



2013

Annual Activity Report

DG ENLARGEMENT

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N.B. For a better understanding of the specific "enlargement" vocabulary used in this report, the reader is kindly invited to consult the detailed glossary which can be found on the Enlargement website of the European Commission at the following address: http://ec.europa.eu/enlargement/policy/glossary/index_en.htm.

INTRODUCTION:

The DG in brief

The enlargement policy of the European Union has been pursued for more than four decades. During this time the European Union has demonstrated its attraction to potential new Member States and its capacity to expand the zone of freedom, peace and economic stability in Europe. Founded by six countries in the 1950s, the European Union today has 28 Member States, with Croatia having joined in July 2013. The mission of DG Enlargement is to take forward the process of enlargement of the European Union under the guidance of the Commissioner for Enlargement.

Enlargement policy and objectives

The overall objective of the enlargement policy is to implement Article 49 of the Treaty on European Union which offers the prospect of EU membership to all European countries that respect the fundamental values of the EU and are committed to promoting them. The current enlargement agenda covers the Western Balkans and Turkey. Accession negotiations with Iceland were put on hold by the Icelandic government in 2013 and will only be resumed if Iceland decides to continue on the path towards EU membership.

The specific objectives of DG Enlargement are to develop and ensure implementation of a coherent enlargement strategy; to support and manage the accession processes of candidate countries and potential candidates, including the accession negotiations; to support implementation of policy objectives through provision of financial assistance; to support the Stabilisation and Association Process in the Western Balkans; to enhance regional cooperation; to provide support to the economic development of the Turkish Cypriot community; to complete post-accession financial assistance in new Member States; and to implement a communication strategy aimed at increasing awareness of and support for the enlargement agenda. These objectives are pursued in close cooperation with the Member States, the other Institutions of the European Union, in particular the European Parliament, the EU-Delegations, the national authorities in the enlargement countries and other stakeholders, including civil society, and with other international organisations.

Progress towards the overall objective of enlargement policy is assessed through the policy's impact on enlargement countries meeting the political, economic and EU *acquis* criteria for accession and coming closer to EU standards. This assessment is published each year in the form of the Enlargement Strategy Paper and Progress Reports for each country in the process. Countries on the road to accession have undergone major changes through accession-driven democratic and economic reforms. EU enlargement policy continues, in this respect, to be a powerful tool for societal transformation.

Financial support

The policy objectives of DG Enlargement are supported by the Instrument for Pre-Accession Assistance (IPA). The instrument is the means by which the EU supports reforms in the enlargement countries with financial and technical help. The IPA funds build up the capacities of the countries throughout the accession process, resulting in

progressive, positive developments in the region. IPA replaced the previous instruments for pre-accession: Phare, ISPA, SAPARD, the pre-accession instrument for Turkey, and the financial instrument for the Western Balkans, CARDS. Since 2007, the enlargement countries have received EU funding and support through this single channel.

IPA funding amounted to around € 11.5 billion over 2007-13 (IPA I), while IPA funding in 2013 amounted to around 1.95 billion. The beneficiary countries were: [Albania](#), [Bosnia and Herzegovina](#), [Croatia](#), [the former Yugoslav Republic of Macedonia](#), [Iceland](#), [Kosovo](#)¹, [Montenegro](#), [Serbia](#), and [Turkey](#). Implementation of IPA for the years 2007-2013 has been ongoing throughout 2013 and the last programmes under IPA have been adopted at the end of the year.

As of 2014, the new Instrument for Pre-Accession Funding (IPA II) will replace its predecessor. IPA funding covering the 2014–2020 period will amount to € 1 1.7 billion. Based on the lessons learnt from the planning and implementation of IPA I, including two IPA interim and meta evaluations, pre-accession assistance will be more closely linked to the enlargement priorities, and be based on a more results-oriented and strategic approach targeting key reforms in the enlargement countries for the new phase.

Implementation and Control of Financial Assistance

DG Enlargement implements its budget in complex circumstances which create specific risks and require a broad variety of controls and audits. The conditions under which it operates include inter alia:

- different levels of intervention (national, regional, bilateral);
- a multitude of sectors and line ministries involved in the beneficiary countries;
- an implementation environment which is constantly changing subject to the progress made by the candidate countries and potential candidate countries;
- different modes of implementation (including the use of different award/procurement rules).

The specificities and risks which result from these conditions have to be addressed in the way DG Enlargement manages, monitors and controls the implementation of the funding. Pre- and post-accession assistance is thus implemented through a variety of management modes which take into account the different levels of preparedness of the beneficiary countries. DG Enlargement manages funds directly through centralised management and applies several management modes where it entrusts budget implementation tasks to other entities:

- Centralised (in Headquarters and deconcentrated to EU-Delegations): Funds are managed directly by the services of DG Enlargement;
- Decentralised (with ex-ante control): The funds are managed by the national

¹ This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

authorities of the beneficiary country, but they are subject to ex-ante control by an EU-Delegation;

- Decentralised (without ex-ante control): The funds are managed by the national authorities of the beneficiary country without being subject to ex-ante control by an EU-Delegation (in 2013 this applied only to Croatia until it became a Member State on 1 July);
- Indirect (centralised): The funds are managed, on behalf of DG Enlargement, by separate legal entities such as agencies and semi-public bodies;
- Joint: funds are jointly managed with International Organisations (EBRD, EIB, Sigma, UN agencies, etc.);
- Cross-delegated: The funds are managed by another service of the Commission through cross-delegation.

Organisation and human resources of DG Enlargement

Overall, around 850 colleagues work in Headquarters and in the EU-Delegations with the task to ensure the implementation of the policy objectives and the pre-accession assistance. The political guidance and decisions are taken by the Commissioner for Enlargement. The Directorate General for Enlargement is organised in 5 Directorates under the management of the Director-General.

Directorate A is in charge of developing the overall strategy for implementing enlargement policy and its funding, planning, reporting and evaluating progress, in particular by coordinating the annual Enlargement package, communicating enlargement policy, as well as developing relations with other institutions.

Directorates B and C have a geographic focus and cover the direct relations with the countries in the process. The staff of these directorates is located both in Headquarters and in EU Delegations in the enlargement countries. Together, they prepare the Progress Reports for the annual Enlargement Package and plan and implement pre-accession assistance to the countries under mainly centralised or decentralised management modes.

Directorate D is responsible for managing specific financial instruments, including TAIEX, twinning, horizontal and multi-beneficiary programmes and assistance to the Turkish Cypriot community.

Directorate E is in charge of ensuring that the human, financial, and technical resources are available and managed by DG Enlargement in a sound, efficient, and legal manner, and that the internal organisation of the DG is in line with the overall political priorities, thereby enabling it to attain the expected results. It ensures the smooth phasing out and clearance-of-accounts of previous enlargements financial assistance programmes.

The year in brief

Key achievements

Progress of the candidate and the potential candidate countries towards meeting the conditions for accession, and the terms of the Stabilisation and Association Agreements, was continuously monitored and assessed. The findings were published in the **annual Enlargement package**, DG Enlargement's main flagship product. Adopted on 16 October 2013, it contained one communication – the Strategy Paper with key policy recommendations – as well as seven progress reports and a report on Iceland. In the Strategy Paper, the Commission underlines a number of key challenges facing the Western Balkans and Turkey and the importance of addressing these "**fundamentals first**": (1) economic governance and competitiveness; (2) the rule of law; (3) the functioning of institutions guaranteeing democracy; (4) fundamental rights, with a particular focus on freedom of expression, the situation of the Roma and LGBTI persons; and (5) in the case of the Western Balkans, overcoming the legacy of the past. The General Affairs Council of 17 December 2013 welcomed the Commission's Strategy Paper and adopted detailed conclusions largely consistent with and supportive of the Commission's policy line.

In July 2013, **Croatia** joined the EU as its 28 Member State. Croatia's accession is an example of the transformative power and stabilising effect of the enlargement process.

Progress was made in the accession negotiations with **Montenegro**. In June 2013, Montenegro adopted comprehensive action plans for chapters 23 and 24. Five new chapters were opened in December 2013, bringing the total to 7 opened, of which 2 are provisionally closed. Screening with Montenegro was concluded in June 2013. The vast majority of screening reports had been adopted by Council by the end of the year, with only a few remaining to be discussed in the first months of 2014.

Following the historic agreement between Serbia and Kosovo reached in April 2013 in the framework of the EU-facilitated dialogue, the June 2013 European Council decided to open accession negotiation with **Serbia**. The Council also authorised the opening of negotiations for a Stabilisation and Association Agreement (SAA) with **Kosovo**, which were officially launched in October 2013. In December 2013, the General Affairs Council adopted the negotiating framework for accession negotiations with Serbia and set the date for the first Inter-Governmental Conference (IGC) for January 2014. Screening with Serbia started in September 2013 with chapters 23: Judiciary and Fundamental rights and 24: Justice, Freedom and Security, in line with the new approach to tackle these chapters early in the accession process.

Within the context of the enlargement package, the Commission recommended for the fifth time the opening of EU accession negotiations with **the former Yugoslav Republic of Macedonia**. The General Affairs Council of 17 December 2013 broadly shared the Commission's assessment that the political criteria continue to be sufficiently met and took note of the Commission's recommendation that accession negotiations be opened with the former Yugoslav Republic of Macedonia. With a view to a possible decision of the European Council to open accession negotiations with the former Yugoslav Republic of Macedonia, the Council will revert to the issue in 2014.

The Commission recommended that candidate status be granted to **Albania** on the understanding that Albania continues to take action in the fight against organised crime and corruption. The Council will examine, on the basis of a report to be presented by the Commission, the continued implementation of anti-corruption and judicial reform strategies and of recently adopted relevant legislation as well as a continued trend of proactive investigations and prosecutions, including in the area of organised crime. In the light of this report, and on the understanding that Albania continues to build on progress made so far, the Council looks forward to a decision regarding granting candidate status to Albania in June 2014, subject to endorsement by the European Council.

As regards **Bosnia and Herzegovina (BiH)**, the Commission concluded that the country is at a standstill in the European integration process. BiH needs to implement without further delay the Sejdic-Finci judgement of the European Court of Human Rights in order to move forward on the EU path. Bosnia and Herzegovina also needs urgently to establish a co-ordination mechanism on EU matters so that it can speak with one voice on the EU agenda.

Accession negotiations with **Turkey** regained new momentum with the opening of a new chapter (22 on regional policy). In December 2013, the readmission agreement between the EU and Turkey was signed and the Visa liberalization dialogue initiated.

When the government of **Iceland** announced its decision to put accession negotiations on hold on 22 May 2013, substantial progress had been made in the negotiations. 27 chapters had been opened and 11 were provisionally closed. The General Affairs Council of 17 December 2013 shared the assessment made by the Commission in the context of the enlargement package, and concluded that the EU stands ready to continue the negotiating process in line with the requirements of the Negotiating Framework, should Iceland decide to resume the negotiations.

Main meetings

DG Enlargement continued the Stabilisation and Association Process with the countries and organized a number of high-level political meetings to address the most pressing political and reform issues with the partner countries. The following table tracks the main meetings in which DG Enlargement participated in 2013 in the framework of the Stabilisation and Association Agreements, the Association Agreement with Turkey and the Stabilisation and Association Process Dialogue with Kosovo, as well as meetings in the context of the political reform process and the accession negotiations where relevant.

Table: Main meetings under the SAA and accession processes

2013	SAA Council/SAA Committees	SAA sub-Committees	High-level dialogues	Intergovernmental conferences
	<p>Association Committee and Association Council (Turkey)</p> <p>SAPD Plenary (Kosovo)</p> <p>Interim Agreement (Serbia up to 31/8/2013)</p>	<p>Association sub-Committee (Turkey)</p> <p>Sectoral meetings (Kosovo)</p> <p>Enhanced Partnership Dialogues under the Interim Agreement</p>	<p>Structured dialogues (rule of law for Kosovo)</p> <p>Ad hoc meeting of the Capital Controls Group (Iceland)</p>	
Montenegro	<p>1 SAA Committee</p> <p>1 SAA Council</p>	<p>6 SAA sub-Committees</p>	N/A	2
Serbia²	<p>1 Interim Committee</p> <p>1 SAA Council</p>	<p>4 EPD under the IA</p> <p>1 SAA Sub-committee</p>	None	N/A
The former Yugoslav Republic of Macedonia	<p>1 SAA Committee</p> <p>1 SAA Council</p>	<p>7 SAA sub-Committees</p> <p>1 Special Group on Public Administration Reform</p>	<p>1 High-Level Accession Dialogue</p> <p>No structured dialogues</p>	N/A
Albania	<p>1 SAA Committee</p> <p>1 SAA Council</p>	<p>7 SAA sub-Committees</p>	1 High-Level Dialogue	N/A
Bosnia and Herzegovina	<p>1 Interim Committee</p>	<p>5 SAA sub-Committees</p>	<p>1 HLDAP</p> <p>3 meetings on Structured Dialogue on Justice</p>	N/A
Kosovo	<p>1 SAPD Plenary</p>	<p>7 Sectoral meetings</p>	1 Structured Dialogue on Rule of law	N/A
Turkey	<p>1 Association Committee</p> <p>1 Association Council</p>	0	N/A	1
Iceland	N/A	N/A	1 Capital Controls Group meeting	N/A

² The EU-Serbia SAA entered into force on 1 September 2013 replacing the Interim Agreement.

Information and communication activities

Throughout 2013, DG Enlargement's information and communication strategy aimed at increasing knowledge about the enlargement process in the EU Member States as well as in the enlargement countries. In addition to informing about major developments related to the policy, efforts were made to foster awareness in the EU about the enlargement policy and the countries in the process and to inform stakeholders about the benefits of pre-accession assistance (IPA). In the enlargement region, initiatives focused on making the prospect of enlargement sufficiently credible and wherever possible, tangible, to increase the political leverage for reform.

The activities targeted mainly stakeholders and multipliers (e.g. youth organisations, media, business and civil society organisations), with selected activities and products reaching out to the general public:

- The accession of Croatia on 1 July 2013 was one of the key events for DG Enlargement in 2013. The information campaign on Croatia's accession to the EU included, among others, some 70 events in the Member States, study visits to Croatia for journalists from the Member States, a conference on "Croatia in the EU: Strengthening ties in youth cooperation", a photo competition, and a series of video clips for online use. A specific campaign website and social media activities were also launched.
- The "SpeakUp! 2" conference on freedom of expression and media in the Western Balkans and Turkey took place on 20 June 2013 and brought together around 400 participants. The conference was promoted through Facebook and Twitter, and freedom of expression and media was the theme of the month for all social media activities.
- Video clips, a travelling photo exhibition and thematic leaflets were produced to present the use and impact of the EU's pre-accession assistance in key areas such as public administration reform, rule of law, sustainable economy, social inclusion, agriculture and rural development.
- Audio-visual material and photo exhibitions were produced and disseminated to raise EU citizens' awareness about enlargement and the aspirant countries.
- Study trips for journalists from the enlargement countries were organised to increase knowledge on the EU enlargement process and policy. The trips focused on informing the participants about the EU and the negotiation process, as well as selected policy areas such as freedom of expression and media.
- Active online communication continued, with increased activities in particular on Facebook and Twitter.
- EU Delegations/EU Office and regional EU Information Centres in the enlargement countries implemented information and communication activities targeting local audiences.

Financial Assistance

Implementation of IPA programmes continued and the last programmes under IPA were adopted as planned in 2013, with the exception of the National Programme for Bosnia and Herzegovina which was reduced due to lack of progress on its political commitments.

A consumption rate of **99.73%** of the commitment appropriations was achieved in 2013 by the DG, above the objective set in the AMP (>90%).

The execution rate of payment appropriations was also above the objective set in the AMP (>90%) at **98,79%**. Payments were broken down per management mode as follows:

	Paid Amount (EUR)	HQ (Centralised)	Deconcentrated	Cross-delegated	Indirect	Decentralised	Joint
Administrative	17,436,253	2,544,532	26,369,600	-	-	-	-
Operational	820,358,990	99,382,249	301,353,307	41,537,006	43,338,348	161,777,871	161,492,328
Total	837,795,243	101,926,781	327,722,908	41,537,006	43,338,348	161,777,871	161,492,328
Percentage		12.17%	39.12%	4.96%	5.17%	19.31%	19.28%

The DG has two error rates (RER), one for centralised and one for decentralised management (respectively):

Centralised Management: RER
Target: < 2%
Result: RER of 1.80 % for finalised RER audits for ex post control centralised.

Decentralised Management: RER
Target: < 2%
Result: RER of 0.08% for finalised RER audits on de-centralised management (benchmark < 2%)

Preparation for the next period of financial assistance 2014-2020 continued throughout 2013. The External relations package adopted by the Commission on 7 December 2011 was negotiated until the very end of 2013 between the EP and Council and an agreement was reached on the **Common Implementing Regulation** on 19 November 2013.

A final compromise text of the **IPA II Regulation** was approved by Parliament on 11 December 2013. The compromise reflects an overall broad alignment between the institutions on the objectives for enlargement assistance. The Regulation was finally adopted on the 11 March and published in the Official Journal on the 15 March 2014.

IPA II specific rules of applications were prepared as a Delegated Act and were ready for adoption at the end of 2013. Since then, the co-legislators decided to change the legal format from a Delegated Act (as proposed by the Commission) to an Implementing Act. Re-drafting of the text started in December 2013 with a view to adopting "Specific Rules for Implementing the IPA II Regulation" in early 2014. In addition, a draft model **Framework Agreement** has been prepared which stipulates the conditions for implementation of IPA II and which will be signed with the IPA II beneficiaries, including a stronger focus on monitoring and evaluation modalities, taking stock of lessons learnt and the need of being more result oriented.

Sector approach guidelines and **budget support guidelines** as well as a new approach to implementing **cross-border cooperation programmes** were drafted. A new **Programming Guide** which complements the regulatory framework and which focuses on the preparation and approval stages of IPA II programmes was prepared in 2013 and

will be published on an extranet site³ in early spring 2014. **Draft (Multi) Country Strategy Papers** were prepared in 2013 and will be finalised after the strategic dialogue with the Parliament takes place on 18 March 2014.

The allocation for IPA II for the period 2014-2020 will amount to **€ 11,699 million**.

Human resources

The management of **human resources** was in line with the planning outlined in DG Enlargement's Annual Management Plan 2013. However the workload continued to increase in 2013, with additional tasks related to the management of all categories of staff in both Headquarters and Delegations.

The **continuing reduction of staffing levels** in the DG remains a significant challenge. In 2013 the DG returned 20 permanent posts to central services as part of various taxes. The evolution of the number of establishment plan posts in 2013 is presented in the table below. To be noted that the reduction of posts in EU Delegations corresponds to five posts in Zagreb (now re-assigned to Headquarters) and one post from the former Iceland Unit (transfer of staff member with post). The final allocation of resources for 2014 foresees a tax of 12 posts. Even though the DG may expect some reinforcement from central services for specific operations, the payment of the taxes will be a significant burden for the DG in 2014.

	1 January 2013			1 January 2014			Balance		
	HQ	EUDs	TOTAL	HQ	EUDs	TOTAL	HQ	EUDs	TOTAL
AD	134	43	177	126	37	163	-8	-6	-14
AST	108	9	117	103	8	111	-5	-1	-6
TOTAL	242	52	294	229	45	274	-13	-7	-20

Organisation Chart changes and management appointments in 2013

The year 2013 brought a number of changes as regards the senior management and the composition and structure of several units in DG Enlargement. Mr Stefano Sannino, Director-General of DG Enlargement took leave on personal grounds from 1 July 2013 (to take up duties as the Permanent Representative of Italy to the EU). The new Director-General, Mr Christian Danielsson, took up his functions on 1 October 2013. Mr Joost Korte, was Acting Director General for Enlargement in the interim period. The post of the Deputy Director-General was suppressed (after the departure of Mr. Korte end December 2013).

During 2013, a number of reorganisations were introduced, mainly due to the decision of Iceland to put accession negotiations on hold and the accession of Croatia. Following the accession of Croatia on 1 July 2013, a Croatia Transition Team sector (composed of

³ This site is shared among the IPA practitioners both within the Commission and in the Beneficiary countries.

staff who had been serving in the finance and contracts section of the former Croatia Delegation), was created as of 1 July for the phasing out of the pre-accession assistance. Moreover, unit B1 "Croatia, Montenegro" became eventually "Montenegro, Iceland" and unit B4 "Iceland" was suppressed.

Executive Summary (five pages)

1. Key Performance Indicators (5 most relevant)

Result/Impact indicator (description)	Milestone 2017	Latest known results as per Annual Activity Report
Overall assessment provided by the progress report on the political reforms Degree of alignment with the <i>acquis</i>	Further progress made by candidate countries and potential candidates towards meeting the criteria for membership.	<p>Croatia: Croatia joined the EU as its 28th Member State on 1 July 2013. The Commission's last monitoring report on Croatia's accession preparations was adopted on 26 March 2013.</p> <p>Montenegro: progress on the rule of law demonstrated by the fact that chapters 23 & 24 were opened in December 2013.</p> <p>Serbia: negotiating framework adopted by the Council in December 2013. Screening started in September 2013. The former Yugoslav Republic of Macedonia: is advanced in the level of alignment in several areas. The opening of negotiations is still however not decided by Council.</p> <p>Turkey: reforms continued, notably with the adoption of important judiciary reforms. Chapter 22-Regional policy was opened after three years of stalemate in the process. Readmission agreement between the EU and Turkey was signed and the Visa liberalization dialogue initiated.</p> <p>Albania: the Commission recommended to the Council to grant Candidate Status.</p> <p>Bosnia and Herzegovina: lack of progress; in particular no tangible results regarding implementation of the Sejdić-Finci judgement and the EU coordination mechanism.</p> <p>Kosovo: The SAA negotiations were launched in October 2013. Visa liberalisation dialogue ongoing.</p> <p>Iceland: Accession negotiations with Iceland were put on hold by the Icelandic government in 2013 and will only be resumed if Iceland decides to continue on the path towards EU membership.</p> <p><i>For more details please see table pages 14-15.</i></p>



KPIs	Target	Latest known results as per AAR 2013
1. Comprehensive assessment of the political reforms achieved by the candidate countries and the potential candidates as provided by the annual strategy paper and the progress reports and their subsequent endorsement by the College.	Enlargement package's assessments endorsed by the College.	Latest enlargement package adopted by the College on 16 October 2013, following the assessment and recommendations provided by DG Enlargement.

2. Degree to which Council decisions and conclusions endorse the Commission's strategic input and recommendations.	Commission's strategic input and recommendations endorsed by the Council.	The Commission's strategic input and recommendations has been largely endorsed by the Council in its conclusions of 16 December, with the exception for those for the former Yugoslav Republic of Macedonia and the postponement of the decision concerning granting candidate status to Albania, while acknowledging in general the assessment of the Commission on both countries. To be noted that also the European Parliament broadly endorsed the Commission's strategy and recommendations.
3. Successful programming of IPA.	All programmes adopted within the established schedules and before end 2013.	All 14 programmes were adopted before end 2013.
4. Commitment & payment execution rates.	Commitments target AMP 2013: $\geq 90\%$ Payment execution target AMP 2013: $\geq 90\%$	Commitments execution: AAR 2013: 99.73% Payments execution: AAR 2013: 98.79%. Both rates exceeded significantly the target set in the AMP 2013.
5. Residual Error Rates (RER)	Centralised management Target AMP 2013: $<2\%$ De-centralised management Target AMP 2013: $<2\%$	Centralised Management RER: 1.80% for finalised RER audits for centralised management (benchmark $< 2\%$) ⁴ De-centralised Management RER: 0.08% for finalised RER audits on de-centralised management (benchmark $< 2\%$) ⁵ Both targets have been fully achieved.

⁴ This refers to results of the finalised RER audits for the 2013 exercise. It should be noted that the ex post control programme for centralised management is multi-annual, and 2013 is only the first year of this programme.

⁵ This refers to results of the finalised RER audits for the 2013 exercise. It should be noted the overall ex post assessment of the year of de-centralised execution in question cannot be finalised yet due to the extension of the relevant financing memoranda.

