



# **2015**

# **Annual Activity Report**

**Directorate General  
Neighbourhood and  
Enlargement  
Negotiations - DG  
NEAR**



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# INTRODUCTION

## The DG in brief

The mission of DG NEAR is to take forward the EU's neighbourhood and enlargement policies. The DG primarily serves the Commissioner for Neighbourhood and Enlargement Negotiations, Johannes Hahn and the High Representative/Vice-President, the President of the Commission and other Commissioners where appropriate. DG NEAR works closely with the European External Action Service and the line DGs in charge of thematic priorities.

The DG is based in Brussels and has approximately 1,550 staff members in Brussels and in the EU Delegations in the partner countries.

In the neighbourhood, the DG is responsible for co-ordinating across the Commission the implementation of the revised European Neighbourhood Policy (ENP), working closely with the European External Action Service. Separately, by implementing financial assistance in Europe's eastern and southern neighbourhood, DG NEAR supports reform and democratic consolidation, and contributes to strengthening stability and security around Europe and fostering political and economic reforms. DG NEAR helps to promote EU values, policies and interests in this region, and contributes to developing the special relationship of the EU with its neighbouring countries.

In the enlargement area, DG NEAR assists those countries with a perspective of joining the EU in meeting the criteria defined by the Treaty on European Union and the European Council. DG NEAR closely monitors the progress of enlargement countries towards the EU and supports accession negotiations as required by the Council. The DG manages the bilateral relations of the Union with candidate countries and potential candidates on their path to the EU, frontloading reforms on rule of law, economic governance and public administration reform. Concerning the Western Balkans, the DG develops and implements the stabilisation and association policy of the European Union as defined by the European Council.

DG NEAR manages the bulk of the Union's financial and technical assistance to the neighbourhood (European Instrument for Neighbourhood - ENI) and enlargement (Instrument for Pre-Accession - IPA) countries, amounting to € 27 Billion in total for 2014-2020.

For both ENI and IPA, assistance is implemented through a broad range of management modes which take the different levels of preparedness of the beneficiary countries into account. The management modes implemented by the DG are as follows:

- Direct management, both centralised (in Brussels) and de-centralised to EU Delegations under the supervision of DG NEAR.
- The DG also uses Indirect Management, including:
  - Indirect Management by Beneficiary Countries (IMBC);
  - Indirect Management by Entrusted Entities, notably with International Organisations, International Financial Institutions (IFIs) as well as with member state development assistance agencies.
- The DG uses shared management with Member States for the management of Cross-border cooperation programmes under both ENI and IPA.

## EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG NEAR to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources by reference to the objectives set in the management plan and the efficiency and effectiveness of internal control systems, including an overall assessment of the costs and benefits of controls.

### a) Policy highlights of the year

In its first year of existence, the work of DG NEAR has been strongly linked to **President Juncker's political priorities**. In particular, it has contributed to the following ones:

- ***A Stronger Global Actor***
- ***Towards a European Agenda on Migration***
- ***A Resilient Energy Union with a Forward-Looking Climate Change Policy***
- ***A New Boost for Jobs, Growth and investment***

Enlargement and neighbourhood policies have also contributed to President Juncker's political priority in the area of justice and fundamental rights, by prioritising work focusing on the stabilisation of the neighbourhood.

DG NEAR worked with countries facing a **unstable environment**, facing multiple and overlapping challenges (migration, security, economy etc.).

To contribute to these general objectives, DG NEAR has worked closely with **numerous actors** including other Commission departments, the European External Action Service (EEAS), other EU institutions, EU Member States, partner countries, international and regional organisations, civil society and the private sector.

## European Neighbourhood policy

### Review of the European Neighbourhood Policy

DG NEAR jointly with the EEAS led on the preparation of the **Communication on the ENP Review**<sup>1</sup>, which was adopted by the High Representative for Foreign Affairs and Security Policy and the European Commission on 18 November 2015; it spells out the Union's new approach to its eastern and southern neighbours.

**Stabilisation of the region**, in political, economic, and security related terms, is at the **heart of the new policy**. In the reviewed ENP the EU will focus on a number of priority areas such as economic and social development, employment and education, the migration crisis, energy, the security dimension, fight against terrorism and the human rights agenda.

One of the main aims of the review is also to develop **more effective partnerships** that are tailor made with each of the EU's neighbourhood partners to reflect different ambitions, interests and capacities.

The main lines of the review were **endorsed by the Council** in December 2015 and their implementation has already started.

### Neighbourhood South

#### Syrian crisis

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<sup>1</sup> JOIN(2015) 50 final

The most important achievement of DG NEAR in the southern neighbourhood in 2015 was the **scaling up of the EU response** to mitigate the negative impacts of the **Syrian crisis**. Large-scale ENI assistance focused on **Lebanon and Jordan**, which are heavily affected by the influx of Syrian refugees fleeing the war in their country.

In addition, the **EU regional Trust Fund in response to the Syrian crisis**, which aims at providing a coherent and reinforced aid response to the Syrian crisis on a regional scale, became fully operational in 2015. It responds primarily to the needs of refugees from Syria in neighbouring countries - Turkey, Lebanon and Jordan and also the Western Balkans - and the communities hosting the refugees and their administrations.

## **Migration**

As regards the Commission's European migration agenda, DG NEAR contributed to setting up the "**Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa** (the 'EU Emergency Trust fund for Africa'), which will also be of benefit to 5 countries of the North of Africa region.

## **Bilateral cooperation**

In 2015, DG NEAR supported **Tunisia** at a critical moment of its democratic transition with major challenges including a series of terrorist attacks which also severely affected its economy.

2015 was marked by **very positive results regarding technical and financial cooperation** with **Morocco** to support democratic consolidation. However, in December 2015, Morocco's relations with the EU **became more difficult** following the **European Court of Justice Judgement** annulling the Council Decision of 8th March 2012 on the EU/Morocco agreement on the trade of agricultural products.

In 2015, the EU reviewed its cooperation **with Libya** and decided **to suspend all projects** dealing with national authorities and government bodies. However, **other projects supporting specific democratic institutions and migration were maintained** despite the security situation.

## **Regional cooperation and blending of EU grants with loans**

In 2015, the European Commission, through DG NEAR, continued to promote **regional cooperation with the Southern Mediterranean countries** through sector policy dialogue with regional organisations such as the Union for the Mediterranean and the League of Arab States and through the implementation of regional programmes.

In 2015, there was been **an increase of blending projects under the Neighbourhood Investment Facility (NIF)** using additional bilateral funds; overall €190 m were mobilised to leverage an estimated € 2 billion in 2015 for **key infrastructure investments and SME access**.

## **Ukraine**

The situation remained difficult in Ukraine with **continuing conflict in the Donbas** and persisting economic pressure in trade and supply of energy.

Pursuing its **strong and positive response to the political changes** in 2014, DG NEAR continued supporting the government's reform programme and the priorities set out in the EU-UA Association Agreement. In particular, EU support was pivotal in the political and public steering of the **national reform processes on anti-corruption, public finance management, civil service amendments to the constitution and electoral legislation**.

Furthermore, EU assistance was provided in the area of **border management through the Visa Liberalisation Action Plan (VLAP)** process. Ukraine made good progress **on the mobility front** as it received a positive assessment in the Commission's report of December 2015 on the implementation of its Visa Liberalisation Action Plan (VLAP).

## Neighbourhood East

Highlights include **Georgia** making progress both on the Association Agenda with the EU and on meeting visa liberalisation benchmarks. In **Moldova**, progress was made on DCFTA implementation, despite political turmoil towards the end of the year. Furthermore, confidence building measures in the un-recognised regions continued with support of ongoing EU assistance. In **Armenia**, negotiations on a new framework agreement for EU-Armenia relations started in December 2015. Exploratory talks on a new **EU-Azerbaijan** agreement also started in December. In **Belarus**, a list of 29 measures was identified to incentivise positive developments. The release of a number of political prisoners then resulted in a temporary suspension of sanctions.

As regards the **Eastern Partnership**, DG NEAR actively engaged in preparations for the **Summit in Riga** (21-22 May). That **Partnership** was also adjusted in line with the **Riga priorities** and the direction provided by the **ENP review communication** in view of making its framework more results oriented.

## Enlargement policy

### EU Enlargement strategy

On 10 November 2015 the Commission adopted a **Communication on the EU Enlargement Strategy** and one annual report for each of the seven enlargement countries. DG NEAR led on the preparation of the enlargement package.

In this enlargement package, the Commission **reaffirmed the strong focus** on ensuring that early in the accession process, countries **prioritise reforms in the key fundamental areas** including rule of law, public administration reform, and economic development and competitiveness.

The Commission also **strengthened its approach** to its assessments of the fundamentals and the related acquis chapters. The overarching enlargement strategy is now **multiannual**, covering the period of the Commission's mandate. In addition to reporting on progress, much more **emphasis is put on the state of preparedness** for meeting the obligations of membership. At the same time, the reports provide even **clearer guidance** on what the countries are expected to do in both the short and long term, **thereby increasing transparency** of the enlargement process.

Overall, this new approach was very **well received by the various stakeholders** including the other EU institutions.

### Turkey

After the **parliamentary elections** of June and their repetition in November 2015, the new Turkish government reconfirmed its commitment to the EU accession process, albeit in **very complicated national and regional circumstances**. The **migration crisis** contributed to profoundly reshaping the landscape of EU - Turkey relations in 2015 and the Commission developed a wide range of proposals to enhance relations in areas of common interest and to support Turkey's migration policies and extraordinary efforts to host refugees from the Syrian crisis.

Key milestones in 2015 were the **Joint Action Plan on migration** agreed on 15 October and the EU-Turkey Summit held on 29 November which agreed to renew cooperation and re-energise accession negotiations with a first chapter (on economic and monetary policy) opened in December, acceleration of visa liberalisation monitoring, increased financial support and higher and more structured dialogues. In addition, the Commission decided on 24 November to **set up a EUR 3 billion Facility for Refugees in Turkey** drawing on resources from the EU budget and Member states.

As clearly outlined in the 2015 country report, there were also **grounds for serious concern** regarding the independence of the judiciary in Turkey, the protection of fundamental freedoms and the deterioration of the security situation in the east and southeast.

In May 2015, it was agreed to initiate procedures with a view to modernising and extending the **Customs Union** with Turkey and the Commission launched an Impact Assessment<sup>2</sup> in August 2015 to prepare negotiating directives in the course of 2016.

### Western Balkans

As the Western Balkans countries have also been **heavily affected by the refugee crisis**, mainly by being transit countries (i.e. the "Balkan route"), DG NEAR stepped-up cooperation with them on this issue and quickly provided substantial financial support to mitigate its negative impacts.

In the Enlargement package, the Commission has noted that there has been **important progress over the past year** in the Western Balkan countries, in particular with the adoption of relevant legislation and establishment of necessary administrative structures. However, across the board effective implementation has been very often lacking.

**Positive results** were achieved including in Serbia which succeeded in 2015 to open the first acquis chapters in the accession negotiations. Montenegro opened two additional ones. Albania has been progressing on the "Five Key Priorities", which were identified by the EU as relevant for opening accession negotiations. Bosnia and Herzegovina has been slowly but steadily getting back on track on its reform path. Kosovo\* made good progress towards visa-liberalisation. Finally on the former Yugoslav Republic of Macedonia, Commissioner Hahn, with the help of three Members of the European Parliament, **facilitated a political agreement** in June and July 2015, with the aim of overcoming the political crisis. With a view to addressing underlying systemic rule of law issues in this country, DG NEAR also supported the preparation of '**Urgent Reform Priorities**' in areas such as rule of law and judiciary, de-politicisation of public administration, electoral reform and freedom of expression.

With a view to supporting **economic reforms** in enlargement countries, DG NEAR has notably managed an annual exercise whereby the enlargement countries have submitted **Economic Reform Programmes** (ERPs) to the Commission. These programmes set out a medium-term macro-fiscal policy framework together with key structural reforms aimed at **boosting competitiveness**. The ERPs were the basis for **country-specific recommendations**, which IPA funds have helped to address.

In addition, in **Bosnia and Herzegovina**, a large assistance programme has supported the recovery following the devastating **May 2014 floods**. The Commission also devised a recovery programme for **Albania** as a response to the floods emergency of January/February 2015.

In 2015, there was **good progress on the connectivity agenda** as illustrated by the successful Western Balkan summit in Vienna in August 2015. This agenda is about developing major transport and energy infrastructures between Western Balkans countries and between these countries and the EU.

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<sup>2</sup> [http://ec.europa.eu/smart-regulation/roadmaps/docs/2015\\_trade\\_035\\_turkey\\_en.pdf](http://ec.europa.eu/smart-regulation/roadmaps/docs/2015_trade_035_turkey_en.pdf)

\* This designation is without prejudice on status, and is in line with the UNSCR 1244/1999 and the IG Opinion on the Kosovo declaration of independence.



