



Annual Activity Report 2021

DIRECTORATE-GENERAL REGIONAL AND
URBAN POLICY

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THE DG IN BRIEF

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 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 from 2021 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 investment 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 are reinforced by REACT-EU with additional allocations for 2021 and 2022, financed under NextGenerationEU, to support crisis repair measures.

REGIO is also managing: 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**, aimed at identifying and testing new solutions through pilot projects in cities. Finally REGIO manages as well, from 2021, the third pillar of the **Just Transition Mechanism (JTM)** – the public sector loan facility, a new **Interregional Innovation Investment Instrument** and a new funding instrument the **Brexit Adjustment Reserve**, providing support to Member States, regions and sectors most affected by the withdrawal of the United Kingdom from the EU.

Since 2021, REGIO is also among the lead services implementing the **New European Bauhaus** initiative.

Regional and urban policy is implemented under different management modes:

– **Shared management** (ERDF, CF and JTF; Brexit Adjustment Reserve; EUSF; IPA-CBC; ENI-CBC): the co-legislators fix the legal framework and overall funding and determine the allocations by Member States 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 EUSF and Brexit Adjustment Reserve. Approximately 99.8% of all cohesion expenditure is channelled through this management mode.

- **Indirect management** (Urban Innovative Actions or the European Urban Initiative for 2021-2027 period);

- **Direct management** (technical assistance; third pillar of JTM, investments under InvestEU - Member State's compartment, Interregional Innovation Investment Instrument).

EXECUTIVE SUMMARY

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.

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

2021 was a particularly difficult year for Member States and their regions: the pandemic lingered and the economic situation continued to be challenging. Despite these difficulties, cohesion policy continued to deliver on its primary objective of strengthening the economic, social and territorial cohesion by reducing disparities between regions and to deliver on the Union's political priorities, especially the green and digital transition. It has demonstrated its adaptability and flexibility as one of EU's largest investment policies in crisis recovery.

The policy has over the years offered opportunities and expertise in transition, structural transformation and administrative capacity building 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. The 8th Cohesion Report provides the latest analysis on the state of Europe's regions and cities.

Funding from the ERDF, the CF and the EUSF helped to reduce the impact of the COVID-19 crisis, foster convergence and make sure no one is left behind. Exceptional flexibility was offered under the **Coronavirus Response Investment Initiatives** CRII(+), resulting in close to EUR **23 billion** mobilised to counter the crisis (of which around 17.2 billion from ERDF and CF) and provide support to healthcare, businesses and workers. The Commission also proposed a series of measures and additional funding of EUR **50.6 billion** under the **Recovery Assistance for Cohesion and the Territories of Europe initiative** (REACT-EU), financed under NextGenerationEU, helping to bridge the gap between first crisis response measures and longer term recovery. REACT-EU proved to be one of the fastest instruments to reach the ground – the first ever payments from NextGenerationEU were made already in June. By the end of 2021, EUR 39.4 billion (99%) of the available REACT-EU resources for the year were programmed, of which EUR 24 billion through ERDF.

The **total available envelope for ERDF and CF** of more than EUR **350 billion**², was allocated to projects implemented under 2014-2020 programmes. The payment rate³ has continued to increase throughout the year reaching 67%.

The Funds managed by REGIO provide one of the largest investment support for Europe's ambitious energy and climate policies under the **European Green Deal**, supporting regions and cities on their path to 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.

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

² Including national co-financing (excluding REACT-EU resources)

³ Initial and annual pre-financing and interim payment claims submitted by Member States compared to amounts decided

ERDF and CF investments in climate action are expected to represent EUR **51 billion** by 2023 from the 2014-2020 programmes. Support to the renovation of buildings remains a key priority, in particular in the framework of the Commission Communication on a 'Renovation Wave'.

REGIO is responsible for the implementation of the JTF which plays a particular role in managing transition towards climate-neutrality in Member States and regions. The **JTF**, with an allocation of EUR **19.2 billion**, aims at alleviating the social and economic impacts of the transition in the regions and territories most dependent on fossil fuels and carbon-intensive industries, leaving no one behind. The preparation of the **Territorial Just Transition Plans** continued in cooperation with Member States throughout 2021, 10 plans from 5 Member States were formally submitted before the end of the year. The Just Transition Platform provides technical assistance for the implementation of the JTF.

REGIO also contributed to designing and implementing the first actions of the **New European Bauhaus**, 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.

The ERDF is also the main investment tool for the **digitalisation** of industry and SMEs, as well as of the public sector and for the rollout of broadband. By 2023, investments into the digital economy from the 2014-2020 programmes should reach more than EUR **16 billion**.

EUR **62 billion** is allocated to strengthen **research, technological development and innovation**. Over EUR **58 billion** from the 2014-2020 programmes will be invested in improving the **business environment**.

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

Regional policy ensures direct interaction with the regional and local levels for the programming and implementation of the Funds. *Inter alia*, about EUR **35.4 billion** are allocated for targeted and coordinated investments from the 2014-2020 programmes, supporting more than 1,800 integrated territorial and local strategies.

In view of the 2021-2027 period, REGIO worked intensively with co-legislators to have the legislative framework in place quickly albeit the delayed inter-institutional negotiations. The **Common Provisions Regulation**, the **ERDF/CF**, the **JTF** and the **Interreg** regulations were adopted by mid-2021, paving the way for the launch of the **2021-2027 partnership agreements and programmes**. These programmes will play an important role in the long-term recovery of the European post COVID-19 economy and address social impacts of the pandemic. Programming efforts and informal dialogues with Member States continued in 2021 despite the difficult circumstances and the need to prioritise emergency measures over long-term programming. Only one Partnership Agreement was adopted before the end of the year. The Commission will continue to assist Member States in their efforts to have all programming documents adopted in 2022, while 2021 cohesion allocations will be transferred to subsequent programming years as per the Multiannual Financial Framework regulation provisions.

The coordination between cohesion policy and the **Recovery and Resilience Facility** was high on the agenda in the past year, given the substantial support the new facility will provide to reforms and investments. REGIO contributed to the assessment of Recovery and Resilience Plans for all Member States in view of safeguarding the complementarity with cohesion policy funds and a balanced territorial impact.

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**. 90 pilot projects were supported under the Border Focal Point's flagship project "b-solutions". In order to foster the implementation of the Strategic Partnership with the **Outermost Regions**, REGIO continued promoting the mainstreaming the outermost regions' specificities across EU policies.

In order to support **a stronger Europe in the world**, REGIO engaged in policy dialogues and cooperation with enlargement and neighbouring countries as well as EU strategic partners, including with the United Nations and the Union for the Mediterranean.

Finally, 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)** allowing for the possibility of 100% co-financing until 30 June 2022 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 made use of 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.

B. Key Performance Indicators (KPIs)

Progress continued on key policy performance indicators⁴, also broadly in line with trends observed during the previous programming period.

REGIO's online **ESIF Open data platform**⁵ offers transparent, timely and reliable data on implementation and achievements of cohesion investments. It collects information measured and reported by the Member States. Since 2020, the platform also includes a specific section on CRII(+) and REACT-EU support to counter the COVID-19 crisis. ERDF and CF-specific performance data can also be found in the **2023 Programme 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 Annual Implementation Reports (AIR). The latest available figures are from 2020. 2021 data will become available in July 2022 (upon submission of AIRs for 2021). As a result, the KPI data presented below pertains to 2020.

Target (end-of-period): at the beginning of the programming period (2014), targets are defined for indicators which the projects/programme 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 (2020) AAR.

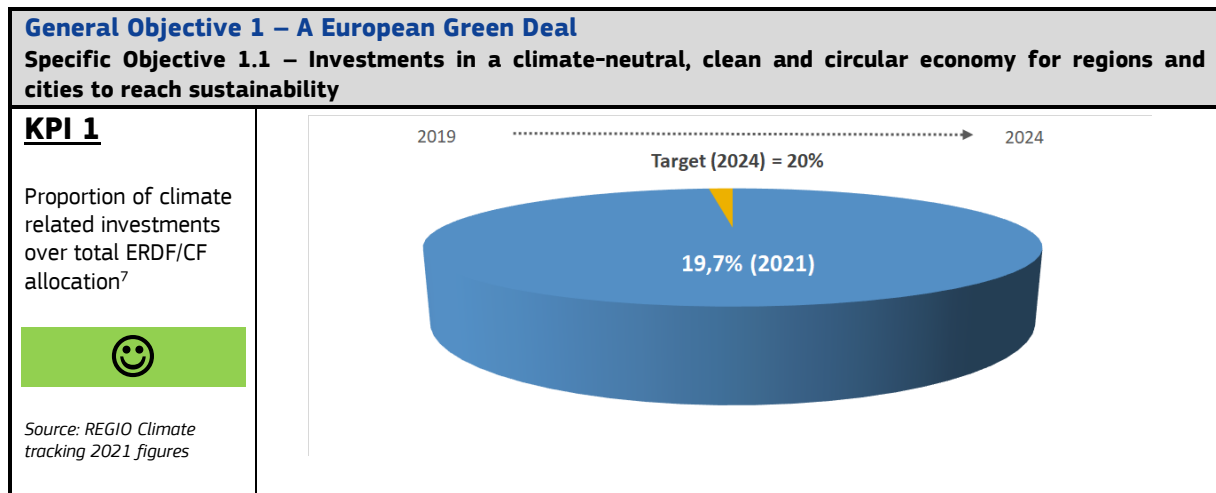
⁴ Reported achievements = the sum of achievements linked to CF and ERDF programmes reported by each programme, regardless of whether or not targets had been set. It expresses the most recent available estimate of the total achievements

⁵ <https://cohesiondata.ec.europa.eu/>. Figures are constantly updated and may slightly differ from the ones in this report.

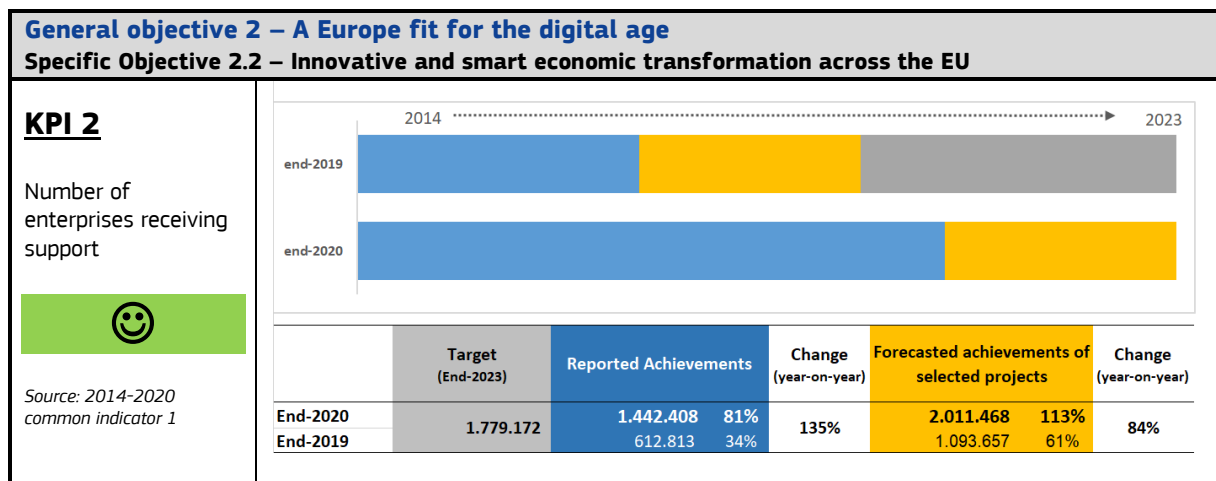
Forecasted achievements of selected projects: national authorities select projects for support under the programmes. These projects undertake to deliver in the future and at the latest by end-2023.

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

KPI 1 – With 19.7%, the proportion of **climate-related over total spending⁶** increased in 2021 and has almost reached the 2024 objective of 20%.



KPI 2 - The number of **enterprises receiving support** shows very good progress. The reported achievements grew by 135% compared to the previous year.



KPI 3 – Investments in **health and social care, education, skills and housing** also picked up with the reported achievements progressing by 34%.

⁶ Decided amounts

⁷ Envelope dedicated to climate-related selected projects (EUR 55.98 billion) in % of total ERDF and CF resources decided (EUR 284.83 billion).

General objective 3 – An economy that works for people

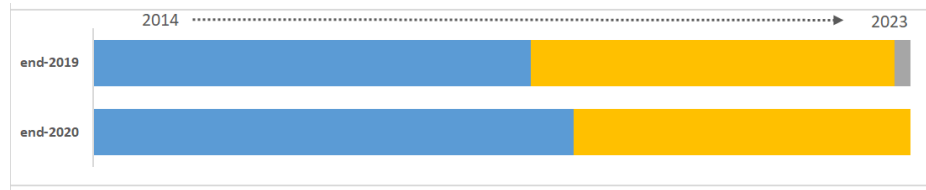
Specific Objective 3.4 – Investments in health and social care, education, skills and housing to help address demographic change and social and territorial inequalities and to enhance quality of life

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-2020	66.469.968	52.024.551	78%	34%	88.528.667	133%	36%
End-2019		38.716.940	58%		65.320.186	98%	

KPI 4 - The number of additional **households with broadband access** shows good progress. The reported achievements evolved by 21% compared to the previous year.

General objective 2 – A Europe fit for the digital age

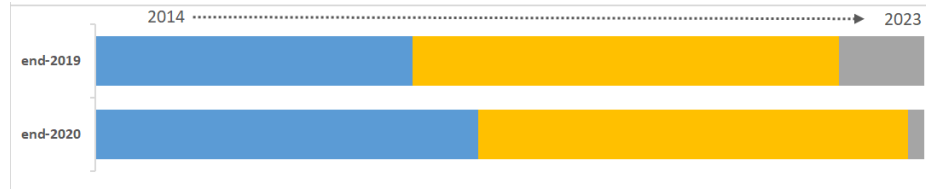
Specific Objective 2.2 – Innovative and smart economic transformation across the EU

KPI 4

Additional households with broadband access⁸





Source: 2014-2020 common indicator 10



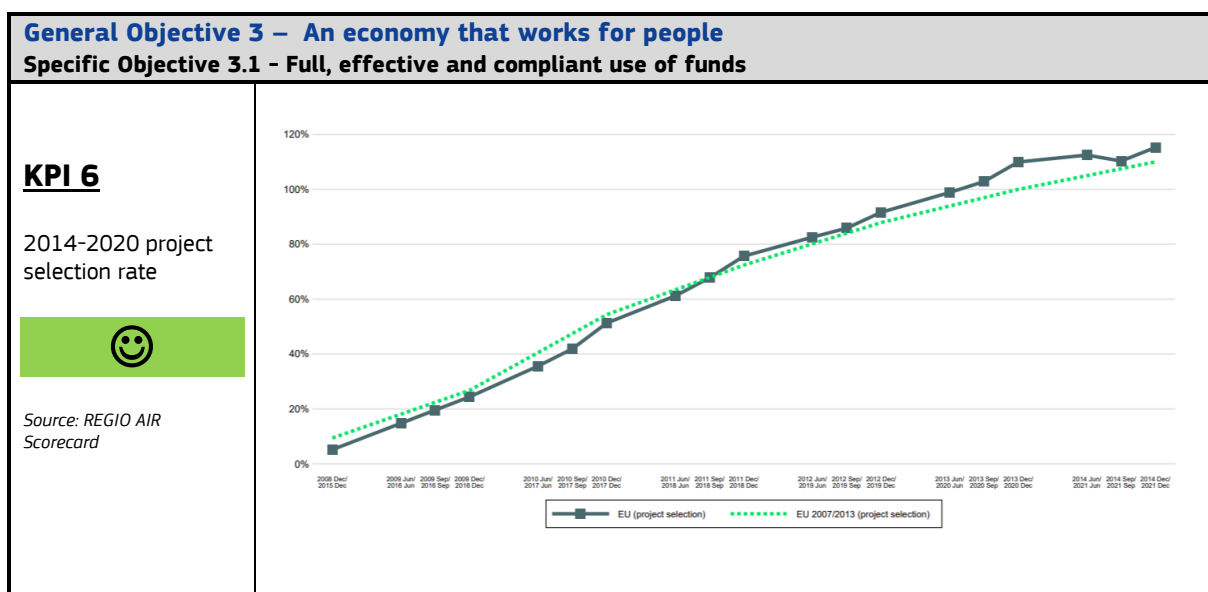
	Target (End-2023)	Reported Achievements		Change (year-on-year)	Forecasted achievements of selected projects		Change (year-on-year)
End-2020	11.938.993	5.517.900	46%	21%	11.708.050	98%	9%
End-2019		4.571.786	38%		10.705.589	90%	

KPI 5 - The residual total error rate is 1.9% (based on audit results reported for the 2019-2020 accounts submitted by 1 March 2021 and accepted by the Commission in 2021, adjusted when necessary following Commission review and audit results). **It could reach a maximum of 2.5%** 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 1.2% for 2014-2020 programmes).

