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European Commission

2018

Annual Activity Report

DG Regional and Urban Policy

GLOSSARY OF TERMS

AAR	Annual activity report
AOSD(s)	Authorising Officers by Sub-Delegation
BUDG	DG Budget
CAFS	Commission Anti-Fraud Strategy
CBC	Cross-border Cooperation
CF	Cohesion Fund
CIMS	Committee on Public Procurement and Grants
CNECT	DG for Communications Networks, Content and Technology
COMP	DG Competition
CPR	Common Provisions Regulation
CRI	Catching-up Regions initiative
CSRs	Country-specific recommendations
DAS	"*Déclaration d'assurance*" i.e. Statement of Assurance
DG	Directorate general (of the European Commisison)
EBRD	European Bank for Reconstruction and Development
ECA	European Court of Auditors
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EIF	European Investment Fund
EMPL	DG Employment, Social Affairs & Inclusion
ENER	DG Energy
ERDF	European Regional Development Fund
ERTMS	European Railway Traffic Management System
ESI(F)	European Structural and Investment (Fund)
ETC	European Territorial Cooperation
EUSAIR	EU Strategy for the Adriatic and Ionian Region
EUSBSR	EU Strategy for the Baltic Sea Region
EUSF	European Union Solidarity Fund
FI(s)	Financial Instruments
FIR	Final Implementation Report
GHG	Greenhouse gases
GROW	DG Internal Market, Industry, Entrepreneurship and SMEs
HR	Human Resources
HRSC	Human Resources Strategic Committee of the directorate general
IAS	Internal Audit Service
ICT	Information and communication technology
IPA	Instrument for Pre-accession Assistance
IQR	Independent Quality Review
IUC	International Urban Cooperation
JAFS	Joint Anti-Fraud Strategy
JASPERS	Joint Assistance to Support Projects in European Regions
MARE	DG Maritime Affairs and Fisheries
MFF	Multi-annual financial framework

MOVE	DG Mobility and Transport
MS	Member States
OECD	Organisation for Economic Co-operation and Development
OLAF	European Anti-Fraud Office
OP	Operational programmes
REGIO	DG Regional and Urban Policy
RRR	residual risk rate (at closure for 2007-2013 programmes)
RTD	Research and Technological Development
RTER	Residual total error rate (in 2014-2020 annual accounts)
S3	Smart Specialization Strategies
SCO(s)	Simplified Cost Option(s)
SME(s)	Small and medium-sized enterprise(s)
STG	Stock-Taking Group
TA	Technical Assistance
TEN-T	Trans-European Transport Networks
TFEU	Treaty on the Functioning of the European Union
TER	Total Error Rate (in 2014-2020 annual accounts)
TO	Thematic objective
UIA	Urban Innovative Actions

Table of Contents

THE DG IN BRIEF

Directorate General Regional and Urban Policy (REGIO) reports to Commissioner Creţu, responsible for Regional policy. With approximately 700 staff members, the Directorate General is composed of seven directorates: a resources directorate, an audit directorate, a policy directorate and four implementing directorates. The Directorate General's structure and its matrix organisation facilitate internal coordination. The Resources Director is the Director in charge of Risk management and Internal Control.

The activities of the Directorate General are framed by the Treaties on the European Union and on the Functioning of the European Union.

Article 174 of the Treaty on the Functioning of the European Union (TFEU) provides that, in order to strengthen its economic, social and territorial cohesion, the Union is to aim at **reducing disparities** between 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, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps. To that end, Article 175 establishes the European Structural and Investment Funds (ESIF).

The activities of the Directorate General for Regional and Urban Policy contribute in various ways to most of the Commission priorities. The funds directly support the delivery of key EU priorities, the implementation of country-specific recommendations issued in the context of the European Semester and ensure the necessary investment conditions through the follow-up of ex-ante conditionalities for the 2014-2020 programmes.

REGIO's contribution is particularly significant for the delivery of five of the Juncker Commission's priorities:

(1) A New Boost for Jobs, Growth and Investment;

(2) A Connected Digital Single Market;

(3) A Resilient Energy Union with a Forward-Looking Climate Change Policy;

(4) A Deeper and Fairer Internal Market with a Strengthened Industrial Base;

(8) Towards a New Policy on Migration.

The EU is committed to creating more and better jobs and a socially inclusive society, thus contributing to the political priorities of the Commission. These goals were also at the core of the **Europe 2020 strategy**, which sets the overarching strategic framework for the 2014-2020 period.

REGIO provides support to deliver these objectives, notably through the interventions financed under the **European Regional Development Fund (ERDF)** and the **Cohesion Fund (CF)** which, together with the other European Structural and Investment (ESI) Funds[1], are the European Union’s main instruments for investment. Through the ERDF and CF, a critical mass of investment is delivered in key EU priority areas, to deliver structural change and respond to the needs of the real economy by supporting job creation, business competitiveness, economic growth, sustainable development, and by improving citizens’ quality of life, thus contributing to the goals of the Europe 2020 Strategy for smart, sustainable and inclusive growth and the objectives of Cohesion policy enshrined in the Treaty.

[1] European social fund (ESF), European Agricultural Fund for Rural Development (EAFRD) and European Maritime and Fisheries Fund (EMFF).

The implementation of these funds allows fulfilling the long-term Cohesion policy objectives of strengthening economic and social cohesion in the European Union. Thanks to the policy's specific features (e.g. alignment of investment to EU-wide priorities, concentration of resources on less developed and transitional regions, multiannual programming, place-based approach, multi-level governance, interregional cooperation), the supported investments bring strong European added value while respecting subsidiarity.

In addition, REGIO is also involved in the management of the following instruments:

• The **Instrument for Pre-accession Assistance (IPA)**, which is the means by which the EU supports reforms in the 'enlargement countries' with financial and technical help.

• The **European Union Solidarity Fund (EUSF),** which was set up in 2002 to grant financial assistance to Member States and to countries negotiating their accession to the EU, mainly in the event of major national or regional natural disasters.

The policy is implemented under different management modes:

Shared management (ERDF and CF; EUSF; IPA-CBC)

Under the shared management mode, the co-legislators fix the legal framework and the overall funding and determine the allocations by Member States and category of region. The Commission adopts programmes. As regards implementation, the Commission cooperates with Member States' administrations (at national, regional and local level), who are in charge of the programmes' operational implementation including the selection of operations, their audit and control and the achievement of performance objectives.

As regards the EUSF, the Commission is responsible for assessing the applications received from Member States and – if the applications are accepted – for proposing an amount of aid to the European Parliament and the Council who have to approve it. Once the financial contribution has been paid out, the beneficiary Member State or country is responsible for the implementation including the selection of operations and their audit and control.

REGIO is involved in IPA through the management of an envelope of external aid under the instrument's Component II (regional cooperation) in 2007-2013 and under policy area "regional cooperation" in 2014-2020.

Indirect management (IPA and Urban Innovative Actions)

REGIO also manages an envelope of external aid delivered through indirect management under the IPA Component III (regional development) in 2007-2013 and under policy area "regional cooperation" in 2014-2020. In addition, Urban Innovative Actions, the objective of which is to identify and test new solutions through pilot projects in cities, are implemented over the 2014-2020 period under indirect management.

Direct management (technical assistance)

Useful complementary actions facilitating the implementation of the instruments illustrated above also result from a limited share of funding implemented under direct management.

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG Regional and Urban Policy 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 Treaties[2].

a) Key results and progress towards the achievement of general and specific objectives of the DG

2018 has been a year of key achievements.

Continued support to the delivery of Commission priorities and Europe 2020 objectives

Cohesion policy, including ERDF and CF, continued throughout 2018 to effectively contribute to at least five of ten priorities of the Juncker Commission through investments in key policy areas in line with the Investment Plan for Europe and in complementarity with the European Fund for Strategic Investments.

01 **Jobs, growth and investment**
Boosting investments and creating jobs

A substantial share of the 2014-2020 Cohesion policy funding (EUR 50 billion including national co-financing) is devoted to **improving the business environment and supporting entrepreneurship**. Overall, more than 1.1 million firms will be granted support aimed at improving their productivity and competitiveness.

By the end of 2023, over **422 thousand direct jobs** are to be created as a result of business support, sustaining the employment rate in many Member States. At the end of the fifth year of implementation, the investment made in the area of business support already reached 88% of the target, thus ensuring a noteworthy contribution to enhancing the level of employment and supporting a sustainable ecosystem notably for small and medium sized enterprises. For comparison, Cohesion policy investments contributed with over 40% to the net total 3 million jobs generated in the EU economy over the period 2007-2015.

A total amount of EUR 62 billion (ERDF and national co-financing) will be invested in a range of investment and union priorities to **strengthen research, technological development and innovation**. ERDF is the main source of R&D investment in 12 EU Member States.[3] By the end of 2023, about **63 thousand firms** are to benefit from selected ERDF schemes promoting cooperation with research institutes. At the fifth year of the programming period, the investments made in the area of research already reach 73% of the target, ensuring a significant level of investment in this area and positively influencing the gross EU domestic expenditure on R&D.

In the framework of the "**Investment plan for Europe**", 7.2% of regional policy allocation is planned to be delivered via financial instruments. The promotion of complementarity with the European Fund for Strategic Investments was further strengthened with 25 projects identified by the end of 2018.

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

[3] All EU-13 countries, but CY. See: "Science Research and Innovation Performance of the EU 2018" (https://ec.europa.eu/info/support-policy-making-eu-and-horizon-2020-associated-countries/srip-report_en)

Cohesion policy is the largest EU financing source which seeks to modernise the **European transport system** and adapting it to new challenges. More than EUR 70 billion EU support has been allocated to programmes that address mobility challenges across all layers of the transport system. Support to the Trans-European Transport networks (TEN-T) plays a prominent role, more than EUR 33 billion has been allocated to develop the TEN-T rail and road networks. Investments into sustainable urban mobility will make daily commutes of citizens cleaner, faster and safer.

02	**Digital single market** *Bringing down barriers to unlock online opportunities*

The overall allocation to digital economy themes for the 2014-2020 period stands at EUR 18.6 billion. This makes ERDF the **main EU investment tool for digitalisation of the public sector and SMEs**, and for the **roll-out of broadband**, followed by the Connecting Europe Facility's Connecting Europe Broadband Fund (CEBF) that started operating in June 2018 with a budget of EUR 420 million[4] and by the European Fund for Strategic Investments.[5] With the support of Cohesion policy, more than 14.5 million households shall have access to broadband by 2023.

03	**Energy union and climate** *Making energy more secure, affordable and sustainable*

Regional policy provided the biggest EU investment support for the realisation of Europe's ambitious energy and climate policies as set within the **Energy Union Strategy** framework, supporting EU's regions and cities in their path for reaching the EU2020 and 2030 climate and energy targets and achieving a socially fair transition. Overall, EUR 69 billion of investments related to the various dimensions of the Energy Union and EUR 8 billion for climate change adaptation measures will be realised.

ERDF and CF are the main EU funding sources for **disaster risk management** helping the implementation of the **rescEU package** and making EU countries better prepared for the adverse effects of climate change and other natural and manmade disasters. In addition, the EU Solidarity Fund helps to increase the Member States' and regions' resilience and preparedness in addressing the consequences of natural disasters.

Notable example of forecasted achievements under **low carbon economy** includes improved performance in houses, which will benefit almost 840 thousand households by the end of 2023.

To ensure fair low-carbon transition for all regions in Europe, REGIO has been actively engaged in the **Coal Regions in Transition Initiative**, which aims to provide tailor-made support for the clean energy transition in coal and carbon-intensive industrial regions. REGIO was closely involved in support for 13 pilot regions under the country teams of the initiative.

04	**Internal market** *A deeper and fairer internal market*

Cohesion policy is enhancing the effectiveness of the Single market by supporting key investments including SMEs, start-ups, research and innovation, thus contributing directly to the strengthening of the European industrial base. The 2014-2020 programmes also target a significant number of large-scale infrastructure projects which are essential for the proper functioning of the internal market.

4 See: https://ec.europa.eu/digital-single-market/en/news/connecting-europe-broadband-fund-135-000-communities-croatia-will-get-high-speed-broadband

5 See 38 so far selected digital projects under EFSI (with slightly over EUR 4.7 billion for signed projects): https://www.eib.org/en/efsi/efsi-projects/index.htm?c=&se=4

European Territorial Cooperation programmes also contribute to increase the effectiveness of the Single Market through enhancing interregional, transnational and cross-border cooperation

EU Macro-regional strategies facilitating multi-stakeholders cooperation across European regions constitutes another important dimension of REGIO actions aimed at supporting the internal market.

REGIO is coordinating the implementation of the **Urban Agenda for the EU**. By focusing on concrete priority themes within the 14 established partnerships, the Urban Agenda seeks to improve the quality of life in urban areas.

REGIO continued to support the consolidation of the results of the **Catching-up Regions initiative** – a bottom-up initiative created to identify and overcome key development bottlenecks as well as maximise performance and outcomes of Cohesion policy in low-income regions in Poland, Romania and Slovakia.

08	**Migration** *Towards a European agenda on migration*

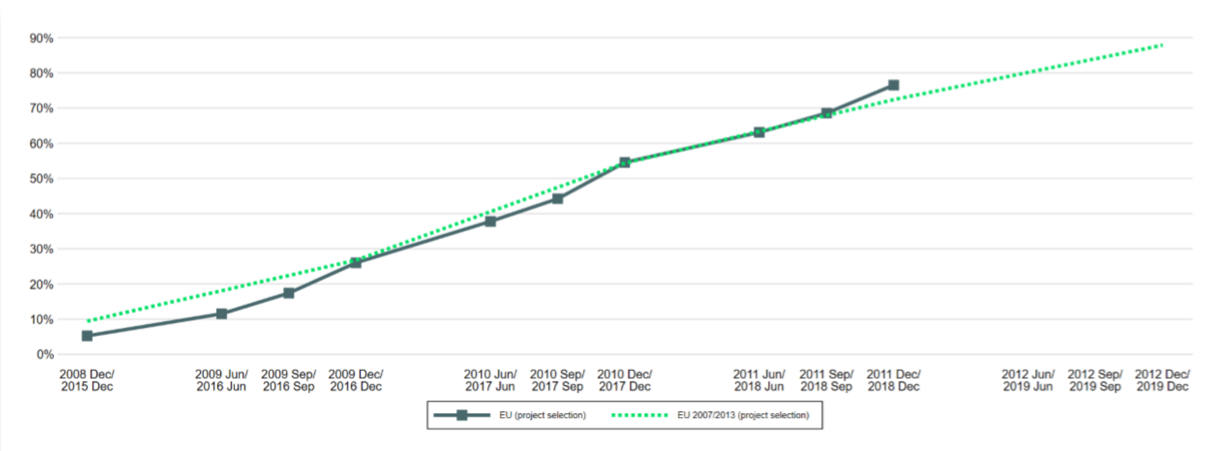
Cohesion policy has actively contributed towards **effective integration of migrants** through investments in social, health, education, housing and childcare infrastructure, thanks to around 8,000 projects already selected and being implemented in the area of social inclusion. Following the adoption of the Omnibus Regulation, a new investment priority was introduced to provide support to migrants and refugees.

In addition, Cohesion policy has been continuously helping Member States and the EU contribute to the implementation of the **UN 2030 Agenda for sustainable development**. It has made an important contribution for the attainment of the Sustainable Development Goals.

A significantly increased pace of delivery of ERDF and CF investments

Five years into the 2014-2020 funding period, the implementation of Cohesion policy programmes continues at full speed, with EUR **270 billion** already allocated to projects in Member States by December 2018, which is almost 77% of the Funds' total envelope. This represents more than **290 thousand projects**. EUR 80 billion remains to be allocated to projects, with full completion of investment by 2023 when the funding period will close.

This represents further acceleration compared to the results registered at the end of 2017, which stood at 55% of total funding allocated to projects. More importantly, this trend slightly exceeds the one of the last programming period and anticipates a sustained pace of implementation in the second half of the programming period.



* Calculation based on total (EU plus national) eligible cost of selected projects.

Well on-track: Comparison of 2008-2012 and 2015-2019 project selection rates

As regards cumulative payments (including advances) from the Commission to Member States for 2014-2020 programmes, these have reached EUR **63.4 billion** (almost 24.1% of the total ERDF and CF allocation for the period) at end 2018. The regulatory provisions of the 2014-2020 period (e.g. N+3 rule, level of pre-financing) have provided limited incentives to Member States to encourage a fast start to implementation. Despite the low execution rate overall, the N+3 decommitment exercise in 2018 concerned only seven programmes.

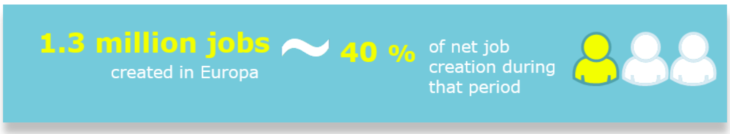
Cohesion policy, representing almost a third of the total EU budget, has been a major **source of public investment** in many Member States during and after the crisis. The policy continues to support economic recovery and convergence in the European Union and acts as catalyst for further public and private funding through its **co-financing** requirement, its leverage and its role in creating investor confidence.

The results of the evaluation of the 2007-2013 period show that Cohesion policy creates:

- **growth**: 1 euro of Cohesion policy investment in the period 2007-2013 is expected to generate 2.74 euros of additional GDP by 2023.

  In other words, Cohesion policy will be responsible for nearly EUR 1 trillion of additional GDP by 2023. The policy has benefitted the economies of all EU Member States and supported them during difficult economic times.

- and **jobs**: around 1.3 million jobs were created over the last programming period, exceeding the target by around **13%**[6]. All together Cohesion policy investments contributed with over **40%** to the net total 3 million jobs generated in the EU economy over the period 2007-2015.



Delivery of the Commission's proposal for a modernised and efficient Cohesion policy for 2021-2027

A major achievement has been the preparation and presentation of the **Commission's proposal for the Cohesion policy legislative package for the period 2021-2027**. The proposal building on very substantive background work, including the spending review coordinated by DG Budget, represents key modernisation focusing on investment priorities that are crucial for competitiveness and structural adjustments to globalisation and technological change. The proposal also offers significant simplification of the delivery of the policy. The DG also contributed to the preparation of the Commission's proposal for the next multi-annual financial framework and to other related proposal for sectoral policies.

The DG has deployed intensive efforts in the negotiations of the legislative package. This involved a key explanatory and negotiation phase in Council and Parliament (explanatory fiches, technical meetings and seminars, background documents and calculations) contributing to the good progress registered so far, not only in working groups and committees directly responsible for Cohesion policy but also in others relevant for the policy. The planning and organisational process coupled with the assistance provided to the Presidency also necessitated substantial resources.

Additionally, the DG has been involved in the legislative negotiations of all the relevant sectoral packages 2021-2027 through strong coordination and monitoring in order to ensure

[6] As of end 2015

consistency across negotiations given in particular the cross-linkages to Cohesion policy. Good interaction with other Commission initiatives has also been ensured, so as to further strengthen the role of the policy in addressing country specific challenges and contributing to structural change in the Member States, while positioning smart specialisation as the key element of EU industrial, research and innovation policies.

In parallel, the preparation of **programme negotiations with the Member States** has been launched internally, involving cross-DG mobilisation around the preparation of policy papers and country input papers and building on the prominent role gained in the European Semester process.

A further strengthened role for REGIO within the European Semester

Given that regional policy contributes largely to national economic development policies, it is desirable to strengthen the link with the economic governance process of the Union. This requires in administrative terms a further strengthened role for REGIO within the European Semester process. The alignment of Cohesion policy with the **European Semester** cycle has been substantially **strengthened**. In 2018, REGIO was more intensively involved in the European Semester exercise. Its contribution to the Country Reports has reached a new dimension extending to different sections of the main report and to the drafting of an Annex (D) exclusively devoted to Cohesion policy funds supported investment priorities for the 2021-2027 programming period. These Annexes provide the basis for the dialogue between Member States and the Commission services in view of the programming of the Cohesion policy funds.

The 2014-2020 programmes continued to provide a significant impetus for Member States to implement structural changes and policy reforms, including those linked to Country Specific Recommendations issued in the context of the European Semester, namely through investment targeting structural weaknesses and growth bottlenecks. This adds to the positive changes already delivered by ex-ante conditionalities in the first years of the programming period, which provided incentives to enact policy reforms, trigger strategic, regulatory and institutional changes, and improve the overall investment environment[7].

Brexit preparedness

In the framework of **Brexit preparedness**, REGIO worked closely with European Structural and Investment Funds DGs and central services and provided support to the Brexit Preparedness Group and to the Article 50 Task Force. REGIO prepared a proposal for a regulation of the European Parliament and of the Council in order to allow for the continuation of the territorial cooperation programmes PEACE Ireland-UK and Ireland-United Kingdom (Northern Ireland and Scotland) in the context of the withdrawal of the United Kingdom from the European Union approved by the College on 19 December 2018 (COM(2018)892). Additionally, REGIO assisted programme authorities on the ground in managing the impact of Brexit on the implementation of the programmes.

[7] SWD(2017)127 of 31.03.2017 - The Value Added of Ex ante Conditionalities in the European Structural and Investment Funds: http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/value_added_exac_esif_en.pdf

b) Key Performance Indicators (KPIs)

Progress continues to be registered also in relation to the key policy performance indicators, for which reported achievements[8] have progressed significantly compared to the previous reporting (end-2016). This is illustrated in the bar charts below (column 'Increase'). This progress is well in line with the trend of the progress realised during the previous 2007-2013 programming period (see above and refer to chapter 1.2 where the progress of the selection rate of projects is explained and compared between the two periods).

All reported data (achievements and targets) are available on-line through the ESIF Open data platform[9] based on indicators reported by the Member States. This platform offers unprecedented transparency and encourages "peer pressure" in reporting reliable data. Beyond transparency, it promotes excellence and communication and provides a comparison tool enabling analysis and research.

Note on the interpretation of targets and achievements (charts below)[10]

- Target (end-of-period): At the beginning of the programming period (2014), programmes set targets for indicators which the projects should deliver by the end of the programming period. In practice, due to the N+3 rule the 2014-2020 implementation lasts until end-2023.

- Forecasted achievements of selected projects[11]: National authorities select projects for support under the programmes. These projects undertake to deliver achievements in the future and at the latest by end-2023.

- Reported achievements: When projects are implemented the achievements are reported to the Commission.

One should expect, by the end of the period (end-2023) that forecasts will equal achievements which in turn would reach the target.

KPI 1 - Achievements related to the **creation of jobs** as a result of SME support have progressed very well. The year-on-year progression shows a **quadrupling of jobs created**. The **forecasted** job creation based on the selected projects at the end of 2017 nearly **doubled** and reached 67.3% of the total job creation target (by end-2023) of 422,346 (see chart below). For comparison, about 1.3 million jobs were effectively created over the 2007-2015 period. The then forecast of 1.1 million has thus been exceeded by reported achievements by around 13%. A similar trend could be expected for the current programming period.

Related Policy Objective: General Objective 1 – Jobs, Growth and Investment

KPI 1

Jobs created as a result of SME support

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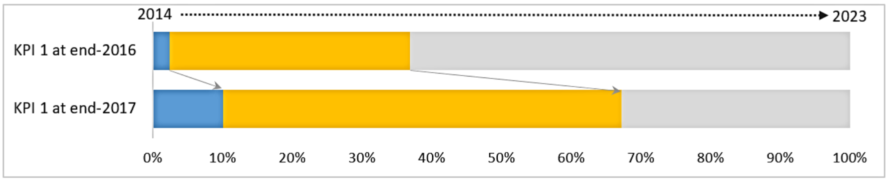
Source: 2014-2020 common indicator 8 (Employment increase in supported enterprises), Annual Implementation Reports



	Target (End-2023)	Reported Achievements (Cumulative)		Increase (year-on-year)	Forecasted achievements of selected projects (Cumulative)		Increase (year-on-year)
End-2017	422.546	42.745	10,1%	314%	284.300	67,3%	83%
End-2016		10.329	2,4%		155.631	36,8%	

[8] The sum of achievements linked to CF and ERDF programmes and the relevant indicator reported by each operational programme, regardless of whether or not targets had been set. It therefore expresses the most recent available estimate of the total achievements.

[9] https://cohesiondata.ec.europa.eu/. Figures are constantly updated and may slightly differ from the ones shown in this report.

[10] Implementation at the beginning of the period (2014) was delayed due to the late adoption of the Regulatory framework and the overlap with the 2007-2013 implementation. Considerable acceleration is expected for the 2018 achievements due to the incentive for programmes to achieve the 2018 milestones set for the 2019 performance review.

[11] This performance information is transmitted to the Commission once every year (in the Annual Implementation Report). Therefore, only years 2016 and 2017 are presented. 2018 data will become available in July 2019.

KPI 2 - Achievements related to the **number of co-operation projects** between enterprises and research institutions show good progress. The year-on-year progression indicates a **24% increase**. The **forecasted** number of such co-operations based on the selected projects at the end of 2017 nearly **doubled** and reached 69% of the total targeted number of co-operation projects (by end-2023) of about 63,000.

Related Policy Objective: Specific objective 1.1 – Strengthening research, technological development and innovation

KPI 2

Number of co-operation projects enterprises-research institutions

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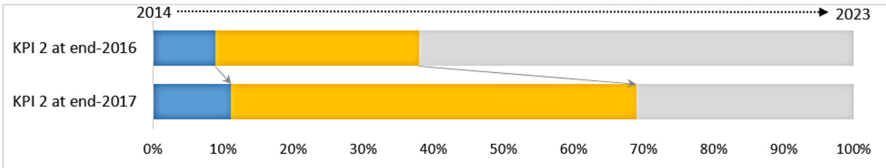
Source: 2014-2020 common indicator 5, Annual Implementation Reports



	Target (End-2023)	Reported Achievements (Cumulative)		Increase (year-on-year)	Forecasted achievements of selected projects (Cumulative)		Increase (year-on-year)
End-2017	63.071	6.999	11,1%	24%	43.501	69,0%	82%
End-2016		5.631	8,9%		23.951	38,0%	

KPI 3 - Achievements related to the **number of enterprises receiving support** show good progress. The year-on-year progression more than **doubled**. The **forecasted** number based on the selected projects at the end of 2017 **progressed by 40%** and reached 57.3% of the end-2023 target of around 1.1 million enterprises receiving support.

Related Policy Objective: Specific objective 1.2 – Enhancing the competitiveness of small and medium-sized enterprises

KPI 3

Number of enterprises receiving support

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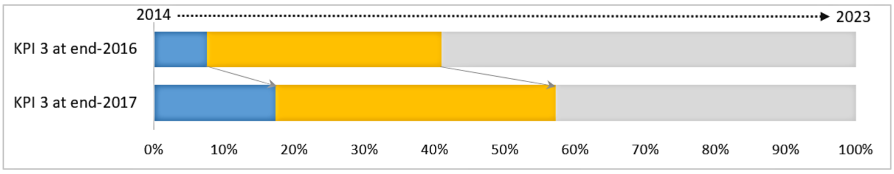
Source: 2014-2020 common indicator 1, Annual Implementation Reports



	Target (End-2023)	Reported Achievements (Cumulative)		Increase (year-on-year)	Forecasted achievements of selected projects (Cumulative)		Increase (year-on-year)
End-2017	1.117.749	193.365	17,3%	129%	640.071	57,3%	40%
End-2016		84.579	7,6%		457.985	41,0%	

KPI 4 - Achievements related to the **additional capacity of renewable energy production are progressing well**, even if projects under this indicator were slow in delivering at the end of 2016 (13 MW). The year-on-year progression is therefore even more important with **197 MW of such additional capacity delivered**. The **forecasted** number based on the selected projects at the end of 2017 **more than doubled** and reached 69.2% of the end-2023 target of 6,708 MW of additional capacity.

Related Policy Objective: Specific objective 3.1 – Supporting the shift towards a low-carbon economy in all sectors

KPI 4

Additional capacity of renewable energy production (MW)

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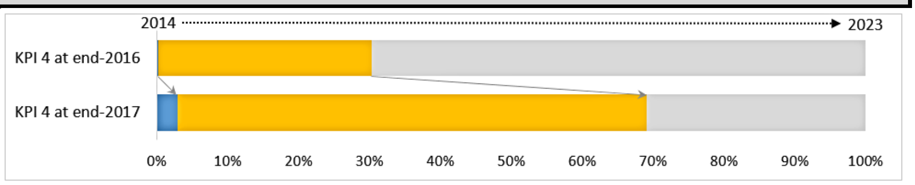
Source: 2014-2020 common indicator 30, Annual Implementation Reports



	Target (End-2023)	Reported Achievements (Cumulative)		Increase (year-on-year)	Forecasted achievements of selected projects (Cumulative)		Increase (year-on-year)
End-2017	6.708	197	2,9%	1415%	4.639	69,2%	128%
End-2016		13	0,2%		2.036	30,4%	

KPI 5 - The residual total error rate in shared management is on average **below the threshold of 2%** after the completion of the control cycle (national and Commission). This is to be put to the credit of the **strengthened control** and assurance architecture for 2014-2020 which further protects the EU budget through annual corrective actions with the aim to bring the residual total error rate for each programme below materiality. When further EU controls identify this was not the case, additional financial corrections are applied.

Residual total error rate in shared management		
	Target	**Latest confirmed results** **AAR 2018**
KPI 5 Residual total error rate in shared management *Source: See section 2 on the calculation of the confirmed residual total error rate for the accounting year 2016-2017*	< 2%	**1.96%** (OPs 2014-2020)[12]

Beyond supervising and steering the implementation of programmes in the Member States, DG Regional and Urban Policy also carried out significant policy work in many areas throughout 2018. The main results of this work are illustrated in sections 1.1 and 1.2 below.

c) Key conclusions on Financial management and Internal control

In accordance with the governance arrangements of the European Commission and in line with its own mission statement, DG Regional and Urban Policy conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

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

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

[12] This rate has been calculated after neutralizing the impact of advances paid into financial instruments (and partly through State aid), in line with ECA's recommendation. The calculation is based on the confirmed residual total error rates for the accounting year 2016-2017 following completion of the national and Commission control cycle, based on all audit evidence available at this date and pending contradictory procedures (conservative approach). REGIO prudently estimates the confirmed rate could reach a maximum of 2.74% following further adjustments to some programmes by using conservative flat rates, taking account of information not yet confirmed at the date of signature of the AAR.

In conclusion, management has reasonable assurance that, overall, for direct management, the Solidarity Fund and indirect management, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented.

As regards shared management, management has also reasonable assurance that suitable controls and corrective capacity are in place and working as intended as regards ERDF/CF and IPA-CBC. The internal control system allowed detecting deficiencies in the management and control systems of:

- 30 programmes of the 2014-2020 programming period. The risk to the EU budget for these programmes is partially mitigated by the 10% retention applied on all interim payments throughout 2018.
- 18 programmes of the 2007-2013 programming period that are under closure. Appropriate additional financial corrections will be applied by the Commission before making payments of the respective balances and closing the programmes. Therefore no financial risk occurred in 2018[13].

The estimated average error rate at payment for the 2018 relevant expenditure for all management modes is approximately 1.7%. The need for additional corrections for a limited number of programmes was identified following completion of the control cycle and will be applied to bring the annual remaining risk below 2% for each programme and accepted 2016-2017 accounts. This will contribute to a reduction of the risk at closure.

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

- A reservation for the 2014-2020 programming period concerning 30 ERDF/CF programmes. The necessary preventive and corrective actions have been or are being requested from the concerned Member States;

- A reservation for the 2007-2013 programming period concerning 18 ERDF/CF programmes (all non-financial).

d) Provision of information to the Commissioner

In the context of 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 Creţu, responsible for Regional policy.

13 A closure partial payment was made in 2018 to one OP (HU) under partial reservation but the partial payment concerned the part not affected by the reservation. There was also a very marginal last interim payment made to one Croatian OP before the closure deadline of 31 March 2018 for Croatian programmes.

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

1.1 Achievement of general and specific objectives

Cohesion policy programmes are delivered through shared management. Operational Programmes are agreed with the European Commission once every seven years but can be adapted whenever the necessity arises. Programmes are implemented over a ten-year period by Member State authorities who report annually on programmes' progress. Policy achievements are the result of a combination of factors – the policy, the quality of implementation by the implementing bodies, the framework conditions for implementation in the Member States and the economic context amongst other.

Achievement of general objectives

Macroeconomic context for Cohesion policy investments

Since 2014, the social-economic context in which Cohesion policy funds are being delivered has been difficult, although progressively improving. During the first years of the programming period, economic prospects were low in the EU with stagnating growth rates and high and persistent unemployment. Since 2015, recovery of the European economies was stronger and the growth prospects were back to positive for all EU Member States. The positive trends towards **economic recovery and convergence** in the European Union have continued in the course of 2018, albeit at a more moderate pace. Economic growth lowered to an estimated 1.9%, partly reflecting the slowdown of private consumption and investment, the slower global trade growth and high uncertainty regarding trade policies. The European economy is expected to continue growing over the next two years, but at a slower pace.

The crisis had a deep impact on the convergence process among EU regions. While regional disparities in terms of GDP strongly decreased up to 2009, they increased up to 2014 to almost reach the levels observed 10 years before. As EU economies progressively recover from the crisis, the long run **convergence process seems to resume**, although **persisting disparities** across regions within Member States remain a point of concern.

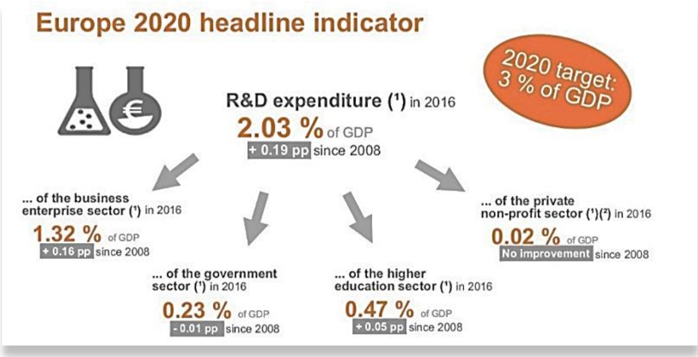
The same observation holds for **regional employment rates**. While they were falling up to 2007, regional disparities in terms of employment rate dramatically increased after the outburst of the economic and financial crisis. They are now decreasing again, even though they remain at a much higher level than before the crisis.

Cohesion policy has significantly contributed to limiting the negative impact of the crisis on the EU economies and support growth-friendly expenditure in the Member States, being for some of them a **major source of financing public investment**.

The following can be observed as regard the trends in reaching the **Europe 2020 strategy headline targets**[14], illustrating the EU's effort to overcome the structural weaknesses in its economies, improve competitiveness and productivity and underpin a sustainable social market economy:

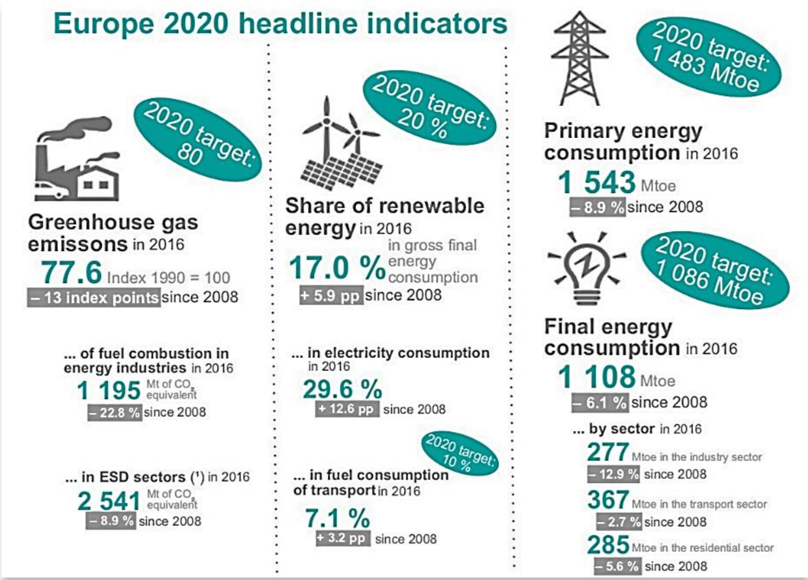
[14] Eurostat: Smarter, greener, more inclusive? Indicators to support the Europe 2020 Strategy (2018 edition)

At the EU level, the **employment rate has set a new high of 73.2%** in Q2 2018, up from 72.2% in 2017. This is the highest share observed since 2002. As a result, the distance to the Europe 2020 employment target of 75% narrowed to 1.8 percentage points, indicating that the EU is on the right path to achieve the target. Based on recent trends, it can be expected that continuing economic growth further stimulated by investments in SMEs and innovation would facilitate increasing convergence.



R&D expenditure as a percentage of GDP **has remained rather stable** around 2% since 2013, after having increased slightly between 2008 and 2012 as a result of depressed GDP growth and a wider EU effort to boost public expenditure on R&D. By 2016, the EU was still 0.97 percentage points below its target for 2020 of 3% of GDP.

The Europe 2020 target on R&D is also linked to the strategy's climate change and energy targets. In particular, the transition to a green and low-carbon economy and adaptation to climate change will require significant innovation, from small incremental changes to major technological breakthroughs.



Economic recovery of recent years influenced the pace of achieving European objectives in the areas of **energy and environment**. As regards greenhouse gas emissions, the EU is **expected to exceed its Europe 2020 target** of reducing GHG emissions by 2020. The share of renewable energy doubled between 2004 and 2016. The EU has also made substantial progress towards its energy efficiency objective; in 2016, the EU consumed nearly 9% less primary energy than in 2008.

Overall **promising results continue to be observed for education,** indicating stable progress towards the Europe 2020 targets as well as demonstrating the spill-over effects of economic recovery and convergence processes. The EU's educational targets are interlinked with the other Europe 2020 goals as higher educational attainment improves employability, which in turn reduces poverty. Also, investment in the R&D sector is likely to raise the demand for highly skilled workers.

The development in the area of **social inclusion** shows a positive trend as well. Since 2012, the number of people at risk of poverty or social exclusion has fallen each year, even though the number is still higher than in 2008. This means roughly one in four people in the EU experienced at least one form of poverty.

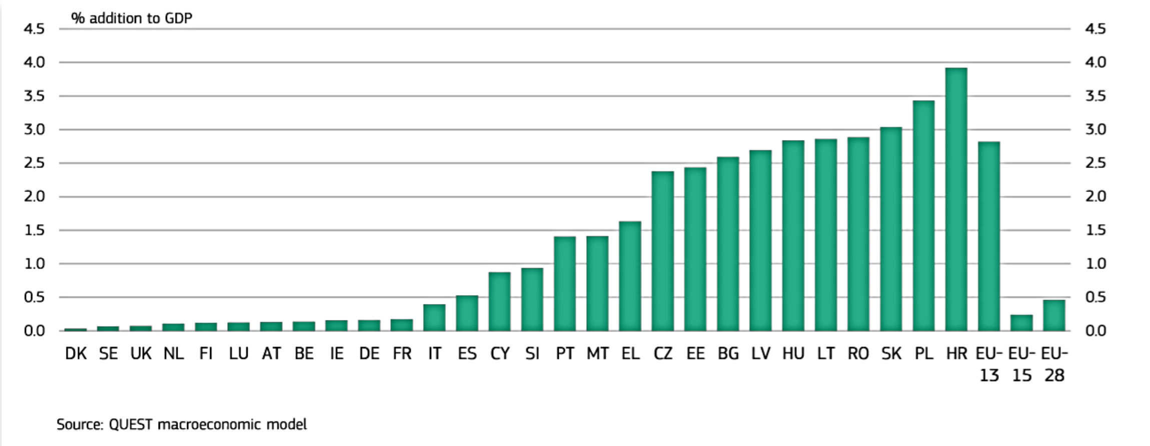
Cohesion policy contribution

Although European economic recovery is a result of multiple factors, including generally improved conditions on external markets, the role of Cohesion policy can clearly be distinguished.

Cohesion policy, representing almost a third of the total EU budget, has been **a major source of public investment** in many Member States during and after the crisis. 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, its leverage as well as its role in creating investor confidence.

The most favourable trends in relation to GDP growth, productivity and employment are registered in Member States that are primary recipients of Cohesion Funds. Continuous low levels of public investments together with Cohesion policy providing in 2015-2017 41% of government capital investment for the EU-13, further underlines the key role Cohesion policy plays in supporting the achievement of the Juncker Commission's priorities and contributing to solidarity and unity in Europe.

The impact of Cohesion policy is particularly substantial in cohesion countries, contributing to a significant convergence of GDP per head, as shown in the graph below.



Impact of 2014-2020 programmes on Member States' GDP, 2023[15]

The non-cohesion countries including net payers to the EU budget however also benefit from **spill-overs** generated by investments in less rich areas both directly (through selling investment goods) and indirectly (through higher income and therefore increased trade).

Achievements of the 2007-13 period

By 2023, 2007–2013 programmes are estimated to add 0.12% to GDP in non-cohesion countries (net donors to the EU budget) of the EU.