State of play in the accession process - Potential Candidates and Candidate Countries

✓ date or #	Compliance / date of completion / number completed
=>>	Ongoing
☒	Not started yet / Not compliant
n.a.	Not applicable

Last update: March 2014

Milestones		Croatia	Montenegro	The former Yugoslav Republic of Macedonia	Serbia	Albania	Bosnia & Herzegovina	Kosovo*	Turkey	Iceland
Stabilisation and Association Agreement (SAA)	▶ Feasibility study	May 2000	Apr 2005	Jun 1999	Oct 2004	Nov 1999	Sep 2002	Oct 2012		
	▶ Signed	Oct 2001	Oct 2007	Apr 2001	Apr 2008	Jun 2006	Jun 2008	☒		May 1992 ⁶
	▶ Interim agreement signed	Oct 2001	Oct 2007	Jun 2001	Apr 2008	Jun 2006	Jul 2008	☒	n.a.	n.a.
	▶ Agreement in force/ ratified	Feb 2005	May 2010	Apr 2004	Sep 2013	Apr 2009	☒	☒	Dec 1964 ⁷	Jan 1994 ⁸
	▶ Commitments fulfilled	✓	=>>	=>>	☒	=>>	☒	☒	=>> ⁹	n.a.
Application of Membership received		Feb 2003	Dec 2008	Mar 2004	Dec 2009	Apr 2009	☒	☒	Apr 1987	Jul 2009
Commission Opinion on application	▶ Commission opinion requested by Council	Apr 2003	Apr 2009	May 2004	Oct 2010	Nov 2009	☒	☒	Apr 1987	Jul 2009
	▶ Adoption of Commission opinion	Apr 2004	Nov 2010	Nov 2005	Oct 2011	Nov 2010	☒	☒	Dec 1989	Feb 2010
Candidate country status	▶ Recommended by Commission	Apr 2004	Nov 2010	Nov 2005	Oct 2011	Oct 2012 ¹⁰	☒	☒	1999	Feb 2010
	▶ Granted by Council	Jun 2004	Dec 2010	Dec 2005	Mar 2012	☒	☒	☒	Dec 1999	Jun 2010
Screening	▶ Initiated	✓	Mar 2012	☒	Sep 2013	☒	☒	☒	✓	Nov 2010
	• Reports to be delivered by the Commission	✓	=>>4	☒	☒	☒	☒	☒	=>> 0	=>> 0
	• Reports under discussion in the Council	✓	=>>2	☒	☒	☒	☒	☒	=>> 10	=>> 1
	▶ Concluded	✓	=>>27	☒	☒	☒	☒	☒	✓23	=>> 32
Negotiation framework	▶ Proposed by Commission	Jan 2005	May 2012	☒	July 2013	☒	☒	☒	Jun 2005	Jul 2010
	▶ Adopted by Council	Oct 2005	Jun 2012	☒	Dec 2013	☒	☒	☒	Oct 2005	Jul 2010

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

⁶ European Economic Area Agreement.

⁷ Association Agreement.

⁸ European Economic Area Agreement.

⁹ Additional protocol not implemented.

¹⁰ Subject to the completion of a limited number of short term priorities.

Milestones		Croatia	Montenegro	The former Yugoslav Republic of Macedonia	Serbia	Albania	Bosnia & Herzegovina	Kosovo*	Turkey	Iceland
Accession Negotiations	▶ Accession negotiations opened	Oct 2005	Jun 2012	=>> ¹¹	June 2013	☒	☒	☒	Oct 2005	Jul 2010
	• Negotiation chapters opened (#)	✓	=>> 12	☒	☒	☒	☒	☒	=>> 13	=>> 27
	• Negotiation chapters (provisionally) closed (#)	✓	=>> 2	☒	☒	☒	☒	☒	=>> 1	=>> 11
	▶ Accession negotiations overall closed	Jun 2011	☒	☒	☒	☒	☒	☒	☒	☒
Compliance with Copenhagen criteria	▶ Political criteria	✓	✓	✓	✓	=>>	=>>	=>>	✓	✓
	▶ Economic criteria	=>>	=>>	=>>	=>>	=>>	=>>	=>>	=>>	=>>
	▶ <i>Acquis</i> criteria – alignment with EU standards, ability to assume the obligations of membership	✓	=>>	=>>	=>>	=>>	=>>	=>>	=>>	=>>
Decentralisation process	▶ Conferral of Management - Component I	Oct 2008	=>>	Dec 2010	Mar 2014	Mar 2014	☒	☒	Oct 2008	n.a
	▶ Conferral of Management - Component II	Nov 2008	=>>	=>>	Mar 2014	☒	☒	☒	Dec 2008	n.a
	▶ Waiver of ex-ante control - Component I	Feb 2013	☒	☒	n.a	☒	☒	☒	☒	n.a
	▶ Waiver of ex-ante control - Component II	Feb 2013	☒	☒	n.a	☒	☒	☒	☒	n.a
Readmission agreement	▶ Entry into force of readmission agreement	n.a.	Jan 2008	Jan 2008	Jan 2008	May 2006	Jan 2008	n.a	=>>	Member of Schengen area
	Visa liberalisation	n.a.	Dec 2009	Dec 2009	Dec 2009	Dec 2010	Dec 2010	=>>> ¹²	=>>	Member of Schengen area
Customs / Trade agreement	▶ In force	✓	✓	✓	✓	✓	✓	=>>	1995	✓
	▶ All obstacles/technical barriers removed	✓	=>>	=>>	=>>	=>>	=>>	=>>	=>>	✓
Regional issues and international obligations	▶ Regional cooperation: Participation in regional initiatives	✓	✓	✓	✓	✓	✓	✓	✓	n.a.
	▶ Bi-lateral issues open	=>>	=>>	=>>	=>>	=>>	=>>	=>>	=>>	=>>

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

¹¹ In 2013, the Commission issued its fifth recommendation to open accession negotiations.

¹² Visa liberalisation dialogue with Kosovo launched in January 2012; visa liberalisation roadmap launched in June 2012.

2. Policy highlights of the year (executive summary of part I)

Progress per country on political reforms, endorsement of the enlargement package by the College and degree to which Council decisions and conclusions do endorse the Commission's strategic input and recommendations (see KPIs 1 & 2)

During 2013, DG Enlargement continued to assist all countries in meeting the criteria defined by the Treaty and the European Council (so called "Copenhagen Criteria", as well as the Stabilisation and Association Process SAP conditions).

In its **Enlargement Strategy Communication** [COM 2013 (700) final], adopted on 16 October 2013, the Commission set out the main achievements of enlargement policy and challenges ahead. Twenty years after the Copenhagen Criteria were set by the European Council, the Commission drew attention to their continued relevance today, underlining the importance of enlargement countries addressing the "fundamentals first", in particular as regards the rule of law, democracy and the economy. This approach was welcomed unanimously by the Member States and reflected in the Conclusions adopted by the General Affairs Council of 17 December 2013, which were subsequently endorsed by the European Council.

Policy achievements and financial assistance per country

Croatia

Croatia **joined the EU as its 28th Member State on 1 July 2013**. The Commission's last monitoring report on Croatia's accession preparations was adopted on 26 March 2013. It focused on the three areas which, according to the accession treaty, were under a special monitoring regime (Competition policy, Judiciary and fundamental rights and Justice, freedom and security). The monitoring report also looked at the limited number of chapters, identified in the Comprehensive Monitoring Report of October 2012, where increased efforts were required by Croatia (agriculture and rural development, food safety, veterinary and phytosanitary policy, fisheries, regional policy and the coordination of structural instruments, and environment). The Commission had concluded that Croatia was generally meeting the commitments and requirements arising from the accession negotiations, in all chapters, and would be ready for membership on 1 July 2013.

As far as financial assistance is concerned, Croatia continued to implement the IPA pre-accession programmes. Additionally in 2013, the Transition Facility Programme was adopted on 22/11/2013 for a total amount of € 29,000,000 support in the period immediate after the accession of Croatia to the EU.

Financial assistance under the Transition Facility for Croatia will be used to develop and strengthen its administrative and judicial capacity to implement and enforce Union law, as well to foster the peer - exchange of knowledge and experience in the area of Justice, Fundamental Rights and Home Affairs, Public Administration Reform and strengthening administrative capacity, climate change, health and consumer protection.

The Commission continued to closely monitor the implementation of the on-going Programmes and at the same time to close the financial assistance of pre-IPA instruments. As part of monitoring, the Commission performed on-the spot monitoring of contracts and took part in the relevant monitoring committees.

Montenegro

Following the opening of accession negotiations with Montenegro in June 2012, and in

line with the new approach to chapter 23 on judiciary and fundamental rights and chapter 24 on justice, freedom and security, in 2013 Montenegro focused with the support of DG Enlargement on the **preparation of the comprehensive action plans** which will guide the country's reform process on the rule of law. In June 2013, the government adopted the action plans, which constituted the opening benchmarks for chapters 23 and 24. A significant step in the accession negotiations with Montenegro was taken in December 2013 when these two chapters were opened. By July 2013 all screening meetings with the Commission had been completed. Throughout the year, a total of 25 screening reports were sent to Council, 6 chapters were opened and 1 provisionally closed in two Inter Governmental Conferences in April and December 2013. The Progress report on Montenegro was adopted in October 2013. The second part of the National Programme for Montenegro 2012/2013 under component I was adopted in December 2013. Active preparations on IPA II, mainly the drafting of Montenegro country strategy paper, have taken place throughout the year. Rule of law, fundamental rights and public administration reform have been identified as key priorities for IPA support to Montenegro for the period 2014-2020.

Serbia

Following the joint Commission/HRVP report in April 2013 to Council which recommended **opening accession negotiations** with Serbia, the European Council endorsed in June 2013 this recommendation and the Commission was invited to submit the Negotiating Framework and carry out the screening. The negotiating framework was submitted in July 2013 and adopted by the Council in December 2013, opening the way to the first IGC with Serbia in January 2014. The screening started in September 2013, prioritising in line with the new approach Chapters 23 and 24, as well as Chapter 32. The SAA entered into force on 1 September 2013 with the first SA Council and SA Parliamentary Committee meetings in the fourth quarter. Previously, the Commission had completed a full cycle of Interim Agreement and Enhanced Partnership Dialogue meetings in the first and second quarter of 2013. The 2013 Progress report on Serbia was adopted in October 2013. The IPA 2013 Annual Programme was adopted in December 2013 and active preparations for IPA II (draft country strategy paper) and DIS (conferral of management of IPA components I and II) have taken place throughout 2013.

The former Yugoslav Republic of Macedonia

The Commission repeated, for the fifth time since 2009, its recommendation that negotiations should be opened since the country fulfils the relevant criteria, but in the absence of a decision by the Council, did not yet begin the process of screening or the preparation of a Negotiating Framework. The Stabilisation and Association Agreement continued to be smoothly implemented and was adapted to take account of the accession of Croatia to the EU. The Commission presented a report in mid-April 2013 on the **implementation of reforms** in the context of the High Level Accession Dialogue, as well as on **steps taken to promote good neighbourly relations** and to reach a mutually accepted solution to the name issue, as well as a full annual Progress Report in October 2013. A meeting of the High Level Accession Dialogue took place on 9 April and the country's annual report on the National Programme for the Adaptation of the Acquis (NPAA) was also adopted at the end of the year. Monitoring of IPA I assistance continued through several tools such as Joint Monitoring Committee, Result Oriented Monitoring as well as monitoring of proper functioning of decentralised structures in the country. The advanced draft of the Country Strategy Paper 2014-2020 has been prepared, paving the way for the

implementation of financial assistance under IPA II.

Albania

In 2013, the Commission continued to assist Albania in making progress on its path towards EU integration. Albania put in place measures identified as essential for granting candidate country status and reforms in line with the key priorities of the Commission's 2010 Opinion. DG Enlargement closely monitored the handling of the June 2013 general elections and provided a detailed assessment regarding the fulfilment of the key priorities and other reforms in the 2013 Progress Report, recommending candidate status. In November 2013, the EU and Albania held the first meeting of the High Level Dialogue on Key Priorities. It is to structure EU-Albania co-operation and to help Albania maintain focus and consensus on EU integration – enhancing its chances for success. An IPA 2013 program was prepared in two parts: one managed in the centralised and one in the decentralised management mode. The preparations for decentralised management of IPA funding progressed satisfactorily; pending a final Commission Decision (expected for early 2014) part of the IPA 2013 package will be implemented in the decentralised implementation mode for the first time in Albania. A draft Country Strategy paper for 2014-2020 has been prepared in close consultation with the Albanian authorities.

Bosnia and Herzegovina

In 2013 Bosnia-Herzegovina made very limited progress regarding the fulfilment of its European perspective. Concerning the Sejdić-Finci case, several intensive facilitation meetings were held in Bosnia and Herzegovina, Brussels, Budapest and Prague in order to facilitate an agreement. Yet despite this substantial engagement, the European Court of Human Rights judgement regarding the Sejdić-Finci case was not implemented. The Stabilisation and Association Agreement (SAA) did not enter into force. An efficient and effective coordination mechanism in order to enable the country to speak with one voice was not established.

In the fourth quarter the enumeration phase of the Census was conducted without major problems. A grant through the re-allocation of unused 2009 IPA Funds was allocated to the BiH Agency for statistics to finance field and data processing staff.

The Commission adopted a reduced IPA 2013 programme in December 2013. The Commission also issued the Progress Report for Bosnia and Herzegovina in October 2013. Several recommendations under the Structured Dialogue on Justice were implemented.

Kosovo

Following the joint EEAS-Commission report in April 2013 to the Council on Kosovo's participation in its dialogue with Serbia and given that Kosovo addressed the short-term priorities of the 2012 feasibility study, the Commission prepared draft negotiating directives for a Stabilisation and Association Agreement which were adopted by Council in June 2013. Negotiations on an SAA started in October 2013, with a view to have them completed early in 2014 and the draft agreement initialled by the summer. The Commission also submitted its proposals for the Council to sign and conclude a framework agreement allowing Kosovo to participate in EU programmes in April 2013; discussions in Council started in September 2013 and continue. Following the 'First Agreement on Principles' between Kosovo and Serbia in April, the Commission prepared a special IPA programme to help the implementation of this and other dialogue agreements adopted in December 2013. The Commission completed a full cycle of the Stabilisation and Association Process Dialogue, held a meeting of the Structured Dialogue on the Rule

of Law and issued the Progress Report for Kosovo in October 2013. An advanced draft of the IPA Country Strategy Paper was prepared in December 2013.

Turkey

In 2013, reform efforts continued, notably with the adoption of important judiciary reforms, the start of peace talks aiming to pave the way for a solution of the Kurdish issue and a number of measures as part of a democratisation package presented in September 2013. A significant step was taken in November 2013 when chapter 22 on regional policy was opened after three years of stalemate in the process. Another key event was that in December 2013 the readmission agreement with Turkey was signed and the visa dialogue was launched. However, the response of the government in December 2013 to allegations of corruption raised concerns in relation to the independence, efficiency and impartiality of the judiciary. The Progress report on Turkey was adopted in October 2013. The regular meetings of the Association Committee and Association Council took place. During the year 2013 extensive work was channeled towards preparation of the Country Strategy Paper 2014-2020. The IPA 2013 component I "Transition Assistance and Institution Building" programme (budget of € 236.75 million) was adopted.

Iceland

Accession negotiations with Iceland were put on hold by the Icelandic government in 2013 and will only be continued if Iceland were to decide to resume its path towards EU membership. The Commission stopped engaging on new commitments on IPA I and started to phase out ongoing IPA projects in Iceland. In agreement with the Icelandic government, all preparatory work on IPA II was also suspended.

Financial assistance

Successful programming of IPA (see KPI 3)

14 IPA programmes were submitted to the IPA committee for opinion and subsequently adopted before the end of 2013 albeit some with delays compared to the original schedule.

Financial performance (see KPIs 4 & 5)

In terms of financial performance DG Enlargement exceeded the targets set in the DG's 2013 Management Plan (MP) for commitments and payments. With regard to the key performance indicators, the achievements of the DG were:

- A consumption rate of **99.73%** of the commitment appropriations (above the MP target of >90%);
- An execution rate of payment appropriations of **98.79%** also above the target set in the MP (>90%);
- Centralised Management RER: **1.80%** for finalised RER audits for centralised management (benchmark < 2%)¹³

¹³ This refers to finalised ex post control results for the 2013 exercise. It should be noted that the ex post control programme for centralised management is multi-annual, and 2013 is only the first year of this programme.

➤ De-centralised Management RER: **0.08%** for finalised RER audits on de-centralised management (benchmark < 2%)¹⁴

Regional and Horizontal Assistance including TAIEX and co-ordination of cross border co-operation

Regional cooperation has continued within regional fora such as the Energy Community, the European Common Aviation Area, the Central European Free Trade Area (CEFTA) and the Regional School of Public Administration. The Regional Cooperation Council has further developed its role as a platform for the promotion of issues of importance to the whole region.

Progress on inclusiveness has been made following Kosovo's admittance as a full and equal participant in the Regional Cooperation Council in February 2013 and in the Regional School of Public Administration (ReSPA) in November 2013.

The adoption of the SEE 2020 strategy by the Ministers of Economy of the region in November 2013 set a clear frame for achieving smart, sustainable and inclusive growth.

The **main outputs** in the area of financial assistance were delivered in line with identified priorities of the Enlargement Strategy; i.e. in the area of rule of law, regional cooperation in criminal justice, public administration reform and by building networks of civil society organisations.

In the area of **regional cooperation and reconciliation**, the renewed commitment to the Sarajevo process was confirmed through the launch of the *Regional Housing Programme* (approved housing projects worth € 60 million in 2013/EU contribution to the Fund € 84 million).

To underpin **economic recovery** in the Western Balkans, new investments in infrastructure and private sector development were approved in the framework of the **Western Balkans Investment Framework** (€ 22.08 million grants), as well as projects in the field of competitiveness and human resource development/training.

To support the approximation, application and enforcement of EU legislation as well as alignment with EU best practices, **TAIEX, the Technical Assistance and Information Exchange Instrument**, delivered 2,118 events and assignments across all beneficiaries - the highest figure ever recorded for a given year for TAIEX.

Economic development of the Turkish Cypriot Community

Throughout 2013 the Commission supported the UN Good Offices mission for the resumption of settlement talks but the two communities did not reach agreement on the joint statement to precede the re-launch then. However, on 11 February 2014 Greek Cypriot and Turkish Cypriot leaders issued a Joint Declaration laying a foundation for resumption of negotiations for comprehensive settlement of the long-standing Cyprus problem. Further to these new developments, efforts will be stepped up to help the Turkish Cypriot community prepare for implementation of the *acquis*.

¹⁴ This refers to finalised ex post control results for the 2013 exercise. It should be noted the overall audit assessment regarding the year of execution in question is provisional due to the extension of the relevant financing memoranda.

As regards financial assistance, a financial package of € 31 million was adopted in November 2013, providing continued assistance towards the objectives of the Aid Regulation, with significant inputs on wastewater management and animal health and the successful scholarship programme.

The MFF for 2014-2020 created a multiannual perspective for the support to the TCc. This will facilitate the strategic planning for the coming period.

3. Key conclusions on resource management and internal control effectiveness (executive summary on part 2 and 3)

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

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. As required by the Financial Regulation, the Director-General has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

DG Enlargement assessed the effectiveness of its key internal control systems during the reporting year and has concluded that the internal control standards are being effectively implemented.

In addition, DG Enlargement has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Part 2 for further details

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

4. Information to the Commissioner(s)

The main elements of this report and assurance declaration have been brought to the attention of Commissioner Štefan Füle, responsible for Enlargement and European Neighbourhood Policy. DG Enlargement has followed the working arrangements agreed with Commissioner Füle.

1. POLICY ACHIEVEMENTS

1.1 Achievement of general and specific objectives

1.1.1 Enlargement Policy: support to candidate countries and potential candidates is being implemented according to the specific objectives described in the AMP 2013

Policy Area: Enlargement Policy				<input checked="" type="checkbox"/> Spending programme	<input checked="" type="checkbox"/> Non-spending
		Target (long-term)	Interim Milestone (short-term)	Current situation ¹⁵ (as achieved)	
		2020	2017	2013	
General objective Enlargement Policy based on Article 49 of the Treaty on the European Union (support and guide the European countries which wish to join the EU on their way to accession under the condition that they respect the fundamental values of the EU and are committed to promoting them)	Impact indicator1 Overall assessment provided by the progress report on the political reforms.	Candidate countries closer to meeting all accession criteria. Potential candidates are further advanced in steps towards meeting criteria for candidate status.	Further progress made by candidate countries and potential candidates towards meeting the criteria for membership.	Candidate countries meet some accession criteria. Potential candidates are not sufficiently advanced to be granted candidate status with the exception of Albania (see Commission recommendation to the Council). <i>Please see details in table pages 14-15.</i>	
	Impact indicator2 Degree of alignment with the <i>acquis</i> .	Candidate countries are well advanced in implementing the EU <i>acquis</i> .	Candidate countries are advanced with the implementation of the EU <i>acquis</i> .	Candidate countries have made some progress with the implementation of the EU <i>acquis</i> . <i>Please see details in table pages 14-15.</i>	

¹⁵ For objectives of multi-annual programmes, where intermediate milestones are not available, services may consider presenting progress towards attainment of ultimate objectives by showing the multi-annual trend.