⁸ Of at least 30Mbps.

General objective 7 – Modernising the administration Sound financial management		
KPI 5 Residual total error rate in shared management (20214-2020) ⁹  Source: See section 2 on the calculation of the confirmed residual total error rate for the accounting year 2019-2020 (programmes 2014-2020)	Target	Latest confirmed results AAR 2021
	< 2%	1.9% up to 2.5 % (maximum risk)
Estimated risk at closure (2014-2020) ¹⁰  Source: See section 2 of this report on the calculation	<2%	1.2%

KPI 6 – The **project selection rate** for 2014-2020 programmes¹¹ shows the share of funds committed to projects over the allocation for the whole period.¹²



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, but some improvements are needed as minor deficiencies were identified related to control Principle 1; i.e. further commitment to integrity and ethical values.

⁹ = estimated risk at payment.

¹⁰ 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%.

¹¹ 2021-2027 rate provided once data available, e.g. following adoption of 2021-2027 programmes and start of their implementation

¹² To achieve 100% payment rate of EU funds at closure, Member States often use “overbooking” that translates into contracting and implementing more projects than EU funds available. This also allows to counter uncertainties linked to project implementation.

The improvements or remedial measures include continuous monitoring in the affected areas, as well as intensified communication actions for Principle 1. 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 auditor 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 (99.8% of the relevant expenditure in the reporting year), REGIO carried out **for each ERDF/CF programme** an individual assessment on the effectiveness of 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, REGIO concludes that:

- **The average residual total error rate** (risk at payment) for the 2021 relevant expenditure for **all management modes is between 1.9% and 2.5%** (taking account of additional risks, on-going audit contradictory procedures and a prudent approach for programmes never audited on the spot by the Commission over the period). The decreased error rate compared to last year (2.1% up to 2.6%) illustrates that corrective and remedial actions taken have had a positive effect.
- It is therefore concluded that thanks to improvements in the management and control systems for a number of programmes, KPI5 this year (1.9%) is below materiality. However, for 50 programmes the individual residual total error rates remain above 2% despite the different control layers at Member States' level. Moreover, there are indications that this may be the case for further programmes as well. The maximum error rate at 2.5%, beyond the materiality level, therefore reflects this risk and the fact that a material level of irregularities may remain in the expenditure certified to the Commission for ERDF/CF in 2022. This is subject to additional checks and audit work and will trigger additional corrective measures for each programme concerned, as needed.
- REGIO has robust audit evidence (including on the basis of its risk-based compliance audits) **showing a differentiated situation for its 293 ERDF/CF programmes**: the confirmed individual residual error rate is below materiality for 243 programmes, but still above for 50. In most cases this did not question the reliability of the audit work carried out by the concerned audit authorities but demonstrated that some errors remained un-detected at national level. For the concerned programmes REGIO will require 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 **1.2%**. For previous accounting years, based on additional audit work and financial corrections applied, **the risk at closure is confirmed to be below 2%**,

reflecting REGIO's multiannual corrective capacity mechanism.

- By end March 2022, based on all audit results including the last ones reported by audit authorities by 1 March 2022, REGIO has reasonable assurance that management and control systems function (sufficiently) well for 266 programmes¹³ but present serious deficiencies for 27 programmes (representing 9% of expenditure certified in the 2020-2021 accounts). For the concerned programmes **weaknesses remain mainly at the level of managing authorities** or their intermediate bodies (deficiencies in management verifications, the first level controls). Nevertheless, the situation **improved overall** compared to the last two years as a result of continuous efforts by programme authorities, with the Commission's support. **Weaknesses in the audit work** were identified this year **for 8 audit authorities (or their control bodies)** in charge of auditing 6.5% of ERDF/CF expenditure (deficiencies identified last year for a number of audit authorities may have been adequately addressed, while issues were raised this year for other audit authorities or control bodies).¹⁴ Annexes 7C and 7D present the concerned programmes and authorities.
- 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. Reservations are made based on all cumulative audit results up to the submission of the assurance packages in March 2022, in line with applicable criteria (presented in Annex 5) and 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.¹⁵ 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 Director-General, in his capacity as 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 **38 programmes of the 2014-2020 programming period** in 11 Member States and the UK, **5 ETC and 3 ENI-CBC programmes**;
2. a reservation concerning ERDF/CF management and control systems for **7 programmes of the 2007-2013 programming period** in 3 Member States and 1 IPA-CBC programme.

D. Provision of information to the Commissioner

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

¹³ This includes 15 programmes with only partial deficiencies.

¹⁴ Annexes 7C and 7D presents the concerned programmes and authorities.

¹⁵ Refer to section 2.1 for further details.

1. KEY RESULTS and progress towards achieving the Commission's general objectives and DG's specific objectives

Regional policy¹⁶ 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 annually on their progress. Policy achievements are the result of a combination of a number of factors including the policy considerations, the quality of implementation by the implementing bodies, the framework conditions for implementation in the Member States and the economic context.

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 on 4 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. 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 period.

Cohesion policy also represents good value for money: once the expected impact of the policy will have materialised, a return of close to **3 euros of additional GDP** for each euro invested in regional policy will be generated¹⁷. The GDP per capita of less developed regions is expected to increase by up to 5% by 2023¹⁸.

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, i.e. those benefiting from the CF in addition to ERDF¹⁹, 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 cohesion investments in less developed

¹⁶ Where reference is made to REGIONAL POLICY throughout this document, activities of REGIO linked to ERDF and CF investments are meant. Where COHESION POLICY is mentioned, reference is made to REGIO and EMPL combined efforts through ERDF, CF and ESF investments.

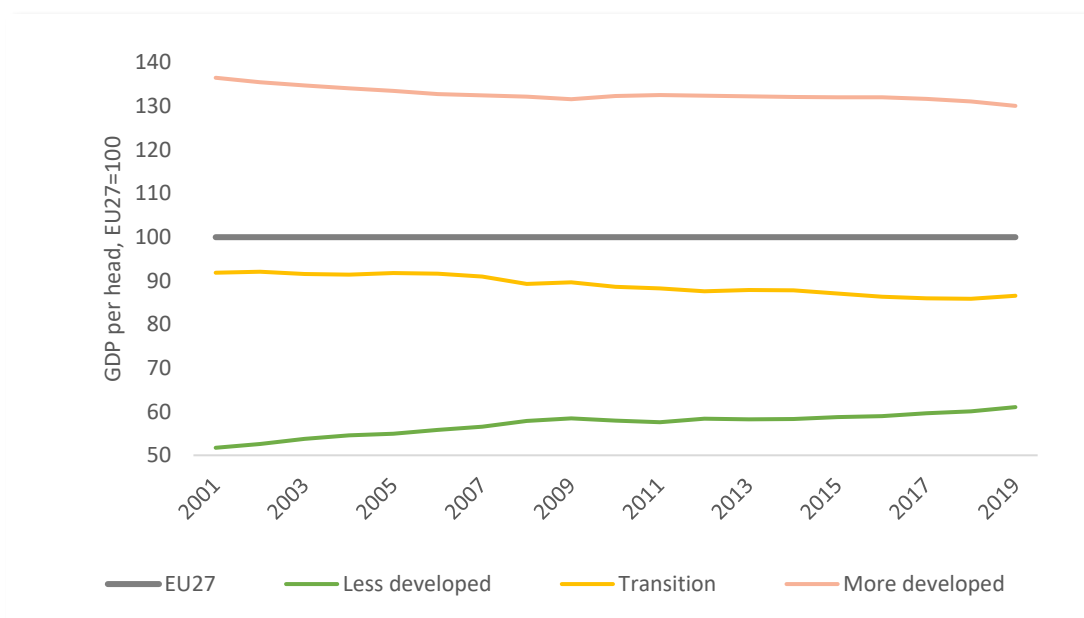
¹⁷ Source: [SWD \(2016\)318, 19.9.2016: Ex-post evaluation of the ERDF and CF 2007-13](#)

¹⁸ Source: [European Commission \(2022\). Cohesion in Europe towards 2050. Eighth report on economic, social and territorial cohesion. Luxembourg: Publications Office of the European Union](#)

¹⁹ Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia

areas, both directly (through selling investment goods and services) and indirectly, owing to increased purchasing power of households and from increased trade²⁰.

In 2019, 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 2019, GDP per head in the moderately developed regions corresponded to around 87% of the EU average.



Changes in GDP per head by level of development, 2000-2019²¹

1.2. Support to recovery from the COVID-19 pandemic

Result of CRII(+) measures:

- EUR 8 billion for **health** actions;
- EUR 12.3 billion for **business** support;
- EUR 5 billion of direct support for **people**, including workers and vulnerable groups;
- EUR 5.7 billion has been transferred between Funds and between categories of regions allowing for greater flexibility in using the available resources;
- EUR 7.6 billion immediate increase of liquidity was provided through non-recovered pre-financing;
- Almost 180 cohesion policy programmes have opted for 100% EU co-financing, thus increasing liquidity by a total of EUR 13 billion.

Amidst the COVID-19 pandemic, cohesion policy is crucial to ensuring a balanced recovery, fostering convergence and making sure no one is left behind. Funding from the ERDF, the CF and the EUSF played a central role in 2021.

In 2021, REGIO continued to facilitate Member States' efforts in overcoming the impact of the COVID-19 pandemic through processing 2014-2020 programme amendments linked to the

Coronavirus Response Investment Initiative (CRII and CRII plus) 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).

²⁰ Source: REGIO Working Paper N° 02/2021) analyse 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.

²¹ Source: Eurostat [nama_10r_2gdp], ARDECO, REGIO calculations

Over 300 **CRII(+)** programme amendments were adopted 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.

Green Change Zealand project in Denmark, financed under REACT-EU, aims at reducing energy and material consumption in the participating SMEs and their value chains and thereby contributing to creating radical green change in the Zealand region. 20 companies with innovative green solutions will have a tailor-made project process built on activities that support the individual company's needs and opportunities within recycling, energy optimisation, industrial symbiosis and testing

In order to bridge the gap between initial crisis response measures and longer term recovery, the Commission reinforced the existing 2014-20 cohesion policy programmes (ERDF, ESF, FEAD), with EUR **50.6 billion** (in current prices) of **REACT-EU** resources from the NextGenerationEU. This instrument seeks to exploit opportunities to combine recovery with future-oriented priorities, such as the green and digital transitions.

REACT-EU proved to be one of the fastest instruments to reach the ground – the first ever payments from NextGenerationEU were made under this instrument on 28 June 2021, less than a month after the Own Resources Decision was ratified to set in motion the related support. By the end of 2021, EUR **39.4 billion** (99%) of the available REACT-EU resources for that year were programmed, of which EUR 24 billion through ERDF. Of these measures, EUR 5.8 billion will contribute to the green transition and EUR 2.8 billion are dedicated for the development of the digital economy.

Support of REACT-EU provided to:

- **Enterprises** with EUR 6.8 billion;
- **Healthcare** sector with EUR 6 billion;
- **Energy and energy efficiency** with EUR 2.6 billion;
- **Environment** with EUR 2.4 billion

In October 2020, the Commission launched a dedicated **Coronavirus Dashboard**²² webpage, hosted on the ESIF Open Data Platform, with detailed information on the EU cohesion policy response to the crisis. A similar website was launched for REACT-EU²³ in June 2021. The website is a public, interactive space, which contains information on Member States' expenditure and adopted programmes with REACT-EU resources.

In addition, in response to the COVID-19 outbreak and the urgency to address the associated public health crisis, the Commission extended the scope of the **EUSF** to encompass **major public health emergencies**. 20 countries (including three candidate countries) received assistance from the Fund relating to the major health emergency caused by COVID-19 and in total, almost EUR 530 million were mobilised for this purpose.

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)** allowing for the possibility of 100% co-financing until 30 June 2022 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 made use of when providing support to refugees. These targeted changes to the 2014-2020 legal framework address the current needs of Member States, triggered by the

²² <https://cohesiondata.ec.europa.eu/stories/s/4e2z-pw8r>

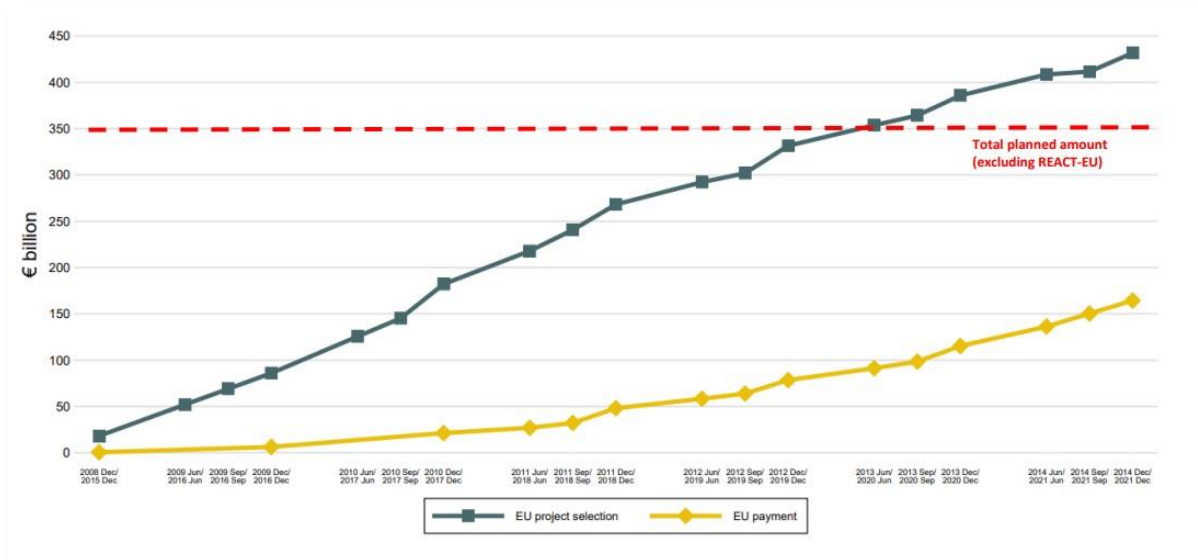
²³ <https://cohesiondata.ec.europa.eu/stories/s/REACT-EU-Fostering-crisis-repair-and-resilience/26d9-dqzy>

migratory challenges as well as the extended impact of the COVID-19 pandemic and entered into force in April 2022.