The results of the ex-post evaluation of the ERDF and CF 2007-2013[16] show that Cohesion policy creates growth: 1 euro of Cohesion policy investment in the period 2007-2013 is expected to generate 2.74[17] euros of additional GDP by 2023.

In other words, Cohesion policy will be responsible for nearly EUR 1 trillion of additional GDP by 2023. The policy benefits the economies of all EU Member States and supported them during difficult economic times.

The policy has benefitted the economies of all EU Member States and supported them during difficult economic times. It has invested in nearly 400,000 SMEs and start-ups and has been a pillar of the EU's growth and jobs agenda.

Also, around 1.3 million jobs were created over the last programming period, exceeding the target by about 13%[18] and contributing with over 40% to the net total 3 million jobs generated in the EU economy between 2007 and 2015.

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15 Source : https://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion7/7cr.pdf

16 SWD (2016)318, 19.9.2016 : Ex-post evaluation of the ERDF and CF 2007-13

17 This rises to 2.98 euros between 2014 and 2030

The result of the online public consultation held in the framework of the above ex-post evaluation show that 83% of the respondents considered that the ERDF and Cohesion Fund have provided support to groups or policy areas that could not have been sufficiently addressed by national programmes and policies.

Achievements of the 2014-2020 period

Five years into the 2014-2020 funding period, the implementation of Cohesion policy programmes continues at full speed, with EUR **270 billion** already allocated to projects in Member States by December 2018, which is almost 77% of the Funds' total envelope. This represents more than 290 thousand projects. EUR **80 billion** remains to be allocated to projects, with full completion of investment by 2023 when the funding period will close.

Based on the targets set by the Member States by the end of the programming period, the policy is expected to support 1.1 million enterprises, improve research infrastructure for 130,000 researchers, reconstruct or upgrade 7,000 km of railway lines, ensure a better conservation status for habitats extending over nearly 7 million hectares and provide improved health services for more than 50 million people.

This represents further acceleration compared to the results registered at the end of 2017, which stood at 55% of total funding allocated to projects. More importantly, this trend slightly exceeds the one of the last programming period and anticipates a sustained pace of implementation in the second half of the programming period.

EU value added of Cohesion policy

Cohesion policy invests mainly where other public and private investments are insufficient or totally inexistent. In particular, for Member States in Central and Eastern Europe, it represents and its governance model represent a powerful capacity building and knowledge sharing instrument contributing to shaping national and regional public policies.

Among the main ***advantages of Cohesion policy investments*** *as compared to resources being spent solely by Member States, the following can be mentioned:*

Alignment of investment to EU priorities*. EU priorities are given preference across the investment fields covered by Cohesion policy, often influencing national investment policies thus resulting in a coordinated EU-wide action, key to tackling common European and global challenges.*

Multiannual programming*, providing stability, certainty and sustainability to investment plans in Member States, reducing their vulnerability across economic and political cycles, improving prospects for implementation, while enhancing managerial and institutional capacity that positively influences the management of domestic policies and improves in general governance in Member States.*

Emphasis on ***capacity building and support of structural reforms****, ensures long-term benefits of European investments as well as foster systematic changes resulting in creation of a more favourable business environment for all Member States and regions.*

Cohesion policy underpins ***European solidarity****. The bulk of funding is concentrated on less developed and transition countries and regions, where key investments would not otherwise take place. This help them to catch up and to reduce disparities that still exist in the EU*

Effective pooling of resources *from different sources and stimulating private investments through facilitating the combination of the ESIF and the European Fund for Strategic Investments (EFSI), an enhanced use of financial instruments, as well as effective complementarities with other EU funding instruments.*

The ***territorial dimension*** *of the policy, allowing: 1) the identification of development needs specific to each territory, 2) the definition of multi-thematic investment strategies aligned to EU priorities and 3) better conditions for implementation through mobilisation of national, regional, local players, and civil society, thus ensuring ownership.*

Concrete examples of EU added value of ERDF and CF investments are illustrated in section 1.1.1.

EU added value is not a single formula that can be applied. EU budget programmes are varied. In shared management, there are very diverse needs and socio economic, administrative and institutional contexts. In order to improve EU added value, the right elements must be embedded in the policy cycle – in policy design, policy implementation and policy learning.

[18] As of end 2015

An important contribution to the effective delivery of EU-wide goals has also resulted from the successful negotiation of the **Omnibus proposal** regarding the Common Provisions Regulation. The amendment brought clarity, simplification and legal certainty on a number of implementation aspects. In this context, the wider and simpler use of simplified cost options expectedly enhances the efficient implementation of the operations, bringing further simplification, more flexibility and increased visibility of investments. It has also made a significant step towards further enabling the combination of European Structural and Investment Funds and the European Fund for Strategic Investments. The Omnibus changes entered into force on 1 August 2018.

Alignment with priorities of the Juncker Commission

Cohesion policy effectively contributes to at least five of the ten priorities of the Juncker Commission though investments in key policy areas in line with the Investment Plan for Europe and in complementarity with the European Fund for Strategic Investments (EFSI).

In line with the DG's Strategic Plan 2016-2020, these five priorities constitute REGIO's policy related general objectives:

REGIO GENERAL OBJECTIVES		REGIO SPECIFIC OBJECTIVES
01	**Jobs, growth and investment**	• RTD & Innovation • Competitiveness of SMEs • Protection of environment, resource efficiency/circular economy • Sustainable transport • Employment & labour mobility • Social inclusion • Education, skills & lifelong learning • Institutional capacity & effective PA
02	**Digital single market**	• Information & communication technologies
03	**Energy union and climate**	• Shift towards low carbon economy • Climate change adaptation, risk prevention & management • Smart energy infrastructure
04	**Internal market**	• Support to the development of the Single Market, the strengthening of EU industrial base & to the less developed MS under ESIF • Territorial cooperation • Outermost regions • IPA
08	**Migration**	• Integration through employment & labour mobility • Integration trough social inclusion • Integration through education, skills & lifelong learning • Urban innovative actions • IPA transfer to EU Trust Fund for Syria

Information concerning achievements clustered around the Commission priorities is detailed in section 1.1.1 under the delivery of REGIO specific objectives.

Achievement of specific objectives

Analysis and performance information mainly result from the Member States reporting on common indicators (regarding the implementation of 2014-2020 programmes, in line with the performance framework embedded in REGIO's Strategic Plan for 2016-2020). This information is an important tool for assessing the achievement of objectives associated with ERDF/CF operational programmes.

Indicator values revealed by Member States are also supplemented by the assessment of policy achievements contained in the management declarations provided by the relevant

Authorising Officers by Sub-Delegation (AOSDs). This assessment takes into account all the available evidence regarding programme performance.

The focus of the 2014-2020 programmes on the intervention logic and on the wider use of fund specific common indicators has led to more robust and coherent performance reporting. The programme reports submitted in mid-2018, in most cases, present a much richer source of information on performance, in terms of common indicators, than in earlier years. Generally, the reported values show a plausible relationship between the indicator targets and values from selected projects. Where reporting inconsistencies are detected these are queried with the programmes. The process of quality checking of the annual reports led to the correction of certain errors in reporting in the second half of 2018.

Due to the natural time gap between investment and results materialisation but also in terms of performance reporting by the Member States, the high level of project selection has just started to translate into reported outputs and results. Overall, positive trends are registered as regards the delivery of most of ERDF/CF specific objectives, with the pace of reported achievements gaining momentum across many investment areas.

On the other hand, the level of reported achievements has not yet moved significantly in certain investment areas, despite satisfactory project selection rates (e.g. broadband, waste, renewable energy). While these interventions mostly concern physical investments of a significant scale, with a typically long life cycle and results and outcomes visible only at a very advanced phase, they are nonetheless being closely scrutinised and followed-up in cooperation with the Member States affected by implementation difficulties.

All reported data (achievements and targets) are available on-line through the **ESIF Open data platform**[19] based on indicators reported by the Member States. This platform offers unprecedented transparency and encourages "peer pressure" in reporting reliable data. Alongside transparency, it promotes excellence and communication and provides a comparison tool enabling analysis and research.

The 2018 Summary Report[20] provides the third annual overview of the implementation of the shared management programmes based on the annual programme reports received in mid-2018. Specifically, it summarises available performance information covering implementation in the years 2014 to 2017.

The mapping of the corresponding specific objectives and details about all the related performance information are provided in Annex 12A.

Reporting on financial progress in December 2018

In order to provide a more accurate picture, the description of policy performance in the following sections also take into account the **reporting on financial progress at the end of 2018**[21], reflecting the most recent state of programmes' implementation on the ground. These data refer to the project selection rate (expressed in an amount of funds allocated to selected projects). Data on achievements of indicators are not available during this reporting and will only be available with the 2018 annual implementation reports to be submitted by mid-2019.

Nevertheless, the financial reporting provides invaluable information on the upcoming trends in performance of the policy.

Reporting on non-financing contribution

In addition, non-financial contribution of REGIO to the achievement of specific objectives and to the Commission's priorities is highlighted throughout this chapter. This includes **ex-ante conditionalities**, **integrated territorial solutions**, **capacity building**, **cooperation**

[19] https://cohesiondata.ec.europa.eu/

[20] European Structural and Investment Funds 2014-2020 2018 Summary report of the programme annual implementation reports covering implementation in 2014-2017, COM(2018) 816, 19.12.2018

[21] As required under Article 112 of "Common Provisions" Regulation (EU) No 1303/2013

mechanisms and **technical assistance**, which are all instrumental in ensuring proper investment conditions, durability of results and lasting structural changes.

Ex-ante conditionalities have been instrumental in creating favourable legislative and structural conditions for sound investments with positive spill-over effects beyond the immediate remit of Cohesion policy. Overall 99% of the action plans to fulfil ex-ante conditionalities have been completed. For those not completed, two suspension decisions and two pre-suspension letters were issued.

The Funds are fully aligned with EU economic governance contributing to the economic policy triangle of investment, structural reforms and responsible public finances.

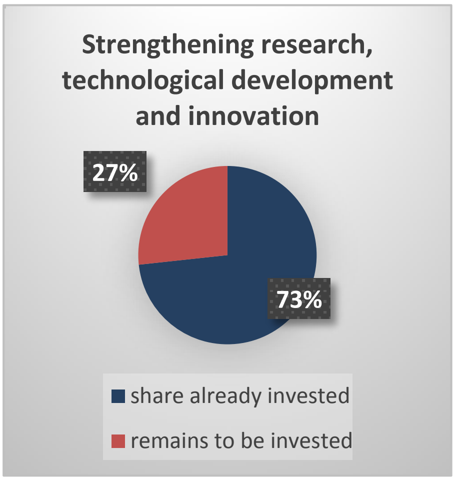
1.1.1 Achievement of specific objectives linked to Commission priority 1 – Jobs, Growth and Investment

01	**Jobs, growth and investment**	• Research, technological development & Innovation • Competitiveness of enterprises • Protection of environment, resource efficiency/circular economy • Sustainable transport • Employment & labour mobility • Social inclusion • Education, skills & lifelong learning • Institutional capacity & effective public administration

DG Regional and Urban Policy is contributing significantly to the Juncker Commission's top priority to create jobs, enhance growth and stimulate investment through providing a critical mass of funding in the real economy, enacting structural change and removing bottlenecks to investment. In order to maximize the impact of the funds, resources concentrate on key investment areas and growth bottlenecks including research and innovation, small and medium-sized enterprise (SME), employment, education and social inclusion, while ensuring that environment and transport infrastructure is also supported where needed.

Research, technological development and innovation

A total amount of EUR **62 billion** (ERDF and national co-financing) will be invested in strengthening research, technological development and innovation. ERDF is the main source of R&D investment in 12 EU Member States.[22]



<u>2018 latest reported achievements</u>

Investments in research and innovation have continued to progress at a significant pace in 2018, showing good performance across most Member States. At the end of 2018, over **50,000 specific research and innovation projects** under the ERDF programmes have been selected, representing 73% of the total foreseen amount – a significant increase from 54% at the end of 2017.

[22] All EU-13 countries, but CY. See: "Science Research and Innovation Performance of the EU 2018" (https://ec.europa.eu/info/support-policy-making-eu-and-horizon-2020-associated-countries/srip-report_en)

Forecasted achievements

Through research and development projects carried out by enterprises and receiving support from Cohesion funding, it is expected that more than 30,000 **research jobs** will be created in FTE terms.

Over 63,000 firms are forecasted to benefit from selected ERDF schemes promoting **cooperation with research institutes**, thus ensuring a significant level of investment in this area and positively influencing the gross EU domestic expenditure on R&D.

Many of the research projects will provide funding for **Research and Technological Development infrastructures** and centres of competence throughout the 2014-2020 programming period, contributing to improve research facilities across Member States. Nearly 130,000 researchers are expected to benefit from improved research infrastructures. Unfortunately, the progress with the Extreme Light Infrastructure (ELI)[23] in Romania stalled due to procurement issues. Also the European Research Infrastructure Consortium to mobilise funding of the running costs of the three ELI sites in Romania, Hungary and the Czech Republic, has yet to be established.

Number of enterprises to cooperate with research institutions

Over 63,000

forecasted until end 2023

Through selected projects, more than EUR 13 billion of **private investment in the area of research and innovation will be leveraged.**

As a result of projects, the number of enterprises supported to introduce **new to the market products** is forecasted to reach nearly 29,000.

Spain – Construction and equipment of the Pasqual Maragall research centre on Alzheimer

This project co-financed the construction and equipment of a new building, located in Barcelona, to carry out scientific research on Alzheimer and other related neurodegenerative diseases. The project was selected on the basis of a call to find outstanding institutional initiatives for the construction, acquisition, adaptation or extension of buildings to host R&D infrastructure.

The Pasqual Maragall Foundation is at present carrying out a research programme for the early detection of Alzheimer's disease in the building. The foundation was established in 2008 with the mission of promoting and developing biomedical research excellence and seeks to become a reference in the development of global solutions to the problem of Alzheimer's disease and related dementias, as well as raising social awareness.

The project had a total cost of EUR 6,050,000, including a total eligible cost of EUR 5,000,000, with a 50% ERDF co-financing of EUR 2,500,000. The project directly contributed to the creation of 18 new positions for researchers.

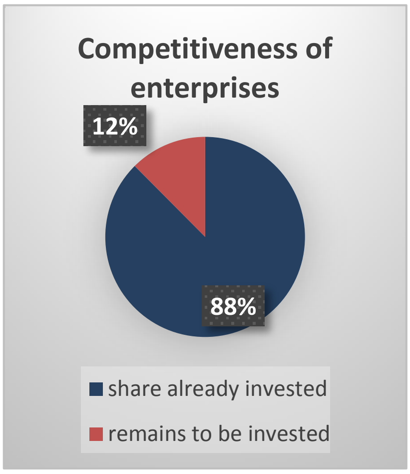
Enterprise support (including access to finance)

A substantial share of 2014-2020 Cohesion policy funding, EUR **50 billion** (ERDF and national co-financing), is devoted to improving the business environment and supporting entrepreneurship. Enterprises are supported to increase their competitiveness, develop products, find new markets and create new jobs, with particular emphasis on innovation and high growth firms and programmes aimed at supporting the innovative capacity of SMEs. The wide range of support on offer to SMEs is also crucial to achieving a deeper and fairer internal market with a solid industrial base.

As the main source of job creation among all interventions co-financed by the ERDF, supporting SMEs has been key in tackling the effect of the crisis in recent years and in kick-starting jobs and growth throughout Europe. In addition to the effects resulting from the investments of 2007-2013, which are still being felt in the real economy, encouraging results have been reported by Member States.

23 https://eli-laser.eu/

2018 latest reported achievements



By the end of 2018, an estimated 88% of the total amount has been allocated to over **95 thousand projects** to improve the competiveness of SMEs under the ERDF programmes. This represents a significant increase compared to the 64.2% selected at the end of 2017.

Forecasted achievements

ERDF financing will be granted to projects supporting more than 1.1 million firms.

Amongst those projects:

- nealy 465,000 of those companies will be supported with **advice and counselling**;
- close to 160,000 **start-ups** will be supported;
- around 423,000 **jobs** are expected to be directly created in the supported firms.
- about EUR 33.9 billion of **private investment** will be leveraged through projects, matching public support to enterprises (grants and non-grants).

Number of enterprises to receive support

Over 1.1 million
forecasted until end 2023

Croatia – ESIF Venture Capital Fund to support innovative start-ups

Croatia set up in June 2018 "ESIF Venture Capital Fund" – the first VC instrument supported by ERDF. Thanks to EUR 35 million from the Operational Programme Competitiveness and Cohesion 2014-2020, the fund will invest into risk capital funds targeting local SMEs with high growth potential, allowing them to scale up and compete on the global stage.

The ESIF Venture Capital Fund will target in particular earlier stage investments and will offer a fully-fledged acceleration program. It adds up a new element to the successful portfolio of debt instruments, supported by the ERDF and will contribute to developing a sound and dynamic start-up ecosystem in the country.

This is a good example of how cohesion policy invests in jobs and growth, in line with the Investment Plan for Europe. After the selection of the fund managers, the support will be available in early 2019. At least 50 seed stage and 15 start-up stage companies will receive vital support. The instrument is also expected to have strong spill-over effect in terms of business angels, entrepreneurial workshops, corporates, etc. and a strong pipeline leading to a much more pronounced interest of regional VC funds to invest in Croatia.

Furthermore, in line with the objectives of the Juncker Commission Initiative **"Investment Plan for Europe"** and the Commission's Work Programme, access to funding notably for SMEs and investors has been reinforced. Important progress has been made towards **doubling the amount of investments delivered through financial instruments** compared to 2007-2013. Current allocations show that EUR 18 billion of ERDF and CF, equivalent to **7.2%** of the total allocations, are planned to be delivered through financial instruments.

The latest data provided by Member States on the progress in setting up financial instruments demonstrates an overall positive trend and that more FIs are becoming operational (see section 1.2 for more details). In doing so, Cohesion policy is providing a key contribution to one of the main objectives of the Investment Plan for Europe.

Hungary: "one stop shop" with a single on-line application for grant and loan support

The "Combined Loan Programme for the ICT developments of SMEs" combines a loan with grants for SMEs helping to achieve better company governance and operation by reducing IT investment costs and using higher quality ICT solutions, contributing to the improvement of competitiveness of the enterprises.

Grants and loans are parts of separate operations, but thanks to coordinated implementation arrangements, the applicant submits just a single on-line application, which includes the information necessary for both the grant and the loan and is then assessed in parallel by the Hungarian Development Bank MFB (the financial instrument part) and the managing authority (the grant part). The financial instrument is eligible only if the decision supports both the grant and the loan. It is envisaged that about EUR 220 million would be awarded, with majority (about EUR 125 million) in the form of loans.

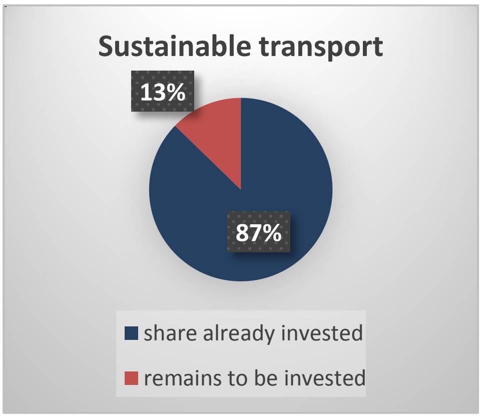
Important work was also carried out with a view to **foster the complementarity** between European Structural and Investment Funds (ESIF) and the European Fund for Strategic Investments (EFSI), the focus being put on promoting and explaining the potential for such synergies, including developing model templates for usefully combining EFSI and ESIF in certain investment areas. Beyond that, Cohesion policy is also supporting the Investment Plan for Europe by supporting investment and improving investment conditions across the EU.

Complementarity with EFSI was further strengthened following the adoption of the Omnibus regulation, which allows for more flexible rules in case of combination. It also created the possibility for Member States to dedicate a separate priority axis to the SME Initiative. As of end of 2018, there were **25 identified ESIF-EFSI projects**. Expected leverage of additional resources as reported by the Member States demonstrates the ability of ERDF and CF financial instruments to pursue wider Cohesion policy objectives, mobilising and attracting private capital for the benefit of final recipients.

In 2018 REGIO provided active support to Member States by providing the necessary guidance for the set-up and implementation of financial instruments. In order to extend the possible use of financial instruments to projects, which are not fully bankable, but require a grant component (especially in the area of energy efficiency and the Smart Finance for Smart Buildings initiative), REGIO worked with the European Investment Bank and interested Member States on finding arrangements facilitating combination of grants and financial instruments and identifying and promoting good practice. An example of this approach in Hungary is provided in the box.

Sustainable transport

Investments in sustainable transport are supported with the objective of developing a seamless, door-to-door European transport system. This is crucial for achieving a higher degree of territorial cohesion and sustainable economic development. This support follows a balanced, multi-modal approach covering all modes of transport in order to make sure that that future mobility demand can be met by the transport system in a more efficient and sustainable manner.



Cohesion policy is the largest EU financing source for modernising the European transport system and adapting it to new challenges. More than EUR **70.1 billion** (ERDF, CF and national co-financing) has been allocated to programmes that address mobility challenges across all layers of the transport system. Support to the TEN-T network plays a prominent role, more than EUR 33 billion has been allocated to develop the TEN-T rail and road network. Investments into sustainable urban mobility will make daily commute of citizens cleaner, faster and safer.

2018 latest reported achievements

By end 2018, around **2500 projects** allocated to network infrastructure under the ERDF and Cohesion Fund programmes were supported, representing 87% of the total allocation. This represents a significant increase compared to the 71.6% selected at the end of 2017.

Forecasted achievements

In relation to **rail-related investments**, the principal objective is to improve performance and interoperability of the European rail network. Therefore, the reconstruction of important parts of the existing networks mostly in the Cohesion countries is supported, with a focus on the core TEN-T network.

The selected projects will modernise around 6,000 kilometres of railway. Already selected projects concern mainly Poland, Romania, Hungary, Italy, Estonia and Portugal. As regards TEN-T projects, 3,700 km of TEN-T railway lines will be reconstructed. Notable achievements in this area are registered mainly in Estonia, Hungary and Portugal.

Roads to reconstruct

10 000 km

forecasted until end 2023

In relation to improving accessibility across the European **national and regional road networks**, nearly 10,000 km of road will be reconstructed under future projects, of which close to 800 km are part of the road TEN-T network. The largest values linked to already selected projects mainly occur in Romania, Poland, Hungary, Latvia Bulgaria and Lithuania, as well as from cross-border programmes.

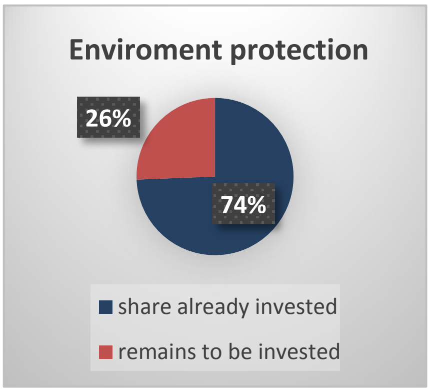
An important volume of **new roads** is also planned, essentially in less developed regions, with more than 3,100 km forecasted. As a result of projects selected so far, the planned targets for the construction of new roads should be exceeded.

In relation to achievements in the transport sector, it should be noted that due to the long life-cycle of investments related to large infrastructure projects, most of the related achievements are delivered in the very last years of implementation.

In order to help tackle the challenges of **urban transport**, an Urban Mobility Partnership was set up under the umbrella of the Urban Agenda for the EU. REGIO actively contributed to the development of an Action plan on urban mobility, which was adopted in autumn 2018.

Environment protection and resource efficiency

The Support of environmental protection and resource efficiency contributes to enhance quality of life as well as supports the implementation of *EU environmental acquis* and achieves a circular economy. The overall allocation to this area amounts to more than EUR **46.3 billion**.



2018 latest reported achievements

A significant spike both in planned investments and in reported achievements was also noted in the area of environment protection and promotion of resource efficiency, as about **12,500 projects** were supported until the end of 2018, representing 74% of the total planned. This represents a significant increase compared to the 53% selected at the end of 2017.

Even though the related investments have a long life cycle, reported results have already gained steam in most areas. Progress remains slow as regards the objectives linked to the increase of waste recycling capacity and rehabilitation of land, as projects selected so far only cover a modest fraction of the expected target. This is notably due to lengthy planning procedures. Good progress in project selection has however been registered notably in Romania, Portugal, Hungary and Spain.

Forecasted achievements

Investments are anticipated, notably in the following key areas:

- projects already selected will deliver results in excess of the set targets for **flood and forest fire protection** covering 36 million and 18 million persons, respectively;
- the same goes for **conservation of habitats**, where 7 million hectares will be delivered in excess of the target;
- around 12.5 million people will benefit from improved **drinking water supply**;

- **waste water** of 17 million people will see improved treatment reducing environmental impact.

Effective support to wastewater management in Greece

In view of the less than satisfactory outcome of the 2007-2013 period in this domain, a specific technical assistance action was launched in order to improve the planning, budgeting and implementation conditions of such projects. This involved REGIO TA in order to better define the needs and planning for this sector, and a centralized expert facility in Athens to improve and monitor implementation, under the responsibility of a Steering Committee involving the two competent ministries and the representative organizations of local authorities. During 2018, 13 regional wastewater master plans, one for each Greek region, were developed, approved and officially presented in each of the regions. In addition, the national database for wastewater (at the Ministry of Environment) through which the reporting to the Commission is done, was updated and strengthened. The Technical Secretariat put in place at national level ensures the monitoring of the regional master plans.

Support to structural reforms, investment conditions and effective implementation

DG Regional and Urban Policy's contribution towards the achievement of jobs, growth and investment in 2018 also included important non-financial contributions.

The policy provides substantial resources to undertake **structural reforms and address structural challenges** linked to investment-relevant country specific recommendations (CSRs). Relevant CSRs were notably a focal point for effective programming and are reflected in the adopted Partnership Agreements and programmes. The major bulk of challenges identified in recent CSRs have already been addressed by targeted investment in the 2014-2020 programmes or through the enforcement of **ex-ante conditionalities (ExACs)**, which set out sector-specific and horizontal conditions to ensure effective spending. Pre-conditions in this area related in particular to (1) Research and Innovation/Smart specialisation strategies; (2) SME/Small Business Act; (3) Water, waste and EIA/SEA legislation.

The successful implementation of ex-ante conditionalities across the EU (overall 99% of the action plans to fulfil ExAC have been completed) has tackled longstanding bottlenecks to investment, and contributed to deliver the third pillar of the Investment Plan for Europe. ExACs provided an impetus for Member States to implement structural changes and policy reforms, including those linked to CSRs.

Integration of Cohesion policy within the EU governance system was further strengthened in 2018, as REGIO was more intensively involved in the **European Semester** process. REGIO contribution to the Country Reports has reached a new dimension extending to different sections of the main report and to the drafting of an Annex (D) exclusively devoted to Cohesion policy funds supported investment priorities for the 2021-2027 programming period. The DG provided tailored country-specific analysis of relevant regional disparities as part of a broader analysis of challenges and bottlenecks to investment. Based on these analytical elements and taking into account Cohesion policy objectives, country-specific investment guidance on Cohesion policy funds 2021-2027 were developed and summarised in Annexes to the Country Reports. These Annexes provide the basis for the dialogue between Member States and the Commission services in view of the programming of the Cohesion policy funds for 2021-2027.

Work has also continued throughout 2018 to support the rolling out of the 121 **smart specialisation strategies** drawn up in the concerned Member States and regions, mobilising more than EUR 120 billion of ESI Funds and national/regional resources and aiming to leverage considerably more private investment. REGIO provided support through the **Smart Specialisation Platform**, in cooperation with the JRC, including the 3 thematic smart specialisation platforms and their 28 partnerships, and the 3 EP pilot actions (support for lagging regions, Romania, Stairway to Excellence).

Nine **interregional smart specialisation partnerships** were supported, to help develop and test jointly new ways to commercialize and scale-up interregional innovation projects to reshape European value chains, help attract private investment, and strengthen synergies. A special thematic smart specialisation partnership for "**Advanced materials on batteries**" was initiated with REGIO support within the framework of the EU Battery Alliance and the Strategic Action Plan on Batteries.

As a follow-up to the Communication on Strengthening Innovation in Europe's Regions – Strategies for resilient, inclusive and sustainable growth[24], REGIO has worked intensely on the **two pilot actions on interregional innovation partnerships and industrial transition**. The preparation of the new interregional innovation investment initiative covered the design of the instrument, coordination with other DGs and presentations to EP and Council. Discussions with BUDG on the budgetary and human resource implications have begun. Twelve regions and countries in industrial transition received support by experts and the OECD to develop a comprehensive strategy for economic transformation, building on their smart specialisation strategies, a broad innovation concept, and addressing globalisation, automation, decarbonisation, emerging and digital technologies, skills and investment.

Examples of EU added value

United Kingdom – The Engineering Innovation Centre

The Engineering Innovation Centre in the North West of England is a good example of the cross-cutting nature of some of the ERDF investments: a state-of-the-art engineering innovation facility will offer an integrated space for teaching, research and knowledge exchange, which in turn is expected to result in higher education provision in Lancashire which will be more closely linked to the economic priorities of the business community. This is a typical example of the added value resulting from the place-based approach facilitated by the Cohesion policy.

Poland - GEO-3EM: a unique research and technology transfer centre

GEO-3EM is a project that combines three investments connected by a common idea - Energy, Ecology and Education. The project is to create a unique European research and technology transfer centre for sustainable use of raw materials and energy from environmentally friendly sources. The project is led by the Wrocław University of Technology under the Regional Operational Programme Lower Silesia 2014-2020 and its total budget is EUR 24.5 million, while the ERDF contribution amounts to EUR 16.6 million. The infrastructure is used to carry out research and development work focused on strategic areas of regional development, such as: chemical and pharmaceutical industry, spatial mobility, natural and secondary raw materials, production of machinery and equipment, and material processing. The research focuses on technical and industrial applications and it applies to the broadly defined field of raw materials, in the context of a full innovation chain, from extraction through processing, manufacturing, exploitation and recycling.

France – Zero rate loans

As part of the investment priorities of the Nord-Pas de Calais ERDF program, the Hauts-de-France and Bpi France facilitate the access of local companies with a workforce of less than 2000 people to European funding by co-financing zero rate loans for research, development and innovation projects. The characteristics of the loans are: zero rate, no fees, loan amount between EUR 100,000 and EUR 1 million, lasting between 5 and 8 years with a maximum of reimbursement delay of 3 years. The funding agreement was signed on August 3, 2018. The total budget amounts to EUR 22 million with an ERDF financing of EUR 11 million. At the end of 2018, 4 loans have been granted for EUR 2.3 million. This confirms the added value of Cohesion policy in fostering the pooling and leveraging of finances from different EU and national sources.

Portugal – BIOCANT Park: a unique research and business environment

Kick-started by EUR 9 million of investment from the ERDF, the "BIOCANT park" has created a unique research and business environment with a strong beneficial impact on the CENTRO region. Since 2005, and being supported by ERDF in 2007-2013 and 2014-2020, BIOCANT Park has grown to host 25 businesses, a third of the total number of biotechnology companies in Portugal. Together, they have attracted around EUR 70 million of investment, out of which EUR 40 million comes from national and international private investors. Over 300 highly qualified jobs, mostly for young MSc or PhD graduates, have been created. Located in Cantanhede in central Portugal, BIOCANT was the result of a strong partnership between the city council and the nearby Universities of Coimbra and Aveiro, facilitated by the place-based approach promoted by Cohesion policy.

Bulgaria – first-ever financial instrument to ensure sustainability of investments in the water sector

[24] (COM(2017)376 final)

Bulgaria has set up its first financial instrument for the water and wastewater sector, supported by the Cohesion Fund and co-financed by the EBRD. Thanks to this support, 16 regional water operators will be able to upgrade their water supply, wastewater and water treatment facilities. This scheme is expected to trigger an investment up to EUR 230 million to deliver quality service to citizens, EUR 115 million come from the Cohesion Fund. The instrument is key for the ongoing reform of the water sector and aims to ensure the long-term sustainability of this vital utility sector. This is also the first instrument of the kind supported by Cohesion policy and a clear example of the positive effects resulting from ERDF and CF support to less developed and transitional regions, where key investments would otherwise not take place.

Luxembourg - Laser Technology Competence Center (LTCC) - Phase 3

The LTCC at the University of Luxembourg has the mission to develop innovative laser process know-how, to explore novel opportunities of this versatile production tool and to support national industry with a pre-competitive communication platform. The work of the researchers will enable national and international industrial partners to benefit from the insights gained by systematic investigations related to cutting-edge laser manufacturing technology. This project will increase the physical capacity of the LTCC, by buying new laser beam sources, laser machinery, and related testing equipment to keep the apparatus of the lab up to date and at the state of the art.

Germany – BDC MedTech project

Mannheim BDC MedTech is at the heart of the future Mannheim Medical Technology Campus (MMT Campus).The MMT campus is designed to attract businesses and research organisations from the field of medical technology to promote the development and sustainable marketing of medical devices in Mannheim and the metropolitan region. The BDC MedTech offers ideal conditions for start-ups, spin-offs and small and medium-sized enterprises in one of the largest growth sectors in the world. It allows them, inter alia, to use offices, hybrid rooms — so called iCubes — and laboratories flexibly in time to develop and expand their business ideas. The BDC MedTech offers, through the concentrated spatial arrangement of the university hospital, the cluster management of medical technology, the Fraunhofer project team pamb, the establishment and competence centre for medical technology (cubex41) with an experimental hybrid OP and the cancer research campus. "Mannheim Molecular Intervention Environment" (M2OLIE) represents unique opportunities for interlocking institutions and firms. The ERDF played a key role in making this project possible, by providing support as well as a cooperation framework between businesses and scientific players.

Italy - TRAMVIA – Florence tramway

The project's aim was the realization of a tram network in Florence. This network provides inter-modal nodes with the airport, the national railway and road networks and is also further enhanced with exchange parking facilities in Florence and in Scandicci. Part of it has been in operation since February 2010 and the number of passengers in the first years of operation, from 2010 – 2016, was over 58 million. The project has also created 90 permanent jobs. The extension of the existing Tramvia is foreseen in the 2014-2020 programme. The new lines would involve another 12.1 km. The estimate is for ERDF contribution at the level of EUR 40 million, out of total costs of around EUR 327 million. This project is a best practice example of synergies between different sources of funding: EU funds, national funds and private funds.

Romania - A better land registry system for citizens and businesses

Nearly EUR 266 million from the European Regional Development Fund (ERDF) will be invested in order to extend the scope of the land registry and the land registration system in rural areas of Romania. Cohesion policy provides here a substantial financial support, directing the funds towards a project that aims to increase the legal certainty and transparency of property rights with significant positive impact in terms of cutting red tape and improving business environment.

Integrated infrastructure in Slovakia

New D1 motorway section to strengthen central Slovakia's transport links with neighbours Phase II of an EU-funded project will complete the construction of a 11.317 km section of the D1 motorway in the Central Slovakia region. The section aims to alleviate traffic congestion in the surrounding urban areas, reduce bottlenecks, and better connect the region with east Slovakia as well as with Poland. The current phase II of the project covers completion of the primary and secondary lining of the motorway, bridges and 2 tunnels to enable traffic to move smoothly. The project section will link the D1 section from Vrtižer to Hričovské Podhradie and the D3 section Hričovské Podhradie with eastern parts of Žilina region and east Slovakia. There is a total allocation of EUR 238.5 million. This project is a good example of how Cohesion policy supports key investments in transport infrastructure in Member States that has showed a low level of public investment in recent years.

Employment & labour mobility
Social inclusion
Education, skills & lifelong learning
Institutional capacity & effective public administration

REGIO also complements investments financed by the European Social Fund. As regards **promoting sustainable and quality employment** and supporting labour mobility, ERDF invests more than EUR **4 billion** in the areas such as business incubators for self-employment, micro-enterprises or support to local development initiatives.

Modernised health systems

50.8 million
benefitting citizens
forecasted until end 2023

Almost EUR **17 billion** is to be invested in **social inclusion**, combating poverty and any discrimination. ERDF support is instrumental in investing into health and social infrastructures. An estimated 50.8 million citizens will benefit from ERDF supported modernisation of health systems, exceeding the target.

Nearly EUR **18.5 billion** will be directed to projects addressing **education and training infrastructure**. By the end 2023, 6.9 million students should benefit from ERDF projects investing in the renovation of school infrastructures.

Enhancing **institutional capacity** of public authorities and stakeholders and efficient public administration is another area of support of ERDF. The overall envelope devoted to this objective amounts to nearly EUR **1.8 billion**.

1.1.2 Achievement of specific objectives linked to Commission priority 2 – A Connected Digital Single Market

02	**Digital single market**	• Information & communication technologies

The overall allocation to digital economy themes for the whole programming period stands at EUR **18.6 billion**. This makes ERDF the main EU investment tool for digitalisation of the public sector and SMEs, and for the roll-out of broadband, followed by the Connecting Europe Facility's Connecting Europe Broadband Fund (CEBF) that started operating in June 2018 with a budget of EUR 420 million[25] and the EFSI.[26]

Reaping the benefits of the digital economy, addressing societal needs through e-government solutions and providing affordable access to high-speed broadband and e-inclusion are the focus of ESIF programmes. The aim is also to achieve efficiency gains thanks to e-government solutions, smart energy and transport solutions. ESIF delivers tailored support on the ground matching local needs and opportunities. There are in total 209 ERDF programmes with Digital Single Market related allocations (including 36 Interreg programmes).

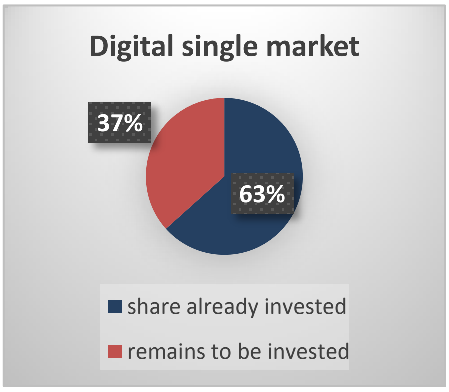
Significant funding is earmarked for the development of e-government, Information and communication technology (ICT) services and applications for SMEs, high speed broadband, smart grids and intelligent energy distribution systems, and large scale data centres.

[25] See: https://ec.europa.eu/digital-single-market/en/news/connecting-europe-broadband-fund-135-000-communities-croatia-will-get-high-speed-broadband

[26] See 38 so far selected digital projects under EFSI (with slightly over EUR 4.7 billion for signed projects): https://www.eib.org/en/efsi/efsi-projects/index.htm?c=&se=4

2018 latest reported achievements

Project selection in the areas contributing to the Digital Single Market has progressed at a sustained pace throughout 2018. Up to end 2018, some **7,800 projects** were selected on the ground to support the achievement of a connected Digital Single Market, representing 63% of the total planned. This is almost in line with selection rates in other investment areas, marking a significant improvement compared to the first years of implementation (only 19% had been selected at the end of 2016, when project selection in this area was lagging compared to the overall average of selection of 28%).



While notable progress has been registered across several Member States in 2018, some difficulties have slowed down the implementation of broadband projects in the early stages of implementation in certain countries (e.g. difficulties and lengthy processes to select the beneficiaries in Ireland and the Czech Republic, lengthy consolidation of public ICT infrastructure in Lithuania, mapping of intervention areas and state aid issues in the Czech Republic). Close monitoring and active cooperation of REGIO, AGRI, CNECT and COMP with Member States is ensured in all such cases, so as to ensure that issues can be effectively tackled and in order to ensure the conditions for effective progress towards the set EU targets.

Forecasted achievements

14.5 million households to obtain broadband coverage

forecasted until end 2023

ERDF supported projects delivering **improved broadband access** will continue to progress with 14.5 million households expected to benefit. Until today mainly projects in Spain, Poland, Hungary, France, Latvia, Greece and Italy have been selected. However, with late selection and long implementation periods, the likelihood of achievement of the target will only become clearer later in the period.

The other main activities supported include e-government actions aimed at reforming delivery of public services and e-procurement and e-commerce in SMEs.

Comprehensive digital strategies stimulated by ex-ante conditionalities

Ex-ante conditionalities have encouraged the shift from a classic ICT sector approach to a comprehensive local/regional/national 'digital agenda', requiring regions to identify ICT investment priorities relevant for their territory. Member States and regions were obliged to develop two strategies before making any digital investments using the Funds in 2014-2020:

- National and regional authorities devised a **strategic policy framework for digital growth** within their broader research and innovation strategies in order to receive funding for investments in ICT products and services.
- Each Member State developed a **Next Generation Network Plan** that identified where public intervention was necessary to provide broadband access.

This work has produced significant results in several Member States, as shown by the example of Italy illustrated in the box.