1.1.2 ABB activity: 22.02 - Enlargement strategy, process and assistance is being implemented according to the specific objectives described in the AMP 2013

ABB activity: 22.02 Enlargement strategy, process and assistance		<input checked="" type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending	
	Result/policy indicators	Target 2013	Current situation
		POLICY Outputs	
Specific objective 1: Support all Countries a) for political reforms b) for economic, social and territorial development c) for <i>acquis</i>	<u>2013 Progress Reports:</u> Adoption by the College.	Enlargement Package: October 2013	Adopted on 16 October 2013. Strategy set out approach for key policy areas : rule of law, economic governance, democracy, fundamental rights and, for the Western Balkans, overcoming the legacy of the past
	<u>Supervision and monitoring of implementation of IPA I:</u> Budget execution.	Guidelines & guideline updates on enlargement policy strategy matters	Ongoing activity
	<u>IPA II inter-institutional negotiations:</u> Political agreement.	Briefings and speeches: delivery on request	Ongoing activity: delivered all requested input in high quality and in timely manner
	For the 12 policy indicators which describe the monitoring, on an individual basis, of the progress of all countries in their way to accession, please see: I) table "State of play in the accession process", pages 14-15*. * Progress described through/in: 1. Stabilisation & Association Agreement (SAA). 2. Application of Membership received. 3. Commission Opinion on application.	Relations with the Council, including representation in the relevant working groups (COELA and COWEB)	Ongoing activity: prepared and attended all relevant working groups and reported in timely manner
		Reports in the framework of the Post-Visa Liberalisation Monitoring Mechanism: six-month reports to European Parliament and Council	A report to the European Parliament and the Council was adopted in November 2013
		TAIEX screening meetings, peer review missions: linked to progress in accession negotiations	See specific objective 4 hereafter
		FINANCIAL ASSISTANCE Outputs	
		Supervision & monitoring on IPA I	Payment and commitment rates are above target for 2013

<p>4. Candidate country status. 5. Screening. 6. Negotiation framework. 7. Accession Negotiations. 8. Compliance with Copenhagen criteria. 9. Decentralisation process. 10. Readmission agreement & Visa liberalisation. 11. Customs / Trade agreement. 12. Regional issues and international obligations.</p> <p>II) specific objectives 2, 3 & 4 hereafter.</p>	<p>Council Regulation(s) amending Council Regulation (EC) No 1085/2006 (IPA) to provide for beneficiary countries listed in Annex II to move to Annex I if they are granted candidate status for accession: end 2013</p>	<p>No amending Regulations were necessary in 2013</p>
	<p>Updated Multi-annual indicative financial framework (MIFF) (only if changes to the status of any country is confirmed during the year): adoption as required</p>	<p>No updates were necessary in 2013</p>
	<p>Proposals for Commission Decisions on the IPA National and CBC Programmes: end 2013</p>	<p>a) All foreseen programmes under IPA were adopted in 2013; the National programme for Bosnia and Herzegovina was reduced due to lack of progress on its political commitments. b) for the CBC programmes, see specific objective 4 hereafter</p>
	<p>IPA II Council/EP Regulation (2014-2020): adoption foreseen in 2013</p>	<p>Negotiations between the EP and Council until end of 2013 - final compromise text of the IPA II Regulation approved by EP on 11 December 2013. Final adoption foreseen in March 2014</p>
	<p>IPA II Implementing Commission Regulation (2014-2020) – Rules for Application: adoption subject to approval of IPA Council/EP Regulation</p>	<p>IPA II specific rules of applications were prepared as a Delegated Act and were ready for adoption at the end of 2013. Since then, the co-legislators decided to change the legal format from a Delegated Act (as proposed by the Commission) to an Implementing Act. Re-drafting of the text started in December 2013 with a view to adopt "Specific Rules for Implementing the IPA II Regulation" in early 2014</p>
	<p>IPA II Common Strategic Framework (CSF): draft text to be finalised by second quarter of 2013</p>	<p>In the final negotiations on the IPA II regulation it was decided that the provisions in the proposed CSF were to be included into the IPA II Regulation both in terms of additional articles as well as two annexes containing the general thematic priorities for IPA II as well as those for cross-border cooperation</p>
	<p>IPA II programming guide and related templates: document to be finalised by second quarter of 2013</p>	<p>A new Programming Guide which complements the regulatory framework and which focuses on the preparation and approval stages of IPA II programmes was prepared in 2013 and will be published on an extranet site in early spring 2014.</p>
	<p>Country Strategy Papers under IPA II: draft documents to be prepared by end 2013 (adoption in 2014)</p>	<p>Despite that the Multi – Annual Financial Framework and the external action instruments, including IPA II, were agreed later than expected, the preparation of the Country Strategy Papers 2014 – 2020 started in the spring and were well advanced by the end of the year.</p>
	<p>TAIEX events: 2060 TAIEX events</p>	<p>See specific objective 4 hereafter</p>

ABB activity: 22.02 Enlargement strategy, process and assistance		<input checked="" type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending	
	Result/policy indicators	Target 2013	Current situation (as achieved)
<p>Specific objective 2: Support candidate countries' accession process [and Stabilisation and Association Process]</p> <p>a) for political reforms</p> <p>b) for economic, social and territorial development</p> <p>c) for <i>acquis</i> alignment (or approximation for the non-negotiating candidate countries)</p>	<p><u>Progress candidate countries:</u> Adopted screening reports; prepared opening benchmarks reports and other reports; opened chapters in IGCs.</p> <p><u>Progress candidates on SAP commitments:</u> a) positive: progress in several areas; b) negative: number of dispute settlement procedures opened.</p>	<u>Croatia</u>	
		(after the closure of accession negotiations and the signature of the Accession Treaty, the Commission closely monitored Croatia's preparations for EU accession and the respect of the commitments taken in the accession negotiations):	
		Six-monthly Monitoring Reports accompanied by monitoring tables	The last monitoring tables were sent to the Council on 4 April 2013
	Regular meeting of Stabilisation and Association Council	In view of Croatia's accession to the EU in July 2013, no meetings took place in 2013.	
	Regular meetings of SA committee and related sub-committees	In view of Croatia's accession to the EU in July 2013, no meetings took place in 2013.	
	IPA components I & II waiver of <i>ex ante</i> controls	The waiver of ex-ante controls for Components I and II was adopted by the College on 12 February 2013	
	<u>Montenegro:</u>		
	Screening reports	25 screening reports were completed & sent to Council.	
	Draft Common Positions	6 chapters opened (chapter 26 in April 2013 [opened and provisionally closed] and chapters 5, 6, 20, 23, 24 opened in December 2013).	
	Regular meeting of the Stabilisation and Association Council	The SA Council met in June 2013.	
	Regular meetings of the Stabilisation and Association committee and related sub-committees	6 sub-committee meetings have been held throughout the year.	
	Country Strategy Paper	Active preparations of IPA II Country Strategy Paper took place throughout 2013 (Rule of law, Fundamental rights and public administration reform have been identified as key priorities for IPA support to Montenegro for the period 2014-2020).	
	Multi-annual programme for component I	The second part of the National Programme for Montenegro 2012/2013 under component I was adopted in December 2013.	
Commission decision on the conferral of management for components I & II	Preparations for DIS (components I & II) took place in 2013.		

		<u>Serbia:</u>	
	The Commission and the HR/VP will present a report in spring 2013 on the degree of compliance with the membership criteria, notably the key priority of taking steps towards a visible and sustainable improvement of relations with Kosovo. The Council will assess the report in the first half of 2013 with a view to a possible decision of the European Council to open accession negotiations.		Report presented in April 2013; Council approved in June 2013; Opening of Accession negotiation with Serbia, preparation and adoption of negotiating framework, screening started.
	Commission proposal for a Council Decision on Rules of Procedure for the Stabilisation and Association Council and its Committee.		The EU-Serbia Stabilisation and Association Agreement entered into force on 1 September 2013. The Commission proposal for a Council Decision on Rules of Procedure for the Stabilisation and Association Council and its Committee was prepared in second quarter of 2013, adopted by Council in third quarter of 2013 and endorsed by the SA Council in fourth quarter. A protocol on the adaptation of the SAA following Croatia's accession to the EU was initialed by the Commission and the Serbian authorities on 10 December 2013.
	Supervision and monitoring of implementation of IPA I:		A supervisory mission took place in the EUD in the first quarter of 2013 and a Joint Monitoring Committee took place in the last quarter of 2013.
	Economic dialogue		Guidance note for the drafting of national economic reform strategies will only be issued in 2014.
	<i>Acquis</i> alignment		Continued focus on aligning with the EU legislation, including the adoption of a National Plan for the Adoption of the <i>Acquis</i> .
		<u>The former Yugoslav Republic of Macedonia:</u>	
	SAA Council Decision on passage to 2nd phase of SAA		The Commission maintained its proposal of 2009 to move to the second stage of the association as provided for by the SAA and called for the fifth time for the Council to act on this.
	Wine Protocol to the SAA		In the absence of a decision by the Council [in December 2012], no progress could be made.
	Negotiating Framework		In the absence of a decision by the Council [in December 2012], the Commission did not begin the preparation of a Negotiating Framework.

		Screening reports	In the absence of a decision by the Council [in December 2012], the Commission did not begin the process of analytical examination of the EU <i>acquis</i> beginning with the chapters on the judiciary and fundamental rights, and justice, freedom and security.
		Regular meeting of the Stabilisation and Association Council (3rd quarter 2013)	Took place on the 23 July 2013 in Brussels
		Regular meetings of the Stabilisation and Association committee and related sub-committees	Annual meetings of the SAA Sub-Committees (and Special Groups) on justice, freedom, security, trade, industry, customs and taxation, internal market and competition, economic and financial issues and statistics, agriculture and fisheries, transport, environment, energy and regional development, and public administration reform took place.
		Country Strategy Paper (4th quarter 2013/ 1st quarter 2014)	Despite that the Multi – Annual Financial Framework and the external action instruments, including IPA II, were agreed later than expected, the preparation of the Country Strategy Paper 2014 – 2020 started in the spring and was shared with the Government in December 2013.
		Monitoring of IPA I assistance	Done through several tools such as Joint Monitoring Committee, Result Oriented Monitoring as well as monitoring of proper functioning of decentralised structures in the country.
		<u>Turkey:</u>	
		Adoption of IPA I National Programme 2013	4 th Q adoption of IPA I programme 2013
		Screening report	1 (Chapter 22)
		Draft Common Position	1 (chapter 22)
		Opened chapter	1 (chapter 22)
		Country Strategy Paper	Active preparations of IPA II Country Strategy Paper took place throughout 2013 with identification of the key priorities for Turkey for the period 2014-2020).
		Regular meeting of Association Council	The regular meeting of the Association Council took place.
		Regular meetings of Association committee and related sub-committees	The regular meeting of the Association committee and related sub-committees took place.

		<u>Iceland:</u>	
		Adoption of IPA National Programme for 2013 (4th quarter 2012/ 1st quarter 2013)	Following the Icelandic Government's decision to put accession negotiations on hold on 22 May 2013, DG Enlargement decided not to fund any new commitments under the IPA I programme (2010–2013), to discontinue its funding to already commit IPA-funded projects in Iceland, and to suspend preparatory work on IPA II (2014-2020)
		Draft Common Positions (2013)	When the government announced its decision to put accession negotiations on hold on 22 May 2013, substantial progress had been made in the negotiations. In the first semester of 2013, in the run-up to the parliamentary elections, technical work on the 16 chapters already opened continued and additional steps towards alignment were made.
		Opening Benchmark Reports (2013)	

Croatia

Croatia joined the EU as its 28th Member State on 1 July 2013. The Commission's last monitoring report on Croatia's accession preparations was adopted on 26 March 2013. It focused on the three areas which, according to the accession treaty, were under a special monitoring regime (Competition policy, Judiciary and fundamental rights and Justice, freedom and security). The monitoring report also looked at the limited number of chapters, identified in the Comprehensive Monitoring Report of October 2012, where increased efforts were required by Croatia (agriculture and rural development, food safety, veterinary and phytosanitary policy, fisheries, regional policy and the coordination of structural instruments, and environment). The Commission had concluded that Croatia was generally meeting the commitments and requirements arising from the accession negotiations, in all chapters, and would be ready for membership on 1 July 2013.

During the last six months before Croatia's accession, the Commission's focus was on (a) Competition policy (privatisation of the Brodosplit shipyard, viable solution for the 3.Maj and Brodotrogir shipyards), (b) Judiciary and fundamental rights (efficiency of the judiciary, prevention and suppression of corruption, handling of domestic war crimes, and (c) Justice, freedom and security (migration and asylum, construction of new border crossing points, police capacity). Special emphasis was also given to the translation of the *acquis* into Croatian prior to accession.

Croatia had been asked to make increased efforts in some *acquis* chapters. In the field of agriculture and rural development, Croatia finalised the legal framework for direct payments. In the field of food safety, veterinary and phytosanitary policy, Croatia accelerated the construction and equipment of the seven Border Inspection Posts (BIPs), so that they could be finalised and accredited by accession. In the field of fisheries, legislative alignment and implementation of the *acquis* in the areas of fleet and resources management was finalised. With regard to the environment and climate change, administrative capacity had been strengthened. Concerning regional policy and the coordination of structural instruments, Croatia was able to demonstrate that it fulfils the conditions for the waiver for ex-ante controls for all IPA components.

Evaluation

A country programme interim evaluation of IPA assistance was undertaken in 2012 by the Croatian national authorities. Its findings and conclusions were taken into consideration and integrated in the Meta Interim evaluation of IPA assistance, launched by DG Enlargement, the results of which are presented below.

Montenegro

Support for political reforms

The accession negotiations with Montenegro were opened in June 2012. In line with the new approach to chapter 23 on judiciary and fundamental rights and chapter 24 on justice, freedom and security, the screening meetings for these chapters took place in spring 2012. By July 2013 all screening meetings had been completed.

In 2013 Montenegro focused on the preparation of the comprehensive action plans

which will guide the country's reform process on the rule of law. In June 2013, the government adopted the action plans, which constituted the opening benchmarks for chapters 23 and 24. A significant step in the accession negotiations with Montenegro was taken in December 2013 when these two chapters were opened.

Montenegro continues to sufficiently meet the **political criteria** for membership in the EU. Presidential elections were held in April 2013. In protest against the alleged irregularities in the presidential elections, the largest opposition parliamentary group, the Democratic Front, suspended its participation in parliamentary work. Following parliament's passing of two resolutions, one aiming at strengthening trust in the electoral process and the other enabling an inquiry committee into the issue of the alleged use of public funds for party political purposes, the opposition returned to parliament. Concerning public administration reform, the plan for the reorganisation of the public sector was finalised and adopted in July 2013. The Montenegro Parliament adopted its Resolution on European Integration (*inter alia*, setting out the parameters for the role of the Parliament in the accession negotiations) in December 2013.

Montenegro continued to broadly implement its obligations under the **Stabilisation and Association Agreement (SAA)**. A Protocol to the SAA to take account of Croatia's accession to the EU has been agreed between the EU and Montenegro and was signed on 18 December 2013. The Protocol is currently under ratification and is being applied on a provisional basis from 1 July 2013. Regular political and economic dialogue between the EU and Montenegro has continued through the SAA structures. The Stabilisation and Association Council met in June 2013 and 6 sub-committee meetings have been held in throughout the year.

Support for economic, social and territorial development, with a view to smart, sustainable and inclusive growth.

Regarding **economic development**, after entering in recession in 2012, the country came out of recession in 2013. The resilience of tourism and foreign direct investments (FDI) together with an increase of electricity exports supported the recovery, compensating for a weak domestic demand. The current account deficit is declining, but still remains very high. In July 2013, the aluminium producer KAP was put into bankruptcy procedure, which represents a risk to public finances, in view of the considerable size of contingent liabilities. Unemployment remained very high. Credit growth turned positive after four years of contraction, but the high levels of non-performing loans still weigh on bank capitalisation and hence, on credit supply.

Montenegro participates in the multilateral **economic dialogue** with the Commission and the EU Member States to prepare the country for participation in multilateral surveillance and economic policy coordination under the EU's Economic and Monetary Union. In 2013 DG Enlargement facilitated the assessment by DG Economic and Financial Affairs of the Montenegro Pre-Accession Economic Programme 2013-2015 and Council issued recommendations. This included regular joint monitoring missions with ECFIN regarding the economic accession criteria, as assessed in the 2013 Progress Report on Montenegro. The screening of economy-related negotiation chapters was completed in 2013. The successful opening of, among others, Chapter 20 on Enterprise and Industrial Policy at the IGC in December 2013 should allow for the further deepening of the dialogue in this context. DG Enlargement continued to coordinate

feedback on legislative initiatives in this area, including for example on the draft fiscal rules that the Montenegrin government adopted in 2013; adoption by Parliament is however pending. At the end of the year, DG Enlargement presented the new approach on economic governance to Montenegro. Similarly, under the auspices of DG Employment, Montenegro has been invited to prepare an Employment and Social Reform Programme. Preparations in this respect have started in 2013.

Support for *acquis* alignment

The Commission's Progress Report on Montenegro was adopted by the College on 16 October 2013. Montenegro was at varying degrees of alignment with the *acquis*. Strengthening of administrative capacities is a cross-cutting challenge in many areas. In chapters such as public procurement, company law, intellectual property law, information society and media, taxation, and enterprise and industrial policy, Montenegro is sufficiently advanced for the Commission to have recommended the opening of accession negotiations.

In 2013 there were 6 chapters opened in two IGCs: Chapter 26 in April 2013 (opened and provisionally closed) and Chapters 5, 6, 20, 23, 24 in December 2013. In total 25 screening reports were sent to Council. In other areas, such as free movement of goods; right of establishment and freedom to provide services; agriculture and rural development; food safety, veterinary and phytosanitary policy; and regional policy and coordination of structural instruments, opening benchmarks – often including strategies for alignment with the *acquis* – have been set.

Financial Assistance

During the year 2013, DG Enlargement conducted several missions to Montenegro to ensure proper preparation of the Country Strategy Paper 2014-2020 as well as the identification of sectors of interventions for programming of **IPA II**, through an inclusive approach that associated donors and other stakeholders, as well as local authorities, independent bodies and civil society organisations. Strategic priorities will include rule of law and fundamental rights, democracy and governance, employment, education and social policies, competitiveness and innovation, agriculture and rural development, transport, energy, environment and cross border and territorial cooperation.

The National Programme for Montenegro 2012/2013 under component I "Transition Assistance and Institution Building" was adopted in December 2012 (budget of € 18 million). Out of the National Programme, 39% of the 2013 budget is dedicated to projects related to fundamental rights and public administration reform. Fundamental rights and public administration reform will also constitute key priorities for IPA II, in line with the envisaged output of inter-institutional negotiations. The second part of the 2013 National Programme adopted in December 2013 (budget € 7.3 million) includes support to the agriculture and rural development policy, in particular preparation for the implementation of the pre-accession assistance under rural development. In addition, IPA 2013 support in the field of economic, social and territorial development is mainly reflected through the continuation of the cross border cooperation programmes with the 5 neighbouring countries.

As for supervision and monitoring of implementation of **IPA I**, contracting by the EUD amounted in 2013 to € 21.38 million, representing 80% of the initial 2013 forecast, and disbursements to € 20.1 million, representing 78.6% of the forecast at the beginning of

the year.

Evaluation

A country programme interim evaluation of IPA assistance in Montenegro was completed in 2013. It was focused on assessing the effectiveness, efficiency, sustainability and impact of IPA programmes 2007-2009 in the sectors of Environment and energy and Agriculture and fisheries and to assess the extent to which this assistance contributed to the development of the sectors. The evaluation concluded that the assistance has contributed to the further development of the 'sectors', but to varying degrees. The energy sub-sector especially has made progress in developing by laws and improving market rules. There has been clear capacity building in environmental management, but progress has been more challenging in delivering investments in waste water and waste. The achievements in the agriculture and fisheries sector have often been less than expected due to insufficient resources or commitment of the beneficiary in the areas of rural development.

The assistance was assessed as efficient and effective. The projects in both sectors have been mostly implemented in a timely manner and strengthened capacity in all beneficiary institutions and the public services. However, effectiveness depends heavily on adequate recruitment of new staff and the current performance questions whether this will be achieved. In some areas, cost effectiveness has been compromised by the lower than expected results where the administrative burden exceeded capacity. Human resource capacity remains a key systemic constraint to effective utilisation of EU funds in Montenegro.

The evaluation concluded that prospects for sustainability vary across the sub sectors and in the long run, sustainability will depend on additional staff and further political commitment. Assistance was assessed as contributory in delivering impact objectives outlined in the European Partnerships.

Serbia

Support for political reforms

The Commission adopted a joint report with the HR/VP on 22 April 2013 which concluded that Serbia sufficiently fulfils the political criteria and the conditions of the Stabilisation and Association Process. The report assessed that very significant steps had been taken to address the key priority of improving relations with Kosovo and recommended opening of accession negotiations with Serbia. As a result, the June 2013 European Council decided to open accession negotiations with Serbia and endorsed the GAC conclusions, which invited the Commission to submit a draft framework for the negotiations and to carry out the analytical screening of the *acquis*. The Commission submitted the draft negotiating framework in July 2013 which the Council adopted in December 2013.

The screening (or "analytical examination of the EU *acquis*") started in September 2013. Based on the new approach, it gave priority to Chapter 23 (Judiciary and fundamental rights) and Chapter 24 (Justice, Freedom and Security). Chapter 32 (Financial control) was also screened in this first phase.

The Commission issued its Progress Report on 16 October 2013 which confirmed that Serbia is sufficiently fulfilling the political criteria, thanks to significant achievements in the dialogue with Kosovo, new impetus in regional cooperation and bilateral relations and reinvigorated momentum for reforms. It noted positively the strategies adopted in the areas of judiciary, fight against corruption and anti-discrimination as well the adoption of an Action plan for Roma inclusion.

Regarding the EU facilitated dialogue Serbia-Kosovo, the Commission continued to support and participate in working groups helping the implementation of Kosovo-Serbia dialogue agreements (during 2013). A dedicated section to the “The normalisation of relations with Kosovo” was included in the progress report. Regarding the post-Visa Liberalisation Monitoring Mechanism, a report to the Council and the European Parliament was adopted in November 2013.

Support for economic, social and territorial development, with a view to smart, sustainable and inclusive growth

Regarding economic development, the Commission monitored Serbia and registered that it made some progress towards becoming a market economy. It noted the slight recovery of the economy in 2013. It underlined the importance strengthening fiscal consolidation in view of the growing deficit. Structural reforms should be accelerated, notably on the restructuring of the State owned companies and in the area on business environment and labour market. The Commission encouraged coordination with IFIs, especially the IMF and World Bank. Some progress was also made to improve the business environment and address the deteriorated fiscal situation.

Support for *acquis* alignment

There had been a continued focus on aligning with the EU legislation, including the adoption of a National Plan for the Adoption of the *Acquis*.

The progress under the political criteria, the economic criteria and the obligations of the *acquis* was also examined on the occasion of a full cycle of meetings of Committees and sub-committees under the Interim Agreement and of sectoral and plenary meetings of the Enhanced Permanent Dialogue, conducted throughout the year. The EU-Serbia Stabilisation and Association Agreement entered into force on 1 September 2013 and the first inaugural SA Council took place in October 2013 and the first SA Parliamentary Committee (SAPC) in November 2013. The Commission proposal for a Council Decision on Rules of Procedure for the Stabilisation and Association Council and its Committee was prepared in the spring, adopted by Council in July 2013 and endorsed by the first SA Council in October 2013. A protocol on the adaptation of the SAA following Croatia's accession to the EU was initialled by the Commission and the Serbian authorities on 10 December 2013.

Financial Assistance

The Commission continued its preparation of IPA II for Serbia (during 2013). It prepared a draft Country Strategy Paper to structure and guide IPA programming for the period 2014-2020. IPA II will focus on supporting the following two main themes: Governance

and Rule of Law; and Investing in Competitiveness and Growth. The Rule of Law and fundamental rights sector will remain the key priority in line with the negotiating framework for accession negotiations, which puts the Rule of Law chapters at the heart of the enlargement process. The future action plans to be devised under the negotiation Chapters 23 and 24 will therefore become the core of our support in this sector. Under Democracy and Governance sector IPA will specifically support the Public Administration Reform (PAR) process, including public finance management, which provides the basis for sustainable socio-economic reforms. As concerns the second theme Investing in Competitiveness and Growth, IPA support will focus on enhancing economic governance (structural and labour market reforms), competitiveness as well as supporting infrastructure investments in transport, energy and environment sectors. Among the key priorities is also social inclusion of the most vulnerable groups, especially Roma.

In fourth quarter the Commission adopted the IPA programme for 2013 with an amount of € 178.8 million aiming at supporting Serbia in key areas such as rule of law, public administration, social inclusion, private sector development, transport, environment, energy and agriculture. Strategic investments for socio-economic development will be also supported under this Programme. Overall, further efforts have been put in the development of sectoral approach with enhancement of sectoral working groups and increased donor coordination. A comprehensive set of sectoral evaluations have been conducted in view of IPA II Country Strategy Paper and future programming. The most relevant findings are provided in Section 4.2 and in Annex 9. A supervisory mission took place in the EU Delegation in the first quarter of 2013 and a Joint Monitoring Committee took place in fourth quarter. IPA 2009 and IPA 2010 were completed with a RAC rate of 100 % for IPA 2009 and of 100 % of IPA 2010. By the end of 2013, 80% of IPA 2011 and 33% of IPA 2012 had been committed resulting in a RAC of 20% for IPA 2011 and 77% for IPA 2012.

Preparations continued during 2013 for the decentralised management of IPA. Serbia's compliance with the requirements of the Financial Regulation and IPA Regulation were thoroughly assessed. The follow-up audit identified four high risk findings to which Serbia responded by adopting revised legal basis and adjusting the necessary procedures. The procedures for the Commission decisions for the Conferral of Management of Components I and II were launched in fourth quarter 2013 (adopted in March 2014). Serbia will be the first country to apply the new methodology devised in the Commission decisions on the phased waiver of ex ante controls and parallel phasing in of ex post controls.

Evaluation

A country programme interim evaluation of IPA assistance in Serbia was completed in 2013. The evaluation assessed the efficiency, effectiveness, impact and sustainability of IPA assistance 2007-2009 in two sectors: Administration Reform/Public Finance Management and Environment with a total EU financial contribution of 34.90 MEUR. The evaluation reveals that implementation of IPA assistance in the country has in general been efficient. However, the effectiveness of the assistance was limited by the limited absorption capacity and a complicated institutional environment. When outputs are delivered at the end of the assistance, there is no time to absorb and embed these in the beneficiaries or assess their functionality.

IPA has made a visible impact to institution building in those areas of the Stabilisation and Association agreement underpinned by technical elements of the *acquis*. Post-election institutional re-organisations and the lack of a merit based recruitment and career progression in the public administration represent some threats to the sustainability of assistance.

The former Yugoslav Republic of Macedonia

Support for political reforms

The former Yugoslav Republic of Macedonia has been a candidate country since December 2005 and the Commission has recommended, five times since 2009, that negotiations for accession be opened because the country sufficiently fulfils the relevant criteria.

In the absence of a decision by the Council, the Commission did not begin either the process of analytical examination of the EU *acquis* beginning with the chapters on the judiciary and fundamental rights, and justice, freedom and security, or the preparation of a Negotiating Framework, although it remained ready to undertake the necessary preparatory work in this respect.

A meeting of the **High Level Accession Dialogue** took place on 9 April 2013, focusing *inter alia* on political reforms. Although reforms continued, no further HLAD meetings took place due to the focus instead on implementing a political agreement ("1 March political agreement ") designed to overcome a political crisis caused by events in Parliament in December 2012.