1.3. Delivery of Commission priorities

Regional policy, representing almost one quarter of the total EU budget, continued throughout 2021 to contribute to the Commission priorities under individual general objectives through investments in key policy areas. 2014-2020 investments will run until 2023, and quantitative targets are set until the end of that year. The delivery of 2021-2027 investments is also starting with the first programmes adopted in 2022. The unallocated amounts for 2021-2027 programmes in 2021 under the ERDF, CF and JTF will be reprogrammed in four equal proportions in each of the years 2022, 2023, 2024 and 2025.

By the end of 2021, 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.



Project selection²⁵ and interim payments (2014-2020)

The **implementation** of the cohesion policy programmes progressed well, with very high expenditure in 2021. This acceleration in spending was triggered in large part due to the significant reprogramming effort made under the CRII(+) in 2020-2021 and the use of the possibility of temporary 100% EU co-financing provided by CRII(+) between July 2020 and June 2021.

The **payment rate**²⁶ has continued to increase throughout the year and currently stands at **67%** of the combined ERDF and CF allocation for the 2014-2020 period. The total net cumulative payments (including advances) from the Commission to Member States for 2014-2020 programmes at end-2021 totalled EUR 185.6 billion²⁷. In terms of interim

²⁴ In addition, some EUR 24bn ReactEU funds were allocated formally under ERDF by end 2021.

²⁵ Calculation based on total (EU plus national) eligible cost of selected projects. Public eligible cost is used where relevant.

²⁶ Initial and annual pre-financing and interim payment claims submitted by Member States/amounts decided (excluding REACT-EU)

²⁷ Total Initial prefinancing + total annual prefinancing + total interim payments - total recovered (excluding REACT-EU)

claims received, the gap between the 2014-2020 and 2007-2013 periods stood at 6.7 p.p. at the end of 2021.

A total of 6 ERDF and CF 2014-2020 programmes face decommitment for not having reached their payments target at end 2021 for the total amount of EUR 81.1 million. For 5 of these programmes, REGIO has received requests for exception to the de-commitment as foreseen under the regulatory provisions.

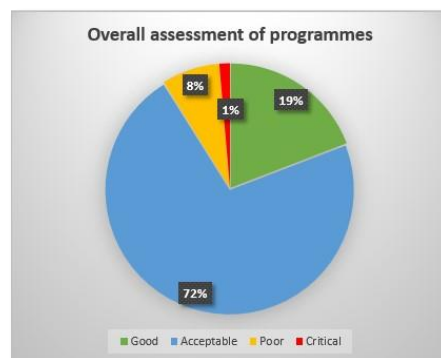
AntiCorona Guarantee implemented by the Slovak Investment Holding (SIH) was one of the first FI set up to overcome the liquidity constraints caused by the COVID-19 crisis. It was implemented in two phases, making use of simplified regulatory framework. Thanks to the loans of more than EUR 500mil, almost 5,500 SMEs were supported.

The 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, close to EUR **29 billion** of the ERDF and CF allocation (8.3%²⁸) is planned to be invested in projects via

financial instruments such as loans and guarantees, primarily for SMEs. The disbursement rate of ERDF and CF contributions stand at 73%²⁹ as of 31 December 2020.

- 556,000 final recipients were supported including 477,000 SMEs, via financial instruments.
- EUR 37.4 billion of financing was disbursed in the form of loans or equity to final recipients

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 292 programmes, 26 (compared to 42 last year) were identified as ‘poor’ or ‘critical’. In total, 21 programmes were classified as ‘in difficulty’ and placed under close monitoring by the REGIO Board of Directors and tailored corrective actions are being designed on a case-by-case basis. Further actions are expected following the adopted CARE package (including re-programming as well as use of 100% CARE EU-co-financing).



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.

In this regard, Member States are obliged to report on their latest assessment of reliability of systems for collecting, recording and storing data for monitoring, evaluation, financial management, verification and audit purposed in the Annual Control Reports submitted to the Commission (see more on assurance building in section 2).

²⁸ Of the overall programme amounts for all forms of financing (about EUR 350 billion). EUR 24 bn extra ReactEU funds will also be available under ERDF.

²⁹ ERDF+CF amounts invested in final recipients 13,420 / ERDF+CF amounts paid to FIs 13,681

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 **51 billion**³⁰ by 2023 (in 2014-2020 programmes³¹).

- thanks to ERDF and CF investments, nearly 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.
- an additional 21.2 million people will benefit from new or improved wastewater treatment. Nearly 60% of the targeted beneficiaries will be in Spain, Italy and Poland.

In addition, the contribution to climate and environment related projects is expected to exceed EUR 100 billion, including financing research in greening of the economy and support for smart economic transformation, over the 2021-2027 period.

REGIO contributed to environmental initiatives, such as the EU Zero Pollution Action Plan, the New EU Forest Strategy for 2030 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.

The **Smart Solar Charging** project in the city of Utrecht (West-Netherlands) develops a bidirectional charging system for shared electric cars, where car batteries can either charge or deliver energy back to the electricity grid. This way sustainable energy can be used when there is a high demand for energy in the local district. The project has contributed to installing 200 smart bidirectional charging points and is still scaling up.

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 actively encouraged Member States to introduce the NEB in their socio-economic and territorial development strategies and supported national and regional authorities in mainstreaming it as part of the Partnership Agreements and relevant programmes of cohesion policy 2021-2027. With a view to facilitate the early stages of NEB delivery and practice development, in 2021 REGIO co-led with JRC the organisation of the first edition of the NEB Prizes, 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 has contracted technical assistance in October 2021 aimed at supporting the incubation of NEB investments in the cohesion policy programmes.

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

³¹ The proportion of planned climate-related investments from total ERDF and CF resources decreased from EUR 55 billion to EUR 51.4 billion in 2020 as a result of reallocations addressing the immediate COVID-19 response for health and SME support. The addition of REACT-EU in 2021 is expected to redress this decline in the absolute amount allocated to climate action.

³² [NEB website](#)

Support to the renovation of buildings will continue to be a key priority. In particular, in the framework of the Commission Communication on a 'Renovation Wave', the role of ERDF and CF in supporting energy efficiency in buildings was acknowledged.

- 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 (2019)

Regional policy is a 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 (EU and national investment) to address these priorities with significant support to the Trans-European Transport networks.

Bâti Bruxellois, Source of New Materials - treating the buildings in Brussels as a reserve of materials for the construction sector. The aim of the project is to maximise the identification and use of end-of-life materials and develop a tool for managing and upcycling various typologies of construction waste

- thanks to ERDF and CF investments, 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

In 2021, REGIO completed the **pilot projects on industrial transition**³⁴ targeting green technologies (low-carbon economy, circular economy) in a number of regions. The work of the **S3 platform** 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.

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 current prices) 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** (TJTP), outlining the transition process and the social, economic and environmental challenges continued in cooperation with Member States throughout 2021. REGIO published a Staff Working Document on the territorial just transition plans in September 2021. Only 10 plans from 5 Member States were formally submitted before the end of the year. The delay has been caused by various factors such as accumulated work due to the parallel programming of various Funds, discussions on extensions of the JTF geographical and thematic scope and finalisation of the TJTPs prepared with the help of REFORM's experts. Significant improvements in the quality of TJTPs have been noticeable across various Member States and all efforts are now made to complete the JTF programming by the end of 2022.

The 2021-2023 technical assistance contract to manage the **Just Transition Platform** 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.

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

³⁴ [\(SWD\(2021\) 275 final\)](#)

As regards the **3rd pillar of the JTM** (Public Sector Loan Facility), where REGIO will oversee the grant element of the facility in partnership with the EIB, the Regulation was adopted on 14 July 2021. Important progress was made on the different elements for the implementation of the facility in close cooperation with CINEA and EIB throughout the year. The discussions on the Administrative Agreement with the EIB progressed. There is also now a stabilised draft Memorandum of understanding with CINEA and Decision authorising financing not linked to costs. The preparation of the Model Grant Agreement is finalised and onboarding to eGrants advanced well. The Public Sector Loan Facility advisory was integrated in the InvestEU Advisory Hub agreement was signed in March 2022.

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, the Green Trip communication campaign reached over 10 million young Europeans (18-24 years old) in 5 Member States increasing awareness about EU financed projects that fight climate change. The **EU Regions Week** hosted 18,000 participants and scored over 85% satisfaction rate.

General objective 2: A Europe fit for the digital age



Digitalisation has a recognised impact on the economy and society, improving quality of life, boosting access to knowledge and other services, thus helping reducing disparities.

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.

By 2023, investments into the **digital economy** from 2014-2020 programme should reach more than **EUR 16 billion** making ERDF the main EU investment tool for digitalisation of industry, SMEs, public sector and for the rollout of broadband. The ERDF supported investment in the development of the broadband network in “white” and “grey” areas.

Development of the horizontal and **central e-Government systems in Bulgaria**: in the last three years, the e-Government Agency has introduced more than 320 online services, which are already making life easier for thousands of citizens and businesses. During the COVID-19 crisis, hundreds of thousands of people used the e-services. Documents were submitted securely and instantly, without the need to travel. The State e-Government Agency's main goal is to make it possible for communication between citizens and state administration to be entirely electronic within the next five years.

- An additional 12 million households will have broadband access of at least 30 Mbps, of which 83% will be in Spain, Italy and Poland. In Spain, the target represents 32% of all households.

REGIO (in partnership with AGRI and CNECT) ran the **European Broadband Competence Offices (BCO) Network and Support Facility**, which helps regional and local authorities in designing and implementing broadband connectivity projects, in particular in areas with market failures. Based on the positive experience of the last four years, the Commission has decided on a continued support for this facility.

In Baden-Württemberg, in Germany, the ERDF funded the creation of the **Regional Innovation and Technology Transfer Centre (Ritz)**. This centre is set up to strengthen inter-company innovation activities in the region and to act as a nucleus and one-stop shop for innovation and technology transfer. The project totals €8.9 million, of which €6.4 million coming from the ERDF.

Promotion of innovation is a central feature in ERDF and CF programmes. Smart specialisation strategies mobilise the innovation potential of EU regions. For this, the new **Interregional Innovation**

Investments Instrument should further contribute to the development of European value

chains for key technologies while linking up more advanced regions with less developed ones and building on implementation experience with the pilot action on interregional innovation³⁵. In 2021, the biannual work programme was adopted and first calls were published in November.

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, EUR **62 billion** are allocated to strengthen **research, technological development and innovation**, from 2014-2020 programmes. The ERDF is the main source of EU budget R&D investment in 12 EU Member States³⁶.

- 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)

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 billion³⁷.

By 2023, over EUR **58 billion** are set to be invested in improving the **business environment and entrepreneurship** from 2014-2020 programmes.

- the ERDF provides significant support to European firms: almost 2.4 million enterprises (mainly SMEs) are targeted for support.
- 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.
- around 230,000 new enterprises will receive the ERDF support to start and grow their business.

In terms of external communication activities under this general objective, REGIO reinforced the online information available on its websites: on **Info regio** (2.5 million visits) and access to the Open Data assets (1.9 million) and website³⁸ (98,000). Another example is **Scuola di Open Coesione**, an educational challenge and an online open course to promote the engagement of high-school students in monitoring the effectiveness of cohesion policy investments via the use of public open data. REGIO could replicate this experience in four other Member States and 3 Interreg programmes, paving the way for mainstreaming in the 2021-2027 programmes.

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

³⁵ [Interregional Innovation](#)

³⁶ Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia. See: "[Science Research and Innovation Performance of the EU 2018](#)"

³⁷ COVID-specific indicators measuring support to working capital.

³⁸ [Open Data Platform for the European Structural Investment Funds](#)

and a key to balanced and fair economic recovery following the COVID-19 crisis, ensuring long-term development and the necessary digital and green transformations leaving no person and no region behind.

The negotiation of the legislative framework for cohesion policy 2021-2027 were concluded in the first half of 2021, which led to delay in ERDF/CF/JTF programming. **Common Provisions Regulation** (CPR), the **ERDF/CF**, the **JTF** and the **Interreg** regulations were all adopted on 24 June. The focus of 2021-2027 EU cohesion policy remains economic competitiveness through research and innovation, digital transition as well as the European Green Deal agenda and the promotion of the European Pillar of Social Rights.

The **2021-2027 programmes** will play an important role in the long-term recovery of the post COVID-19 European economy and addressing its social impacts. They have a great potential to complement the short- and medium-term measures developed at unprecedented pace in 2020 and 2021 to fully address COVID challenges. Programming efforts and informal dialogues with Member States on draft Partnership Agreements and programmes continued in 2021.³⁹ Greece completed the Partnership Agreements negotiations in July 2021 and other 11 Member States submitted their Partnership Agreements before the year end. The number of submitted mainstream programmes reached 15%; the majority of them arrived in the last quarter. It is positive to note that Interreg programmes follow the suit of mainstream programmes' submissions, as 14 ETC programmes were already received (15%). The Commission will continue to assist Member States in their efforts to have all programming documents submitted timely and adopted in 2022 as well as to fulfil the **enabling conditions**.

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.

From ERDF, which complements the activities financed by the European Social Fund (ESF), more than EUR **32 billion** is programmed in the above areas under the 2014-2020 programmes.

Overall ERDF support to health care increased significantly from the originally EU planned amount of EUR 5.6 billion to over EUR **16.4 billion** by the end of 2021⁴⁰, thanks to the reallocations that made use of the flexibilities provided by CRII(+) and additional resources under REACT-EU.

- Thanks to the ERDF investments, nearly 93 million people will benefit from improved health services, of which 58% are in Spain and Poland. In Spain 73% of the overall population will be served by the improved services.

The Regulation on the **Brexit Adjustment Reserve** (EUR 5.5 billion in current prices) was speedily negotiated with the co-legislators and eventually adopted on 6 October. This new funding mechanism aims at providing support to businesses and employment in the

³⁹ Despite parallel efforts as regards: the CRII(+) amendments, REACT-EU programming, need to programme fast RRF resources with a much shorter implementation timeframe, JTF programming, delayed adoption of legislation and other factors at national level on top of the difficulties caused by the pandemic contributing to this.

⁴⁰ ERDF only. Health infrastructure (incl. equipment) and ICT solutions addressing healthy, active ageing & e-Health

Member States, regions and sectors most affected by the withdrawal of the United Kingdom from the EU, thus reducing its impact on economic, social and territorial cohesion. It will also assist public administrations in the proper functioning of border, customs, sanitary and phytosanitary controls and to ensure essential services to the citizens and companies affected. The first instalment of pre-financing was already paid to two Member States before the end of the year.

The coordination between cohesion policy and the **Recovery and Resilience Facility** was high on the agenda in the past year, given the substantial support the new facility will provide to reforms and investments, in view of safeguarding complementarity with cohesion policy funds. REGIO contributed to the Recovery and Resilience Plans assessment for all Member States, working closely with SG RECOVER and ECFIN notably in the areas of complementarities with cohesion policy funds, regional and territorial analysis and providing input in the costing assessment analysis.

Structural reforms have much potential to underpin ERDF/CF investments, making them more effective. In view of this REGIO has reviewed under a tight schedule 330 Member State requests under the annual call of the Technical Support Instrument (TSI) managed by REFORM. In addition, 38 requests submitted under an extra call for support to implementation of Recovery and Resilience Plans were also reviewed to ensure synergies and complementarities with REGIO investments and avoiding overlaps or duplication of effort. Particular attention was paid to two flagship areas on support to ‘Renovation Wave’ and to implementation of TJTPs.