In addition, targeted actions aimed at improving the administrative capacity of programme authorities in this area continue to be implemented. Appropriate follow-up was ensured to the **Action Plan on Rural Broadband**[27], with country visits (BG, HR, CZ, RO, SK) for which also requests for reprogramming were examined and bottleneck in implementation discussed. Among other initiatives, the work of the network of **Broadband Competence Offices** (BCOs) across Member States, supported by a Brussels-based facility, has started to bring positive outcomes. Thematic groups and trainings for BCOs were organised on topics like State aid, demand-side measures, mapping, and technological neutrality. Through single points of contact within the Member States, this network provides information and/or advice to any public authority wishing to roll-out high-speed broadband, as well as any potential broadband project promoter enquiring about the EU/national/regional funding available for broadband.

Strengthening digital strategic governance in Member States:

In **Italy**, about EUR 2.6 billion in investments are planned in digital growth in 2014-2020. The digital divide is one of the major gaps between the Italian regions (especially in the Mezzogiorno) and the rest of Europe. In reply to a relevant ExAC, Italy has adopted a **Strategy for Digital Growth**, which intends to:

- bring connectivity with a minimum of 100 Mbps for up to 85% of the Italian population;
- guarantee coverage of at least 30 Mbps to all citizens;
- cover at least at 100 Mbps offices and public buildings;
- bring high speed broadband in the industrial areas.

All these actions are expected to help improve the digital performance of regions and Member States, thus positively contributing to the attainment of the target set for the impact indicator capturing digital competitiveness of Member States. Through the BCOs, the Commission and the participating Member States aim at addressing the urban-rural digital divide by extending broadband in rural areas, by deploying a set of actions (the "Toolkit for rural broadband").

Examples of EU added value

Poland – European Broadband Award 2018 winning project

The project "Poland enters gigabit society" co-financed with the ESI Funds won the European Broadband Award 2018 that recognises outstanding and successful broadband projects in Europe, in the category "territorial cohesion in rural and remote areas". The project was co-financed from the Operational Programme Digital Poland 2014-2020 (total allocation of EUR 815.5 million of ERDF) and aimed to connect to the high speed internet (above 30 Mbps) households and schools in disadvantaged areas (so called white spots – without or with only very slow broadband internet access) in Poland. As a result of the project, 1,777,816 households (which is more than 13% of all households and 50% of all white areas in Poland) will have access to fast internet (above 30 Mbps) and all schools will be connected to ultra-fast internet (above 100 Mpbs) by 2020. This will bring new opportunities for communication, work, education and culture in remote areas and will help spread the benefits of the ongoing digital transformation across all society, in line with the Commission objective.

Valencia - ICT Equipment for Special Education Centers

This project co-financed the purchase and use of new technologies to facilitate the participation of students with special educational needs (autism, mobility impairment, auditory or visual handicaps).

It foresees the distribution of 1000 digital tablets in schools that host students with communication disorders and mobility impairment in order to allow their correct integration.

The tablets are a great opportunity to work and reinforce very specific skills and they improve the process of learning and the digital competition of the students with different abilities. The project had a total cost of EUR 20,567,292 and a 50% co-financing by the ERDF.

Estonia – Release of 2,834 e-services

Thanks to the 200 ERDF-supported projects already implemented by the end of 2018, Estonia had released 2834 e-services using one of their most important basic components of IT infrastructure 'X-road'. The Cross-Border Cooperation of the X-Road" enables different public-sector data systems in a single country to understand each other, it also allows systems located in different countries - such as Estonia and Finland - to communicate and synchronise information. This is essential for a mobile

[27] https://enrd.ec.europa.eu/action-plan-rural-broadband_en

society, especially in cross-border regions like Finland and Estonia where citizens live and work on both side of the borders. Total investment for the project is estimated to be EUR 352,000, with the ERDF covering up to EUR 252,000.

Austria - Digital factory in Vorarlberg

The key benefit of the model factory of the University of Applied Science of Vorarlberg lies in the learning and targeting of technologies and the training of students and staff from the industry. For companies, it is possible to experiment and look into the future of production — the watchword for industry 4.0. To start, the digital plant already has the necessary basic functions: "We can get a piece of work, analyse data and have a Showcase for the Internet of Things", Merz. In the coming years, the digital factory will be further developed and expanded. The Digital Factory Vorarlberg has been implemented in two sub-projects. The "model group Vorarlberg" involved the research infrastructure, i.e. the purchase of equipment, The sub-project 'Research Group Digital Factory' funded staff. Altogether the ERDF contributed EUR 535,000 to the project.

France - Bretagne Très Haut Débit

Bretagne Très Haut Débit major project, adopted by the Commission on September 30th 2018, is a response to the Bretagne region's risk of disconnection due to its peripheral location on the European continent and to the digital divide within the region itself. The objective is an increase of the rate of superfast coverage in Bretagne from 6.2% of the population in 2013 to 68.4% in 2023. Without ERDF contribution, this rate would only reach 39.9%, due to private investments. In view of the major impact of access to Ultra-Fast Broadband for businesses and services, the project will be a key contributor to the overall economic development of Bretagne. The total budget of the project is EUR 360,006,542. The ERDF contribution amounts to EUR 74,597,621.

Finland - The Six City Strategy

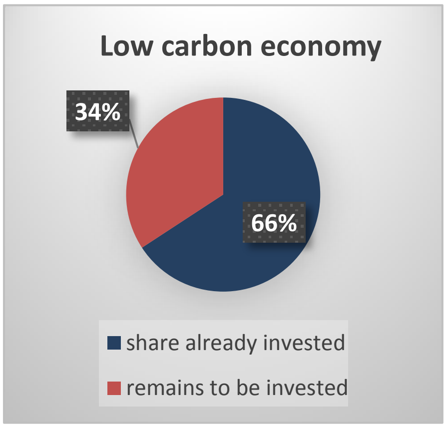
Open data and platforms are supported via an innovative ITI strategy of six biggest cities in Finland. The Six City Strategy has three focus areas: open innovation platforms, open data and interfaces, and open participation and customership. The total budget for the Six City strategy is about EUR 80 million of which ERDF 50%, state 17%, municipalities and other public 33%. In addition, ESF funding is being used to complement the strategy based on decisions at regional level. The current pilot project portfolio ranges from smart mobility, circular economy, health and well-being and the gaming industry to the education sector as well as to several employment projects. The Six City Strategy was chosen to represent Finland for Cohesion policy's 30th anniversary year.

1.1.3 Achievement of specific objectives linked to Commission priority 3 – A Resilient Energy Union with a Forward-Looking Climate Change Policy

03	**Energy union and climate**	• Shift towards low carbon economy • Climate change adaptation, risk prevention & management • Smart energy infrastructure

Achieving an Energy Union will ensure security, affordability and sustainability of energy supply in Europe, while also making the Union less dependent on international market and external sources of energy raw materials. Diversified production with a growing share of renewables, more sensible energy use and implementation of measures aimed at mitigating climate change, will foster job creation and guarantee sustained increase in the quality of life across all Member States.

Cohesion policy is the biggest EU investment source in making the Energy Union happen on the ground and supporting EU's regions and cities in their path for reaching the EU 2020 and 2030 climate and energy targets and achieving a socially fair transition. This includes significant financial allocations, in particular from the ERDF and CF, in this area with EUR **65.3 billion** of investments related to the low carbon economy (EUR 55.7 billion) and for climate change adaptation measures (EUR 9.6 billion).



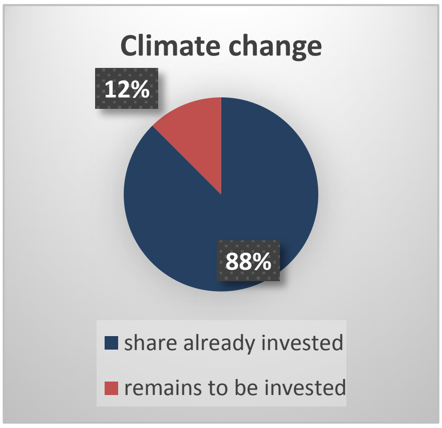
Cohesion policy is also the main EU funding source on disaster risk management, as illustrated by the contribution to the RescEU[28] package. This support helps regions becoming more resilient towards the adverse impacts of climate change.

The 2014-2020 programmes focus on three main types of investments for the transition towards low-carbon economy and for climate change adaptation, namely:

- **Low carbon economy** (including renewable energy and energy efficiency, including of public and residential buildings and enterprises, in particular SMEs);
- **climate change adaptation and risk prevention** (including flood prevention and nature based solutions such as green infrastructure);
- **smart energy infrastructure** (distribution grids, transmission and storage) as well as energy-efficient, low-carbon mobility.

2018 latest reported achievements

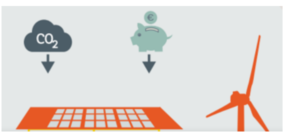
Project selection rate in the above mentioned areas grew steadily in the course of 2018. Thus, over **25 thousand projects** in the area of low carbon economy have been selected and either will be or are already being implemented on the ground. This represents 66% of the final value (up from 45% end 2017). For investments targeting climate-related goals, nearly **2,500 projects** have been selected, representing 88% of the target value, up from 55% end 2017.



Given the time delays associated with reporting on achievements (that could be captured by indicators), it can be stated that the actual results of projects' implementation in the area of Energy Union and climate change are already much more significant. In addition, certain types of investments (i.e. renewable energy production or low-carbon transport) are expected to demonstrate results towards the end of the programming period as they are linked to the projects with a longer time-frame (including building of physical infrastructure).

Despite the good progress in the area of energy efficiency, the uptake of the related investments for large enterprises is rather slow - only 36% of the planned allocations have been dedicated to selected projects by end-2018. Possible explanations include the fact that large enterprises are carrying out such investments as part of their normal business operations or the state aid rules.

Improved energy consumption



838,000
households
forecasted until end 2023

Forecasted achievements

There should be a decrease in **primary energy consumption of public buildings** of 4.8 billion kWh/year, which is equivalent to the annual energy consumption of nearly 1.1 million households;

Energy consumption is forecasted to improve for about 838 thousand **households**;

Around 36 million people are forecasted to be covered by improved **flood protection mechanisms**.

[28] https://ec.europa.eu/echo/news/resceu_en; communication COM(2017) 773 and a legislative proposal COM(2017) 77

Examples of EU added-value

Hungary – ERDF supported Hungary's largest solar power plant

The first solar power plant under the 2018-2019 photovoltaic project of the MVM Group has been built in the vicinity of Felsőzsolca and Onga on nearly 45 hectares, thanks to a total investment of around EUR 28 million, provided by ERDF and the national budget. It has started generating electricity as the unit with the largest installed capacity in Hungary - 20 megawatts. The Felsőzsolca Solar Power Plant is the first to start electricity generation among 110 solar units planned.

Netherlands - Upscaling of Solar Photovoltaic Power for rental tenants

This project facilitates the large-scale installation of solar photovoltaic systems on rented accommodation. The consortium of market parties aims at removing existing bottlenecks while ensuring that the huge demand for solar panels among rental tenants can be met. The integrated cooperation between experienced and expert market parties supplemented by external specialists, facilitates the large-scale rollout of solar photovoltaic power for rental tenants. The installation of the solar photovoltaic systems, initially in 8.500 homes, rising to 30.000 homes over the next few years, will create many employment opportunities. Furthermore, businesses responsible for the fitting and installation of the PV panels, converters and cable work will also grow. ERDF: EUR 802,445

BELGIUM – EnergyVille

EnergyVille aims to be a driver in the Thor science park in Genk in the areas of research, business development and employment creation. EnergyVille received EUR 10 million under the current Flemish ERDF programme. The project promotor is the University of Leuven. The ERDF project focuses on renewable energy technology and seamless integration into the environment and the electricity and thermal net. The project brings the right Flemish players across the value chain together on the EnergyVille site. The combination of interdisciplinary expertise and infrastructure in renewable energies and the link to energy distribution networks makes EnergyVille a unique R & D attraction pole in Europe. The innovative aspect is that Energyville views energy issue from an overarching energy approach and from the underlying technologies. The project is investing in state-of-the-art laboratories and demonstrators which will be a catalyst to accelerate the development of the R & D Flemish industry. In each of the activities, the project is forward-looking and strongly oriented towards the demand and availability of local actors. The innovations are by deliberately drawn down to the level of urban renewal projects. The social impact and attitude of end-users towards innovative technologies will be mapped and included in the new developments.

Germany – Dresden Organic solar films on the world market

The film is extremely light," explains Dr Martin Pfeiffer, co-founder and CEO of Heliatek GmbH. "for many lightweight buildings the statics is not suitable to wear conventional photovoltaic systems on a silicon basis, for example. In the case of facades, it is also cheaper to install the light films and the new type of production means that the rolls can be tailored individually. "Heliatek, a starting point at the University of Technology in Dresden in 2006, wants to give the organic photovoltaic industry the global breakthrough and extend its application areas considerably. The company is investing a total of EUR 32.9 million to build a pilot line for rolling stock manufacturing. The Free State of Saxony awarded a grant from the European Regional Development Fund (ERDF) for this amount of EUR 19.7 million.

Luxembourg - The Technical High School for Health Professions

The Technical High School for Health Professions in Ettelbruck was selected as a pilot project with an innovative "positive energy" concept. The building will produce more energy than it will consume, taking into account also the energy required for construction and demolition. The project focuses on energy and comfort criteria, but also on the use of environmentally friendly materials and prohibits all harmful to health products.

Finland – More than 1,000 new solutions for low carbon economy

1,010 new solutions for low carbon economy have been developed. TeKiDe - textile fibre recycling - Helsinki-Uusimaa, Finland was a RegioStars Award winner in 2018 in category 'Achieving sustainability through low carbon emissions'.

Latvia - Charging stations for electric vehicles

ERDF has supported creation of 150 charging stations for electric vehicles across Latvia to prevent problems of owners of electric vehicles to freely move around the country, to promote the usage of renewable energy in transport and thus reduce pollution and C02 emissions in Latvia. 139 charging stations have been built so far.

Contribution from the European Solidarity Fund (EUSF)

Members States and regions are increasingly confronted with natural disasters, which can be often linked to climate change. In 2018, the **EU Solidarity Fund** (EUSF) continued to offer them vital support, adding to financial relief but also a clear and tangible sign of European solidarity to the populations affected. Close to EUR **156 million** in EUSF assistance (including EUR 4 million in advances paid in 2017) were thus awarded to **9 Member States** in order to help them finance emergency and recovery operations in the area of basic infrastructure, assistance to the population, provisional housing, protection of the cultural heritage and cleaning up operations. Furthermore, support from the EUSF helps to increase the Member States' and regions' resilience and preparedness to address the consequences of these natural disasters.

During 2018, the Commission received four new EUSF applications concerning flooding in Burgas (Bulgaria) which occurred at the end of 2017, lasting drought in Cyprus, flooding in the Nord East Region of Romania during the summer months and extreme weather events during October/November throughout Italy. The financial contribution from the EUSF for Bulgaria was fully paid out, while the application from Cyprus was found not to meet the criteria and consequently had to be rejected. The other two cases were still being assessed at the end of 2018.

In 2018 REGIO carried out one high-level monitoring mission to Italy (July 2018) to assess the level of implementation and discuss any potential issues linked to the biggest ever contribution paid by the EUSF following the earthquakes in Central Italy (2016-2017). The information collected during the mission confirmed the excellent cooperation with the Italian authorities and the good progress made in implementing the financial contribution.

REGIO has undertaken the first ever evaluation on the EUSF and the Staff Working Document is to be published already in April 2019.

Non-financial contributions aimed at improving investment conditions and accompanying effective implementation

DG Regional and Urban Policy also supports the Commission's energy and climate priority through non-financial contributions, with a wide range of available instruments (ex-ante conditionalities; integrated territorial solutions; capacity building; cooperation mechanisms and technical assistance). **Ex-ante conditionalities** (ExACs) play an important role aiming at removing particular sector-specific barriers in areas such as:

- energy efficiency;
- cogeneration;
- renewable energy;
- risk prevention and management.

Through defining and enforcing certain preconditions in the above mentioned areas, ExACs along with other measures have ensured effectiveness of public investments, durability of results and enacted structural changes.

Czech Republic – A comprehensive action plan for coal regions in transition

In Czech Republic, the coal region in transition initiative covers 2 regions 'North-West' and 'MoraviaSilesia" representing 3 self-administrative regions (Ústecký, Karlovarský, Moravskoslezský). The Czech RE:START strategy and an action plan was adopted by the Czech government in 2017. Some EUR 318 million are to be reprogrammed, reinforcing activities in the areas of sustainable transport, healthcare, education, reduction of emissions from stationary sources as well as financial instruments for brownfield regeneration. Approximately 73% of the amount will go to the coal regions in transition while their population counts for about 25% of the country population. The Commission insists that the Czech authorities extend national and further EU funding to strategic projects in the coal regions that would serve as examples and guide the regions towards to the industrial transition. This is a clear example of the positive effects resulting from initiatives and pilot projects supported by the ERDF and CF to help less developed and transitional regions, where key investments would otherwise not take place.

REGIO has also helped the cooperation of Member States and work across silos via its **networks of Energy and Managing Authorities** (EMA) and of the European network of Environmental Authorities and Managing

Authorities (ENEA-MA). Furthermore, a number of Interreg projects has supported cross-border cooperation.

To ensure fair low-carbon transition for all regions in Europe, REGIO has been actively engaged in the **Coal Regions in Transition initiative**, which aims to provide tailor-made support for the clean energy transition in coal and carbon-intensive industrial regions. REGIO was closely involved in support for 13 pilot regions under the country teams of the initiative[29] and is also a co-chair of one of the working groups of the Platform on Coal Regions in Transition, set up to support all affected regions. REGIO was engaged throughout 2018 in intensive discussions with national and regional authorities on technical and political level to provide guidance on how to best use the available Cohesion policy funds – estimated at around EUR 20 billion for the pilot regions (in the wider sense)[30]in the 2014-2020 period - and possibilities for reprogramming of the 2014-2020 allocation to address these challenges. As a result, it was for instance agreed with the Czech authorities to re-allocate EUR 232 million to coal regions in transition. Similarly, as a follow-up to several missions in Poland, Cohesion policy is now supporting 6 flagship projects in Silesia for a total of EUR 100 million.

1.1.4 Achievement of specific objectives linked to Commission priority 4 – A Deeper and Fairer Internal Market with a Strengthened Industrial Base

04	**Internal market**	• Support to the development of the Single Market, the strengthening of EU industrial base & to the less developed MS under ESIF • Territorial cooperation • Outermost regions • IPA

Enhancing the effectiveness of the Single Market by delivering support in key investment areas

The goal of a Deeper and Fairer Internal Market is both a prerequisite for and a derivative of all Commission's priorities supported by REGIO. This means that all investments channelled to 2014-2020 programmes and described in the previous sections make their contribution towards strengthening the European internal market, which cannot exist without cohesion, solidarity and sustained growth of all Member States and all European regions. Thus, this priority is being strengthened notably through:

- **targeted investments in SMEs and start-ups** aimed at increasing their competitiveness, enhancing productivity as well as further diversifying the European economy;
- support of **research and innovation** to foster modernisation and bring Europe to the vanguard of new technological developments;
- implementation of **large pan-European infrastructural projects** allowing seamless functioning of the internal market.

The latter is also an essential element for strengthening the European industrial base, as it remains an engine for economic growth and, given the challenge of globalisation, requires additional investments and support to stay innovative and capable of adapting to the changing conditions of global markets.

[29] Karlovarský, Ústecký, Moravskoslezský (CZ), Dytiki Makedonia (EL), Principado de Asturias, Castilla y León, Aragón (ES), Valea Jiului (RO), Śląsk (PL), Trenčín (SK); plus Brandenburg, Sachsen, Sachsen-Anhalt (DE) in bilaeral discussions without a formal request for a country team.

[30] At NUTS 2 level. These estimates will be complemented as additional pilot regions join the initiative.

In addition to the financial support provided through 2014-2020 programmes, the internal market of the EU is also being strengthened through ex-ante conditionalities and programmes and initiatives in the realm of territorial cooperation.

Creating the culture of compliance with Single Market rules and fostering efficient investments

Following the logic of financial contributions, it can be stated that a majority of ex-ante conditionalities contributed to the goal of a Deeper and Fairer Internal Market, including the ones on innovation and transport. Nevertheless, impact of ExACs on public procurement and State aid is particularly noteworthy as these conditionalities allow creating a real **culture of compliance with the Single Market rules across all Member States** by removing structural obstacles and/or enhancing capacity of Member States to meet the single market requirements.

Enhancing the legislative framework through ExACs

In **Greece**, several issues were hindering the smooth implementation of programmes in the first years, such as the designation of intermediate bodies and the deployment of the IT system for the management of state aids, as well as inadequate legal framework in several areas. REGIO worked closely with Member States and programme authorities to address all the issues. This led to the adoption of a new public procurement law and of an adequate legal framework for design and build contracts necessary for environmental projects, allowing a spike in project selection.

Building up administrative capacity

Sound **administrative capacity** in Member States and regions is a key precondition for the effective implementation of the ESI Funds. REGIO has continued its priority work to provide specific support tools to programme authorities and beneficiaries to ensure that they are capable of managing Funds at their disposal

In the framework of the ex-ante conditionality on public procurement, the administrative capacity of central public procurement bodies was strengthened in **Romania, Slovakia, Hungary, Czech Republic** and **Bulgaria**. Extensive and targeted training programmes were rolled out for national and regional administrations in **Greece, Italy** and **Romania.** ,

REGIO also uses part of its own technical assistance funding for measures supporting institutional strengthening and administrative capacity building for the effective management of the funds. Key actions implemented in 2018 included the roll-out of the Public Procurement and State Aid action plans; the launch of 5 pilot projects on administrative capacity building; exchanges with Member States in the framework of the Structural Reform Support Programme (SRSP); the provision of specific support through the Evaluation Helpdesk; the implementation of the TAIEX REGIO PEER TO PEER, supporting exchange of expertise between authorities managing the programmes, etc.

Positive results were also registered in relation to the Competency Framework and its self-assessment tool for the management of the ERDF and CF, a tool set up to foster professionalization of all public institutions involved in managing the European Regional Development Fund and Cohesion Fund[31]. Thanks to REGIO's promotion efforts, its use across Member States is increasing.

[31] For more information: http://ec.europa.eu/regional_policy/en/policy/how/improving-investment/competency /

Territorial cooperation as a way to strengthen internal market and reduce barriers between the Member States

European Territorial Cooperation (ETC) programmes focusing on different levels and dimensions of interregional, transnational and cross-border cooperation contribute to REGIO's efforts to increase the effectiveness of the Single Market. The funding delivered through these programmes simultaneously supports many of the Commission's priorities, e.g. Jobs, Growth and Investments through support for business and research activities across borders; Energy Union and Climate through international activities in the field of natural resources management or risk prevention. The cross-border cooperation programmes in particular deliver a noteworthy contribution to tackling border obstacles and reducing administrative barriers between border regions in neighbouring countries.

63,000 cross-border cooperation projects forecasted for end 2023

In 2018 significant progress has been achieved regarding the selection rate which reached the level of 77% with about **5,900 projects** selected on the ground. The overall cost of these projects is about EUR 9.6 billion.

Some tangible results are expected to come from projects, such as:

- 238,000 participants in (cross-border) labour mobility;
- 96,000 young people participating in youth actions, which has already largely exceeded the target;
- Around 63,000 enterprises in research and development cross-border cooperation.

In terms of cross-border cooperation programmes, an increase in transport investments was noted in 2018 with for instance the re-opening of a disused railway line between Belfort (FR) and Delle (CH), which will have a positive impact on cross-border mobility. Environmental actions have been present in many funded projects, e.g. a project to tackle the effects of nutrient decline, climate change, non-native species and other stress factors for the Lake Constance ecosystem, more sustainable forest exploitation along the Belgian-French border or more sustainable fishing on the Danube.

Alongside cross-border cooperation (CBC) programmes and to tackle the challenges requiring a more comprehensive approach and involvement of all levels of governance across various neighbouring countries (i.e. river management and flood prevention; cultural heritage preservation, etc.), **15 transnational programmes** and **4 interregional programmes** continue to be implemented. In 2018 these programmes contributed substantially to strengthening the Internal Market by providing the necessary support and deepening cooperation and exchanges between all affected sides.

Work on **cross-border cooperation beyond funding** has progressed well in 2018, following the 2017 adoption of the Communication "Boosting Growth and Cohesion in EU Border Regions". The action plan included in the Communication is being actively implemented mainly via the newly established Border Focal Point - a team of REGIO officials with expertise in cross border issues, who associate other Commission services when necessary. Key activities in 2018 include: promoting the Communication across the EU (5 events), establishing an on-line exchange platform, selecting pilot projects tackling legal border obstacles (10 projects financed), promoting cross-border healthcare with DG SANTE and adopting a draft regulation establishing a European Cross-Border Mechanism.

The **IPA component III and IPA-CBC programmes** managed by REGIO contribute to preparing the beneficiary countries for successful participation in EU Cohesion policy after accession and also to building trust and stability in the regions. Following the adoption of "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans" Communication in February 2018, the enlargement process was given a new impetus. Further steps have been taken in 2018 towards the opening of the Chapter 22 "Regional Policy and Coordination of Structural Instruments" negotiations (for which REGIO is leading service) also for Serbia, Albania and North Macedonia (in addition to Montenegro and Turkey).

An important contribution towards a better coordination of policies and actions across macro-regional areas is provided by the four **EU Macro-regional strategies (MRS)** (Baltic Sea Region, Danube Region, Ionian-Adriatic Region and Alpine Region). They offer a platform for multi-sectoral, multi-country and multi-level governance, encouraging the definition of shared strategies and actions to tackle jointly common challenges.

All four on-going MRS have shown to be key instruments for the implementation of EU policies and programmes as well as to foster cohesion and competitiveness on a scale larger than regional or national. In 2018, REGIO continued to provide continuous assistance to the existing strategies, notably through major annual events gathering all concerned actors, serving as useful fora to confirm and support the development strategies of the 4 MRS. The Commission report[32] on implementation of the four EU macro-regional strategies, adopted on 29 January 2019, takes stock of the main results achieved till the end of 2018, and provides recommendations for the strategies for the future in particular in view of the programming of the 2021-27 funds. Council conclusions on the MRS report are expected to support policy debate in early 2019.

Important work has also being carried out in order to contribute to the effective integration of the **outermost regions** into the Internal Market. REGIO steered the implementation of the Strategy for the EU's outermost regions across policies in close co-operation with many DGs. As a result of this work, specific provisions for the outermost regions were integrated in 21 Commission proposals for EU programmes for post-2020 MFF framework, with new opportunities notably created in research, environment/climate change, digital and transport programmes to support growth & jobs in these regions.

Among the most notable results achieved in 2018 are also: a) the creation of two taskforces supporting the Réunion island and the Canary Islands in addressing energy efficiency and waste management, respectively; b) the finalisation of an EIB Study on investment platforms in the outermost regions and a study on the specific additional allocation.

In addition, strong co-operation with other DGs resulted in: the revision of EU state aid guidelines for fisheries to allow fishermen in the outermost regions to receive public aid to buy new ships; the signature of a research project bringing together all the OR to enhance the research capacity of these regions; and a call for proposals under LIFE including "outermost regions/climate change".

Other Initiatives

In 2018, REGIO continued to support the consolidation of the results of the **Catching-up Regions initiative** (CRI) – a bottom-up initiative created to identify and overcome key development bottlenecks as well as maximise performance and outcomes of Cohesion policy in low-income regions. Home to 1 in 6 EU residents (83 million inhabitants), these regions have been at the top of the Cohesion policy agenda. Thanks to the recommendations and assistance provided, the less developed regions are helped to better identify and respond to their concrete needs and maximise the impact of the investment on the ground. Piloted in 4 regions of Romania and Poland in the past years, where consolidation of the initial results is ongoing, the success of the initiative saw this model of cooperation of EU, national and regional actors being transferred to other European regions facing similar challenges. At the beginning of 2018, the pilot was extended to all Romanian regions and was also officially launched in Slovakia. The region concerned in Slovakia is the Presov region, with a particular focus on matching vocational training with smart business needs, improving energy efficiency and setting up a geographical information system.

Finally, **Smart Specialization Strategies** (S3) should also be highlighted as the tool promoting territorial approach and multi-level governance in the European Union and focusing on innovation-driven regional growth. In 2018, this placed-based policy tool progressed further with the implementation of the administrative agreements on "S3Platform" and, "Stairway to Excellence", "lagging regions" and "Targeted RIS3 support to Romania" according to their work plans and contribution to other initiatives.

[32] 2nd Report on the implementation of EU macro-regional strategies [COM(2019)21] and accompanying staff working document [SWD(2019)6] adopted by the Commission on 29 January 2019.

Work has also progressed well as regards the **pilots on industrial transition** and interregional partnerships. The industrial transition pilot now covers 12 regions/countries. In addition, 9 **interregional smart specialisation partnerships** have been set up. By promoting valorisation of local specificities, mobilising local actors and creating favourable conditions for connecting innovation ecosystems, Smart Specialisation targets the very underlying elements of the Single Market, fostering local innovative solutions for the benefits of the whole Union.

Examples of EU added-value

Cross-Border Cooperation and other border projects improving transport networks

The Motorway A4 connecting Slovenia and Croatia, the first submitted major project under the current programming period was finalised and inaugurated. Thanks to around EUR 63 million from the Cohesion Fund, 13 km of new motorway were built in Slovenia's Vzhodna Slovenija region and are already in use, resulting in reduced congestion, a cut in travel times and less pollution. This link is essential part Alpine-Adriatic corridor thus contributing to better connectivity between Central and Eastern Europe but also to the economic development of this less developed region of the country. Estonia had released 2834 e-services using one of their most important basic components of IT infrastructure 'X-road'. The Cross-Border Cooperation of the X-Road" enables different public-sector data systems in a single country to understand each other, it also allows systems located in different countries – such as Estonia and Finland - to communicate and synchronise information. This is essential for a mobile society, especially in cross-border regions like Finland and Estonia where citizens live and work on both side of the borders. Total investment for the project is estimated to be EUR 352,000, with the ERDF covering up to EUR 252,000.

Lithuania upgraded Via Baltica - the most important highway between the Baltic States, and important for traffic from Finland to Central Europe - that was notorious for very high numbers of traffic accidents. The stretch of 62 km between Kaunas and Marijampole in Lithuania now has four lanes and the number of car accidents is expected to go down around 70 % here. This is a clear example of the value added of ESIF investments that benefit citizens not only in Lithuania but also in the neighbouring Member States.

Macro-regional initiatives

The Smart-up BSR (Improving smart specialisation implementation of the Baltic Sea Region through orchestrating innovation hubs) applies research and innovation strategies for smart specialisation (RIS3) by sharing best practices and knowledge of EU RIS3 experts and co-creating concepts for the RIS3 implementation. It focuses on active healthy ageing, digitalisation in smart city, climate change and circular economy.

The S3-4AlpClusters project is an innovative approach to improve the framework conditions for innovation in the Alpine Space with a multiplicity of local actors, such as cluster managers, entrepreneurs, academics and policymakers, supported by public authorities and S3 experts. The project has developed a joint transnational cluster action plan to improve transnational, cluster-based cooperation; an S3-based innovation model for cluster development; a fully synchronized call scheme and new services validated by pilot clusters.

Fostering efficiency of public administration

Italy - In order to improve the administrative capacity in the use of ESI funds, Administrative reinforcement plans (PRAs) have been adopted for all ERDF and ESF programmes and their implementation is being monitored by the Agency for Territorial Cohesion and the Commission. Italy is the only country in the EU to have agreed to the drafting of these plans, which were a pre-requisite for the adoption of programmes and which are designed to ensure that all the administrations concerned have the structure, skills and competence necessary to manage the resources entrusted to them. They are operational capacity building instruments involving verifiable actions and specific targets to be achieved within agreed deadlines. Legislative and procedural simplification is one of their major components. They are an evolving tool that will accompany the programmes throughout their implementation during the programming period. As of today, the first experimental phase has been completed and the PRAs are now moving into a second phase (concerning the 2019-2020 period) with stricter link between actions and targets, standardization of the core part of actions and physical and financial indicators for targets taken automatically from a central database.

Catching-up Regions

Romania - Supporting R&I ecosystem. Following the pilot phase of the catching-up regions, involving the North East and the North West region, the hands-on support provided by the Commission services (REGIO and the JRC), in cooperation with the World Bank, has continued on a larger scale. In particular, upon initiative of the Commission the World Bank will support the regions from the first phase to fully exploit the potential of public research institutions and the industry and promote technology transfer. Support is foreseen also to help the regions in building the capacity to design and implement preferably the Proof-of-Concept financing scheme (provided that downstream money exists for such purpose) with the purpose of developing mature projects in the field of applied research and innovation which could be then funded with EU, national and private resources. This work is extremely advantageous in view of the preparation of the future programming period.

Slovakia - Following the launching of the "Catching up" initiative in Slovakia, REGIO and World Bank experts on the ground started to provide tailored support to the Prešov region, a low-income area in North-East Slovakia, in partnership with the SK national and regional authorities. First the partners identified the challenges that hamper Prešov's economic development and on that basis the action plan was built on the region's competitive assets, in line with the national smart specialisation strategy. There are 4 activity areas outlined in the action plan (mismatch between supply and demand on the labor market limiting currently SME and R&I development in the region; low energy efficiency (EE) of Prešov Self-Governing Region (PSK) public buildings, design and validation of geo-spatial open data development in region and their publishing to support analytical and decision making processes of PSK, supporting the development of the endogenous potential of the Snina district with focus on Poloniny National Parc and its potential for SME development notably with regard to tourism. In addition, regional and EU experts seek to draw funding from the 10 different Cohesion policy programmes that the region can access, in order to support this action plan. The action plan was ready in spring 2018 and it will be implemented until March 2019. The pilot phase is already showing positive results and strengthened collaboration and ownership in the region as a result. The partners are now considering developing a second phase in 2019/2020, building up on the experiences from the pilot. Also, further sharing of lessons learnt with other Slovak regions, like Banska Bystrica is expected in 2019.

1.1.5 Achievement of specific objectives linked to Commission priority 8 – Towards a New Policy on Migration

08	**Migration**	• Integration through employment & labour mobility • Integration trough social inclusion • Integration through education, skills & lifelong learning • Urban innovative actions

Contribution resulting from the implementation of 2014-2020 programmes

REGIO has contributed to this priority in 2018 mainly through **measures supported by 2014-2020 ERDF programmes**, which are addressing the needs created by the exceptional flow of migrants to Europe by focusing on support for reception and the effective integration of legal migrants and asylum seekers in the field of employment, social inclusion and education. This is being done in the context of the thematic objectives employment (TO8), social inclusion (TO9) and education (TO10). In addition, a significant contribution towards these objectives also results from the thematic objective SME support (TO3), through which business support services reach all potential entrepreneurs, including those from more vulnerable groups such as migrants, with the aim to make the EU in its entirety stronger and more cohesive. Project selection rate in the area of social inclusion exceeds 60% at the end of 2018, with close to **8,000** projects already selected and being implemented.

While the managing of the related funds and programmes is primarily the responsibility of Member States, REGIO has continued to work closely with programme authorities in 2018, ensuring a swift processing of **programme modifications proposed by Member States** for which the challenges are more acute, in order to reinforce measures for migrants.

An important contribution to the effective delivery of the EU-wide goal of ensuring a better integration of migrants has also resulted from the entry into force of the Omnibus Regulation in 2018. More flexibility is now available to use resources from all regional funds to deal with the challenges arising from integrating migrants and refugees. A new investment priority (and corresponding indicator) has been added to the European Regional Development Fund, enabling Member States and their regions to finance projects such as the renovation or construction of reception and accommodation infrastructure.

The publication of the "**Toolkit on the use of EU funds for the integration of people with a migrant background**[33]" was the culmination of a close cooperation between REGIO and other Commission services. The Toolkit aims to assist national and regional funding authorities in implementing integration policies targeting people with a migrant background through the use of EU funds in the 2014-2020 programming period. The first dissemination event took place in January 2018 in Athens. The event brought together all relevant local, regional and national public authorities as well as NGOs.

The OECD, in close cooperation with REGIO finalised a study on the local impact of migration. The report includes a checklist for local authorities to help them design local integration policies. REGIO will organise dissemination events in Member States to promote the findings and recommendations of the study to all relevant stakeholders.

Policy work in the framework of the European Urban Agenda and New Urban Agenda of the United Nations

REGIO is carrying out targeted work to complement the funding delivered through the 2014-2020 programmes, notably in the framework of the Urban Agenda Partnership on Integration of Migrants and Refugees. The partnership aims to manage the integration of incoming migrants and refugees (extra-EU) and to provide a framework for their inclusion, covering: housing, integration, provision of public services, social inclusion, education, and labour market measures. In this context, the Action Plan prepared in 2017, including concrete actions leading to better regulation, better funding and better knowledge, is being implemented. The partnership is currently defining the steps it will take to continue cooperation in integration of people with a migrant background in the future.

An additional contribution in this area is being provided through the Urban Innovative Actions. Following the third call, **7 innovative projects** aiming at the inclusion of people with a migrant background are supported by ERDF, with a total of EUR **30 million**. These projects, serve as "labs" to identify and test new solutions in cities.

Examples of EU added-value

Slovenia-Austria: the Urban Diversity project

Since 2015 and the emergence of the refugee crisis, an intensive dialogue has been established with a number of CBC programmes to explore how they could contribute to alleviate some of the pressure created by the sudden influx of refugees and how they could contribute to their settlement. The CBC programme Slovenia-Austria finances for instance the Urban Diversity project between the cities of Ljubljana and Graz on connecting migrant entrepreneurs and their families on both sides of the border.

Germany – projects helping in integrating people with a migrant background

The 2014-2020 ERDF programme for North Rhine-Westphalia supports social inclusion in the context of sustainable urban development concepts. The objective is to combat social exclusion at an early stage in order to avoid children and adolescents losing out in integration. The local stakeholders of disadvantaged urban areas develop a concept for their district that they tailor to the specific problems of the urban area concerned. The EU added value of Cohesion policy in that respect is that it delivers the whole package of measures needed for long-term social inclusion. This includes for example support for i) childcare and education infrastructure (in North Rhine-Westphalia, it is foreseen to support 12,600 children), ii) the improvement of public space and iii) measures to stimulate the local economy.

EUR 465 million should globally be invested, half of which comes from the ERDF. The objective is to improve the living conditions of 600,000 citizens, through support for 20 development concepts.

The 2014-2020 ERDF programme for Berlin is aiming at integrating immigrant mothers via local women notably through the project "Neighbourhood Mothers Neukölln". This is a grassroots outreach

33 https://ec.europa.eu/regional_policy/sources/policy/themes/social-inclusion/integration-of-migrants/toolkit-integration-of-migrants.pdf

project started in the 2007-2013 period and aimed at facilitating access to information and services that help families from immigrant backgrounds with young children of up to 12 years. This had led to the creation of a network of over 70 neighbourhood mothers from all different nationalities and helps to integrate families and create a cohesive community. ERDF supported the project "Neighbourhood Mothers" with EUR 778,533 in 2007-2013. EUR 180,000 of additional ERDF contribution are being conveyed in the 2014-2020 programming period.

Sweden – boosting opportunities for foreign-born entrepreneurs

The ERDF-supported project One Stop Future Shop is aiming to boost new entrepreneurs in the city of Gothenburg. It offers business advice, seminars, workshops and other supporting activities for start-ups and businesses for free in many languages: Swedish, English, Arabic, Persian/Farsi, French, Maltese, Somalian and Mandarin. Many activities are customized to female, young and foreign born entrepreneurs. One focus of the project is the so called Start-up FastTrack for newly arrived entrepreneurs. The project is about supporting newcomers who have been entrepreneurs in their own countries. Legal advice is provided every two weeks when students from entrepreneurship schools are in place to help migrants or foreign-born people with business law and intellectual property issues. The project also offers a food incubator: direct business advice for entrepreneurs with ideas in food, such as starting a restaurant or a café, food production or ideas in service solutions about food such as apps or food supplies as well as targeted courses (like food hygiene). Over the past year, the project had almost 100 newly arrived participants in its fast track in business, and the target is that another 200 newly arrivals within two years should have better knowledge and conditions for running companies in Sweden.