## b) Key Performance Indicators

Result/Impact indicator (description)	Target (or milestones)	Latest known results as per Annual Activity Report
1. Overall assessment of the <b>political reforms</b> achieved by the enlargement candidate countries and the potential candidates, as well as by the Neighbourhood countries, as provided by the annual strategy paper and the progress reports.	<b>Neighbourhood - Target 2020:</b> ENI countries are well advanced in implementation of recommendations.	<b>Neighbourhood -</b> According to the annual reports adopted on 25 March 2015 <sup>4</sup> , some ENI countries have made some progress in reaching political reforms. In other countries, ongoing conflict or instability led to backsliding or stagnation in political reforms.
	<b>Enlargement - Target 2020:</b> Candidate countries closer to meeting the political accession criteria.  Potential candidates are further advanced in steps towards meeting political criteria for candidate status.	<b>Enlargement -</b> According to the 2015 country reports <sup>5</sup> , candidate countries and the potential candidates made some further progress towards meeting the political criteria; however, in some countries, there has been backsliding in the judiciary and with the freedom of expression.
2. Overall assessment of the <b>economic reforms</b> achieved by the enlargement candidate countries and the potential candidates, as well as by the Neighbourhood countries, as provided by the annual strategy paper and the progress reports	<b>Neighbourhood - Target 2020:</b> ENI countries are well advanced in implementation of recommendations.	<b>Neighbourhood -</b> According to the annual reports adopted on 25 March 2015 <sup>6</sup> , some ENI countries have made some progress in reaching economic reforms. In other countries, ongoing conflict or instability led to backsliding or stagnation in economic reforms.
	<b>Enlargement - Target 2020:</b> further progress is made in meeting the economic criteria as assessed by the progress	<b>Enlargement -</b> According to the 2015 country reports <sup>7</sup> , candidate countries and the potential candidates made some further progress on meeting

<sup>4</sup> JOIN(2015) 9 final

<sup>5</sup> COM(2015) 611 final

<sup>6</sup> JOIN(2015) 9 final

<sup>7</sup> COM(2015) 611 final



	report.	the economic criteria; however, in some countries, there has been no progress in one of the two economic criteria <sup>8</sup> .
3. GDP per capita (current prices-PPS) as % of EU level for enlargement countries only	<p><b>Target 2020:</b> Western Balkans 43% Turkey 65%</p> <p><b>Baseline (2010):</b> Western Balkans (excluding Kosovo): 32.5%; Turkey: 50%</p>	<p>2014 value: Western Balkans 32.53% Turkey 52%</p> <p>Though economic growth has been positive in 2014 (but for Serbia), it has slowed down compared to the previous year, and the catching up process is not progressing. Both for Western Balkans and Turkey the values remain very far from the 2020 targets.</p>
4. Residual Error Rates (RER) for both ENP and enlargement countries	<b>Target 2015:</b> below 2%	<p><b>European Neighbourhood Instrument:</b> 0.64%</p> <p><b>Instrument for Pre-accession:</b></p> <p>RER IPA Direct management: 1.62%</p> <p>RER IPA Indirect Management by Beneficiary Country: range of 0.02% - 1.84% (see details in part 2.1.1)</p> <p>As described in part 2, the above mentioned rates for both ENI and IPA cover over 90% of the implemented budget for 2015.</p>

### c) Key conclusions on Management and Internal control (executive summary of section 2)

In accordance with the governance statement of the European Commission, (the staff of) DG NEAR 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.

<sup>8</sup> The two economic criteria are a functioning market economy and the capacity to cope with competition and market forces.

The Commission has adopted a set of internal control principles, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards. DG NEAR has assessed the internal control systems during the reporting year and has concluded that the internal control principles are implemented and function as intended. In the course of 2016, it is planned to further improve the fulfilment of the requirements under the following Internal Control Standards:

- ICS 5 Objectives and Performance Indicators
- ICS 6 Risk Management process
- ICS 7 on Operational Structure
- ICS 12 on Information and Communication
- ICS 14 Evaluation of Activities
- ICS 15 Process and procedures

Please refer to AAR section 2.3 for further details.

In addition, DG NEAR 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 Section 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.

## **d) Information to the Commissioner**

The main elements of this report and assurance declaration, have been brought to the attention of Commissioner Johannes Hahn, responsible for the European Neighbourhood Policy and Enlargement Negotiations.

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

In 2015, the work of DG NEAR has been **strongly linked to President Juncker's political priorities**. In particular, it has contributed to the following ones:

- **A Stronger Global Actor**
- **Towards a European Agenda on Migration**
- **A Resilient Energy Union with a Forward-Looking Climate Change Policy**
- **A New Boost for Jobs, Growth and investment**

Enlargement and neighbourhood policies have also contributed to President Juncker's political priority in the area of justice and fundamental rights, by prioritising work focusing on the stabilisation of the neighbourhood.

The work of DG NEAR also helped to make progress on effective achievements of the objectives of **DG NEAR's 2015 Management plan**.

In 2015, DG NEAR worked with countries facing a **unstable environment** both politically and economically and affected by the refugee crisis, as notably shown by the World Bank's indicator on "**Political stability and absence of violence**".

In that difficult context, DG NEAR, through its toolbox – policy coordination, follow-up of international agreements and financial assistance – **has essentially sought to bring about and facilitate positive political and economic developments** in line with EU Priorities.

DG NEAR has been working closely with **numerous actors** including other Commission departments, the European External Action Service (EEAS), other EU institutions, EU Member States, partner countries, international and regional organisations, civil society and the private sector.

For a significant part of its funding, DG **NEAR has been relying on other bodies** such as beneficiary countries (IMBC), International organisations (IMEE) or Member States agencies (both IMEE and shared management for Cross-Border Cooperation).

The contribution of DG NEAR managed financial instruments (i.e. ENI and IPA) to policy achievements has been analysed in the **Programme statements** annexed to the 2017 EU draft budget.

## 1.1 European Neighbourhood policy

### Review of the European Neighbourhood Policy

The ENP review was announced by President Juncker at the beginning of this mandate and was a major initiative foreseen by the 2015 Commission Work Programme.

DG NEAR jointly with the European External Action Service led on the review<sup>9</sup>. A public consultation was carried out from March to July 2015 with partner countries, international organisations, social partners, civil society and academia as part of the review. More than 250 contributions were received.

The review was adopted by the High Representative for Foreign Affairs and Security Policy and the European Commission on 18 November 2015; it spells out the Union's new

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<sup>9</sup> JOIN(2015) 50 final

approach to its eastern and southern neighbours.

The **stabilisation of the region**, in political, economic, and security related terms, is at the **heart of the new policy**. In the reviewed ENP, the EU will focus on a number of priority areas such as economic and social development, employment and education, the migration crisis, the security dimension, fight against terrorism and the human rights agenda.

One of the main aims of the review is also to develop **more effective partnerships** that are tailor made with each of the neighbourhood partners to reflect different ambitions, interests and capacities.

The main lines of the review have been **endorsed by the Council** (i.e. Council Conclusions) in December 2015 and their implementation has already started.

## Neighbourhood South

### Syrian crisis

The **most important achievement** of DG NEAR in the southern neighbourhood in 2015 was the **scaling up of the EU response** to mitigate the negative impacts of the **continuing Syrian crisis**.

ENI assistance focused on **Lebanon and Jordan**. In addition to the € 10 million top-up of budget support to the Ministry of Education (bringing the programme to € 55 million) to bring the number of **Syrian children** educated in Jordanian schools to over 140,000, DG NEAR helped Jordan's **northern municipalities** cope with the burden which the refugee influx has imposed on them in the areas of water supply, solid waste and access to livelihoods for both refugees and host communities. In addition, a pilot project in Jordan provided higher education opportunities to over 7,000 Syrian students. Wider work in Jordan includes support for private sector development, in particular access to Technical and Vocational Education and Training.

DG NEAR also co-ordinated the Commission's preparation of an "**EU-Jordan Compact**", with a view to strengthening the EU political, economic, trade and social ties with Jordan in addition to improving the living conditions of refugees and affected host communities in Jordan.

In **Lebanon**, large-scale support was provided to the Syrian refugee population, in particular for access of Syrian children to Lebanese schools (i.e. over 160,000 Syrian refugee children in Lebanon received access to basic education). Lebanon also engaged with DG NEAR to begin discussions on an "EU-Lebanon Compact".

**Emergency measures** such as the setting-up of **EU regional Trust Fund in response to the Syrian crisis** (see example below) were also taken so as to respond in an effective manner to the impact of the Syrian crises.

#### Example of EU-added value: **EU regional Trust Fund in response to the Syrian crisis**

The **EU regional Trust Fund in response to the Syrian crisis**, which aims at providing a coherent and reinforced aid response to the Syrian crisis on a regional scale, responding primarily in the first instance to the needs of refugees from Syria in neighbouring countries, as well as of the communities hosting the refugees and their administrations, became fully operational in 2015. The EUTF Operational Board adopted a series of projects covering the three most affected countries (**Turkey, Lebanon and Jordan**), while the decision was also taken to extend the Fund's scope to also cover the **Western Balkans**.

This Trust Fund does not only bring the urgently needed complement to humanitarian relief assistance, it also serves the two main strategic objectives of the EU, namely to **stabilise the overstretched host countries** (Turkey, Lebanon, Jordan, Iraq) and to **reduce the pull factors and root causes of the migration crisis** (in the entire region)

This Trust Fund is now one of the main EU instruments to respond to the forced displacement crisis in the region. **So far, EUR 650 million have been committed to the Trust Fund**, including EUR 570 million from the EU budget (ENI: EUR 381 million, IPA: EUR 173 million, DCI: EUR 16 million). **19 EU Member States are contributing an additional EUR 60 million.**

**This Fund allows for a fast, effective and efficient delivery of assistance.** The fund can negotiate and sign contracts soon after its Board has met and much faster than under normal bilateral cooperation modalities. The Fund is also flexible and can quickly react to new crises and displacements should these occur, because it is not bound by fixed country programmes or allocations. The Board can direct funds at short notice where they are most needed. Also, the overhead costs (management fee) of the Trust Fund are limited to a maximum of 3%, which is a competitive and reasonable rate.

The Commission also adopted a package of special measures in 2015, aimed at supporting livelihoods and education of Syrian populations **inside Syria**, and resilience of Palestine refugee's communities in Syria. Implementation of the related projects in Syria took place against a **background of crisis and warfare** impeding proper monitoring, and of no co-operation with the Syrian government (since it stopped at the beginning of the conflict in 2011).

## Migration

In the framework of the Commission's European migration agenda, DG NEAR, in close coordination with DEVCO, contributed to setting up the 'EU Emergency Trust fund for Africa' (see example below).

**Example of EU-added value: "Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa (the 'EU Emergency Trust fund for Africa')."**

The Constitutive Agreement of this Trust Fund was signed on the margins of the **La Valletta summit** on November 12<sup>th</sup> 2015 by European and African partners.

Three geographic windows of beneficiary countries have been created: the Sahel and region and Lake Chad area; the Horn of Africa and the North of Africa. The North of Africa window, which DG NEAR is in charge of, has been endowed with a budget of € 200 million of ENI funds.

Alongside other instruments, this EU Trust Fund contributes to the wider response to the challenges posed by the unprecedented migratory and refugee crisis commonly confronted in Europe and Africa. In particular, it will help to **address the root causes of irregular migration and forced displacement** resulting from state fragility and insecurity, as well as from demographic, economic and environmental trends.

One of the big priorities of the North Africa Window will be to improve **migration management in all its aspects** including contributing to the development of national and regional strategies on migration management, containing smuggling of migrants, supporting effective return and readmission and international protection and asylum. DG NEAR has started the work to root the new programmes in sound regional strategies and to proceed to the relevant stakeholders' consultation.

**Mainstreaming of the migration dimension into development policies** has gained more and more importance in a context where financial resources are becoming scarcer. This approach has been currently tested in a number of DG NEAR cooperation programmes. In Morocco for example, migration indicators have been introduced in sector budget support programmes and are related to the access of migrants to education and health protection systems.

## Tunisia

In 2015, the EU, through the work of DG NEAR in particular, was able to **support Tunisia at a critical moment of its democratic transition with major challenges including a series of terrorist attacks** which also severely affected its economy.

DG NEAR accelerated its support to the country by adopting a **large package of actions** early in the year and, in the context of a severe ENI payment credit shortage, ensured that Tunisia was prioritised in order to help the country mitigate the sudden fall in tourism revenues. The package of actions will also contribute to Tunisia's efforts in addressing the wide regional disparities and the weaknesses of its economy, two problems which seriously undermine its democratic transition.

The EU continued to support Tunisia in accessing the internal market through support to the Association agreement and the DCFTA (Deep and Comprehensive Free Trade Agreement) negotiations.

## Morocco

The year 2015 was marked by **very positive results regarding technical and financial cooperation** to support democratic consolidation. Programmes amounting to € 210.5 million overall were adopted under the annual programme and Umbrella funds; landmark contracts in field of green and renewable energy were signed with the EIB and the French Development Agency (i.e. projects Noor and IFMEREE) for an overall EU contribution of € 54 million. Also, payments under budgetary support programmes almost doubled as compared to 2014 (up to € 120 million).

However, in December 2015, Morocco's relations with the EU **became more difficult** following the **European Court of Justice Judgement** annulling Council Decision of 8th March 2012 on an EU/Morocco agreement on the trade of agricultural products, Morocco decided unilaterally to suspend almost all dialogue and cooperation with the EU.