The Commission presented a **Report** in mid-April 2013, at Council request, on the implementation of reforms in the context of the HLAD, as well as on steps taken to promote good neighbourly relations and to reach a mutually accepted solution to the name issue. The Council did not react.

The annual **Progress Report**, adopted in October 2013, reported that the country sufficiently meets the political criteria. In December 2013, in response to the annual Progress Report, the Council broadly shared the Commission's assessment that the political criteria continue to be sufficiently met and took note of the Commission's fifth recommendation. It welcomed that the High Level Accession Dialogue had contributed to progress in most priority areas and stated that it would revert to the issue in 2014 based on an update by the Commission on further implementation of reforms in the context of the High Level Accession Dialogue, including the implementation of the 1 March 2013 political agreement and on tangible steps taken to promote good neighbourly relations and to reach a negotiated and mutually accepted solution to the name issue.

The annual meeting of the **SAA Sub-Committee** on justice, freedom and security took place.

Following the lifting of **visa** requirements in December 2009 for citizens of the former Yugoslav Republic of Macedonia holding biometric passports, a post visa liberalisation monitoring mechanism was established. Monitoring continued during the year, with most visa-free travellers being bona fide, but a number abused the arrangement by submitting unfounded asylum applications to Schengen countries.

Support for economic, social and territorial development, with a view to smart, sustainable and inclusive growth.

Regarding the **output related to economic dialogue**, in 2013 DG Enlargement contributed to the assessment by [DG Economic and Financial Affairs](#) of the Pre-Accession Economic Programme 2013-2015, and Council issued recommendations. The country remains well advanced and in some areas has made further progress towards fulfilling the economic criteria. The annual **Progress Report** in October 2013 reported that the country has made progress towards functioning market economy status. The economy returned to growth in 2013 after a mild recession in 2012 and maintained macroeconomic stability.

Annual meetings of **SAA Sub-Committees** on trade, industry, customs and taxation; internal market and competition; economic and financial issues and statistics took place.

As for the **output related to the financial assistance**, IPA 2013 support included a sector programme in the field of private sector development focusing on improving the business environment and the institutional capacities in respect to increasing national competitiveness, as well as on increasing market competitiveness and production efficiency of the companies.

Support for *acquis* alignment

The annual **Progress Report** in October 2013 reported that the country has a high level of alignment with the *acquis* relative to where it is in the accession process. The meeting of the **High Level Accession Dialogue** which took place on 9 April 2013 also covered *acquis* and administrative reforms.

The country continued to implement smoothly its obligations under the **Stabilisation and Association Agreement** in all *acquis* or sectoral areas. Annual meetings of the SAA Sub-Committees and Special Groups on agriculture and fisheries, transport, environment, energy and regional development, and public administration reform took place. The Stabilisation and Association Committee and Council also met. The Commission maintained its proposal of 2009 to move to the second stage of the association as provided for by the SAA and called for the fifth time for the Council to act on this. The protocol to the SAA to take account of the accession of Croatia to the European Union was adopted but no progress could be made on the Wine Protocol.

Regarding the output related to financial assistance, the 2012-2013 programme aimed at strengthening the administrative and institutional capacities for the implementation of the relevant *acquis* in the area of environment, agriculture and food safety, veterinary and phytosanitary policy. The main goal of the Agriculture and Rural Development Sector was to reinforce the ability to compete in the integrated regional markets through increasing the efficiency of agricultural production, processing and marketing, gradual alignment to EU standards and the *acquis*, and through building viable rural

communities. Additional assistance was programmed to the Food and Veterinary Agency and Phytosanitary directorate in order to improve their overall ability for implementing the EU *acquis* and other relevant obligations. Other support to economic, social and territorial development under the responsibility of DG Enlargement remains limited, due to the fact that relevant programmes remained under the responsibility of DG Regional Policy, DG Employment and DG Agriculture.

Financial Assistance

Conferral of Management powers for **IPA** pre-accession funds to national agencies of the former Yugoslav Republic of Macedonia continued (since 2009 for components III, IV and V and since 2010 for component I).

IPA assistance has continued to play an important role in meeting the general objectives of the DG's Management Plan on the former Yugoslav Republic of Macedonia. With regard to IPA I, 89% of funds from IPA national programme 2009 were contracted in 2013, although important backlogs remain in later national programmes due to the delayed start of contracting under the decentralised implementation system. The procurement process for the 2010, 2011 and 2012 national programmes need to be accelerated to avoid building up further backlogs. Monitoring of IPA assistance has been done through several tools such as Joint Monitoring Committee, Result Oriented Monitoring as well as monitoring of proper functioning of decentralised structures in the country.

As regard **outputs related to the financial assistance**, IPA component I "Transition Assistance and Institution Building" programme, merging 2012 and 2013 funds (total budget of € 56 million), was adopted. The programme supports political reform process through the sector focus on public administration reform and justice and home affairs, in particular combating organised crime, financial crime, corruption, as well as improving judicial cooperation, mutual recognition of court judgments, integrated border management, and prevention and protection against discrimination.

Despite the Multi – Annual Financial Framework and the external action instruments, including **IPA II**, being agreed later than expected, the preparation of the Country Strategy Paper 2014 – 2020 started in the spring and was shared with the Government in December 2013.

Evaluation

The planned country interim evaluation of IPA assistance was postponed due to procurement delays.

Turkey

Support for political reforms

In 2013, reform efforts continued, notably with the adoption of important judiciary reforms, the start of peace talks aiming to pave the way for a solution of the Kurdish issue and a number of measures as part of a democratisation package presented in September 2013. However, polarisation continued to mark the political climate. Tensions peaked in May and June 2013 around an urban renovation project in Gezi Park

in Istanbul and overflowed into major protests in many other cities, with a harsh response of the government against demonstrators and dissent in general. Key provisions of the Turkish legal framework, combined with a broad interpretation by the judiciary, continued to hamper respect for fundamental freedoms, including freedom of expression. In December 2013, the response of the government to allegations of corruption raised concerns in relation to the independence, efficiency and impartiality of the judiciary.

The Commission's Progress Report on Turkey was adopted by the College on 16 October 2013.

Regarding outputs related to progress in the accession negotiations, a significant step was taken in November 2013 when chapter 22-Regional policy was opened after three years of stalemate in the process. Even if not directly linked to accession, the signature of the readmission agreement and the start of the visa dialogue contributed to a new, promising momentum in EU-Turkey relations. The regular meetings of the Association Committee and Association Council took place.

The Commission initiated a number of initiatives in the area of judiciary capacity building, including: the peer-based assessment report on judicial training offered at graduate and post-graduate level; the draft peer-based assessment report on judicial (pre-service and in-service) training; the draft peer-based assessment report on Regional Serious Crimes Courts.

As regard outputs related to the financial assistance, IPA 2013 component I "Transition Assistance and Institution Building" programme (budget of € 236.75 million) was adopted. The programme has been designed so as to facilitate a more integrated sector approach, including in the fields of judiciary and fundamental rights, migration and border management that will also constitute key priorities for IPA II, in line with the envisaged output of inter-institutional negotiations.

Support for economic, social and territorial development, with a view to smart, sustainable and inclusive growth.

Regarding the output related to economic dialogue, in 2013 DG Enlargement facilitated the assessment by [DG Economic and Financial Affairs](#) of the Turkish Pre-Accession Economic Programme 2013-2015 and the Council issued recommendations. The Economic Programme 2014-2016 was received and is pending an assessment. The Council is yet to issue recommendations. Turkey has been meeting the market economy criterion for many years including in 2013. Following a slowdown in 2012, the economy re-accelerated in 2013 to an annual growth rate of 3.8%. The regular meetings of the Customs Union Joint Committee, Association Committee and Association Council took place.

As for the output related to the financial assistance, IPA 2013 support included a sector programme in the field of energy in cooperation with WB and EBRD. Other DG Enlargement support to economic, social and territorial development remained marginal, due to the fact that relevant programmes remained under the responsibility of DG Regional Policy, DG Employment and DG Agriculture. The budget IPA 2013 programme earmarked substantial funding for participation in EU programmes (30%),

mostly in the fields of social development covering Turkey's participation to the new generation of programmes following Lifelong learning, Youth in Action and Progress.

Support for *acquis* alignment

In 2013, good progress was registered in Turkey on *acquis* alignment in the area of free movement of goods, financial services, energy, regional policy and coordination of structural instruments, justice, freedom and security, science and research, education and culture. Progress was made in the area of food safety, veterinary and phytosanitary, fisheries, statistics, enterprise and industry, judiciary. Some progress was reported in the area of public procurement, company law, intellectual property law, information society and media, transport policy, economic and monetary policy, social policy and employment, Trans-European networks, customs union, external relations, financial control. Little progress was made in the area of competition law. Limited progress or no progress was made in the area of freedom of movement of workers, taxation, environment, consumer protection, financial budgetary provisions.

There was one chapter opened at an IGC: chapter 22-Regional policy and coordination of structural instruments. The Commission provided update to the screening report (oral), drafted the opening benchmark assessment report and the Draft Common Position. One screening report for Chapter 31 – Foreign security and defense policy was prepared by EEAS and communicated to the Council.

The Positive Agenda continued to support Turkey in its alignment efforts with the *acquis*. Under chapter 32 - Financial control - one benchmark was considered met by the Commission (the Commission's assessment does not prejudice the final assessment to be made by the Council). Intensive work continued also in particular on chapters 6 and 10.

With regard to outputs on the financial assistance, IPA 2013 programme included a limited amount for projects for *acquis* alignment in the fields of environment, climate change and agriculture that will be further supported under IPA II.

Financial Assistance

During the year 2013, DG Enlargement conducted several missions to Turkey to ensure proper preparation of the Country Strategy Paper 2014-2020 as well as the identification of sectors of interventions for the programming of IPA II, through an inclusive approach that associated all the ministries involved. Strategic priorities will include democracy and the rule of law, social development and social inclusion, promotion of development towards a resource-efficient low carbon economy and increased inter-connectivity and exchange with the European Union.

During the year 2013, absorption capacity under decentralised management in Turkey was not optimal. For all the IPA decentralised programmes under ELARG's portfolio, Turkey contracted in 2013 an overall amount of € 71.6 million, against an initial forecast of € 166.6 million.

On a positive note, the IPA 2009 national programme, for which the contracting deadline fell within the year, was well committed (94.6 %).

Contracting rates under IPA 2010/2011/2012 national programmes remained low due to unforeseen events (savings and cancellations of tenders) as well as continuous weaknesses in DIS Turkey .

IPA 2010 component I (budget of € 138 million for DIS projects): by 31 December 2013, 2 years and 3 months after the ratification of the FA, the contracting rate reached only 33%, mostly due to cancellation of the € 27 million under the "Foot and Mouth Disease" project. Subsequently, the Commission adopted in July a decision amending the 2010 programme in order to reallocate € 28 million and extend the contracting deadline by additional 12 months. This decision allows financing new projects (including project related to Syrian crisis).

- IPA 2011 component I (part 1) (budget of € 21 million - excluding participation to the Union programmes): contracting rate by 31 December 2013 reached 25% only.

- IPA 2011 component I (part 2) (budget of € 138 million- excluding participation to the Union programmes): contracting rate by 31 December 2013 reached 5% only.

-IPA 2012 component I (budget of € 146 million- excluding participation to the Union programmes): although the Financing Agreement has entered into force on 21 December 2012, the contracting has not yet started.

- IPA 2013 component I programme (budget of € 236.75 million): it was adopted on 13 November 2013; the Financing Agreement has not yet entered into force, subsequently contracting has not yet started.

Evaluation

A country programme interim evaluation of IPA assistance was undertaken in 2012 by the Turkish national authorities. Its findings and conclusions were taken into consideration and integrated in the Meta Interim evaluation of IPA assistance, launched by DG Enlargement, the results of which are presented below.

Iceland

EU-Iceland relations in 2013 were marked by the decision of the Icelandic government, formed after the parliamentary elections of 27 April 2013, to put the EU accession negotiations on hold. When the government announced its decision on 22 May 2013, substantial progress had been made in the accession negotiations, 27 chapters had been opened, of which 11 had been closed. In the run-up to the parliamentary elections, technical work on the 16 chapters already opened continued and additional steps towards alignment were made.

Iceland's economy continued to recover in 2013 although the capital movement restrictions continued to be an impediment to investment and growth. Within the framework of the enhanced economic dialogue with enlargement countries, and at the request of the former Icelandic government, DG Enlargement organised the set-up an ad-hoc group to assess prospects for lifting capital controls in Iceland. The second meeting of this group, made up of experts from the European Central Bank, the

International Monetary and the Commission took place in January 2013. The group continued to work within the accession context until November 2013.

In order to take account of the situation in Iceland, the Commission's 2013 report on Iceland was short, factual and included elements of further progress made by Iceland in the period until the taking of office by the new government in May 2013, when the Icelandic authorities ceased contributing to the report.

As regards the Instrument for Pre-accession Assistance (IPA), given the purpose of this instrument and the government's decision on the accession negotiations, DG Enlargement decided not to fund any new commitments under the IPA I programme (2010 – 2013), to discontinue its funding to already commit IPA-funded projects in Iceland, and to suspend preparatory work on IPA II (2014-2020).

ABB activity: 22.02 Enlargement strategy, process and assistance		<input checked="" type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending	
	Result indicators	Target 2013	Current situation (as achieved)
Specific objective 3: Support potential Candidates' Stabilisation and Association Process a) for political reforms b) for economic, social and territorial development c) for <i>acquis</i> approximation	<u>Progress potential candidates on SAP commitments:</u> a) positive: progress in several areas; b) negative: number of dispute settlement procedures opened. <u>Economic dialogue:</u> Guidance note for the drafting of national economic reform strategies. Progress towards meeting the economic criteria. <u>Acquis approximation:</u> Assessment of progress identified in the Progress reports. <u>Supervision and monitoring of implementation of IPA I:</u> Budget execution	<u>Albania:</u>	
		Assessment of Albania's progress towards opening of accession negotiations in Annual Progress Report (foreseen adoption October 2013)	Adopted in October 2013
		Reports in the framework of the Post-Visa Liberalisation Monitoring Mechanism (Six-month reports to European Parliament and Council)	The Commission continued monitoring the implementation of the visa-free regime of Albania which was smooth overall. The regular Commission report to the European Parliament and the Council on the post-visa liberalisation monitoring for the Western Balkan countries was submitted [by DG Home Affairs] on November 28.
		DIS : conferral of management for components I & II (end 2012 for Component I, after 2012 Component II)	The conditions are in place for a decentralised implementation system for formal adoption of the relevant Commission decision in early 2014.
		<u>Bosnia and Herzegovina:</u>	
		Commission proposal for a Council Decision on Rules of Procedure for the EU-BiH Stabilisation and Association Council and its Committee	Delayed because of non-entry into force of SAA
		Economic dialogue	Experts' meeting on the 2013 Economic and Fiscal Programmes with Bosnia-Herzegovina took place on 24 May 2013. Little Progress towards meeting the economic criteria.
		Reports in the framework of the Post-Visa Liberalisation Monitoring Mechanism (six-month reports to European Parliament and Council)	Commission Report to European Parliament and Council in the framework of the Post-Visa Liberalisation Monitoring Mechanism was submitted in December 2013
		DIS : conferral of management for components I & II (after 2013)	Bosnia and Herzegovina has made no progress in setting-up the institutional structures for DIS. Therefore DIS is not expected in the foreseeable future.

		<u>Kosovo:</u>	
		Country Strategy Paper (doc ready third quarter 2013, CSP ready for adoption first quarter 2014)	The Commission continued its preparation of IPA II for Kosovo (2013). It prepared the draft Country Strategy Paper to structure and guide IPA programming for the period 2014-2020.
		IPA Annual Programme 2014 (Programme ready fourth quarter 2013, programme ready for adoption 2014)	In fourth quarter the Commission proposed an additional IPA programme for 2013 of € 38.5 million to support the implementation of agreements reached in the EU facilitated Kosovo-Serbia dialogue.
		4th Cycle of Stabilisation and Association Process Dialogue completed (second and third quarter 2013)	In first and second quarter of 2013 the Commission organised seven sector meetings within the framework of the Stabilisation and Association Process Dialogue (SAPD). In July 2013 it organised the SAPD plenary session with the Kosovo government and representatives of civil society.
		Structured Dialogue on the Rule of Law – 2 high level meetings (second and fourth quarter of 2013)	In first quarter of 2013 the second Structured Dialogue on the Rule of Law took place in Pristina to monitor and discuss Kosovo's progress in its fight against corruption and organised crime and the reform of its judiciary. The third meeting of the dialogue took place in first quarter of 2014 and focused on the EULEX Strategic Review and reforms in the rule of law sector.
		Framework agreement allowing for Kosovo's participation in EU Programmes (agreement approved and signed in first quarter or second quarter 2013)	In second quarter of 2013 the Commission issued its recommendations for the Council to sign and conclude a framework agreement with Kosovo allowing it to participate in EU programmes. Discussions on these recommendations were put on hold so as not to have them complicate EU discussions on the start of negotiations on an SAA. Discussions resumed in third quarter of 2013 and focused on the legal implications of citing the substantial legal bases of the programmes concerned and Kosovo's signature. Discussions continued throughout fourth quarter.
		Launch of visa liberalisation dialogue and strategy (process on-going)	The Commission continued the visa liberalisation dialogue with Kosovo. The first Commission report on progress was adopted in first quarter of 2013. In third quarter, the Kosovo government adopted a package of laws to address some of the recommendations of this report. Senior Officials' Meetings took place in first quarter of 2013. A verification mission was organised in fourth quarter.

		<p>EU-Kosovo SAA. submission of negotiating directives (second and third quarter of 2013)</p>	<p>In second quarter of 2013 the Commission issued its joint report with the EEAS on Kosovo's participation in the Kosovo-Serbia EU facilitated dialogue and Kosovo's meeting of the short-term priorities identified in the 2012 feasibility study. The General Affairs Council of June authorised the Commission to start negotiations of a Stabilisation and Association Agreement (SAA) with Kosovo by agreeing to the Commission's draft negotiation directives as prepared following the joint report. The first two formal negotiating rounds took place in fourth quarter and working groups discussed draft Titles IV, V & VI (free movement of goods, services, approximation of legislation). The Commission briefed EU Member States both before and after each negotiating round.</p>
		<p>EU facilitated dialogue Kosovo-Serbia</p>	<p>The Commission continued to support and participate in working groups helping the implementation of Kosovo-Serbia dialogue agreements (2013).</p>

Albania

Support for political reforms

In 2013, Albania made good progress on its path towards EU integration, notably by adopting measures identified as essential for granting candidate country status and by continuing to deliver reforms in line with the key priorities of the Commission's 2010 Opinion.

The Commission assisted Albania in doing so by using a wide range of policy tools, most importantly those under the Stabilisation and Association Agreement (SAA), which Albania continued to implement smoothly. Particular focus was put on the sustainability of political dialogue, the effective functioning of the country's democratic institutions, and on the rule of law and human rights. Moreover, peer reviews took place to support Albania in accelerating the fight against corruption and organized crime and the reform of the judiciary in order to ensure its independence, efficiency and accountability.

The Commission closely monitored the handling of the June 2013 general elections – a key priority – and funded an in loco election expert who provided advice to the Albanian authorities on electoral issues. The elections were conducted in an overall smooth and orderly manner. The Commission provided a detailed assessment regarding the fulfilment of the key priorities and other reforms in the 2013 Progress Report.

The Commission continued monitoring the implementation of the visa-free regime of Albania which was smooth overall. The regular Commission report to the European Parliament and the Council on the post-visa liberalisation monitoring for the Western Balkan countries was submitted by DG Home Affairs on November 28. While the great majority of Albanian citizens travelling to the Schengen areas are bona fide, problems persisted with manifestly unfounded asylum applications and overstaying.

Support for economic, social and territorial development, with a view to smart, sustainable and inclusive growth.

In the context of economic development, the Commission monitored and registered that Albania maintained macroeconomic stability and achieved some progress towards becoming a market economy. It underlined the importance of strengthening economic governance and competitiveness, by accelerating structural reforms. The Commission enhanced coordination with the IFIs, especially the IMF and the World Bank, on conditionalities and priorities in view of the signing of Albania's economic recovery programme with these IFIs in December 2013.

Support for *acquis* alignment

Albania continued to implement well its obligations under the Stabilisation and Association Agreement (SAA). The Commission and Albania jointly organized seven subcommittees and two meetings of the special group on public administration reform. The Stabilisation and Association Committee and Council met in March and April 2013 respectively. In its progress report the Commission found that Albania had made moderate progress in improving its ability to assume the obligations of membership.

Financial Assistance

In terms of IPA implementation during 2013, the contracting of the national programmes IPA 2009 and IPA 2010 were completed, with a global primary commitment rate of 99.4% for IPA 2009 and of 96.5% for IPA 2010. Regarding IPA 2011, the commitments were € 15m, which reduced the RAC to € 3.4 m (4%). Regarding IPA 2012, the commitments were € 21.2m, which reduced the RAC to € 57.2m (70%). In terms of payments, € 6.3 m were paid for IPA 2011 and € 5.8 m for IPA 2012 contracts. The RAL was reduced to € 31.3 m (38%) and € 72.8 m (89%) respectively. € 85.2 million became available in 2013 for additional activities which were not contracted yet.

Regarding the preparations for decentralised management of IPA funding, Albania was able in 2013 to address all risk findings which were identified by EU auditors on the basis of the earlier submitted accreditation package. Due to changes related to the change of government, additional audits were carried out at the end of 2013 with positive findings. The Commission Decision on the accreditation of Albania (adopted in March 2014) will allow the implementation of part of the IPA 2013 package (7 projects) under decentralized cooperation for the first time in Albania.

Evaluation

A country programme interim evaluation of IPA assistance in Albania was completed in 2013. The evaluation assessed the efficiency, effectiveness, impact and sustainability of IPA assistance 2007-2009 in two sectors: Public Finance and Financial Management and Transport, with a total EU financial contribution of € 37.30 MEUR.

The analysis shows that undeniable progress has been made in bringing these sectors closer to compliance with EU standards. Objectives in the area of management of EU funds have been largely achieved.

In terms of performance, IPA projects have been effective. In most cases planned outputs were delivered, or are likely to be delivered. No significant deviations in delivery from the outputs foreseen were noted. IPA was also delivered efficiently. Procedures for programming and supervision are transparent and promote efficiency, with the exception of transport, where weak planning capacity in beneficiaries caused the delay of some projects.

Despite the good achievements in efficiency and effectiveness, long term institutional capacity building impacts may not be fully sustained. The most important hurdle to sustainability is the uncertainty surrounding staff retention caused by the lack of merit based recruitment and promotion in the civil service. The evaluation also concluded that the IPA assistance in Albania has made a contribution to the institution building objectives of the Stabilisation and Association Strategy and therefore delivered the expected impact.

Bosnia and Herzegovina

Support for political reforms

In 2013 Bosnia-Herzegovina made very limited progress regarding the fulfilment of its European perspective. In the fourth quarter the 3rd High Level Dialogue meeting on the Accession Process was held in Brussels with a particular focus on the solution to the

implementation of the Sejdić-Finci judgement of the European Court of Human Rights, but also the establishment of a coordination mechanism. As a corollary in the fourth quarter several intensive facilitation meetings were held in Bosnia and Herzegovina, Brussels, Budapest and Prague in order to facilitate an agreement. Yet despite this substantial engagement, the European Court of Human Rights judgement regarding the Sejdić-Finci case was not implemented. The Stabilisation and Association Agreement (SAA) did not enter into force. An efficient and effective coordination mechanism in order to enable the country to speak with one voice was not established.

Engagement in the justice sector continued in the framework of the EU-BiH Structured Dialogue on Justice. In the first quarter of 2013 a plenary session was held in Brcko. In the second quarter of 2014 a thematic plenary meeting was hosted by the Commission in Brussels. Another fully-fledged plenary meeting was held in Banja Luka in the fourth quarter 2014. Each session was preceded by a technical stocktaking mission and by the organisation of technical discussion with other relevant members of the international community gathered in the International Consultative Group on the BiH Judiciary (chaired by COM).

The Commission continued to monitor the activities of BiH authorities in the implementation of reforms related to the benchmarks of the visa liberalisation dialogue. A field verification mission was carried out in the second quarter of 2013 to assess consistency of progress in a number of areas covered by the visa roadmap, ranging from security of documents, to border security, management of migratory flows, fight against organised crime and corruption and human rights issues.