1.2 Achievements in relation to the delivery of outputs as set in the REGIO 2018 Management Plan

In its 2018 Management Plan, REGIO identified 17 operational priorities. These are structured around six main multiannual priorities and reflect the DG's operational focus on actions, which can positively contribute to the delivery of policy results, thus enhancing policy performance. The table below illustrates the link between policy objectives, operational objectives, general objectives, multiannual priorities and 2018 operational priorities:

	DG Regional & Urban Policy		
	General Objectives	**Multiannual Priorities**	**2018 Operational Priorities**
Policy Objectives (Juncker priorities)	**1 - Jobs, Growth & Investment** **2 - Digital Single Market** **3 - Energy Union & Climate**	**1. Contribute to deliver Commission priorities (Jobs, Growth and Investment, Digital Single market, Energy Union…)**	1 - Support an accelerated delivery of the 2014-2020 programmes objectives by Member States ensuring quality of investment 2 - Encourage a wider uptake of financial instruments and promote complementarity with EFSI 3 - Provide specific support to improving Member States capacity to administer and implement the Funds
		2. Develop Cohesion policy and establish close links to other EU policies	4 - Contribute to the preparation of the Commission's proposal for the next MFF and develop a robust regulatory framework for Cohesion policy for the period post-2020 5 - Position Cohesion policy as major contributor to EU policies
		3. Demonstrate and disseminate the EU added value of Cohesion policy	6 - Provide and report evidence on the effectiveness and EU added value of Cohesion policy 7 - Communicate to citizens and stakeholders the results of Cohesion policy programmes and their contribution to the delivery Commission political priorities.
	4 - Internal Market	**4. Support territorial cohesion in Europe**	8 - Enhance policy coordination in the area of territorial and urban development. 9 - Support the implementation of macro regional strategies and steer the outermost region strategy 10 - Implement measures to address remaining cross-border obstacles
	8 – Migration		Addressed through specific objective: *Support to Member States for identifying scope for assistance towards effective integration policies through ERDF 2014-2020 programmes.*
Operational Objectives	**REGIO Internal Objectives**	**5. Ensure sound financial management of the funds**	11 - Close the 2007-2013 programme and the remaining open 2000-2006 ERDF programmes and pre-2000 open irregularities 12 - Obtain reasonable assurance that the expenditure declared to the Commission is legal and regular by ensuring that the audit authorities can be relied upon (single audit approach) and by focusing DG resources on identified risks 13 - Obtain complete and accurate accounts for the accounting year 14 - Safeguard EU funds through a rigorous policy on interruption and suspension of payments
		6. Improve Human resource management and the performance of internal processes	15 - Ensure that systems, processes and reporting tools are efficiently supporting the implementation of 2014-2020 programmes and are prepared for the post 2020 period 16 - Ensure effective sharing and reuse of information and knowledge within the DG 17 - Effectively deploy REGIO resources and ensure an engaged and productive workforce driven by effective and gender-balanced management

The achievements associated with the DG's operational priorities presented below (which have a greater impact on the achievement of policy and operational objectives) should therefore be seen as a direct illustration of REGIO's ability to accomplish its mission. A full overview of the implementation of 2018 operational priorities is provided in **Annex 12A**.

Multiannual priority - To contribute to deliver Commission priorities: Jobs, Growth and Investment, Digital Single market and Energy Union & Climate

Providing continuous support to programme authorities to accelerate the implementation of 2014-2020 programmes and the delivery of the intended objectives on the ground was identified as the main challenge for the year 2018. This was done together with close monitoring of the quality of investments, so as to ensure that quality projects are selected at a sustained pace and are translated as swiftly as possible into valuable investments on the ground producing jobs and growth.

The information presented below shows that REGIO's efforts in 2018 have brought positive results across all its main strands of work. While implementation difficulties continued to be observed throughout the year, the close monitoring arrangements put in place for programmes at risk allowed identifying and acting upon the most serious challenges hindering implementation.

1. Supporting an accelerated delivery of the 2014-2020 programmes objectives by Member States ensuring quality of investment

A comprehensive monitoring strategy

REGIO efforts to facilitate programmes' progress on the ground have been particularly noteworthy and played a key role in speeding up programme implementation. This work should have a positive impact in the medium term both on the rate and on the quality of the implementation of the Funds.

A comprehensive and active **monitoring strategy** was put in place. In line with the methodology to assess the performance of programmes (as described in the box), geographical units closely followed the implementation on the ground and provided advice and assistance to the national and regional authorities. This allowed for timely identification of implementation challenges and designing appropriate solutions. Participation in monitoring committees and annual review meetings further helped to discuss the progress with the national and regional counterparts.

> In line with the 2014 Strategy to Manage Change towards a more performance based Culture, REGIO has developed in 2016 a **methodology to assess the performance of programmes**.
>
> This methodology is based on the programme performance assessment in the framework of annual implementation reports (AIR) exercise combined with the assessment of de-commitment risk for programmes by the geographical units.
>
> AIR checklists are filled out by desk officers in the geographical units for each operational programme. Several criteria are assessed taking into account OP performance (such as financial implementation in terms of projects selection, financial implementation in terms of expenditure declared by beneficiaries, outputs, progress in the implementation of the major projects and the administrative capacity). The desk officers' assessment is categorised according to four categories: **Good**, **Acceptable**, **Poor** or **Critical**. If the geographical unit's overall assessment of the programme is "critical", the programme is proposed to be automatically part of the **close monitoring** by senior management. If the overall assessment of the programme is not critical, but it scored critical on at least two criteria or poor on at least three criteria, the programme is examined in more detail to decide whether to include it in closer monitoring or not. In case of high risk of de-commitment, the programme is proposed for closer monitoring.
>
> As a result of this assessment a list of programmes for closer monitoring was set up and the corrective actions proposed.

In view of the 2019 Performance Review, particular attention was paid to the programmes with risk of underperformance and/or decommitment (based on the analysis of the Annual Implementation Report and Member States payment forecasts respectively), so as to support the identification and implementation of corrective actions on the ground.

Almost 200 programme amendments containing modifications of the performance framework were assessed while ensuring quality and consistency of assessment across all Member States programmes.

At the end of 2018, and despite all the efforts deployed by the DG, **51 programmes** were still considered **at risk**. At the same time, the work of the geographical desks and of all the other contributing units provided a decisive help to minimize decommitments. Only 7 programmes faced decommitment risk at the end of 2018.

Ex-ante conditionalities

Ex-ante conditionalities (ExACs) are a key element of the European Structural and Investment Fund reform. They aim at ensuring that adequate regulatory and policy frameworks are in place together with sufficient administrative capacity to warrant the effectiveness and efficiency of investment supported by the EU Funds and other public and private investments. Overall **99%** of the action plans to fulfil ExACs have been completed. For those not completed, two suspension decisions and two pre-suspension letters were issued. In general, considerable progress was achieved in 2018 to complete the remaining six action plans. They concern the following sectors: waste (3) and water sectors (2), as well as institutional capacity (1), in the following Member States: Cyprus, Italy, Romania and Spain.

99% of the action plans to fulfil ExAC have been completed

Project selection and absorption

Average selection rate reaching 76.6% for ERDF and CF

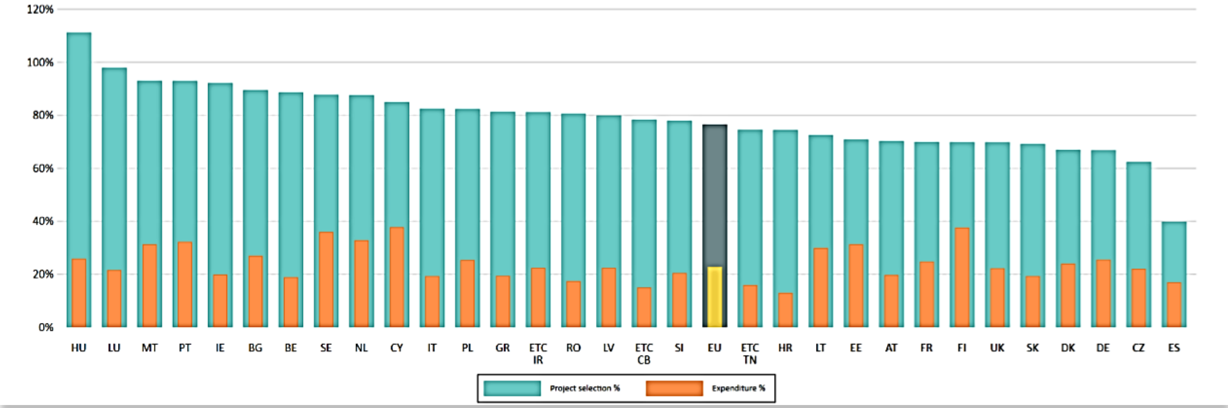
In 2018, the level of project selection by the Member States has further improved, with an average selection rate reaching **76.6%** for ERDF and the CF, as almost EUR 270 billion funding from the programmes have already been allocated to more than **290 thousand projects** supporting the EU 2020 objectives for jobs and growth.

This represents further improvement compared to the level of project selection registered at end 2017 (55%). The project selection rate is particularly high in Hungary, Luxembourg, Malta, Portugal and Ireland where at least 90% of the allocation has been covered with the projects selected. 17 Member States (including the above mentioned) and Interreg programmes on average have selected operations covering more than 75% of their allocation.

The graph below illustrates the on-course trend in the project selection rate, compared to the previous programming period.

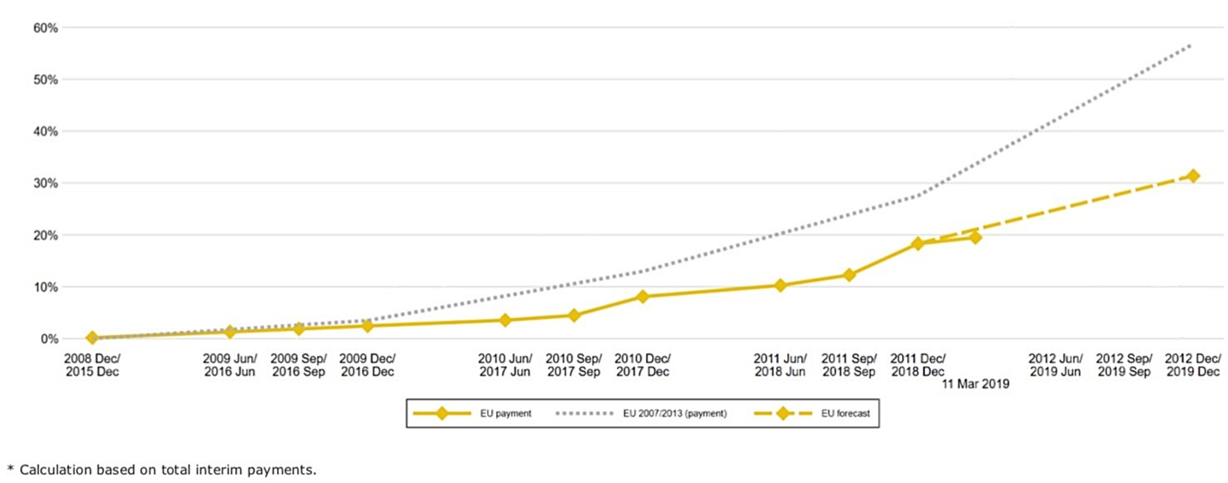
Well on-track: Comparison of 2008-2012 and 2015-2019 project selection rates

It should also be noted that compared to the 2007-2013 programming period, the rate of project selection at the end of the 5th year of implementation is higher by **4.2 percentage points**. This is a very promising trend, which shall gradually transform also in improved results in terms of achievements on the ground.



2014-2020 ERDF/CF: Project selection and expenditure declared by beneficiaries per MS at end 2018

The **absorption rate** (interim payment claims submitted/decided) has continued to increase throughout the year. While the high level of projects selection has only partially translated into absorption rate in terms of payments by the Commission[34], the latest trend confirms the acceleration of implementation captured by the selection rate. The amount of cumulative payments (including advances) from the Commission to Member States for 2014-2020 programmes at end 2018 totals EUR 63.4 billion (almost 24.1% of the total ERDF and CF allocation for the period). Interim payments currently amount to almost EUR 47.4 billion, corresponding to **18%** of the allocation. Compared to the 2007-2013 programming period, the share of interim payments for 2014-2020 period for EU28 is still slightly lagging behind.



Comparison of 2008-2012 and 2015-2019 project absorption rates

A high selection rate does not automatically translate into prompt expenditure. Expenditure will be slower to materialise for projects that have still to be planned or procured, where the bulk of projects is multi annual in character or the projects are otherwise immature. The regulatory provisions of the 2014-2020 period (e.g. N+3 rule, the level of pre-financing) have provided limited incentives to the Member States to encourage a fast start of implementation. Despite the low execution rate overall, the N+3 decommitment exercise in 2018 concerned only seven programmes.

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

2. Encouraging a wider uptake of financial instruments and promoting complementarity with EFSI

Financial Instruments (FIs) have become increasingly important delivery tools for Cohesion policy objectives and a significant share of resources has been progressively delivered through these instruments. Ensuring better and increased use of financial instruments is also a key objective of the Juncker Commission Initiative "Investment Plan for Europe[35]" and ESI funds are also expected to play their part notably by achieving at least a doubling of use through financial instruments in comparison with 2007-2013. Current allocations show that EUR 18 billion of ERDF and CF is planned to be delivered through financial instruments, which constitutes **7.2% of the overall allocation**, with a significant variation among Member States: UK, NL, SE, HU and LV have the highest share (all above 12%), while DK, IE and LU do not have financial instruments at all. The total programme amount, which includes estimated national co-financing, is EUR 24.9 billion.

EUR 18 billion of ERDF and CF to be delivered through financial instruments

The **selection rate** for FIs was **54%** at the end of 2017, confirming that a majority of financial instruments operations are already set up[36]. The programme amount paid to financial instruments is almost EUR 6 billion (compared to 5.3 billion in the end of 2017), i.e. 24% of the total allocation for FIs. While the increase of EUR 700 million over more than a year might seem low, this can be explained by a system of "payment tranches" (where subsequent payments are made only when the majority of the previous payments have reached final recipients, i.e., 60% for the first tranche and then 85%).

In 2018 REGIO provided active support to Member States for setting up and implementing financial instruments and to foster an increased simplification of these instruments:

- **Advice and support to Member States** has continued via the **FI-compass** platform, which has continued to disseminate knowledge and practical know-how on FI. Several successful events took place in 2018 addressing horizontal themes of interest for all Member States implementing financial instruments (debt financial instruments in June, equity financial instruments in October and the flagship event "FI campus" with approximately 350 participants in early December). The FI-compass library was enriched with further case studies. Surveys on State aid and FI-compass user experience were carried out.
- The promotion of the **complementarity** between European Structural and Investment Funds and the European Fund for Strategic Investments was ensured thanks to the adoption of Omnibus regulation, which entered into force in August 2018. Potential for such synergies was further explained during the FI campus event with the use of several case studies. At the end of 2018, there were already **25 projects identified**.

In order to extend the possible use of financial instruments to projects, which are not fully bankable, but require a grant component, especially in the area of energy efficiency and the Smart Finance for Smart Buildings initiative, REGIO worked with the EIB and interested Member States on finding arrangements facilitating combination of grants and FIs and identifying and promoting good practice.

3. Providing specific support to improving Member States' capacity to administer and implement the Funds

During 2018, REGIO continued to deploy efforts on further promoting the already available tools for support of Member States' authorities in building more efficient and transparent public administrations responsible for the implementation of the EU funds.

[35] COM (2014)903 final.
[36] Financial instrument is considered selected at the moment of signing the funding agreement with the beneficiary.

REGIO implemented a number of actions supporting Member State administrations, with a specific focus on Member States with weaker administrative capacity. Support was provided through technical meetings, targeted advice, dialogue with national authorities and closer follow up on the implementation, which was instrumental in addressing the remaining bottlenecks.

Among the targeted actions carried out in 2018 is the **continued implementation of the TAIEX REGIO PEER2PEER,** an exchange tool for regional policy practitioners/experts in Member States, which experienced great success throughout the year. In this framework, 171 exchanges were implemented by December 2018, involving 2.576 participants from 27 MS in areas like sustainable urban and territorial investment, simplification, including simplified cost options, financial instruments, state aid etc. These exchanges should help Member States increase the quality and the legality of spending and accelerate the absorption of Funds.

Furthermore, REGIO published a new study assessing measures and practices in the Member States in the field of **prevention of fraud and corruption** with EU funds. In order to improve communication and dissemination of good practice, a dedicated workshop was also organised, as part of the study. Several examples of processes and approaches adopted by their authorities in conducting their fraud risk assessments and types of IT tools used to detect fraud were presented and information exchanged among the different stakeholders. This work is continuing throughout 2019 with series of specific professional trainings.

The **17 Integrity Pacts** are being implemented and showing some first important results, like spotting and avoiding potential irregularities, helping contracting authorities in handling public contracts and even identifying and signalling potentially harmful practices. The lessons learned so far and future scale-up of the role of civil society not only in monitoring but also in designing and implementing projects was discussed at the Integrity Pacts stakeholders' event in Brussels on 28 November 2018.

Throughout the year, REGIO also worked on the preparation of a paper developing a **vision on the future of administrative capacity and good governance** for Cohesion policy 2021-2027. 5 pilots were launched aimed at reinforcing the necessary structures, mechanisms and procedures for the next programming period in Bulgaria, Croatia, Greece, Spain and Poland. These pilots are implemented in cooperation with the OECD. An important forum for this conceptual work was the big conference "Good Governance for Cohesion policy", which took place on 24 May in Brussels.

Major Projects

More than 530 major projects are planned in the 2014-2020 programmes; Member States with the highest number of projects being Poland, Romania and Greece. The main sectors concerned were roads and other transport infrastructure, water and wastewater, energy and solid waste. Good progress was registered in 2018, as nearly 100 additional major projects were submitted by Member States either to the EC or to JASPERS IQR, bringing the total of **submitted projects** to **272** (51% of all major projects), representing total investment cost of EUR 69 billion.

88% of projects approved within 3 months regulatory deadline

The performance of REGIO as regards processing of submitted major projects was satisfactory, with almost **88% of projects approved** within 3 months regulatory deadline, while keeping a consistent and rigorous quality standards based on the cost-benefit analysis methodology. Our cooperation with JASPERS in preparation and approval of major projects continued to provide added value, and nearly all recommendations of the European Court of Auditors and Internal Audit Service were implemented. They will lead to even more increased efficiency and effectiveness of JASPERS initiative.

Multiannual priority - To develop Cohesion policy and establish close links to other EU policies

Based on recommendations of the Commission's High Level Group on Simplification, the spending review coordinated by DG Budget, various other policy discussions and papers, substantive analytical work and analysis of available evidence and contributions from stakeholders, REGIO presented in May 2018 the package of proposals for regulations governing regional development and Cohesion policy beyond 2020.

REGIO also cooperated with other Commission services on various initiatives, so as to further strengthen the role of the policy in addressing country specific challenges and contributing to structural change in the Member States, while positioning smart specialisation as the key element of EU industrial, research and innovation policies.

4. Contributing to the preparation of the Commission's proposal for the next MFF and developing a robust regulatory framework for Cohesion policy for the period post-2020

Under the scope of actions aimed at preparing the post-2020 policy REGIO successfully contributed to the delivery of the Commission's proposal for the next MFF and the timely delivery of a proposal for a thoroughly modernised and simplified **Cohesion policy 2021-2027**.

The spending review process coordinated by DG Budget helped identify the key policy answers concerning the Cohesion policy funds and in particular the lessons learnt from 2014-2020, the key policy intervention fields, the targeted regions together with the quantitative scenarios elaborated for the policy. The examination of synergies and complementarities in this process contributed to better position the funds in the MFF landscape.

The REGIO proposal covered a **balanced budget beyond 2020**, ensuring a reaffirmed focus on investment priorities that are crucial for competitiveness and structural adjustments to globalisation and technological change, as well as simplified and more efficient delivery mechanisms.

Beyond the delivery of the planned proposals and contributions, REGIO has also deployed intensive efforts to actively **help legislative negotiations progress** (through explanatory fiches, technical meetings and seminars, background documents and calculations). This was done both in Council and Parliament, contributing to the good progress registered so far - not only in working groups and committees directly responsible for Cohesion policy but in others relevant for the policy as well. At the same time, **strong coordination and monitoring** was put in place to ensure consistency across negotiations of all sectoral proposals and the MFF. The planning and organisational process coupled with the assistance provided to the Presidency also necessitated substantial resources.

In parallel, the concrete **preparation of programme negotiations with the Member States** was launched internally, thanks to the mobilisation of the whole DG around policy papers and country input papers and building on the prominent role gained in the European Semester process.

5. Positioning Cohesion policy as major contributor to EU policies

The 2014-2020 programmes were the first programmes to be explicitly linked to the European semester annual cycle. Those links reflect interactions between the three elements in the economic policy virtuous triangle – macroeconomic stability, structural reforms and investment.

Owing to the increasing synergy and integration of Cohesion policy within the EU governance system, the importance of the Cohesion policy budget within the overall EU budget and the specific importance of 2019 in the European semester cycles, REGIO has become in 2018 a '**core DG**' within the context of the **European semester**. This is a major achievement. REGIO contribution to the Country Reports has reached a new dimension extending to different sections of the main report and to the drafting of an Annex (D) exclusively devoted to Cohesion supported investment priorities for the 2021-2027 programming period. With respect to the former, REGIO provided tailored country-specific analysis of relevant regional disparities as part of a broader analysis of challenges and bottlenecks to investment. As to the latter, based on these analytical elements and taking into account Cohesion policy objectives, country-specific investment guidance on Cohesion policy funds 2021-2027 were developed and summarised in Annexes to the Country Reports. These Annexes provide the basis for the dialogue between Member States and the Commission services in view of the programming of the Cohesion policy funds.

REGIO a 'core DG' for the European semester

Positive results were also registered in relation to the two **pilots aiming at addressing the challenges of globalisation and deliver inclusive growth**. Overall, 12 regions and countries are now covered by the industrial transition pilot and received support to develop a comprehensive strategy for economic transformation, building on their smart specialisation strategies, a broad innovation concept, and addressing globalisation, automation, decarbonisation, emerging and digital technologies, skills and investments. In addition, 9 interregional smart specialisation partnerships were supported to help develop and test jointly new ways to commercialize and scale-up interregional innovation projects to reshape European value chains, help attract private investment, and strengthen synergies. A special thematic smart specialisation partnership for "**Advanced materials on batteries**" was initiated with REGIO support within the framework of the EU Battery Alliance and the Strategic Action Plan on Batteries.

Work has also continued throughout 2018 to support the rolling out of the 121 **smart specialisation strategies** drawn up in the concerned Member States and regions, mobilising more than EUR 120 billion of ESI Funds and national/regional resources and aiming to leverage considerably more private investment. REGIO provided support through the **Smart Specialisation Platform**, in cooperation with the JRC, including the 3 thematic smart specialisation platforms and their 28 partnerships, and the 3 EP pilot actions (support for lagging regions, Romania, Stairway to Excellence).

To ensure fair low-carbon transition for all regions in Europe, REGIO has been actively engaged in the **Coal Regions in Transition Initiative**, which aims to provide tailor-made support for the clean energy transition in coal and carbon-intensive industrial regions. REGIO was closely involved in support for 13 pilot regions under the country teams of the initiative.

Multiannual priority - To demonstrate and disseminate the EU added value of Cohesion policy

Providing evidence on results of 2014-2020 programmes and evaluating their impact contributes to raising awareness of EU citizens and other stakeholders about what the policy and funds deliver. Gathering and disseminating evidence on what does not work as well as what does help Member States and regions develop more effective policies which will be supported by the Funds. Communicating and disseminating results and impacts of programmes contribute to building trust in EU policies, particularly in Cohesion policy, as an effective contribution to fostering investments for growth and creating jobs in Europe

6. Providing and reporting evidence on the effectiveness and EU added value of Cohesion policy

REGIO's activities aimed at providing and reporting evidence on the effectiveness and EU added value of Cohesion policy also achieved the planned annual targets. The **assessment of Annual Implementation Reports** was carried out smoothly, with the majority of the AIRs (96%) received and accepted by end 2018. In this framework, the geographical desks and relevant competence centres focused notably on monitoring and assessing the progress against the approved performance frameworks, in order to identify and address any possible issues ahead of the 2019 performance review. Building on that, both the Annual summary report and synthesis of evaluations and the annual summaries of data on the implementation of financial instruments were timely adopted, providing a valuable insight into the progress made in implementing the Funds.

In parallel, the DG continued its supervisory work in order to ensure that performance information reported by Member States is reliable and of adequate quality. All risky operational programmes have been subject to audits on performance data reliability covering 15 Member States and all planned 2018 REGIO audits were performed by the end of the year. Despite that, it is to be noted that only few audit authorities reported audit results in relation to **performance data reliability**.

Positive outcomes also resulted from the **Interreg Volunteers.** The Interreg Volunteer Youth (IVY) initiative, part of the European Solidarity Corps, has been providing more than 270 young citizens aged 18-30 with the opportunity to be an active part in the promotion of European integration and European Territorial Cooperation (Interreg) by involving them in an Interreg programme or project. Through the newly established **Citizens' Engagement Activities**, IVY volunteers working in European countries have the chance to be involved in the organisation of local informal events connecting the local public with EU Cohesion policy.

7. Communicating to citizens and stakeholders the results of Cohesion policy programmes and their contribution to the delivery Commission political priorities

For this block of multiannual priorities, overall positive results are registered, reflecting the huge efforts deployed by REGIO towards **maximizing dissemination of information** about the policy and its contribution to achieving European Commission priorities throughout 2018, building on the celebration of the 30th anniversary of Cohesion policy.

As regards communication efforts, all **REGIO campaigns** for 2018 have been either completed (7 joint communication actions, Cohesion@30, 1st Road Trip Project, 1st partnership with media, local dialogues with CEMR, EU in my Region) or are being rolled out (EU delivers in the regions). REGIO has also largely contributed to corporate communication campaigns, at different stages (Invest EU, EUandMe, EUprotects, rural campaign), and has also deployed significant efforts to make our post-2020 proposals understood. For more information on REGIO's external communication activities, please refer to section 2.2.3.

ESIF Open Data Platform: 1 million views in 2018

REGIO has also further developed and promoted the **ESIF Open Data Platform**, providing key information on plans and progress of all ESIF programmes, ensuring transparency and accountability of Cohesion policy investments and achievements. While the platform has been enriched in November with a new update on financial indicators, its usage is also notably increased, as the platform received close to 1 million views from the beginning of 2018 (770,000 during the same period in 2017).

Multiannual priority - To Support territorial cohesion in Europe

In Cohesion policy, the territorial and urban dimension has been reinforced in the 2014-2020 programming period with various programming elements and tools.

8. Enhance policy coordination in the area of territorial and urban development

The main territorial and urban elements of the European Structural and Investment Funds (ESIF) in the current period are the following:

- Specific focus on **Sustainable Urban Development** (SUD): 5% urban earmarking in national ERDF allocation will be managed directly by cities supporting their integrated strategies for sustainable urban development
- **Integrated Territorial Investment** (ITI): new delivery mechanism for territorial strategies to blend thematic objectives, OPs and funds
- **Community-led Local Development** (CLLD): a tool for participatory local development first time introduced for Cohesion policy (based on the LEADER method for rural development fund)
- Possibility to define specific integrated measures for cross-border and macro-regional initiatives, areas affected by poverty, social exclusion, geographic specificities and demographic challenges
- **Urban Innovative Actions:** an initiative provides EUR 370 million for testing and prototyping innovation in cities across EU.
- **Urban Development Network** and **the URBACT programme** (EUR 96 million) support capacity building in cities, through tailor made workshops, exchange of experience and joint learning.

About **EUR 32 billion** (10%) of Cohesion policy funds are planned for integrated territorial and local (urban) strategies. Within that, more than 16 billion (8%) of ERDF is dedicated to sustainable urban development.

More than 1000 integrated territorial and local (urban) strategies are receiving support in the EU through the various territorial implementation mechanisms (ITI, CLLD, other integrated approaches)

The implementation of strategies show a general catching up trend in project selection for territorial and local strategies, where around EUR 18.3 billion has been allocated to selected projects by end 2018, representing 57% of the planned allocation (the average of Romanian urban and territorial strategies were at 56%, with only 16% for urban strategies).

Urban Innovative Actions

The Urban Innovative Actions (UIA) is an instrument allowing the Commission to directly support cities to test new solutions to address their future challenges. The initiative has a budget of around **EUR 370 million** for the 2014-2020 period and it is implemented via indirect management. The management of the instrument is delegated to the Hauts-de-France Region in France, which has set up a Secretariat to manage Urban Innovative Actions.

Three calls for proposals on Urban Innovative Actions have been completed in 2015, 2016 and 2017 with a total budget of EUR 230 million leading to the selection of 55 projects from 17 Member States, which are at different stages of implementation. A fourth call for proposals was launched in October 2018 (EUR 80-100 million) and 170 eligible applications received are currently under evaluation. The fifth and last call is scheduled to be published in September 2019.

Urban agenda

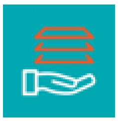
REGIO is coordinating the implementation of the **Urban Agenda for the EU**, which is an integrated and coordinated approach to deal with the urban dimension of EU and national policies and legislation. By focusing on concrete priority themes within dedicated Partnerships, the Urban Agenda seeks to improve the quality of life in urban areas.

In 2016, the Pact of Amsterdam agreed upon by the EU Ministers Responsible for Urban Matters on 30 May 2016 established the Urban Agenda for the EU. Based on the principles of subsidiarity and proportionality, the Urban Agenda focuses on the three pillars of EU policy making and implementation: Better regulation, Better funding and Better knowledge.

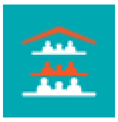
14 Partnerships have been defined so far:

Culture/cultural heritage

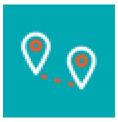
Digital Transition



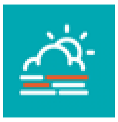
Public procurement



Urban Poverty

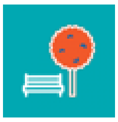


Urban mobility



Air Quality

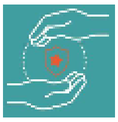
Jobs and Skills in the Local Economy



Sustainable Land Use

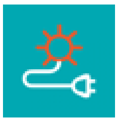
Housing

Climate Adaptation

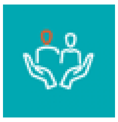


Security in Public Spaces

Circular Economy



Energy Transition



Inclusion of Migrants and Refugees

Each Partnership involves cities, Member States, the Commission and stakeholders such as NGOs or businesses on a voluntary and equal basis. Together they work on developing and implementing concrete actions to successfully tackle challenges of cities and to contribute to smart, sustainable and inclusive growth.

The Urban Agenda for the EU is now delivering its first outputs in the form of six Action Plans respectively on urban poverty, inclusion of migrants and refugees, air quality and housing (first part) presented in January 2018 and digital transition and circular economy (first part) finalised in April 2018.

Please refer to section **1.1.4** of this report for further achievements in relation to the delivery of outputs under this priority, notably:

- **Support to implementation of macro regional strategies and steering the outermost regions Strategy**
- **Implement measures to address remaining cross-border obstacles**

Specific objective - To support a new policy on migration

REGIO contributed to this priority in 2018 mainly through measures supported by 2014-2020 ERDF programmes. Please refer to section **1.1.5** of this report **Achievement of specific objectives linked to EC priority 8 – Towards a New Policy on Migration** for achievements in relation to the delivery of outputs as set in REGIO 2018 AMP.

Internal objective - To improve operations in REGIO

As regards multiannual priority 5: **To ensure sound financial management of the funds**, please refer to section **2.2** of this report.

Concerning multiannual priority 6: **To improve Human resource management and the performance of internal processes**, please refer to section **2.2.1** as well as Annex 2.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section explains how the DG delivered the achievements described in the previous section. It is divided into two subsections.

The first subsection (2.1) reports the audit and control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives[37]. It includes any additional information necessary to establish that the available evidence is reliable, complete, comprehensive and appropriately covering all activities, programmes and management modes relevant to the DG.

The second subsection (2.2) deals with the other components of organisational management: human resources, better regulation principles, information management and external communication.

2.1 Financial management and internal control

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

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

- the annual reports by Authorising Officers by Sub-Delegation (AOSDs) in the DG;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the reports from audit authorities in Member States in shared management as well as the result of the Commission supervisory controls on the activities of these bodies;
- the reports of the Audit Directorate as a result of the implementation and follow-up to its on spot, risk-based audit plan and ex-post supervision and controls, including the assessment of system audit reports received from audit authorities throughout the year and annual control reports and audit opinions received by 15 February;
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level;
- the opinion, observations and the recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA)
- the assessment of information received from OLAF, including follow-up given to final case reports received.

These reports result from a thorough analysis of the evidence available. This approach provides sufficient guarantees as to the **completeness and reliability of the information reported** and a complete coverage of the budget delegated to the Director-General of DG Regional and Urban Policy.

This section reports the control results and other relevant elements that support management's assurance. It is structured into (2.1.1) Control results, (2.1.2) Assessment of audit observations and recommendations, (2.1.3) Assessment of the effectiveness of the internal control system, and resulting in (2.1.4) Conclusions on the impact as regards assurance.

[37] Art 36.2 FR: a) effectiveness, efficiency and economy of operations; b) reliability of reporting; c) safeguarding of assets and information; d) prevention, detection, correction and follow-up of fraud and irregularities; and e) adequate management of risks relating to the legality and regularity of underlying transactions

2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives[38]. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the relevant control systems. Annex 10 provides a detailed assessment of the remaining deficiencies if any, audit opinions and reported and confirmed error rates, where the assessment is complete, for each programme under shared management.

Overview of the financial resources managed by DG Regional and Urban Policy in 2018 with the control results for the activities of the Directorate General

Activity		Payments 2018[39] (EUR m)	% REGIO	IC indicators	Reservation
2014-2020 period	*ERDF / CF*[40]	33,083.6	83.7	Residual total error rate < 2% Total error rate < 10%	Yes 30 OPs
	Cross border cooperation IPA-CBC/ENI;	23.6	0.1	No risk on the advance payments	No
2007-2013 period	*ERDF / CF*	5,878.3	14.9	Residual risk rate < 2% Corrections applied at closure	Yes 16 ERDF/CF OPs, 1 ETC OP
	IPA – Cross border cooperation	1.7	0.0	Error rate: 0.38%, RRR <2%	1 IPA-CBC OP
Up to 2006	*ERDF / CF*	233.8	0.6	Residual error rate <2%, (corrections applied at closure)	No
Solidarity Fund	*EUSF*	151.9	0.4	No significant findings	No
Indirect Management	*IPA Regional Development*	7.1	0.0	2018 error rates validated below materiality	No
	Urban Innovative Actions	43.3	0.1	No significant findings	No
Direct Management	*Technical assistance, Pilot project and Preparatory actions; incl. Cross-sub-delegations given*	93.4	0.2	Corrections with limited impact being carried out as a result of the checks and ex-post controls carried out	No
Grand Total		39,516.7	100%		48

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

[39] Including pre-financing.

[40] Total payments 2018 for ERDF/CF 2014-2020 does not include the balance payments of the 2016-2017 accounts of EUR 14,3 mln on the 10% retention

2.1.1.1 Control effectiveness

Legality and regularity of the transactions

Annex 10 provides an introduction to shared management and Cohesion Policy Funds and to the related control architecture.

A. Shared Management

A.1 Shared management - ERDF and Cohesion Fund (CF) 2014-2020

Member States are in the first instance responsible for putting in place robust management and control systems, which are capable of preventing and detecting irregularities, and allowing for the reporting of the residual total error rates for each programme each year, whilst also having recourse to the imposition of financial corrections where necessary.

In this regard, the 2014-2020 programming period introduced some major regulatory changes which aimed to increase programme authorities' accountability and to strengthen management and control systems. These included:

- the introduction of annual accounts for each programme with reliable annual residual risks (after the Member State's corrections) below 2% to avoid additional financial corrections, possibly net, by the Commission
- a retention of 10% on each interim payment from the Commission.

The acceptance of accounts is a separate process from the assessment of legality and regularity, as foreseen in the Regulation (EC) 1303/2013. However, the national authorities should ensure that the block of expenditure certified in the accounts does not contain any remaining material level of irregularity. When a material level of irregularities is identified in the accounts, as reported by the audit authority (for ex. because of an annual residual total error rate above 2%), the Commission may decide to interrupt the payment of the final annual balance.

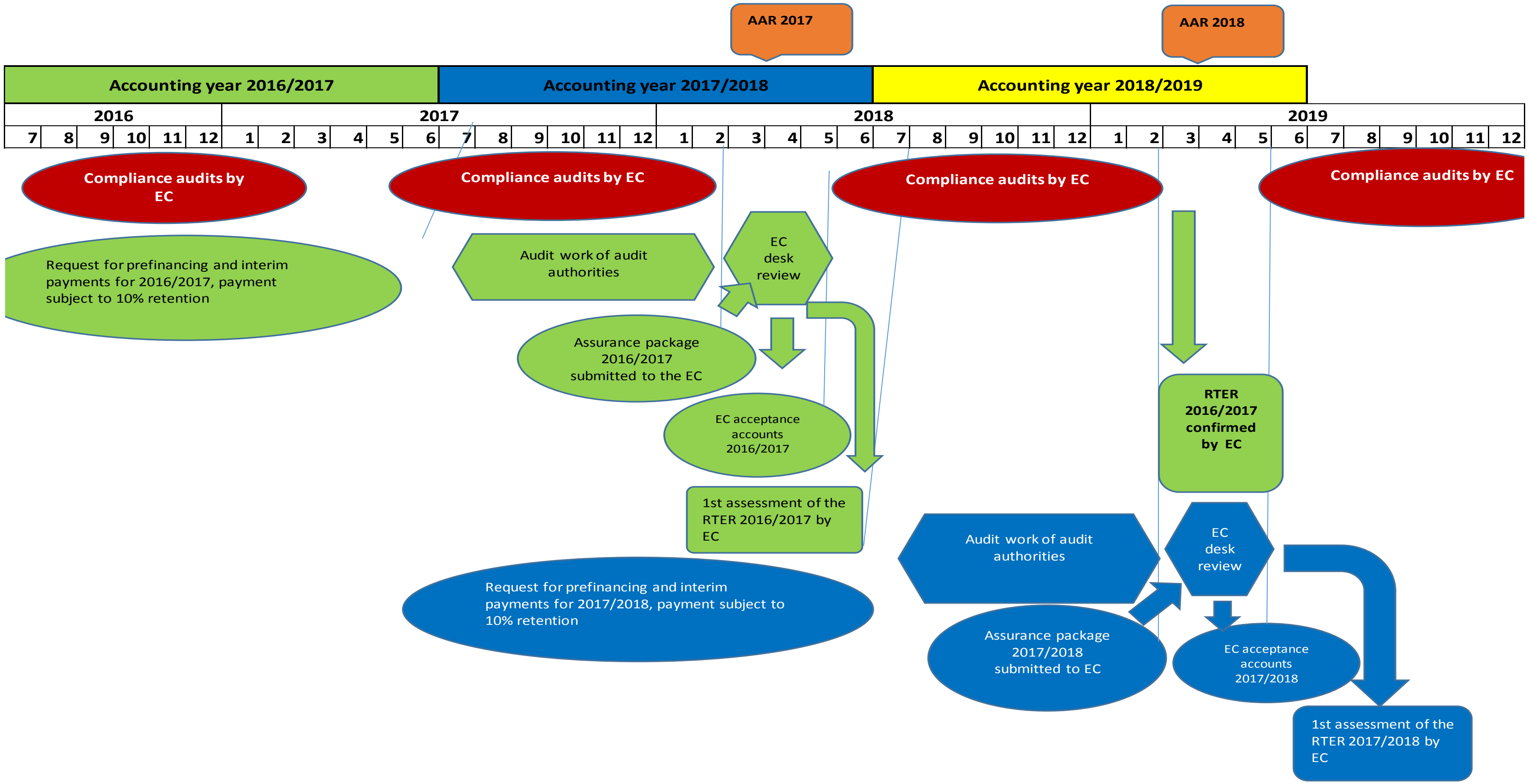
Following the reception of the assurance packages, the Commission auditors perform:

1. first a desk review for the acceptance of accounts and preliminary consistency checks of the reported total error rates and audit opinions for the assurance declaration in the AAR,
2. followed by a thorough desk review of the Annual Control Reports, audit opinions and error rates reported (ending after finalisation of the AAR) and,
3. as a consequence of the thorough desk review, 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.

When the Commission, through its desk review and on-the-spot compliance audits, still identifies further irregularities in the accepted accounts, it launches financial correction procedures which are net when the criteria in Article 145 (7) of Regulation (EC) 1303/2013 are fulfilled.

The graph below demonstrate the whole process of assessment by the Commission of the declared expenditure:

Graph No.1: Assurance process covering different accounting years (July N to June N+1)



To be Reported in AAR 2018:
1) KPI: RTER 2016/2017 confirmed by EC
2) 2018 estimated risk at payment using the RTER 2016/2017 confirmed by EC or, when higher, the reported RTER 2017/2018

Materiality criteria (control objective) and reservation

With respect to the legality and regularity of the transactions for the 2014-2020 programming period, the objective is to ensure that the estimated residual risk of error[41] is below the materiality level of 2% for each operational programme and accounting year.

The Directorate-General reviews each operational programme in order to identify the need for reservations and additional corrective measures. Reservations or partial reservations are made for programmes for which one or a combination of the following conditions apply: a total error rate received by 1 March 2019 above 10%; serious deficiencies in key elements of the systems without adequate corrective measures taken; insufficient level of financial corrections implemented in the annual accounts received in 2019 i.e. the annual "residual total error rate" (remaining risk in the expenditure certified in the annual accounts after financial corrections have been implemented) remains above 2%; material issues related to the completeness, accuracy and veracity of the accounts received in 2019.

The materiality criteria determining when a reservation is issued are disclosed in detail in Annex 4.

Sources of information used to build up the assurance during the implementation

Under Cohesion policy Member States are responsible to put in place well-functioning management and control systems, to prevent and detect irregularities, to make the necessary financial corrections and to report reliable residual error rates for each programme each year.

