect the different types of irregularities contributing to the error rate, in particular in the field of public procurement, but not in all cases, due to complex projects and rules. The Commission also considered that through its cumulative audit results it has reasonable assurance on the work of most audit authorities, except for a limited number as reported in its AARs. Concrete improvements were achieved in the last years based on targeted remedial actions recommended to address identified weaknesses. The Commission also agreed with the ECA that management verifications, the first line of defence against errors, should be more effective in preventing and detecting errors in the first instance. This is why it continues to provide support to those authorities to improve their administrative capacities.

See Annex 7O for further details on the ECA's annual report for 2021 and the results of **other ECA's audits and reports published in 2022** involving cohesion policy and its funding, including the Commission's replies and actions agreed to follow up to ECA's recommendations.

2. Internal Audit Service (IAS)

In its contribution to the 2022 REGIO AAR, the IAS concludes that **the internal control systems in place for the audited processes are effective, except for the observations giving rise to the very important recommendations** as specified in Annex 7P. They will be addressed in line with the agreed action plans.

In 2022, one audit on the "Limited review on the reporting of the Commission's preventive and corrective measures" was concluded. The IAS acknowledged the ongoing efforts of BUDG, REGIO and EMPL to improve the quality and clarity of the reporting on the corrections implemented by the Member States in the cohesion area. Nevertheless, the IAS concluded that, while the corporate instructions for the reporting on the preventive and corrective measures are overall well designed and effectively implemented by the sampled Directorates-General/Services, there remain very important weaknesses on the internal controls in place to ensure that simple, clear, and reliable information is reported in the respective AARs, and in the Commission's AMPR. These concern the availability of quantitative data and qualitative information to effectively substantiate the Commission's overall corrective capacity and the clarity and consistency of the reporting on corrections in the AARs and AMPR. In this regard, REGIO and EMPL accepted all IAS recommendations to provide in their AARs the data on preventive and corrective measures implemented by the Member States and to clearly explain the purpose and content of the table on 'multi-annual corrective capacity' and present the financial corrections related to the EU share of public funding. Following these recommendations, the present AAR reports on the preventive and corrective measures implemented by Member States (notably in Annex 7H) and presents a multi-annual overview of the financial corrections accepted and/or implemented by Member States (see part 2.1.1., section 1, 'Conclusion on the protection of the EU budget in 2022' and Annex 7H). Additionally, this annex further explains the purpose and content of the 'multi-annual corrective capacity table and presents the financial corrections.

Implementation of recommendations stemming from the Audit on interruptions, suspensions, and financial corrections for ESIF 2014-2020 by DGs REGIO, EMPL and MARE continued throughout 2022. In this audit, the IAS concluded that there are significant

weaknesses, which impact the effective implementation of the DGs' processes for interruptions¹⁰⁵, suspensions and net financial corrections not yet applied in the areas of both preventive and corrective measures. The IAS acknowledged that the DGs are operating under the constraints of a very challenging legal framework for net financial corrections, where the conditions for their application are stricter than the Commission's original proposal. Consequently, the audit findings need to be seen in this context. In response to the findings, REGIO (and EMPL) has already updated an explanatory note on the use and impact of the 10% threshold to interrupt payments, its link with the acceptance of accounts exercise and with the subsequent potential financial correction procedure. In relation to the 2021-2027 period the change in approach (95% reimbursement) will be also clearly explained in the internal guidelines and an analysis of the resulting impact is provided in this AAR. The effectiveness of warning letters and the underlying procedures was already assessed as well in a dedicated internal note. Finally, the AAR now provides an analysis of the impact of the provisions on net financial corrections on REGIO's corrective capacity. The financial corrections manual was updated.