## Libya

In 2015, the EU reviewed its cooperation **with Libya** and decided **to suspend all projects** dealing with national authorities and government bodies. However, **other projects supporting specific democratic institutions** such as the Constitutional Drafting Assembly and the High National Elections Commission **continued** throughout the period.

In addition, EU programmes focusing on protection, **migration**, human rights, media and civil society **were maintained** and, despite the security situation, adapted in order to respond to the most pressing needs of the Libyan people as well as people stranded in Libya. In the particular case of migration, EU support was refocused to provide emergency care and support for migrants, refugees, asylum seekers and displaced people not only in Libya but also in neighbouring countries.

## Egypt

The Commission adopted in 2015 **a package of measures** for Egypt worth € 59 million to support infrastructures in Cairo, economic growth, energy, water and citizens' rights. An additional € 46 million were allocated to the Neighbourhood Investment Facility for **two blending operations** (clean energy and irrigation) with European Financial Institutions. Key factors influencing the delivery of assistance in Egypt remain: firstly, the **Foreign Affairs Council conclusions of August 2013**, which reiterated the commitment to continue EU assistance in the socio-economic sector and to civil society; secondly the **suspension of Budget Support operations**, since Egypt does not meet the general conditions for eligibility as defined in the EU Budget Support policy, namely those related to macro-economic stability and public finance management.

Despite the increasing control exerted by the Government **on civil society**, efforts were made to **continue engaging** with the latter. Policy dialogue was intensified with the Government throughout 2015. Sub-Committees under the Association Agreement, which



had been on hold since 2010, were re-launched in 2015, including one on Human Rights and Democracy and preparatory work for another Sub-Committee in Justice and Security held in early 2016.

**Example of EU-added value: The Gulf of El Zayt Wind Farm Project**

This project is a **'blending operation'**, combining EU grant funding with local funds and loans provided by European Financing Institutions (KfW and EIB). The total budget of the project amounts to €340 million, including an EU grant contribution of €30 million and loans of €191 million and €50 million from KfW and EIB respectively.

The EU grant, managed by DG NEAR, acted as a catalyst to attract funding from European finance institutions, enabling bringing generation cost of wind energy down in order to compete with thermal generation energy. Moreover, the grant helped the



realisation of a project that show case efficient large scale renewable energy generation and contributes to **Egypt's goal to cover 20% of the electricity produced from green energy sources** by 2020 according to the Government's agenda.

The project has a total installed capacity of 200 MW with 100 turbines of two MW capacities each, **making it the largest windfarm on the African continent**. The project generates up to 800 GW per year, which is sufficient **to supply approx. 500,000 people with electricity** and **contributes to preventing about 400,000 tons of Carbon**

**Dioxide CO2 emissions per year**. The project increases the overall installed capacity from wind energy sources in Egypt by 36%.

## Algeria

In a context of **dwindling oil and gas prices**, the EU adopted in 2015 a new programme of critical importance **to support Algeria in its planned economic reforms** to diversify the economy.

## Palestine

The Commission adopted in 2015 a package of measure covering the traditional support to PEGASE<sup>10</sup>, UNWRA<sup>11</sup> and East Jerusalem as well as governance, water and land and economic development programmes for an amount of € 300 million. An evaluation on the **PEGASE Direct Financial Support (DFS)** covering the period 2011-2013 was finalised in March 2015. It concluded that **without the PEGASE Support, the Palestinian Authority would not have been able to function and reform its systems**; neither would the reforms committed to by the Palestinian Authority have been possible. The reforms represent a major achievement in ensuring the functioning of the public finance administration. Thus PEGASE DFS has contributed to the integrity of the budget, the administration and its services, and access by all Palestinians to them.

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<sup>10</sup> PEGASE Direct Financial Support (which channels the bulk of ENI funding to the Palestinian Authority) is aiming primarily at helping the Palestinian Authority to meet its recurrent expenditure (salaries and pensions, assistance to vulnerable Palestinian families) and the delivery of public services. PEGASE is accompanied by a policy dialogue aimed at providing longer-term assistance for development.

<sup>11</sup> UNRWA: United Nations Relief and Works Agency for Palestine Refugees in the Near East.



## Blending

In 2015, there has been **an increase of blending projects under the Neighbourhood Investment Facility (NIF)**; overall €190 m were mobilised to leverage an estimated € 2 billion in 2015 for **key infrastructure investments and SME access**.

## Regional cooperation

In 2015, the European Commission through DG NEAR continued to promote **regional cooperation with the Southern Mediterranean countries** through sector policy dialogue with regional organisations such as the Union for the Mediterranean and the League of Arab States and through the implementation of regional programmes.

A further successful **Union for the Mediterranean (UfM)** Ministerial meeting took place in November 2015, on the topic of "Blue economy". In addition, an informal Ministerial meeting with Southern ENP partners on the future of European Neighbourhood Policy took place in April, as well as a UfM High level conference in November, to mark the 20<sup>th</sup> anniversary of the Barcelona Process, all demonstrating the **continued relevance of the UfM as a comprehensive policy dialogue for the region**. DG NEAR continued to support the UfM Secretariat by paying 50% of its budget.

In addition, a key event was the high-level meeting **with the private sector in Barcelona** in the framework of the UfM on 14 April 2015, chaired by Commissioner Johannes Hahn, which underlined the need to have a vibrant private sector in the Southern Neighbourhood and across the Mediterranean.

In the area of **energy**, work to set up three energy platforms within the UfM progressed. Work to identify and develop an **interconnected transport network** in the region also continued.

The **AMICI initiative** (A Southern Mediterranean Investment Coordination Initiative), which is steered by DG NEAR, has gathered momentum. This initiative aims at enhancing coordination of EU, Member States and other donors on investment facilitation in the Southern partner countries. The collective EU commitments in the region (Commission, Member States grants and own resources from European Finance Institutions) have been significant in 2015, representing about €5.3 billion. Collectively, EU resources have unblocked a total of €66.7 billion in project financing during the 2010-15 period in the southern Mediterranean region. About 75% of the EU resources are provided through financial instruments (loans and equity financing), hence an important role of European Finance Institutions. DG NEAR's priority has been to work with them to ensure alignment of their funding with EU objectives.

DG NEAR also contributed to establishing the **Civil Society Forum Neighbourhood South**, a credible and inclusive dialogue platform between civil society, EU institutions and regional entities, to exchange and debate on regional policy agenda.

During 2015, anticipating the greater emphasis given to **security issues** in the revised European Neighbourhood Policy, the portfolio of DG NEAR's **regional security projects expanded**, adopting innovative approaches, such as piloting projects on asset recovery, and anti-radicalisation, and cooperating more directly with EU agencies.

## Neighbourhood East

### Ukraine

Pursuing its **strong and positive response to the political changes** in 2014, EU external assistance for Ukraine, managed by DG NEAR (Support Group for Ukraine (SGUA) and the EU Delegation to Ukraine), has continued supporting the government's reform programme and the priorities set out in the EU-UA Association Agreement.

Despite a wide range of initiatives by the government and parliament and strong demands from civil society, **prevailing assessments on the national reform programme are mixed**. On the positive side the government successfully pursued

macro-economic stabilisation in line with the IMF<sup>12</sup> programme, advanced well on budgetary decentralisation and the transformation of energy subsidies, and made encouraging steps in the cleaning up of the banking sector, reorganisation of rule of law and set up of anti-corruption bodies. The **continuing conflict in the Donbas** and the persisting economic pressure in trade and supply of energy, remain a major setback and persisting drain on public resources. Despite this context, the government of Ukraine has been encouraged to address the delays in adopting new legislation and implement key reforms effectively.

Within this context, the budget support operation to the Ukrainian government managed by DG NEAR has been **pivotal in the political and public steering of the national reform processes** in anti-corruption, public procurement, access to public information, accountability and transparency in public finance management and civil service as also amendments to the constitution and electoral legislation.

On **promoting good governance**, DG NEAR made significant contributions to prepare the adoption of new legislation in the area of **justice and anti-corruption** reform. In 2015 the National Anti-Corruption Bureau (NABU) was established and its staff selected through open competitions.

EU assistance was provided in the area of **border management through the Visa Liberalisation Action Plan** (VLAP) process, the Sector Budget Support on Integrated Border Management (IBM) and the structures foreseen within the framework of the Border Assistance Mission to Moldova and Ukraine (EUBAM). Ukraine made good progress **on the mobility front** as it received a positive assessment in the Commission's report of December 2015 on the implementation of its Visa Liberalisation Action Plan (VLAP).

During 2015 two major new actions were designed and adopted as Special Measures mobilising € 192 million in support of **decentralisation and economic development** to promote more effective and efficient delivery of public services and to increase investment and employment in the private sector. This complements several ongoing sector efforts related to the entry into force of the DCFTA as from January **2016**.

Important legislation has been adopted during 2014 and 2015 on state regional policy, fiscal decentralisation as well as on cooperation and amalgamation of local communities. With expertise from the EU funded Support to Ukraine's Regional Development Policy programme, the Ministry of Regional Development **aligned with principles of EU Regional Policy** (see example of EU-added value below).

**Example of EU-added value: Support for Ukraine's Regional Development policy**

**Description**

Before the start of the programme, Ukraine's Regional Policy was a purely declarative policy. Regional Development strategies were not linked to concrete budgets or projects. EU support and Technical Assistance triggered a comprehensive reform of Ukraine's Regional Policy system and worked towards the establishment of an effective regional development governance system. Under the first component of the programme, **technical assistance** has been provided to Ukrainian authorities. Secondly, the programme provided **financing for concrete projects** in Ukrainian regions and delivered showcases for bottom-up Regional Development projects.

**EU added value**

The programme was **effective** in aligning Ukraine's Regional Policy with EU policies. The newly established system is based on five key elements: (1) **planning** on national and regional levels in the way of elaboration of the state and regional development strategies

<sup>12</sup> IMF= International Monetary Fund

and their operational programmes; (2) **financing of regional development projects** to achieve the objectives of the state and regional development strategies; (3) **implementation of regional development projects** based on the "project" instead of the so-called "object" approach; (4) **performance monitoring and impact assessment** of the regional policy; (5) **effective system of state and nonstate regional development institutions**. The programme raised **efficiency** of financing of Regional Policy: Especially, the reform of the **State Fund for Regional Development** is a crucial achievement. The Fund finances bottom-up projects, in a modern EU understanding and in line with strategic priorities. The fund is an innovation in the Ukrainian Budget system as it provides a stable and predictable budget to regions using a formula for calculating the share each regions gets (size of population, regional GDP in comparison to UA-average). In previous years, politicians had simply decided on the allocations to regions and cities. The EU Support also allowed the Ministry to establish a transparent online system to manage the fund and inform citizens about implemented projects.

In terms of **synergy**, Regional policy is by definition cross-cutting and leads to greater synergies of sectoral policies. Furthermore, the programme raises standards in terms of credibility and transparency of the policy. The programme can be also considered as a showcase for the implementation of a complex reform, covering the whole policy.

After extensive consultation with all national and international stakeholders and donors and a formal endorsement by the National Reform Council, **the Single and Comprehensive Strategy for Agriculture and Rural Development 2015-2020** was formally launched by the Ministry of Agrarian Policy and Food. This process was initiated by the EU (i.e. including DG NEAR). The Strategy provides a long-term vision for the development of agriculture and rural areas.

Radical changes in the **gas sector** had a major impact **re-inforcing sovereignty through significant increase in imports from the West**, increasing transparency, reducing corruption and the burden on public deficit. In the framework of the implementation of the 3rd EU Legislative Energy Package, Ukraine adopted a new Gas Market Law and the Gas Sector Reform Implementation Plan in April 2015. The process on revision of the Energy Strategy for Ukraine until 2030, launched in 2014, continued in 2015 and is expected to be finalized in 2016.

### Neighbourhood East – Moldova, Belarus, Georgia, Armenia, Azerbaijan

The Neighbourhood East highlights include **Georgia** making progress both on the Association Agenda and on meeting visa liberalisation benchmarks. In **Moldova**, progress was made on DCFTA implementation, despite political turmoil towards the end of the year. Furthermore, confidence building measures in the un-recognised regions continued with support of ongoing EU assistance. In **Armenia**, negotiations on a new framework agreement for EU-Armenia relations started in December 2015. Exploratory talks on a new **EU-Azerbaijan** agreement also started in December. In **Belarus**, a list of 29 measures was identified to incentivise positive developments. The release of a number of political prisoners then resulted in a temporary suspension of sanctions.

In the areas of **human rights, rule of law** and civil society support, financial assistance had a positive impact in **Belarus** where it was possible to start the implementation of support (€10.5m) to civil society and local authorities, despite existing restrictions on CSOs and independent media. **Georgia** improved its international ranking (Transparency International) on corruption perception, and made good progress on governance and human rights; this is a positive development to which DG NEAR contributed through in particular its bilateral financial assistance and the European Instrument for Democracy and Human Rights.

**Georgia's** progress on governance and human rights was also reflected on the **migration and mobility front**, as it received a positive assessment in the Commission's progress report on the Visa Liberalisation Action Plan (VLAP). The reforms underlying the VLAP were supported by a high number of ongoing EU programmes

related to migration and border management as well as mobility of people.