In that regard, the assurance framework for Cohesion policy in 2014-2020 has been substantially reinforced, increasing the programme authorities' accountability. The assurance process is built on the following main elements:

- During the accounting year, the Commission makes a retention of 10% to all its interim payments in order to protect the EU budget until the national control cycle of management verifications and audits is completed and the Commission has concluded whether the accounts are complete, accurate and true. Where the Commission concludes it can accept the accounts, but is aware of remaining material deficiencies or levels of errors in the accounts, after having accepted the accounts it can interrupt the payment of the balance and launch the necessary financial correction procedure.

- Each year by 15 February (1st March at the latest) up to and including 2025, the programme authorities submit to the Commission "assurance package" for each programme[42]. These "assurance packages" contain:

    - A management declaration and annual summary, prepared by the managing authority;
    - Accounts, certified by the certifying authority;
    - An annual control report and an audit opinion, issued by an independent and professional audit authority, based on the main findings of system audits carried out to verify the effective functioning of the management and control system and audits on representative samples of operations on the basis of the expenditure declared during the accounting year, as well as audits on the accounts.

[41] Estimated through the Residual Total Error Rate on the amount certified in the accounts

[42] An annual control report can cover several operational programmes

- National controls and audits should be finalised in time to enable programme authorities to apply the necessary financial corrections to the expenditure to be included in the certified accounts in order to be in a position to report a total residual error rate below 2% for the programme accounts.

- The Commission can also impose additional financial corrections once accounts have been received and accepted, based on the reported audit results or on its own assessment of the residual level of error in the accounts. Such corrections are net (reduction of the programme allocation), should the conditions set by the co-legislator be fulfilled[43].

Graph n°1 above presents the process and successive steps for accepting the accounts and assessing legality and regularity of underlying expenditure, covering different accounting years.

A system under constant monitoring: Commission's desk and on-the-spot audit work to implement the 2014-2020 Single Audit Strategy

The Single Audit Strategy for the funds managed by REGIO, EMPL and MARE for the 2014-2020 programming period aims at focusing the Commission's audit activity on the review and re-performance of the work of the audit authorities. This single audit approach is complemented by capacity building actions and thematic/targeted audits to ensure that no serious deficiencies remain undetected or uncorrected by the Member States when submitting the accounts, and that the Commission can rely on the assurance packages. The overall objective of the Single Audit Strategy is to obtain reasonable assurance that the management and control systems of the Member States:

- comply with requirements of the relevant EU Regulations;
- are functioning effectively to prevent and detect errors and irregularities and to ensure the legality and regularity and the effectiveness of the expenditure declared to the Commission; and
- ensure the quality and reliability of the systems in place for reporting performance data.

Moreover, pending reception of audit authorities' audit results and opinions for all programmes, the Single Audit Strategy foresees risk-based, targeted preventive system audits to obtain early on assurance on the proper functioning of the designed systems.

Audit work carried out by REGIO in 2018

The table No.1 below offers an overview of the audits carried out by REGIO in 2018 and over the last four years for the 2014-2020 programming period.

[43] Article 145(7) of CPR

Table No 1: Audits carried out by REGIO in 2018 and over the last four years (2014-2020)

REGIO audits		2018	2017	2015-2016	Total
2014 - 2020	Designation fact finding			7	**7**
	Early Preventive System Audit	12	18	13	**43**
	Performance data reliability	14	12	-	**26**
	Compliance audit[44]	13	-	-	**13**
	Post-ACR fact-finding[44]	1	3	-	**4**
	Pre-ACR[44]	4	1	-	**5**
	Total 2014-2020	**44**	**34**	**20**	**98**

Following the update of the joint risk assessment with EMPL and MARE (taking also account of the results of the desk review of the 2016-2017 assurance packages received by 1st March 2018), the audit plan for 2018 designed in line with the current Single Audit Strategy, foresaw:

- An **important increase in the number of compliance audits** to review the work of audit authorities, thanks to increased implementation on the ground and increasing coverage of declared expenditure by audit authorities. The main objective of on-the-spot compliance audits is to seek reasonable assurance that no serious system deficiency remained undetected or unreported by Member States and that the reported audit opinions (on the effective functioning of systems and on legality and regularity of the expenditure declared) and residual error rates were reliable. REGIO carries out annually a joint risk-assessment[45] with EMPL to determine which audit authorities and programmes will be subject to compliance audits. In particular, programmes with high risk scoring and a potential material impact on the Commission payments in the year are audited out as from May each year. This allows, if necessary, rapidly launching a financial correction procedure after finalisation of the audit report following the applicable contradictory process with the concerned Member State.

  The 13 compliance audits performed in 2018 covered, on a risk-basis, 42 out of 295 ERDF/CF programmes (14%) for an amount of EUR 4,490 million out of EUR 13,491 million (33%) certified in the annual accounts 2016/2017.

- The continuation of **Early Preventive System Audits** (EPSA) for the programmes not yet sufficiently covered by audit authorities or for which insufficient assurance has been obtained through desk work so far. The main objective of these audits is to confirm the legality and regularity of expenditure certified in the accounts for the reference year, as much as possible before the submission of the assurance package. Weaknesses in management and control systems can thus be identified and prevented early on before high levels of expenditure are declared to the EU budget. This was particularly the case for those programmes where no assurance package was submitted (or with a very limited number of operations to be audited under the compliance audit) but where implementation was progressing. A total of 12 early preventive system audits took place in 2018, covering operational programmes in 8 Member States[46].

- The continuation of audits to assess the **reliability of performance data** reported in annual implementation reports, ahead of the 2019 performance reserve allocation (for details see page 91)

44 13 compliance audits + 4 fact finding missions carried out in 2018 (total of 18 as indicated in graph 2 below), out of which one fact finding concerned the previous accounting year

45 Based on a set of risk criteria which are weighted to obtain a risk scoring

46 BG, DE(2), ES(2), FR, HU, IT(2), RO(2) and UK.

Graph No 2: Audit missions carried out since 2016

In terms of results, the different types of audits carried out in 2018 by REGIO led to the identification of 268 system and 138 project findings. System findings related to breaches linked to the selection of operations (KR 2), insufficient quality or coverage of management verifications carried out by some managing authorities and their intermediate bodies (KR 4), deficiencies in the system for collecting, recording, and storing data, including performance data (KR 6) but also to the quality of audits of operations carried out by some audit authorities (KR 16). The typology of the findings is obviously closely linked to the scope of the audits carried out (functions of the managing or audit authorities, respectively).

Each finding leads to a recommendation, which can have different degrees of importance, "critical", "very important" and "important", depending on the seriousness of the identified breach. The number of "critical" recommendations has dropped considerably over the last years for most key requirements[47]. However some programme authorities continue to have difficulties with the implementation of robust management and control systems (cf. "very important" recommendations for essential key requirements of managing and audit authorities such as KR2, 4 and 16). For each of its recommendations, REGIO ensures a close follow-up to verify that the recommendation is effectively and timely implemented to improve systems (and mitigate any risk for future expenditure) and that financial corrections are applied where needed.

An overview of system findings per key requirement[48] and per importance level as a result of REGIO audits is displayed below:

[47] except for key requirement 6 on IT systems and electronic exchanges with beneficiaries, due to initial problems at the start of the programming period which also led to delays in the designation process for the same programmes, as well as with issues linked to performance data monitoring

[48] Key requirements (KR) refer to the management and control systems components considered as necessary to comply with the CPR requirements, as referred to in annex IV of Delegated Regulation 480/2014, namely:

KR1 Adequate separation of functions and systems for reporting and monitoring for tasks entrusted to another body

KR2 Appropriate selection of operations by managing authorities and their intermediate bodies (IBs)

KR3 Adequate information to beneficiaries

KR4 Adequate management verifications by managing authorities and their IBs

KR5 All documents regarding expenditure and audits are held to ensure an adequate audit trail

KR6 Reliable system for collecting, recording and storing data for monitoring, evaluation, financial management, verification and audit purposes, including links with electronic data exchange systems with beneficiaries

KR7 Effective implementation of proportionate anti-fraud measures

KR10 Adequate procedures for drawing-up and submitting payment applications by certifying authorities and their IBs

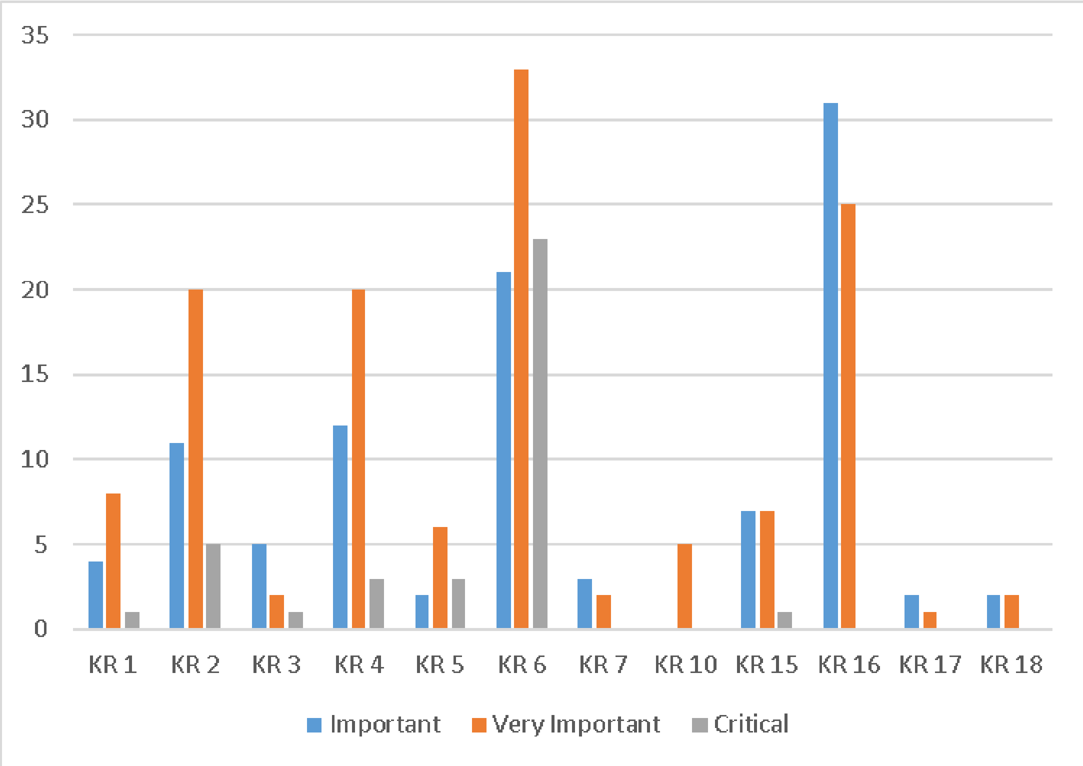
KR15 Adequate system audits by audit authorities

KR16 Adequate audits of operations by audit authorities

KR17 Adequate audits of accounts by audit authorities

KR18 Adequate procedures for providing a reliable audit opinion and for preparing the ACR by audit authorities

Graph No 3: Number of findings by key requirement (KR) and importance



In total, in 2018 the audit directorate audited 271 ERDF/CF operations, mostly at the level of managing or audit authorities to avoid duplication of audits and control burden to the concerned beneficiaries. Most of the 138 project audit findings related to public procurement irregularities (24%), ineligible expenditure (30%) and an inadequate audit trail (missing documentation, 17%).

Table No 2*:* Typology of project findings[49] **detected by REGIO audits in 2018** (in accordance with the joint typology agreed with audit authorities)

Category of detected irregularity	Number	Proportion
Ineligible expenditure	**41**	**30%**
* Expenditure outside the eligibility area	5	4%
* Expenditure not related to the project	3	2%
* Ineligible participants	5	4%
* Ineligible VAT or other taxes	1	1%
* Overhead costs	2	1%
* Other ineligible expenditure	25	18%
Public Procurement	**33**	**24%**
Missing supporting information or documentation	**23**	**17%**
Performance indicators	**10**	**7%**
State Aid	**8**	**6%**
Revenue Generating projects	**6**	**4%**
Information and publicity measures	**5**	**4%**
Accounting and calculation errors at project level	**4**	**3%**
Ineligible project	**4**	**3%**
Management and control system	**3**	**2%**
Equal opportunities	**1**	**1%**
Total	**138**	**100%**

49 All audit findings reported in the table are quantifiable or non-quantifiable at this stage but with financial impact, except for the following: performance indicators, information and publicity, management and control system at project level and equal opportunities. Out of these 138 findings, 81 relate to compliance audits and had an impact on the recalculation of 2016-2017 reported error rates.

The frequency of irregularities detected in relation to ineligible expenditure and public procurement is similar between Commission audits and Member State audits (see graph No 4 below). This confirms that these types of errors constitute the main source of remaining irregularities. Moreover, missing documentation / audit trail issues constitute an important source of findings for REGIO audits, but less for audit authorities (17% and 2% of findings, respectively). This might be due to the fact that Commission audits include revision of audit authorities' working papers, which may present weaknesses in documenting the acceptance of some expenditure in some cases, an issue reported under this category. In addition REGIO audits are carried out at the level of programme authorities while national audits are carried out, in most cases, at the level of beneficiaries.

In order to tackle the most frequent errors, beside financial corrections for past expenditure and corrective measures on the system for the future in all cases, audit authorities are encouraged to report back to managing and certifying authorities on the main sources of identified irregularities. This allows these programme authorities to adjust their internal controls, reinforce their checklists, and further train their staff and beneficiaries. Capacity building events and joint workshops are also organised with audit authorities (for example to determine which minimum documentation should be available to ensure an adequate audit trail, also in line with the ECA's recommendation in its 2017 annual report) (see as well section on Contribution to audit capacity building and preventive actions form).

Process for the confirmation of the reported Residual Total Error Rates for accounting year 2016-2017 and calculation of the risk to 2018 relevant expenditure

The following approach is applied for the 2018 AAR[50] (see also graph 1 above for a graphic representation of the process):

- The Directorate General assesses the reliability of residual total error rates for the **accounting year 2016-2017** and confirms, where possible, the average and individual rates after the whole control process by both Member States' authorities and the Commission has been performed.
  - ✓ This average residual total error rate represents the most relevant key performance indicator of the residual risk since the whole control chain has been applied to it and is reported as KP5 in the AAR (see the executive summary)[51].
  - ✓ Total error rates and residual total error rates for individual programmes are confirmed taking into account all available audit information, following a two-stage audit process: a thorough desk review applied to all programmes carried out in the first semester 2018 (resulting in an assessment letter with recommendations, where necessary, sent to the Member State) followed , for programmes considered at risk, by on-the spot compliance audits carried out in the remainder of the year (re-performance of reported audit results). Where the contradictory procedures for compliance audits are still ongoing as at the moment of the AAR, a prudent approach is followed and the residual total error rates are estimated using the worst case scenario (meaning in some cases a flat rate). In such cases which are identified in annex 10 B, REGIO may still further adjust downwards the TER/RTER upon completion of the contradictory procedure with the Member State. A similar approach is followed for ECA's audit preliminary results on 2016-2017 error rates, until completion of the contradictory procedure.

50 The approach aims to follow recommendation 4 of the European Court of Auditors in chapter 6 of its 2017 Annual Report regarding the error rates to be communicated in REGIO and EMPL's AARs

51 After neutralizing the impact of advances paid into financial instruments and where possible State aid advances included (in line with Article 127 CPR) in the samples of audit authorities based on declared expenditure

The Commission therefore endeavours to confirm all residual total error rates in the subsequent AAR following reception of the assurance packages, notwithstanding the requirement for proper and conclusive contradictory procedures[52]. However, in line with the legal provisions, the Commission can for individual cases continue to carry out compliance audits, including on the spot, covering expenditure certified in relation to previous accounting years. Any impact of such audits would lead to the appropriate additional financial corrections, where necessary. The Directorate General will disclose such corrections (additional to what was already disclosed in previous years) in the subsequent AAR.

In relation to the **accounting year 2017-2018** (assurance packages including residual total error rates communicated by the audit authorities by 1 March 2019 at the latest), a first preliminary consistency review has been carried out before signature of the AAR to identify potential inconsistencies or deteriorations in the effectiveness of management and control systems that would require additional reservations. These error rates will then be comprehensively assessed in the course of 2019, through the two-step audit process described above, and confirmed where possible in the 2019 AAR with the resulting average residual error rate disclosed for ERDF/CF. In relation to the calculation of the amounts at risk at payment and at closure that will contribute to corporate reporting on 2018 relevant expenditure (2018 Annual Management Performance Report), a conservative approach has been agreed with the Central Services by applying to the "relevant expenditure" of the 2018 reporting year[53]:

- either the confirmed residual total error rate for the accounting year 2016-2017 as defined above
- or, when higher, the residual total error rate reported by the audit authorities for the accounting year 2017-2018.

For the details of the calculation of risk "at payment" and risk "at closure", please refer to page 113.

Accounting year 2016-2017 - Conclusions on the assessment of the assurance packages received by 1 March 2018

Desk review of reported assurance packages carried out in 2018:

At the time of signature of this AAR, the Directorate-General has completed its assessment of all available audit results in relation to 2016-2017 accounts and assurance packages received by 1 March 2018, as described below.

- Throughout the year the results from all available audit information, such as the assessment of 504 national system audit reports submitted by the audit authorities in 2018, were systematically assessed. Adequate and timely follow-up actions (stopping payments or requesting appropriate corrective measures) were carried out by the Directorate-General to safeguard the EU budget (see section below).
- A thorough and comprehensive desk review was carried out for the 175 operational programmes with amounts certified in the accounts. Before or after the submission of the annual control reports, pre or post ACR fact-finding missions were carried out where considered necessary in order to assess preventively or clarify different issues in view of the desk review.

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[52] For the 2018 AAR, where contradictory procedures on compliance audits were still open at the date of AAR signature, REGIO took a prudent approach and used the maximum potential impact of its audit for the re-calculated error rate.

[53] Relevant expenditure = payments made during the 2018 reporting year excluding new pre-financing and including the 10% retained, and including the cleared pre-financing minus the retentions released and any deductions applied in the accounts covering the expenditure of the period 1st July 2017 to 30th June 2018

During the desk review, special attention was given to the sampling methodologies and parameters used by audit authorities, analysis and treatment of errors identified by audit authorities and the reporting of resulting financial corrections that would affect the calculation of the residual total error rates, as well as expenditure withdrawn from the accounts and reported under on-going assessment (Article 137(2) CPR) or appropriate follow-up to previous REGIO audit findings already communicated to the audit authorities.

- Audit results communicated by the European Court of Auditors in the framework of its 2018 Statement of Assurance audits, and the follow-up to previous years' ECA audits, were also assessed and taken into account when available[54].
- Following the analysis, an assessment letter was sent to the national authorities for each of the annual control reports received. In 2018, the large majority of annual control reports and audit opinions received were of good quality and were found to be prepared in line with international audit standards and guidance issued by the Commission.

For the 2016-2017 accounting year, audit authorities reported 140 residual total error rates[55] based on representative samples. Audit authorities have used **statistical methods** (mainly MUS standard) for OPs **representing 85% of the expenditure declared** in the accounting year[56].

The audit authorities have reported **significant audit coverage**, around **32% of the expenditure declared** in the accounting year through the audit of around **3.300 operations or part of operations**[57] across all programmes. Although coverage rates vary between programmes[58], this demonstrates that single auditing under shared management allows for a large on-the-spot audit coverage of beneficiaries and expenditure. The extended methodological guidance on statistical sampling tools[59] recommended by the Commission helps however to keep a balanced level of audit work at national level.

Moreover, in 2018 audit authorities reported for the first time irregularities they found in their audit of operations following a common typology agreed and shared between the Commission and Member States (and also aligned with the OLAF database for reporting irregularities, IMS). Out of more than **1,500 irregularities**[60] thus identified by audit authorities, 40% concerned ineligible expenditure, 34% public procurement irregularities, and 11% financial instruments, respectively the three main sources of irregularities according to audit authorities in terms of ineligible amounts detected. This corresponds also to the most common types of irregularities identified by REGIO through its audits (see table No 2 above).

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54 REGIO has adjusted the residual total error rates following the results of ECA's audits as well. These ECA audits are under contradictory procedure and REGIO will therefore assess the final impact to the confirmed residual total error rates and will apply additional financial correction, where necessary.

55 For 175 programmes concerned, some of them being grouped under a common sample for the audit of operations and annual control report

56 In the remaining cases, non-statistical samples were used, the audit population being smaller than 150 units, in line with the Commission guidance). For the only case (ETC OP) for which a non-statistical method was used for an audit population exceeding 150 units, REGIO has analysed the impact and confirms that, given the large audit coverage the reported total and residual error rates are not materially affected. Nevertheless, REGIO will continue to remind the concerned audit authority to use statistical sampling in line with the Commission guidance.

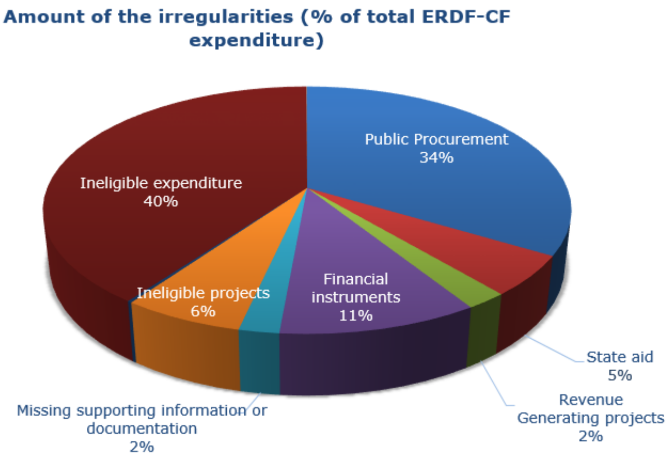
57 Sampling units, representing 4% of total sampling units in the audit population

58 Sub-sampling was used in some cases which were analysed to confirm a correct projection of the errors found.

59 In particular, statistical models adapted to the specific sectorial needs

60 Several irregularities may be reported for the same sampling unit

Graph No 4*: Typology of audit findings reported by the audit authorities (accounting year 2016-2017)*



This typology, reported to programme managing authorities through audit reports and audit wrap-up sessions held by audit authorities, as promoted under the "**Charter on good practices promoted by the Audit Community under Cohesion policy EMFF and FEAD**"[61], allows them to integrate such more frequent sources of errors in their risk-assessments and to adapt their management verifications approaches accordingly[62].

On this basis and as for its own audit results, the Commission recommended programme managing and audit authorities to pay particular attention to these most frequent types of irregularities identified, to take capacity building actions towards beneficiaries and to improve management verifications in these areas in order to better prevent such irregularities (see also section on Commission findings above).

Annex 10 C contains additional graphs summarising the information received from the audit authorities.

As a result of its thorough desk review for all programmes, REGIO has obtained sufficient assurance on the reliability of the reported rates for 133 programmes and did not consider necessary to carry on the spot audits at this stage. Indeed, the Commission's assessment on the work and reliability of audit authorities responsible for 95% of ERDF-CF programmes is positive (category 1 or 2). For two programmes[63] though, the Commission desk review allowed detecting that the error rates reported by the audit authority did not include all irregularities previously identified by the Commission in one case or was unreliable due to methodological issues identified during a previous audit in another case. **For these two programmes REGIO estimated that the confirmed residual total error rates remain above 2%** and additional financialcorrections will be applied as necessary.

Commission on the spot compliance audits carried out in 2018

In line with the Single Audit Strategy, REGIO focused its 2018 audit plan on compliance audits to re-perform the work of audit authorities for programmes selected on a risk-basis and with a view to cover the mainstream audit authorities over time.

61 Charter on good practices that Commission auditors and audit authorities jointly agreed to promote as a follow-up to the recommendations by the High Level Group on simplification for beneficiaries of ESIF funds in relation to auditing

62 Moreover managing authorities were encouraged in July 2018 to use the same typology of errors for their management verifications, so that they can identify the most common sources of errors by beneficiaries and take appropriate mitigating and preventive actions; see updated Commission guidance on management declaration and annual summary (EGESIF_15-0008-05 published on 3 December 2018)

63 FR – Midi-Pyrénées and LT

Some audits were performed jointly with EMPL to ensure synergies in particular for common management and control systems (multi-fund programmes, common audit authorities). The audit plan also took account of ECA's planned Statement of Assurance audits to avoid duplication of work and overlaps at beneficiaries' levels[64].

- 13 compliance audits
on 42 ERDF/CF operational programmes
by REGIO or joint audits with EMPL
+ 3 fact finding audits

- Results from other DGs when pertinent
(on same audit authorities)

- Reported Court's audit results are taken
into account

Following the thorough desk-review for all programmes and the resulting update of its risk-assessment, REGIO decided as a second step to carry out in 2018 thirteen on the spotcompliance audits[65] covering 42 ERDF/CF programmes (+ 1 ESF programme) considered at risk in 10 Member States. In addition, REGIO also carried out one preventive pre-ACR fact finding missions in Bulgaria and one in an Italian region (in cooperation with the Italian audit co-ordination body (IGRUE), and one post-ACR fact finding mission in Poland covering all Polish programmes with a view to clarify audit information reported in the concerned annual control reports.

As a result of these compliance audits, REGIO identified further irregularities to the ones detected by audit authorities leading to a material residual risk in the 2016-2017 accounts in 27 cases (see table No. 2 on page 65 and footnote 49).

Conclusion and overall assurance for the accounting year 2016-2017

For accounting year 2016-2017

Accounts accepted for 175 ERDF-CF programmes

KPI 5- RESIDUAL TOTAL ERROR RATE

1.96 %

The Commission auditors have thus looked at all evidence allowing them to complete their assessment of legality and regularity of expenditure included in the 2018 certified accounts with an objective to confirm the residual total error rates for these 175 programmes, based on a two-step audit approach combining a thorough desk review and on-the-spot, risk-based compliance audits.

As a result of both desk and on the spot audit work:

- REGIO confirmed residual total error rates reported by the audit authorities (including in some cases after introducing adjustments without a material impact) below materiality for 135 OPs.
- For 29 OPs in seven Member States[66], REGIO concluded (at this stage of the contradictory process in some cases) that the programme's total residual error rate had to be revised above 2%. Upon completion of the contradictory procedures on the concerned programmes, REGIO will launch the necessary additional financial corrections to bring the individual residual total error rate below 2% for each concerned programme. The fact that adjustments to the reported residual total error rates were needed to be done in some cases following compliance audits demonstrates the validity of REGIO's risk assessment analysis used for selecting the programmes to be audited on the spot. For the concerned audit authorities and programmes (3 of the 11 audited audit authorities)[67], REGIO audits detected specific shortcomings in their work (e.g. non- detection of certain errors, mainly public

[64] When the same programme or audit authority were selected for Commission and ECA audits, REGIO endeavoured, when time allowed, to select a separate, complementary sample to the work of ECA to avoid repetition of audits at the level of beneficiaries.

[65] BG (1), CZ (1), EL (1), FR (2), HU (1), IT (1), PL (2), PT (1), SK (2) and UK (1)

[66] Two based on desk work and 27 based on compliance audits: 1 BG, 5 FR, 17 EL (common ACR for all Greek programmes), 1 IT, 1 LT, 2 SK, 2 UK; See Annex 10 B

[67] IT-Calabria, UK-Wales and 3 FR regional control bodies

procurement errors, or under-quantification of such errors) and issued targeted recommendations to address these shortcomings.

- Finally, for 11 programmes in two Member States[68] REGIO cannot reach a final conclusion at this stage as further information might become available after adoption of the AAR and require further contradictory procedures with the concerned authorities.

Based on the audit work described above, REGIO is in a position to confirm an **average total residual error rate of 1.96 % for ERDF/CF programmes[69] in the 3rd accounting year 2016-2017.** This rate has been calculated after neutralizing the impact of advances paid into financial instruments (and partly through State aid), in line with ECA's recommendation[70].

REGIO has therefore reasonable assurance that, after the control cycle (national and Commission) has been completed, there is no material residual risk remaining in the 175 accounts accepted in 2018, except for 29 programmes indicated above for which we have at this stage evidence that additional financial corrections are necessary to reach the objective of bringing the residual total error rate to materiality level for all programmes. In addition, for another 11 programmes further corrections could be needed, based on preliminary information obtained at the time of signature (and before contradictory procedure).

The risk approach applied for selection of REGIO compliance audits and the increase of programmes with ERDF-CF certified amounts (from 35 OPs in 2015-2016 accounting year to 175 in 2016-2017) explain the increase of the average residual total error rate in relation to the first reported in 2017 AAR. Moreover, it is expected that overtime the residual error rate will tend to the acceptable materiality level.

The list of confirmed total residual error rates by OP, as well as the EC opinion on the functioning of the management and control system, are disclosed in annex 10 B[71].

The Commission is working closely with all audit authorities, both bilaterally and multilaterally, in order to address the issues raised in EU compliance audits. Besides the annual bilateral audit coordination meetings, Homologues Group Meeting and Multilateral Technical meetings, joint Commission – audit authorities working groups (with the participation of ECA representatives) have met on different targeted topics[72] to continue sharing good practices, improving systems based on its recommendations, building administrative capacity and exchanging audit tools and methods. The conclusions from the assessment of accounting year 2016-2017 are also taken into account for the ongoing review of the assurance packages in relation to the accounting year 2017-2018 and for the risk assessment that will support the next round of compliance audits to be carried out by the preparation of the 2019 AAR.

68 PT (10 grouped programmes) and PL (1)

69 Based on all audit evidence available at this date and pending the outcome of some contradictory procedures (conservative approach). Taking account of possible further errors in the remaining parts of audited samples that were not subject to detailed re-performance activities, and of further information which might become available after adoption of the AAR, REGIO estimates the confirmed residual total error rate could reach a maximum of 2.74%, after having adjusted upwards the rates for the concerned programmes by using conservative flat rates.

70 See also footnote 51 above.

The confirmed residual total error rate based on declared expenditure (including advance payments) is 1.66%, hence a limited impact of advance payments on the confirmed residual error rate (0.3 percentage point).

ECA's recommendation n° 2 a) in its 2016 Annual Report, paragraph 6.40 also addressed State aid advances. But taking account of their very limited weight (1.4%) in the total certified amount and the complexity for the error rate calculation of dealing with advances that may be partially cleared by expenditure during the accounting year, REGIO followed a simplified approach. It excluded State aid advance payments from its calculation only for programmes where such advances remained totally uncovered by expenditure throughout the accounting year 2016-2017. As a result, out of the 175 programmes with ERDF/CF expenditure certified in the 2016-2017 accounts, 67 included advance payments made to financial instruments and 8 advances paid through State aid remaining uncleared by any expenditure during the whole accounting year. Such advance payments in these 75 programmes in total have been deducted for the calculation of KPI 5.

71 For the implementation of Article 78 of Commission proposal C(2018) 375 for programming period 2021-2027, see columns 1 and 2 of Annex 10 B

72 E.g. best use of management verifications, documentation of the audit process, statistical methodologies.

In addition, for all programmes concerned, improvements of management and control systems (mainly management verifications) are being required from the Member States.

Accounting year 2017-2018 - Assurance packages received by 1 March 2019

For the 4th accounting year 2017-2018, 258 programmes (including 10 multi-fund programmes with EMPL chef de file) have submitted accounts with ERDF-CF certified amounts by 1 March 2019.

The total ERDF/CF certified expenditure was EUR 24.8 billion. This is a difference of EUR 2.1 billion compared to the related final interim payment applications for the accounting year submitted in July 2018. These deductions result from financial corrections implemented following audits, continued management verifications and, in particular on-going assessments on the legality and regularity of expenditure previously declared during the accounting year (Article 137(2) CPR).

Out of these, EUR 163 million represent deductions made by the Member States from the accounts as a direct result of financial corrections following audits of operations.

Upon receipt of the assurance packages for the accounting year 2017-2018, and in order to decide which reservations need to be issued with respect to the reporting year 2018, REGIO has carried out a preliminary assessment to confirm that the information disclosed in the annual control reports and audit opinions was in line with all other relevant information available to the Commission.

In particular, the following aspects have been analysed, as part of the consistency checks carried out:

- that the Member States authorities have 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 the expenditure under on-going assessment has been deducted from the accounts in accordance with article 137(2) CPR and has appropriately been treated by the programme authorities when calculating the residual error rate.
- 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.

Accounting year 2017- 2018:

258 certified accounts
with ERDF/CF expenditure

out of which

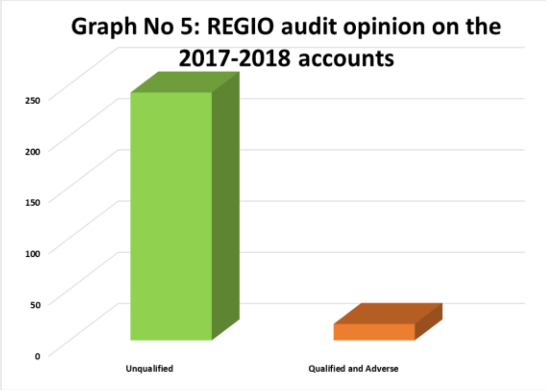
242 *can be accepted*
16 *cannot yet be accepted*

Acceptance of accounts

Following its assessment of the work carried out by audit authorities to substantiate their audit opinions on the accounts[73] and after having requested and received for some programmes adjusted accounts or further clarifications from national authorities, REGIO concluded as of end April 2019 that 242 accounts (95% of programmes with certified ERDF-CF expenditure) can be accepted, thus confirming their completeness, accuracy and veracity. The Commission expects to formally accept these accounts by 31 May 2019, in line with the regulatory deadline.

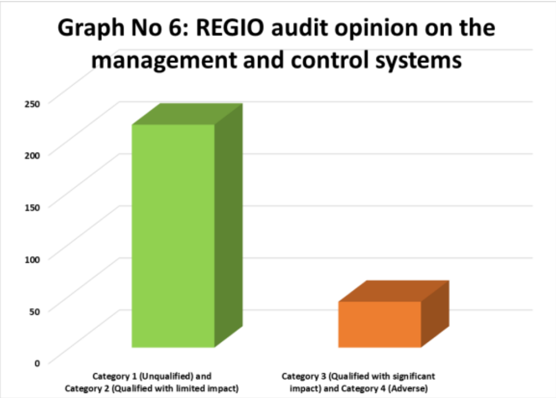
[73] Following the regulatory framework (Article 139 (2) CPR), the audit authority's opinion on the accounts is the key criterion to decide on the acceptance of the accounts.

For the remaining 16 OPs[74], the Commission has informed the concerned Member States that it is not yet able to accept the accounts based either on a qualified audit opinion issued by the audit authority on the completeness, accuracy and veracity of the accounts (5 OPs) or due to inconsistencies found as a result of REGIO's assessment (11 OPs). This concerned mainly confusion between amounts to be reported as financial corrections instead of on-going assessments, and amounts of on-going assessments considered as materially understated by the Commission. Member States have been informed by letter[75] on the actions to be undertaken so that the Commission is able to accept the accounts. In line with the materiality criteria (annex 4), the concerned OPs were put under reservation.



Effective functioning of management and control systems; residual total error rates reported by audit authorities

Based on audit opinions provided by audit authorities on the face of the results from their system audits and audits on operations, and taking account of its own audit results and further EU audit results available, REGIO considers that management and control systems function effectively for 214 programmes[76]. The effective functioning of these programmes provides assurance that the underlying transactions and expenditure declared in the 2017-2018 accounts, as well as expenditure further declared in 2018 under the on-going accounting year 2018-2019, are not affected by a material level of irregularities.



In addition REGIO considers that for 44 programmes[77] the management and control systems (or part of the systems) work only partially and substantial improvements pointing to serious deficiencies are needed.

However all interim payments made by the Commission in 2018 were subject to 10% retention until all controls are completed, in line with the regulation. For 18 out of these 44 OPs, REGIO considers that the deficiencies could not result in or lead to irregularities above the 10% retention and therefore no reservations are issued in accordance with Annex 4. **For the remaining 26 OPs**, where the reported error rate is above 10%, or where insufficient financial corrections have been made to bring the residual risk below 2%, **reservations are made and payments were interrupted** for the programmes or parts of the programmes concerned[78].

System improvements are requested in all cases from the concerned Member States and programmes with a view to prevent recurrent high risks of irregularities for expenditure to be declared in the on-going accounting year.

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[74] 1 EE, 5 FR, 5 HU, 1 LT, 1 LV, 1 SK, 1 RO, 1 ETC

[75] Following Article 139 (4) CPR

[76] Including for 190 programmes where some improvements are needed but without material impact on the expenditure declared.

[77] See column 1 in Annex 10 B (MCS or part of it does not function effectively)

[78] In some cases, combined with non-acceptance of accounts

In addition, despite reported system deficiencies, for 249 out of 258 programmes which provided accounts with certified ERDF-CF expenditure, sufficient financial corrections were applied by the competent Member State authorities on time for the accounts, thus allowing to arrive at a residual risk below 2% in the accounting year. For the remaining 9 OPs where material residual total error rates were reported[79], additional financial corrections will be applied upon the finalisation of the assessment of the legality and regularity and on the basis of a confirmed residual total error rate. These expected financial corrections are computed in the calculation of the estimated overall amount at risk at closure. These 9 programmes are put under reservation following materiality criteria foreseen in Annex 4.

Conclusion on reservations needed

Indicator	2018
Number of ERDF/CF programmes from the 2014-2020 programming period in reservation	30

Reservations are made in relation to the 26 OPs with serious deficiencies in the management and control systems leading to a risk to expenditure estimated above 10% (including for 9 cases with a residual total error rate above 2% reported by 1 March 2019).

For additional 3 OPs[80], the reservations were only due to the non-acceptance of the accounts.

Last, there is a reputational reservation for one ETC OP[81] due to the lack of designation of authorities and implementation progress.

The list of total error rates and total residual error rates reported by the audit authorities for the 2017-2018 accounts as adjusted where relevant, are disclosed in Annex 10 B. The list of programmes under reservation, with the reason for the reservation, is disclosed in Annex 10 A.

Safeguarding the EU budget by preventive and corrective actions (interruption and financial corrections)

REGIO and EMPL follow a common approach regarding interruption of payments, as a balanced solution that protects the EU budget against serious irregularities and serious deficiencies in the management and control system. The Directorates-General decided to apply a proportionate approach to interruptions, taking account of two novelties in the 2014-2020 programming period compared to the previous one, the annual acceptance of accounts and the 10% retention on reimbursement of interim payments until accounts are accepted (Articles 130 and 139 of the CPR). As a result, the Commission does not need to interrupt interim payments as often as in 2007-2013.

An interruption of payments is therefore applied only where the serious deficiency in the management and control system would require a correction higher than the 10% retention or where the individual irregularity would have serious financial consequences[82] (REGIO decided to consider cases with an impact above 10% of the programme's financial allocation or EUR 50 million). If no payment claim is submitted, a warning letter of possible interruption of payment deadline is sent to the Member State.

79 6 FR, 1 LT, 1 SK, 1 ETC.

80 1 LV, 1 RO, 1 SK ; the remaining 13 programmes with accounts not yet accepted are also under reservation, due to a combination of reasons including also system deficiencies or residual total error rates above 2%

81 2014TC16RFCB043 France (Saint Martin-Sin Maarten)

82 Article 83 (1)(a) of Regulation 1303/2013

A warning letter for corrective measures is also sent for cases with estimated risk to the EU budget below 10%. In such cases of system deficiencies, the Member State is requested to take the necessary measures to improve the system and not to include related expenditure in interim payment claims and in the accounts until the legality and regularity of the expenditure is confirmed.

The objective is a residual total error rate below 2% for each programme and accounting year. The Directorate-General is therefore required to launch financial correction procedures each time it concludes that the residual total error rate for a programme is above 2%. The Commission must also apply net financial corrections should serious deficiencies be identified by its audit Directorates (or the European Court of Auditors), and which were not identified, reported and corrected by the Member State when submitting the corresponding accounts[83].

With respect to the reliability of the monitoring system or of the data on common or specific indicators and as a result of the audit work and of the national system audit reports received from the audit authorities, REGIO has concluded that there are serious deficiencies for six OPs in five Member States[84] and has launched or is launching the required pre-suspension procedures.

The table No. 3 below shows the number of warnings, interruptions and pre-suspension letters issued by the Commission in 2018 and during the 1st quarter of 2019. It includes also two suspension decisions adopted for the non-fulfilment of ex-ante conditionalities[85].

	Warning (risk < 10%)	Warning of possible interruption of payment (risk >10% but no pending payment claim)	Interruption of payment (risk >10% and pending payment claim)	Pre-suspension letters	Suspension decisions
2018	*20*	*12*	*3*	*2*[86]	*1*
Q1 2019	*7*	*0*	*5*	*2*	*1*

Further to the warnings and interruptions issued by the Commission, the Member States undertake measures for safeguarding the EU budget by performing financial corrections during the accounting year and directly from the accounts.

The table below lists the financial corrections performed for the accounting year 2017-2018 by the Member States in total amounts and amounts due to audits.