Administrative capacity roadmaps

- **5 roadmaps** developed as a pilot are being implemented in 5 Member States.
- **9 Member States** that were recommended to develop roadmaps in Annex D of the 2019 Country reports (as well as 2 additional ones) are in the process of developing roadmaps (in addition to the 5 pilot roadmaps). The aim is to have them in place as soon as possible in 2022.

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. To step up assistance and support a more strategic approach for capacity building in 2021-2027, REGIO

elaborated a concept for ‘roadmaps for administrative capacity building’.

REGIO provided tailored assistance on various topics supporting implementation, including on roadmap development, through its peer learning tools REGIO Communities of Practitioners and TAIEX-REGIO Peer 2 Peer (730 participants joined 26 virtual events).

JASPERS continued providing advisory support and technical capacity building to Member States, including on JTF and RRF. The JASPERS 2022-2027 Contribution Agreement was negotiated, including the concrete modalities for JASPERS’ embedment in the InvestEU Advisory Hub and signed in December.

REGIO also continued to promote **simplified cost options** (SCOs) and **Financing not linked to Costs** (FNLC) through: the Transnational Network (TN) of ERDF and CF SCO practitioners. The focus of this

Transnational network activities:

- 6 meetings
- 3 written consultations;
- replies to more than 100 written questions;
- a technical SCO/FNLC webinar (200 participants + 2,000 connected)

Commission activities:

- bilateral meetings with each of the 27 Member States
- 2 studies on setting up SCOs at EU level in 6 policy areas under preparation

work was to support Member States in their preparations for the 2021-2027 period. As a result of all these actions, Member States submitted more than 20 SCOs methodologies to which the Commission has/is providing comments.

To **enhance simplification** in the implementation of ERDF/CF programmes, REGIO worked closely with Member States to identify best practices regarding two of the most burdensome activities for programme authorities, selection of operations and management verifications. TN members identified 16 case reports on better administrative practices with regard to selection of operations and gave substantial feedback on the REGIO's draft reflection paper on the use of risk-based management verifications in 2021-2027 programmes.

In view of the upcoming closure of the 2014-2020 period, the **Closure Guidelines**⁴¹ were adopted and published in October. The dissemination of the guidelines will be ensured through webinars and trainings to Member States throughout 2022. Progress was also achieved in 2021 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. Within this context, final report on the study on monitoring systems and project data in Member States was delivered in 2021. Equally, three major evaluations, on Jaspers (SWD published in August 2021), on research infrastructures and activities and innovation and on e-cohesion, also progressed. The evaluation helpdesk continued to provide support to Member States to reinforce their evaluation capacity.

The Integrated Territorial Investment strategy in the **Greek region of East Macedonia-Thrace** connected the various cultural heritage and touristic resources in urban and rural areas along the ancient Roman road **'Via Egnatia'**, offering tourists a holistic experience of 2,500 years of history and culture. The strategy totals €55.2 million, of which 36.6 million from the ERDF

Gender equality has been one of the horizontal principles for cohesion policy and a number of projects have been supported in this area in 2014-2020 period. In line with the **EU Gender Equality Strategy** for 2020-2025, REGIO subscribed to effective integration of the gender dimension in the ERDF and CF supported actions. The 2021-2027 legislative framework includes a new categorisation

to track gender-related expenditure. This reporting system covers programmes under ERDF, ESF+, CF and JTF. This will allow for better monitoring of the investments related to gender equality. Sharing best practices will also continue in 2021-2027.

REGIO plays an important role in promoting a balanced development of all European regions and all types of territories. About EUR **35.4 billion** in total investment are allocated for **integrated territorial approaches** in both urban and non-urban areas under ERDF and CF programmes supporting 1,800 integrated territorial and local strategies⁴². Around EUR 36 billion (over 100% of the allocation) has been assigned to projects through these strategies, showing a general catching-up trend.

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

⁴¹ Guidelines on the closure of operational programmes adopted for assistance from the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund (2014-2020), [C\(2021\)7303](#)

⁴² More information on territorial, urban and local strategies available on the REGIO-JRC mapping tool [STRAT-Board](#)

and local communities. In this regard, REGIO will support uptake of the functional area approach in the 2021-27 programmes 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 (europa.eu).

CO-CITY addressed the challenge of the regeneration of deprived neighbourhoods in Turin, Italy. The project supported the renewal of dismissed or underused public buildings and public spaces through collaboration between active citizens and the municipality of Turin. The project facilitated the development and implementation of 'pacts of collaboration' between citizens, associations, and the municipality of Turin. Through CO-CITY four buildings and six schools were renewed and regenerated.

The **urban dimension** of cohesion policy has been significantly strengthened. In the 2014-2020 period - around EUR 128 billion of the funding under ERDF and CF is allocated for investment in cities, of which some EUR 20 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.

- More than 43 million people will live in areas with integrated urban development strategies, of which 63% will be in France, Germany and Romania. In France and Romania, 23% and 27% respectively of the population will benefit from these strategies.

Urban Innovative Actions⁴³ 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 2021, given the restrictions imposed in the context of COVID-19, implementation of projects faced delays and required close monitoring at the initiative level. Finally, 30 UIA projects managed to complete their activities. Innovative solutions and knowledge acquired in in 2014-2020 period will be capitalised and shared with urban authorities throughout the 2021-2027 **European Urban Initiative** (EUI). 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. Negotiations of the contribution agreement with the selected entrusted entity, which will be managing the EUI, started in September.

REGIO is also coordinating the implementation of the **Urban Agenda** for the EU, seeking to improve the quality of life in urban areas. In November, the Ministers responsible for urban matters, agreed on the Ljubljana Agreement which sets out operational framework of the renewed Urban Agenda following the adoption of the New Leipzig Charter in 2020.

REGIO was closely involved in the preparation of the **Communication on a long-term vision for the EU's rural areas**, adopted on 30 June. The balanced territorial development of all areas, including rural areas is at the core of this Communication and REGIO will contribute to the implementation of the Commission rural action plan and the EU Rural Pact adopted along with the Communication.

The four **EU Macro-regional strategies**⁴⁴ (MRS) facilitate multi-stakeholders cooperation across regions and provide integrated framework to address together across borders common challenges faced by a defined geographical area. Five annual fora were organised successfully in 2021.

⁴³ [UJA website](#)

⁴⁴ the EU Strategies for the Baltic Sea Region, for the Danube Region, for the Adriatic and Ionian Regions and for the Alpine Region

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 and/or administrative nature.

- By end 2021, 90 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.

In this regard, the report on 'EU border regions: Living labs of European Integration' was adopted on 14 July, providing an assessment of the actions that have been taken up by the Border Focal Point since 2018 and giving orientations for future actions across four clusters: governance, labour markets, public services and green transition.

To foster the implementation of the Strategic Partnership with the **Outermost Regions**, REGIO mainstreamed the outermost regions' specificities in close to thirty legislative proposals, policy initiatives and work programmes in areas such as taxation, research, circular economy biodiversity or transport. REGIO further prepared a "non-paper" on the "future in the outermost regions" for the first ever discussion on these regions at the General Affairs Council in May and started preparations of the Communication on the Outermost Regions to be adopted in the first half of 2022. In addition, a study on the COVID-19 impact on the outermost regions accompanied by an analysis and recommendations per region was conducted.

In terms of external communication activities, REGIO continued with updates of the **Open Data Platform** to make it more reliable, transparent and user friendly. The platform now includes more visualisation and data stories on topical issues (such as climate change tracking), bringing cohesion policy achievements closer to EU citizens. REGIO also received over 350 applications on the **Youth4Regions** project for aspiring journalists. The **Interreg Volunteer Youth** initiative successfully deployed over 180 volunteers in 2021, reaching a total of over 700 volunteers deployed since March 2017. In addition, 13 Citizens' Engagement Activities were carried out by volunteers. The **Smart regions** TV episodes reached over 10 million of individuals and INFORM EU plenary meetings achieved over 400 Zoom connections and around 1,100 web stream connections. Finally the **RegioStars** project received over 200 project submissions. REGIO has managed to successfully organise in hybrid format the 9th Conference on the Evaluation of EU Cohesion Policy that took place in September 2021 in Porto, and which was attended by an important number of high-level speakers, including 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) 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. Cross-border programmes and projects involving EU and non-EU countries are particularly important for the promotion of key European priorities such as environment and climate

policy or social and health services, the need for which does not stop at EU's borders and for the prosperity of EU border regions.

The regulations for an **Instrument for or Pre-accession Assistance** (IPA III) for the **Neighbourhood, Development and International Cooperation Instrument** (NDICI) and the Overseas Territories Association Decision (OAD), under the lead of INTPA/NEAR were both adopted, paving the way for continuous cooperation with neighbourhood and enlargement partner countries on EU external borders.

The **IPA III programming Framework**, used as the multiannual strategic programming document for the 16 Interreg programmes with some IPA allocation (except NEXT MED and NEXT Black Sea), was adopted on 10 December 2021. The draft multiannual strategic programming document for Interreg NEXT based on the Joint Paper on Interreg NEXT programming as discussed with Member States and partner countries is expected to be adopted at the beginning of 2022. The draft financing agreement templates for the partner countries and Russia were prepared and are currently in the consultation stage.

REGIO aims as well to streamline its contribution to the **EU enlargement process** in line with proposed simplification measures and strives to be a significant facilitator in the IPA III policy clusters on 'Resources, agriculture and cohesion', "Competitiveness and inclusive growth" and "Green agenda and sustainable connectivity" in close coordination with EEAS and other Commission services. In addition, the MRCs (EUSAIR and EUSDR) offer opportunities to deepen partner countries' participation in key EU initiatives like the Green Deal.

A total of 17 Interreg NEXT programmes and 2 Interreg transnational programmes involving Neighbourhood partner countries and Russia and using ERDF and NDICI funds will continue to play an important role in the EU external policy toolbox. The bulk of the programmes should be adopted by end of 2022. Since the military aggression against Ukraine, the participation of Russia and Belarus in these programmes was discontinued.

The number of third countries that are about to participate in outermost cooperation programmes has increased by 10%, something that will reinforce their impact and strengthen the presence of the EU in the concerned cooperation areas. The negotiations of these programmes aiming at a better combination between ERDF and NDICI/OAD funds has been progressing with a view of their adoption in 2022. Some of the outermost regions are invited to participate in the Team Europe Initiative established last year. 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 the Amazonia mention the INTERREG programmes as potential tools for implementing cooperation.

Policy dialogues with strategic partners continued in 2021, contributing through concrete deliverables to the EU's global relations with non-EU countries, notably Japan (establishment of a new dialogue including regional policy issues beyond the urban policy dialogue and conduction of a joint study on the territorial policies needed in response to demographic change in urban and rural areas), India (adoption of the Joint Action Plan 2021-2022 under the EU-India Smart and Sustainable Urbanisation Partnership), Colombia (adoption of the EU-Colombia 2021-2025 action plan on regional policy cooperation) and Peru.

The new **International Urban and Regional Cooperation programme** (IURC), for which REGIO leads on the development and steering, was also successfully launched and 66 EU cities (from 18 Member States) and 20 EU regions (from 11 Member States) were selected for thematic pairing with non-EU cities and regions from 18 countries in Asia and Americas. In addition, 15 thematic networking events and the IURC annual global event were organised and a dedicated website set up.

The inception phase of the **International City Partnerships** (ICP) project was successfully concluded, 14 EU and 14 non-EU cities were selected, four thematic networks established and three working meetings with Canada, South Africa and Asia were organised. On the Urban European and Latin American and Caribbean cities network (URBELAC) front, four EU cities and four Latin American cities were selected and four thematic (inclusion of migrants and refugees) networking events were organised.

At multilateral level, REGIO completed the three **Voluntary Commitments** made by the EU and its Member States towards the implementation of the **UN New Urban Agenda**. Moreover, REGIO contributed to the UN reporting by presenting relevant developments and achievements to be included in the 2022 UN Secretary General 2nd Quadrennial report on the implementation of the New Urban Agenda.

Moreover, in the framework of the **Union for the Mediterranean** (UfM), co-chaired by the EU, two action plans (Strategic Action Plan 2040 on urban development and its accompanying plan on affordable and sustainable housing) were adopted by UfM Member States in July 2021 under the Regional Platform for Sustainable urban development, co-chaired by REGIO.

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 Interreg Annual Event allowing promotion of multi-level regional cooperation, resolving bilateral issues, bringing stability and fostering EU integration in the external border areas.



2. MODERN AND EFFICIENT ADMINISTRATION AND INTERNAL CONTROL

2.1. Financial management and internal control

Assurance is provided on the basis of an objective and systematic examination of all available 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 have been considered:

- annual reports by Authorising Officers by Sub-Delegation;
- 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) as well as the results of the Commission activities to supervise these authorities (the reports of the Joint Audit Directorate for Cohesion (DAC) and ex post supervision and controls through exhaustive desk and mainly risk-based on-the-spot verifications);
- contribution of the Internal Control Coordinator, including the results of internal control monitoring at DG level;
- the reports from the entrusted entities (to which REGIO has given cross sub-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 OLAF, including follow-up to final case reports.

These reports result from a systematic analysis of the available evidence. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated for implementation 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)⁴⁵. The DG's materiality criteria and assurance building are outlined in the AAR Annexes 5 and 7 respectively. The AAR 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 Financial Regulation Article 193.2).

It should be noted that the delivery of 2021-2027 investments will start as soon as the programmes are adopted and management and control systems are set up and running. Consequently, **no payments were made in 2021 for the 2021-2027 period.**

⁴⁵ 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).

Overview table Expenditure in 2021 per risk/type of activities (amounts in EUR million)

Risk-type / Activities	Grants	Procur ement	Shared management	Contributio ns and/or funds to EE	Delegation / Contribution agreements with EE	Other	Total Expenditure	NEI, e.g. Revenues, Assets, OBS
2021-2027 ERDF/CF			-				-	
2014-2020 ERDF/CF/JTF			54,892.42				54,892.42	
2014-2020 IPA-CBC/ENI			153.01				153.01	
Urban Innovative Actions			-				-	
2007-2013 ERDF/CF			46.47				46.47	
Pre-2006			51.04				51.04	
EUSF			791.42				791.42	
Brexit Adjustment reserve			407.21				407.21	
Pilot projects - preparatory actions	0.95	0.67		1.29			2.91	
Technical assistance	39.77	36.59		3.60	16.61	1.94	98.50	
Totals (coverage)	40.72	37.26	56,341.58	4.88	16.61	1.94	56,442.99	Intangible assets: 12.66
Links to AAR Annex 3	Overall total (m EUR); see Table 2 – payments made						n/a	Table 4 – assets

Legend for the abbreviations: NEI =Non-Expenditure Item(s), OBS= Off-Balance Sheet

1. Effectiveness of controls

a) Legality and regularity of the financial 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 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 7 R.

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 Directorate-General reviews all cumulative audit information available for each programme in order to identify the need for reservations in line with the materiality criteria disclosed in Annex 5, and additional corrective measures required. The legal framework, (CPR) provides **increased safeguards for assurance**. A 10% retention applies 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 (2020-2021)

- **EUR 3.2 billion** prudently withdrawn from accounts (temporarily or definitively based on managing authorities' work and follow up to EC requests for corrections)
- Including **EUR 907 million** at least as definitive corrections (audit authorities' work)

Programme managing authorities carry out management verifications before expenditure is certified. Audit authorities report (a) on the effectiveness of management and control systems throughout the year and (b) once a year on 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 in order 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 Common Provisions Regulation are subject to strict cumulative legal requirements, considerably limiting their scope of application and

in practice leading to considerable challenges in applying net financial corrections by the Commission⁴⁶.