Regarding **integration into the Union internal market**, a new bilateral programme supporting the implementation of the **Deep and Comprehensive Free Trade Agreements (DCFTA) and SMEs in Georgia** was launched and the first budget support disbursement has been made. It has complemented other programmes which helped key institutions to comply with AA/DCFTA requirements, such as the Eastern Partnership (EaP) SME Flagship initiative, which supports the strengthening of Small and Medium sized Enterprises. In **Moldova**, as part of the implementation of the DCFTA in the field of agriculture, the country's sugar and wine industries have both seen sizeable increases of exports to the EU. Transposition of relevant EU legislation in the field of energy efficiency continued in Moldova with the support of EU technical assistance and budget support.

As regards the **Eastern Partnership**, DG NEAR was actively engaged in preparations for the **Summit in Riga** (21-22 May) and contributed to the definition of the four areas for continued support: Economic development, connectivity, migration and security. The summit reiterated the focus on four priority areas: (1) strengthening institutions and good governance; (2) increasing mobility and people to people contacts; (3) market opportunities; (4) interconnections.

Work on the **Eastern Partnership** has been adjusted in line with the **Riga priorities** and the direction provided by the **ENP review communication** in view of making the Eastern partnership framework more results oriented. For instance, strategic frameworks for regional cooperation in the areas of transport and energy have been developed in view of **supporting priority investments** of a strategic character, while work on integrated border management, SME support, municipal development and energy efficiency has continued providing for concrete results on the ground visible to citizens. As an illustration, more than 145 cities have signed up to the Covenant of Mayors thereby committing to sustainable energy actions and strengthening the capacity within the municipalities to cope with the requirements deriving from the Covenant in terms of policy development and investments. The Commission provided technical and investment support to these municipalities through the EaP Municipal Flagship.

## Cross Border Cooperation

DG NEAR work on **Cross Border Cooperation** also contributed to advancing EU policy towards its neighbours in efforts to reduce differences in living standards and **address common challenges across the EU's external borders**. Fourteen joint operational programmes between the EU and its neighbours, totaling around € 1 billion, were adopted in 2015 covering the period up to 2020.

### 1.2 Enlargement policy

#### EU Enlargement strategy

On 10 November 2015 the Commission adopted a **Communication on the EU Enlargement Strategy**<sup>13</sup> and one annual report for each of the seven enlargement countries. DG NEAR led both for preparation of this initiative and its presentation to the other EU institutions.

In this package, the Commission has noted that there has been **important progress over the past year** in the enlargement countries in particular with the adoption of relevant legislation and establishment of necessary administrative structures. However, across the board effective implementation is very often lacking.

In its enlargement package, the Commission also **reaffirmed the strong focus** on

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<sup>13</sup> COM(2015) 611 final

ensuring that early in the accession process, countries **prioritise reforms in the key fundamental areas** – rule of law, fundamental rights, strengthening democratic institutions, including public administration reform, as well as economic development and competitiveness – and on establishing a track record.

The Commission also **strengthened its approach** to its assessments of the fundamentals and the related acquis chapters. The overarching enlargement strategy is now **multiannual**, covering the period of the Commission's mandate. In addition to reporting on progress, much more **emphasis is put on the state of preparedness** for meeting the obligations of membership. At the same time, the reports provide even **clearer guidance** on what the countries are expected to do in both the short and long term. Together with harmonised assessment scales, this improved the transparency of the accession process and facilitated greater scrutiny of reforms by all stakeholders.

Overall, this new approach was very **well received by the various stakeholders** including the other EU institutions.

## Turkey

### Support for political reforms in Turkey

After the **parliamentary elections** of June and their repetition in November 2015, the new Turkish government reconfirmed its commitment to the EU accession process, albeit in **very complicated national and regional circumstances**. The **migration crisis** contributed to profoundly reshaping the landscape of EU - Turkey relations in 2015 and the Commission developed a wide range of proposals to enhance relations in areas of common interest and to support Turkey's migration policies and extraordinary efforts to host refugees from the Syrian crisis.

Key milestones in 2015 were the **Joint Action Plan on migration** agreed on 15 October and the EU-Turkey Summit held on 29 November which agreed to renew cooperation and re-energise accession negotiations, to accelerate visa liberalisation monitoring, to increase financial support and to hold higher and more structured dialogues.

On financial assistance in particular, support for Turkey's efforts to host more than 2 million refugees increased in importance. For instance, DG NEAR concluded the first contracts under the **EU Regional Trust Fund in response to the Syrian Crisis** in September 2015, with actions in Turkey on food security through World Food Programme (over € 5 million) and education and psycho-social support through UNICEF (over € 12 million).

In view of the magnitude of the challenge, on 24 November the Commission decided to **set up a € 3 billion Facility for Refugees in Turkey** drawing on resources from the EU budget and Member states.

Another key milestone was the entry into force in June 2015 of the **IPA II Framework Agreement** (FWA) setting out the rules for implementation of pre-accession assistance, the ratification of the first IPA II Financing Agreement on the 2014 Annual Action Programme (€ 255 million) and the adoption of the 2015 Annual Action Programme (€ 255 million), both in December 2015. The Rule of Law and Fundamental Rights remained as priority areas for financial assistance.

In December the Turkish Government announced its **intention** to adopt comprehensive legislation **to make quick progress in aligning** with EU legislation and standards. However, there were also **grounds for serious concern** regarding the independence of the judiciary, the protection of fundamental freedoms and the deterioration of the security situation in the east and southeast, as clearly outlined in the 2015 country report.

Example of EU-added value and results/impacts of projects or programme financed: <b>Twinning project "Support to the establishment of the Ombudsman Institution in Turkey"</b>
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**Description:**

The Twinning project "Support to the establishment of the Ombudsman Institution in Turkey", financed under the NP 2011, entered its final phase with a closing event planned in March 2016. The project has over the past 22 months implemented a **series of training courses in a wide range of areas** in which citizen's complaints are received. Those are amongst others, discrimination at the work place, complaints against educational institutions, complaints in the field of violence against women and failure of state institutions to act. Furthermore, training is provided in the fields of migration, refugee issues and bullying in the workplace.

Training is provided by relevant case workers from the **Ombudsman Institutions of Spain and France in a peer to peer approach** so that the case workers of the Turkish Ombudsman institution get first hand practical examples on how to draft relevant recommendations.

A **Technical Assistance component** will continue over the coming 18 months to provide professional advice to the regional outreach activities of the Ombudsman institution in order to make the public in Turkey familiar with what the institution can do for them.

The Ombudsman plays a key role in the **enforcement of the rule of law** in everyday life activities and is considered as an essential institution under the Copenhagen criteria. It is crucial for a trustful and cooperative relationship between the State administration and citizens.

The EU hereby builds up systematic support to a **new institution in the field of fundamental rights** in Turkey so that it can fulfil its role in becoming a reliable and trusted contact point for Turkish citizens (and other individuals on the territory of Turkey) and their complaints on the functioning of the public administration.

**Support for economic, social and territorial development in Turkey**

Developing further close economic ties was another shared priority with Turkey. **Accession negotiations** with Turkey in the area of economic and monetary policy (chapter 17) **were opened in December 2015**. Turkey participated in a multilateral **economic dialogue** with the Commission and Member States with joint recommendations adopted at a meeting held in May 2015. The EU and Turkey have also closely worked together in the framework of the G-20, which Turkey chaired in 2015. Turkey and the EU continued to improve their cooperation on **energy**, and a high level energy dialogue was launched in March 2015. In May 2015, it was agreed to initiate procedures with a view to modernising and extending the **Customs Union** and the Commission launched an Impact Assessment<sup>14</sup> in August 2015 to prepare negotiating directives in the course of 2016.

IPA programmes contributed to the objective of supporting the socio-economic development of Turkey. Substantial support for renewable energy and energy efficiency initiatives was foreseen under the IPA annual action programme 2015. Except for Transport which will be completed in the first half of 2016, the entrustment of budget implementing tasks to the national authorities, as required under IPA II, was successfully completed in 2015 in the fields of environment, competitiveness and innovation, employment, education and social policies, allowing for implementation of the related multiannual programmes (2014-2016) in those sectors to start.

**Supporting progressive alignment with and implementation of the Union acquis**

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<sup>14</sup> [http://ec.europa.eu/smart-regulation/roadmaps/docs/2015\\_trade\\_035\\_turkey\\_en.pdf](http://ec.europa.eu/smart-regulation/roadmaps/docs/2015_trade_035_turkey_en.pdf)

**Shared economic interests** and **IPA assistance** played a key role in sustaining in 2015 the interest of the Turkish authorities in pursuing alignment with EU standards. Most of the energy related institutions have so far benefited from IPA funds. The completed projects significantly contributed to the alignment of the EU energy acquis and ensured better integration **particularly in electricity networks**. The Turkish state-owned Electricity Transmission Company (TEIAS) signed the "**Long-Term Agreement**", with the **European Network of Transmission System Operators for Electricity** (ENTSO-E) on 15 April 2015, which will form the **legal basis for a permanent connection between Turkey's electricity system and that of Europe** (see example below). Under the IPA II annual action programme adopted in 2015, institution building activities linked to the acquis were agreed under agriculture, phytosanitary policy and fisheries as well as regarding migration and asylum policy, customs controls and law enforcement institutions pertinent to chapters 23 and 24.

**Example of EU-added value and results/impacts of projects or programme financed: Full integration of the Turkish electricity market with the EU internal electricity market**

IPA has supported the full integration of the Turkish electricity market with the EU internal electricity market through five consecutive IPA projects. Permanent interconnection of the systems was formalised in March 2015 thanks to this support. Apart from achieving full membership status within ENTSO-E (European Network of Transmission System Operators for Electricity), all technical constraints and requirements related to the EU Third Energy Package have been formally fulfilled. This Third Energy Package consists of two Directives and three Regulations adopted in 2009 concerning common rules for the internal market in electricity, in natural gas and establishing an Agency for the Cooperation of Energy Regulators.

What remained to be completed was the full adoption of legal requirements, which was the aim of the IPA "TA to the Harmonization of Transmission Code in line with ENTSO-E", which ended in March 2015.

The investment and costly back-up measures were significantly decreased by the contribution of the project on both the Greek-Bulgarian and Turkish sides to the future security of electricity supply alongside the interoperability of grids. In addition, non-commercial energy exchanges between the Turkish, Greek and Bulgarian operators in both directions have been already achieved, which was the overall purpose of the project.

This EU intervention can be considered to be **effective** because the financial assistance and **constant support of EU authorities made the establishment of such a system possible**. In terms of impact, **commercial exchange between ENTSO-E and Turkey** is currently ongoing with **success**. Turkey is on track towards full membership status with ENTSO-E in the near future.

## Western Balkans

As the Western Balkans countries have also been **heavily affected by the refugee crisis**, by being transit countries (i.e. the "Balkan route"), DG NEAR stepped-up cooperation with them and quickly provided substantial financial support to mitigate its negative impacts.

### Support for political reforms

#### Albania

Albania has advanced with the **implementation of sector strategies - public finance management, public administration reform and employment and skills** - financed through IPA budget support programmes, as an effect of the introduction of the sector



approach. As a result, key improvements have taken place for example on how the government collects taxes, with **a substantial increase in revenue generation** for the national budget.

The parliament has adopted a major piece of legislation to improve **local governance**. A new territorial administrative reform has reduced the number of local governments from over 300 to 61 new municipalities. The reform aims at generating savings in the delivery of local services. The reform process, at national and local level, is well coordinated in the framework of the public administration reform strategy 2014-20, which is monitored by the Commission with intensive policy dialogue and financially supported by IPA funds.

In addition to financial assistance, **policy advice** has been provided through different tools and channels, including high level dialogues, peer reviews, technical meetings. Particular focus has been maintained on the requirements linked to the **"Five Key Priorities"**, which were identified by the EU as relevant for opening accession negotiations; these include: reform of the public administration; reform of the judicial system; the establishment of a track record on fighting organised crime and corruption; the protection of human rights.

### **Bosnia and Herzegovina**

EU assistance to Bosnia and Herzegovina has contributed to **bringing the country back on the reform path** necessary to move forward in the EU Integration process. Finally, after 7 years of Interim Agreement, the Stabilisation and Association Agreement entered into force on 1 June 2015. A comprehensive Reform Agenda was adopted in July 2015 providing for a set of socio-economic, rule of law and public administration reforms. As part of the Reform Agenda implementation and with EU support, including policy advice and technical assistance, Bosnia and Herzegovina authorities have adopted and **started to implement key strategic reforms**, notably as regards the judiciary, fight against corruption and organised crime.

However, the 2006 Public Administration Reform Strategy expired at the end of 2014 and a revised one is still to be drafted. The Justice Sector Reform Strategy was adopted in September after a long delay which had a negative impact on support for the processing of war crimes.

Unfortunately, **politicisation of EU assistance continued**. Republika Srpska did not formally engage in the IPA programming process in the absence of a functional Coordination Mechanism. Limited progress in the development of country-wide strategies prevented the extension of IPA support to key sectors such as transport, energy, agriculture and environment.

### **the former Yugoslav Republic of Macedonia**

In the course of 2015, the country has faced the **most severe political crisis since 2001**. The main opposition party boycotted the parliament for more than one year and the situation deteriorated further with revelations about intercepted communications, suggesting that the system has been undermined by **high level corruption and political interference**.