In addition, there are two ongoing IAS audits that started in 2022 and will be finalised in 2023:

1. Preparedness for closing the 2014-2020 funds in DGs REGIO, EMPL and MARE: covering the DG's preparedness for the closure of the 2014-2020 period, including the design of the internal control system put in place for this purpose.
2. Joint Audit Directorate for Cohesion (DAC) set up and the effectiveness of its operations: addressing the DAC organisational setup, including mandate, governance structure, working arrangements for administrative processes and cooperation and coordination mechanisms with both DGs and central services. It also covers the DAC operational arrangement, including adaption and harmonisation of the key workflows transferred to the DAC remit, access rights to the IT tools and staff knowledge management processes.

REGIO considers that, in view of the actions already in place for risk mitigation, the residual risk related to the above-mentioned very important recommendations by IAS **does not affect in a material way the achievement of the internal control objectives, and therefore the assurance provided in this AAR.**

2.1.3. Assessment of the effectiveness of internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement.

REGIO uses the organisational structure and the internal control systems suited to achieving its policy and internal control objectives in accordance with the internal control principles and has due regard to the risks associated with the environment in which it operates.

¹⁰⁵ Namely that the management decision not to interrupt payments when the risk is covered by the 10% payment retention should be better explained, and warning letters for corrective measures should contain deadlines for the Member States to take the required actions

REGIO's core tool is an annual assessment of the effectiveness of its internal control system. Business owners continuously oversee the effectiveness of the systems; and determine if they work as intended and ensuring that control weaknesses are detected, analysed and considered for improvement.

In addition, management performs specific assessments to ascertain whether the internal control systems and their components are present and functioning. The purpose of these is to provide reasonable assurance that the internal control principles adopted by the Commission are implemented and functioning in the DG, that the assessment findings are evaluated and that any deficiencies are communicated and corrected in a timely manner, with serious matters reported as appropriate.

The self-assessment, on the basis of the data provided by the internal control lead units was carried out by taking the following into consideration:

- The annual AOSD management declarations;
- A register of reported non-compliance events and requested exceptions;
- The results of IAS audits and the follow-up of their recommendations;
- The results of ECA audits and the follow-up recommendations (Annex 70).

The DG has followed the methodology established in the "Implementation Guide of the Internal Control Framework of the Commission".

REGIO has assessed its internal control system during the reporting year and has concluded that **it is effective, and the components and principles are present and functioning well overall, but some improvements are needed as deficiencies were identified related to control Principles 1 and 10**, notably as regards ethics and anti-fraud awareness, which require better internal communication and implementation of financial corrections.

Control environment (Principle 1): The weaknesses detected on the indicators on ethics and anti-fraud training require improvements such as making them available online again after a broken link was detected in 2022 and maintaining communication actions; and for ethics to remind newcomers from outside the Commission to follow the e-learning. Reporting officers will be asked to check this as part of the dialogue and the final probation report.

Control activities (Principle 10): all control activities are in place and performed to achieve the objective of a maximum risk at payment of 2%. However, while REGIO does its best, there is still a back log in implementing financial corrections to bring the RTER below 2% for the last three accounting years (2017-2019 to 2019-2020).

The remedial measures envisaged are the close monitoring of the procedures to ensure that all necessary financial corrections are implemented, as well as intensified communication actions.

In light of the programmes under reservation, the risk analysis, the IAS and ECA recommendations and deficiencies highlighted, it can be concluded that, in view of the actions already in place for risk mitigation and considering the complexity of the regulation

and the role played by the Member States, that the residual risk related to the above-mentioned recommendations **does not affect in a material way the achievement of the internal control objectives and the assurance provided in this AAR.**

2.1.4. Conclusions on the assurance

This section reviews the assessment of the elements in sections 2.1.1, 2.1.2 and 2.1.3 reported above and the relevant conclusions in these sections. It draws an overall conclusion to support the declaration of assurance and whether it should be qualified with reservations.