In 2013 the International Monitoring Operation continued the monitoring of the Population Census operation. In the fourth quarter the enumeration phase of the Census was performed. The International Monitoring Operation assessed this stage of the Census as "smoothly conducted". In the fourth quarter the BiH Statistics Agency, in cooperation with the entities' statistics bureaus, conducted the post-enumeration survey in 240 enumeration areas. In fourth quarter first preliminary results were published on the website of the BiH Agency for statistics. In the first quarter of 2014 the data processing phase of the Census operation started.

In the last quarter of 2013 (October), the Commission issued its Progress Report on Bosnia and Herzegovina, which encouraged Bosnia and Herzegovina to undertake major efforts in a wide variety of areas including on the implementation of the Sejdić-Finci judgement and the establishment of a co-ordination mechanism.

Support for economic, social and territorial development, with a view to smart, sustainable and inclusive growth.

IPA continued to provide support to Bosnia and Herzegovina's socio-economic development. Regarding economic development, the Commission monitored Bosnia and Herzegovina. The country made little further progress towards becoming a market economy. The Commission noted a slight recovery of the economy in 2013. It underlined the importance of strengthening fiscal consolidation and structural reforms. It also urged to improve the quality of public finances and develop a consensus on economic and fiscal policy essentials in order to arrive at reforms at the country-level. It highlighted as major concerns the high unemployment, the large informal sector and the large and complex public sector with an unfavourable composition and a low

efficiency of public spending.

Support for *acquis* alignment

The Commission supported Bosnia and Herzegovina through the Committee and Subcommittees established under the framework of the Interim Agreement. In the first and second quarter of 2013 5 Sub-committees of the 5th cycle were held. The Sub-Committee on Innovation, Information Society, Social Policy and Public Health was cancelled. In the fourth quarter the planned Sub-committee on Innovation, Information Society, Social Policy and Public Health was cancelled once more. In both cases the reason was the lack of a common position by Bosnia and Herzegovina.

Financial Assistance

IPA assistance continued to be managed by the EU Delegation in Bosnia and Herzegovina under de-concentrated centralised management. The EU Delegation contracted IPA 2010 to 99 %, 2011 to 57% and 2013 to 30%. In December 2013 the Commission adopted a reduced IPA programme for 2013 of € 41,9 million focused on justice sector reform, rule of law, and social inclusion (education, refugees, Roma).

In consideration of the political stalemate and in the absence of a comprehensive EU coordination mechanism, the Commission suspended the preparation of the IPA II Country Strategy Paper.

Evaluation

A country programme interim evaluation of IPA assistance in Bosnia and Herzegovina was completed in 2013. The evaluation assessed the efficiency, effectiveness, impact and sustainability of IPA assistance 2007-2009 in two sectors Quality Infrastructure & Statistics and Social Development, with a total spending of € 32.07 million.

The analysis revealed that the complicated and politically influenced environment as well as the constraints on the national budget were increasingly limiting the ability of sectors to develop as envisaged. The quality infrastructure sector had established some laboratories and built technical capacity for metrology principally at the state level but legislation and policy reform was stalled due to the lack of political agreement between entities and state on the structure of the sector. In the social sector the legal framework for education is largely in place and there are some developments with adult and vocational education, although the institutional structures are large and complicated and capacity within them correspondingly is limited.

With regard to the performance, IPA projects have been effective and efficient, although there have been problems in implementation due to contractor performance, slow procurement procedures, meeting conditionalities or consensus between all stakeholders. Sustainability is broadly positive as much of the assistance is linked to technical components of the *acquis* and thus will be part of the longer term political agenda of the country. Observed impact can be substantially attributed to IPA, but it is constrained by systemic issues of insufficient national resources to further elaborate structures and finance operation of systems and tools.

Kosovo

Support for the Stabilisation and Association Process

In 2013, Kosovo made very good progress in the fulfilment of its European perspective. Further to its historic agreement in its EU-facilitated dialogue with Serbia and its addressing the four key priorities of the Commission's 2012 feasibility study, the Commission submitted draft negotiating directives for a Stabilisation and Association Agreement with Kosovo, which the Council agreed to in June 2013. Negotiations for an SAA started in October 2013. In November and December 2013 Kosovo organised its first ever local elections, including in the Serb-majority municipalities in the North.

In April 2013 the Commission issued its joint report with the EEAS on Kosovo's participation in the Kosovo-Serbia EU facilitated dialogue and Kosovo's meeting of the short-term priorities identified in the 2012 feasibility study. The General Affairs Council of June 2013 authorised the Commission to start negotiations of an SAA with Kosovo by agreeing to the Commission's draft negotiation directives as prepared following the joint report. The first two formal negotiating rounds took place in the fourth quarter and working groups discussed draft Titles IV, V & VI (free movement of goods, services, approximation of legislation). The Commission briefed EU Member States both before and after each negotiating round. SAA negotiations should be completed early in 2014 and the draft agreement is to be initialled by the summer of 2014.

The Commission supported Kosovo in these efforts by organising seven sector meetings within the framework of the Stabilisation and Association Process Dialogue (SAPD) in January-June 2013. In July 2013 it organised the SAPD plenary session with the Kosovo government and representatives of civil society.

In February 2013, the Commission organised the second Structured Dialogue on the Rule of Law in Pristina to monitor and discuss Kosovo's progress in its fight against corruption and organised crime and the reform of its judiciary. The third meeting of the dialogue took place in January 2014 and focused on the EULEX Strategic Review and reforms in the rule of law sector.

In April 2013, the Commission issued its recommendations for the Council to sign and conclude a framework agreement with Kosovo allowing it to participate in EU programmes. Discussions on these recommendations were put on hold so as not to have them complicate EU discussions on the start of negotiations on an SAA. Discussions resumed in September 2013 and focused on the legal implications of citing the substantial legal bases of the programmes concerned and Kosovo's signature. Discussions continued throughout the autumn of 2013.

The Commission continued the visa liberalisation dialogue with Kosovo. The first Commission report on progress was adopted in February 2013. In the spring of 2013, the Kosovo government adopted a package of laws to address some of the recommendations of this report. Senior Officials' Meetings took place in February 2013. A verification mission was organised in December 2013. A further mission is scheduled for March 2014, a second progress report is due in June 2014.

In October 2013, the Commission issued its Progress Report on Kosovo, which encouraged Kosovo to continue to follow-up on the recommendations and priorities of the 2012 feasibility study.

Throughout the year, the Commission continued to support and participate in working groups helping the implementation of Kosovo-Serbia dialogue agreements.

Financial Assistance

The Commission continued its preparation of IPA II for Kosovo. It prepared the draft Country Strategy Paper to structure and guide IPA programming for the period 2014-2020. IPA II should concentrate on key priorities on the sectors of rule of law, agriculture and food safety, and energy. IPA will continue to provide support to Kosovo's socio-economic development and assist Kosovo in building up efficient, democratic public institutions. IPA assistance continued to be managed exclusively by the EU Office in Kosovo under deconcentrated centralised management. The EU Office contracted IPA 2010 in full and has made good progress in contracting IPA 2011 (74% contracted) and 2012 (32% contracted). Execution of IPA 2013 Part I has started well (31% contracted). In December 2013 the Commission proposed an additional IPA programme for 2013 of € 38.5 million to support the implementation of agreements reached in the EU facilitated Kosovo-Serbia dialogue.

Evaluation

A country programme interim evaluation of IPA assistance in Kosovo was completed in 2013. The evaluation assessed the efficiency, effectiveness, impact and sustainability of IPA assistance 2007-2009 in three sectors: Public Finance and Financial Management, Socio-Economic Development and Human Rights, with a total spending of MEUR 101.

The sector analysis shows that some progress has been made in bringing these sectors closer to compliance with European standards, but significant tasks remain. The reform has mainly concentrated on the development of legal and regulatory frameworks and establishment of national institutions. The real challenge for the Kosovo government and public authorities is to develop further competence and implement strategies and legislation in practice.

In terms of capacity strengthening of the beneficiary institutions, the IPA assistance was effective. Systems delivered are of good quality, compliant with European standards and therefore useful for both national development and the accession effort. Efficiency generally has been good. Deficiencies in project performance were found only in the Socio-Economic Development sector which also had the most cases of contract extensions. Long term institutional capacity building results may not be sustainable in some government institutions, mainly because of high staff turnover. The assistance was assessed as contributory to the objectives of the Stabilisation and Association Strategy and therefore delivering the expected impact.

Specific objective 4: Enhance regional co-operation, including implementation of multi-beneficiary programmes.

4.1 Policy Achievements

Regional cooperation has continued within regional fora such as the Energy Community, the European Common Aviation Area, the Central European Free Trade Area (CEFTA) and the Regional School of Public Administration. The Regional Cooperation Council has further developed its role as a platform for the promotion of issues of importance to the whole region and its EU perspective thus further mainstreaming regional cooperation in the countries' political agenda. Progress on inclusiveness has been made following Kosovo's admittance as a full and equal participant in the Regional Cooperation Council in February 2013 and in the Regional School of Public Administration (ReSPA) in November 2013.

Also, the role of the **Regional Co-operation Council** as a body fostering regional integration was further strengthened in 2013. The RCC continued the implementation of its Strategy and Work Programme 2011 – 2013, as well as the formalisation of the new Strategy for 2014 - 2016, built around the **SEE 2020 agenda**.

4.2 Financial Assistance Achievements/Outputs

In line with the objectives of the Annual Management Plan 2013, outputs have been delivered in the area of (1) **Rule of Law** (incl. Justice and home affairs, public administration), (2) **Regional co-operation and reconciliation** (incl. refugee return), (3) **Strengthening economic recovery** (incl. transport, energy, environment and social sector, human resource development and private sector development, including SMEs), (4) **Cross border co-operation** and (5) **TAIEX events** support the approximation, application, enforcement of EU legislation/best practices.

ABB activity: 22.02 Enlargement strategy, process and assistance		<input checked="" type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending																																			
	Result indicators	Target 2013	Current situation (as achieved)																																		
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Events organised.	<u>Rule of Law</u> Regional project € 5 million Support to SIGMA project €10 million Launch +- 17 Partnership Programmes <u>Regional Co-operation and Reconciliation</u> Support the Regional Cooperation Council <u>Strengthening Economic Recovery in the Enlargement Zone</u> Support WBIF, Regional Entrepreneurial Learning Centre, European Training Foundation. <u>TAIEX</u> a) 2060 events, b) screening meetings & peer review missions linked to progress in accession negotiations.	<table border="1"> <thead> <tr> <th>Area</th> <th>Output 2013</th> </tr> </thead> <tbody> <tr> <td colspan="2">Rule of Law</td> </tr> <tr> <td>Fight against organised crime</td> <td>Regional project promoting international co-operation in criminal justice approved (€5 million); Strengthen networks for regional co-operation of prosecutors project approved (€5 million);</td> </tr> <tr> <td>Public Administration Reform</td> <td>SIGMA project signed (€10 million) for development of roadmaps for reform strategies;</td> </tr> <tr> <td>Civil Society Facility</td> <td>17 Partnership agreements with CSOs signed to give citizens a stronger voice and influence public sector reform;</td> </tr> <tr> <td colspan="2">Regional Co-operation and Reconciliation</td> </tr> <tr> <td>Refugee return</td> <td>Launch of Regional Housing Programme (€60 million) – 12 housing projects approved aiming to accommodate 2200 individuals across four countries.</td> </tr> <tr> <td colspan="2">Strengthening Economic Recovery in the Enlargement Zone</td> </tr> <tr> <td>Infrastructure</td> <td>Western Balkans Investment Framework (WBIF) - €305 million of grants combined with €2.7 billion loans from IFIs for 144 investments approved by end of 2013 (since December 2009). In 2013, the Steering Committee of the WBIF has approved grants for a total value of €22.08 million.</td> </tr> <tr> <td>Private Sector Development</td> <td>Western Balkan Enterprise Development and Innovation Facility – further €34.2 million allocated to the Facility and instrument embedded in the WBIF; The European Fund for South East Europe (EFSE) has provided loans to 410,800 SMEs and private households since inception; the net asset value of EC in (with EIF as trustee) C-shares by mid-2013 was €110 million.</td> </tr> <tr> <td>Competitiveness</td> <td>Regional Entrepreneurial Learning Centre – additional support [€2.5million allocated] Regional Competitiveness Initiative project (€4.9million allocated) European Training Foundation support allocated (€1.4 million)</td> </tr> <tr> <td>Education and Youth</td> <td>Erasmus Mundus scholarships (€20 million allocated) Youth in Action (€3 million allocated)</td> </tr> <tr> <td>Cross Border Co-operation</td> <td>CBC programmes IPA-IPA borders (commitments of €16.4 million); IPA-MS borders; "IPA Adriatic", transnational programmes "South East Europe"; "Mediterranean";</td> </tr> <tr> <td colspan="2">TAIEX</td> </tr> <tr> <td>Events and Assignments</td> <td>2118 (exceeded targets 2013)</td> </tr> <tr> <td>Screening Meetings</td> <td>44 (mostly Montenegro and few Serbia)</td> </tr> <tr> <td>Peer Assessments</td> <td>33 (mostly area of justice and home affairs)</td> </tr> </tbody> </table>	Area	Output 2013	Rule of Law		Fight against organised crime	Regional project promoting international co-operation in criminal justice approved (€5 million); Strengthen networks for regional co-operation of prosecutors project approved (€5 million);	Public Administration Reform	SIGMA project signed (€10 million) for development of roadmaps for reform strategies;	Civil Society Facility	17 Partnership agreements with CSOs signed to give citizens a stronger voice and influence public sector reform;	Regional Co-operation and Reconciliation		Refugee return	Launch of Regional Housing Programme (€60 million) – 12 housing projects approved aiming to accommodate 2200 individuals across four countries.	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A regional project for international cooperation in criminal justice in the tune of € 5 million has been approved, to enhance the **fight against organised crime and corruption**. It aims to improve the capacities of the beneficiaries for international judicial and police cooperation through the support of international investigations and prosecutions, the promotion of secured exchange of information and intelligence, the use of modern communication technology and data protection mechanisms aligned to EU standards. In the same sector, a follow-up project to strengthen networks for regional cooperation of prosecutors has been developed with an allocated amount of € 5 million.

With a view to maintaining the momentum of **Public Administration Reform** and improve public governance, the SIGMA project has been further supported with an allocation of € 10 million to develop roadmaps for comprehensive reform strategies that are properly prioritised and sequenced and will be subject to performance-oriented monitoring and assessment.

During 2013, and following a commitment of € 11 million under the **Civil Society Facility** for 17 Partnership Agreements with Civil Society Organisations (CSOs), work has started with a focus on developing greater commitment and capacity of regional CSO networks to give citizens a voice and influence public sector reform processes through analysis, monitoring and advocacy.

In 2013, the Assembly of Donors for the **Regional Housing Programme** approved 12 housing projects. These housing projects amount to more than € 60 million and aim to accommodate more than 2,200 individuals in all four Partner Countries (Bosnia and Herzegovina, Croatia, Montenegro and Serbia). The housing solutions include construction of apartment buildings, pre-fabricated houses and provision of building materials for assistance with reconstruction of existing dwellings / living accommodation and purchase of village houses. The implementation of the housing projects started in the fourth quarter of 2013 with the launching of information campaigns and the selection of the first beneficiaries. By the end of 2013 and despite the fact that the grant agreements for the approved projects have not been signed yet, Partner Countries made significant progress in setting up of project implementation units. Further milestones were achieved with the preparation of country feasibility reports that define the main parameters of the programme's implementation and the signature of Framework Agreements between each Partner Country and the Council of Europe Development Bank, who is the manager of the programme.

Since its establishment in December 2009, the **Western Balkan Investment Framework** (WBIF) has evolved as a successful financing instrument that blends grants and loans to expedite investments in priority sectors in the Western Balkans. Based on the commitments taken by the donors and the IFIs (for the amounts see table above), this will contribute to the total estimated value of investments of about € 13 billion for the region. Two Steering Committee meetings of the WBIF took place in 2013, one in June (Greece/hosted by the Greek Ministry of Foreign Affairs) and one in December (London/hosted by EBRD). Apart from the approval of grants for new projects in the region, the meetings were used as the occasion to (1) discuss the pipeline of on-going projects, (2) prepare for a draft publication of a [compendium of all WBIF projects](#), (3) launch a Task Force, representing all WBIF stakeholders, and (4) explore the potential for the WBIF to increase the use of **public private partnerships (PPPs)** for investments in the Western Balkans.

Following the launch of **Western Balkan Enterprise Development and Innovation Facility** (WB EDIF) on 5 December 2012, a further € 34.2 million has been allocated to WB EDIF. EDIF

is embedded in the Western Balkans Investment Framework and it is the first initiative in the Private Sector Development area under it. Continued support was provided to SMEs under European Fund for South East Europe in 2013¹⁶.

In an effort to help achieve the SEE 2020 Strategy targets and promote the sound recovery from the economic and financial crisis, support has been provided to the **Regional Entrepreneurial Learning Centre (SEECCEL)** located in Zagreb, to a **regional competitiveness initiative (OECD)** and to the **European Training Foundation (ETF)**.

With a view to fostering reforms and regional cooperation in education, the IPA 2013 Multi-beneficiary programme has continued previous practice and supported scholarships under the **Erasmus Mundus Programme** as well as the **Youth in Action** programme. Actions are implemented by the Education, Audiovisual and Culture Executive Agency (EACEA).

Cross-border cooperation continued to strengthen good neighbourly relations and contributed to overcoming the legacy of the past, by assisting to build the capacity of local, regional and national institutions within the IPA countries to manage EU programmes and to prepare them for the management of future Structural Funds. Assistance has been provided to different types of programmes notably cross-border cooperation at intra-Western Balkan borders, as well as bilateral cross-border programmes between IPA countries and Member States and a multilateral programme called "IPA Adriatic". In addition, the participation of IPA countries in the transnational cooperation programmes "South East Europe" and "Mediterranean", managed by DG Regional Policy, continued to be ensured.

Throughout 2013 **TAIEX, the Technical Assistance and Information Exchange Instrument**, continued to deliver tailor-made assistance. In total 2,118 events and assignments have been organised across all beneficiaries - the highest figure ever recorded under TAIEX. TAIEX under IPA in particular (including multi-country events), underwent a significant 15% increase in relation to 2012. Such quantitative achievement was matched by a strong alignment of TAIEX with the main thrust of the enlargement policy and assistance priorities. This is evidenced e.g. by the highest ever number of events for the benefit of Croatia in the run-up to, and just after, accession (180, a 34% increase in relation to 2012); the highest ever number of events in the Justice and Home Affairs sector (556, a 17% increase in relation to 2012); and the support to Montenegro's screening process and follow-up¹⁷.

Evaluation

An **evaluation** of the Multi-beneficiary programmes was completed in 2013. The evaluation reviewed a sample of projects financed under IPA 2007-2009 covering institution building, infrastructure investment and support to regional organisations consisting principally of technical assistance and grants.

¹⁶ Total Fund value at the end of 2013 €700 million; equity share of the EC in the Fund corresponds to €100 million;

¹⁷ The AMP 2013 lists TAIEX Policy and Financial Assistance Outputs under specific objective 1 whilst financial resources were identified as stemming from IPA Multi-Beneficiary Programmes – hence its mentioning in this section.

The evaluation concluded that IPA assistance was effective and efficient, as the direct outputs from the assistance have been largely delivered or are expected to be delivered although in some cases with delays. Results in institution building are in some cases overly ambitious and achievable only over the medium term. The programming process provides good grounds for ensuring as much as possible the involvement of all interested parties in the planning process. Practical reasons of co-ordination, capacity constraints in national stakeholders and a short contracting period mean that it has to be led by the Commission and as such can be perceived as top down.

Ownership remains largely with the Commission as they lead the process of programming and implementation and this may reduce sustainability overall. Multi annual funding of sectors contributes to sustainability. The impact of the MBP for institution building is difficult to disaggregate from the impact of national programmes and other donors in areas such as statistics, public procurement and public finance management.

Multi-Beneficiary Programmes have a clear added value to the national programmes, although they have suffered from ownership issues due to complex co-ordination both within countries and between beneficiaries that has necessitated a more top-down programming process than seen under National Programmes.

Evaluation findings

The following information concerns evaluations addressing the assessment of activities related to the above mentioned 4 specific objectives.

In 2013, DG Enlargement completed **five** evaluations, **five** new evaluations have been launched and **three** evaluations were in the process of implementation. Two reports were postponed to be delivered in the first quarter of 2014 due to contract extensions. More detailed information on the results (main findings, conclusions and recommendations) of completed evaluations in 2013 is provided in Annex 9 of the report.

A thematic evaluation on the EU's support to strengthening Governance, Rule of Law, Judiciary Reform and Fight against Corruption and Organised Crime in the Western Balkans was finalised in the beginning of 2013. The evaluation was focused on evaluating the relevance, efficiency, effectiveness, impact and sustainability of EU pre-accession financial assistance, most notably IPA funds and EU-supported reforms and institutional setting in the areas of Rule of Law, Judicial Reform and Fight against Corruption and Organised Crime. The evaluation confirmed the importance of the rule of law and found out that in all Western Balkan countries there have been major improvements to the fundamental institutional and organisational frameworks in the sector due to the EU support. It was acknowledged that legal and institutional frameworks were put into place as a result of EU assistance. The restructuring of fundamental frameworks have been the most important and sustainable results. More, and more appropriate, laws have been passed, and in some cases the entire legal philosophy underlying the legal system has changed. The fact that these processes have largely taken place is a major achievement, and the EU through the years has clearly been a driving force both at the political/policy level, and with funding. Moreover, as a consequence of the EU assistance, important results at output level were produced, e.g. in some countries, court systems were restructured, modernised; structures in the justice sector have generally improved; overall organisational development has taken place. Despite of the positive changes EU and IPA assistance brought to the countries, the further effectiveness of the programmes depends on stronger political will, increase in the ownership of the programmes, and local administrative capacity. They remain crucial conditions for a sustainable judicial reform. The report also calls for increase in the EU financing to the Rule of law sector, as it found out that at the aggregate financing level, the share of available IPA funding allocated to addressing the judiciary and fight against corruption and organised crime is uneven across countries. DG Enlargement shares the vision of attaching importance to the sectors dealt with and confirms its strong commitment to maintaining reforms of the judiciary and the fight against corruption as key priorities of the accession process. However, judiciary reforms and fight against corruption are sectors which are addressed not so much with financial means, programming or IPA-related matters, but rather with policy dialogue.

The **Second Interim evaluation on IPA assistance** was finalised in September 2013. All six reports on IPA performance in Albania, Bosnia and Herzegovina, Kosovo, Montenegro and Serbia and on the performance of the Multi-beneficiary programmes were produced by the contractor and presented in dissemination meetings to a wider audience. In addition, the evaluation delivered a meta-evaluation report, which aggregated findings of several evaluation studies and drew up common and systemic findings and conclusions applied to IPA in a broader context. The evaluation was conceived as a strategic, mid-term evaluation of IPA assistance at instrument level and was focused on qualitative and quantitative

analysis, assessment and reporting on the performance of IPA pre-accession assistance, namely its efficiency, effectiveness, impact and sustainability. More detailed information on the evaluation findings and conclusions are provided below.

An ex-post evaluation on the CARDS programmes was completed and the evaluation report was disseminated and presented in Serbia and Brussels. The purpose of this evaluation was to assess the impact and sustainability of CARDS (Community Assistance for Reconstruction, Development and Stabilisation) funded interventions, and provide lessons learned and recommendations for decision-making on improvements of future financial assistance where relevant. The evaluation looked at the programming strategic framework to assess how effectively had priorities/needs of the countries in the region been translated into programming of assistance; it assessed the efficiency and effectiveness of the assistance, achieved results and impact, their sustainability and factors that hampered the impact. Apart from delivering lessons learned from the implementation of assistance, the evaluation provides useful recommendations for the further IPA programming.

The evaluation concluded that the main strengths of the assistance were the efficiency of the European Agency for Reconstruction in programming and delivering support; the good quality results of CARDS assistance and the CARDS contribution to raising awareness among beneficiary officials and policy makers of new concepts and establishing them in practice. The main weaknesses of CARDS were the lack of involvement of the beneficiary institutions in the programming, monitoring and evaluation of the programme; its over-ambitious institution building interventions and the lack of a co-financing element in institution building, which represented a missed opportunity to promote “ownership” and sustainability.