With the aim of overcoming the political crisis, the Commission followed a two-track approach. On the one hand, at the political level, **Commissioner Hahn, with the help of three Members of the European Parliament, facilitated a political agreement** in June and July 2015, which was signed by the four main political leaders. On the other hand, to address underlying systemic rule of law issues, the Commission sent a team of senior rule of law experts to the country and, in June 2015, issued a set of **'Urgent Reform Priorities'** in areas such as rule of law and judiciary, de-politicisation of public administration, electoral reform and freedom of expression.

In the November 2015 Enlargement package, the Commission stated that it is **prepared to extend its recommendation to open accession negotiations** with the country, **conditional on the continued implementation of the June/July political agreement and substantial progress in the implementation of the Urgent**

**Reform Priorities.** It stated that this issue shall be addressed again after the early parliamentary elections which the four parties agreed to hold in April 2016.

### **Kosovo**

Since its formation in December 2014, the government faced important challenges, especially since the opposition started violently obstructing parliamentary sessions in the autumn of 2015. The Kosovo government has **delivered on two major international commitments**. In August, the Kosovo Assembly agreed to the establishment of the **Specialist Chambers**, which is to prosecute cases linked to allegations of **human organ trafficking**. In addition, the government took an important step towards the **normalisation of Kosovo's relations with Serbia** by reaching an agreement with Belgrade to set up an Association/Community of Serb-majority municipalities. Kosovo's economic situation continues to pose significant challenges, notably as regards unsustainably high levels of unemployment. **Visa liberalisation** remains a key priority for Kosovo; the Commission issued its latest report on Kosovo's progress on 18 December 2015. Eight outstanding requirements remain.

### **Montenegro**

In 2015, policy dialogue took place in the framework of the accession negotiations, especially **on chapter 23 - Judiciary and fundamental rights**, and under the Stabilisation and Association Process. Particular emphasis was given to the dialogue between government and opposition, the implementation of the electoral legislation, the fight against corruption and organised crime, and media freedom. Programming activities of IPA assistance focused on developing **a sector budget support programme** in the rule of law sector (Integrated Border Management - 20 million euro) under the 2015 Annual Action Programme. As for the implementation of IPA, efforts on rule of law and public financial management have been supported.

### **Serbia**

Thanks to the steer given by the preparation of its first **sector budget support** operation, Serbia has made some **major steps** in the **reform of Public administration**, notably by adopting the relevant action plan and adopting its first PFM reform programme. During the reporting period, Serbia has undertaken major steps towards its strategic objective of EU membership, with the commitment to improving regional and bilateral ties, progress in reforming its public administration and strengthening the rule of law, with the adoption of Serbia's action plans on chapters 23 and 24, and further normalisation of its relations with Kosovo, with key agreements reached within the EU-facilitated dialogue on 25 August 2015. This allowed Member states to agree on the opening of the two first chapters (chapters 35 on "Other issues" and 32 on "Financial control") in December 2015.

### **Support for economic, social and territorial development**

With a view to supporting **economic reforms** in enlargement countries, DG NEAR has managed, in close coordination with ECFIN, an annual exercise whereby the enlargement countries have submitted **Economic Reform Programmes** (ERPs) to the Commission. These programmes set out a medium-term macro-fiscal policy framework together with key structural reforms aimed at supporting the framework and **boosting competitiveness**. The ERPs were the basis for **country-specific recommendations** jointly adopted by the EU and the Western Balkans and Turkey in the annual Economic and Financial Dialogue meeting in May 2015. These recommendations were also fully reflected in the Commission's 2015 enlargement annual reports which have provided further guidance for reform priorities.

Some of the country specific recommendations issued in the context of the ERPs have been supported by IPA programmes. In particular in **Serbia**, IPA funds were programmed in 2015 to support the implementation of two infrastructure projects in the transport sector, both part of the **Connectivity agenda**.

Furthermore, the Commission also mobilised funds to boost **the local economy in Northern Kosovo** (see example below). IPA funds also helped to **improve the everyday lives of citizens in Albania** by building water supply installations, constructing two crucial road by-passes, notably Vlora and Rrogozhina, and upgrading the Shengjin port with direct effects on the economy of the country.

In addition, in **Bosnia and Herzegovina**, a large assistance programme has supported the recovery following the devastating **floods of May 2014**. The Commission also devised a recovery programme for Albania as a response to the floods emergency (see example below).

But in spite of these achievements, much work remains to be done for the Western Balkans countries to catch up with the EU, as shown by the evolution of the indicator on GDP per capita as % of the EU level<sup>15</sup> for these countries

Example of EU-added value and results/impacts of projects or programme financed:  
**Recovery programme to support Albania following the floods emergency of January/February 2015**

As a response to the **floods emergency**, which hit **Albania** in January/February 2015, the Commission has devised a **recovery programme** of approximately 15 million aimed at increasing floods resilience with better early warning and disaster prevention mechanisms and strengthened flood protection infrastructure. The Commission **reacted quickly to the emergency** with a post-disaster needs assessment undertaken in conjunction with the government and main development partners and promptly made IPA support available. A few months after the emergency, works were already on-going to build new flood protection embankments and the most affected farmers had been compensated for the damages.

Example of EU-added value and results/impacts of projects or programme financed in  
**Kosovo**

**Northern Kosovo municipalities, inhabited by the Serbian minority, suffer from the consequences of the 1999 conflict** and related structural changes including the collapse of extensive, socially-owned mining industry which used to be the major employer in the region during the Yugoslav times. Since then, the EU has been providing assistance to address these challenges, facilitate the reconciliation process and improve the socioeconomic and environmental conditions in the region. In 2013, € 38.5 million were allocated to projects in areas including **the rule of law, infrastructure, economic development, environment and protection of cultural heritage**. EU assistance played an **essential role in kick starting the local economy**. New infrastructure has been constructed, businesses established and employment opportunities created. The EU assistance has therefore **directly contributed to the economic recovery of the region** and improvement of the living standard of the local population.

**Strengthening of the ability of the beneficiaries to fulfil the obligations stemming from Union membership**

**IPA funds** have continued supporting the alignment with the Union acquis including through **twinning<sup>16</sup> and TAIEX<sup>17</sup>**.

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<sup>15</sup> See KPI 3 in the executive summary

<sup>16</sup> Twinning beneficiaries also include Neighbourhood countries. 39 twinning projects were launched in the ENI region in 2015.

<sup>17</sup> Technical Assistance and Information Exchange instrument of the European Commission. TAIEX also provides assistance to Neighbourhood countries. In 2015, 363 activities were conducted for the ENI beneficiaries in

Through **negotiations** on the 33 chapters, **Montenegro** took steps towards adopting EU standards. IPA assistance helped Montenegro **to strengthen overall capacity for accession negotiations, transposition of the acquis and implementation of EU policies**.

Another key milestone in 2015 was the signature of the **Stabilisation and Association Agreement** (SAA) between the European Union and **Kosovo** on 27 October 2015. Following consent by the European Parliament, the SAA is expected to enter into force in the first half of 2016, at which point Kosovo will be **contractually required to begin the process of alignment with the EU acquis**.

By opening the two first chapters in the accession negotiations in December 2015, **Serbia** entered a new phase in the accession process. IPA including through twinning continued support Serbia in its process of aligning with the EU acquis, in particular strengthening law enforcement, implementing a modern public financial management and control system, and supporting alignment with the *acquis* in the agriculture and food safety sector.

**An evaluation on TAIEX**, finalized in 2015, commended this programme for being relevant and responsive and its contribution to the fine-tuning of important reforms, like in Croatia in the late pre-accession stage. The management structure is considered efficient, though cost-effectiveness is difficult to apprehend and the logistics is sometimes considered problematic.

### **Strengthening regional integration and territorial cooperation**

There was **good progress on the connectivity agenda** as illustrated by the successful Western Balkan summit in Vienna in August 2015. The countries agreed on **the regional core transport network**, the core corridors and transport projects to be implemented by 2020 as well as the appointment of corridor coordinators. On energy, the countries agreed on a **short list of priority energy community investment projects to be financed under IPA 2015**. The countries also agreed on a **priority list of 'soft' measures** in transport and energy which would increase the added value of the infrastructure investments. The **'connectivity' decision** related to the 2015 investment priorities endorsed at the Vienna Summit was **adopted in December**.

By the end of year additional grants were signed bringing to **50 the number of regional CSO (Civil society organisation) networks for advocacy and policy reforms** benefiting from financial support through the civil society facility.

In June 2015, in the framework of the regional **EU Award scheme for investigative journalism**, the EU Delegations in the enlargement countries gave awards for investigative stories published in 2014 contributing to transparency and reporting on societal issues related to abuse of power, fundamental rights, corruption and organized crime. By July awarding ceremonies were organised in all countries.

Along with the running of **cross-border cooperation** (CBC) programmes between IPA/EU countries and IPA/IPA countries, the Commission and the national authorities agreed to establish the **first CBC programmes** between the former Yugoslav Republic of Macedonia and Serbia and between Kosovo and the former Yugoslav Republic of Macedonia, which is seen as a good example of the promotion of **good neighbourly relations** and social and **economic development** between the countries.

## **1.3 Examples of economy and efficiency**

Following a decision by President Juncker on the organisation of Commission services, **DG NEAR was created on 1 January 2015** by merging DG Enlargement with the

Neighbourhood services of DG DEVCO.

➤ **Thematic expertise**

This merger was the opportunity to look at the **synergies and economies of scale** in the organisation structure of the DG, in particular **as regards thematic expertise**. In this respect, DG NEAR established **seven centres of thematic expertise (CoTE)** in 2015 within geographic or horizontal services. These centres are now fully operational and provide support on key thematic areas to geographical units and delegations both on policy analysis and formulation, as well as on project preparation. The seven CoTEs are on Rule of law, Fundamental Rights and Democracy; Economic Governance; Public Administration Reform; Migration; Security; Civil society support; Connectivity and Environment.

The creation of centres of thematic expertise has allowed staff in these centres to cover **issues related to both the enlargement and neighbourhood policies**; this has led to **reduction of duplication of similar tasks** previously covered in DEVCO F and ELARG. For example, the management of similar types of contracts (e.g. contracts with OECD SIGMA) was centralised to one task manager rather than two task managers. Also, geographical directorates have been able to some extent to free resources on coordination work in certain policy areas covered by the centres of thematic expertise (e.g. on public financial management, economic reform programmes or migration). Lastly, it contributed to building **a true DG NEAR identity**, as the centres cover both policies, and enhanced staff engagement.

➤ **Financial circuits**

To allow for its smooth functioning and to take the best from ex DG ELARG and DEVCO, DG NEAR also **revised a number of processes in 2015**. This included in particular the **financial circuits**, sub-delegation and deputation, prior approvals and derogation, for which a new set of rules entered into force on 1 May 2015.

After the merger, two different sets of procedures indeed coexisted for financial implementation: one for actions financed under the European Neighbourhood Instrument (ENI) managed until then by Directorate F of DG DEVCO and one for actions financed under the Instrument for Pre-Accession (IPA) managed by DG Enlargement.

Using the opportunity offered by the merger, these policies were developed with several objectives:

- Harmonisation and coherence of processes to be applied throughout the DG;
- Further simplification (e.g. shorter circuits),
- Clarity (e.g. clarification on application of prior approvals and deviations policy in indirect and shared management);
- And flexibility (e.g. clarification on validity of subdelegation to take account of the principle of business continuity).

## 2. MANAGEMENT AND INTERNAL CONTROL

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

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

- The Monthly financial report.
- The Management Plan 2015 of the Directorate General.
- The 2015 annual Management Plan of the Delegation.
- The reports by the Authorising Officers by Sub-Delegation made at year end (by Directors to the Director General).
- The EAMR (External assistance management report) reports produced by the delegations.
- DG NEAR annual report to DG DEVCO on the cross-sub-delegation of DG DEVCO to DG NEAR for the management of the thematic budget lines.
- The mid-year Critical Risk Warning Reports sent by Heads of Delegations to Directors and by Directors to the DG.
- Ad-Hoc generated Management information System (MIS) reports.
- The reports from authorising officers in other DGs managing budget appropriations via cross sub delegations.
- The reports on control results from management/audit authorities in Beneficiary Countries with regard to indirect management by those countries, as well as the result of the Commission supervisory control on the activities of these management/audit bodies.
- The reports on control results from management authorities for CBC programmes implemented under shared management.
- The contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level.
- The Management report to the Commissioner.

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 NEAR.

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

## 2.1 Control results

In 2015, important changes have been brought to the control system of DG NEAR, subsequent to the creation of the DG that occurred at the beginning of the year 2015 (merger). Among those important changes, are the new DG NEAR harmonised policies on financial circuits, sub-delegation and deputation, prior approvals and derogations that entered into force during the year, the establishment of an Internal Control Strategy and an Anti-Fraud Strategy, a new methodology for the calculation of the cost of control and a continuing effort to provide a comprehensive set of financial and contractual procedures for the DG.

Furthermore, the reporting structure of the DG has been completely overhauled during the year, drawing on positive elements of both former DG ELARG (as regards the AOSD reports) and DG DEVCO (EAMR reports and KPIs).

In order to ensure the adequate management of the risks relating to the legality and regularity of underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned, DG NEAR has a clear control system in place.