For **shared management**, the risk "at payment" is calculated by applying the residual total error rate of the previous accounting year (2020-2021 in this AAR) as confirmed by the Commission once the control cycle was completed (KPI 5)¹⁰⁶, to the "relevant expenditure" of the Commission reporting year.¹⁰⁷

The risk "at closure" indicates the remaining risk to the 2022 relevant expenditure once the Commission will have applied the necessary additional financial corrections to bring the total residual error rates for all programmes down to 2%. By using the confirmed residual total error rate for accounting year 2020-2021 by programme as detailed in Annex 7B, REGIO identified for which programmes additional financial correction are required upon finalisation of the ongoing audit contradictory procedures.

For the **2014-2020** period for shared management, the estimated risk at payment linked to the 2022 relevant expenditure is calculated at **1.9% - 2.7%**¹⁰⁸ taking into account the financial corrections already made and taking a prudent approach for the maximum risk due to possible additional risks undetected¹⁰⁹.

For 2014-2020 REGIO concludes that it has reasonable assurance as regards legality and regularity of transactions in the 2022 reporting year except for **56 programmes** due to the deficiencies detected affecting all or part of these programmes. Their quantification is calculated at EUR **213.3 million**.

For the **2007-2013** period, the **estimated average risk** linked to the 2022 relevant expenditure is calculated at **0.3%**¹¹⁰. As the 2007-2013 period is at the stage of closure, final payments are only processed when the Commission considers that all the necessary financial corrections have been made and that the residual risk is below the materiality threshold of 2%, meaning that no additional future corrections should be estimated. Therefore, the estimated amount at risk at payment is based on the estimated residual risk after financial corrections. As a result, for 2007-2013, REGIO concludes that it has reasonable assurance as regards legality and regularity of transactions except for

¹⁰⁶ After neutralising the impact of the advances paid into financial instruments and included in the sample of audit authorities based on declared expenditure (in line with Article 127 CPR)

¹⁰⁷ Payments made during the 2022 reporting year excluding new pre-financing, including the 10% retained and the cleared pre-financing minus the retentions released and any deductions applied in the accounts 2021-2022

¹⁰⁸ = KPI 5

¹⁰⁹ There are 41 programmes with evidence or indications at this stage that point to a confirmed residual total error rate 2020-2021 above 2% and the need for additional corrections, despite all control layers applied at national level. REGIO will ensure that the required additional financial corrections are carried out, following appropriate contradictory procedures.

¹¹⁰ Weighted average residual risk at closure

6 ERDF/CF programmes, due to the level of financial corrections which still need to be applied as part of the closure process. There is **no actual financial exposure** due to these reservations **as final payments are not made until the detected issues are solved** and reservations lifted.

For the **2000-2006** period (estimated average risk is projected at 0.5%), **indirect management, direct management and the EUSF** (no material deficiencies identified affecting the 2021 paid expenditure), REGIO can conclude that it has reasonable assurance as regards legality and regularity of transactions.

There was no relevant expenditure (other than prepayments) for the **2021-2027** period. Therefore no reservations and no financial exposure were declared yet.

In conclusion, based on the elements reported above, **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 Deputy Director-General, in his capacity as acting Director General and Authorising Officer by Delegation, has signed the Declaration of Assurance albeit qualified by **two reservations**:

Reservation Title	Financial Impact ¹¹¹ (in m EUR)		Residual error rate 2022	Evolution
	2021	2022		
Reservation concerning ERDF/CF management and control systems for 56 programmes of the 2014-2020 period (13 Member States and the UK) of which 11 ETC and 1 ENI-CBC	342.9	213.3 ¹¹²	See individual programmes Annex 7B	Maintained
Reservation concerning ERDF/CF management and control systems for 6 programmes of the 2007-2013 period , in 3 Member States.	0.0	0.0 ¹¹³	See individual programmes Annex 7J	Maintained