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 and the required financial corrections were implemented by the programme authorities), is **below the materiality level of 2%**.

Therefore, REGIO assesses audit results reported for each programme, adjusts error rates when deemed necessary based on and imposes additional corrective actions which include system improvements 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 in the annual activity report.

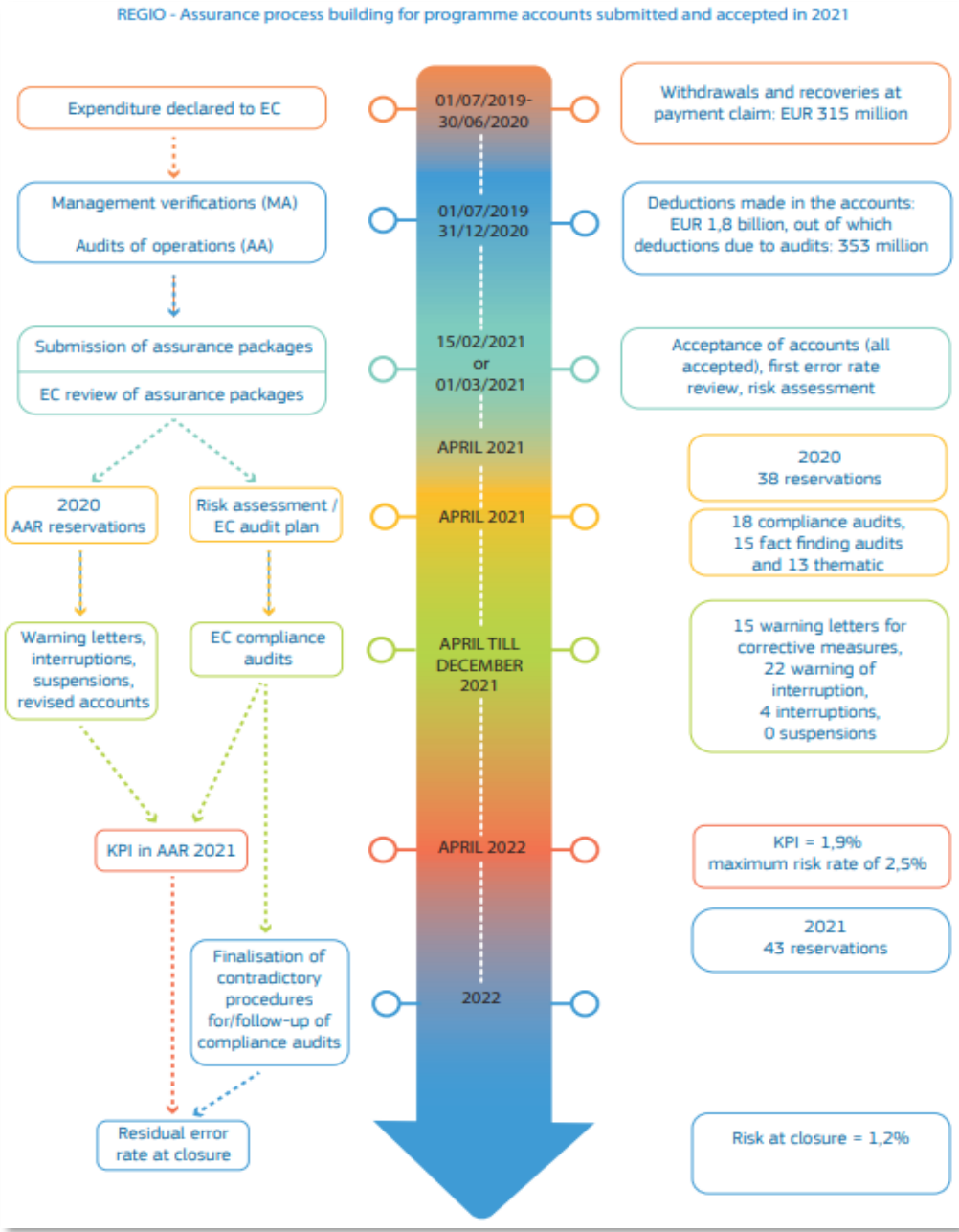
This strengthened assurance model for 2014-2020 is ensuring overall lower error levels for the reporting year compared to 2007-2013⁴⁷, as demonstrated below. However, despite such improvements over time, the error rate once the control cycle was completed remains above the 2% materiality level for some individual programmes, each year (see p.37 below for the situation this year). **REGIO is therefore applying various actions to improve the situation and to further reduce the risks** associated with expenditure declared under the ERDF and CF 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 2021, as a result of the complete audit cycle reported in the 2021 AAR.

⁴⁶ See for more details in annex 7H. The legal conditions for net financial corrections were simplified in the 2021-2027 CPR.

⁴⁷ 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 2021 (annual accounts 2019-2020)



The residual total error rate (KPI5) for ESI Funds is robust and gives a fair view

RTER: 2019-2020
 (before taking account of impact of financial instruments advances)

- 243 OPs with RTER <=2%
- 50 OPs 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** (where contradictory procedures are completed), based on Member States' reporting, adjusted as needed on the basis of our audit review⁴⁸.

⁴⁸ Confirmed error rates are reported once the national and EU audit cycle is completed.

REGIO also aggregates programme error rates to report a total, weighted average error rate for ERDF/CF once the control cycle is completed. This is the error rate calculated for the previous accounting year, the AAR Key Performance Indicator on legality and regularity (KPI5). In this 2021 AAR **the residual total error rate reported for the accounting year 2019-2020 is 1.9%**. This rate has been calculated after neutralising the impact of advances paid into financial instruments, in line with ECA's 2016 recommendation⁴⁹ and with prudent adjustments made when necessary⁵⁰. As a complement to this average rate, **REGIO has also estimated a prudent maximum error rate of 2.5%** to take into account potential additional risks (including 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), estimated at flat rate⁵¹. REGIO estimates that this KPI5 reflects a robust, reasonable and fair estimate of the overall risk at payment for all programmes taken together, following a programme by programme analysis.

It is therefore concluded that **thanks to improvements in the management and control systems for a number of programmes and corrections applied by Member States** at the latest before certifying expenditure in the submitted programme accounts (e.g. subcontracting issue solved for Spain and more accurately quantified for Italy), the **KPI on regularity** is this year **below the 2% materiality**. However, for **50 programmes in 11 Member States** the **individual residual total error rate remains above 2%**⁵², despite the different control layers at Member States' level. There are also indications that this may be the case for further programmes as well. The maximum error rate at 2.5%, beyond the materiality level, therefore reflects this risk and the fact that overall a material level of irregularities may remain in the expenditure certified to the Commission for ERDF/CF in the accounts accepted in 2021. For these programmes where evidence shows a remaining error rate above 2%, as well as for any other risks that may

Spain – Irregular limitation of subcontracting

The 2007 Spanish national law provided for the possibility to limit subcontracting up to a maximum of 60% of the total contract value. This was an incorrect transposition of the EU Public Procurement Directives. Since 2019 (Court of Justice ruling on a similar case in IT), there were exchanges between the Commission services and the Spanish authorities to find a common position on the corrective measures to be taken. Beginning of 2022, Spain committed to fully implement the requested financial corrections to protect the EU budget. The corrections cover different accounting years and are being implemented during 2022. **The corrective measures implemented in the 2020-2021 accounts** have allowed REGIO to reduce the number of reservations for Spain from eight in the 2020 AAR to one in this 2021 AAR.

⁴⁹ Advances paid into financial instruments are included in the declared expenditure which in line with Article 127 CPR form the basis for the samples of audit authorities. On this basis the confirmed residual total error rate is 2%, hence advance payments to financial instruments have a negligible impact on the confirmed residual error rate (0.1 percentage points).

In its recommendation n° 2 a) in the 2016 Annual Report (paragraph 6.40) ECA also addressed State aid advances. In line with the Regulation, State aid advances may be partially cleared by expenditure during the accounting year. Given this inherent legal complexity for dealing with such advances in the error rate calculation, and the limited impact estimated in previous years, REGIO did not remove these advances in the KPI5 calculation.

⁵⁰ For 108 of these programmes (BG, CZ, DE, DK, ES, FI, FR, GR, HU, IT, LT, LV, MT, PL, PT, RO, SI, UK and ETC) REGIO applied professional judgement using flat-rates or the best information available to estimate the impact of known systemic irregularities until final assessments by the concerned audit authorities.

⁵¹ 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 DAC audits, as well as additional risks identified during the DAC desk reviews or during ECA audits but not yet communicated. This maximum error rate also includes a possible top-up as follows:

- for programmes not audited on the spot by the DAC or by ECA, but for which the audit authority was audited for another programme, the programme residual total error rate (RTER) is topped up by the average increase of the error rate resulting from Commission or ECA audits for the other audited programmes of the same audit authority;
- for programmes only subject to a desk review since the start of the period, the risk of potential undetected errors is estimated at flat rate: 2% for confirmed RTER up to 2%, 5% for RTER above 2%, 10 % for RTER above 5%.

⁵² CZ, ES, FR, GR, IT, LV, PL, PT, RO, SK and UK.

materialise and increase the error rate above materiality following the signature of this AAR, REGIO will carry out the necessary additional corrective actions to ensure that the error rate falls below 2% for each and every programme concerned.

REGIO has therefore robust audit evidence showing a differentiated situation for the 293 programmes concerned.

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 7B⁵³.

A differentiated situation: identifying and correcting programmes at risk

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.

2019-2020 accounting year

- 293 ERDF/CF OPs in total
- 285 accounts with ERDF /CF expenditure

Following the reception of the **assurance packages by 1 March 2021** (accounts from the accounting year 2019-2020 accepted in 2021), the Commission auditors performed:

- First, **consistency checks** of the reported total error rates and audit opinions against all cumulative audit information for the assurance declaration in the 2020 AAR (published in June 2021),
- followed by a **thorough desk review of the Annual Control Reports**, audit opinions and error rates reported (ending after finalisation of the 2020 AAR)⁵⁴, and,
- as a consequence, for a number of programmes/audit authorities, for which specific risks have been identified, **on-the-spot compliance audits** to re-perform the work done by the audit authorities. For details on the audits performed see Annex 7F.

Desk review of AA' audit results received in 2021

- 398 system audits
- 5,603 (parts of) operations audited
- Statistical sampling covering 91% of the total certified expenditure
- 16% of expenditure audited

In 2021 REGIO audits covered

- 18 Compliance audits (235 operations, 10.5% of expenditure in accounts in 10 Member States covering 20 assurance packages and 30 programmes)
- 15 fact finding missions
- 13 thematic audits (14 OPS in 8 Member States) of which 4 conflict of interest audits

As a result of its audit work completed in 2021 REGIO detected calculation errors or identified **further irregularities to the ones detected by audit authorities in 16 assurance packages** received by 1 March 2021 (accounting year 2019-2020), leading to a recalculated residual risk at this stage of the contradictory procedures, including **over 2% in four cases** (FR(2), IT and SK). This shows weaknesses in the prevention and

⁵³ 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.

⁵⁴ 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 OP 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 2021, REGIO was able to recalculate the reported residual error rate for 49 programmes based on the extended desk review of assurance packages.

detection of irregularities at the level of managing authorities in first instance. But it also demonstrates weaknesses in the work of a limited number of audit authorities which failed to completely detect irregularities: REGIO **requested improvements for 8 audit authorities** (or their control bodies)⁵⁵ out of 81 audit authorities for ERDF/CF programmes (deficiencies identified last year for a number of audit authorities may have been adequately addressed, while issues were raised this year for other audit authorities or control bodies).

At programme level, for the accounts accepted in 2021, REGIO confirmed a **residual total error rate below materiality for 243 programmes** (83%, including in some cases adjustments without a material impact)⁵⁶, and above materiality for **50 programmes**⁵⁷. For these programmes (but three in CZ, IT and RO) 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 27 programmes in EL and PT, 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 (EL) or pending the possible impact of on-going action plans (PT). For 12 programmes in ES, IT and PL, the recalculation is due to systemic errors related to public procurement (e.g. sub-contracting issue) or eligibility. 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 audit authorities.

REGIO took these results into account to assess the need for adjustments to reportable rates for the next accounting year (assurance packages received by 1 March 2022) and thus for possible additional reservations for 2021.

For the accounting year 2020-2021, all assurance packages were received by 1 March 2022, including audit results and opinions, showing that the COVID restrictions had no impact on the capacity for programmes to remain compliant with applicable rules and to carry out the necessary verifications and audits. **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 for 2021**.

2020-2021 accounting year

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

REGIO has thus carried out an assessment⁵⁸ (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 but a few (for which there is no indication of a need for additional reservations at this stage).

⁵⁵ 1 DE, 2 FR regional control bodies, 1 IT, 2 PL regional control bodies, 1 SK and 1 UK.

⁵⁶ In addition, for 19 OPs (1 DE, 9 FR, 3 HU, 3 IT, 2 PL, 1 SI), 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%).

⁵⁷ 1 CZ, 5 ES, 3 FR, 17 EL, 7 IT, 1 LV, 2 PL, 10 PT, 1 RO, 2 SK and 1 UK.

⁵⁸ 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 2022 that **285 accounts with ERDF/CF expenditure can be accepted**⁵⁹. The Commission expects to formally accept these accounts by 31 May 2022, in line with the regulatory deadline. In one case, the accounts cannot be accepted due to adverse opinion of the audit authority⁶⁰.

Regarding the reportable residual total error rates for the assurance packages received by March 2022 (either total error rate reported by the audit authority or rate adjusted by REGIO at this stage of the assessment): REGIO notes at this stage that for 84 programmes the reportable total error rate (a measurement of the effectiveness of management and control systems) is above 2%, but the authorities applied sufficient financial corrections on time for the accounts in 61 cases (and therefore the residual risk in the reported accounts was below or equal to 2%), further demonstrating the importance of Member States' audit authorities in the overall control system for EU funds under shared management. **For the remaining 23 programmes**⁶¹, **material residual total error rates** still affect the accounts submitted by 1 March 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.

In 2021, the **Commission requested audit authorities to pay particular attention to new risks related to the flexibilities introduced with the CRII and CRII+**

Greece – Risks linked to CRII expenditure

A REGIO audit detected that the managing authority did not perform checks on the reliability of the tax declarations corresponding to the Repayable Advance Scheme, which was the main action under the CRII. Once the risk was identified by DAC auditors, the Greek authorities took the necessary actions to estimate the risk of irregular expenditure (eventually found to be low) and provided the necessary level of assurance on the legality and regularity of the concerned expenditure in the accounts submitted in February 2022.

as well as to the risks of unjustified use of emergency procedures in public procurement. These risks materialised in four Member States, where issues were detected by audit authorities (two cases, IT (6 programmes) and ES) or through Commission audits (two cases, EL, LT).

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 and further EU audit results, REGIO can conclude by mid-April 2022 that **management and control systems:**

- **function well or sufficiently well for 266 programmes** (91%), covering 91% of expenditure under assessment⁶². This provides assurance that the underlying transactions and expenditure declared in these accounts, as well as expenditure further

⁵⁹ 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.