As a result, the Authorising Officer by Delegation has reasonable assurance that resources have been used in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

Figures: In the following pages and charts DG NEAR's portfolio for the year 2015 is presented, at the level of Decisions (Level 1), Contracts (level 2) and Payments. Contracts and Payments will be broken down by management modes.

### **Level 1 Commitments: the commitments at decision level for DG NEAR for the year 2015 have been as follows:**

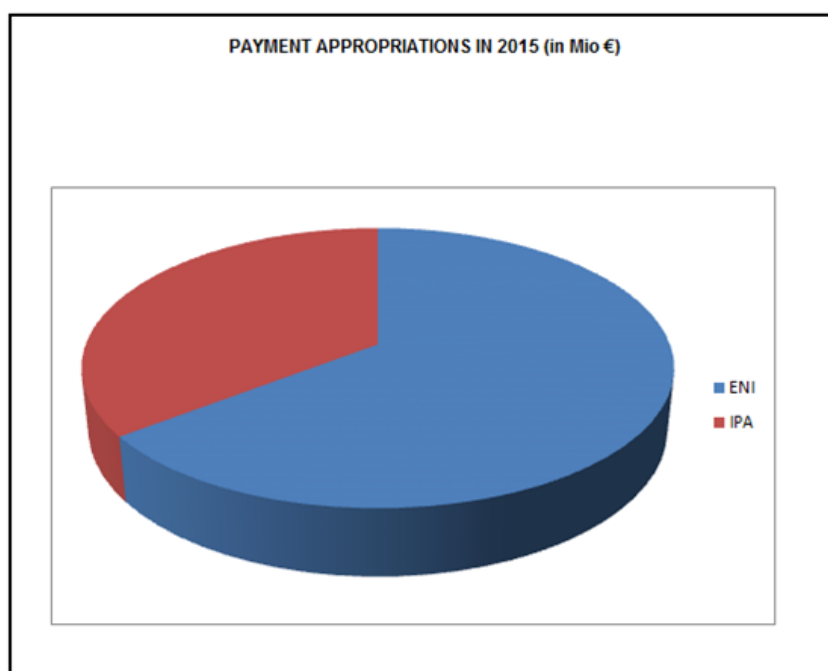
IPA-ENI COMMITMENT APPROPRIATIONS IN 2015 (in Mio €)

ENI	2364.7	62%
IPA	1466.1	38%
<b>Total NEAR</b>	<b>3830.8<sup>18</sup></b>	100%

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<sup>18</sup> In addition to this amount, 1 million euro corresponds to Commitment appropriations realised under the Partnership Instrument. The total amount for commitments for DG NEAR as reported in annex 3 is 3,831.8 million €.

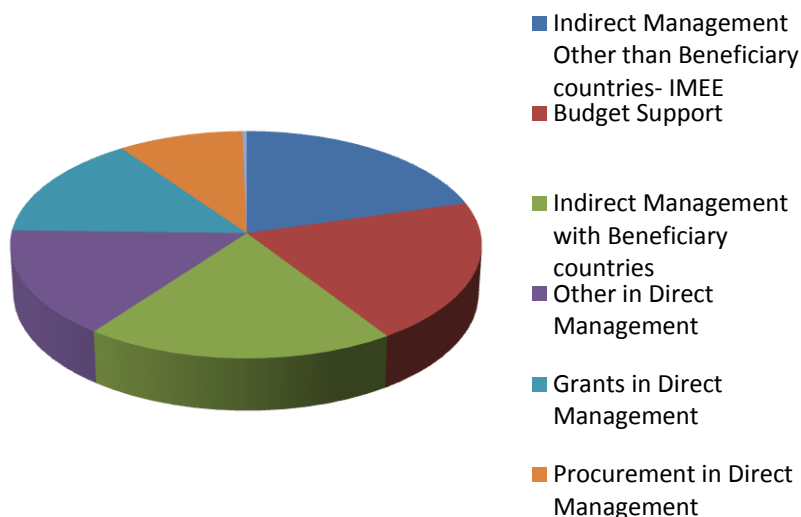




**Level 2 Commitments: the commitments at contract level for DG NEAR for the year 2015, by management modes were as follows.**

	Contracted Amount by Management Mode (EUR)	%
Indirect Management by Entrusted Entities-IMEE	777,865,723.81	20.6%
Budget Support	762,750,000.00	20.2%
Indirect Management with Beneficiary countries	732,641,751.96	19.4%
Other in Direct Management	575,300,171.58	15.2%
Grants in Direct Management	560,303,338.45	14.8%
Procurement in Direct Management	357,452,811.49	9.5%
Cross-subdelegations given by NEAR to other DGs	12,334,558.24	0.3%
Shared Management (ENPI)	0.00	0.0%
Administrative-Co-Delegation	0.00	0.0%
<b>Total Payments:</b>	<b>3,778,648,355.53</b>	<b>100.0%</b>

## Contracted Amount by Management Mode (EUR)

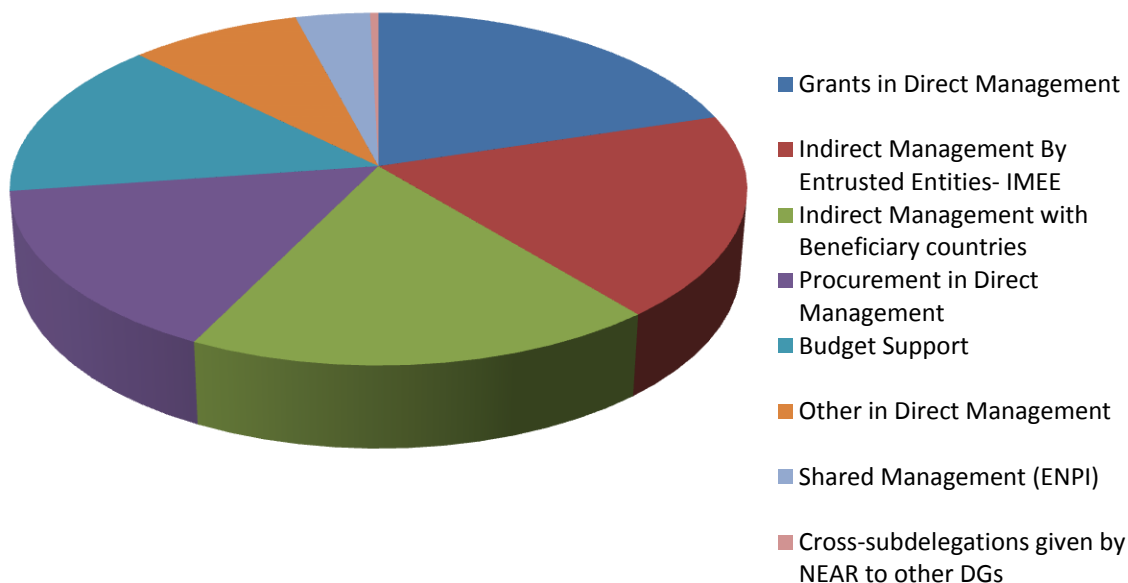


**Payments: the Payments for DG NEAR (IPA and ENI) for the year 2015, by management modes.**

	Paid Amount by Management Mode (EUR)	%
Grants in Direct Management	471,707,972.09	20.3%
Indirect Management by Entrusted Entities - IMEE	435,766,821.02	18.7%
Indirect Management with Beneficiary countries	427,870,532.02	18.4%
Procurement in Direct Management	358,682,234.82	15.4%
Budget Support	339,235,908.69	14.6%
Other in Direct Management	199,256,797.68	8.6%
Shared Management (ENPI)	86,202,693.04	3.7%
Administrative-Co-Delegation	0.00	0.0%
Cross-subdelegations given by NEAR to other DGs	9,761,789.33	0.4%
<b>Total Payments:</b>	<b>2,328,484,748.69<sup>19</sup></b>	<b>100.0%</b>

<sup>19</sup> Out of this total, an amount of 216.748 euros correspond to the Partnership Instrument managed under TAIEX and are therefore neither IPA nor ENI funds but are included in this reporting. The total for IPA and ENI is of 2,328,268,000 euros and is split between 817,630,955 for the IPA instrument and 1,510,637,045 for the ENI instrument. Detailed information regarding the amounts contracted and paid under each instrument by Management mode is included in the tables in point 2.1.7.

## Paid Amount by Management Mode (EUR)



The **overall control objective** of DG NEAR is to meet the requirements for a satisfactory performance as regards the 5 Internal Control Objectives, performance which will have an instrumental part to play in the DG's achievement of its general and specific objectives and outputs. Additionally, particular attention will be given to the analysis of potential weaknesses and their **level of materiality** (be it in quantitative or qualitative terms), making sure that no material weakness remains undetected or unaccounted for, in order to provide a sound basis for the Director's General Declaration of Assurance.

The performance of DG NEAR regarding the five internal control objectives as defined by article 32 of the financial regulation is reflected in the present section, which structure is the following:

1. Management of the risk relating to the legality and regularity of underlying transactions and conclusions on control results.
2. Effectiveness, efficiency, economy of operations, including cost of control and sound financial management.
3. Prevention, detection, correction and follow-up of fraud and irregularities.
4. Reliability of reporting.
5. Safeguarding of assets.

### 2.1.1 Management of the risk relating to the legality and regularity of underlying transactions and conclusions on control results.

- **Categorisation of DG NEAR's control environment.**

DG NEAR's operational environment is a complex and risk prone environment characterised by:

- Generally speaking, a high level of risk in the partner countries (some more than

others) due to the political, institutional, administrative and social environment. Also in recent years, important conflicts in the area (Ukraine, Syria and Libya) have presented new risks to the organisation and the development of its policies. This risk analysis must be nuanced by country.

- Geographically dispersed activities, covering some 25 countries, with, in most cases, delegations managing funds for DG NEAR.
- A high number of operations and associated financial transactions.
- Two main financial instruments to manage, along with their predecessors, each one with a different legal base and implementing rules and also other financial instruments (thematic lines), cross sub delegated from other DGs.
- A diversity of partners in the implementation of its activities (Beneficiary states, private firms, Entrusted Entities, NGO's).
- A diversity of forms and modes of financial implementation (project approach, Budget support, sector approach, indirect management with beneficiary country or with an entrusted entity, blending, trust funds, shared management under Cross Border Cooperation, etc...).

- **Types of control put in place by the DG.**

Even though DG NEAR's general control environment as described above is risk prone, the control system put in place (Delegations and HQ) aims at providing all levels of management with the necessary input for assessing whether or not they can have their own reasonable assurance that risks, in relation to legality and regularity, of the underlying transactions are adequately managed.

All operational and financial transactions are subject to tight supervision and checks based on the financial circuits of the DG, assisted by very comprehensive and detailed checklists.

On top of these ex ante controls, additional types of controls and measures are put in place in order to obtain assurance, as detailed below.

### **1) Mandatory Audits/Expenditure verifications**

Mandatory audits or expenditure verifications are explicitly required in contractual and legal documents. Consequently, they are carried out at some stage of the project cycle, either at the initiative of DG NEAR or the contractor.

DG NEAR follows the Financial Regulation, which sets out the modalities for such audits and verifications, including those cases where payment claims have to be accompanied by an expenditure verification report issued by an external auditor.

### **2) Risk-based Audits**

DG NEAR carries out a robust project-level risk assessment at the beginning of the year, which is the basis of the audit plan. The objective is to have an additional layer of controls which the AOSD should activate if he/she perceives specific risks notably in cases where mandatory audits are not required or where the results of mandatory audits are too limited in scope or are not considered satisfactory.

### **3) Residual Error Rate (RER) audits/study**

The mode of calculation of the RER depends on the instruments and management modes considered:

- it is calculated for ENI through a study performed by an external contractor.

- for IPA, DG NEAR calculates itself the rate for Direct management and relies upon ex-post controls by Audit Authorities for Indirect Management by Beneficiary Country.

Residual Errors are those that have evaded all prevention, detection and correction controls in the existing control framework. Work performed supporting the measurement of the RER is capable of identifying errors which have not been identified by other means. Please see below for additional information on the RER study and its results.

#### **4) On-the-spot checks**

DG NEAR consistently carries out on the spot checks. Such checks complement monitoring in that they ensure that contract / project deliverables are adequately verified on the spot, along with aspects of legality and regularity, for the following purposes:

- a) Under Direct management: to support the operational visa ('certified correct');
- b) Under Indirect Management by Beneficiary Country (IMBC) and Indirect Management by Entrusted Entities (IMEE): to provide supplementary assurance that the national authorities' /Entrusted Entities' monitoring and controls to supports their payment visas can be relied upon to support the Commission level operational visa on requests for payments.

In direct management, on-the-spot checks are in particular be pertinent for supplies and works contracts, when it is important to verify tangible contract deliverables (e.g. equipment, construction work etc.) or in grants and service contracts to ensure procedures are correctly understood, applied and controlled, in particular at an early stage of the implementation. On the spots checks are in this case complementary to external audits at a much lower cost. They are usually internal (carried out by staff of the Unit/EUD).

On the spot checks can include an operational and a contractual/financial dimension, and in this case involve both operational and contracts and finance staff.