¹¹¹ Calculated on the basis of relevant expenditure

¹¹² Partial financial reservations are calculated with the following rates applied to the error rate and relevant expenditure: 2014AT16RFOP001 44%; 2014EE16M3OP001 10%; 2014HU05M2OP001 25%; 2014HU05M3OP001 25%; 2014HU16M00P001 25%; 2014HU16M1OP001 25%; 2014HU16M1OP003 25%; 2014HU16M2OP001 25%; 2014HU16M2OP002 25%; 2014IT16RFOP016 2%; 2014LV16MAOP001 10%; 2014RO16M1OP001 8%; 2014TC16RFCB002 10%; 2014TC16RFCB003 26%; 2014TC16RFCB004 40%; 2014TC16RFCB010 20%; 2014TC16RFCB024 40%; 2014TC16RFCB052 40%; 2014TC16RFCB054 40%

¹¹³ Only non-financial reservations since, for the concerned programmes, no closure payment was made in 2022 and cannot be made as long as all pending issues are not solved.

2.1.5. Declaration of Assurance and reservations

Declaration of Assurance

I, the undersigned,

Acting Director-General of the Directorate General for Regional and Urban Policy

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view¹¹⁴.

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 work of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

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

However the following reservations should be noted (more details are provided in Annex 9):

- a reservation concerning ERDF/CF management and control systems for 56 programmes of the 2014-2020 period (in 13 Member States and the UK) and of which 11 ETC programmes and 1 ENI-CBC;

- a reservation concerning ERDF/CF management and control systems for 6 programmes of the 2007-2013 period, in 3 Member States.

Brussels, 25 April 2023

Normunds Popens

"Signed"

¹¹⁴ True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.

2.2. Modern and efficient administration – other aspects

2.2.1. Human resource management

REGIO continuously streamlines its working methods, optimises the allocation of its workforce, and improves its efficiency by establishing measurable targets and delivering results.

Following the adoption of the new Human Resources Strategy for the Commission in April 2022, REGIO revised its **Local HR Strategy** and followed up on implementation of its actions, including adding 23 new actions to further align to the corporate Strategy. It also reflected the results of the 2021 Staff Satisfaction Survey. The Strategy ensures effective management of human resources and the capacity to deliver on the business priorities. It tackles the main issues to be addressed at DG level, such as talent management, leadership, organisation and culture, professional future of staff, supported by the revised L&D Toolkit, as well as safety, wellbeing, and health of staff.

In 2022, REGIO developed the new "**REGIO Charter for a smart, equal and inclusive workplace**". The Charter reflects the new Human Resource Strategy, the ongoing work of the Commission on equality and diversity and the new ways of working. The Charter was signed by Senior and Middle Management in June 2022.

The second REGIO Equality Mainstreaming Work Plan, adopted in May 2022, was developed, and reviewed in the Equal Opportunities Working Group. It includes internal actions ensuring equality for staff and external actions mainstreaming equality in cohesion policy. All but one of the 17 internal actions have been achieved.

The 2022 **REGIO Training Plan** was approved at the beginning of the year reflecting the needs communicated by the units and allowing for various means of formal and informal learning i.e., e-learning, communities of practice, peer learning, on-the-job learning, or knowledge sharing. During the year, around 100 training sessions took place. Newcomers were informed about mandatory trainings, i.e., ethics training, available e-learning, L&D Toolkit¹¹⁵ that provide a smoother integration in REGIO. In the absence of a corporate offer and in accordance with the Training Plan, a tailored career development programme for AD officials was developed and offered to 42 ADs between 2021 and May 2022.

REGIO regularly **monitors the use of the workforce** to ensure adequate staffing of units and to optimise the use of available job quotas to deliver on Commission and REGIO priorities as set out in the management plan. The issues such as decrease of human resources and increased need for internal redeployment, optimal use of job quotas and dependency on contract agents and in-house service providers are included in the new local HR strategy. A workforce allocation exercise is regularly carried out and reviewed by REGIO's Board of Directors and the HR Steering Committee. REGIO continued to assign significant resources to the RRF-related processes¹¹⁶ and to the NEB for which a project team of around 45 colleagues has been created.