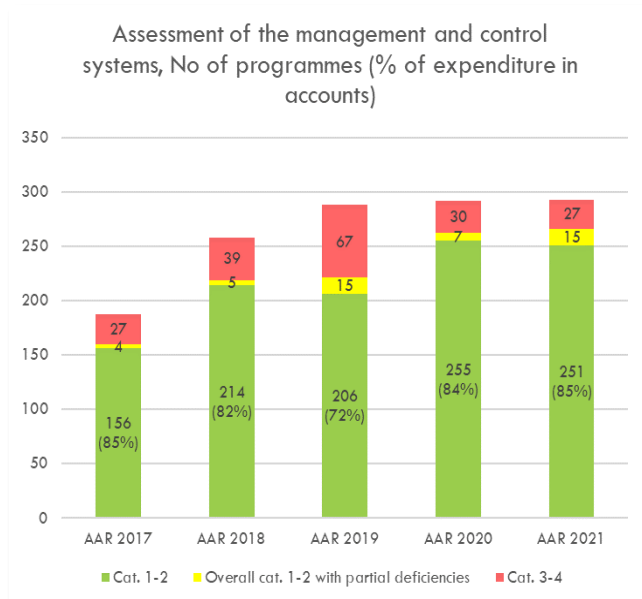
⁶⁰ FR.

⁶¹ In 3 out of these programmes (1 CZ, 1 FR and 1 ETC), the audit authorities themselves have reported a residual risk above 2% due to unfinished audit work or the implementation of action plans. For 5 programmes (4 IT and 1 PL), REGIO has re-calculated (increased) the residual risk due to systemic issues related to public procurement or eligibility, having impact on previous accounting years as well. For 10 programmes grouped under a common sample (PT), REGIO has prudently re-calculated (increased) the residual risk reported pending the results of an on-going action plan concerning previous accounting years that may also impact the latest reported error rates. For the remaining 5 programmes, REGIO auditors have been able to provide a recalculation of the reportable residual risk based on information available from its own audits and from the extended desk review of the assurance packages up to the moment of signature of this AAR.

⁶² This includes 15 programmes with only partial deficiencies, as shown on the graph.

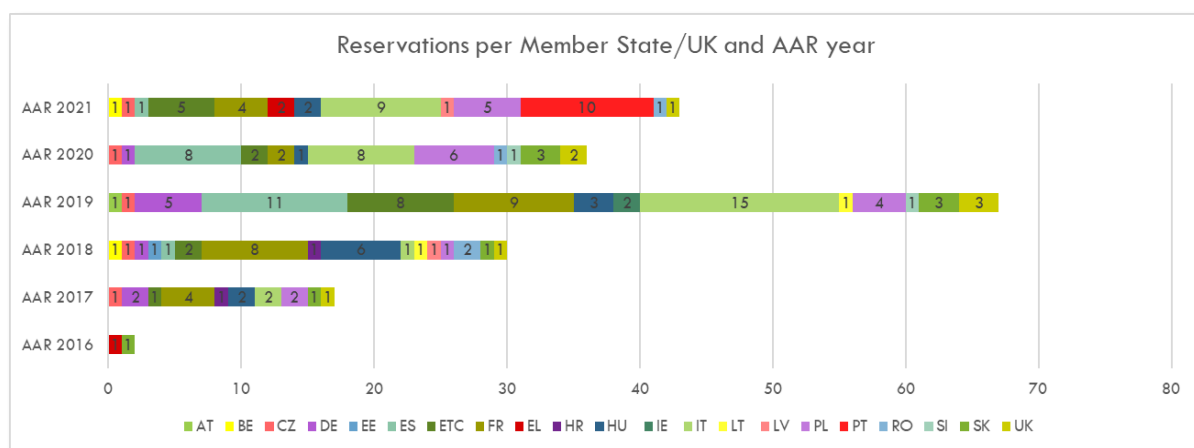
declared by these programmes in 2021 under the on-going accounting year 2021-2022, are not affected by a risk of material level of irregularities.

- **present serious deficiencies for 27 programmes⁶³**, representing 9% of expenditure certified in the 2020-2021 accounts. For these programmes, the management and control system works only partially and substantial improvements are needed.



This number shows that the improvement reported last year compared to the two previous years was confirmed in 2021, as indicated in the graph. It shows the continuous efforts carried out by programme authorities with the Commission's support to improve compliance with rules and the impact of audit recommendations on systems, where needed.

REGIO issues reservations in the AAR for all programmes or part of programmes for which the management and control system is assessed as not functioning sufficiently well (in category 4), and with a risk for the EU budget estimated above the 10% payment retention⁶⁴. In 2021, **43 ERDF/CF⁶⁵** from the 2014-2020 period are in reservation⁶⁶. The reasons for reservations (which may be cumulative) are: significant deficiencies in the functioning of the management and control system (6 cases); significant deficiencies in the functioning of part of the management and control system (17 cases); programme residual error rate above 2% (17 cases⁶⁷) and programmes with residual error rates >2% and significant deficiencies in the functioning of the management and control system (6 cases).



⁶³ 1 CZ, 4 ES, 8 FR, 3 IT, 1 PL, 2 SK, 1 UK, 7 ETC.

⁶⁴ Criteria for reservations and the definition of categories 3 and 4 are explained in Annex 5.

⁶⁵ and 3 ENI-CBC programmes, see the assurance for ENI-CBC programmes in Annex 7K.

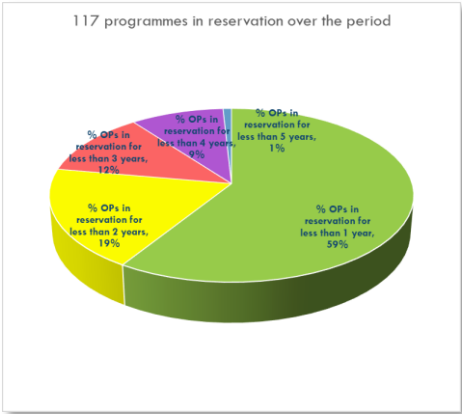
⁶⁶ See Annex 9B.

⁶⁷ Including for 10 programmes in PT covered under a single sample for which REGIO prudently re-assessed the RTER pending the results of on-going action plans for previous accounting years that could 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** (4 cases in 2021) and applies financial corrections (9 cases in 2021) based on OLAF final case reports received, following a contradictory procedure with the authorities and beneficiaries concerned.

REGIO has therefore the tools to analyse the individual situation of each programme and to report the specific, individual weaknesses identified in the AAR (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 decertify important amounts from the programme accounts, each year, when they detect irregularities or when doubts arise concerning expenditure previously declared during the year: EUR 3.2 billion in the accounts received by 1 March 2022. Part of these deductions concern prudent, temporary withdrawals pending further verifications on the legality and regularity of the concerned expenditure⁶⁸. Some 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 expenditure; otherwise the withdrawn expenditure becomes a definitive correction⁶⁹. However another part of **these amounts withdrawn from the payment claims and accounts** are **definitive corrections, for a reported amount of EUR 1.89 billion**⁷⁰ in the 2020-2021 accounts (representing 2.8% of the total expenditure declared). These definitive implemented corrections were the result of management verifications, audits by audit authorities (EUR 907 million representing 1.3% of the total expenditure declared) or follow-up to accepted findings from Commission and ECA audits or OLAF investigations⁷¹. 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 led in practice to an increased corrective capacity of Member States, thus

⁶⁸ Estimated by REGIO at 59% 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.

⁶⁹ 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 reported by the Commission in the 2020 AAR were re-declared as eligible expenditure in the accounts submitted by programme authorities by 1 March 2022. This information is therefore being assessed by REGIO for each programme as part of the assurance package assessment.

⁷⁰ In total expenditure declared (including public –European and national- and private contributions).

⁷¹ EUR157 million; see annex 7H for the amounts of corrections accepted by Member States in 2021 at the request of the Commission.

reducing the need for the Commission to step in, for ex. through formal Commission decision for financial corrections.

In any event, 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 beyond 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 to improve the functioning of the management and control systems** and of the concerned programme authorities with a view to prevent recurring irregularities. REGIO does not resume payments until it has audit evidence that the systems were improved and/or appropriate financial corrections applied.

Through additional financial corrections when this is deemed necessary, REGIO has in place an effective mechanism for correcting additional errors, when Member States failed to do it (or do sufficiently) in first instance. During the reporting year **REGIO's corrective capacity amounted in total to EUR 157 million of additional corrections** (representing 0.23% of the total expenditure declared in the accounting year)⁷².

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 bring the residual risk below 2%, following due contradictory procedures to respect the right of defence of the concerned programmes' authorities. REGIO estimates that for the accounting year 2020-2021 under review, once the required additional financial corrections will have been applied, the **'risk at closure'** will come **down to 1.2%**, well below materiality⁷³.

For previous AARs, this led to **additional corrections accepted of EUR 225 million cumulatively** 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 below 2%, as anticipated. **This reflects the Commission's multiannual corrective capacity mechanism.**

See Annex 7G for further details on the number of payments stopped, the warning letters sent, the suspension procedures opened and Annex 7H for the financial corrections in 2021.

Actions undertaken in 2021 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 2021 in Annex 7E):

⁷² Financial corrections accepted by the Member States in the year, as a result of REGIO audits (EUR 146.5 million), follow up to ECA audit findings (EUR 10 million) and to OLAF investigations (EUR 0.06 million), see annex 7H.

⁷³ The amount at risk at closure in the 2021 AAR is calculated by applying the estimated risk at closure to the 2021 relevant expenditure.

Sharing common audit tools: the Commission audit services **share with AAs their detailed audit check lists.** AAs can thus review and complement / update their own checklists, as needed. In 2021, the Commission further updated its checklist for audit of operations and shared it with AA. Furthermore, the audit methodology related to the assessment of the management and control system and risk-based management verifications for the 2021-2027 period was discussed with the audit authorities.

- **Support to 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.

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

- **Promotion of less error-prone simplified cost options (SCO)** by providing assistance and support to programme authorities to prepare and assess the planned SCO schemes for 2021-2027 programmes.

- Provision to Member States, free of charge, of the **data mining tool Arachne** to increase capacities to detect irregularities or fraud suspicions or possible conflicts of interest.

- **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, for ex. by putting in place further guidance or targeted trainings for the concerned desk officers.

Tackling the non-detection of errors by some auditors in the audit authorities

When its audits point to errors not detected by an audit authority, DAC carries out an assessment to verify if the non-detection is punctual or due to a more systemic issue (lack of appropriate check, gap in the audit approach or wrong interpretation of the applicable rules). Recommendations are thus made towards the audit authority to strengthen or correct their approach.

Moreover, audit authorities requested to have an overview of all errors found by DAC audits in all Member States and not detected in first instance by the concerned audit authorities, to learn from each other's mistakes. This led to a detailed seminar in November 2020 with all audit authorities, with detailed presentations and explanations by the Commission auditors on their audit findings so far and correct approach to public procurement, State aid or eligibility errors (see AAR 2020). Such a seminar is planned to be repeated in 2022, based on additional DAC audit findings since November 2020, since it has proven to be a good basis for mutual learning.

More details on the most common irregularities reported in 2021 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 71, in accordance with the common typology of errors agreed and shared between the Commission and the Member States.

Shared management 2007-2013: assurance building process

Closure status

- **99%** of the 322 programmes fully closed (273) or pre-closed (46) for the uncontested part
- Residual risk rate at closure is **0.38%**

REGIO has fully closed or pre-closed 99% of the 322 programmes of the 2007-2013 period since 31 March 2017, the deadline for submitting closure packages (see Annex 7J).

In 2021, REGIO assessed the additional information provided by Member States and could further progress on the closure of the remaining 2007-2013 ERDF/CF programmes: it has resolved two out of 10 pending reservations. In 2021 REGIO paid EUR 598 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 141 million (see Annex 7J).

For seven ERDF/CF programmes in three Member States (3 IT, 1 HR and 3 RO) the Commission considers that serious issues remain and therefore it cannot authorise the closure payment yet. These programmes are put in reservation mostly 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 in order to (pre)close these programmes as soon as possible. However, the final payment for these programmes will only take place when the relevant level of financial correction is accepted and implemented by the Member States (or through a Commission decision).

Following the examination of the closure packages, REGIO has either confirmed or further adjusted the reported error rates and residual error rates based on all additional information, including follow-up to its own audits. REGIO is therefore able to conclude that **the residual risk rate** applied to the expenditure certified for the whole **2007-2013 period is now 0.38%**. 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 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.

Other management modes and other Funds assurance building process

The assurance building processes and the control results for ENI-CBC, European Solidarity Fund and direct management and indirect management described in detail in annexes 7K, 7L and 7M respectively.

Conclusion on the protection of the EU budget in 2021

REGIO's portfolio consists of segments with a relatively low error rate, i.e. programmes with reported error rates below 2%, 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, 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 2021 expenditure amounts to **EUR 981.4 – 1,300.2 million**, representing **1.9% – 2.5%** (maximum estimation) of the DG's total relevant expenditure for 2021. This is the AOD's 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 be subject to ex-post corrections in subsequent years, following contradictory procedures. The conservatively **estimated future corrections** for 2021 expenditure amount to **EUR 374.8 – 693.6 million**.

The difference between these amounts (risk at payment – estimated future corrections) results in the **overall⁷⁴ risk at closure estimated at EUR 606.7 million**, representing **1.1%** of the DG's total relevant expenditure for 2021.

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.

Table X: Estimated risk at payment and at closure⁷⁵

REGIO	Relevant expenditure	Estimated risk (error rate %) at payment (min. – max.)		Estimated future corrections and deductions (min. – max.)		Estimated risk (error rate %) at closure	
		(1)	(2)	(3)	(4)	(5)	(6)
	m EUR	m EUR	%	m EUR	%	m EUR	%
2021-2027 ERDF/CF/JTF	-	0.0 – 0.0	0.0 – 0.0	0.0 – 0.0	0.0 – 0.0	0.0	0.0
2014-2020 ERDF/CF	52,421.5	978.2– 1,295.3	1.9 – 2.5	374.1- 690.8	0.7 – 1.3	603.5	1.2
2014-2020 IPA-CBC/ENI	89.7	0.3 – 2.1	0.4 – 2.4	0.0 – 1.8	0.0 – 2.0	0.3	0.4
Urban Innovative Actions	76.3	0.3	0.3	0.0	0.0	0.3	0.3
2007-2013 ERDF/CF	148.4	0.6	0.4	0.0	0.0	0.6	0.4
pre-2006	132.7	0.7	0.5	0.0	0.0	0.7	0.5
EUSF	75.6	1.4	1.8	0.0	0.0	1.4	1.8
Brexit Adjustment reserve	-	0.0	0.0	0.0	0.0	0.0	0.0
Pilot projects – prep. actions	2.1	0.0	0.5	0.0	0.0	0.0	0.5
Tech. assistance (direct)	87.6	0.0	0.0	0.0	0.0	0.0	0.0
Tech. assistance (indirect)	-	0.0	0.5	0.0	0.0	0.0	0.0

⁷⁴ Not only 2014-2020 ERDF/CF.

⁷⁵ The full detailed version of the table is provided in Annex 9.