#### **5) Verification missions under indirect management with International Organisations and other beneficiaries**

DG NEAR carries out verification missions on regular basis. They are based on the concept of agreed upon procedures. This means that the auditor performs procedures which the Commission has specified and listed in detail in the terms of reference. The auditor does not provide an audit opinion but a report of factual findings. Verification missions involve a review of the system of accountability for the action put in place by the International Organisation and checks on the information supporting the implementation of the Standard Contribution Agreement and the International Organisation's use of the EC funds. Verification missions must take into account any institutional compliance assessments that have already been performed for the International Organisation concerned.

#### **6) Pillar assessments**

Following the Financial regulation, DG NEAR only entrusts activities to entities that have been pillar-assessed, either by DG NEAR or other Commission services.

These entities must meet requirements with regard to seven 'Pillars' relating to the internal control system, the accounting system, an independent external audit and rules and procedures for providing financing from EU funds through grants, procurement and financial instruments and Sub-Delegation.

## **7) Entrustment audits**

Entrustment audits are concerned with delivering opinions on the design and reliability of national systems and sub-systems in the IMBC beneficiary countries; provide guidance to the competent AOSD in the context of decisions of entrustment of budgetary implementation tasks, waiver of ex ante controls, and ex post waiver control environment. An entrustment audit is a requirement of the IPA II implementing regulation.

In 2015, DG NEAR carried out entrustments audits for all five beneficiary countries, that benefit from the entrustment process.

## **8) Budget Support**

Control of budget support operations has been in particular ensured through the Financial Assistance Steering Committee (FAST). This internal NEAR Committee (which is chaired by the Director-General) validated in 2015 13 Budget Support Risk Management Frameworks (RMF) for the ENI and IPA countries. The risk management framework (RMF) is an important tool to manage risks during the cycle of budget support operations.

In addition, in 2015, eight FAST meetings took place where 21 decisions on riskier budget support payments and new commitments were taken.

## **9) Monitoring and Evaluation**

Monitoring entails the systematic and continual collection, analysis and use of management information to support effective decision-making. Monitoring is intended to be an internal and/or external (independent) activity. In 2015, 134 ENI projects and 39 IPA projects were monitored by an external contractor.

Evaluation is the systematic and objective assessment of an on-going or completed project, programme or policy, its design, implementation and results. Evaluations are usually performed by independent, external experts who scrutinize an intervention against defined criteria such as relevance, efficiency, effectiveness, sustainability, coherence and EU value added (OECD-DAC and European Commission Better Regulation evaluation criteria). DG NEAR performed in 2015 18 strategic and thematic evaluations.

## **10) Local System Validation**

Unit BUDG DGA C3 works for the Accounting Officer of the Commission and reviews both the IT and procedural aspects of the local systems of all operational Directorates General, including DG NEAR, to ensure that the information forwarded by the AODs is reliable. These reviews are carried out under the Article 68 of the Financial Regulation and Article 56 of the Rules of Application.

Although these tests are carried out primarily to provide assurance to the Accounting Officer, a positive validation report also provides a degree of assurance to DG NEAR management that the systems subject to that report are adequate in terms of design and are working as intended.

## **11) Accounting Quality Review**

DG NEAR conducts on a yearly basis the accounting quality review to ensure that its annual financial report (given in Annex 3 to the Annual Activity Report) and its contribution to the consolidated accounts of the European Commission present a true and fair view of its underlying financial activities.

## 12) **Manuals/Guidance and staff training**

DG NEAR organised on a regular basis trainings for its staff at Headquarters and in Delegations, in particular at the 2015 Cooperation days and the meetings of Heads of Operations. An important consolidation of the fundamental elements regarding financial circuits, the policy on prior approvals and deviations and the sub delegations and deputisation policy has been undertaken, through consultation with Finance and Contracts sections and senior management and entered into force on the first of May 2015. Regarding Manuals, indications on the applicable manuals have been introduced on the intranet, regarding the ex Elarg Companion and the DEVCO companion respectively. Also, manuals and templates used for programming, working with International Organisations, for award of contracts and internal procedures issued by the DG (circuits, checklists, subdelegation and deputisation policy) are available on the intranet. An action plan for information and training on financial assistance (on both aspects of planning/programming and implementation) has recently been set up to provide a more coherent approach in the DG as well as to improve the quality of the training offer.

## 13) **Cross border cooperation (CBC)/ shared management**

For CBC programmes, implemented under shared management, there are several levels of control. In terms of project/grants, PRAG procedures apply and a verification of expenditure is foreseen. Together with the annual report the Managing Authorities have to submit:

- An annual report of their internal audit service (Article 29 of ENPI CBC Implementing Rules).
- An annual report on implementation of the audit plan for the projects (Article 30 of ENPI CBC Implementing Rules).
- An external audit report (Article 31 of ENPI CBC Implementing Rules).

In relation to Cross border cooperation, in March 2015 DG NEAR launched a request for services for a desk review by external contractors to verify the compliance of the Joint Operational Programmes and make an assessment of their internal control system.

## 14) **European Union Trust Fund (EUTF)**

The contribution of EU funds to a EUTF is a case of direct management, as the Commission implements the "action" detailed in a financing decision. It does so by transferring the funds from the EU budget (or EDF) to the EUTF (Article 33 point d) of the RAP).

It is a new form of implementation and the Control Strategy is still to be developed for the EUTF, nevertheless the rules established in the manuals (ex Elarg manual, DEVCO companion and Practical Guide) are applied for the award of grants and contracts.

### • **Categorisation of the different control environments.**

Additionally, the controls in place are adapted to the different control environments they relate to (taking therefore into account the nature of the payments concerned). These 5 main control environments can be categorised as follow:

- Direct Management Procurements**, that covers contracts awarded through tender in the fields of services, supplies of works.
- Direct Management Grants**, that concerns the grant contracts awarded generally



through call for proposals.

**-Direct Management Budget Support**, that deals with Budget support activities (i.e. direct transfers to the national budget of partner countries).

**-Indirect Management by Beneficiary Country (IMBC)**, that deals with activities undertaken by partner countries. Although the same terminology is used both for the IPA and ENI instrument, the modus operandi is different in each case.

**-Indirect Management by Entrusted Entity (IMEE)**, which refers to activities undertaken by International Organisations, International Banks and Member States agencies.

On top of these main control environments, and to have an exhaustive view of the budget under DG NEAR's remit, there are also activities that are implemented under **shared management** (Cross Border Cooperation under the ENI instrument), and budget that is **cross sub delegated** to other DGs.

Please find below an overview of the **controls and sources of assurance for each of these 5 control environments**.

Control Environment	TYPE OF ENTITY	TYPE OF CONTRACTS	SOURCES OF ASSURANCE AND POTENTIAL CONTROLS
Direct management-Procurements	Private firm. Award of contract usually through a tender procedure.	Service, Supply or Works Contracts.	<p><b>Services:</b> Narrative Reports+ Expenditure verifications + 10 % retention and prefinancing guarantee under certain conditions.</p> <p><b>Supplies:</b> Final payment or 60% of the total amount made upon delivery + performance guarantee and prefinancing guarantee.</p> <p><b>Works:</b> Supervision contract, narrative progress reports, prefinancing guarantee and performance guarantee.</p>
Direct management-Grants	Non-profit organisation (NGO or Foundation or a public institution). Award of a Grant usually through a call for proposals. Also, for a pillar assessed grant the type of entity are the same as the IMEE (see below). Direct award possible for pillar assessed grants.	Grants Contracts or pillar assessed Grants.	<p><b>Grants:</b> Narrative Reports+ Expenditure verifications under certain conditions.</p> <p>In the case of pillar assessed grant: previous pillar assessment.</p>
Direct management-Budget support	Partner Country. The Financing Agreement is usually signed with a line Ministry or Secretariat (Public institution).	Financing Agreement.	<b>Budget Support:</b> Assurance lies on the conditionality of payment+ confirmation of receipt and exchange rate by the beneficiary. Also Budget support risk management framework.

Indirect Management with Beneficiary Country	The partner country or an entity designated by it.	Financing agreement	<p><b>For IPA IMBC:</b> the Assurance lies on the Entrustment process and conferral of management process + ex ante and ex post controls realised during the award process and payments processes.</p> <p><b>For ENI IMBC:</b> the Assurance lies on the use of detailed EC procedures for indirect Management, notably on programmes estimates, ex post verification of expenses, ex ante visas above certain thresholds and payments managed centrally above certain thresholds.</p>
Indirect Management with Entrusted Entity	<ul style="list-style-type: none"> <li>- An agency of a Member State or an EFTA country (Iceland, Liechtenstein, Norway, Switzerland) or, exceptionally, of a third donor country;</li> <li>- An international organisation;</li> <li>- The European Investment Bank and the European Investment Fund; or</li> <li>- an EU specialised (traditional/regulatory, hence not executive) agency.</li> </ul>	Delegated Agreement	<p><b>IMEE:</b> The Assurance lies on the Pillar assessment process, the narrative reporting, and possible verifications missions.</p>

- **Control results in relation to the RER**

The Residual Error Rate (RER) is the ratio of the value of ineligible expenses remaining undetected to the total amount of final payments carried out in a year. A 'residual error' is understood to be errors which remain once all possibilities for their detection have been exhausted.

Measurement of the RER enables DG NEAR to evaluate the effectiveness of its overall control framework, and forms an important part of the information at the Director General's disposal when signing the Declaration of Assurance in the Annual Activity Report.

The Director General currently relies on a range of controls implemented by DG NEAR when making his annual declaration of assurance. These controls make an important contribution to the detection and correction of errors, and so the implementation of a RER methodology does not replace them.

The control methodology used for the calculation of the RER under ENI (all management modes) and under IPA (Direct Management and Indirect Management by Beneficiary Country), is explained in detail in Annex 11<sup>20</sup>.

This methodology – which has been subject to a limited review by the Internal Audit Service – covers over 90% of the expenditure managed by the DG (as detailed in the tables below). The remaining 10% is covered by other sources of assurance explained further (pp. 43-45)

	IPA- Paid Amount by Management Mode (EUR)	RER for
Indirect Management with Beneficiary countries	<b>302,938,970.35</b>	<b>302,938,970.35</b>
Procurement in Direct Management	<b>185,809,746.44</b>	<b>185,809,746.44</b>
Grants in Direct Management	<b>181,956,263.58</b>	<b>181,956,263.58</b>
Indirect Management Other than Beneficiary countries- IMEE	<b>126,043,356.02</b>	
Cross-sub delegations given by NEAR to other DGs	<b>9,594,728.92</b>	
Other in Direct Management	<b>8,312,690.07</b>	<b>8,312,690.07</b>
Budget Support	<b>2,975,200.00</b>	
<b>Total Payments:</b>	<b>817,630,955.38</b>	<b>679,017,670.44</b>

	ENI paid amount by Management mode	RER for
Budget Support	<b>336,260,708.69</b>	<b>336,260,708.69</b>
Indirect Management Other than Beneficiary countries- IMEE	<b>309,723,465.00</b>	<b>309,723,465.00</b>
Grants in Direct Management	<b>289,751,708.51</b>	<b>289,751,708.51</b>

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<sup>20</sup> The methodology for ENI has been elaborated by an external consultant.

Other in Direct Management	190,944,107.61	190,944,107.61
Procurement in Direct Management	172,655,740.44	172,655,740.44
Indirect Management with Beneficiary countries	124,931,561.67	124,931,561.67
Shared Management (ENPI)	86,202,693.04	
Cross-subdelegations given by NEAR to other DGs	167,060.41	
<b>Total Payments:</b>	<b>1,510,637,045.37</b>	<b>1,424,267,291.92</b>
<b>Grand total (IPA+ENI)</b>	<b>2,328,268,000.75</b>	<b>2,103,284,962.36</b>

**Ratio**

**90.33%**

For the year 2015, the following RERs are available for this population:

*- A RER rate for IPA under Direct Management*

The value of this RER is 1.62%. The rate is calculated on the basis of ex-post controls carried out by the Commission on a statistically representative sample of transactions. The methodology in place includes quantification of errors relating to procurement and award, as well as of errors relating to payments. To conclude whether errors identified in relation to procurement should be quantified or not, the auditors apply the criteria set out in the European Court of Auditors' Guidelines for quantification of procurement errors.

*- A RER rate for IPA under IMBC*

Regarding the rate for IPA IMBC, in 2015, DG NEAR applied a new methodology which was to rely on Audit Authorities from beneficiary countries following detailed entrustment audits. DG NEAR notes that specifically in 2015 (transition year), the size of the populations in each of the countries was not yet sufficiently large to allow for statistically representative sampling, and non-statistical random sampling was used instead<sup>21</sup>. This methodology has yielded a relatively low RER (0.02%). In order to provide a more prudent assessment, and to counterweigh the potential randomness effect, DG NEAR has decided to apply a more conservative calculation, based on historical RERs for this management mode and to express it as a range. The result for this year's RER for IPA IMBC is therefore a range of 0.02% - 1.84%. For the calculation of the amount at risk, a central value of 0.91% has been used.

In 2016, DG NEAR intends to further fine-tune its approach to calculating the RER in this control environment, as well as offer continued support to the audit authorities.

Regarding the actual capacity of the Audit Authorities on which the DG is relying for its assurance, it should be noted that in 2015 DG NEAR carried out comprehensive entrustment audits for the implementation of IPA II of all the national authorities concerned.