¹¹⁵ Containing the Competency Maps, Learning Paths, Fiches métier.

¹¹⁶ Estimated at around 10-15% of REGIO's operational units' human resources.

The **mobility exercise** continued to offer new job opportunities for colleagues occupying the same post for more than five years. The objective is to allow staff to develop new skills and competences and to allow REGIO to profit from better sharing of experiences.

Internal communication plays a key role in developing a sense of purpose and European commitment among staff. In REGIO, ‘communication is everyone’s business’. REGIO has continued to provide guidance and support to all staff. The dedicated pages on the MyRegio intranet provide an easy access to corporate and REGIO news and updates, IT guidance and well-being tips. Internal communication initiatives were, among others, a Speak Up Staff Survey, REGIO on the move, BE WELL (Fit@work), Support Ukraine, Volunteering Week and European Week of Sports. Since May 2022, a new REGIO Bulletin newsletter has been circulated weekly to REGIO staff.

During 2022, preparatory work started for the DG Hub, which will replace what is currently known as the MyREGIO intranet site. The new Hub will continue to support local internal communication to complement corporate internal communication.

The “Stories from the regions” initiative, that mixes internal and external communication, continued. 13 episodes were produced in-house and published on REGIO’s intranet and shared on social networks. The series of episodes is an additional source of motivation and pride for colleagues.

Finally, REGIO maintained an active participation and contribution to Commission internal communication networks and integrated REGIO’s top news in the [MyIntracomm page](#).

2.2.2. Digital transformation and information management

1. Digital transformation

One year after the successful launch of **MyWorkplace** and **SFC2021**, a series of workflows and improvements were implemented in 2022 in coordination with several DGs sharing the co-development of these systems.

As outlined in the **IT work plan 2022**, all planned business processes and features relevant to REGIO’s contribution and implementation of the 2021–2027 period became fully operational.

MyWorkplace is constantly evolving and is close to reaching the quality and stability level that is expected by REGIO’s users. In 2023, REGIO will work closely with all involved DGs to address outstanding issues and further improve the platform.

Regarding SFC2021, on top of the necessary financial transactions, REGIO also started to work on the transition from **ABAC to SUMMA** as it will be an important milestone to ensure REGIO business continuity as of 2024.

REGIO’s workflow systems managing the 2014–2020 period, **WAVE** and **SFC2014**, continued to be subject to developments and updates. The tools were also revised in view of the preparations for programme closures.

In the framework of the **corporate IT governance**, REGIO continued, as member of the Information Technology and Cybersecurity Board (ITCB) and the Extended IT Investments team, to represent AGRI, EMPL, MARE and REFORM on behalf of the shared management family and to implement the IT modernisation plan, which is an integral part of the IT work plan.

Also, the **continuity of baseline IT services** provided to REGIO users as well as maintenance and phasing-out of **legacy systems** supporting earlier programming periods was ensured:

- IT legacy systems for managing pre-2007 closure **WFS, SysFin** and **SysCalc**, were de-commissioned by the end of 2022. REGIO defined and implemented a roadmap for the phasing out of these applications providing for alternative solutions;
- The modules of the existing legacy systems **processing direct payments** (SysFin and WFS) were already replaced by the **ABAC** workflow with the help of ARES e-signatories;
- In the context of the corporate EC collaboration strategy and the single integrated framework for collaboration initiative, the preparation of the migration from SharePoint on premises to **SharePoint online** started in 2022;
- The Infrastructure Support (IRM) continued the extended support for REGIO meeting rooms, docking stations and hardware;
- IT infrastructure services for REFORM have been fully taken over by REGIO, including software license validation cycle and the incorporation of the REFORM IT correspondent network with REGIO;
- In terms of reporting and data analytics, apart from the production and revision of close to 300 reports, progress was made on several fronts. Several artificial intelligence (AI) pilot projects were put in place; a revision of REGIO's data governance, catalogue, and assets was implemented in the framework of REGIO data strategy.