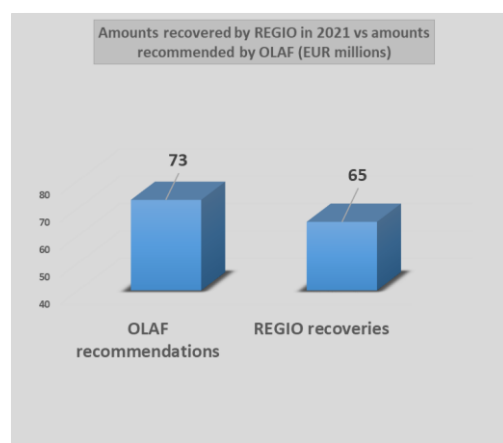
REGIO	Relevant expenditure	Estimated risk (error rate %) at payment (min. – max.)		Estimated future corrections and deductions (min. – max.)		Estimated risk (error rate %) at closure	
(1)	(2)	(3)		(4)		(5)	
	m EUR	m EUR	%	m EUR	%	m EUR	%
DG total	53,033.8 ⁷⁶	981.4 – 1,300.2	1.9 – 2.5	374.8 – 693.6	0.7 – 1.3	606.7	1.1

b) Fraud prevention, detection and correction

REGIO has developed and implemented together with EMPL since 2008 a Joint Anti-Fraud Strategy (JAFS) on the basis of the methodology provided by OLAF. DG MARE has joined JAFS. The last update of this strategy in December 2019 was based on an updated risk assessment and it is aligned with the objectives of the Commission's over-arching Anti-fraud Strategy (CAFS) adopted in 2019. The implementation of the JAFS is being monitored and reported to the management yearly at the moment of the drafting of the AAR.

During 2021, all actions planned in accordance with these anti-fraud strategies for which REGIO is in the lead or associated were successfully implemented or continuously being implemented. More particularly, in 2021 the following key anti-fraud measures were taken which contributed to the implementation of the JAFS:

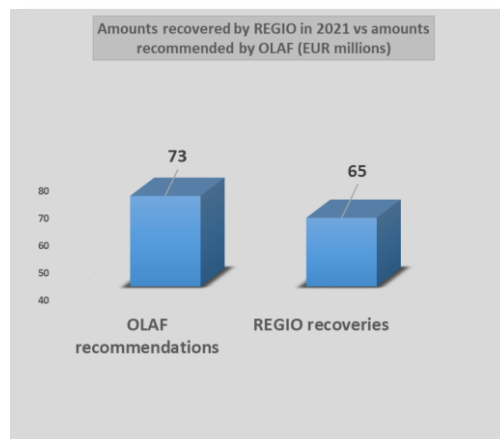
- The Commission identified with the audit community new risks of irregularities and possible fraud linked to the additional funding introduced by the 2014 – 2020 programme amendments to integrate CRII/CRII(+) and REACT-EU measures. Consequently, in March 2021, REGIO asked the programme authorities to update their fraud risk assessment and to adapt accordingly their anti-fraud measures. The letter mentioned in particular the risks of double financing linked to the performance based important additional funding made available via the Recovery and Resilience Facility (RRF) for thematic objectives partly overlapping with cohesion programmes.
- 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 provided them with the following specific assistance:
 - The invitation to Member States authorities to make systematic use in the project selection, award and implementation phases of the Commission specific data-mining and risk scoring tool **Arachne** (as per Action No 2 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 2021, the actual number of connections to Arachne as well as the number of users exceeded the planned



⁷⁶ Relevant expenditure = payments made (EUR 56,341.58 m see p.31) minus pre-financing, plus cleared pre-financing, plus 10% retention, minus deductions and cleared amounts.

target but still did not reflect a coherent and systematic use in all Member States, or within certain Member States.

- The “**EU-Funds Anti-Fraud Knowledge & Resource Centre**” is available on the Europa website since end of May 2021 (as per Action No 1 of JAFS). It consists of a video based e-learning module and an on-line capacity building module and provides Member States’ authorities and anti-fraud practitioners with tools and materials that can assist them on how to prevent, detect, report and transmit fraud and corruption with respect to EU funds for prosecution. Since its opening, the site has already been visited more than 12,000 times. The centre also offers a four-day training course in cooperation with the European Institute of Public Administration (EIPA) on identifying and preventing fraud and corruption in ESI Funds. The first course in March attracted more than 50 participants from programme authorities. **Integrity Pacts**, which are a civil society supported monitoring tool aiming at increasing transparency, accountability and good governance in public contracting, are promoted in the 2021-2027 programmes under design and assessment. With the conclusion of the 18 pilot projects (in 11 Member States from 2016 to 2021), the Commission encourages Member States to continue implementing Integrity Pacts in targeted projects financed by EU funds [to gradually mainstream Integrity Pacts in their programmes](#), and provides support to Member States in that regard, i.e. with the recently published [toolbox](#).



- Actions of fraud prevention involving REGIO staff via an e-learning module focused on anti-fraud awareness raising.
- Participation to 18 anti-fraud network (FPDNet) meetings with OLAF and 11 bilateral meetings with OLAF targeting specific fraud cases.

REGIO also contributed to implementing the Commission anti-fraud strategy and its action plan by ensuring regular follow-up of OLAF’s financial recommendations. During 2021, REGIO completed the follow-up of nine OLAF cases adopted with financial recommendations by OLAF in 2017-2021. REGIO recovered EUR 65 million related to cases as from 2010, which corresponds to a recovery rate of 89%⁷⁷. At year end, a total of 139 OLAF cases related to ERDF/CF were under investigation or follow up contradictory with the Member States, at different stages.

On the basis of the available information, REGIO has taken care that Member States put in place effective and proportionate anti-fraud measures. However, a more detailed analysis of new emerging risks will be carried out during 2022 or 2023, in particular related to the start of the 2021-2027 period.

⁷⁷ The difference is due to 2 cases of reduced recovery justified by a lack of a clear breach of the regulatory, not providing a sufficient legal basis for imposing financial corrections, and by a reduced correction rate due to the non-fraudulent qualification of the case.

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

In 2021 REGIO carried out or launched four **audits** to cover the measures taken by specific programmes or Member States to avoid **conflicts of interests**, in PL (calls for support to SMEs under the CRII+ measures), in RO (public procurements), LV (selection of projects by Competence Centres) and MT (audit launched in 2021 and to be completed in 2022). Serious deficiencies were detected in PL and LV, requiring additional measures by the concerned programme authorities to effectively mitigate any risk of conflicts of interest.

Following allegations of conflict of interests in one Member State in 2018 (CZ), REGIO carried out an audit which was concluded by a final audit report end 2019. In 2021, REGIO continued to follow up the implementation by the concerned programme authorities of its audit conclusions and recommendations. At the end of 2021, progress was achieved for most audit recommendations but three were still under implementation. The concerned programme authorities agreed not to declare any expenditure to the EU budget for any of the operations affected by the audit.

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 12.7 million, see Annex 3, table 4).

Intangible assets are 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

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

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

In the revision programme on the accounts of REGIO, controls are put in place to verify if the cost-centre is correctly encoded including by other DG's contributing and using 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

After the specific audits it has carried out⁷⁸, REGIO draws reasonable assurance on the

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

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 and audit authorities 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 2021. REGIO was satisfied based on additional information received in 2021 that it could close the procedures launched previously.

The 2014-2020 Closure guidelines adopted in October 2021 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 foreseen through webinars and trainings.

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 2021 (million EUR)	% of Payments
Shared management	56,341	99.8%
Indirect management	17	0.03%
Direct management	85	0.2%

Indicator	Objective	Comment	REGIO Score	EC Score
Timely Payments	Ensure efficient processing of payments within the legal deadlines	At 99%, REGIO's score is above the Commission average. 3,168 payments were made. For the amounts of the payments by management mode, please see the table above.	99%	98%

In conclusion, REGIO considers its controls to be efficient and its indicator results are at or above the Commission average. See also Annex 4 for additional control indicators.

Initiatives to improve economy and efficiency of financial and non-financial management

Example



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 European Structural and Investment Funds 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 taking advantage of them.

2021 served to further promote SCOs. A guidance Note on SCOs was adopted and published. It is useful for the interpretation of SCO provisions of 2014 – 2020 period to which it relates but also for post-2020 provisions where similar issues are raised. REGIO also put in place the Transnational Network (TN) of SCO ERDF and CF practitioners and held related meetings. The Network acts as a platform for regular exchanges of experience and supports the Member States across the EU in improving their use and by facilitating exchanges of experience, capacity building and networking, while capitalising and disseminating outcomes of transnational cooperation.

3. Economy (cost 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 Commission cost is estimated at **0.16%** (EUR 91 million) of total payments of the year, which decreased compared to the result reported in 2020 (0.20%).⁷⁹ This figure excludes evaluation activities. The cost is also lower because the denominator (total payments under shared management) are almost 30% higher in 2021 compared to 2020 and therefore the cost of controls respectively lower. 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 **0.15%** (EUR 85 million).

In relation to the cost of controls in Member States, a study⁸⁰ assessed the cost at Member State level for the 2014-2020 period and concluded that **2.2%**⁸¹ 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 Commission costs amount to **8.7%** (EUR 1.5 million) of total payments of the year managed through **indirect management**.

The estimated annual overall Commission costs amount to **4.9%** (EUR 4.2 million) of total payments of the year managed under **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.

⁷⁹ 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 2021 control activities and the costs related to outsourced audit work.

⁸⁰ from 2018: https://ec.europa.eu/regional_policy/en/information/publications/studies/2018/new-assessment-of-esif-administrative-costs-and-burden

⁸¹ EUR 22,600 per EUR 1,000,000 of eligible funding

2.1.2. Audit observations and recommendations

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

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 2020** focused on the audit work already performed at national level in assessing and testing management and control systems but before the Commission could complete its own audit work described above. This is a step that builds on the reinforced control and assurance framework for the 2014-2020 period.

For its annual report the ECA reviewed 29 assurance packages for 2014-2020 programmes (26) and 2007-2013 closures (3). Audit authorities had reported 64 quantifiable errors in the assurance/closure packages for the 227 transactions the ECA sampled, which mainly concerned ineligible costs and infringements of internal market rules. In the sample examined, the ECA identified and quantified 23 additional errors that had not been detected by the audit authorities. Taking account of the errors previously found by the audit authorities and corrections applied by programme authorities (total of EUR 834 million for both programming periods), **the ECA estimated the level of error to be 3.5% in 2020** (down from 4.4% in 2019 and 5.0% in 2018).

The Commission notes that the error rate it reported in the 2020 AAR (2.1% with a maximum rate of 2.6% for REGIO) is fully within the ECA error range for cohesion (0.9% - 6.1%) for the second year. REGIO thus considers that the error rate it disclosed in its 2020 Annual Activity Report reflects a fair estimate of the level of risk.

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, or that appropriate remedial action plans are implemented in the concerned systems to prevent errors in the future. In its 2020 Annual report, the ECA assessed that the recommendations issued in 2017, 2018 and 2019 whose implementation date was due, have been implemented, either fully or in most/some respects, except one recommendation on the VAT eligibility in cohesion policy issued in 2017⁸².

The ECA's assessment of the work of audit authorities: In 2021, the ECA assessed the work of 21 out of the total number of 116 audit authorities for Cohesion, in 17 Member States.

⁸² The Commission considers however that it has addressed the Court's concern on this issue through an alternative proposal on VAT eligibility for post-2020.

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 26 assurance packages (46%) for the 2014-2020 period was actually recalculated above 2% (although it was reported to be below). The Commission had also reported a residual error rate above 2% for 11 of these 12 assurance packages. The Court concluded that the weaknesses found in the work of several audit authorities currently limits the reliance that can be placed on their work.

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, but not entirely in all cases, due to complex projects and rules. The Commission also agrees 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.

The ECA also published a special report on the work of the Commission to supervise the work of audit authorities and to report its estimate of the remaining error rate in the accounts for Cohesion policy (KPI on legality and regularity) in the annual activity reports and annual management and performance report. ECA concluded that the Commission only provides a minimum estimate of the level of error that is not final. The Commission underlined that for low risk programmes a thorough desk review allows to obtain assurance. It also takes further action in case of identification of possible remaining risks, as reflected in the maximum value of the KPI on legality and regularity, estimated precisely to cover possible additional risks not detected through its audit work. The KPI and its maximum value were within the ECA's statistical interval in the last two years, showing that this is a robust approach although the methodology is different than the Court's statistical approach. The Commission thus partially accepted two recommendations of the Court and rejected another two.

See Annex 70 for further details on the ECA's annual report for 2020 and the results of **other ECA's audits and reports published in 2021** 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 2021 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 the table of Annex 7P. They will be addressed in line with the agreed action plans.

In 2021, the IAS completed two audits in REGIO: Audit on the implementation of **financial instruments** under ERDF/CF 2014-2020 in REGIO and an Audit on the processes for **coordinating technical support to the Member States in REFORM** (including the contribution of REGIO and EMPL). In reply to the recommendations received, REGIO has developed action plans for all recommendations, which were accepted by the IAS. They were implemented by REGIO as planned. Please refer to Annex 7P for more information on these audits. In addition, a very important recommendation on data reliability stemming from the Audit on **Monitoring the implementation and performance** of 2014-2020 OPs by REGIO, EMPL and MARE was implemented in December 2021.

The IAS carried out two audits in 2021, the final reports of which were issued in January 2022:

- Audit on the **preparation for the 2021-2027 programming period** by DGs REGIO, EMPL and MARE. The IAS concluded that although DGs REGIO, EMPL and MARE have, up to now, designed and implemented adequate processes to support the start of the 2021-2027 period, there are significant weaknesses as regards the support to Member States (deficiencies in procedures to provide guidance for Member States) and the timing of the preparation and operational start of the programming period (delays and internal reporting). In response, REGIO is preparing a clear procedure for issuing (non-) guidance documents and creating a common repository of documents on the REGIO Wiki extranet accessible for the national authorities implementing the policy. In addition, REGIO further improved the communication and coordination between SFC Team and CPR DGs and increased reporting to senior management, including on country specific issues.
- Audit on **interruptions, suspensions and financial corrections** for ESIF 2014-2020 by DGs REGIO, EMPL and MARE. The IAS concluded that there are significant weaknesses, which impact the effective implementation of the DGs' processes for interruptions, (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), suspensions and financial corrections (namely 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) will clearly explain in a guidance note 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. The criteria for deciding on interruptions will also be reviewed in the light of persisting material levels of error reported by the ECA for the cohesion area. Future AARs will include an analysis of the resulting impact of the approach. 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 will be included in the next AARs. The effectiveness of warning letters and the underlying procedures will be assessed as well. Finally, the financial corrections manual will be updated and future AARs will analyse the impact of the provisions on net financial corrections on REGIO's corrective capacity.

As to the impact of COVID-19, the IAS has reviewed the related non-critical risks that REGIO highlighted in its regularly updated internal risk register. Any COVID-19 related issues and mitigating measures linked to the implementation of the EU budget can be found throughout this AAR – none of which has however given rise to specific concerns by the IAS. Section 1.2 covers REGIO's support to recovery from the COVID-19 pandemic.

REGIO considers that, in view of the actions already put 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 the 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.

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 Reports;
- A register of reported non-compliance events and requested exceptions;
- The results of the IAS audits and the follow-up of their recommendations;
- The results of ECA audits and the follow-up recommendations are reported in 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 minor deficiencies were identified related to control Principle 1**, notably as regards ethics and anti-fraud awareness, which require better internal communication.

Control environment (Principle 1): The weaknesses detected on the indicators on ethics and anti-fraud awareness require improvements, such as intensified communication actions. In fact, the trainings and information sessions delivered did not reach the set target. In this regard, focus has been put on mitigating the fraud risks related to the shared management system. However, the need for action regarding the measures in the area of training of newcomers persists and will be addressed in 2022.

The improvements or remedial measures implemented or envisaged are the continuous monitoring in the affected areas, as well as intensified communication actions.