An ex-post evaluation on the assistance provided by the EU’s Turkish Pre-accession instrument, 2002-2006 was also completed in the reporting period. It assessed the impact and sustainability of pre accession funded interventions in Turkey and provided recommendations on improvements of future financial assistance. The importance of high level commitment on the use of results of evaluations, continuing the development of capacities and the ownership of the beneficiary countries have been confirmed. The evaluation recommends that the budget allocations for IPA II need to be better aligned with the IPA objectives, ensuring their achievement. In addition, the evaluation recalls that the project intervention logic and its design need to be based on a specific needs assessment.

A thematic evaluation on assessing of the EC's support to Private Sector Development in Turkey was finalized in 2013 and presented both in Turkey and in Brussels. Its main conclusion was that overall the EU-funded projects to private sector development in Turkey have been successful. However, there is room for improvement in terms of focus in the next programming cycles, also to reflect the dynamisms of the Turkish private sector and the evolving needs. The evaluators recommend that the Commission should put more emphasis on continuous project monitoring and frequent evaluation for assistance funded by EU and other donors. To enhance aid effectiveness and added value of EU assistance in the Turkish private sector, it was proposed that the Commission should better apprehend and assess the absorption and replication capacity of the beneficiaries in designing EU interventions and should strengthen donor coordination. The recommendations were generally approved and a follow-up action plan on the DG Enlargement's response to the recommendations and planned steps is expected to be disseminated in March 2014.

More detailed information on finalised evaluations is provided in Annex 9. All reports of completed evaluations are available at the DG Enlargement web-site:

http://ec.europa.eu/enlargement/news_corner/key_documents/index_en.htm?key_document=08012624887bedda

In terms of the quality of the evaluation reports, measured by the internal quality assessment grids, all reports on the completed evaluations are rated with an overall quality rating "satisfactory" and above (100% achieved target). Furthermore, approximately 80% of recommendations from the evaluation reports are entirely or partially accepted by DG Enlargement¹⁸ which was higher than the targeted 75%.

Some other evaluations launched by the DG Enlargement are on-going and therefore are not subject to the current report (Capacity Development project on Monitoring and Evaluation with the World Bank; Evaluation of the Customs Union between the EU and Turkey; Thematic evaluation of EU's support to Refugees; Mapping of sector strategies; Mapping of Donor intervention, Ex-post evaluation of PHARE programmes; Third Interim Evaluation of IPA assistance; Meta-evaluation cooperation instruments).

Results of evaluations were instrumental in reorienting the approach on the way of implementing the financial cooperation (with result orientation, more strategic sector approach, multi-year programming, simplification of the ex-ante control system, strengthening of the monitoring platforms and mechanisms). They also confirmed the decision of the Commission to put renewed emphasis on the Rule of law sector, taking on board specific findings and recommendations of the Rule of law evaluation as well as those of the European Parliament on this matter.

Lessons learnt, as well as the recent Commission Communication on evaluation¹⁹, also led to develop new orientations on the evaluation function in DG Enlargement, together with the adoption of an indicative multi-annual evaluation plan 2014-2020. The plan is foreseen as a strategic tool to streamline the Smart Regulation cycle and promote the evaluation culture in DG Enlargement. An evaluation programme under the IPA -Transition Assistance and Institution Building Component for the year 2013 was adopted (Financing Decision 2013/23-681).

DG Enlargement's evaluation team has been actively involved in the discussions on IPA II legal framework (IPA II Commission Implementing Regulation, Framework Agreement, and Strategic Programming Framework), thus contributing to the overall quality of the programming exercise as well as commenting the early versions of the Country Strategy Papers. It also led the working group, assigned to elaborate the IPA programming and monitoring indicators. As a result, a guidance note on indicators with a set of strategic indicators for IPA II programming has been set out.

¹⁸ The percentage refers only to level of acceptance of the recommendations from the evaluation reports and does not count and represent the recommendations where follow-up actions will be taken.

¹⁹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Strengthening the foundations of Smart Regulation – improving evaluation, COM(2013) 686 final, Brussels, 2.10.2013

In compliance with the Council Regulation (EC) No 1085/2006 of 17 July 2006, the sixth annual report by the Commission to the European Parliament, the Council and the Economic and Social Committee, reporting on the implementation of IPA was prepared. The 2012 Annual Report on assistance for Enlargement (IPA, PHARE, CARDS, Turkey Pre-Accession Instrument, and Transition Facility) was adopted in September 2013 and is available at the DG Enlargement web site

http://ec.europa.eu/enlargement/pdf/key_documents/2013/2012_ipa_annual_report_with_annex_new_en.pdf.

With regard to the evaluation capacity in beneficiary countries, DG Enlargement contributed successfully to strengthening the capacity of the beneficiary countries in monitoring and evaluation. Training activities to the NIPACs and national authorities in four beneficiary countries (Kosovo, Serbia, Montenegro, and Turkey) were delivered.

A representative example of an evaluation, demonstrating the efficiency, effectiveness, impact and EU added value of IPA programmes:

Interim evaluations and meta-evaluation of IPA assistance, Contract IPA/2011/277-427 (Second interim evaluation of IPA assistance)

The second interim evaluation of IPA assistance brought a consolidated analysis and assessment resulting from 7 Country Programme Interim Evaluations (namely Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo, Turkey and Croatia) and Multi-beneficiary programmes under IPA and other thematic contributory evaluations. It provided a valuable assessment of the efficiency, effectiveness, impact and sustainability of IPA programmes Component I in 2007-2010. The evaluation provided relevant lessons learned to the Commission to enhance the programming of IPA II 2014-2020. The evaluation itself is a good example of the new orientation of DG Enlargement's evaluation policy, emphasizing on strategic and policy oriented evaluations which contribute to evidence based decisions in programming and implementation of IPA assistance. In addition, it implements effectively the "evaluate first" principle.

The evaluation was conceived as strategic and as a complementary tool to ensure a coherent assessment of the EU assistance. It was designed to get evidence from past and on-going activities and provide lessons learned that can be used for both adjusting on-going operations and modify the design of future policies and operational interventions, therefore playing a strategic role.

The overall conclusions from the second meta evaluation are that the delivery of outputs is generally good, especially in those countries operating under centralised management. However, translating project level outputs into results and impact has not been as good as it could have been. In addition, the assistance has been substantially effective and performs best when it has been driven by *acquis* as this provides a politically accepted institutional structure and professional mandate. IPA has been a useful facilitator of change and it was acknowledged that it must be accompanied by a clear political process and steady progress in the accession process to generate sustainable results. Timeliness is a key factor in ensuring ownership and multi annual programming can do much to engender this.

With regard to the efficiency, IPA was contracted and implemented mainly in line with elarg_aar_2013

planned expectations and using appropriate mechanisms. According to the evaluation, project implementation is not sufficiently flexible, and greater flexibility in project scaling is needed, especially in providing more rapidly deployed assistance. Beneficiary management capacity takes time to improve after management power has been conferred to national contracting structures, meaning that ownership therefore needs to be improved and one clear mechanism is to increase the level of co-financing.

Analysis of sectoral performance to determine the impact of the IPA shows that substantial progress has been made towards sectoral policy objectives established at the beginning of programming although the contribution of earlier assistance and other actors should not be discounted. Again, impact has been most positive in areas driven by the *acquis* harmonization process. In more horizontal areas of reform that lack these drivers, impact has been more difficult to achieve. The integrated nature of project design - with a number of mutually dependent components to achieve an overall objective - has reduced impact where contributory elements were not successfully achieved on time. Moreover, in some cases the insufficient national ownership has reduced the capacity of attaining the expected objectives.

Sustainability is likely to be lower in those areas that had difficulty generating planned results and impacts. Sustaining the results and impacts achieved by IPA relies on the national level political priorities remaining in line with programme objectives and this is not always the case. Although financial commitments for institution building are usually assured through government budgets, capital investments for socio economic development frequently face financing issues that have the potential to affect sustainability.

Overall, the evaluation added value in providing relevant recommendations and lessons learned to the Commission to enhance the implementation of IPA II 2014-2020. Some of the recommendations have already been taken into account into the programming process, such as ensuring a better link between the political dialogue and IPA funding; encouraging a strong ownership and commitment from the beneficiaries while financing their activities; undertaking a rigorous assessment of the beneficiary capacity when scaling up the assistance.

The reports produced under this evaluation are available at

http://ec.europa.eu/enlargement/pdf/financial_assistance/phare/evaluation/20110912_financial_report.pdf

1.1.3 Aid Regulation: support to the Turkish Cypriot community is being implemented according to the objective described in the AMP 2013

Policy Area: Aid Regulation to the Turkish Cypriot community				<input checked="" type="checkbox"/> Spending programme
				<input checked="" type="checkbox"/> Non-spending
		Target (long-term)	Interim Milestone ²⁰	Current situation (as achieved)
		2020	2017	2013
<p>General objective</p> <p>To facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community with particular emphasis on the economic integration of the island, on improving contacts between the two communities and with the EU, and on preparation for the <i>acquis</i>.</p>	<p>Impact indicator</p> <p>Progress towards reunification.</p>	<p>Social and economic integration, advanced <i>acquis</i> alignment.</p>	<p>Substantive progress in political and technical processes.</p>	<p>Throughout 2013 the Commission supported the UN Good Offices mission for the resumption of settlement talks which finally led to the Joint Declaration made on 11 February 2014 as basis for resumption of settlement talks;</p> <p>Social/economic separation remains.</p>

1.1.3.1 Policy Achievements

Throughout 2013 the Commission supported the UN Good Offices mission for the resumption of settlement talks and there was optimism for a restart of settlement talks following presidential elections in the Republic of Cyprus. While the two communities did not reach any agreement on a joint statement before the end of 2013, on 11 February 2014 the Greek and Turkish Cypriot leaders met and issued a joint Declaration serving as a solid foundation for resumption of negotiations for a fair and viable comprehensive settlement of the long-standing Cyprus problem.

In 2013, in line with the annual reporting obligations to the European Parliament and the Council, a report about the implementation of the Community assistance to the TCC and a report on the application of the Green Line Regulation - setting the conditions for movement of people and goods across the Green Line into the government-controlled areas - were presented to the Council Working Group in June 2013. An amendment to the Green Line Regulation to facilitate movement through the Limnitis crossing point was adopted in July 2013.

²⁰ For a definition of the term, please refer to:
http://myintracomm.ec.europa.eu/corp/sg/en/spp/Documents/abm_glossary.pdf

1.1.3.2. Financial Assistance Achievements/Outputs

In line with the objectives of the Annual Management Plan 2013, the annual programming exercise was completed with the adoption in November 2013 of a € 31 million financing package for 2013. This provides continuing assistance towards each of the objectives of the Aid Regulation, with significant inputs on wastewater management and animal health and indirect centralised management for the successful scholarship programme.

The MFF for 2014-2020 created a multiannual perspective for the support to the TCc. This will facilitate the strategic planning for the coming period.

1.1.4 ABB activity: 22 03 - Aid regulation - support to the Turkish Cypriot community

ABB activity: 22 03: Aid regulation			<input checked="" type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending
		Target (long-term)	Current situation ²¹ (as achieved)
		2017	
Specific objective: Economic development of the Turkish Cypriot community	<u>Indicator 1:</u> Technically and politically support settlement process to prepare for the application of the <i>acquis</i> to the whole island after the achievement of settlement	Substantive progress in political and technical processes	Throughout 2013 the Commission supported the UN Good Offices mission for the resumption of settlement talks which finally led to the Joint Declaration made on 11 February 2014 as possible ground for resuming settlement talks; social/economic separation remains
	<u>Indicator 2:</u> GDP per capita gap between the government controlled areas of the Republic of Cyprus and the northern part of Cyprus in process of progressive reduction	52%	TCC GDP/cap as % of that of government controlled area : 45%
	<u>Indicator 3:</u> Gross green line trade volume in process of progressive increase (source: TCC Chamber of Commerce)	€6,500,000	€4,196,465

Apart from the contribution to the settlement talks, other specific indicators in the AMP

²¹ For objectives of multi-annual programmes, where intermediate milestones are not available, services may consider presenting progress towards attainment of ultimate objectives by showing the multi-annual trend.

relate to GDP and Green-Line trade. There has been an apparent gradual reduction in **the GDP per capita gap with the government controlled areas** since 2008 (with poor quality data), but against a background of the major impact of the financial crisis in the government controlled area.

Concerning the **cross Green-Line trade volume**, this has shown a year-on-year decrease for the last 4 years, probably as a result of the financial crisis, but also reflecting the lack of progress in the political process. This trade is small but symbolic and reflects the degree (or lack of) of economic and to a certain extent social integration.

Main outputs in 2013	
Area	Output
Development and Restructuring of Infrastructure	The new bicommunal WWTP at Mia Milia/Haspolat wastewater treatment plant (the biggest WWTP in Cyprus) was handed over on 1 July 2013;
Promotion of Social and Economic Development	Grants supporting rural enterprises and schools were signed for a total of around €4 million (49 grants);
Support to reconciliation, confidence building measures and civil society(including support to CMP and cultural heritage)	The work of the Committee on Missing Persons programme has accelerated after two years of slow progress due to problems with the genetic phase, achieving the highest rates of identification of "missing" (140 in 2013) since 2006;
	After a slow start, the work on cultural heritage protection accelerated in 2013, with work on eight sites and some high profile project competitions;
Bringing the Turkish Cypriot closer to the EU	The highly valued scholarship programme reached more students (181 grants in 2013) than in any previous year. The contract for the outsourcing of the scholarship programme with the British Council was also signed in 2013;
Preparation of future application of <i>acquis</i> - TAIEX support	456 actions in 2013 under the TAIEX programme, including training courses, workshops, study visits and legal expert counselling;

The intensive evaluation process that started in 2012 continued in 2013 and an overall programme evaluation indicated generally "good" quality.

Overall, the assistance programme is considered to entail some risk. Achievement of the overall goal is threatened by stagnation of the political process, and operational risks arise from the unique context of the centralised operation with no recognised beneficiary. Indeed, in 2013, operational risks materialised with escalation of disputes with local contractors and local "police" investigation of activities of works supervision engineers commissioned by the EU. Local "court" awards were made against the Commission and injunctions preventing call-up of bank guarantees.

1.2 Specific efforts to improve 'economy' and 'efficiency' of spending and non-spending activities.

According to the financial regulation (art 30), the principle of economy required 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 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).

DG Enlargement is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations. The following two initiatives show how these principles are implemented in our DG:

1.2.1 Example 1

Use of videoconferencing facilities

During 2013, video-conferences' use has been intensified in all Directorates allowing together with a more general saving effort to reduce personnel's mission without compromising the quality of the consultation with Delegations and other actors in the beneficiary countries.

In particular, the example of Directorate D concerning increasing efficiency by using videoconference facilities shows the following positive trend:

-the organisation of videoconferences has increased in 2013 overall;

-videoconferencing has been used between HQ and Delegations and the local office in Cyprus facilitating internal communication/clarification;

-web-streaming was organised by unit D2 for 44 screening meetings (38 for Montenegro and 6 for Serbia) allowing a large number of candidate country experts to watch screening proceedings live/and later on; unit D3 also used web-streaming.

The main efficiency gain of these operations is that it allows to improve the communication

and working conditions internally between Headquarters and local offices and improve communication with external stakeholders.

In conclusion, the use of videoconferencing facilities allows to better focus the mission budget on events that cannot be discussed in videoconferences (project monitoring, attendance of local/regional events) or where the sharing of info via web-streaming is not sufficient; while trying to maximise internal co-ordination and communication meetings to be resolved via videoconferencing.

Finally, overall, from a statistical point of view which concerns not only the above example (Directorate D) but the whole of DG Enlargement, the use of videoconferencing facilities during 2013 increased significantly:

2012												
January	February	March	April	May	June	July	August	September	October	November	December	TOTAL
6	3	8	4	13	20	2	1	6	4	7	9	83
2013												
January	February	March	April	May	June	July	August	September	October	November	December	TOTAL
4	4	2	4	15	23	23	5	7	10	51	38	186

1.2.2 Example 2

Simplification exercise

In 2013, DG Enlargement further pursued its internal simplification action plan to enhance internal working methods in an exercise led by the Deputy Director General. The aim of this exercise was to eliminate bureaucracy and to free up resources and time to pursue the DGs core activities. Implementation is ongoing and a further simplification exercise is being launch in 2014. Completed actions include the abolition of the IPA quality support group, the creation of the IPA steering committee at senior management level, the lowering of the frequency of internal financial reporting, and the establishment of a target minimum average value for the size of IPA contracts for more details see also Part 3).

2. MANAGEMENT OF RESOURCES

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes. This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director-General. The reports produced are:

- the reports by the Authorising Officer by Sub-Delegation (AOSD);
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the reports on control results from management/audit authorities in Beneficiary Countries with regard to de-centralised management by those countries, as well as the result of the Commission supervisory controls on the activities of these bodies;
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level;
- the results of the ex-post controls and system audits²²;
- the opinion and the observations of the Internal Audit Capability (IAC);
- the observations and the recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

This section reports the control results and other relevant elements that support managements' assurance on the achievement of the internal control objectives²³. It is structured in three separate sections: (1) the DG's assessment of its own activities for the management of its resources; (2) the assessment of the activities carried out by other entities to which the DG has entrusted budget implementation tasks; and (3) the assessment of the results of internal and external audits, including the implementation of audit recommendations.

The following short overview examines the various kinds of expenditure, management modes and programmes managed, in order to facilitate the referencing of the indicators

²² See footnote 40

²³ 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).

included in 2.1 and 2.2 and their coverage.

For the period 2007-2013 the legal framework for delivery of pre-accession assistance has been the IPA regulation²⁴, and contracting and payments under IPA are expected to continue for several years. DG Enlargement also continues to finalise a number of programmes under previous legal arrangements, i.e. PHARE, Transition Facility, Turkey programmes and decentralised CARDS programmes, through to their final closure. The DG also manages assistance for the Turkish Cypriot community²⁵. The DG's total budget per year is approximately 1.1 billion Euros in commitment appropriations, and around 850 millions Euros in payment appropriations.

Pre- and post-accession assistance is implemented through a broad variety of management modes which take into account the different levels of preparedness of the beneficiary countries. During 2013 the management modes continued to be governed by the previous Financial Regulation and Implementing Rules²⁶. The new management modes will enter in force in 2014. In practice therefore, in 2013 seven different kinds of management modes can be distinguished:

- Centralised (Direct)
- De-concentrated (Direct) to EU Delegations under the supervision of DG Enlargement²⁷.
- Decentralised with ex-ante control
- De-centralised without ex-ante control²⁸
- Indirect Centralised
- Joint
- Cross-delegated

The general trend in pre-accession aid is towards decentralised management. The aid is designed to prepare the beneficiary countries (candidate countries and potential candidates) to assume full responsibility for the management of financial assistance granted by the EU²⁹.

Implementation of IPA components I and II starts in the centralised management mode, with a view to transfer implementation management powers to the beneficiary countries when

²⁴ Council regulation (EC) No 1085/2006 of 17 July 2006.

²⁵ Council Regulation EC No 389/2006 of 27 February 2006 establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot Community.

²⁶ Articles 53-57 of the 2002 Financing Regulation and the corresponding articles 35-43 of the Implementing Rules remain applicable in 2013. The Articles of the New Financing Regulation 58-63 and the corresponding articles 33-44 of the RAP will be applicable from 1-1-2014.

²⁷ Administratively the EU Delegations report to the EEAS.

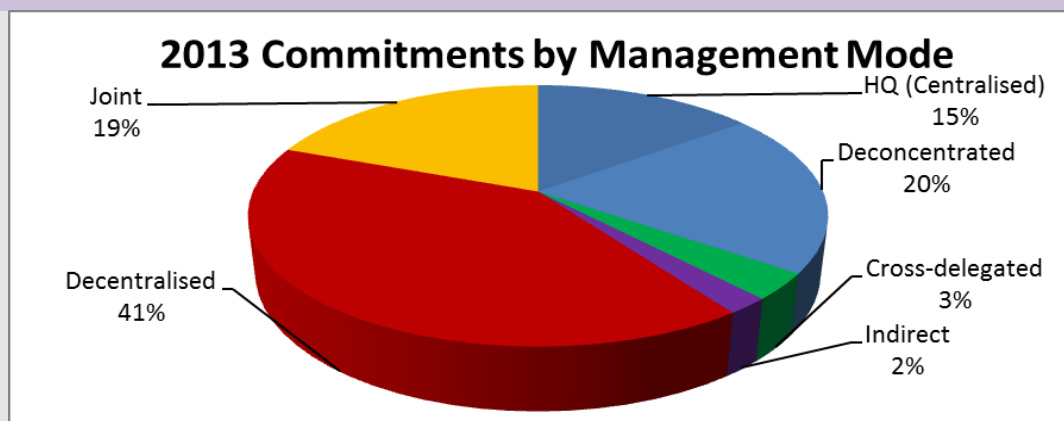
²⁸ In 2013 this applied to Croatia until it became a Member State on 1 July.

²⁹ IPA components III, IV and V – which foreshadow the Structural Funds, and fall under the responsibility of DG REGIO, EMPL and AGRI, respectively – must be implemented in the decentralised management mode from the very beginning. For these components, the role of DG ELARG is limited to co-ordination.

their respective management capacities are considered ready³⁰. The breakdown by management mode in 2013 was as follows:

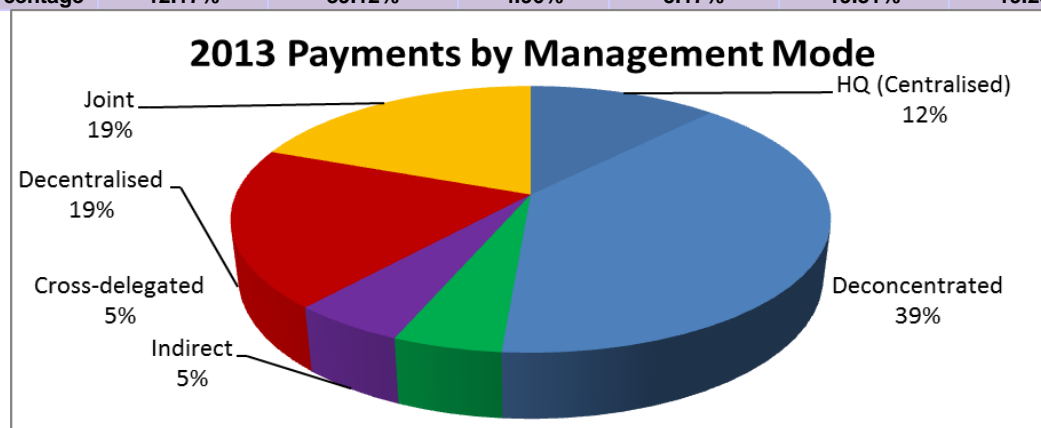
Commitments³¹:

	Committed Amount (EUR)	HQ (Centralised)	De-concentrated	Cross-delegated	Indirect	Decentralised	Joint
Administrative	49,276,997	20,310,204	2,409,793	26,557,000	-	-	-
Operational	1,020,741,610	136,832,920	213,372,197	8,250,000	22,100,000	434,029,308	206,157,186
Total	1,070,018,607	157,143,124	215,781,989	34,807,000	22,100,000	434,029,308	206,157,186
	Percentage	14.69%	20.17%	3.25%	2.07%	40.56%	19.27%



Payments:

	Paid Amount (EUR)	HQ (Centralised)	De-concentrated	Cross-delegated	Indirect	Decentralised	Joint
Administrative	17,436,253	2,544,532	26,369,600	-	-	-	-
Operational	820,358,990	99,382,249	301,353,307	41,537,006	43,338,348	161,777,871	161,492,328
Total	837,795,243	101,926,781	327,722,908	41,537,006	43,338,348	161,777,871	161,492,328
	Percentage	12.17%	39.12%	4.96%	5.17%	19.31%	19.28%



³⁰ The transfer under IPA I takes the form of decisions on "Conferral of management powers".

³¹ An additional 34 MEUR was committed by DG Enlargement and then re-allocated to the Education, Audiovisual and Culture Executive Agency.