2. Sharing of information and knowledge

RegioWiki constitutes a key enabler and trusted source for strategic business processes, collaboration, and knowledge sharing. Since its opening to all Commission services in 2018, this knowledge management repository and collaboration platform counts more than 700 users in REGIO and more than 5,000 throughout the Commission. It contributes to the 2022-2024 corporate data knowledge and information rolling action plan 'To effectively exploit data, information and knowledge for better policymaking and corporate governance' and 'Improve management of **country knowledge**'. The creation of the RegioWiki Extranet in 2021 extended the possibility to consult the 2021-2027 legislation and related Questions and Answers to external stakeholders. Throughout 2022, REGIO continued to update RegioWiki with relevant legislative amendments and new Q&As.

Kohesio, the new comprehensive public platform for 2014-2020 and soon 2021-2027 cohesion policy projects and beneficiaries aiming at increasing communication, visibility, and transparency on funded projects was further updated. Project level data from all programmes under cohesion policy was acquired, standardised, and made available. The

platform covers data from all 27 Member States and is now available in all 24 EU languages. In January 2023, Kohesio contained information on 1.8 million projects and over 500,000 beneficiaries supported by the ERDF, CF, and ESF including Interreg.

3. Document management

The filing plans for the 2021-2027 period were updated to allow for automatic registration in Ares. To ensure understanding and proper implementation of e-Domec rules across REGIO, trainings and hands-on introductions were provided to colleagues all along the reporting period. REGIO kept encouraging users to create, use and store information in digital format. REGIO also continued to provide services to REFORM in line with the Memorandum of Understanding on shared services.

4. Data protection

REGIO continued implementing the Data Protection Action Plan to comply with the Data Protection Regulation¹¹⁷ taking the following steps:

- Complete the review and update of existing records in the Data Protection Management System (DPMS) ensuring full compliance with data protection principles;
- Organisation of awareness raising activities with a participation of 200 staff: introductory training on data protection, dedicated trainings for units, trainings on sensitive personal data and management of data breaches, data protection module in the newcomers course programme, and a specific training on audit for DAC staff with the participation of the European Data Protection Supervisor (EDPS);
- Advice and assistance was provided to the units, especially as regards preparation of REGIO-specific records in the DPMS and related privacy statements; handling of data breaches and data subject requests;
- Information and assistance were given to the units to comply with their obligation to consult the EDPS on the legislative processes;
- Ensure that procedures are available on REGIO Wiki, where data controllers can find general information, guidance, and updated templates.

The REGIO Data Protection Coordinator (DPC) is responsible for the implementation of data protection rules in the Cabinet, offers support and trainings to the data protection contact point of REFORM in the framework of shared services, liaises with the Commission's Data Protection Officer when needed and participates in DPC network meetings. Since 2020, REGIO has provided data protection training to over half of its staff.

¹¹⁷ (EU) 2018/1725

5. Contribution to the action plan of the DataStrategy@EC

REGIO has contributed to the action plan of the DataStrategy@EC, notably by updating the inventory of its main data assets. A new approach to the REGIO data asset inventory has been proposed, moving from an IT system based inventory to a data catalogue. The advantage is to have catalogue entries which are directly referring to data content. The approach facilitates the sharing and reuse of data as well as the designation of roles and responsibilities such as data owners and data stewards, as requested by the corporate Data Strategy@EC.

REGIO also set up a Data Governance Board in charge of coordinating data-related matters within the DG defined in the SG Data Governance and Data Policies document.

Steps have been taken regarding REGIO's use of AI. Several initiatives in form of Proof of Concepts and prototypes were put in place to demonstrate the potential of AI/Machine Learning to assist REGIO users in their work and to increase appetite for identifying concrete cases. Such examples are:

- providing accurate payment forecast models for FY2021 to FY2024;
- providing accurate spending forecasting models;
- automating the DAC Risk Assessment exercise providing risk forecasts.