In light of the programmes under reservation, the risk analysis, the IAS and ECA recommendations (and the deficiencies highlighted), it can be concluded that, in view of the actions already put 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 (2019-2020 in this AAR) as confirmed by the Commission once the control cycle was completed (KPI5)⁸³, to the "relevant expenditure" of the Commission reporting year.⁸⁴

The risk "at closure" indicates the remaining risk to the 2021 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 2019-2020 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, the estimated risk at payment linked to the 2021 relevant expenditure is calculated at **1.9% - 2.5%** taking into account the financial corrections already made and taking a prudent approach for the maximum risk due to possible additional risks undetected⁸⁵.

For **ENI-CBC programmes** with neighbouring countries, REGIO concludes that it has reasonable assurance as regards legality and regularity of transactions in the 2021 reporting year except for 3 programmes due to: absence of the required audit work in one programme (Russian part of the programme); required corrections to reduce the RTE below 2% not carried out; and deficiencies detected on the work of the audit authority.

As a result, for 2014-2020 REGIO concludes that it has reasonable assurance as regards legality and regularity of transactions in the 2021 reporting year except for **46** programmes due to the deficiencies detected affecting all or part of these programmes.

⁸³ 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)

⁸⁴ Payments made during the 2021 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 2020-2021

⁸⁵ There are 50 programmes for which there is evidence or indications at this stage point to a confirmed residual total error rate 2019-2020 above 2% and the need for additional corrections. REGIO will ensure that the required additional financial corrections are carried out, following appropriate contradictory procedures. The risk at closure for ERDF/CF 2014-2020 programmes is calculated at 1.2% after estimating such future corrections still required to bring down to 2% the residual total error rates for all programmes.

Their quantification is calculated at EUR **342.9 million**.

For the **2007-2013** period, the **estimated average risk** linked to the 2021 relevant expenditure is calculated at **0.38%**. As the 2007-2013 programming 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 **7 ERDF/CF** programmes, due to the level of financial corrections which still need to be applied as part of the closure process and **one** reputational reservation for an **IPA-CBC** programme. 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 Solidarity Fund** (no material deficiencies identified affecting the 2021 paid expenditure), REGIO can conclude that it has reasonable assurance as regards legality and regularity of transactions.

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

Reservation Title	Financial Impact (in m EUR)		Residual error rate 2021	Evolution
	2020	2021		
Reservation concerning ERDF/CF management and control systems for 38 programmes of the 2014-2020 programming period in 11 Member States and the UK, 5 ETC and 3 ENI-CBC programmes	262.1	342.9 ⁸⁶	See individual Programmes Annex 7B	Maintained
Reservation concerning ERDF/CF management and control systems for 7 programmes of the 2007-2013 programming period in 3 Member States and 1 IPA-CBC programme	0	0 ⁸⁷	See individual Programmes Annex 7J	Maintained

⁸⁶ Partial financial reservations are calculated with the following rates applied to the error rate and relevant expenditure: 2014BE16RFOP001 @27%; 2014FR05MOOP001 @39%; 2014GR16M2OP001 @10%; 2014GR16M2OP004 @25%; 2014HU16MOOP001 @25%; 2014IT16M2OP001 @21%; 2014IT16RFOP013 @10%; 2014IT16RFOP012@13%; 2014IT16RFOP015 @5%; 2014PL16M2OP007 @50%; 2014PL16M2OP013 @50%; 2014LV16MAOP001 @10%; 2014TC16M5CB007 @15%

⁸⁷ As last year, only non-financial and reputational reservations.

2.1.5. Declaration of Assurance and reservations

Declaration of Assurance

I, the undersigned,

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

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view⁸⁸.

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

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the 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:

- a reservation concerning ERDF/CF management and control systems for 38 programmes of the 2014-2020 programming period in 11 Member States and the UK, 5 ETC and 3 ENI-CBC programmes*
- a reservation concerning ERDF/CF management and control systems for 7 programmes of the 2007-2013 programming period in 3 Member States and 1 IPA-CBC programme*

Brussels, 25 April 2022

Marc Lemaître

"Signed"

⁸⁸ True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.

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 clearly establishing measurable targets and delivering results.

As a follow-up to the results of the 2018 **staff satisfaction survey**, a **Development Plan** including 19 actions was endorsed in June 2019 and fully implemented in 2021. The positive results were taken into account in the preparation of the **Local HR Strategy** that was endorsed in February 2021. It ensures effective management of human resources and the capacity to deliver on the business priorities. The strategy tackles the main issues to be addressed at DG level, such as talent management, organisation and culture, workplace, wellbeing and leadership. It is a result of an extensive consultation of staff in 2020. The strategy will be adjusted as necessary in 2022 to take into account both the Corporate HR Strategy and the result of the 2021 staff satisfaction survey. A communication campaign “We said, we did, we make it real!” was carried out in 2021 to remind colleagues of the actions completed under the 2019’s plan.

REGIO **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 and the HR Steering Committee. The Board decided in September, how the permanent posts received from the 2020 complementary allocation and the new contract agents paid from the resources of Next Generation EU should be distributed among units. The Board endorsed the way REGIO will have to contribute to the redeployment pool following the College decision on the 2022 allocation of resources, REGIO being put in cluster 3 (2% tax) and will have to return 11 post (8 AD and 3 AST) by 16 May 2022.

It should also be mentioned that in 2021, REGIO dedicated significant resources to the RRF related processes (estimated at around 10-15% of REGIO’s operational units’ human resources) and to the New European Bauhaus for which a project team of around 45 colleagues has been created.

The **mobility exercise** continued to offer new job opportunities for colleagues occupying the same post for more than five years. The objective was to allow staff to develop new skills and competences and at the same time to give the DG the opportunity to profit from better sharing of ideas and experiences.

The measures to reach **gender equality** at all levels of management by the end of 2024 includes a target for REGIO of three first female appointments to middle management between 2020 and 2022 (reached in 2020). Particular attention is also paid to **diversity and inclusion**. REGIO is part of the Task force for equality within the Commission. An Equality Work Plan was prepared and endorsed in September 2020. It included internal actions ensuring equality for our staff and external actions mainstreaming equality in cohesion policy. So far, a majority of these actions have been achieved or are in progress.

The above actions were accompanied by **e-learning** development and an increased online training offer, included in the annual **training plan**. Integration of newcomers was facilitated by putting more emphasis on e-learning and targeted communication. In the absence of the corporate offer, the career development programme for REGIO AD officials was organised at the end of the 2021 (continuation in 2022).

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 in 2021 on the evolution of the safety measures in the COVID-19 context and the vaccination campaigns. The dedicated pages on the MyRegio intranet are the reference for an easy access to corporate and REGIO news and updates, IT guidance and well-being tips.

During 2021, REGIO has encountered several big challenges: the creation of a Joint Audit Directorate for Cohesion which moved to the B28 building, a move to the CSM1 building for the rest of the DG, and the adoption of the new ways of working for all staff. These changes took place relatively smoothly, despite the difficult context of the pandemic, thanks to the continuous communication to staff and a bottom-up approach via a dedicated web site on MyRegio and a series of staff meetings (online town halls) and online workshops and meetings.

The “Stories from the regions” initiative, that mixes internal and external communication, continued. 11 episodes were produced in-house and published on REGIO’s intranet as well as shared on our social networks. The whole 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

As the first year of the new programming period, 2021 was a crucial year for development and deployment of two new information systems **MyWorkplace** and **SFC2021** in coordination with several DGs sharing the co-development of these systems.

After months of testing, MyWorkplace (as the single workflow system for managing the business processes of the 2021-2027 period) was launched in July, thereby abandoning the backup solution in WAVE. As from June the deployment and training for REGIO users started in accordance with the submission schedule of the programming documents.

Meanwhile, developments of the technical components continued as outlined in the mid-year state of play of the **IT work plan** 2021. As regards the financial management system SFC2021, the main goal aiming at managing pre-financing payments and commitments was achieved in the second quarter 2021 as planned. As for MyWorkplace, other components and services were released according to the IT work plan 2021.

REGIO remains the centralised provider of a **common reporting service to all ESIF DGs, HOME** and **BUDG** for shared management. In 2021, 134 common and specific reports (or

significant revisions) were provided. In addition, significant achievements were realised on topics such as real-time reporting proof of concept, data analytics, ESIF Open Data Platform, embedded reports and technical migrations.

REGIO's workflow systems managing the programming period 2014-2020, **WAVE** and **SFC2014**, continued to be subject of developments, in particular the revision of REACT-EU processes (e.g. amendments, pre-financing) and a technical migration to Oracle 12c.

Major **structural changes in REGIO's** organisation required an active involvement of IT. Additional effort was needed from REGIO and EMPL during creation of the DAC, to jointly provide IT support to this new Directorate.

REGIO's relocation to **new buildings** – B-28, for the DAC in September, and CSM1 for the rest of REGIO in November - did not just imply a move to a new building but also to a **dynamic collaborative space** mode, introduced at corporate level in the context of the 2021-2030 corporate Building Policy. In this context, REGIO actively prepared and followed up the moves by ensuring the readiness for both the IT and **hybrid meeting room** equipment in B-28 and CSM1, in close cooperation with DIGIT, SCIC and OIB. In this context, special attention was given to the provision of a quick and effective hands-on dedicated support to all REGIO users in order to solve as quickly as possible any difficulties encountered in the first days and weeks of presence in the new buildings.

Furthermore, REGIO continued the successful provision of **IT services to REFORM** for the second year in line with the Memorandum of Understanding on shared services.

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.

Also, the **continuity of baseline IT services** provided to REGIO users as well as maintenance of **legacy systems** supporting earlier programming periods was ensured. In view of **progressively phasing out** some of these systems, alternative solutions were identified:

- The modules of the existing **legacy systems processing direct payments** (i.e. SysFin and WFS) are permanently replaced by ABAC workflow with the help of ARES e-signatory;
- **WFS, SysFin** and **SysCalc**, all based on outdated and unsecure IT tools will continue being hosted at the Data Centre until end of 2022 when their de-commissioning are planned;
- **SysAudit** is fully replaced by MAPAR and was in a read-only mode since the start of Q2-2021 and finally decommissioned in December 2021.

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**'. In 2021, the creation of the RegioWiki Extranet, has offered to external stakeholders the possibility to consult the 2021-2027 regulation and the related Questions and Answers.

Kohesio is a comprehensive public platform for cohesion policy projects and beneficiaries. It aims to increase communication, visibility and transparency on cohesion policy projects. Public, journalists, researchers and policy-makers can browse and discover, through concrete examples, how cohesion policy contributes to strengthen economic, social and territorial cohesion in the EU. Kohesio also offers up-to-date information at project level to support evidence-based and data-driven policy-making. After a successful pilot project developed by REGIO, CNECT and DIGIT, featuring six Member States, Kohesio scaled-up in 2021 to cover all 27 Member States. In January 2022, Kohesio contained information on 1.5 million projects and approximately 500,000 beneficiaries supported by the ERDF, CF and ESF, for a value of over EUR 500 billion in total investments.

3. Document management

REGIO Document Management Officer coordinated the move of the DG's physical archives between March and December. The exercise resulted in a reduction of the paper archives from 3 km to 1.2 km. The filing plans for the 2021-2027 period were updated to allow for setting up appropriate rules for automatic registration in Ares. 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 Regulation⁸⁹ taking the following steps:

- Complete review and update of existing records in the Data Protection Management System (DPMS) ensuring full compliance with data protection principles;
- Organisation of various awareness raising activities: introductory training on data protection, dedicated trainings for units, trainings on sensitive personal data and management of data breaches;
- 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 was given to the units to comply with their obligation to consult the European Data Protection Supervisor on the legislative processes;

⁸⁹ (EU) 2018/1725

- Ensure that procedures were available in the dedicated page in REGIO Wiki, where data controllers can find general information, guidance and updated templates.

The REGIO Data Protection Coordinator 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.

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. The DG also launched the establishment of a REGIO data governance structure.

Important steps have been taken regarding the accessibility, the sharing and the reuse of data. This is notably the case with Kohesio (see more on Kohesio above) which is a practical case of cleaned, interoperable and linked data usage. Kohesio follows by design the Commission Digital Strategy principles "Digital by Default and Once-only", "Openness and transparency", "Interoperability and cross-border". Co-developed by REGIO and CNECT it relies on open-source. It is a best practice in reusing Commission data to enhance knowledge and transparency, while also providing a policy tool.

Also key for the sharing and the reuse of data, a data strategy was drafted and started to be gradually implemented, in particular by the following points:

- Increasing the services delivered by REGIO reporting to include Artificial Intelligence, Dashboarding, and Self-serviced Data Analytics;
- Improving the existing reporting services by re-organising the current report catalogue;
- Optimisation of the data services by empowering users to explore data with the PowerBI tool (already included in the Office M365 suite) on ready-made, generic datasets made available to the public;
- Integration of PowerBI with Kohesio and RegioWiki;
- Further expansion of the Data Strategy for Reporting by creation of working groups with REGIO and other DGs in the ESIF family.

Finally, the work on geo-spatial information has progressed, notably with a deeper exploitation of geospatial information harvested from various sources, including Copernicus data derived from satellite imagery.

2.2.3. Sound environmental management

To contribute to corporate, EU and global efforts, and to meet the Paris objectives, REGIO has developed a strategy to reduce its carbon footprint. The strategy was developed in an inclusive manner, building on ideas from REGIO staff, thanks to the REGIO Green

Ambassadors initiative⁹⁰. 2021 was a second extraordinary year in a row, where digital communication/events and working from home became the new normal – all this having an impact on REGIO's sound environmental management objectives, mostly allowing to accelerate or over achieve targets in this area.

1. Greener flagship conferences/events

In line with the EU Eco-Management and Audit Scheme (**EMAS**), event organisers and partners are encouraged to use environmentally friendly materials, respecting the paperless and plastic-free guidance. Drawing on the lessons learnt during confinement and teleworking imposed by COVID-19, REGIO developed the **digitalisation of its events**. This way, REGIO saves carbon emissions and continued to boast a significant increase in digital attendance of its events.

2. Missions/Transport

REGIO endeavoured to reduce the amount of missions carried out, by replacing them where relevant and possible by **video-conferencing**. Several rooms in REGIO are equipped with videoconferencing tools and guidance. For unavoidable missions, the carbon emissions generated were offset⁹¹ as much as possible and alternatives were promoted, such as train or shared transport⁹². REGIO further promoted the use of public transport or **soft mobility** to reach events within Brussels and consider public transport for collective events (teambuilding, etc. outside Brussels). Telework continued to be the norm in 2021, helping to reduce emissions due to staff's reduced commuting.

3. Resources and waste

Bottled still water is no longer served in REGIO internal meetings. All bigger rooms are equipped with a **water fountain**. The **use of emails** should be further reduced by promoting **M365**, **SharePoint** or **Wiki**. All documents are saved electronically, when possible, paper copies are not kept anymore. **Electronic publications** should be the default. REGIO continued shifting to exclusively electronic signatures and pursued a paperless approach for those procurement and grant procedures for which corporate IT tools are already available. In addition, REGIO continued to promote and encourage the application of the **Green Public Procurement principles** in all tender specifications, selection and award criteria. All exchanges with Member States regarding shared management programmes (the bulk of REGIO's activities), are carried out in a paperless mode.

⁹⁰ Launched in July 2019 inviting REGIO staff to submit innovative ideas that would make REGIO a greener DG. The REGIO Green Ambassadors initiative won a prize at the EC EMAS Awards 2019 in the "most innovative local waste reduction best practices" category.

⁹¹ REGIO pursued its efforts in 2020 to encourage EMAS to develop a compensation scheme at corporate level.

⁹² This action would/will facilitate offsetting the carbon footprint linked to missions, but would require nevertheless 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).