With regard to Administrative expenditure, including human resources, the implementation of Commitment Appropriations for Administrative support was as follows (for more details see Annex 2):

Financial Resources by ABB activity (EUR Million)				
Implementation of Commitment Appropriations for Administrative support				
Code ABB Activity	ABB Activity	Administrative expenditure		Total
		Heading V (1)	BA lines (2)	
22 02	Enlargement process and strategy	12.416.341 €	29.736.614 €	42.152.955 €
22 AWBL-01	Administrative support for 'Enlargement'	1.199.898 €	417.356 €	1.617.254 €
22 AWBL-02	Policy strategy and coordination	626.034 €	104.339 €	730.373 €
22 AWBL-03	Enlargement pre-accession negotiations	104.339 €	52.169 €	156.508 €
Total				44.657.091€

(1) Heading 5 appropriations managed by the DG (global envelope) XX 01 02

(2) BA lines (XX 01 04) and, when relevant XX 01 05 and XX 01 06.

In terms of financial performance DG Enlargement exceeded the targets set in the DG's 2013 Management Plan (MP) for commitments and payments:

- A consumption rate of **99.73%** of the commitment appropriations was achieved (above the MP target of >90%).
- The execution rate of payment appropriations was also above the target set in the MP (>90%) at **98.79%**.

Total recoveries: For DG Enlargement as a whole, **171** recovery orders were issued for a total amount of **50.4 MEUR**. Of these **68** recovery orders for a total amount of **5.2 MEUR** were issued as a result of ex-post controls and irregularity/OLAF reports. The trend is stable compared to 2012. This shows the continued effectiveness of the DG's monitoring and control systems.

2.1 Management of human and financial resources by DG Enlargement

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

Control effectiveness as regards legality and regularity

DG Enlargement has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned. The control objective is to ensure that the residual error rate does not exceed 2%.

To reach a conclusion with an acceptable level of accuracy, using a confidence level of 95%, the centralised ex post control function for centralised management chooses a statistically

significant sample of items. The methodology used is Monetary Unit Sampling (MUS), which is a method commonly applied in DG's Development and Cooperation - EuropeAid, Regional Policy and Agriculture and Rural Development in order to be able to reach a statistically sound conclusion on the legality and regularity of the transactions in the audited population. The MUS methodologies that are in place in the aforementioned DGs, as well as the guidance from DG Budget, have been used in the preparation of the Manual that was put in place and is the basis of the methodology for the 2013 centralised management ex post control audit programme.

In decentralised management the "residual error rate" represents the percentage of unknown errors per programming year which remain after the recovery of the known errors. It is computed statistically for each programming year by extrapolating the errors found in a statistically representative sample of transactions. These errors are obtained from the audit findings (potential errors) raised by external auditors. It is expected that after the contradictory procedure laid down in the IPA regulation, some of these findings will lead to confirmed errors subject to recovery.

The provisional residual error rate results are as follows (see annex 5 for details):

- Centralised Management RER: **1.80%** for finalised RER audits for centralised management (benchmark < 2%)³²
- De-centralised Management RER: **0.08%** for finalised RER audits on de-centralised management (benchmark < 2%)³³

NB: centralised (HQ and EUD) and de-centralised management together accounted for 70.59% of payments in 2013 and each has an ex post control process designed to produce an RER. The balance is cross-Delegated to other DGs or is managed by other bodies (under Joint Management or International Financial Instruments) that may not be auditable by Commission services.

Further main legality and regularity control indicators are as follows (see annex 5 for details):

- **Corrections to payments:** In 2013 these amounted to **0.28%**.
- **Total recoveries:** For DG Enlargement as a whole, **162** recovery orders have been issued for **50.4 MEUR**. Of these **67** recovery orders were issued for **5.2 MEUR** as a result of ex-post controls and irregularity/OLAF reports.

The following tables examine these aspects in more detail. They also cover further legality and regularity indicators monitored by the DG Enlargement within the framework of its

³² This refers to results of the finalised RER audits for the 2013 exercise. It should be noted that the DG Enlargement ex post programme on centralised management is multi-annual, and that 2013 was the first year of this programme.

³³ This refers to results of the finalised RER audits for the 2013 exercise. It should be noted the overall ex post assessment of the year of de-centralised execution in question cannot be finalised yet due to the extension of the relevant financing memoranda.

management plan for 2013. NB: Unless otherwise specified the following indicators refer to both grants and procurement.

<u>Key indicators on control effectiveness</u>	<u>Results for the reporting year</u>	<u>Previous year(s) or multi-annual indicating the period</u>
Corrections to payments	<p>220 invoices were reduced by a total of €835,078 (grants) of non-eligible amounts plus 139 credit notes issued to reduce the eligible amount by €1,500,400 (procurement).</p> <p>Out of the total payments made by the end of December 2013 (€835,259,876) a total of €2,335,478 reductions of invoices were made & credit notes issued, i.e. on this basis the correction is equal to 0.28%.</p> <p>The fact that this indicator was below 1.5% in 2013 indicates that the overwhelming majority of funds have been spent in accordance with the principles of sound financial management.</p>	In 2012, a total of 381 corrections (deductions or recoveries) concerning ineligible expenses were made to payments for a total value of approximately €3.01 million. This represents a ratio of approximately 0.36% of total payments.
Ex-post control and recoveries:		
Residual Error Rate (RER)	<p>Centralised Management RER: 1.80% for finalised RER audits for centralised management (benchmark < 2%)³⁴</p> <p>Decentralised Management RER: 0.08% for finalised RER audits on de-centralised management³⁵ (benchmark < 2%)</p>	<p>Centralised Management: N/A: 1st year of implementation. Multi-annual programme.</p> <p>De-centralised management: 2012 AAR: For the audits accrued during 2012, the specific rate found was 0.46%</p>
Detected Error Rate (DER)	<p>Centralised Management: 2.04 % for finalised RER audits in ex post control Centralised, from a [statistically] representative sample. The rate is as per the RER sample, but without extrapolation.</p> <p>Decentralised Management: 0.76 % for finalised RER audits in EPC decentralised. The rate is as per the RER sample, but without extrapolation.</p>	<i>[Not covered in 2012 AAR, additional to the MP 2013 indicators]</i>
Ineligible amount from other finalised ex post audits as a % of the total amount covered, related	€ 30,887 representing 0.06 % of the amount covered by risk based ex post controls managed by the EUDs.	<i>[Not covered in 2012 AAR, additional to the MP 2013 indicators]</i>

³⁴ This refers to results of the finalised RER audits for the 2013 exercise. It should be noted that the DG Enlargement ex post programme on centralised management is multi-annual, and that 2013 was the first year of this programme.

³⁵ This refers to results of the finalised RER audits for the 2013 exercise. It should be noted the overall ex post assessment of the year of de-centralised execution in question cannot be finalised yet due to the extension of the relevant financing memoranda.

to audits other than the ones resulting in the RERs.		
Value of recovery orders issued in 2013 (See also Annex 3, table 8)	<p>171 recovery orders issued for a total of 50.4 MEUR. Of these 68 recovery orders were issued for 5.2 MEUR as a result of ex-post controls and irregularity/OLAF reports.</p> <p>The trend is stable as compared to 2012. This shows the continued effectiveness of the DG's monitoring and control systems.</p>	2012: total recoveries 57 MEUR. 65 recovery orders issued as a result of ex-post controls and irregularity/OLAF reports amounting to 24.8 MEUR
Further indicators on centralised management (includes deconcentrated management, together totalling 51.28% of payments in 2013):		
Intensity of on the spot checks: contracts controlled on the spot	<p>Deviation: 18%, above target due to shortfalls (compared to planning), partly due to unforeseen workload constraints and partly due to a revised risk assessment that led to the prioritisation of higher risk (though lower value) grants.</p> <p>Target: Deviation below 10% compared to planned.</p>	2012: target met
Intensity of ex post controls – see below	See control efficiency indicators, below	See control efficiency indicators, below
Derogations, prior approvals and other exceptions authorised (number and value)	In 2013, in 11% of cases (compared to the total number of all open direct management contracts where there was an unpaid balance on 31/12/2013) there was a derogation, a prior approval, an exception or a non-compliance event. In terms of value this represents 37% of the total population. For exceptions and non-compliance events <u>only</u> , the ratio is 2% in terms of the number of such cases compared to the total population, or 5% in terms of value. ³⁶	2012: target met
Complaints ³⁷ where a decision modifying the original decision was adopted by the AOSD at Director level following the complaint (procurement).	130 complaints were reported as being received and examined by the DG's services in 2013, out of which 3 cases resulted in a decision modifying the original decision was adopted by the AOSD follow-up. The cases resulting in follow-up represent 2.3% of the total complaints.	AAR 2012: 4.4% of complaints resulted in follow-up

³⁶ DG Enlargement implemented new procedures and reporting templates for these events at the end of 2012. The target stated in 2013 AMP was nonspecific in terms of the reference amount. It was noted that the assessment criteria used in previous years (compared against the total of all commitments in the year) was not sufficiently relevant to this management mode. It has not been used for this exercise so comparison with previous performance is therefore not appropriate.

³⁷ Number of complaints which received a positive reply by the Director AOSD

Further indicators on decentralised management (19.31% of payments in 2013)		
Irregularities reported by the National authorities ³⁸	EU-12: For all irregularities reported in 2012 and 2013 the target is respected. Target also respected for the former Yugoslav Republic of Macedonia and Turkey.	MP 2013 Target: Below 5%
Rejection Rates (decentralised management) ³⁹	<p>The former Yugoslav Republic of Macedonia: The total rejection rate was 20% in 2013, above target and an increase of 5% compared to 2012. On the other hand the rejection rate at contract signature was within target, and in 2013 there were no files rejected on the basis of non-compliance, compared to three files in 2012, however the number of rejected files due to quality increased significantly. Mitigating measure being taken by the national authorities include a revised procurement plan which needs to be closely monitored.</p> <p>Turkey: an encouraging trend of decrease in rejection rates by the EUD's ex ante controls in Turkey, all criteria being well within the annual targets.</p>	See annex 5
Systems audit findings: For each country, quantification by NUMBER of critical and significant findings in the systems audit as per the DG's 2013 systems audit work plan. ⁴⁰	<p>AMP target of <=two red/ ten yellow flags not met for CoM audits in Albania, Serbia and Montenegro.</p> <ul style="list-style-type: none"> • <i>Final reports issued: Albania (4 red flags & 22 yellow flags)</i> • <i>Final reports issued: Serbia (1 red flag & 38 yellow flags)</i> • <i>Final reports issued: Montenegro (3 red flags & 32 yellow flags)</i> <p>AMP target of <=two red/ ten yellow flags met for the payments verification follow-up audit in Croatia.</p> <ul style="list-style-type: none"> • <i>Final reports issued: Croatia (2 red flags & 6 yellow flags)</i> 	Target: NO critical findings (countries without ex-ante controls) OR <= 2 critical findings (countries with ex-ante controls) AND <=10 significant (medium risk) findings

³⁸ For each country, quantification by NUMBER and VALUE of all new irregularities reported by National Authorising Officers and their proportion vis-à-vis the total value of financing memoranda.

³⁹ This indicator shows, for each Delegation, the ratio between the number of rejections of tender, evaluation, and contracts documents submitted by National Implementing Agencies (IAs) for the Commission's ex ante control and the absolute number of submissions of documents for approval in the reporting year.

⁴⁰ Systems audits of national authorities' systems are designed to support decisions as regards conferral of management powers (decentralisation). After the decision on conferral of management powers, systems audits test continue, these audits examine compliance with the underlying management standards. System audit findings may lead to requests for reinstatement of compliance, to financial corrections or to the withdrawal of the conferral of management powers decision if necessary.

Corrective measures ⁴¹ :	Target met in 2013	MP 2013 Target: suspensions or withdrawals: none
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Control efficiency and cost-effectiveness.

The principle of efficiency concerns the best relationship between resources employed and results achieved. 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. This section outlines the indicators used to monitor the efficiency of the control systems, including an overall assessment of the costs and benefits of controls.

In terms of control efficiency the targets for the **consumption rate of commitment credits** (>90%) was exceeded and stood at **99.73%**. Likewise the target for the **consumption rate of payment credits** (target >90%) was also exceeded and stood at **98.79 %**. The target ratios in centralised management of closed contracts audited (ex post control for the RER) in year N to contracts closed in year N-1 is also expected to be met, though in April 2014. On the other hand the DG could perform better in terms of the time to pay. To this end the Director General has issued an instruction that services concerned put in place an action plan to ensure compliance on this issue.

Control Efficiency⁴²

<u>Key indicators</u>	<u>Results for the reporting year</u>	<u>Previous year(s) or multi-annual indicating the period</u>
Consumption rate of commitment credits (implementation rate)	99.73% (Target = >90%)	2012 results: 97.31%
Consumption rate of payment credits (implementation rate)	98.79% (Target = >90%)	2012 results: 96.70%
Time to pay indicator: % of late payments	Payments that did not require a report (e.g. pre-financing) : 23% Other payments: 38% Total number of late payments (Legal times): 13,16% Total number of late payment (Target payment times): 35,45%	[Not in 2012 AAR]
Centralised management - Intensity of ex post	Centralised management: The ratio of the audited closed (fieldwork completed) in 2013	Centralised management: No data for 2012 as this is a new

⁴¹ Corrective measures (flat-rate corrections in clearance of accounts; suspensions of payments; withdrawals of accreditation) taken upon significant transaction, co-financing or systems findings; (amounts involved);

⁴² DG Enlargement does not yet have systems in place that allow for accurate reporting on the average time to inform applicants and the average time to sign grants agreements or notify grant decisions.

controls in the ex post plan (for RER) - Ratio of closed contracts audited in year N to contracts closed in year N-1 (September – September twelve month period)	contracts closed between 01/10/2011 and 30/09/2012 (population) is 3% in terms of number of contracts and 14% in terms of their value. The target (respectively 5% and 22%) will be met in Q1 2014 when the remaining audits from the 2013 Audit Plan are completed.	methodology. The targets were respectively 5% and 22% as per the 2013 Audit Plan.
Number of contracts closed	1,222 (MP 2013 Target \geq 500)	2012 results: 665 (MP 2013)
Amount of de-commitments	€ 59 million (MP 2013 Target \geq € 50 million)	2012 results: € 13.1 million (MP 2013)
Amount of reduction of potentially abnormal RAL	€ 68 million increase (MP target: \geq € 50 million)	2012 results: € 88.1 million (MP 2013)
Number of times interests on late payment are paid	27 cases (MP 2013 Target: \leq 100)	2012 results: 10 (MP 2013)
Amount of interests paid on delay	€ 10,296 (MP 2013 Target \leq € 500,000)	2012 results: € 5,258.41 (MP 2013)
Average time to publication of selection results (FR 128.2)	Data systems at the disposal of the DG do not produce data on these indicators at this time; this will need to be examined in consultation with the systems owners. Notwithstanding this, manual calculations of a sample population suggest that the relevant time limits are respected for both indicators.	No data for 2012 as this is a new requirement.
Average time to grant (FR 128.2)		

In terms of control efficiency (sound financial management) the targets foreseen in the 2013 Management Plan were met (or will be by end of the first quarter of 2014) apart from the amount of potentially abnormal RAL, which increased (though more contracts were closed and more de-commitments were made than were foreseen in the 2013 targets).

On the other hand the DG could perform better in terms of the time to pay. To this end the Director General has issued an instruction that services concerned put in place an action plan to ensure compliance on this issue.

It should be noted that the DG does not have available data to provide a breakdown on control efficiency per stage for the AAR 2013. The DG will examine means to ensure the provision of such data for the AAR 2014.

Cost effectiveness

<u>Key indicators on control costs/benefits</u>	<u>Results for the reporting year</u>	<u>comments</u>																		
Overall control system (all stages combined) without the preventive and deterrent effects																				
Gross cost of controls ⁴³ /total value of payment made in 2013	The ratio is 3.58%	See footnote 43																		
Total benefits of overall controls (excl. the non-quantifiable benefits) / costs of controls	<p>For 2013 the net quantifiable benefits exceed the gross estimated costs of control (by a ratio of 7 to 4).</p> <p>The net benefits are as follows:</p> <ul style="list-style-type: none"> • Corrections: 2.3 MEUR • Recoveries: For DG Enlargement as a whole, 171 recovery orders have been issued for 50.4 MEUR. Of these 68 recovery orders were issued for 5.2 MEUR as a result of ex-post controls and irregularity/OLAF reports. <table border="1"> <tbody> <tr> <td>Control costs</td> <td>30,013.03</td> <td>MEURO</td> </tr> <tr> <td>Total payments 2013</td> <td>837,795.24</td> <td>MEURO</td> </tr> <tr> <td>Cost of control as % of payments</td> <td>3.59%</td> <td></td> </tr> <tr> <td>Control Benefits (corrections and recovery orders)</td> <td>52,778.64</td> <td>MEURO</td> </tr> <tr> <td>Ratio cost / benefit</td> <td>57%</td> <td></td> </tr> <tr> <td>Ratio cost / benefit expressed as a fraction</td> <td>4/7</td> <td></td> </tr> </tbody> </table>	Control costs	30,013.03	MEURO	Total payments 2013	837,795.24	MEURO	Cost of control as % of payments	3.59%		Control Benefits (corrections and recovery orders)	52,778.64	MEURO	Ratio cost / benefit	57%		Ratio cost / benefit expressed as a fraction	4/7		
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Ratio cost / benefit expressed as a fraction	4/7																			

DG Enlargement has made an overall estimation of the overall costs of all the main control processes⁴⁴. An overall estimation of the quantitative benefits of the DG's controls, in terms of the volume of errors prevented and detected has also been made, though this is limited to elements that can be quantified in monetary terms⁴⁵. DG Enlargement has thus quantified the costs of the resources and inputs required for carrying out the controls described above and in annex 5 and estimated, in so far as is possible, their benefits in terms of the amount of errors and irregularities prevented, detected and corrected by these controls. Therefore,

⁴³ Based on an estimated portion of time for direct costs in the DG plus outsourced costs. Direct costs relate to financial management, budget officers, geographical officers, audit and IAC for consultancy as well as a % for indirect costs such as HR or management. FTE unit costs are calculated according to the circular note of DG BUDGET to RUF of 08.08.13 [[FR](#)]

⁴⁴ Including the actual value of externalised controls (notably audit and ROM monitoring contracts) and estimated gross control costs of staff and missions (including the estimated staff costs relevant to control). Controls covering programming, financial circuit controls and project management [including on-the-spot controls where relevant], ex ante control in decentralised management, ex post control, and a related proportion of the mission budget).

⁴⁵ I.e. the EURO value of recovery orders issued and amounts excluded for payments/subject to credit notes.

during the reporting year, it can be concluded that the controls carried out by DG Enlargement for the management of the budget appropriations were cost effective, as **the estimated net quantifiable benefits exceeded the gross estimated costs of control in a ratio of around 7 to 4.**

In terms of control intensity, in addition to direct management (centralised or deconcentrated, 51% of payments in 2013) where the DG is responsible for the full expenditure lifecycle, DG Enlargement implements a substantial proportion of its expenditure via decentralised management (19% of payments in 2013). As currently implemented decentralised management is control intensive, notably as the conferral of management decisions in place foresee that the DG's services perform 100% ex ante control at many stages in the process (before an eventual full waiver of such controls). DG Enlargement is currently reflecting as to how the eventual move to decentralised management without ex ante control can be a more phased process than it has been to date.

It should be noted that the estimation of gross control costs is a global estimation, across all management modes and stages. For this AAR (2013) DG Enlargement does not have data available to break this down to each management mode or stage for this year's estimate. It intends to refine its methodology for the AAR 2014 to address this.

In addition, it must be stressed that there are a substantial number of non-quantifiable benefits resulting from the controls including at the programming phase, aimed to ensure that the financed projects contributed to the achievement of the policy objectives, and from the deterrent effect of ex-post controls. The benefits of control in non-financial terms include better value for money, deterrent effects, efficiency gains, system improvements and, as mentioned above, compliance with regulatory provisions. DG Enlargement considers that the necessity of these controls is undeniable, as the totality of the appropriations would be at risk in case they would not be in place.

Fraud prevention and detection (all management modes or distinct per mode)

DG Enlargement has adopted an anti-fraud strategy⁴⁶ as foreseen in the Commission's overall anti-fraud strategy⁴⁷. In terms of concrete outputs foreseen in the DG Enlargement anti-fraud strategy, the accompanying action plan covers the period 2014-2015. Nevertheless some relevant activities already took place in 2013, including:

- Several joint OLAF-DG Enlargement training sessions were organised in selected EU Delegations;
- The OLAF casebook on investigations in the field of external aid was widely distributed in HQ and in the Delegations;
- A fraud-awareness survey was conducted (in various formats, as decided by the relevant hierarchy) by all staff in Delegations and HQ, which showed positive results regarding the active knowledge base in the DG.

⁴⁶ Ares(2014)353945 of 12/02/2014

⁴⁷ COM(2011)376 of 24/06/2011

<u>Key indicators</u>	<u>Results for the reporting year</u>	<u>Comments</u>
Estimated value subject to in-depth controls resulting in recoveries with errors and irregularities for an estimated value of the total amount controlled.	<p>During the reporting year DG Enlargement services issued recovery orders for 5.2 MEUR as a result of ex-post controls and irregularity/OLAF reports, representing 0.62% of the total payment budget</p> <p>In addition it should be added that 220 invoices were reduced by a total of €835,078 (grants) of non-eligible amounts plus 139 credit notes issued to reduce the eligible amount by €1,500,400 (procurement).</p>	All payments made by the DG are subject to the controls required by the relevant financial circuit. Services also screen contracts in order to identify those at a higher risk, and subjects selected cases to specific controls as appropriate.

NB: Both OLAF and IDOC report annually on the follow up of their investigations.

2.2 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. DG Enlargement has entrusted parts of its budget for indirect management implementation by a number of cross-delegations to the DGs listed below, and other entities (notably Joint management)⁴⁸.

Cross-Delegation [4.96% of payments in 2013]

As in previous years, DG Enlargement has cross-sub-delegated 34.8 MEUR in commitment credits, 41.5 MEUR in payment credits, to the DG's listed in the table below. Being Commission services, the relevant AODs are required to implement the appropriations subject to same rules, responsibilities and accountability arrangements.

⁴⁸ An additional 34 MEUR of IPA funds were committed by DG Enlargement but re-allocated to the Education, Audiovisual and Culture Executive Agency. Though this Executive Agency has signalled that it will make a reservation in its 2013 AAR it has confirmed to DG Enlargement that this does not affect these IPA funds.

Cross-delegated implementation 2013, in €		
To DG	Commitments	Payments
DEVCO ⁴⁹	26,285,000.00	26,351,267.94
ESTAT		5,267,178.26
ECFIN		757.00
ENV	5,240,000.00	2,662,705.34
REGIO		2,800,000.00
ECHO	2,000,000.00	1,043,725.19
EAC		2,162,059.14
TAXUD	26,000.00	351,876.63
SANCO		285,054.00
PMO	500,000.00	377,143.39
ENTR	13,000.00	19,361.00
MOVE	600,000.00	149,999.00
JRC	40,000.00	32,065.73
RTD	35,000.00	13,334.09
DGT	38,000.00	6,878.98
SCIC	10,000.00	9,863.73
CLIMA	20,000.00	3,736.08
Total	34,807,000.00	41,537,005.50

The cross-delegation agreement requires the AOD of each the DG's in question to report on the use of these appropriations. In their reports, the relevant AODs have not communicated any events, control results or issues which could have a material impact on assurance.

⁴⁹ DG DEVCO has signalled that it will make a reservation in its 2013 AAR. However, of the amount of payments cross delegated to DG DEVCO 99% was administrative expenditure made the European External Action Service (EEAS). In its report on this expenditure the EEAS has confirmed that its controls of these amounts did not lead to any observations of a material nature. DG DEVCO has not reported any issues or reserves in its report either.