[83] In 2018 REGIO did not have to initiate procedures to reduce the programme allocations (net financial correction).
[84] BE, DE, HU, RO (2),SI
[85] ES (repealed in March 2019), IT
[86] For non-fulfilment of ex-ante conditionalities.

Table No 4 - 2014-2020 – Financial corrections applied by Member States for the accounting year 2017-2018 (in euros)

	Total withdrawals and recoveries	Total deductions from accounts	Total	Out of which amounts corrected as results of audits
	A	B	(A+B)	
AT	0	536.100	536.100	282.429
BE	278.309	2.590.302	2.868.611	585.418
BG	737.908	4.490.536	5.228.444	2.043.093
CY	63.665	394.076	457.741	92.162
CZ	199.386	38.800.004	38.999.390	5.715.823
DE	522.240	41.044.193	41.566.433	14.090.915
DK	0	607.872	607.872	0
EE	1.021.784	5.225.107	6.246.891	322.163
ES	0	5.082.055	5.082.055	4.716.475
FI	14.581	11.557.520	11.572.101	28.107
FR	3.056	37.228.372	37.231.429	13.293.885
GR	4.649.342	27.604.769	32.254.112	5.833.516
HR	0	17.852.417	17.852.417	9.676.495
HU	107.063	1.329.179.689	1.329.286.751	28.151.399
IE	0	1.060.657	1.060.657	1.063.657
IT	510.266	159.852.396	160.362.662	4.866.228
LT	169.316	22.813.107	22.982.423	145.605
LU	0	0	0	0
LV	19.173	3.648.259	3.667.432	1.366.859
MT	4.032	67.205	71.237	5.816
NL	0	216.277	216.277	92.736
PL	12.513.617	163.155.551	175.669.168	6.093.887
PT	426.513	10.075.908	10.502.422	2.247.888
RO	1.161.718	85.523.605	86.685.322	13.024.141
SE	44.841	4.276.173	4.321.013	16.271
SI	0	1.050.635	1.050.635	1.050.635
SK	243.528	56.148.457	56.391.985	5.590.776
TC	217.611	4.089.909	4.307.520	444.907
UK	1.064.853	44.371.832	45.436.685	42.194.033
TOTAL	**23.972.802**	**2.078.542.983**	**2.102.515.785**	**163.035.319**

A total of EUR 2.1 billion was deducted either from interim payment applications or directly in 2019 from the accounts. Out of this around 8 % was corrected as a result of audits. The remaining amounts removed from the accounts were mainly[87] due to different on-going assessments under Article 137(2) of CPR of expenditure previously declared during the accounting year.

In relation to **accounting year 2016-2017**, the Commission will launch the necessary additional financial corrections to bring the RTER down to 2% for the 29 concerned programmes. These future corrections are estimated at this stage of the contradictory procedure and are used for the calculation of the amount at risk at closure.

In relation to **accounting year 2015-2016**, there is no further need for additional financial corrections. For the OP[88] for which REGIO confirmed in 2017 AAR a RTER above 2% (common ERDF-ESF), the necessary financial corrections were applied in 2018 by EMPL on the concerned ESF parts of the programme.

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87 At least 80%

88 1 PL multi-fund OP with irregularities detected by ECA affecting ESF expenditure

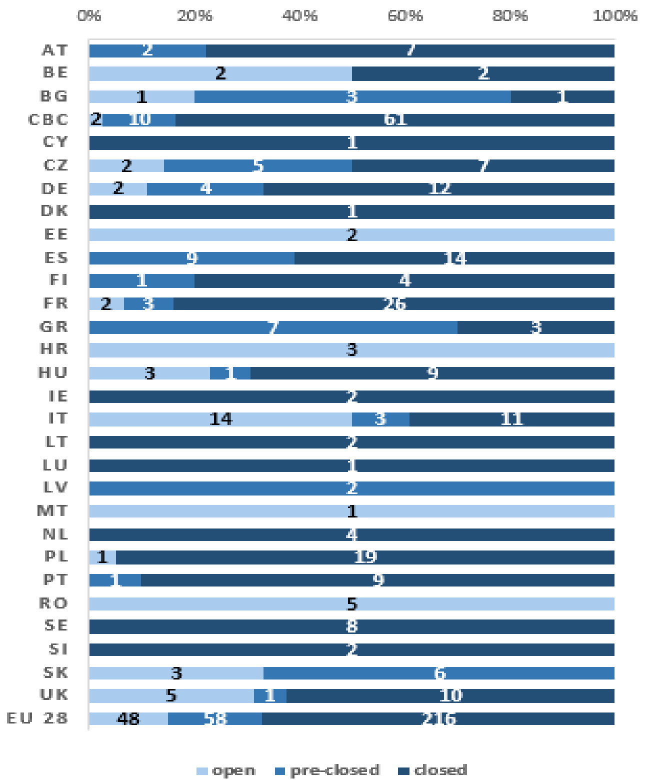
A.2 Shared Management – Closure of ERDF/ CF 2007-2013

State of play of 2007-2013 ERDF/CF closure

Indicator	2018
Cumulative number of programmes pre-closed/closed by end 2018	274
RAL (open commitments)	
- at 31/3/2017 (initial situation)	14.9bn
- at 31/12/2017 (- 5.8bn)	9.1bn
- at 31/12/2018 (-6.2bn)	2.9 bn

In 2018, REGIO made EUR 5.9 billion of closure payments for the 2007-2013 ERDF/CF programmes.

All 322 closure packages of the 2007-2013 programmes (final implementation reports, closure declarations and final payment claims) were received in due time by 31 March 2017 (except for the Croatian programmes due by 31 March 2018). Less than two years after submission of closure documents, two-thirds of programmes are already fully closed. For 8 Member States[89] all concerned programmes are fully closed at the end of 2018. This is a much faster closure process than for the previous programming periods



Indeed, as of 31/12/2018:

- 216 programmes have received Commission's proposal for full closure.

- Another 58 programmes have received pre-closure proposals, where the Commission agreed to make a *partial closure payment* covering only the *uncontested amounts* and withheld any expenditure affected by potential irregularities or on-going investigations at national or EU level. The majority of these pre-closed programmes are affected by on-going procedures at national level (either with pending recoveries or administrative/court proceedings) for which it is difficult to predict the date of the full closure.

- Finally, there were 48 programmes for which the assessment of the closure documents was still ongoing at year end due to different complex litigations about open irregularities between the Commission and the Member States.

322 closure packages
All fully assessed
3/4 of the OPs fully closed
(at 31/03/2019)
At this stage, residual risk rate calculated at 0.43 %

As of 31/03/2019, further progress was achieved: 237 programmes (74%) have received Commission's proposal for full closure, another 46 programmes (14%) have received pre-closure proposals. Thus, 283 programmes (88%) are already closed or pre-closed and only 39 programmes remain fully open.

The list of operational programmes with error rates / residual risk rates and status on closure is presented in annex 10 D.

[89] CY (1 OP), DK (1 OP), IE (2 OPs), LT (2 OPs), LU (1 OPs), NL (4 OPs), SE (8 OPs) and SI (2 OPs) are fully closed by 31.12.2018. EL (10 OPs) and PL (20 OPs) were fully closed by February 2019.

Estimated residual risk rate for the whole 2007-2013 programming period at closure

All closure packages have been assessed by REGIO within the 5-month regulatory deadline and assessment letters were sent to Member States. This included requests for additional explanations or information in relation to final implementation reports or for legality/regularity issues, including the request for additional audit work in case of audit scope limitations reported.

Based on the data reported by certifying authorities and checked at closure by audit authorities, Member States have reported an average residual risk rate at closure for all programmes of 0.3%[90].

Following its thorough examination, REGIO has confirmed the reported error rates and residual error rates or has further adjusted the error rates based on all additional information received from programme authorities that it was assessed and, where necessary, led to additional financial corrections.

REGIO concludes at this stage of closure that **the residual risk rate** applied to the expenditure certified for the whole **programming period 2007-2013 is at 0.43%.** The additional financial corrections confirmed in 2018 (see Annex 10 E) has allowed to further reduce the residual risk rate provisionally reported in the 2017 AAR with only 1/3 of the OPs closed at that time.

The reduced residual risk indicates that appropriate financial corrections have been applied up to closure, as expected, by programme authorities. This also demonstrates that closure acted as an additional filter to correct any remaining material level of errors, following the multi-annual corrective capacity of programmes, as the Commission has repeatedly argued in the past. The Commission services will carefully complete the assessment of this indicator for the programmes, which are not yet closed, and (after all additional audit work requested from some audit authorities is assessed) will apply additional financial corrections where necessary.

It is underlined that ECA is also currently carrying audits on closed programmes in view of its 2018 Statement of Assurance. The contradictory process with the Member States is ongoing by the time of drawing up this annual activity report. REGIO will report in next year's annual activity report the results of these audits, whether they affect the reported residual risk rates at closure.

As part of its audit work on the 2017 Statement of Assurance, ECA performed six audits in five Member States. In two cases[91], the Court reported quantifiable errors that would bring the residual risk rate above 2 % for the closed programmes. The Commission will ensure the follow-up of Court's findings and impose financial corrections if deemed necessary.

Safeguarding the EU budget by corrective actions

Financial corrections as a result of the Commission supervisory role

Indicator	2018 (EUR million)	Cumulative since 2007 (EUR million)
Financial corrections as a result of the Commission supervisory role (Decided/Confirmed)[92]	265.8	3,763.5
Financial corrections as a result of the Commission supervisory role (implemented)		3,542.5
Rate of implementation of financial corrections 2007-2013		94%

90 Based on the expenditure declared in the final payment applications.

91 In CZ (OP 2007CZ161PO006) and in ES (OPs 2007ES16UPO001, 2007ES16UPO002, 2007ES16UPO003).

92 Excluding financial corrections at source

The purpose of financial corrections is to ensure that the risk on the legality and regularity of the expenditure declared for co-financing is below materiality.

A financial correction must be based on evidence. The Commission bears the (initial) burden of proof for system deficiencies, irregularities and breaches of the obligations under Articles 98 and 15(4).

The principal sources of evidence for the reported financial corrections are:

- REGIO audits (audits by the Audit Directorate or on its behalf);
- Reports by national audit bodies (annual control report and audit opinion submitted according to Article 62(1)(d)(i) and (ii) of Regulation (EC) No 1083/2006 ; national audit reports);
- Audits by the European Court of Auditors (ECA);
- OLAF final case reports.

Financial corrections reported by Member States relating to 2007-2013 period

Indicator (ERDF and Cohesion Fund)	Cumulative since 2007 (EUR million)
Financial corrections 2007-2013 reported by Member States	9,643.2
Out of which additional to the EC reporting Out of which additional to the EC reporting[93]	6,106.2

The detailed tables of financial corrections 2007-2013 by Member State can be found in Annex 10 E.

In addition, Annex 10 F discloses detailed information of the closure of financial instruments. Following ECA's recommendation n° 1 in chapter 2 of its 2017 Annual Report (paragraph 2.62), Commission agreed to report in the annual activity reports of the respective Directorates- General, the amount eligible at closure and financial corrections made for financial instruments by OP.

Reservations in relation to ERDF-CF 2007-2013

Indicator	2018
Number of ERDF/CF programmes from the 2007-2013 programming period in reservation	17

As a follow-up of 2017 AAR, the issues leading to reservations in 4 out 20 programmes under reservation were resolved during 2018 and the programmes were closed or pre-closed[94].

As a result of the review of the closure documents and notably the Final Control Reports, there are 17 programmes for which the level of financial corrections to be implemented, due to the significant deficiencies detected, exceeds the financial retention of the overall allocation made at programme level (5% or less for underspent programmes of the overall allocation made at programme level).

[93] As a result of comparison for each Member State between national and EU reporting of implemented financial corrections

[94] 2007CZ16UPO001, 2007CB163PO041, 2007CB163PO053, 2007IT161PO011

This includes 16 programmes kept from the 2017 reservation and 1 programme not previously in reservation, for which new information became available during the closure exercise[95].

Further details as regards the reason leading to the reservation for these 17 ERDF/CF programmes are described in annex 10 A.

The final payment for these programmes will take place only when the relevant level of financial correction is accepted and implemented (or applied through a Commission decision).

A.3. Shared Management: IPA-CBC and Solidarity Fund

In 2018, REGIO paid EUR 3.8 million for IPA-CBC 2007-2013. For the Solidarity Fund EUR 151.9 million of pre-financing were paid in 2018.

IPA-CBC 2007-2013

Indicator	2018
Residual risk rate at closure (average IPA-CBC programmes)	0.58%
Number of IPA-CBC programmes from the 2007-2013 programming period in reservation	1

IPA Cross Border programmes are ETC programmes involving at least one candidate country. In terms of management and control system, the assurance model does not differ from the mainstream programmes, as both the requirements and the control objective are identical to those for ERDF/CF.

The closure documents were submitted for all 8 IPA-CBC programmes in line with the regulatory deadline of end-March 2018. REGIO assessed these within 5 months. All programmes are closed or ready to be closed, except two programmes for which some outstanding audit issues are under analysis[96]. In one programme, some amounts remain open due to judicial investigations[97].

The review carried out confirms that reasonable assurance can be obtained at this stage on all the programmes which report a residual error rate below 2%.

However, for one of the programmes (2007CB16IPO001- Adriatic IPA CBC) a reputational reservation is considered necessary, as several beneficiaries have informed the Commission that by end March 2019 they have still not been paid for their projects. The Commission already requested the programme authorities to address this issue on due time and is currently investigating its extent. The Commission will consider the need for further action on the basis of its assessment.

Solidarity Fund (EUSF)

In 2018 the Commission paid out EUSF contributions totalling EUR 151,889,676 for 9 applications relating to disasters which all occurred in the course of 2017: namely one case from France (hurricanes Irma and Maria), two cases from Greece (earthquakes in Lesbos and Kos), Latvia (flooding), Lithuania (flooding), Poland (storm), Portugal (major forest fires), Spain (fires in Galicia) and Bulgaria (flooding). Additional amounts totalling EUR 4 million had already been awarded as advance payments to France, Greece and Portugal during 2017.

Moreover, an amount of EUR 293,971,081 from the 2018 allocation had been frontloaded in 2017 in accordance with Article 10(2) of the MFF regulation to allow making the full

[95] 2007IT161PO008 (Calabria)

[96] IPA Adriatic (2007CB16IPO001) and Romania-Serbia (2007CB161PO005).

[97] Bulgaria-fyrom (2007CB161PO007) : please note that the title of the OP will be modified to reflect the change of the name from fYROM to North Macedonia

payment to Italy for the series of earthquakes during 2016/2017 which exceeded the available allocation of 2017.

The way in which REGIO defines its assurance for the Solidarity Fund is tailored to the specificities of the instrument.

The main steps leading to the payment of an aid under the Solidarity Fund can be summarized as follows:

- applications are put forward by Member States and assessed by the Commission.
- if the application is accepted, the Commission proposes an amount of aid to the European Parliament and the Council for approval before it can be paid out.
- once the appropriations become available in the EU budget, the Commission adopts a decision awarding the aid to the affected State. The aid is then paid out immediately in a single instalment.
- After payment, the affected State is responsible for the implementation including the selection of operations and their audit and control.

The main inherent risk as regards the EUSF is that due to the unpredictable and urgent nature of the events and related expenditures, there is no prior assessment of the management and control systems in place[98]. The assurance on the legality and regularity of the EUSF expenditure is therefore mainly obtained *ex post*, i.e. after the Fund has been received by the beneficiary country and the projects have been completed. Such assurance is based on management checks and audit work performed by the national authorities concerned, as described in the implementation reports and audit opinions[99] submitted to the Commission for the closure of each EUSF assistance.

At the level of the Commission, assurance on the legality and regularity of EUSF spending is mainly obtained through the desk review of the validity statements (audit opinions) provided by independent audit bodies, which may be audit authorities in charge of ERDF/CF programmes as well. These desk reviews are complemented by on the spot audits carried out on a risk basis by the Audit Directorate.

In 2018, 5 implementation reports and validity statements / audit opinions were submitted to REGIO for disasters dating from 2014 and 2015, which are currently being assessed.

After the assessment of implementation reports and independent audit opinions received for earlier EUSF cases the Commission closed 1 EUSF intervention in 2018 dating from 2015 concerning severe winter conditions in Bulgaria. For this intervention recoveries were made based on the management verifications and audits performed by the national authorities.

The Commission performs in general one audit on the spot with regard to EUSF actions per year. There are no major findings and most of the audits are already closed. The only exception is an audit from 2015 in Slovakia (flooding of 2010). The final audit report proposed the national authorities to apply financial corrections of EUR 11 million, mostly related to the fact that the legal threshold for the aid was exceeded. The national authorities do not accept the findings. The final position letter launching the financial correction procedures is under preparation.

In February 2019, REGIO performed an audit on the intervention in Serbia concerning the severe flooding from 2014. The eligible expenditure is confirmed. After receiving the

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98 The legal framework introduced by the Council Regulation (EU) No 661/2014, amending the Council Regulation (EC) No 2012/2002, introduced some improvements in this regard, namely by allowing the Member States to use the same national authorities designated for ESIF to manage and control EUSF assistance. However, the provisions of the amended Regulation are applicable only to the EUSF assistance granted after its entry into force on 28/06/2014.

99 For EUSF assistance granted up to June 2014, the audit opinions were submitted in the form of "statements of validity".

final clarifications from the national authorities during the contradictory procedure, REGIO will be able to proceed with the closure of this intervention.

In September 2017, an external in-depth ex-post evaluation of the EUSF was launched and is expected to be finalised in spring 2019. The evaluation results will be disseminated to the general public, national and regional authorities, the Council, the European Parliament, the Court of Auditors, as well as to stakeholders interested in the activities and the performance of the EUSF.

Conclusion: For the Solidarity Fund, based on the audit work carried out so far, the Directorate-General can conclude that it has reasonable assurance on the compliance of expenditure based on the audit opinions, which were accepted in 2018. No reservation is made.

A.4. Shared Management – ERDF / CF 2000-2006 and earlier periods: processing closures

In 2018, REGIO has made the following financial transactions for the 2000-2006 ERDF programmes and for the Cohesion fund projects:

Fund	Payments (EUR)	Recoveries (EUR)
CF 2000-2006	8,439,761.81	25,979,002.89
ERDF 2000-2006	10,771,748.38	403,681.94
TOTAL	**19,211,510.19**	**26,382,684.83**

State of play of closures

ERDF 2000-2006

In 2018 closure procedure was completed for 3 programmes (Hainaut, Saarland, Poitou-Charentes).

Currently, out of 379 operational programmes, 24 remain partially closed. Their full closure was not possible as they are awaiting the decision of national institutions under administrative and/or legal procedures (including court cases) for a number of projects. Depending on the decision of national authorities, they may result in the recovery of financial amounts or a decision to charge the amounts to the EU budget. Final closure of these programmes is not decided as long as no court decision is taken at national level. Therefore there is no risk on EU payments.

The Directorate General can conclude that it has reasonable assurance on all ERDF 2000-2006 payments made in 2018.

Cohesion Fund 2000-2006

In 2018 an additional 15 projects[100] out of the remaining 42 were closed, following additional clarifications and assurance or information on financial corrections received from the Member States. Thus 27 Cohesion Fund projects 2000-2006 remained open at the end of 2018 out of the 1,121 Cohesion Fund decided projects[101].

Open projects per country as of 31 December 2018

BG	EE	ES	GR	LT	PT	RO	Total
3	1	1	6	3	1	12	27

The Directorate General can conclude that it has reasonable assurance on all the final

[100] In addition to 15 CF projects closed in 2018, the recovery for the last Polish CF project was only cashed in early 2018. The closure of this project was reported in 2017.

[101] For a Fund contribution of EUR 32.5 Billion.

Cohesion Fund 2000-2006 payments it has made in 2018.

ERDF / CF 2000-2006 and 1994-1999: financial correction decisions annulled by the Court of Justice

The General Court in the case T-205/16 of 17 May 2018 annulled the Commission Decision C(2016) 969 final of 23 February 2016, concerning CF project 2005LT16CPA001 "Technical assistance for the Cohesion Fund management in the Republic of Lithuania".

The reason for this annulment was different interpretation by the Court of the Article 11(3) of Regulation (EC) No 16/2003 on VAT eligibility. The financial impact of this case was EUR 137,864.61.

B. Indirect Management - Instrument for Pre-Accession (IPA) and Urban Innovative Actions

In 2018, REGIO paid EUR 161.1 million in indirect management.

Instrument for Pre-Accession

IPA (for Turkey, the North Macedonia and Montenegro) are managed under indirect management, with the EU delegations carrying-out ex-ante controls on the tendering of contracts, launch of calls for proposals and the award of contracts and grants. This represents an important mitigating element in the overall assessment of the functioning of management and control systems in candidate countries. There are five[102] IPA programmes.

The control system is built on multiannual and multilevel control whereby one level of control may rely on the work of previous controls performed by other bodies.

Indicator	2018
Weighted average error rate on 2018 payments as reported by the audit authorities (based on 2017 error rates) – Estimate	0.01%

REGIO has assessed for all three countries (Montenegro, Turkey and North Macedonia) the NAO's statement of assurance, the system audit reports, the annual audit work plan, the annual audit opinion and the annual audit activity report, which were submitted at the end of 2018.

On this basis, REGIO can conclude that the management and control systems are functioning effectively and obtained reasonable assurance on the legality and regularity of underlying transactions for all five operational programmes.

Urban Innovative Actions

The Urban Innovative Actions (UIA) is an instrument allowing the Commission to directly support cities to test new solutions to address their future challenges. The initiative has a budget of around EUR 370 million for the 2014-2020 period and it is implemented via indirect management. The management of the instrument is delegated to the Hauts-de-France Region in France, which has set up a Secretariat to manage Urban Innovative Actions.

The assurance system for UIA relies on the existence and functioning of an effective and efficient Internal Control both at the level of the entrusted entity and at the level of the Commission.

The audit opinion for 2018 was submitted by 15 February 2019. No expenditure were declared by the Certifying Authority so far. The opinion provided by the external auditor

[102] Three programmes in Turkey, one in North Macedonia and one in Montenegro.

on the effective functioning of the management and control system is under assessment by REGIO auditors.

Four Transfers of Funds from Commission to the Entrusted Entity of EUR 260 million in total took place in 2015, 2016, 2017 and 2018 for the implementation of entrusted tasks for the period 2014-2020 in accordance with Article 4 of the Delegation agreement. Only technical assistance was used to pay for costs incurred by the entrusted entity. However, no expenditure was so far declared to the Commission.

Three calls for proposals on Urban Innovative Actions have been completed in 2015, 2016 and 2017 with a total budget of EUR 230 million leading to the selection of 55 projects from 17 Member States, which are at different stages of implementation. A fourth call for proposals was launched in October 2018 (EUR 80-100 million) and 170 eligible applications received are currently under evaluation. The fifth and last call is scheduled to be published in September 2019.

REGIO takes note that so far no expenditure was declared to the Commission. However, we have analysed the methodology used by the concerned bodies for the management verifications (first level controls) and for the audits. Several weaknesses have been identified which are assessed as a risk for the legality and regularity of any future expenditure to be declared to the Commission. The concerned bodies were informed about those weaknesses and requested to amend their methodology before any declaration of expenditure to the Commission.

C. Direct management

Indicator	2018
Ex-post review of payments	30 direct management payments

In 2018, the budget under direct management was used mainly for operational and administrative technical assistance for ERDF and the Cohesion Fund (EUR 112.68 million) and preparatory actions (EUR 7.7 million). Total of 46.72% of technical assistance expenditure was allocated in support of the implementation of the programmes, 31.95% of which was spent on JASPERS 2018 to the EIB, a technical assistance facility supporting the preparation of high quality major projects, while 21.33% was spent on awareness-raising actions.

The assurance model for direct management transactions is embedded in REGIO's internal control system: all transactions are processed according to the Financial Regulation and REGIO's financial circuits, which follow a partly decentralised model.

In addition, in 2018, five direct grants were object of ex-post verification. The selection was judgemental and based on the grants closed in 2017. All audits have been finalised by mid-February 2019. The "detected error (amount)" was EUR 3,238.51 representing an error rate of 0.16%[103]. On this basis, REGIO can conclude that it obtained reasonable assurance about the legality and regularity of the expenditure related to direct grants.

The exceptional high share of negotiated procedures in number and amount compared to the total share of procurement procedures within DG REGIO (20%) and compared to the Commission average (11.2%) is linked to the increase of the ceiling of 2 Framework Contracts in accordance with Article 134(e) of the rules of application of the Financial Regulation (Regulation (EU) N° 1268/2012). No other elements of the Framework Contract were subject to changes following these negotiated procedures. These Framework Contracts were initially awarded following an Open Procedure. The increase of the ceiling does not imply that the total amount will be automatically consumed by specific contracts.

[103] The "detected errors" have been calculated as per DG BUDG "Guidance on the calculation of error rates" , pp. 3-4, issued in November 2017 that has been included in the "2018 Instructions for Annual Activity Report".

In addition, delegations were received from DG EMPL (EUR 2.45 mln) to contribute to Communication activities, technical assistance platform for financial instruments and the Evaluation Helpdesk and DG MARE (EUR 0.46 mln) to contribute to the technical assistance platform for financial instruments and the development of common IT tools.

D. Budget implementation tasks entrusted to other services and entities.

This section reports and assesses the elements that support the assurance on the achievement of the internal control objectives as regards the results of the DG's supervisory controls on the budget implementation tasks carried out by other Commission services and entrusted entities distinct from the Commission.

As in previous years, REGIO has cross-sub-delegated the execution of a very limited part of the budget (EUR 2.00 million) to the Directors General of:

- Eurostat (EUR 1.74m) for sub national data collection and data acquisitions;
- DG Neighbourhood and Enlargement Negotiations (EUR 257.000) Technical and other admin assistance to MS (Continuation of TAIEX REGIO PEER 2 PEER scheme).

REGIO also had co-delegation arrangements with other DGs and services as per below:

- DG Communications (EUR 3.8m) as contribution to corporate communication activities;
- DG Agricultural and Rural Development (EUR 0.2m) as contribution towards the Brussel's based Facility for Broadband Competence Offices (BCO);
- DG Employment (EUR 0.9m) for support activities;
- DG ECFIN (EUR 0.1m) for production and broadcasting of videos;
- DG Translations (EUR 0.2m) for outsourced translations;
- DG DIGIT (EUR 2.0m) for delivery of IT projects, implementation of business processes in IT systems, IT help desk, maintenance and support to users;
- DG Interpretation (EUR 0.3m), for conferences and events ;
- Office of Publication (EUR 0.2m) for communication activities;
- Office for Infrastructures and Logistics in Brussels (EUR 74k), for communication activities (Print Shop).

A total of EUR 4.7m was disbursed on behalf of DG Regional and Urban Policy by DG Human Resources (EUR 0.2m) and the Paymasters Office (EUR 4.5m) for staff-related expenditure such as staff reinforcements via short-term contracts, contract agents, seconded national experts, committees and missions.

The heads of Commission services, the AODs are required to implement the appropriations subject to same rules, responsibilities and accountability arrangements. The cross-delegation agreement requires the AOD of these DGs to report on the use of these appropriations.

None of these reports communicate events, control results or issues, which could have a material impact on assurance. They provided reasonable assurance that the resources assigned to the activities described 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.

Fraud prevention and detection

Year 2018 has witnessed increasing speed in the implementation of 2014-2020 programmes and therefore it was the right time to take stock of Member States' compliance with the new regulatory requirements concerning anti-fraud.

An important external stock taking study outsourced by REGIO, "**Preventing fraud and corruption in the European Structural and Investment Funds – taking stock of practices in the EU Member States**" was completed.

This study was based on a sample of 50 programmes from 28 Member States. It served to analyse measures managing authorities have established in order to prevent and detect fraud and comply with their obligations to implement anti-fraud measures in accordance with article 125(4)c) CPR. The study results were first discussed with Member States at **a workshop** in September 2018. Once finalised, its results were published in November and presented to Audit and to Managing authorities at their respective December 2018 meetings.

Amongst the study's conclusions the following should be noted:

- Anti-fraud and anti-corruption efforts are more formalised and systematic in the 2014-2020 programming period. Most authorities are using the Commission's fraud risk assessment template. The study also showed that a more inclusive fraud risk assessment process leads to a better mitigation of fraud risks.
- The mitigating measures implemented are generally proportionate to the self-assessed risks. However, the implementation of the principle of proportionality implementation was analysed as lowest for collusive bidding and double funding, and some authorities may underestimate the risks during the self-assessment.

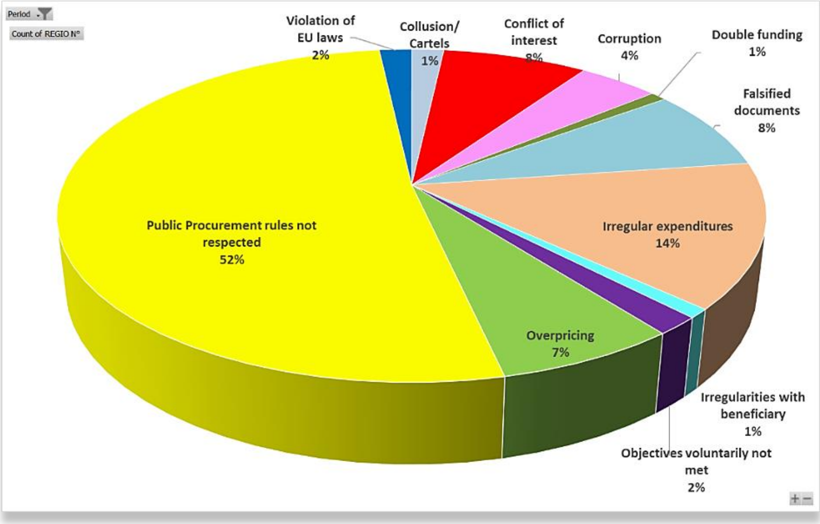
The study was accompanied by a **Compendium of featured practices**, which can inspire Member States and for instance lead to peer-to-peer exchanges.

To further increase the effective uptake by managing authorities of relevant anti-fraud IT data mining tools, the Commission continued its consistent efforts to promote the use of **Arachne** as a support to fraud prevention and detection efforts in management verifications by Member States. Arachne is a voluntary preventive risk-scoring and detection tool developed by the Commission and provided to Member States cost- free. By the end of 2018, 21 Member States had used Arachne (16 Member States have integrated Arachne in their management verification processes for at least 1 Operational Programme, 5 were still at the stage of evaluating the tool), 4 Member States were still reflecting about it. Only 3 Member States have currently decided not to use the tool. By the end of 2018, 40 % of all Cohesion OPs (174) had their data uploaded in Arachne by the Member States, and updated on a regular basis.

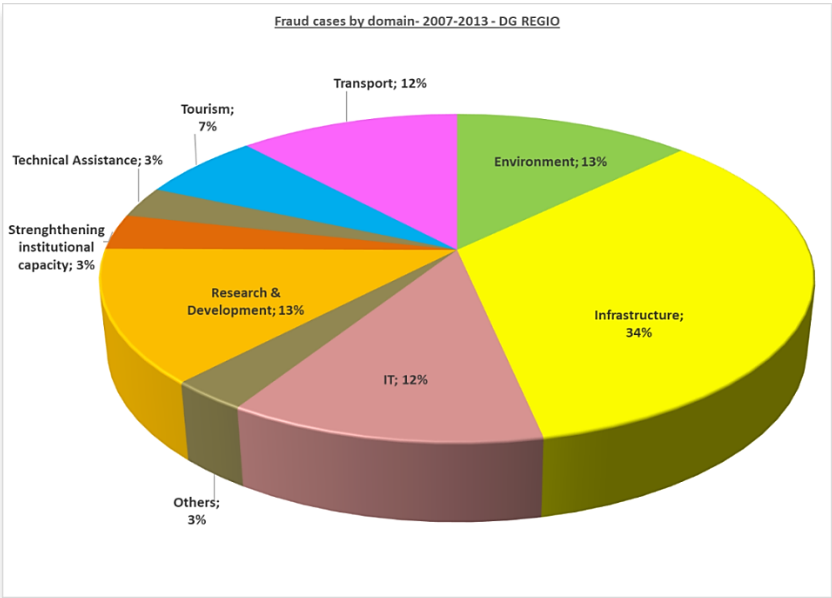
32 trainings and presentations for more than 590 users have been provided during the year in different Member States (and for colleagues in the Commission services), to promote Arachne and make users familiar with the tool's new functionalities. In December 2018, a Memorandum of understanding was signed between DG Employment, Social Affairs and Inclusion, DG Regional and Urban Policy and DG Agriculture and Rural Development, with the aim of expanding the scope of Arachne to the common agricultural policy, to increase the database and enhance its capabilities. By the end of 2018 a web-based interface of Arachne has been installed which is currently undergoing further testing. This should provide a more accessible, stable and responsive environment for the users.

In the perspective of **the update of the Commission's Anti-Fraud Strategy** ("CAFS"), REGIO contributed to the evaluation of the CAFS and started a reflection on the revision of the shared management Joint Anti-Fraud Strategy (JAFS). As a first step of the revision of the JAFS, REGIO started an update fraud risk-assessment. This included data analysis of OLAF reports to identify which are the most affected areas under Cohesion policy.

The figure below describes the occurrence of fraud cases according to the error typology established jointly by the Commission services with the Member States' audit authorities (based on an analysis of 2007-2013 OLAF cases):

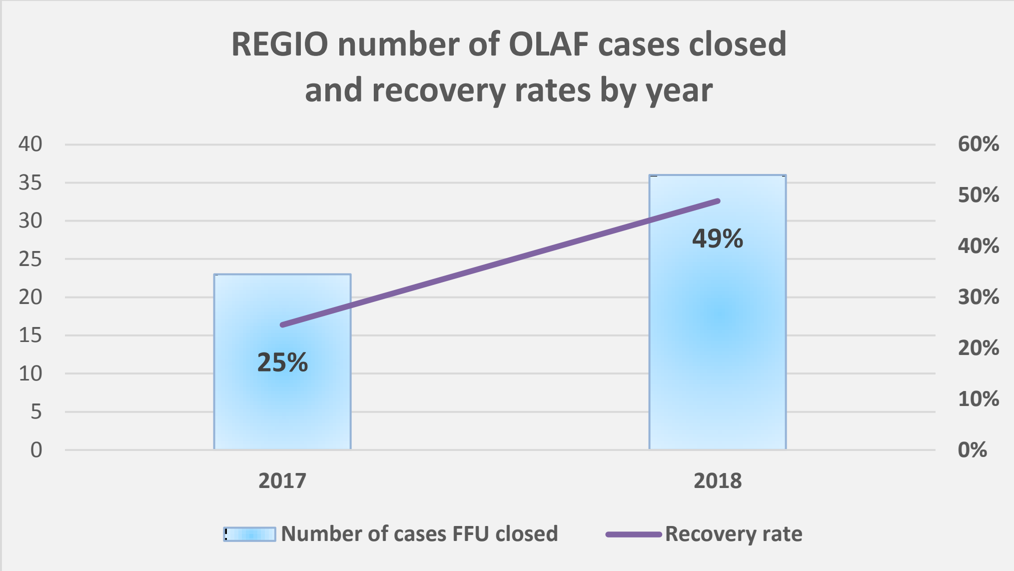


Concerning the most affected domains under Cohesion, it appears that Infrastructure scores highest with 34% of cases. Further domains include R&D, Environment (13% each), Transport and IT (12% each).



This data analysis was further deepened for public procurement, as this is the channel through which most Cohesion money is spent. The available data was divided by tendering phase: pre-tendering, during the tender and post-tendering phase.

REGIO has monitored the implementation rates for the OLAF financial recommendations in follow up to investigation cases over the years. The amounts corrected by REGIO (or withdrawn from the EU budget) as a **follow-up to OLAF's investigations and recommendations** have substantially increased over the past two years.



This reflects a better cooperation with OLAF and a thorough follow-up procedure of OLAF reports in REGIO in close consultation with managing authorities. As a consequence revised internal guidelines were issued by OLAF for the drafting of financial recommendations by its fraud investigators. The close cooperation with OLAF has also allowed a faster closure of 2007-2013 programmes, for which expenditure affected by fraud has been systematically deducted by the Commission from its closure payments to the Member States.

Administrative capacity building and transparency in public procurement procedures promote transparency and contribute to fight against corruption.

In 2018, the issue of **single bidding** has attracted close attention and been a subject for further study analysis. Against the background of requests from different stakeholders, including from the European Parliament CONT committee, REGIO committed to analyse recent trends from the point of view of Cohesion policy. In August 2018 REGIO launched a "Study on single bidding and non-competitive tendering procedures in EU co-funded projects". The study was finalised in February 2019. It draws a number of horizontal conclusions such as the need to discourage excessive use of non-open procedures and very short advertisement deadlines. Strengthening public sector integrity seems also a factor that will help lowering single bidding and the associated risks. The study also concludes that there is a need and rationale for a robust system of public procurement data collection and publication.

In the implementation of the **updated Public Procurement Action Plan** designed by REGIO, EMPL and GROW to improve compliance of public procurement procedures in Cohesion policy, particular emphasis was given to actions helping Member States to further professionalise procurers, in line with the public procurement package adopted by the Commission in October 2017. The following actions are worth highlighting:

- REGIO funded assignment "Public Procurement good practice sharing across the EU for improving the delivery of European Structural and Investment Funds" were finalised in 2018. The assignments main deliverables: a public procurement good practice e-library and the feasibility studies on ten of the most complex good practices were presented to the Member States' practitioners at the final workshop in Brussels in June 2018.
- The updated version of "Public Procurement Guidance for Practitioners on the avoidance of common errors in ESI Funded projects" has been finalised and was published early 2018. The new version of the Guidance incorporates changes and new elements stemming from the new EU Public Procurement Directives.
- In 2018, the implementation of the project "Integrity Pacts – Civil Control Mechanism for Safeguarding EU Funds" continued (in co-operation with Transparency International).

The 17 Integrity Pacts are being implemented and showing some first important results, like spotting and avoiding potential regularities, helping contracting authorities in handling public contracts and even identifying and signalling potentially harmful practices. The lessons learned so far and future scale-up of the role of civil society not only in monitoring but also in designing and implementing projects was discussed on 28 November 2018.

- REGIO has organised, together with European Institute of Public Administration (EIPA) and GROW, 2-day training modules for Member State experts: "*Key changes in public procurement directives & strategic procurement (innovative, green & socially responsible procurement)*". The training is targeted at participants from ERDF, Cohesion Fund and ESF managing authorities/ intermediate bodies. In 2018, 3 training sessions took place and received a very positive feedback.
- Eight TAIEX-REGIO PEER-2-PEER exchanges were organised on the issues of fraud prevention, integrity, controls and audit.

REGIO has also given important contribution to two recent performance audits of the Court of Auditors devoted to fraud prevention and detection. The first Special Report is about internal governance in the Commission on the topic: "**Fighting fraud in the EU**" and was published in January 2019[104]. The draft Special Report on "**Fraud in Cohesion**" focussing more specifically on Member States involvement in the fight against fraud, is currently at its final stage. This second ECA anti-fraud audit covers the provisions under 2014-2020 CPR requiring managing authorities to have "proportionate and effective anti-fraud measures in place". It analyses the Member States' performance in light of the 2014-2020 regulatory changes.

DG Regional and Urban Policy together with DG Budget, is also involved in the implementation of the **new European legal framework on prevention and avoidance of conflicts of interest in shared management**. The provisions of the Financial Regulation which have been updated in August 2018, include in their scope financial actors in national authorities at any level, involved in EU-budget implementation and acts preparatory thereto. This encompassing European concept of conflict of interests has triggered further Commission initiatives to monitor and scrutinise its correct implementation by Member States authorities. REGIO will continue to support the initiatives for a comprehensive implementation of relevant obligations in the management and control systems of the Member States under Cohesion together with DG Budget and OLAF, considering that a conflict of interest situation may reflect a fraud risk.

Substantial work has been done implementing strengthened rules on the avoidance of conflicts of interest in shared management (Article 61 of the Financial Regulation 2018, in force since 2 August 2018). Member States' authorities responsible for managing and auditing EU funds have received guidance during meetings held in November and December 2018. All Member States have been contacted to raise awareness on the new provisions and to gather information on the procedures and controls in place. Member States have been asked about the measures they have taken to ensure respect of the revised rules. In continuation of these activities, a conference on 10 April 2019 will bring together Member States authorities and the European Commission to discuss measures taken to deal with conflicts of interest, and to exchange best practices. The Commission is also following up specific allegations of conflicts of interest.

Finally, REGIO provided increased efforts on **anti-fraud awareness raising trainings** to its staff. Moreover, a **new e-learning module** was developed to train EU staff in anti-fraud matters. This training is part of the welcome package for all newcomers to the DG, but any interested colleague can register.

[104] Link: https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=48858

The tool will contribute to a better understanding of reasons behind fraudulent conduct, the internal processes to be followed when OLAF transmits a final report and what to do if fraud is suspected by managers. It covers the Joint Anti-Fraud Strategy as well and has links to useful documentation.