2.2.3. Sound environmental management

Greener flagship conferences/events

Flagship conferences/events become more **paperless and plastic-free** to minimise their environmental impact. In line with the EU Eco-Management and Audit Scheme (**EMAS**), event organisers and partners were encouraged to use environmentally friendly materials, respecting the guidance. Paperless communication with Member States was further promoted. REGIO also encouraged EMAS to develop at corporate level a compensation scheme to offset the generated carbon emissions. Drawing on the lessons learnt during the confinement and teleworking imposed by the COVID-19 pandemic, including the unexpectedly fast acceleration of digitalisation of the ways of working and interacting, REGIO further developed the **digitalisation of its events**. This way, it was possible to save **CO₂ emissions** and ensure wider participation, profiting from a live transmission and to interact with a wider audience, often physically distant.

Missions/Transport

After a long period without missions due to travel restrictions, there was, in 2022, a clear need to reconnect with partners at national and regional level in shared management, both to reach an understanding of the situation and implementation on the ground and to carry out audits to maintain a robust assurance process. Physical presence in the Member States and contacts with the stakeholders are very important for regional policy, which should remain connected to reality on the ground. Nonetheless, REGIO targeted to replace missions, where relevant and possible, by **video-conferencing**. Taking advantage of the

move to the new premises, most of the meeting rooms in REGIO are now equipped with videoconferencing tools.

For necessary missions, the generated carbon emissions were limited as much as possible and alternatives were promoted, such as shared transport or train¹¹⁸. REGIO further promoted the use of public transport or **soft mobility** to reach events or come to work.

Resources and waste

Bottled still water is no longer served in REGIO internal meetings, favouring tap water or **water fountains**. The use of emails was further reduced by promoting **SharePoint or Wiki**. Printing was further reduced by using electronic devices at meetings. All documents are saved electronically, when possible, paper copies are not kept. Similarly, **electronic publications** are becoming the default. REGIO further aimed at shifting to exclusively electronic signatures, and also pursuing a fully paperless approach for procurement and grants procedures. In addition, REGIO further promoted the application of **Green Public Procurement principles** in tender specifications, selection, and award criteria. Exchanges with Member States are carried out in a paperless mode. **Waste sorting stations** reduce waste substantially and improve the waste sorting quality.

2.2.4. Example of economy and efficiency



Simplified cost options (SCO) are one of the most important measures to reduce administrative costs and burden. They are effective in reducing the error rate. They also facilitate access of small beneficiaries to the ESIF thanks to the simplification of the management process and allow organisations to focus more on the achievement of the objectives.

Uptake of SCO varies amongst Member States. Insufficient experience in designing SCO methodologies is one of the most frequently cited reasons for not using them.

In 2022, SCO and financing not linked to costs continued to be promoted through three network meetings held in IT, EL and LT, attended by more than 100 participants each from managing and audit authorities from all 27 Member States. In the margin of the Transnational Network (TN) in Lithuania, a multi-country SCO/FNLC workshop was also organised with the participation of 12 Member States and REGIO. 12 bilateral meetings and one SCO/FNLC workshop were held with Member States to support them in the design and submission of their SCO/FNLC schemes with the programmes. In addition, three extraordinary TN meetings discussed the studies on the development of EU-level SCOs. By end 2022, 109 SCO methodologies in 10 MS covering EUR 4.4 billion (EU & national contribution) and four FNLC schemes in AT, BG, IT, LV covering EUR 1.2 billion (EU & national contribution) were adopted as part of 2021-2027 programmes. The first meeting of the TN's Risk-based management working group took place in October. REGIO also worked with Member States on the topic of digitalisation of processes and procedures.

¹¹⁸ This action would/will facilitate offsetting the carbon footprint linked to missions; however it would require changes in the current corporate financial rules (the current mission guide only allows staff to take the train if this is cheaper than any other transport means).