Joint management [19.28% of payments in 2013]

<u>Key indicators on control costs/benefits</u>	<u>Results for the reporting year</u>		<u>Comments</u>
AOD's own monitoring/supervision results on the operations of the bodies in question in order to ensure the relevance and reliability of the control data reported	Frequency or number of monitoring and supervision actions + their coverage + impact		
	Assessment of partners	<p>3 Assessments (for DG Enlargement HQ) were performed in 2013 (1 x 6 pillar assessment; 1 x 4 pillar assessment and 1 x follow-up assessment).</p> <p>The DG has also contributed to other 4 pillar assessments (<i>pro rata temporis</i>)</p> <p>Several EU Delegations also use Joint management, relying on the pillar assessments in place, notably those performed by DG DEVCO/AIDCO or DG ECFIN.</p>	<p>The auditors re-confirmed the full compliance of one entity with only four of the six pillars. Until resolved no new agreements will be undertaken. Appropriate measures have been taken in order to verify that EU financial interests are protected and that the entity meets the requirement of sound financial management.</p> <p>One verification mission reported as have been implemented by an EU Delegation.</p>
	Ongoing projects	<p>HQ:</p> <ul style="list-style-type: none"> - 13 of 16 planned on-the-spot missions were performed; - 6 ROM were performed; - All ongoing projects were monitored by Task Managers; - Participation in the relevant steering Committee; <p>EU Delegations' controls on such projects are similar and include on-the-spot missions and monitoring and participation in steering committees.</p>	<p>HQ: 3 foreseen on-the-spot missions were postponed due to delays in implementation.</p> <p>(ROM is externally contracted monitoring).</p>

As stated above the estimation of gross control costs is a global estimation, across all management modes and stages. The DG does not have data available to break this down to each management mode or stage for this year's estimate. It intends to refine this methodology for the AAR 2014 to address this.

Notwithstanding the case mentioned in the table above, where appropriate measures have been taken in order to verify that EU financial interests are protected and that the entity meets the requirement of sound financial management, no significant weaknesses were identified with regard to this management mode which may have a significant impact on the assurance

Financial instruments [Indirect management: 5.17% of payments in 2013]

<u>Key indicators on control effectiveness</u>	<u>Results for the reporting year</u>	<u>Comments</u>
<p>AOD's own monitoring/supervision results on the Financial Instrument's operations in question in order to ensure the relevance and reliability of the control data reported</p>	<p>HQ:</p> <ul style="list-style-type: none"> - The DG participated in all the relevant regular steering Committee (twice a year as a minimum) of the Western Balkans Investment Framework (WBIF), the Energy Efficiency Finance Facility, Supervisory body meetings, such as the Platform Advisory Group of the Western Balkan Enterprise Development and Innovation Facility (EDIF) and others. - The relevant entities report as per the relevant contractual obligations. For the new contracts signed in 2013, the existing financial instruments' reporting has been aligned with the requirements of Title VIII of the new FR. In particular, ENEF, ENIF and the Guarantee Facility, through either the contract directly (the Guarantee Facility – Fiduciary and Management Agreement based on the model used by DG ECFIN) or through instructions to EIF as the trustee for the two funds to be reflected in the funds' documentation, based on the underlying delegation agreements. - (For big Financial Instrument contracts, including European Fund for South East Europe and the Green for Growth Fund) DG Enlargement holds semi-annual meetings with the European Investment Fund, who represents the Commission in both Funds in the Board of Directors and the Shareholder Assembly. <p>Several EU Delegations also use this management mode, for which similar arrangements to those indicated above are in place.</p>	<p>For Financial Instrument contracts the DG receives an annual net asset value statement from the relevant entities.</p>

<p>- Cost of externalisation</p>	<p>HQ:</p> <ul style="list-style-type: none"> - In most cases management fees represent 1.25% to 2% of the total allocated amount for the action, with (in some case) fixed maximum amounts of around € 200,000 to € 300,000. - In some other cases the administration fee is around 7%. Additional contributions to the funds will not entail a proportional increase of the fees. <p>NB: For Financial Instrument's Funds [for equity management] fees are aligned with those paid by other DG's for similar cases.</p> <p>The EU Delegations provided similar examples of administrative costs for their use of financial instruments; e.g.: 7% of direct eligible costs, or 8%+2% (of direct and indirect costs respectively).</p>	<p>The staff costs of such entities are not available as this is paid as part of the management fees.</p>
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As stated under 2.1 the estimation of gross control costs is a global estimation across all management modes and stages. The DG does not have sufficient data available to break this down to each management mode or stage for this year's estimate. It intends to refine this methodology for the AAR 2014 to address this. No significant weaknesses were identified with regard to this management mode which may have a significant impact on the assurance.

Conclusion on implementation tasks entrusted to other services and entities

Overall, the monitoring and supervision controls with regard to Joint Management and Financial Instruments are in line with the typology of the management modes in question and the relevant contracts. The examples of fees paid with regard to the Financial Instruments are broadly line with those paid by other DG's for similar cases. As mentioned above, with regard to the case signalled under Joint management where the auditors re-confirmed the full compliance of one entity with only four of the six pillars appropriate measures have been taken in order to verify that EU financial interests are protected and that the entity meets the requirement of sound financial management. In light of the above no significant weaknesses were identified with regard to any of these management modes which may have a significant impact on the assurance.

2.3 Assessment of audit results and follow up of audit recommendations

This section reports and assesses the observations and conclusions reported by auditors which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations.

The DG is audited by both internal and external independent auditors: its internal audit capability (IAC), the Commission internal audit service (IAS) and the European Court of Auditors (ECA).

During the period of reference, the IAS did not issue any audits with regard to the DG and the European Court of Auditors issued a special report (SPF) on its blended instruments performance audit in addition to its examination of financial management (legality & regularity of transactions, reliability of control systems, and quality of the AAR) in its Annual Report.

Internal Audit Capability (IAC)

7 audit engagements and 1 consultancy were carried to conclusion in the course of the year and IAC issued 11 new recommendations, 2 Very Important (VI) - relating to joint management: need for a thorough risk assessment and need of maintaining clear monitoring plans - and 9 Important (I).

The audit activities of IAC during 2013 and the internal control system in place in DG ELARG do provide reasonable assurance⁵⁰ regarding the achievement of the business objectives set up for the processes audited, except for the following issues:

1. There is no documented risk assessment of projects implemented by HQ under joint management which may lead to insufficient risk mitigation measures (AU 3/2012)⁵¹;
2. There are no monitoring plans for projects implemented by HQ under joint management, which may weaken the assurance on the payment claims (AU 3/2012)⁵²;
3. The functioning of the sub-delegations in the EUD to Serbia is inconsistent with the sub-delegations approved by the Director General and with ABAC access rights of staff. As a result it is possible for staff to approve transactions in ABAC in breach of the Heads of Delegation's risk assessment (AU 1/2011).
4. There is no comprehensive methodology for systemic monitoring of national implementation systems under decentralised management. This may lead to insufficient assurance on their payment claims (AU 2/2008).
5. The EUD Montenegro seems to have been using funds destined to technical assistant (so called ATA funds) to compensate for a perceived lack of resources in the Delegation. DG Enlargement Directorate B informed IAC on 30/07/2013 (Ares(2013)2773824), who in turn informed the Acting Director General on 20 August 2013 (Ares(2013)2899413). Following a mission from HQ (not involving IAC) in October and the instruction notes from Directorate B (Ares(2013)3124396 and Ares(2013)3183795) an action plan was set up by the Delegation and corrective

⁵⁰ Even an effective internal control system, no matter how well designed and operated has inherent limitations –including the possibility of circumventing or overriding of controls- and therefore can provide only reasonable assurance to management regarding the achievements of the business objectives and not absolute assurance.

⁵¹ The audit was a carry over and finalised only in February 2013. It was nevertheless included in IAC AAR 2012 but not in IAS overview of IACs activities for the year 2012.

⁵² The audit was a carry over and finalised only in February 2013. It was nevertheless included in IAC AAR 2012 but not in IAS overview of IACs activities for the year 2012.

actions set in place to address and terminate the irregularity. Directorate B has ensured the satisfactory implementation of the plan within the given deadlines.

Internal Audit Service (IAS)

At the end of 2013 there were no ongoing IAS audits for DG Enlargement, and there are currently no "Very Important" IAS recommendations outstanding. One IAS audit recommendation, rated as "Important", remains outstanding. This relates to the IAS audit on "Financial Management of Public Procurement under IPA". It concerns co-financing requirements and will be addressed in the new guidance on IPA II which is currently expected to be finalised in spring 2014, after the adoption of the IPA II legal basis.

Court of Auditors (CoA)

➤ DAS 2012

As a result of the 2012 DAS exercise, **the three elements of the DG's supervisory and control systems** (ex-ante checks and internal control standards, monitoring and supervision, and internal audits) **were considered by the Court to be effective**. Out of the sample of thirty-four audited transactions only one was considered to have a non-quantifiable error. With regard to the follow-up of recommendations resulting from previous exercises, the Court considered that these have been **fully implemented apart from one**. Following its review of the findings and the conclusions for 2012, the Court issued five recommendations to the DGs concerned by the Chapter, of which **only one applies to DG Enlargement**.

➤ DAS 2013

Two audit visits to Delegations were announced by the Court in this regard, the first to Bosnia in October 2013 and the second one to Turkey in January 2014. With regard to the audit of systems, after the in-depth examination, which was carried out in the context of the 2012 DAS, the Court has decided that it will limit itself to the follow-up of the recommendations issued in 2011 and 2012. The first audit carried out in the context of the 2013 DAS did not identify any errors affecting the legality and regularity of the audited transactions.

➤ Other audits by the Court of Auditors

With regard to special reports related to DG Enlargement, the Court's work in this reporting period continued on two issues, the first being exploratory activities related to a Special Report on the assistance to Serbia was launched in November 2012. Work is generally progressing on the basis of a good level of common understanding. The Court has also recently started preliminary studies and carried out visits that will result in performance audits of

- Evaluation and ROM in EU external aid;
- Blended instruments (the blending of Commission contributions to Regional investment facilities with third-party loans);
- Review of risks linked to external action;

After their review the Court decided that DG Enlargement would be taken out of the scope of the first and last of these three audits. A Statement of Preliminary Findings was received in December for the blended instruments audit.

As a result of the assessment of the risks underlying the auditors' observations, and the absence of any "critical" recommendations being made in the reference period, together with the management measures taken in response, the management of DG Enlargement believes that the recommendations issued do not raise any assurance implications and are being implemented as part of the on-going continuous efforts in terms of further improvements.

3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS

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

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

DG Enlargement implements its budget in complex circumstances which create specific risks and require a broad variety of controls and audits. Risk factors include inter alia:

- different levels of intervention (national, regional, bilateral)
- a multitude of sectors and line ministries involved in the beneficiary countries
- an implementation environment which is constantly changing in line with the progress made by the candidate countries and potential candidate countries.
- many different modes of implementation (including the use of different award/procurement rules).

The management assessment (ref. ICS 15) of the effectiveness of the internal control systems is that it is generally effective. This assessment is based on a wide basis, including self-assessment via a survey of management and staff, meetings between the Internal Control Coordinator and each of the Directors, the AOSD reports, recording of exceptions, and reporting on legality and regularity indicators, missions by the relevant Directors to several EU Delegations, the annual Internal Control Report, risk assessment, and relevant audit results.

As stated in the DG Enlargement 2013 Management Plan, the prioritised ICS for the DG for the reporting year were as follows:

- ICS 6: Risk Management Process
- ICS 8: Processes and Procedures
- ICS 9: Management Supervision

Specific measures taken to improve the control environment with regard to the prioritised ICS during 2013 sought especially to address the following areas: the documentation of processes and controls and the user-friendliness of the risk management process, as well as an on-going effort to simplify procedures where possible:

- **AOSD reports:** changes were made to the template for the 2013 AOSD report to address reporting weaknesses, notably including imposing the inclusion of the DG's reporting template for Prior Approvals (including negotiated procedures),

Derogations, Exceptions and Non-Compliance Events, and with regard to reporting on contract closures, de-commitments, and complaints;

- **Implementation of a revised reporting cycle:** The revised reporting cycle reduces the number of AOSD-type reports to two a year (the Mid-Term Report and the AOSD Annual report), from four in previous years.
- **Financial Circuits for Administrative Expenditure:** Given the routine nature of the expenditure and the straightforwardness of the verification of deliverables by a non-specialist (except for IT), the circuits were simplified, thus reducing the circuit from 5 to 3 financial actors (including the AOSD).
- **Ex-post Controls in Centralised Management:** the "Manual of Procedures for ex-post controls in centralised management and for the calculation of a residual error rate" was adopted in late 2012. The relevant ex post control action plan for 2013 was implemented in line with this new methodology.
- **DG ELARG Companion:** DG ELARG Companion which gathers in one single document the main financial and contractual procedures applicable to DG Enlargement has been updated.
- **Accounting Manual:** The Accounting Manual was further updated in 2013 to extend and clarify the description of the procedures for clearing pre-financing, particularly under decentralised management.
- **Development work on an IT module for risk assessment:** a new module of the DG's management tool (MIS) is under development (initially for direct management) which is expected to facilitate contract-level risk assessment by Delegations and Operational Units, simplify the aggregation of risk assessment data, and reporting on risk management and the related activities.

Specific risk mitigation measures have also been implemented with regard to risks identified in the DG Enlargement 2013 Management Plan:

- **Shortfall in joint co-financing in decentralised management:** This arose due to the project fiche ratio of Community funds to National Public funds not being respected at the contracting/disbursement period, with the risk of reduction of the Community contribution/Recovery of funds from the national authorities and under-execution of payment budget. Mitigating actions include regular contacts with the national authorities; close monitoring of the implementation of the programmes and dedicated checklists used for co-financing.
- **Regularity of implementation of PHARE programmes and Transition Facilities in Bulgaria and Romania:** Throughout 2013 the DG continued to apply the clearance-of-accounts policy set up at the end of 2010 providing for the enforcement of flat-rate or tailor-made corrections. The clearance-of-accounts procedure on the remaining overall 52 programmes for EU-12 is ongoing. Any further corrections that are found to be necessary, as a result of this process, will be made via recovery procedures.
- **Political stalemates in Albania:** In 2013, Albania has tackled a number of challenges, such as putting into place key legislation for EU-related reform and holding elections

with a high level of democratic standards. Despite some instances of clear controversy between government and opposition Albania remained generally committed to political reform - not least due to the Commission's brokerage role, on working and political level. The Commission's efforts also focused on the elections. As a result, in December, Albania was given a clear perspective by the Council to obtain candidate status in June 2014, so any slowdown in reform needs to be avoided and structural reforms need to be driven forward. The Commission will continue its role as one of the key facilitators, inter alia via the High Level Dialogue launched in November 2013. Moreover, it will contribute to structural reform via IPA sector budget support and in coordination with other donors.

- **Deepening of institutional and political stalemate in BiH:** The global risks faced are to a great extent related to the external environment and to the lack of common vision in BiH. Those risks are identified as of high impact and high likelihood but the risk response is to accept most of them given their nature.
- **Slow progress of Belgrade-Pristina Dialogue:** The dialogue was successfully intensified throughout 2013 under the auspices of the HR/VP, in the run up to and in ensuring the steady implementation of the landmark April agreement, which already led to a number of concrete results on the ground. EU delivering on its promises was important to maintain its credibility for its facilitating role. However, the Kosovo-Serbia dialogue is entering a transition phase due to elections and the ending of HRVP mandate; this could have a detrimental effect on the continuation of the dialogue or the implementation of dialogue agreements.
- **Impediments to regional co-operation on the Western Balkans:** Progress has been achieved in 2013 due to the regional co-operation process becoming more inclusive further to (1) Kosovo's admission as full and equal participant in the Regional Cooperation Council, (2) its participation to the Ministerial Meeting of the South East European Co-operation Process and (3) its admittance as full member to the Regional School for Public Administration.
- **Possible suspension of accession negotiations with Iceland:** The 2013 AMP identified the risk that accession negotiations with Iceland could be suspended following General Elections and the formation of a new government in Iceland. This risk materialised in May 2013 when the newly elected Icelandic Government decided to put the accession negotiations on hold. To mitigate the related impact, DG Enlargement decided to avoid any new commitment under the IPA I programme, to suspend preparatory work on IPA II, and to phase out the already committed IPA I-funded contracts in Iceland. Furthermore, taking into account the new political context, the 2013 Progress Report on Iceland was changed into a short and factual Commission report, covering the period from September 2012 to May 2013.
- **Poor absorption of aid and backlog in IPA implementation in countries using decentralised management:** For all DIS countries, Commission has tried to link more closely the financial assistance with the objectives and priorities set in different political fora (Positive agenda, HLAD, Sub-Committees) for greater commitment at highest level. Support to national authorities has been increased in terms of staff capacity building measures of key institutions managing EU funds. EUDs have strived to ensure that DIS institutions' preparation of tender documents starts as soon as

possible once the programmes are adopted, and that procurement planning (and updates) is realistic. DG Enlargement has embarked in the revision of the current decentralised implementation system (DIS), with the aim of moving to a more flexible and efficient risk-based control system, steadily reducing ex-ante control on procurement and contracting, which shall also help reducing delays and workload on this type of task, for both the EUDs and the beneficiary countries.

As far as Turkey is concerned, DG Enlargement strictly followed-up measures taken by the national authorities in order to remedy management and control weaknesses identified in system audit reports, both through regular reporting by National Authority and via programming and implementation reviews take place during (bi-annual) Sectoral and (annual) Joint Monitoring Committees and through regular meetings between EC and DIS Institutions.

In the former Yugoslav Republic of Macedonia, the EU Delegation has intensified procurement review meetings (monthly/bi-monthly) with the contracting authority (CFCD), organised on a sectoral basis. Several measures were agreed and commitments made by the national authorities, reaffirmed in the Joint Monitoring Committee on 6 December 2013, to enhance the sound financial management, as well as accelerated programming and implementation. Detailed procurement plans have been requested from the national authorities for the Commission to be able to detect potential implementation backlog early in the process. The contracting deadline of the National Programme 2009 saw a much better final contracting rate (89%) than expected.

- **Weakness of DIS institutions in the former Yugoslav Republic of Macedonia:** Limited administrative capacity and lack of experience on the side of DIS institutions is still putting at risk effectiveness, sustainability, visibility and monitoring of EU financial assistance. The Commission raised the issue also at political level. The EU Delegation has streamlined the communication between the parties involved in ex ante control and enhanced capacity building activities. In order to mitigate the weak capacity of the Secretariat for European Affairs to coordinate the long term strategic programming process, the sector wide approach is being implemented gradually in the country.
- **Continued lack of Council Decision on the start of accession negotiations with the former Yugoslav Republic of Macedonia:** The Commission maintained dialogue with the country authorities and Greece to encourage resolution of the name issue, as well as with the country authorities and Bulgaria to encourage resolution of issues relating to bilateral agreement. The Commission also promoted continued engagement, and reforms, through the High Level Accession Dialogue, although this is not a substitute for accession negotiations.
- **Slowdown of Turkey's accession progress:** DG Enlargement has continued to sustain accession negotiations (in particular to engage with Turkey on chapter 23-Judiciary and Fundamental rights and chapter 24-Justice, Freedom and Security), monitoring of political criteria, visa dialogue and implementation of re-admission agreement, implementation of the Positive Agenda and linking more closely the financial assistance with the objectives and priorities set therein, increase high-level contacts, engage authorities on European issues at all levels on domestic and foreign policy,

and increase of cooperation with Member States and EU Agencies. EU financial assistance has also played a key role in sustaining those efforts, the IPA I programmes continued to address those priorities that were covered under the MIPD 2007-2013. Proper preparation of the Country Strategy Paper 2014 -2020 has also ensured engagement of all Turkey ministries with a view to take lessons learned and better sustain those efforts under IPA II.

- **Failure to reach a Cyprus settlement and reunification:** Implementation of the aid programme to the Turkish Cypriot community takes place in a difficult legal, political and diplomatic context. The achievement of objectives is based on the fundamental political assumption that the two communities on the island continue to work towards a comprehensive settlement. The Commission supports the UN Good Offices Mission and encourages progress in the settlement talks restarted early in 2014. The Commission also stands ready to tailor the aid programme to technically support the settlement process as it develops.
- **Threat to sustainability of the implementation of aid programme to the Turkish Cypriot Community:** The context of the aid programme to the Turkish Cypriot community generates some inherent risk to sustainability. Projects have been affected by a question of jurisdiction over disputes, leading to risk to the security of locally issued bank guarantees. This issue has been tackled by negotiation and by some unilateral action by the Turkish Cypriot community. Major, new infrastructure investments will not be considered until a reduction of this risk and satisfactory ownership is proven. The problem of the lack of multiannual perspective of the aid programme has been satisfactorily resolved in the 2014-20 MFF. Before the application of the *acquis* immediately following the settlement, the structures and legal framework necessary to fully sustain the projects are not in place. The Commission continued to work with the Turkish Cypriot community to enhance capacity and reinforce the development of *acquis*-compliant legal texts.

The DG's annual review of its implementation of the Internal Control Standards (ICS- 15) included an anonymous survey via the corporate IT tool, (the results showed a general effectiveness weighted percentage of 85.83% across the ICS) and interviews of the Directors responsible for the implementation of the 16 ICS. This has led to a 'top-down' assessment of the DG's internal control status at the end of the reporting year, with respect to both the ICS compliance and the effectiveness of the control arrangements in place. Furthermore, the 'bottom-up' information on internal control issues has been received through the AOSDs' Management Reports, and contributes via specific elements on ICS (notably on the prioritised ICS) and reporting on legality and regularity indicators. Finally, the IAC's Opinion has been taken into account as well. This analysis had enabled the ICC to report the state of internal control.

The functioning of the internal control systems has also been closely monitored, and the registration of exceptions (under ICS 8) and reporting on prior approvals, derogations and non-compliance events included in the AOSDs' Management Reports in line with the procedures in place. New DG procedures and templates were introduced in this regard at the end of 2012, therefore the comparison of the number of such cases reported in the AOSD reports and AAR is difficult, though the relevant legality and regularity target remains unchanged from 2012. There appears to be an increase in the amount (value) of such events compared to 2012. The results are being analysed and procedures and templates will be

updated as necessary. ICS 8 is therefore maintained as a priority ICS in 2014.

Concerning the overall state of the internal control system, generally the DG complies with the three assessment criteria for effectiveness; i.e. (a) staff having the required knowledge and skills, (b) systems and procedures designed and implemented to manage the key risks effectively, and (c) no instances of ineffective controls that have exposed the DG to its key risks. It should be noted that as a result of the 2012 DAS exercise, the three elements of the DG's supervisory and control systems (ex-ante checks and internal control standards, monitoring and supervision, and internal audits) were considered by the Court to be **effective**.

Further enhancing the effectiveness of the DG's control arrangements in place, by inter alia taking into account any control weaknesses reported and exceptions recorded, is an ongoing effort in line with the principle of continuous improvement of management procedures.

In conclusion, the internal control standards are effectively implemented. In addition, DG Enlargement has taken, and continues to take, measures to further improve the efficiency of its internal control systems in the area of the prioritised ICS, as listed above.

4. MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Parts 2 and 3 and draws conclusions supporting of the declaration of assurance and namely, whether it should be qualified with reservations.

4.1 Review of the elements supporting assurance

DG Enlargement implements its budget in exceptionally complex circumstances which create specific risks and require a broad variety of controls and audits. The information reported in Parts 2 and 3 stems from the results of management and auditor 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 Enlargement.

The management assessment (ref. ICS 15) of the effectiveness of the internal control systems is that it is generally effective. This assessment is based on a wide basis, including self-assessment via a survey of management and staff, meetings between the Internal Control Coordinator and each of the Directors, the AOSD reports, recording of exceptions, and reporting on legality and regularity indicators, missions by the relevant Directors to several EU Delegations, the annual Internal Control Report, risk assessment, and relevant audit results.

Specific measures taken to improve the control environment with regard the prioritised ICS during 2013 sought especially to address the following areas: the documentation of processes and controls and the user-friendliness of the risk management process, as well as an on-going effort to simplify procedures where possible. Specific risk mitigation measures have also been implemented with regard to risks identified in the DG Enlargement 2013 Management Plan.

Concerning the overall state of the internal control system, generally the DG complies with the three assessment criteria for effectiveness; i.e. (a) staff having the required knowledge and skills, (b) systems and procedures designed and implemented to manage the key risks effectively, and (c) no instances of ineffective controls that have exposed the DG to its key risks. It should be noted that as a result of the 2012 DAS exercise, the three elements of the DG's supervisory and control systems (ex-ante checks and internal control standards, monitoring and supervision, and internal audits) were considered by the Court to be **effective**.

DECLARATION OF ASSURANCE

I, the undersigned,

Director-General of the Directorate-General for Enlargement

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view⁵³.

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 capability, 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.

Brussels, 31 March 2014

[signed]

Christian Danielsson

⁵³ True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.