Contribution to audit capacity building and preventive actions

Audit work also includes advisory procedures (including guidance) and capacity building actions at the level of audit authorities, but also managing and certifying authorities, which contribute to preventing and correcting errors and therefore contribute to the assurance process.

In 2018, REGIO has continued to give support to Member States:

- The various guidance notes on the assurance package have been updated to clarify the questions raised by the audit authorities during the first two exercises of assurance packages. In addition, two Q&A documents have been distributed to the national authorities
- A working group comprising the Commission and some audit authorities has been set up, and met for the first time in November 2018, to discuss the first draft of the methodology for auditing the financial instruments which was presented at the Homologues Group meeting in September 2018.
- The discussions on the updated guidance on financial corrections in the case of public procurement irregularities have been finalised and the draft documents have been presented at the technical meeting in December 2018 to the audit authorities and at the EGESIF meetings in December 2018 and February 2019.
- The full set of Commission's checklists for the on-the-spot audit work was shared with the audit authorities at the technical meeting in December 2018.

During 2018, REGIO auditors participated in different seminars aiming to strengthen the capacity of Member States authorities to deal with the provisions of the programming period 2014-2020. In particular, under the organisation of EIPA, seminars on management and control rules, public procurement and SCOs took place.

In addition, the Commission hosted Annual Coordination Meetings with each Member State's audit authorities covering the monitoring of / progress on audit strategy with a focus on the state of play of 2014-2020 audit strategies from both Commission and audit authorities perspective.

Two technical meetings with all audit authorities took place in 2018: in June and December. These dedicated meetings provided the opportunity to compare the Commission and audit authorities' audit methodologies and points of view. In March 2018 the Commission organised a specific Technical Meeting to present the Commission proposals for the legal basis of the period 2021-2027.

The Homologues Group meeting as most important annual event between the audit authorities and Commission auditors took place in Sofia in September 2018. The meeting was mainly dedicated to the Commission's proposal for CPR 2021-2027 and its impact to the work of the audit authorities. In relation to the programming period 2014-2020, the meeting also covered workshops on the audit methodologies for financial instruments and the need for auditors to support definition of simplified cost options (SCOs) and to provide legal security for beneficiaries and administration to favour the use of such SCOs.

REGIO participated as well in the annual meeting of the network of certifying authorities held in Romania in October 2018. The main topic in the agenda was the lesson learnt from assessment of the accounts received in February 2018 and the clarifications introduced in the update guidance notes on management and control system issued end 2018[105].

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[105] All updated guidance is available in the guidance section on InfoREGIO, part on management and control: https://ec.europa.eu/regional_policy/en/information/legislation/guidance/

Safeguarding of assets and information, reliability of reporting

Safeguarding of assets and information

REGIO manages a number of intangible assets (EUR 13.9 million – see Annex 3, Table 4).

The intangibles assets for the DG are the IT applications that have been developed and continue to be developed:

> **SFC** which acts as an interface between Member States and the Commission for the management of structural funds; and
>
> **WAVE** which is 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 our IT applications and to verify if the applications entered the Production phase. Once in production a linear depreciation over 10 years is applied.

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

Reliability of reporting

Shared management: Audits on the reliability of performance data indicators

26 audits on performance data
Material deficiencies detected for 8 programmes

In view of the performance reserve allocation in 2019, REGIO carried out a total of 26 risk-based audits in 14 Member States to assess the reliability of performance data reported by Member States. In eight cases material deficiencies were detected. Recommendations have been made to improve reporting and the IT systems whenever necessary, and to correct performance data reported so far. If the deficiencies persist REGIO makes use of the legal possibility to suspend interim payments (see page 78). The lessons learned from these audits were shared with Member States authorities and stakeholders to raise awareness of risks to performance data reliability and improve reporting more widely and not only for the audited systems. In addition, with the recent modification of the Commission Delegated Regulation 480/2014, audit authorities are from now on explicitly obliged to include the aspect of performance data reliability in their audits of operations, in addition to their system audits. These elements contribute to increased assurance on the quality and reliability of performance data reported to the Commission.

Direct management

An audit on the validation of the local systems was carried out in 2016. 2 recommendations were issued on the documentation of the consistency checks of the IT systems and the need to update the manual on the reporting on financial corrections. However, no weaknesses in the design or implementation of the local systems which would indicate that they do not meet the validation criteria laid down by the Accounting Officer of the Commission were identified. No comments were issued by the Court of Auditors related to the expenditure under direct management in the context of the AAR or the annual Commission accounts.

2.1.1.2 Efficiency

Based on an assessment of the most relevant key indicators and control results, REGIO has assessed the efficiency of the control system. This section outlines the indicators used to monitor the efficiency of the control systems for each of the relevant management modes.

As illustrated in the introduction of part 2, REGIO manages funds under several management modes:

Management mode	% Payments
Shared management	99.39%
Indirect management	0.41%
Direct management	0.20%

A. Shared Management

The table below shows the results registered in 2018 in relation to the indicators used to assess the efficiency of the controls carried out during the reporting year.

Indicator	2018
% of Commission payments on time	98.9%
Time to pay in days	49.2
Time to lift interruption of payments (impacted by the degree of complexity of the issues and of the time required by Member States to react) (maximum interruption period: six months, in line with art. 83 Common Provision Regulation)	108
% interruption of payments notified to MS within 2 months	100%
Payment claims submitted in 2018 and interrupted in 2018	2 interruptions of payments in 2018

In terms of efficiency of payments, satisfactory results were achieved in 2018 as regards the time-to-pay, with close to **99%** of payments made within the legal deadlines for the shared management mode.

The available information in relation to the efficiency of the controls linked to the interruptions/suspensions of payments concerns only interruption procedures initiated in 2018. While based on a very limited sample, it can be concluded that the related procedures were implemented smoothly and within the regulatory deadline.

B. Indirect management

The table below shows the results registered in 2018 in relation to the indicators used to assess the efficiency of the controls carried out during the reporting year.

Indicator	2018
% of Commission payments on time (vs Financial Regulation Target) UIA and IPA	100% UIA 99.6% IPA
Budget execution	100%

C. Direct management

The table below shows the results registered in 2018 in relation to the indicators used to assess the efficiency of the controls carried out during the reporting year.

Indicator	2018
% of Commission payments on time (vs Financial Regulation Target)	98.3%
Budget execution (payment appropriations)	100%

All the relevant indicators show very positive results as regards the efficiency of controls surrounding the implementation of direct management budget lines. In particular, the timeliness of payments has increased significantly compared to 2017 (from 94.3% to **98.3%**), where the switch to a new set-up for delivering technical assistance had slightly affected efficiency of operations during the transition phase. The latest results also confirm the efficiency gains provided by the dedicated TA cell in charge of tendering and contracting tasks for all operational units and of providing support for the effective implementation of TA actions.

2.1.1.3 Economy (cost-effectiveness of controls)

Based on an assessment of the most relevant key indicators and control results, REGIO has assessed the cost-effectiveness of controls for each of the relevant management modes.

A. Shared Management

REGIO quantifies the costs of the resources and inputs required for carrying out the controls described in Annex 5 and compares them to the volume of payments registered in the reference year. The DG also identifies and assesses, in so far as possible, the benefits resulting from the controls, which are mostly qualitative and non-quantifiable. See Annex 10 F for more details of cost of controls.

The annual overall Commission cost is currently estimated at **0.19%** of total payments of the year, which is lower than the result reported in 2017 (0.28%). This, however, does not reflect any significant change in the cost structure, as the number of staff involved in control activities (and the related cost) has remained relatively stable compared to 2017. The difference is largely due to a significantly higher volume of payments made in 2018 (around 48% of increase in payments with respect to 2017), reflecting the spike in the financial implementation of 2014-2020 programmes registered over the year. The costs considered relate mainly to staff in the geographical desks (which carries out controls throughout the different design, implementation and monitoring phases) and staff involved in audit activities (notably assessment of management and control systems in Member States and including the Commission ex-post audits). The remaining direct Commission costs relate to staff acting as service providers to the geographical desks (in the competences centres and in the units responsible for evaluation activities and financial instruments). In addition, a share of the staff involved in the financial circuits, as well as staff responsible for legal affairs and IT systems is also included in the calculation, following a proportion estimated by the concerned units. The cost of IT tools (development/maintenance) supporting 2018 control activities is also included in the calculation.

It is however to be noted that most of the staff costs included in the calculation correspond to supervisory and control activities carried out by the geographical and the audit units, respectively. The main cost drivers for these activities are the specific risks and challenges posed by the various operational programmes, which dictate the intensity of the control efforts required to respond to them. The optimization of available resources is ensured notably by a differentiated approach for monitoring and supervisory activities of the implementing units and by a risk-based approach for audit activities.

In relation to the cost of controls in Member States, a study "**New assessment of ESIF administrative costs and burden**"[106], finalized in July 2018, assessed the cost at Member State level for the 2014-2020 period.

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

This study concluded that **2.2%** of the total eligible costs for ERDF is spent on administrative tasks by programme authorities, compared to an overall figure of 4% for ESIF in general: in addition, ERDF and CF have the **lowest** administrative costs in terms of euros spent in managing and controlling per million Euros of eligible funding.

The main benefits resulting from the controls operated throughout the various stages include notably (but not exclusively):

1. An increased level of assurance, resulting from a) improvements in the management and control systems implemented at the request of REGIO, b) blocking of payment requests associated with unreliable systems and c) DG Regional and Urban Policy's adjustments made on the error rates reported by MS.
2. The negotiation procedures on the content of the Partnership Agreements and Operational Programmes. These were thoroughly analysed by the Commission to ensure a) the respect of requirements laid down in the Cohesion policy Regulation (CPR) and b) the adequate reflection of policy objectives and priorities, notably with the position papers and the follow-up to the relevant Country Specific Recommendations (CSRs). This work is of utmost importance to get the programming right from the start and focus the ESI Funds on the challenges MS and regions are facing as identified in the European Semester. While most of this work was completed in 2015, negotiations with Member States continue also in the following years, following Member States' requests for OP modifications. Programming, management and monitoring roles carried out by the geographical units are key for all Member States if the ESI Funds are to deliver on the Europe 2020 Strategy. The deterrent effects of ex-post controls also bring unquantifiable yet undeniable benefits, in addition to the financial corrections.

REGIO considers that the necessity of these controls is undeniable, as the totality of the appropriations would be at risk in case they were not in place.

B. Indirect management

The estimated annual overall Commission costs amount to **0.34%** of total payments of the year managed under indirect management mode. This represents a decrease compared to the result reported in 2017 (0.73%).

The cost relates to staff involved in audit activities and part of the geographical staff involved in control and implementation activities for IPA (both in REGIO concerned geographical unit and in the delegations). The FTEs corresponding to geographical staff should not be counted in full, as the concerned staff contributes to both control and implementation activities. Their role being primarily to deliver actions in support of political objectives, a differentiation between implementation and control tasks is difficult to establish. In view of this uncertainty, and in the absence of a cost-effective way to define which elements of their tasks are assessed as part of the control chain (as opposed to ensure the adequate implementation of policy objectives), REGIO estimated their involvement in the financial workflow at approximately 33% for the concerned staff in REGIO geographical unit and 75% for delegation staff.

The benefits of controls at the programming stage cannot be easily quantified. The unquantifiable benefits mainly relate to the relevance and effective implementation of activities in line with the DG's policy objectives. The deterrent effects of monitoring and controls also bring unquantifiable benefits. They also contribute greatly to the improvement of the administrative capacity of the concerned countries. The quantifiable benefits of controls at the implementation and monitoring stages are known in nature but are difficult to quantify in a cost-effective way. By ensuring compliance with the Financial Rules and the respect of principles for grants and procurement, REGIO makes sure that the selected proposals or offers bring the best value for money, i.e. fulfilling performance needs and optimising the use of EU funds.

In view of the crucial activities carried out in this respect, these can be considered as incompressible costs. Thus, no room for efficiency gains has been identified so far in this area.

C. Direct management

The estimated annual overall Commission costs amount to **2.68%** of total payments of the year managed under direct management mode. This represents an improvement compared to the 3.2% registered in 2017. Part of this is due to a notable decrease of the cost of the surrounding controls (-11% compared to 2017), thanks to the efficiency gains obtained through the new set up of the technical assistance operations introduced in the second half of 2017).

The cost relates to the staff of the newly established TA cell involved in financial advice, initiation, verification tasks and ex-post controls as well as a proportion of the operational staff involved in public procurement and contract management activities. The quantification of human resources involved in such activities is based on an estimation of FTEs needed for implementing the DG's technical assistance actions. Their role being primarily to deliver actions in support of political objectives, a differentiation between implementation and control tasks is difficult to establish. In view of this uncertainty, and in the absence of a cost-effective way to define which elements of their tasks are assessed as part of the control chain (as opposed to ensure the adequate implementation of policy objectives), REGIO estimated their involvement in the financial workflow at approximately 25% of their time.

The benefits of controls at the programming stage cannot be quantified. The unquantifiable benefits mainly relate to the relevance and effective implementation of activities in line with the DG's policy objectives. The quantifiable benefits of controls at the implementation and monitoring stages are known in nature but are difficult to quantify in a cost-effective way. By ensuring compliance with the Financial Rules and the respect of principles for grants and procurement, REGIO makes sure that the selected proposals or offers bring the best value for money, i.e. fulfilling performance needs and optimising the use of EU funds. The deterrent effects of monitoring and controls also bring unquantifiable benefits.

D. Initiatives to improve economy and efficiency of financial and non-financial activities

According to the Financial Regulation (Article 30), the principle of economy requires that the resources used by the Institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved. The respect of these principles is continuously pursued through the implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner (e.g. the different workflows contribute to the efficient cooperation between staff, units, etc. and according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

However, under the shared management mode the Commission cooperates with Member States' administrations, which are in charge of the operational implementation. The Commission is also assessing and implementing performance-related conclusions and recommendations from the European Court of Auditors[107]. Thus, efficient and effective implementation of actions supported by the ERDF and CF largely depends on good governance and partnership among all the relevant territorial and socio-economic partners. In particular, crucial processes such as project selection remain largely in the hands of programme authorities.

REGIO has however set up a control environment and put in place procedures aimed at inducing authorities in charge of the implementation to comply with the principles of economy (minimizing the cost of inputs), efficiency (relation between resources and results) and effectiveness (achievement of objectives). In addition to that, specific initiatives aimed at improving the DG's internal effectiveness and efficiency have been launched and implemented in 2018.

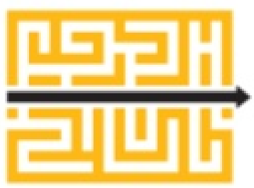
[107] See section 2.1.1.

Example 1: Ensuring an efficient delivery mechanism for post-2020 Cohesion policy through a simplified framework included in the Commission legislative proposal

Building on the extensive preparation work carried out in the past few years, DG Regional and Urban Policy submitted its proposal for the post-2020 regulatory framework in May 2018.

In doing that, the DG designed a much simplified framework, maximising all possible complementarities with other EU funding instruments. Particular attention was also devoted to the "implementability" of the various components of the proposed framework.

Altogether, REGIO proposed an ambitious package of changes geared towards increased flexibility and simplification in the management, monitoring and use of the Funds. This should greatly streamline the work of programme authorities and beneficiaries, as well as the supervisory activities of the Commission, further increasing the focus on achieving results and ultimately contributing to designing a more efficient delivery mechanism for the Policy post-2020 while maintaining the current robust assurance model.



To this end, no less than **80 simplification measures** have been included in the Commission proposal. The main novelties expected to increase the efficiency of the funds are the following:

- The Legal framework: a shorter, unified legal framework providing certainty from the start;
- The Policy framework: a streamlined framework for easier programming;
- Enabling conditions: fewer, strategic requirements to increase policy effectiveness, with much simpler monitoring and assessment arrangements;
- A faster and more strategic programming, which should allow a quick and simple start to implementation;
- More efficient territorial tools, with a simpler design tailored to local situations;
- Simpler implementation, with no specific procedure for major projects, for faster and simpler delivery of results;
- Simpler and proportionate management, control and audit systems with high reliance on national systems in case of proven track records, notably with the elimination of the designation procedure;
- Financial instruments, with simpler and less detailed provisions;
- Monitoring and evaluation: more frequent but lighter reporting, streamlined provisions;
- Interreg: a single integrated regulatory framework tailored to the specific cooperation context.

Overall, the new legislative package strikes a delicate balance between continuity and the need for reform and far-reaching simplification to address concerns of beneficiaries and authorities. This will result notably in more possibilities to use simplified cost options, payments not linked to costs, no complexity for revenue generating projects. The new Cohesion policy is less about collecting bills and procedures and more about delivering better and faster results.

Most notably, performance-orientation is taken one step further with the proposal of a mid-term review of all programmes in 2024 to plan allocation for 2026 and 2027 based on their performance, but also on the challenges identified within the European Semester process and the socio-economic situation. This will bring the needed flexibility not to carve in stone support for the next ten years, while still allowing for stable investment framework.

While these measures constitute an ambitious package of changes, which can have a real impact in reducing administrative burden, removing bottlenecks and putting the focus on achieving results, it is not yet possible to assess the impact of their actual simplification effects. These will depend on the outcome of the negotiations and on the decisions of the co-legislators. The Commission is deploying intensive efforts to support this process so that we have a new legislative framework adopted as soon as possible and projects can start being implemented from the first day of the new programming period.

Example 2: Actions aiming at increasing the efficiency of internal processes

In order to continuously explore ways of enhancing the effectiveness and efficiency of its internal processes, DG Regional and Urban Policy has put in place a permanent Business Process Team (BPT). It is focused on strengthening the alignment between the mission of REGIO, its business processes and the underlying supporting IT tools, in particular in the on-going context of simplification and reduced human resources. Its mandate is to define and review business processes in REGIO and ensure simplification, coherence and completeness.

In 2018, specific efforts continued to be devoted to the review and reengineering of internal processes. The selection of procedures were based on possible efficiency gains, frequency of the process, complexity, risks and other metrics. Among the procedures reviewed and streamlined are:

- Further improvements to the OP amendment process;
- Assessment of Annual Implementation Reports submitted by the Member States;
- Annual pre-financing: simplification of the related workflow and batch authorisation;
- Revision of deadlines management;
- Revision of ISC sub-process and corresponding adaptation of the existing procedures;
- Integration between Ares and Wave (REGIO's internal workflow system supporting the management of 2014-2020 programmes);
- adjustments to the 2014-2020 annual closure of accounts procedure, building on the experience gained in the 2018 exercise;
- IPA: improvements to procedures and documentation;

The identification of procedures selected for review was done taking into account the feedback and suggestions provided by client units. This ensured the focus of streamlining efforts on the areas with the highest potential for rationalisation.

Of the reviews carried out in 2018 two in particular produced simplified versions of the respective procedures:

1. Annual Pre-financing Review

- As a result of simplifying the REGIO financial circuit, the verifying agent task was removed. One annual pre-financing process is registered for each programme, leading to a total of 295 processes in 2018 - with the removal of the Verifying Agent task, the optimised process gained the time normally allotted to 295 such tasks.
- The batch mechanism was implemented this year. It allows the financial officer to group the payments for a given country, facilitating the

Authorizing Officer's authorization task. The change in Wave is significant. Instead of one process per CCI we have one process per country, together with one process for IPA-CBC and two processes for ETC: one for all ETC programmes managed in Directorate D (in D1, D2 and D4), and one for the two programmes managed by DDG-03 (ESPON and URBACT) as they should be authorized by the same authorizing officer. The batch authorization leads to a decrease in the total number of processes to authorise: 31 annual pre-financing processes/year instead of 295.

2. Operational Programme Amendment

Since June 2018, a revised version of the OP Amendment process was introduced in Wave, aiming at further streamlining and increasing flexibility for REGIO users. The revised process covered the recommendations of the IAS OPA report[108]. The changes included:

- A simplification of the consultations scenarios for "straightforward" cases (where all necessary upstream work was conducted, and the OPA was pre-assessed before official submission of the amendment via SFC). These cases now go through only one set of consultations on the OP Decision. 33* OPAs have used this fast-track scenario, leading to a net time gain in processing the OPA after official submission.
- Streamlining the inter-service consultation launch by removing the need to have a registered Cover Note in Ares for approving the launch of an ISC, and adding a new task for the DO/secretaries in Wave with the possibility to choose (based on unit level decision) whether to create the ISC through Wave or directly in Decide. More than 300* consultations were launched via this revised procedure. Moreover, adding the flexibility to launch the inter-service consultations in Wave or outside Wave decreased the need for technical/manual interventions in the Wave system, and consequently decreased the corresponding workload.
- Further optimising the return for modification, by adding the possibility to return for technical/outstanding observations in the first Wave task. By mid-March 2019, the change already benefitted 10 Operational Programmes.

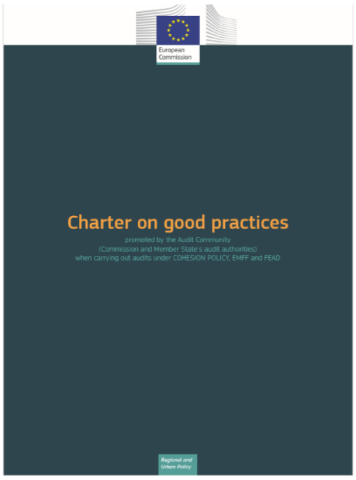
Example 3: Charter on good practices promoted by the Audit Community (Commission and Member State's audit authorities) when carrying out audits under Cohesion policy, EMFF and FEAD

In order to address the crosscutting audit recommendations issued by the High Level Group on simplification for beneficiaries of ESIF Funds, the 2017 Homologues Group meeting with audit authorities was dedicated to find ways to address this clear requests and expectations from stakeholder to simplify the delivery and control mechanisms.

The Cohesion policy, EMFF and FEAD Audit Community (Commission audit services and programmes' audit authorities) has analysed the recommendations of the High Level Group. While auditors are also facing difficulties due to the complexity of rules, procedures and management and control systems, they have to provide assurance against the background of constantly evolving or emerging risks. They are convinced that complexity contributes to the risk of errors. At the same time, a certain level of complexity is inherent to the Funds due to the range of investments and intervention areas covered. Auditors are convinced they can contribute to the shared objectives of

[108] See Ares(2017)4894510

simpler implementation and constructive, fair and transparent relations between programme authorities and beneficiaries.



For this purpose, the Audit Community committed itself, without prejudice to the independence of its members, to contribute as much as it is under its powers to simplification, improved legal clarity and reduction of the control burden to what is necessary to ensure the fulfilment of the respective roles and requirements. Auditors are also convinced that there is always room to further improve communication between programme authorities and this should remain a constant and shared objective. This can only contribute to mutual understanding, predictability and legal certainty for all. This can contribute in its turn to the reduction of unnecessarily complex rules and procedures at national level designed to avoid errors (fear of audits) but ultimately generating additional administrative burden, bureaucracy and further errors (gold plating).

At the same time, the Audit Community is striving for high quality audits, in line with relevant applicable audit standards and applicable rules and regulations. It notes that this requires continuous professional development of auditors, close supervision including for outsourced tasks, fair contradictory procedures with auditees and timely update of audit procedures and tools. The members of the Audit Community take account of and adhere to internationally accepted audit standards in their work, as required by the regulation and their institutional setup.

Therefore, the members of the Cohesion policy, EMFF and FEAD Audit Community, while taking account of their respective institutional set-up, available work force and proportionality principle and without prejudice to their professional independence, seek to constantly promote good practices in their audit engagements and relations with auditees.

These commitments were summarised in a Charter distributed among Commission auditors and Member State's audit authorities in January 2018. The Charter promotes 33 practices aimed to ensure:

- a clear and timely planning of audit work;
- a professional audit fieldwork;
- a high level reporting as it is essential to communicate the outcomes of and audit;
- a clear, accurate, objective and complete communication;

2.1.1.4 Conclusion on the cost-effectiveness of controls

Based on an assessment of the most relevant key indicators and control results, REGIO has assessed the effectiveness, efficiency and economy of the control system for each of the management modes reviewed, and reached a **positive conclusion on the cost-effectiveness** of related controls.

As regards **shared management**, REGIO's control strategy has proved to be effective in fulfilling the intended control objectives, as demonstrated by the downward evolution of the overall error rate and residual risk over the last few years (exploiting to the best effect the strengthened and effective assurance architecture of the 2014-2020 ERDF and CF programmes). As regards efficiency, the good performance is demonstrated notably by the fast processing of payments. This is achieved while ensuring a relatively low cost of controls, which are only a minimal fraction of the payments processed.

REGIO is also constantly looking to design, implement and periodically review its control activities so as to ensure an efficient allocation and use of the assigned resources. This is notably reflected in the following:

- Risk-based approach for audit activities – the efficiency of the DG's audit activities is ensured by the continuous focus on riskier areas, to which resources are primarily allocated and the use of single auditing with audit authorities in the Member States to avoid audit duplication and unnecessary burden on administrations and beneficiaries, in a spirit of constant and open co-operation to ensure improved predictability and legal certainty for all, reduction of the control burden to what is necessary to ensure the fulfilment of the respective roles and requirements and improved communication and mutual understanding between programme authorities;
- Differentiated approach for monitoring and supervisory activities of the implementing units - a differentiation exercise was launched in 2015, which allowed adapting the monitoring and supervisory efforts of implementing units to the specific needs of each programme/Member State. This differentiated approach has continued to be applied throughout 2018, thus contributing to the optimisation of control efficiency;
- Revision of the control system in line with the simplification measures introduced with the 2014-2020 programming period - actions are being taken and procedures are being put in place in order to enable the effectiveness of the control related simplification measures.

The focus and adequacy of resource allocation across various control functions, as well as within each unit typology, is notably assessed on the occasion of the annual workforce planning exercises, involving all the units and building on the data reported by them as regards their FTE allocations.

In view of all that, REGIO considers that an **adequate balance has been achieved between low error rates, fast payments and low costs of controls**.

A low error rate is also noted as regards **indirect management**, which confirms the effectiveness of REGIO's control strategy for the corresponding activities.

All the available indicators tracking the efficiency (time-to-pay) and the cost of the related controls also point to a cost-effective control architecture, taking into account the high inherent risk of irregularities notably for IPA operations, requiring extensive ex-ante controls and an intensive supervision of IPA operations by the delegation staff (higher than the one noted for shared management operations). In view of that, REGIO considers that the related **controls are adequate and cost-effective**.

A similar conclusion can also be reached for **direct management** operations. In addition to the swift processing of payments, no errors or notable deficiencies have resulted from the ex-post controls on the related transactions. The higher cost of controls referred to the payments processed in 2018 compared to other management modes can be justified by the higher inherent risk and the potential reputational consequences for the Commission of any significant irregularity affecting direct management operations.

In view of that, and considering the recent improvements as regards efficiency of the related controls, resulting from the introduction of a dedicated TA Cell, REGIO considers that the related **controls are adequate and cost-effective**.

2.1.2 Audit observations and recommendations

This section reports and assesses observations, opinions and conclusions made by auditors in their reports as well as the opinion of the Internal Auditor on the state of control, which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to audit recommendations.

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

A. European Court of Auditors

Annual report for 2017

The European Court of Auditors (the Court) published its Annual Report for the budgetary year 2017 beginning of October 2018, based on its 2017 Statement of Assurance audits. Chapter 6 of the report is dedicated to economic, social and territorial Cohesion policy, with REGIO and EMPL's funds accounting for respectively 70% and 28% of the spending covered by this chapter. The audit sample drawn by the Court was composed of payments relating both to the closure of the 2007-2013 programming period and the implementation of the 2014-2020 programming period under the revised control and assurance framework, including annual accounts and annual residual total error rates for these accounts once financial corrections were applied at programme level.

The Court decided in its 2017 Statement of Assurance to follow a new (pilot) approach for Cohesion policy, consisting in assessing the controls and the audit work already performed on relevant programme expenditure at both national and European level, and the extent to which these audits can be relied upon and led to the appropriate levels of financial corrections for the accepted accounts.

The Commission welcomes this new approach of the Court in line with the principles of single auditing and proportionality of controls with the aim to efficiently use resources while avoiding the unnecessary repetition of audits for beneficiaries. This evolution is made possible thanks to the new features of the current programming period but also the continuous improvement of the reliability of the information provided by audit authorities and validated by the Commission.

As a result, in its 2017 Statement of Assurance, the Court examined a sample of 217 transactions selected from 12 assurance packages from 2014-2020 and 10 closure packages from 2007-2013, the work done by audit authorities to validate the information contained in those packages and the Commission’s work when reviewing and validating the assurance and closure packages received in 2017.

Main conclusions based on the review of the sampled transactions:

The Court identified and quantified 36 errors that had not previously been detected by the audit authorities and estimated the level of error to be 3%, applying to both 2014-2020 payments and 2007-2013 closure balances. **This error rate shows a significant further decrease in the error rates compared to previous years**. The Commission considers that it shows that both closure and current programming period assurance models are more and more well-functioning.

In particular, it is worth underlining the impact of the errors quantified for the sole SME Initiative programme of financial instruments, with specific rules not applicable to the other programmes audited, which account for one third of this error rate.

Taking into account the specific characteristics of this programme, the Commission can conclude that for the remaining programmes in the audited accounts, the average remaining level of error would be at an acceptable level of 2%.

The decreasing trend in the Court's calculated error rate reflects a general improvement in tackling errors in Cohesion policy. Expertise developed over the successive programming periods have increased the administrative capacity of programme authorities and the reliability of their work, contributing to the reduction of the error rate over the years. The 2014-2020 revised control and assurance framework requires to apply the necessary financial corrections for each programme on an annual basis, which is a significant improvement. This positive development will have to be confirmed next year with more expenditure and programmes. It does not prevent the Commission from addressing the situation of individual programmes, following up all remaining errors identified by the Court and applying further corrections where necessary.

The Court underlined however that the number and impact of detected errors indicate persisting weaknesses with the regularity of the expenditure declared by managing authorities. Audit authorities detected a number of these errors and reported 50 quantifiable errors in the 2017 sampled transactions, mainly concerning ineligible costs and to a lesser extent public procurement and ineligible participants. As expected, the Member States authorities applied corrections with a view to bringing the residual error rates below the materiality threshold of 2%.

The main sources of the additional errors identified and quantified by the Court were linked to financial instruments (more than 50% of the total error rate), ineligible costs and participants (almost 40% of the total error rate) and ineligible VAT claimed. This year the Court did not identify public procurement or state aid errors with financial impact. This could illustrate the impact of the Commission's action plans in these two areas and the better detective capacity of programme authorities.

The Commission has taken several actions to further decrease the risk of errors in the areas pointed at by the Court. Regarding the specific case of the SME Initiative programme, the audit authority did not have the legal possibility at the time of the Court’s enquiries to conduct audits at the level of beneficiaries. This assurance gap has now been closed with the entry into force of the Omnibus regulation, which ensures the necessary accountability for controls and audits at national level[109]. As for any financial instrument, the eligibility of underlying loans needs to be finally assessed at closure, therefore the fund manager will have the opportunity to correct irregular transactions and replace them with eligible ones. Regarding the distinction between recoverable and non-recoverable VAT, following the Court's recommendation of last year REGIO has published a guidance note on the conditions for eligibility of VAT under Cohesion policy, which clarifies to all actors the applicable rules. Furthermore, the Commission's proposal for post 2020 introduces a simple rule in relation with VAT, independently from the private/public status of beneficiaries. Finally, the Commission has addressed updated guidance to Member States management and control systems for the 2014-2020 programming period which should contribute to further improving the quality of management verifications.

<u>Assessment of the work of audit authorities:</u>

The Court assessed in 2017 the work of seven out of the 21 audit authorities which submitted assurance packages with expenditure under the 2014-2020 period. They found a number of shortcomings that they consider likely to affect the extent to which their work can currently be relied upon, in particular regarding their sampling, checks or audit documentation. The additional errors detected by the Court led them to recalculate a residual error rates above the materiality threshold in some cases.

The Commission will follow-up on irregularities detected and will make any necessary additional financial corrections, in line with the regulatory provisions. It notes however that for half of these undetected errors, the audit authorities were not in a position to detect them. Either the regulation did not allow the audit authority to audit the programme (specific case of the SME Initiative) or the audit authority had to follow a national interpretation on VAT eligibility given by the competent national tax office, which was incorrect. The Commission considers that neither the additional errors found by the Court, nor diverging professional judgements of technical issues such as sampling and record-keeping indicate a widespread failure in the functioning of audit authorities. The Commission will continue to work with audit authorities and the Court in order to further define common standards and a stable and predictable audit framework against which audit authorities are assessed.

[109] Although, the revised Article 40 contains a derogation for the SMEi instruments whose funding agreements were signed by the date of entry into force of the Omnibus, the risk is mitigated by the ongoing Action Plan addressing the deficiencies detected by ECA in the ES SMEi and the agreement by the concerned Member State to voluntary apply the new provisions for the remaining SMEi instruments.

The Commission's reporting in its Annual Activity Reports (AAR):

The Court mainly stressed that the Annual Activity Reports should be further streamlined and adapted to the revised control and assurance framework of the current programming period. It emphasized the fact that the reporting period was not the same as the period covered by the assurance packages and therefore questioned about which error rate of which accounting year should be the main indicator for regularity. In that respect, the Court's opinion is that the residual error rate for which the Commission has validated the assurance based on both the audit authorities' and its own legality and regularity check (n–1), should be the general indicator for payments at risk and compliance in the AARs. In this respect it considered that the number of different rates reported for the two programming periods bears the risk of lack of clarity and potential confusion as to their relevance and the assurance provided. The Directorate General has addressed in the current AAR this criticism by making a significant simplification in the reporting of error rates.

Court's recommendations:

Based on its findings, the Court concluded that further improvements would be needed in terms of the current control and assurance framework's implementation at both audit authority and Commission level. It issued six new recommendations in that respect in its 2017 Annual Report for Cohesion policy.

Two recommendations relate to audit arrangements in the specific area of financial instruments, both in current programming period and post 2020 period. Two other recommendations aim at ensuring appropriate and sufficient regularity checks and audits to be performed by the Commission on the work of audit authorities. One recommendation addresses the specific concern of the complexity of VAT eligibility rules. Finally, one last recommendation focuses on the need to address the complexity of the information presented on the 2014-2020 control and assurance framework in the respective Annual Activity Reports.

The Commission accepted these recommendations and is taking actions for their implementation, where relevant in cooperation with Member States and the Court (see Annex 10 for more details).

Regarding the follow-up of previous recommendations, the Court assessed that the six recommendations issued in its 2014 Annual Report and accepted by the Commission have been implemented, either fully or in some respects. More details on the level of implementation of these recommendations are available in Annex 10.

Performance assessment of projects:

Of the 217 transactions examined, 113 were operations physically completed at the time of the Court's audits. For those operations, the Court assessed the design of the performance system and the actual performance of projects.

The Court's review showed that, in general, there is a clear link between output objectives at operational programme and project level: a performance measurement system was broadly in place to link project outputs and results to the operational programme objectives for 65 % of the cases.

In 30% of the cases - mostly relating to the 2007-2013 period, the authorities had not defined result indicators at project level. It is important to recall that result indicators are likely to be affected by different factors outside the control of managing authorities; therefore, their relevance at project level is to be assessed on a case-by-case basis but is not systematically required under the regulation.

Where they existed, most targets were reported to have been met in 93% of the cases, at least partially, which is in line with previous year's results. This figure was even as high as 100% in cases where only output indicators had been set.

It should be stressed that the Court's sample concerned a mixture of 2007-2013 and 2014-2020 projects, with a significant change to the performance approach and intervention logic under the 2014-2020 regulation. The latter strengthened both the focus on result-orientation with a comprehensive system of obligatory indicators for outputs and results at programme level and the reliability and exhaustiveness of the performance data reported by Member States. The reported results are therefore providing a limited view of the specific results for 2014-2020 so far.

The Court's performance audits and related reports

In 2018, the Court issued eight special reports involving expenditure from regional and urban policy. These audits covered either thematic investments supported by Cohesion policy funds such as High-speed rail, High-speed broadband infrastructure, Flooding in the EU, Air quality, or horizontal aspects linked to the implementation of Cohesion policy funds such as Absorption capacity (2007-2013), Project durability, Selection and monitoring of projects (2014-2020), Public Private Partnerships.

Detailed information on the main conclusions and recommendations of those special reports is available in Annex 10. REGIO is implementing the Court's recommendations within the limits of its competencies provided by the legal framework under shared management.

In addition, the Court also delivered a number of reports that derive from other types of engagements such as Landscape reviews and Briefing papers. These engagements do not intend to assess the regularity or the performance of a policy area but rather to provide a descriptive and analytical picture of a given topic, with some overall conclusions. The related deliverables do not contain formal recommendations addressed to the Commission. In 2018, the Court issued a landscape review on transport and mobility as well as two briefing papers on integration of third-country nationals in the EU and simplification in Cohesion policy.

B. Internal Audit Service (IAS)

In 2018, the IAS completed four audits:

1. An audit on "**IT project management**" to assess the adequacy of the design, the effectiveness and the efficiency of the governance, management and control systems put in place by REGIO to manage its IT projects WAVE[110] and SFC[111], which are the flagship IT projects for the DG and representative of the overall REGIO IT Project Management practices.

   The IAS recognised the efforts made by REGIO to continuously improve its project management practices, in order to enable the DG to respond to their business objectives. A number of important controls are in place to ensure the success of the projects. In particular, the WAVE project makes extensive use of Business Process Management practices for modelling and designing the business processes.

   Overall, the IAS concluded that the governance, management and control systems put in place by REGIO to manage its IT projects are adequately designed, effective and efficient. The IAS did not identify any significant gaps in the processes and procedures defined and used by the different teams for the management of their IT projects. Generally, projects are being managed on a timely basis.

   No very important issues have been detected. Nonetheless, the IAS has identified a number of improvements aimed at reducing the risk of delays in implementing the business processes of the programming period 2014-2020.

   In addition, the IAS found that for the management of interfaces between REGIO systems and corporate applications, the respective roles and responsibilities should be more clearly defined and processes improved to avoid duplication of activity and

[110] WAVE: It is the workflow system designed by REGIO to support all decisional, financial and audit procedures. This application replaces the previous application WFS ("Workflow System").

[111] SFC stands for "Structural Funds Common" database, which acts as an interface between the Member States and the Commission for the management of structural funds.

promote more reusability of existing modules. Therefore, as a follow up of this Audit, IAS submitted a management letter to DG DIGIT and SG, as the chair of the IT Board, aimed at helping to build upon the ongoing initiatives at the corporate level to better interface operational DGs' and corporate applications and to flag the importance of having adequate governance mechanisms for the corporate IT components.

2. An audit on "**Limited Review on the reporting on the corrective capacity**" to assess (i) the validity of the concept of the estimated amounts at risk at closure, (ii) how it is being applied and reported on by operational DGs/Services in their respective AARs, and, (iii) how it feeds into and is presented in the AMPR.

   Overall, the IAS acknowledged that the implementation of the new concept of 'estimated overall amount at risk at closure' represents a major step forward in the Commission's efforts to improve its reporting on financial management, as it completes the global picture of the reporting on programmes with multi-annual control systems by giving additional information on the estimated amounts at risk the Commission expects to remain once all estimated corrective actions will have taken place.

   No very important issues were detected regarding REGIO. Only some presentational issues in the AAR have been identified for REGIO that has duly taken into consideration the recommendation already in the AAR 2017.

3. An audit on "**Evaluation Process in DG REGIO and DG EMPL**" to assess if these DGs effectively plan, design, conduct, report and follow-up on evaluations in accordance with the legal framework and Better Regulation requirements, and if they provide adequate methodological support to the evaluation activities by the MS and make proper use of their results.

   The IAS concluded that the audited process is overall working effectively in the two DGs. As well, the IAS recognised the ongoing efforts made by REGIO and EMPL to continuously improve the evaluation process and strengthen the evaluation capacity in the MS. More specifically, significant strengths were identified, among which we can mention the following ones:

   - the DGs provide regular methodological guidance and support to the MS on monitoring and evaluation;
   - in order to strengthen capacity building in the MS, the DGs jointly set-up an Evaluation Helpdesk, which provides methodological support, training and advice to the MS in the areas of monitoring and evaluation. In addition, it supports the DGs in summarising the findings of the evaluations carried out by the MS, which underpin the DGs' various reports (e.g. Summary Report, Strategic Report, AAR, Annual Management and Performance Report (AMPR), and Cohesion Report);
   - the DGs closely cooperate and coordinate their approaches regarding monitoring and evaluation systems
   - communication of ex-post evaluation results (e.g. dedicated communication package covering visual communication methods on ex post evaluation results, public consultation, evaluation conference).

   No very important issues have been detected. Nonetheless, the IAS considered that there is room for further improvement, as regards:

   - the evaluation planning process, in particular the use made by the DGs of the MS' evaluation results to identify gaps in the coverage of evaluations;
   - the follow-up and reporting of evaluations undertaken by MS.

4. An audit on "**Review of the annual assurance packages by DGs REGIO, EMPL and MARE**" to assess whether the review of the annual assurance packages by these DGs is effective in supporting the declaration of assurance by the Directors-General in their AARs and performed in a timely manner.

   The audit identified the following strengths:

- reinforced accountability, control and assurance framework for the 2014-2020 programming period;
- common and consistent approach for the DGs' review of the assurance packages, with mechanisms to improve consistency, increase synergies and use the available competences and expertise in an efficient manner.
- continuous support to the audit authorities, through guidance documents and regular meetings.

IAS concluded that, overall, the DGs have put in place the necessary procedures and coordination arrangements so that the annual AP review process effectively supports the declaration of assurance by the Directors-General in their AARs within the accountability, control and assurance framework of the 2014-2020 programming period.

Whereas no very important shortcomings have been detected, the IAS identified a number of important shortcomings that the DGs should timely address. At a general/horizontal level the DGs need to streamline/strengthen a number of aspects regarding the acceptance of accounts and legality and regularity assessment processes. They furthermore need to resolve a number of design and implementation issues regarding the assurance packages desk review process and the methodology for on the spot audits, and improve the coordination arrangements between themselves and with the ECA, following the new Statement of Assurance approach of the Court to auditing Cohesion policy spending. These recommendations were taken into account for the preparation of the current AAR.

As for the other IAS audits completed in 2018, all the recommendations from the audit "*Review of the annual assurance packages by DGs REGIO, EMPL and MARE*" were accepted by REGIO and are implemented following the agreed timetable, in particular in view of the preparation of the current AAR.

Moreover, the IAS has started in 2018 a multi-DG audit on the "**Effectiveness and efficiency of the new Early Detection and Exclusion System (EDES) in protecting the EU financial interests**". The audit involved at the corporate level DG BUDG in its role as business owner and at the local level a sample of operational DGs (DEVCO, RTD and REGIO). It was completed in January 2019. The audit assessed whether the Commission has designed and implemented an effective and efficient control system for the management of EDES aimed at protecting the EU budget, in line with the legal provisions.

IAS concluded that the EDES control system itself is overall effectively and efficiently designed, in line with applicable legal provisions. Nonetheless, one very important issue was identified that regards also REGIO, which is the general lack of awareness about EDES in Member States. The recommendation has been accepted by REGIO and consequently an action plan has been submitted in February 2019 to IAS, without prejudice to the fact that in shared management transmission of information by Member States would require sector-specific rules. IAS has concluded that the REGIO action plan is deemed to be satisfactory to mitigate the risks identified.

In addition, the IAS has started another multi-DGs audit on "**Monitoring the implementation and performance of 2014-2020 OPs by DGs REGIO, EMPL and MARE**". This audit is on-going and should be completed in 2019.

Finally, in 2018, the IAS has also carried out several follow-up assignments on the previous audits.

In particular, the open very important recommendations included in completed audits and their state of play at the date of this report are the following (more information included in Annex 10):

	Audit title/audit year	Very Important Open recommendations	Deadline
1	*Early implementation of ESIF control strategy 2014-20 (2016)*	Audits on financial instruments	end 2019
2	*Effectiveness of simplification measures under 2014-2020 ESI Funds(2016)*	Uptake and impact of simplification measures and the DG's processes to promote and monitor these measures	mid 2019
3	*Major Projects (2017)*	Governance: JASPERS contractual and supervision arrangements	end 2019
4	*EDES (2018)*[112]	EDES in shared management	end 2019
	TOTAL	**4**	

For all the open very important recommendations, most actions foreseen in the agreed action plans have been accordingly implemented and progress has been made for the outstanding actions: REGIO is currently taking the remaining actions to duly complete the action plans.

While one of the very important recommendations is overdue for more than six months from its original target date (Audit Early implementation of ESIF control strategy 2014-20, recommendation Audits on financial instruments), the implementation of the related mitigating actions is currently completed. In addition, it should also be noted that the recommendation concerns, among others, areas covered by the Omnibus Regulation, which entered into force only in August 2018. Thus, the late implementation of the ensuing actions cannot be considered as resulting from a weakness in the DG's internal control.

Conclusion:

Based on all work undertaken, the IAS has provided its conclusion on the state of internal control within REGIO.

IAS has concluded that the **internal control systems in place for the audited processes are effective, except for the observations giving rise to the very important recommendations, which are still open**. These recommendations still need to be fully addressed, in line with the agreed action plans.

In this regard, REGIO has carried out a detailed and comprehensive analysis of the possible impact of the identified issues on the effectiveness of the DG's new internal control, covering the audits carried out by IAS in 2018 as well as the open very important recommendations from previous years. In the framework of this analysis the actions already carried out to mitigate the related risks have been taken into account.

This showed that, for all the open very important recommendations, REGIO is taking the necessary actions to tackle the different issues identified by the IAS audits. In particular, substantial parts of the action plans relating to the audits on "Early implementation of the ESIF control strategy", "Simplification measures" and "Major Projects" have already been implemented. As regards the open very important recommendations from previous years (as detailed in Annex 10), most actions foreseen in the agreed action plans have been accordingly implemented and progress has been made for the outstanding actions, which will be completed in 2019.

On the basis of the analysis carried out, REGIO considers that, **in view of the actions already put in place for risks mitigation, the residual risk related to the above-mentioned very important recommendations does not affect in a material way**

112 This audit corresponds to the IAS audit plan 2018, which comprises final audit reports issued in the period 01/02/2018 - 31/01/2019.

the achievement of the internal control objectives, and therefore the assurance provided in the AAR.

2.1.3 Assessment of the effectiveness of the internal control systems

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

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

Business owners oversee on a continuous basis the effectiveness of the internal control systems, in order to determine whether they work as intended and ensuring that any control weaknesses in the system 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 management assessments is to provide reasonable assurance that the internal control standards/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.

As far as the specific assessments are concerned, they take place twice per year: a mid-year round of interviews of the Chefs de file responsible for the Internal Control Principle (ICP), followed by a self-assessment exercise at the end of the year. The mid-year review allowed identifying areas for which improvements were needed and taking remedial actions when appropriate. The self-assessment exercise at the end of the year aimed at confirming compliance and effectiveness or at identifying further needs for actions, in case of partial effectiveness.

The self-assessment, performed on the basis of the data on the monitoring criteria provided by the ICS Chefs de file, was reviewed by taking into consideration mainly the following:

- The annual AOSD Management Reports;
- The non-compliance events reported and exceptions requested;
- The conclusion of the Internal Auditor on the state of internal control in the DG (see IAS above);
- The results of the IAS and the Court's audits and the follow-up of their recommendations as reported in annex.

In carrying out the assessment process the DG has followed the methodology established in the "Implementation Guide of the Internal Control Framework of the Commission".

Overview of the main changes in REGIO internal control environment and mitigating measures implemented

2018 was the first full year of implementation of the new REGIO Internal Control Framework, endorsed by the Board of Directors in December 2017. In line with this revised assessment methodology, all the business areas falling under each principle were reviewed and appropriate monitoring criteria (along with their baselines and performance targets) were identified. These criteria are aimed at assessing both compliance and effectiveness of the internal control system, ensuring a good balance between the two dimensions (70% of the monitoring criteria measuring effectiveness, 30% compliance).

Based on this, REGIO was among the lead DGs in applying the new Framework, with the 1st assessment already reflected in the AAR 2017.

As for the DG reorganisations, after the restructuring in 2017 of the HR function across the Commission and its centralisation, the HR related services delivery have experienced a transition phase, that at the current state of play can be considered completed, with new working arrangements adopted and deployed. Even if the transition to the new system was smooth for most of the underlying processes, some of the HR-related services were impacted. Targeted actions were therefore implemented in 2018 in order to address these aspects and to restore the level of these services at their common standards, taking also into account the outcomes of REGIO's assessment of its internal control at end 2017.

Work carried out to strengthen the effectiveness of the internal control

As indicated in the AAR 2017, **targeted actions were carried out during 2018 in relation to several principles** by the concerned Chefs de file, with a view to further enhancing their effectiveness and robustness. This notably concerned internal control principles for which **room for improvement was identified** in the framework of the final assessment for 2017. This concerned notably **Principle 1** (Integrity and Ethical Values) and **Principle 4** (Human Resources). Other opportunities for further strengthening the effectiveness of the internal controls in other areas were also seized, building on the work carried out in cooperation with the business owners to set up REGIO's revised internal control framework.

IAS opinion and ECA recommendations

The IAS' Opinion on the state of controls in REGIO in 2018 concluded that the internal control systems in place for the audited processes are effective, except for the observations giving rise to the open very important recommendations. These recommendations still need to be addressed, in line with the agreed action plans and as a consequence, minor improvements will be also implemented at the level of the internal control processes.

For the reasons already illustrated under section 2.1.2 B above, "Audit observations and recommendations", REGIO considers that, in view of the actions already put in place for risks mitigation, the **residual risk related to the above-mentioned recommendations does not affect in a material way the achievement of the internal control objectives**.

Moreover, it should be noted that the open recommendations of ECA's special reports do not affect the assessment of the internal control system (principles/components): in this regard there are **no very important ECA recommendations overdue for more than 6 months**.

AAR reservations

It should be noted that the reservations formulated in relation to 2018 only concern shared management. Rather than a risk, the issuance of a reservation should be considered as the result of the deployment of effective supervisory mechanisms vis-à-vis local implementing authorities (e.g. managing and audit authorities). These notably include controls allowing to effectively detect and correct any failures in the functioning of management and control systems set up and run by and under the direct responsibility of the Member States and on the operation of which the Commission has no control. It therefore represents a measure of protection of the EU budget, via the interruption of payments to beneficiaries, in response to the detection of errors or deficiencies in the management and control systems of the Member States.

On the basis of the sources mentioned above, the following **conclusions** can be drawn:

- As regards the **effectiveness of the IC principles**:

- all the principles are present and functioning well, with only minor improvements needed, except for principle 1, "The Commission demonstrates a commitment to integrity and ethical values", that is present and functioning, but for which some improvements are needed;
- no principles are considered partially effective or ineffective.

- As regards the **effectiveness of the IC components**:
  - all the five components are present and functioning well, with only minor improvements needed;
  - no components are considered partially effective or ineffective.

- As regards more specifically the results in relation to the **Internal Control Monitoring Criteria** identified in REGIO Management Plan 2018:
  - targets have been met or exceeded for an overwhelming majority of indicators, with results at end 2018 showing improvements compared to end 2017 for most criteria;
  - while no particular weaknesses have been reported, there is still some room for improvements as regards the attendance to the compulsory trainings on ethics (23% of 2018 REGIO newcomers from outside the Commission had followed the training by end 2018) and the % of staff with up-to-date /approved objectives (77%).

On the basis of the available evidence and of the detailed assessment carried out, REGIO concludes that its **internal controls are effective** and that the **components and principles are present and functioning as intended.**

In addition, on **principle 1** (*The Commission demonstrates a commitment to integrity and ethical values)*, even though it is present and functioning overall, **some improvements** are needed as a minor deficiency was identified related **to the participation of the staff to trainings and awareness-raising actions on ethics.**

Targeted actions, started in 2018 and bringing about already positive outcomes, will continue being implemented during 2019 in order to further reduce internal fraud risks and to raise the staff awareness in this area. Training sessions on ethics and integrity are now made compulsory for newcomers from outside the Commission, while initiatives from senior management stressing commitment to the EC ethical values will continue. In light of the deployment of these remedial actions it is expected to have further substantial progress in the participation rate to trainings/awareness raising events already in 2019.

Overall, besides the targeted actions aimed at improving the area above mentioned in Principle 1, further enhancing of the effectiveness and robustness of the DG's control arrangements in place is an on-going effort that will continue in 2019.

2.1.4 Conclusions on the impact as regards assurance

This section reviews the assessment of the elements reported above (in sections 2.1, 2.1.2 and 2.1.3), the sub-conclusions above, and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

Review of the elements supporting assurance

The information reported in Parts 2 stems from the results of management and audit monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG Regional and Urban Policy.

The Commission gives the highest priority to the exercise of its responsibilities for implementing the budget under Article 317 of the EC Treaty.

REGIO has systematically examined the available control results and indicators, including the results of its own audits and communicated audits from programme audit authorities, as well as the observations and recommendations issued by internal auditors, the European Court of Auditors and OLAF. These elements have been assessed to determine their impact on the management's assurance (part 2).

In addition, REGIO has assessed the effectiveness of its key internal control systems during the reporting year and identified areas for improvements, although **in no case the weaknesses identified were leading to assurance-related concerns**.

Reservations and overall conclusion on assurance

Regarding **shared management**, following the Court's recommendation in its 2017 Annual Report and under the coordination of the Central Services, it was decided to adjust the calculation method of the amount at risk at payment and at closure.

The risk "at payment" is calculated for each programme by applying the residual total error rate of the accounting year 2016/ 2017 as confirmed by the Commission services[113] or, when it is higher, the residual total error rate reported by the audit authorities for the accounting year 2017/2018 to the "relevant expenditure" of the Commission reporting year (i.e. payments made during the reporting year excluding new pre-financing and including the 10% retained, and including the cleared pre-financing minus the retentions released and any deductions applied in the accounts covering the expenditure of the period 1st July 2017 to 30th June 2018*)*.

In case there is no confirmed residual total error rate for the accounting year 2016/2017, the higher residual total error rate between the one reported by the audit authorities for the accounting year 2017/2018 and a 2% flat rate is applied. In case no error rates are reported yet by the audit authorities, a 2% flat rate is used.

The risk "at closure" indicates the remaining risk to the 2018 relevant expenditure once the Commission will apply the necessary financial corrections to bring the total residual error rates for all OPs down to 2%. By using the confirmed residual total error rate for accounting year 2016-2017 and the reportable residual total error rate for accounting year 2017-2018 by OP as detailed in Annex 10 B, REGIO has been able to identify for which OPs additional financial correction will be required upon finalisation of the ongoing audit contradictory procedures for accounting year 2016-2017 and the assessment of the legality and regularity for the accounting year 2017-2018.

The situation is as follows:

> **For the 2014-2020 programming period,** the ***estimated risk at payment linked to the 2018 relevant expenditure is calculated at 2.0%*** taking into account the financial corrections already made.
>
> ***The risk at closure is calculated at 1.5%*** after estimating the future corrections to bring down to 2% the residual total error rates for all OPs. At this stage there are 29 OPs with a confirmed residual total error rate 2016-2017 above 2% and 9 OPs with a

113 After neutralizing 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)

reportable residual error rate 2017-2018 above 2%. Taking account of the overlaps[114], the estimated future financial corrections affect 35 OPs.

REGIO concludes that ***it has reasonable assurance*** as regards legality and regularity of transactions ***except for 30 programmes*** due to the deficiencies detected affecting all or part of these programmes.

The quantification of the reservation for these (part of) programmes is calculated at EUR 219.9 million.

There is an increase of the number of reservations and its quantification in relation to the 2017 AAR where the reservations covered 17 programmes. The increase is justified by the increase of programmes with ERDF-CF certified amounts (from 175 OPs in 2016-2017 accounting year to 258 OPs in 2017-2018)

For the 2007-2013 programming period, the ***estimated average risk linked to the 2018 relevant expenditure is calculated at 0.6%.***

As the 2007-2013 programming period is at the stage of closure, final payments are processed when the Commission is of the opinion 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.

REGIO concludes that ***it has reasonable assurance*** as regards legality and regularity of transactions ***except for 16 ERDF/CF Operational Programmes, 1 European Territorial Cooperation programmes and 1 IPA-CBC programme***, due to the level of financial corrections which still need to be applied as part of the closure process and an additional reputational reservation.

There is no actual financial exposure due to these reservations.

For the 2000-2006 programming period, the estimated average risk is projected at 0.5% and REGIO can conclude that it has reasonable assurance as regards legality and regularity of transactions.

Regarding **indirect management**, on the basis of analysis made at programme level REGIO can conclude that it has reasonable assurance as regards legality and regularity of transactions in 2018.

Finally, for **direct management and for the Solidarity Fund**, no material deficiencies were identified affecting the 2018 paid expenditure. On this basis, REGIO can conclude that it has reasonable assurance as regards legality and regularity of transactions.

[114] 1 FR, 1 LT and 1 SK have a residual total error rate above 2% for both accounting years (confirmed for 2016-2017 and reportable for 2017-2018)

Overall Conclusion

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by two reservations concerning the following:

Nr.	Title	Type	Quantification of the reservations[115]	Scope / relevant expenditure affected
1	Management and control systems for the programming period 2014-2020 for 30 programmes (30 ERDF/CF Operational Programmes impacting 15 Member States and 2 European Territorial Cooperation programme)	Financial	219.9 million	6,032.0 million
2	Management and control systems for the programming period 2007-2013 for 18 programmes (16 ERDF/CF Operational Programmes impacting 7 Member States, 1 European Territorial Cooperation programmes and 1 IPA-CBC programme)	Financial	0	969.3 million

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

For REGIO, the ***estimated risk at payment for the 2018 relevant expenditure for all management modes is 1.7%*** (implying an amount at risk of EUR 610.7 million). This is the AOD's best, conservative estimation of the amount of *relevant expenditure*[116] during the year not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

The estimated average risk at closure is calculated at 1.2%.

This expenditure (2007-2013 final payments and 2014-2020 annual accounts) may be subsequently subject to ex-post controls by the Commission and the Court of Auditors and some additional errors may be detected and corrected in successive years.

[115] Calculated on the basis of the relevant expenditure for 2018. Full and partial financial reservations (partial for one PL project (2014PL16RFOP002) = flat rate of 25% applied; partial for one BE project (2014BE16RFOP003) = flat rate of 3% applied)

[116] "*relevant expenditure*" during the year = payments made, minus new pre-financing paid out, plus previous pre-financing cleared

Table - Estimated overall amount at risk at payment and at closure for 2018

DG REGIO	"relevant expenditure"[d] (m€)	Average Error Rate / Risk at Payment (*weighted* **AER**; %)	estimated overall amount at risk ***at payment*** (FY; €)	estimated future corrections	estimated overall amount at risk ot closure (€)	estimated overall amount at risk ***at closure*** **(%)**
		Average	Average	Average	Average	Average
	(6)	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*
ERDF/CF - 2014-2020	27.541,0	2,0%	559,1	155,6	403,5	1,5%
Crossborder cooperation IPA-ENI 2014-2020	25,6	2,0%	0,5	-	0,5	2,0%
ERDF/CF – 2007-2013	8.650,4	0,6%	48,4	-	48,4	0,6%
IPA –CBC – 2007-2013	3,7	0,5%	0,0	-	0,0	0,5%
IPA -2007-2013	117,8	0,3%	0,4	-	0,4	0,3%
ERDF/CF - 2000-2006 and before	316,1	0,5%	1,6	-	1,6	0,5%
Solidarity Fund	68,8	0,5%	0,3	-	0,3	0,5%
Urban Innovative actions	-	0,5%	-	-	-	0,5%
Direct management (incl. Cross Subdelegations given)	70,4	0,5%	0,4	-	0,4	0,5%
Overall, total	**36.793,8**	**1,7%**	**610,7**	**155,6**	**455,1**	**1,2%**

Note on the relevant expenditure: the figure shows the amount without reducing the pre-financing made in 2018 on cross-delegated lines received (EUR 5,2 million).

Taking into account the conclusions of the review of the elements supporting assurance and the expected corrective capacity of the controls to be implemented in subsequent years, it is possible to conclude that the ***internal controls systems implemented by REGIO provide sufficient assurance to adequately manage the risks relating to the legality and regularity of the underlying transactions***. Furthermore, it is also possible to conclude that the ***internal control systems provide sufficient assurance concerning the achievement of the other internal control objectives***.

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 view[117].

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/Cohesion Fund management and control systems for the 2014-2020 programming period in 15 Member States and 2 European territorial cooperation programmes (see table next page)

- a reservation concerning ERDF/Cohesion Fund management and control systems for the 2007-2013 programming period in 7 Member States, 1 European territorial cooperation programme and 1 IPA-CBC cooperation programme (see table next page)

Brussels, 17 April 2019

Marc Lemaître

"Signed"

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

Reservation 1 concerning ERDF/Cohesion Fund management and control systems for the period 2014-2020 in several Member States

REGIO	
Title of the reservation, including its scope	A/ Reservation concerning the ERDF/Cohesion Fund management and control systems for the period 2014-2020 for: 30 programmes in Belgium, Czech Republic, Germany, Estonia, France, Croatia, Hungary, Italy, Poland, Romania, Slovakia, Lithuania, Latvia, Spain, United Kingdom and two ETC programmes.
Domain	Structural and Cohesion Funds and IPA-ENI carried out under 'Shared Management Responsibility'
Programme in which the reservation is made and total (annual) amount of this programme	<u>13.03 ERDF, 13.04 Cohesion Fund,</u> 2018 ERDF/CF total payments made to programmes affected by reservations: EUR 5,794.4 million (relevant expenditure is 6,032.0 million)
Reason for the reservation	- systems deficiencies leading potentially to risk above the 10% retention - total error rates above 10% - residual total error rate above 2% - non-acceptance of accounts
Materiality criterion/criteria	Significant deficiencies at the level of the key elements of the management and control systems with a material risk to the EU Budget, Residual error rate >2%, material issues on the completeness, accuracy and veracity of the accounts
Quantification of the impact (=actual "exposure")	Total quantification of the reservation: EUR 219.9 million
Impact on the assurance	The weakness affects the legality and regularity of the expenditure concerned and the effective functioning of the management and control systems in place. Financial impact is mitigated through: - interruption/suspension of payments pending the correction by the Member States concerned of the identified weaknesses; - financial corrections to be applied before accepting the next expenditure statement.
Responsibility for the weakness	The expenditure concerned is under shared management in which the Member State is primarily responsible for implementing the management and control systems. Therefore, the designated national and regional authorities of the programmes concerned are responsible for undertaking corrective measures. The Commission supervises the national authorities in this respect (monitoring of execution of the remedial measures).
Responsibility for the corrective action	<u>At Commission level</u> - warning letters / interruption of payment deadlines / launch of suspension and correction procedures, - audit work both desk or on the spot to check the ability of national auditors to fulfil their obligations, <u>At Member State level</u> - implementation of remedial actions including when necessary financial corrections in order to remedy the deficiencies, - audit by the audit authority of the effective implementation of remedial measures in management and control systems and of financial corrections when required.

Reservation 2 concerning ERDF/Cohesion Fund and IPA-CBC management and control systems for the period 2007-2013 in several Member States

REGIO	
Title of the reservation, including its scope	A/ Reservation concerning the ERDF/Cohesion Fund management and control systems for the period 2007-2013 for: 16 programmes in Czech Republic, Croatia, Germany, Hungary, Italy, Romania, Slovakia and for one ETC programme. B/ Reservation (reputational) concerning one IPA Cross Border programme. (These include full, non-financial and reputational reservations for the 18 programmes concerned in total).
Domain	Structural and Cohesion Funds and IPA-CBC carried out under 'Shared Management Responsibility'
Programme in which the reservation is made and total (annual) amount of this programme	13.03 ERDF, 13.04 Cohesion Fund, 2018 ERDF/CF total payments made to programmes affected by reservations: EUR 242.5 million[118] (relevant expenditure is 969.3 million) 13.05 IPA-CBC 2018 IPA-CBC payments made: EUR 0 (relevant expenditure is 1.98 million). Reservation for OP Adriatic is reputational.
Reason for the reservation	Serious deficiencies in management and control systems for these programmes as detected by the programme audit authority and/or the Commission at closure which have significant financial impact (i.e. risk above the amount retained). In particular, these deficiencies concern one or several of the following key elements: - compliance with public procurement rules and directives /revenue generated project/eligibility rules, - high error rates following audit of operations, - audit work (incomplete, procurement irregularities not detected...), - suspicion of fraud.
Materiality criterion/criteria	Following the in-depth assessment of closure documents, reservations are made for programmes with estimated financial corrections to be implemented exceeding the retention of the overall allocation made at programme level (5% or less for underspent programmes of the overall allocation made at programme level)
Quantification of the impact (=actual "exposure")	Total quantification of the reservation: EUR 0
Impact on the assurance	The weakness affects the legality and regularity of the payments concerned and the effective functioning of the management and control systems in place. The Commission will not make the final payment until the Member States' authorities will have agreed all necessary additional financial corrections.
Responsibility for the weakness	The expenditure concerned is under shared management in which the Member State is primarily responsible for implementing the management and control systems. Therefore, the designated national and regional authorities of the programmes concerned are responsible for undertaking corrective measures. The Commission supervises the national authorities in this respect.
Responsibility for the corrective action	For each programme included in the reservation, with the aim to obtain assurance that the required corrective measures have been completed, the Commission has analysed the Final Control Reports received by 31 March 2017 (by 31 March 2018 for Croatia) and when needed has requested Member States to perform additional audit work and/or to apply additional financial corrections.

[118] The closure payment made in 2018 (HU OP Transport) did not concern the part of the programme affected by the partial reservation.

List of operational programmes in the 2018 reservation

2014-2020 PROGRAMMING PERIOD, ERDF/CF and IPA-CBC

	MS	CCI	Title	Reservation 2018
1	BE	2014BE16RFOP003	Wallonia	Partial fin
2	CZ	2014CZ16RFOP001	Enterprise And Innovation For Competitiveness	Partial Non-fin
3	DE	2014DE16RFOP013	Sachsen-Anhalt	Full
4	EE	2014EE16M3OP001	Cohesion Policy Funds	Full
5	ES	2014ES16RFSM001	SME Initiative	Full Non-fin
6	ETC	2014TC16RFCB041	France-Switzerland	Full
7	ETC	2014TC16RFCB043	France (Saint Martin-Sint Maarten)	Reputational
8	FR	2014FR16M0OP014	Bourgogne	Full
9	FR	2014FR16M2OP004	Corse	Full
10	FR	2014FR05M0OP001	Ile-De-France And Seine	Full
11	FR	2014FR16M2OP005	Franche Comté et Jura	Full
12	FR	2014FR05M2OP001	Guadeloupe et St Martin Etat	Full
13	FR	2014FR16M0OP006	Languedoc-Roussillon	Full
14	FR	2014FR16M0OP011	Martinique Conseil Régional	Full
15	FR	2014FR16M0OP007	Midi-Pyrénées Et Garonne	Full
16	HR	2014HR16M1OP001	Competitiveness And Cohesion	Partial Non-fin
17	HU	2014HU16M1OP001	Environmental And Energy Efficiency	Full
18	HU	2014HU16M2OP001	Territorial And Settlement Development	Full
19	HU	2014HU16M2OP002	Competitive Central-Hungary	Full
20	HU	2014HU05M2OP001	Human Resources Development	Full
21	HU	2014HU05M3OP001	Public Administration and Civil Service	Full
22	HU	2014HU16M0OP001	Economic development and innovation	Full
23	IT	2014IT16M2OP006	Calabria ERDF	Full
24	LT	2014LT16MAOP001	EU Structural Funds	Full
25	LV	2014LV16MAOP001	Growth and Employment	Full
26	PL	2014PL16RFOP001	Smart Growth	Partial
27	RO	2014RO16RFOP002	Regional Operational Programme	Full
28	RO	2014RO16RFOP001	Competitiveness Operational Programme	Partial Non-fin
29	SK	2014SK16M1OP002	Quality of Environment	Full
30	UK	2014UK16RFOP004	Scotland	Full

2007-2013 PROGRAMMING PERIOD, ERDF/CF and IPA-CBC

Res. No	MS	CCI	Title	Reservation 2018
1	CZ	2007CZ161PO008	North-West	Full Non-Fin
2	DE	2007DE161PO007	Sachsen – Anhalt	Partial Non-fin
3	ETC	2007CB163PO021	Romania – Bulgaria	Full non-fin
4	HR	2007HR161PO001	Environment	Full Non-Fin
5	HR	2007HR161PO002	Transport	Full Non-Fin
6	HR	2007HR161PO003	Regional Competitiveness	Full Non-Fin
7	HU	2007HU161PO002	Environment and Energy	Partial Non-Fin
8	HU	2007HU161PO007	Transport	Partial Non-Fin
9	HU	2007HU161PO010	Implementation	Partial Non-fin
10	HU	2007HU16UPO001	Electronic Public Administration	Full Non-Fin
11	IT	2007IT161PO005	Reti e mobilita	Full Non-Fin
12	IT	2007IT161PO006	Ricerca e competitivita	Full Non-Fin
13	IT	2007IT162PO004	Lazio	Full Non-Fin
14	IT	2007IT161PO008	Calabria	Full Non-Fin
15	RO	2007RO161PO003	Transport	Full Non-Fin
16	RO	2007RO161PO004	Environment	Full Non-Fin
17	SK	2007SK161PO007	Technical Assistance	Partial Non-fin
18	IPA-CBC	2007CB16IPO001	Adriatic IPA CBC	Reputational

2.2 Other organisational management dimensions

2.2.1 Human resource management

In the context of shrinking resources, REGIO has deployed its resources effectively by focusing on the delivery of the Commission's priorities and core business, along with other vital areas where it is best placed to contribute.

The Directorate General used various tools for adequate HR planning and allocation:

- Analysis of the available **workforce** as provided in the Unit Management Plans - identifies the staff allocation to tasks;
- **Training Plan and Competency Gap analysis** – improves matching of staffs' skills with DG needs and identifies areas where skills should be further developed;

Decisions on the allocation of resources were taken at the level of the DG HR Steering Committee (HRSC), composed of the Director-General, the Deputy Director-General and the Resource Director. The HR Business Correspondent implemented the decisions of the HRSC and acted on behalf of the HRSC in decisions in relation to replacement of staff and contracts, taking into account strategic priorities, requirements, and conclusions derived from HR planning tools indicated above.

Recruitment decisions are of strategic importance for the DG. Recruitment of all administrators is subject to a multi-layered process where the final stage is an interview with the High Level Panel, always in the presence of senior managers. Recruitment decisions took into consideration the overall alignment of the applicants' individual qualities with the strategic needs of the DG.

Following the restructuring of the HR function across the Commission and its centralisation in 2017, year 2018 was mainly focused on the consolidation of the new functions and processes with a Business Correspondent Team in charge of strategic HR issues, and an external Account Management Centre in charge of day-to-day HR business.

REGIO has made progress in reaching targets for indicators for **well-being and staff engagement**. In both indicators, DG REGIO scores higher than the Commission average according to the latest staff satisfaction survey from 2018.

The workforce planning exercise for 2018 showed good focus of available resources, as the overwhelming majority of them are allocated to the delivery of the DG's annual priorities.

As regards the staffing allocation, review of available resources was performed in the second half of 2018 to identify areas, which required reinforcements in view of the new emerging priorities.

Staff mobility was implemented with good results, allowing striking the right balance between continuity and renewal: 52% of the colleagues who were mobile in 2018 have changed jobs by the end of the year. Overall, the active involvement of the hierarchy as well as of the Business Correspondent team in finding appropriate mobility solution for the mobile colleagues has allowed this successful implementation.

As regards **female representation in middle management**, REGIO has consistently been a forerunner in the area. At the end of 2017, the representation was at 34%. The target set by the College in 2017 was reached at the beginning of 2018.

The **2018 Staff Satisfaction Survey** results show that REGIO colleagues see positive developments in most of the areas in comparison to the last survey in 2016: 84% of REGIO respondents see the Commission as an attractive workplace (4% above the Commission average) and are satisfied with their role and with the job content (3% above the Commission average).

People value highly teamwork and colleagues with 86% of respondents replying positively, 5% above the Commission average. 70% of REGIO respondents, which is 17% points above EC average, value positively collaboration and communication in the DG. A positive trend can also be observed on the performance of both the middle and the senior managers whereby 70% of REGIO respondents value positively the performance of middle management (6% above the Commission average) and 65% in case of senior management (15% above the Commission average).

2.2.2 Information management aspects

Sharing of information and knowledge

REGIO is strongly committed to cultivate and utilise knowledge related to Cohesion policy for better policy-making, to improve programme implementation and collaboration with Member States, as well to increase staff efficiency.

To serve this purpose, it has developed and implemented a comprehensive approach on knowledge management including change management initiatives, training sessions and staff incentives to better collaborate, collect information and share expertise and knowledge. The main achievement of the knowledge management approach so far is the implementation and adoption of **RegioWiki**, a knowledge management repository and collaboration platform.

RegioWiki, which is based on "Confluence", is operational since February 2014, supported by a robust and controlled structure and vocabulary (taxonomy) and divided into 5 pillars: Geographic, Thematic, Policy, Regulation and Internal.

This overall approach is steered in the framework of REGIO's Board of Directors and Knowledge Management Steering Committee. In parallel, ad hoc networks of local correspondents and contributors in the different units help engage the whole REGIO staff into a collective endeavour.

RegioWiki is fully operational and actively and extensively used. The number of REGIO users reached 100% of REGIO staff at the end of December 2017 (over 700) and has remained stable since then. In parallel, REGIO opened in 2018 the full RegioWiki to all Commission DGs, in an unprecedented move to share knowledge and promote co-creation. At the end of 2018, the amount of external users largely overcame REGIO users (1,726 > 700).

A satisfaction survey of Wiki users, which was part of a larger survey regarding IT tools in REGIO and was carried out in Autumn 2018, has provided an overall positive feedback. It confirmed the potential of the tool on improving information retrieval and delivery, maximising use of data for better policy making as well as creating a culture of knowledge sharing and learning according to the EC corporate programme on Data, Knowledge and Information Management.

Document management

An **Action Plan on Paper Archiving** has continued to be implemented during 2018. Physical inventory tables are in place for all 32 units of the DG and provide an overview of the number of paper files, their location as well as information on the post-administrative retention period action (transfer to the Historical Archives or elimination after the expiration of the administrative retention period). Most of the notes on elimination or transfer decision from now through 2029 are already prepared, registered and filed in ARES.

Implementation of Electronic Archival Action Plan continued in 2018. Training on electronic filing was organised in November 2018. Despite this, statistics show an increase of almost 550% in non-filed documents.

It is to be noted that most of these documents (2794 out of the 3103) have been assigned and filed by SFC2014 in other DGs. To solve this issue, REGIO DMO has filed the documents into an ad-hoc files. It will not need to be repeated in the future, since from March 2018 SFC2014 is using a proper job user for each DG. Another reason for the increase in the non-filed documents is the uncertainty on the responsibility in filing of HR documents. This issue will need to be addressed during 2019 at the corporate level.

On top of recurrent meetings with DMO correspondents, the DMO correspondents club continue to provide an informal platform for exchanges of good practices, sharing of experience and awareness raising among colleagues in charge of document management across the whole DG.

At the end of 2018, REGIO considers that all files that could be shared with other Commission services have indeed been shared. 38.54%, of REGIO files are now shared (compared to 39.77% last year). The indicators show a slight increase on both files non-accessible for the whole DG or without any reader outside REGIO. This is mostly due to the fact that there has been a steady increase in the creation of contract files, for which there is no decision at corporate level yet. 454 contract files have been created in 2018.

For more details and for the Better Regulation component(s, please refer to Annex 2.

Data protection

Throughout 2018, REGIO established an inventory of all processing operations of the DG based on the stock-taking exercise launched in May 2018, where all units and Directorates were asked to provide their current and planned personal data processing operations.

As regards compliance with general principles relating to processing of personal data as outlined in Article 4 of **Data Protection Regulation** (EU) 2018/1725 REGIO took the following steps in 2018 in line with **Action Plan** of 7 November 2018 (C (2018)7432)[119]:

- Lawfulness: data protection coordinator in coordination with the legal unit reviewed the legal basis for the DG's processing operations. For REGIO activities, the most adequate articles can be found in the Common Provisions Regulation (EU) 1303/2013. For corporate personal data processing operations REGIO is working closely with Data Protection Officer to identify the most adequate EU legal act.
- Data minimisation: REGIO review compliance and concluded that the principle of data minimisation is respected.
- Storage limitation: REGIO reviewed the compliance and aligned the retention period in the personal data processing operations in line with the Common Retention List for European Commission files.

At the beginning of 2018 DG put in place a dedicated page on Data Protection in REGIO Wiki. All units/directorates can find guidance on how to comply with Data protection rules. Several meetings with main controllers were stablished to assist them in updating the notifications.

In June, awareness session on Data Protection to enlarged board of Directors was delivered to all staff through web streaming. Director General passed the message to all Directors and Head of Units of the importance of complying with data protection rules.

Before the entry into force of the new regulation, a presentation on data protection was organised for all staff.

[119] Communication to the Commission: The Commission's Data Protection Action Plan for the implementation of Regulation (EU) 2018/xxx on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC

DG has also worked throughout 2018 on provision of appropriate information to the data subjects through concise, transparent and intelligible privacy statement.

The notifications were updated before the entry into force of the new regulation and circulated to all units/directorates together with explanation on how to use privacy statements to inform data subjects in a clear, concise and intelligible form. With the entry into force of the new regulation in December 2018 REGIO will transfer all notifications into records through the new Data Protection Records Management System (DPMS) and further updates will be performed in line with the corporate instructions.

Following discussions with audit directorate of REGIO and consultation of other ESIF DGs audit colleagues and DPO as regards possible restrictions to the data subjects rights it was concluded that there is no need for internal rules for external audits.

At the end of 2018, following the request of DG JUST, an inventory of transfers to international organisations in REGIO was established.

2.2.3 External communication activities

With a budget of EUR 454 billion for 2014-2020, the ESI Funds are a key component of the Commission's drive to fulfil its first political priority of investing in jobs and growth. The reform for 2014-2020 has made the Funds resolutely performance-orientated.

In this context, **REGIO's Communication Strategy for 2017-2020** (adopted on 27 March 2017) sets the following priorities and objectives for the DG's communication for that period:

- Raise the profile of the regional development and cohesion funds within the Commission, to secure adequate levels of funding in the proposals post-2020;
- Raise awareness of the results of regional development and cohesion funds and their impacts on people's lives;
- Increase participation to setting priorities and funding under the next MFF;
- Raise awareness of the win-win impact of structural funds and of the potential of Cohesion policy to induce political cohesion in the EU; and
- Increase take up of funds and the quality of project proposals presented.

To this end, the Strategy identifies a number of target audiences and main messages and promotes, among others, mainstreaming communication throughout all REGIO activities, making communication everyone's business in the DG, closely involving REGIO's partners and building on good practice. REGIO's technical assistance allocation to communication activities reached EUR 20 million for 2018.

In line with the objectives of REGIO's communication strategy for 2017-2020, the following campaigns and activities were implemented in 2018:

- A communication campaign targeting youth on social media ('The Road Trip Project');
- A communication campaign targeting a larger public in regions where awareness of the policy is at lowest - 'EU Delivers in the Regions' - to showcase concrete results of Cohesion policy through 'proximity' communication, co-created with the regions;
- Partnerships with media – under which we provide grants to media to produce independent content related to Cohesion policy;
- Local dialogues on Cohesion policy, organised in partnership with the Council of European Municipalities and Regions and its local members;

- 'EU in My Region', REGIO's traditional flagship communication campaign, to emphasise with EU (co)funded programme and projects the presence of the EU throughout European regions;
- Activities targeting stakeholders to celebrate the 30th anniversary of Cohesion policy. These included actions targeting the European Commission, Brussels stakeholders and well as stakeholders at national and regional level.

These have been accompanied by strong efforts to showcase achievements of Cohesion policy through the corporate communication campaigns, run by DG COMM. REGIO is a major provider of projects showcased under the #InvestEU campaign and fed reflection on two other campaigns - EUandME, EUprotects, as well as taking part in the rural campaign.

These actions are complementary with the seven joint communication actions that commissioners Creţu and Thyssen proposed to the Member States in 2017, in a bid to raise the level of ambition and help join forces on communication on Cohesion policy across the EU.

These new communication actions have been implemented in close cooperation with all REGIO directorates, with DG EMPL and in synergy with the INFORM and INIO networks of national communicators on Cohesion policy. Consistent efforts have been deployed to develop a new working method with these networks, in order to co-create coherent narratives about Cohesion policy, get their buy-in for our campaigns, connect the dots between their and the Commission's activities, to amplify the outreach and impact of our communications.

In October, REGIO organised again, in cooperation with the Committee of the Regions, the **European Week of Regions and Cities**. This was anew an important opportunity for dialogue between the Commission, regions and cities on the delivery of the Commission's political priorities, as more than 7,000 participants joined the event. This Week was also the frame of the awards ceremony of the 11th edition of the RegioStars, which continued to recognise the achievements of the most innovative EU-funded projects. In 2018, 102 applications were received for five award categories.

The Commission continued to develop and expand the **ESIF open data platform** in 2018. The open data platform has become the by-default source of information on ESIF implementation. With new 2017 and 2018 data on implementation added, it becomes clearer how multi thematic, multi annual programmes are delivered over the 2014-2020 period. A new animated graph launched in December 2018 allows Member States to compare themselves to the EU benchmark for financial implementation. The Commission will continue to promote the platform as a reference site through conferences, technical meetings, web, social media, e-mail newsletters and the Panorama magazine.

Finally, the annual fora of the four EU macro-regional strategies (Alpine, Adriatic-Ionian, Baltic and Danube), attended by 500-900 participants, allowed fostering cooperation between regions on common challenges linked to the Commission's political priorities, such as investment for growth and jobs, energy union, digital single market, etc.

For further information, please refer to Annex 2.