The aim of an entrustment audit is to provide DG NEAR's management with an opinion on the fulfilment of the requirements and conditions for the entrustment of budget implementation tasks for the programme(s) which is/are the subject of the request.

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<sup>21</sup> As per COCOF methodology (used for Structural Funds by EU MS Audit Authorities), National Audit Authorities are required to use statistical sampling, and where not possible due to the size of the population, they are authorised to apply non-statistical random sampling.

Where, specifically Audit Authorities are concerned, the aim is to assess the seriousness of certain risks including: risks linked to the **Institutional requirements**, risks linked to the **Legal framework requirements** and risks linked to **Procedural requirements**. Ultimately, the aim is to assess whether the Audit Authorities' work and related annual audit activity reports (AAR) and annual audit opinions (AAO) provide reasonable assurance on the proper functioning of the management and control systems in the IPA countries for the Commission to rely on the work of the Audit Authorities. This serves to gain assurance for the AAR.

The results of the entrustment process for the Audit Authorities concerned are the following:

**Turkey:** No findings were issued following the entrustment audits of last year by DG NEAR systems audit team. The assessment of the annual audit activity report and annual audit work plan was that work of the audit authority can be relied on for the calculation of the error rate.

**Former Yugoslav Republic of Macedonia:** No findings were issued following the entrustment audit of last year by DG NEAR systems audit team. The assessment of annual audit activity report and annual audit work plan was that work of the audit authority can be relied on for the calculation of the error rate.

**Croatia:** A limited review of the work of the audit authority deemed it acceptable.

Concerning the IPA IMBC RER results for this year, the historical perspective is that this rate has been fluctuating over the years between an upper and lower limit. Please see table below.

**Progression and range of results reported over the previous years**

EXTRAPOLATION RER	IPA IMBC <sup>22</sup>	
	AAR	RER USED IN AAR
AARs 2015	2015 AAR	0.02%
2006 PROGRAMME YEAR	2014 AAR	2,67% <sup>23</sup> (0,49%)
	2013 AAR	0.08%
2005 PROGRAMME YEAR	2012 AAR	1,84%
2004 PROGRAMME YEAR	2011 AAR	1,16%
2003 PROGRAMME YEAR	2010 AAR	0,44%
2002 PROGRAMME YEAR	2009 AAR	0,64%

UPPER LIMIT	1.84%
LOWER LIMIT	0.02%
AVERAGE	0.67%
MIDDLE VALUE	0.49%
CENTRAL VALUE	0.91%
RANGE	1.82%

<sup>22</sup> Figures reported in AARs until 2014 are calculated on the basis of the previous methodology while the figure for the AAR 2015 is calculated on the basis of the current methodology of the RER for IPA IMBC.

<sup>23</sup> Please note that the figure for 2014 has been corrected to exclude one procurement error which was later found to be a non-error. As a result the rate changed from 2.67 to 0.49



On the basis of the tables presented above, the resulting range of RER is 0.02% to 1.84%. Considering the fluctuation of the rate over the years, and on the basis of the statistics presented above, the central value of the RER is of **0.91% which is the rate that we will be retaining for the calculation of the amount at risk.**

*- A RER rate for ENI, for all management modes*

The results of the RER study for the year 2015 for ENI gave a figure of **0.64 %** (this figure is only for ENI geographical, the rate is 1.31% including thematic lines sub delegated by DEVCO to NEAR, which are not part of this report), below the materiality threshold.

- **Sources of Assurance as regards the IMEE management mode under IPA**

The RER rate for IPA in 2015 does not cover the IMEE management mode. This situation will be dealt with in 2016 as this management mode will be covered by the new general methodology for RER for IPA (which will be aligned with that for ENI). In 2016, ENI for all management modes and IPA (Direct Management and Indirect Management by Entrusted Entities) will be covered by the same RER methodology. Only IPA IMBC will remain separate and be covered by a different RER methodology, due to the particularities of this management mode.

As regards the source of assurance for the IMEE management mode in 2015, these are threefold: (1) Pillar assessments, (2) regular reporting by the entrusted entities concerned and on the spots checks (3) verification missions.

*- Pillar assessment conclusions*

Following the entry into force of the new Financial Regulation introducing the new management modes in 2014, a strategy for launching re-assessments of international organisations (IOs), as well as national bodies has been introduced in collaboration with DEVCO. During 2015, DG NEAR has been involved in 3 entrustment procedures or follow-up: for the Council of Europe Development Bank (CEB), the Regional Cooperation Council (RCC) Secretariat, as well as the Northern Ireland Co-operation Overseas (NICO).

The compliance assessments followed up by other DGs and related to some other International organisations, such as the Organisation for Economic Cooperation and Development (OECD), the European Bank for Reconstruction and Development (EBRD), the Kreditanstalt für Wiederaufbau (KfW), and the World Bank Group (WBG), have also been used to reinforce monitoring and control in those areas where weaknesses were identified.

*- Regular reporting and on the spot checks*

In addition to monitoring project visits by task managers and Steering Committee reports, DG NEAR receives regular reporting in accordance with the contractual relations with the different entities which vary from annual or semi-annual progress reports, interim, and final report, and annual audit reports by external auditors. As per contract conditions, and following procedures, payments to entrusted entities are submitted to thorough ex-ante checks. Payments are made on the basis of narrative and financial reports submitted by the entrusted entities.

*- Verification missions*

On the basis of the risk assessment analysis realised in the framework of the establishment of the Audit Plan of the DG for each year, Headquarters and EU Delegations may decide to launch a verification mission of a given entrusted entity (please see the list of controls above for more information on the verification missions).

In 2015, 4 verification missions have been launched under IPA: 2 in Turkey, 1 in fYRoM and 1 in Bosnia and Herzegovina.

**On the basis of the above, no elements with sufficient materiality (both in quantitative or qualitative terms) which would affect the Declaration of assurance have been reported for this particular management mode under IPA.**

- **Sources of assurance on Cross sub delegated lines to other DG**

The figures in relation to Cross sub-delegated lines to other DGs are presented below.

Cross-delegated implementation 2015, in €				
To DG	Contracted	Paid	AAR	Assurance
EAC	0.00	51,792.30 <sup>24</sup>	Ares(2016)1102611	Yes
ECHO	3,759,583.78	1,494,507.18	Ares (2016)1527435	Yes
ENV	75,000.00	1,457,000.50	Ares(2016)756368	Yes
ESTAT	8,076,708.36	6,576,974.57	Ares(2016)408609	Yes
GROW	7,374.29	446.29	Ares(2016)100689	Yes
JRC	79,658.43	35,741.07	Ares(2016)638552	Yes
MOVE	0.00	86,087.72	Ares(2016)592344 Ares(2016)1514376	Yes
NEAR A2	270,000.00	0.00	Funds not use	Funds not used
OLAF	3,000.00	2,696.95	Ares(2016)1511437	Yes
REGIO	0.00	35,369.28	Ares(2016)1006925	Yes
RTD	31,236.48	0.00	Ares(2016)422428	Yes
SCIC	9,996.9	15,209.32	Ares(2016)1507046	Yes
TAXUD	22,000.00	4,829.64	Ares(2016)583251	Yes
<b>Total</b>	<b>12,334,558.24</b>	<b>9,760,654.82</b>		

**On the basis of the assurance provided by other DGs in the use of these funds, no material weakness has been detected in relation to the Cross sub delegated budget lines.**

A prudent and conservative estimate for the determined error rate for the DGs that receive cross sub delegation, can be estimated can between 0 and 1.99%, based on the assurance provided by these DGs to DG NEAR. Taking this maximum figure of 1.99% and the amount of payments made in the year by these cross sub-delegated DGs, we obtain an amount at risk of **194.259 euros**<sup>25</sup>

<sup>24</sup> EAC - Figure reported is 52,926.81 – NEAR B3 made a late interest payment using C4 NEAR/EAC funds (late interest contract 2015/363-086).

<sup>25</sup> Taking into account the total official figure for payments reported of € 9,761,789.

- **Conclusions on control results and determination of the amount at risk**

The total amount at risk for the whole DG is of €26,101,158 which corresponds to an Average determined Error Rate (AER) for the whole DG of 1,12 % (ratio of the total amount at risk over the total amount paid), and which is below the materiality threshold.

This amount is established on the basis of RER rates for each instrument and management mode. In the case of 90.33% of the expenditure, the RER is based on ex-post checks and controls performed by the Commission or Audit Authorities of partner countries. For the remaining 9.67%, a conservative rate of 1.99% is used as explained above.

The RER rates give the rates per control environments once all the controls and possible corrections are finalised. In order to get the estimate of the determined error rate at the time of payment, the Recovery Orders realised for each control environments have to be factored in, and added, in order to obtain this estimate. Recovery Orders due to ineligible expenses solely were considered for that purpose. The results and details of this calculation are presented below.

The calculations for the determined error rate (DER) and the amount at risk are detailed below.

<b>IPA</b>		
	IPA DM Procurement and Grants	IPA IMBC
Payments	<b>376,078,699</b>	<b>302,938,970</b>
RER	<b>1.62</b>	<b>0.91</b>
Amount/RER	<b>6,092,475</b>	<b>2,756,744</b>
Amount of RO	<b>314,030</b>	<b>1,470,278</b>
Total, amount at risk	<b>6,406,505</b>	<b>4,227,022</b>
DER	<b>1.70</b>	<b>1.40</b>

<b>ENI</b>	
<b>Payments (DM+IMBC+IMEE)</b>	<b>1,424,267,290</b>
<b>RER Rate</b>	<b>0.64</b>
<b>Amount/RER</b>	<b>9,115,311</b>
<b>Amount/RO</b>	<b>1,875,159</b>
<b>Total, amount at risk</b>	<b>10,990,470</b>
<b>DER</b>	<b>0.77</b>

Additionally, for the 3 remaining segments (IPA IMEE, ENI shared management and IPA BS) we consider that assurance can be drawn from other sources and that the financial errors should be below the materiality threshold. The figure of 1.99 % is therefore the most prudent and conservative figure that can be used for the calculation of the amount at risk for these activities.

A detailed overview of the residual error rates and determined error rates (RER/DER) results and amount at risk per control environment is presented in the tables below.

The results for each of the financial instruments are the following:

- For ENI, the amount at risk is of 12,709,227 euros, corresponding to 0.84% of the payments made under ENI.
- For IPA, the amount at risk is of 13,391,931 euros, corresponding to 1.63% of the payments made under IPA.

The total amount at risk for the whole DG is thus **€26,101,158** which corresponds to an Average determined Error Rate (AER) of **1,12%**.

This is the AOD's best, conservative estimation of the amount of expenditure authorised during the year not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

This expenditure will be subsequently subject to ex-post controls and a sizeable proportion of the underlying error is likely to be detected and corrected in successive years. The estimate of the corrective capacity of DG NEAR is complicated by the fact that there are no historical data, because 2015 was the first year of operation of the DG. We are therefore basing the calculation on the amount actually recovered as a result of control measures (no simple recoveries of balance) in the course of 2015 expressed as a percentage of the amount paid in the same year. We consider this to be the best estimate possible in this situation. This corresponds to 0.16% of payments, i.e. €3,659,466. This is the amount of errors that the DG estimates to identify and correct from controls that it will implement in successive years.

As described above, the internal control system is in place and functioning. A complete and exhaustive view of the DG portfolio has been presented as well as a description of the controls in relation to the 5 control objectives and the different control environments, as categorised.

No reputational event or unmitigated Risks which could have a significant impact on the assurance have been identified. Risk analysis has been realised at mid-year through Critical Risk Warning Reports and also at the end of the year in the framework of the drafting of the Annual Management Plan (Annexe 4 of the AMP).

IPA							
	DM procurements (Services, Works, Supplies)	DM Grants	DM Other	DM Budget Support	IMBC	IMEE	Cross sub delegated to other DGs
Contracts in Euros	156,322,591	236,271,177	4,043,415	0	574,407,513	148,047,415	12,049,224
Payments in Euros	185,809,746	181,956,263	8,312,690	2,975,200	302,938,970	126,043,356	9,594,729
Residual Error Rate (RER)	1.62%			NA	0.91%	NA	NA
Determined Error Rate (DER)	1.70%			1.99%	1.40%	1.99%	1.99%
Amount at risk in Euros	6,406,505			59,206	4,227,022	2,508,263	190,935

ENI								
	DM procurement s (Services, Works, Supplies)	DM Grants	DM Budget Support	DM Other	IMBC	IMEE	Shared management	Cross Sub delegated to other DGs
Contracts in Euros	201,130,220	324,032,161	762,750,000	571,256,756	158,234,238	629,818,308	0	285,334
Payments in Euros	172,655,740	289,751,708	336,260,709	190,944,107	124,931,561	309,723,465	86,202,693	167,060
Residual Error rate (RER)	0.64%						NA	NA
Determined Error rate (DER)	0.77%						1.99%	1.99%
Amount at risk in Euros	10,990,470						1,715,433	3,324

### **2.1.2 Effectiveness, efficiency, economy of operations, including cost of control and sound financial management.**

- ***The 3 E's in the DG***

As regards this particular objective, DG NEAR aims to ensure:

- that the results and objectives set by the policies and programmes/projects of the DG are attained (effectiveness).
- that these objectives and results are obtained using the resources available in the best way possible (efficiency).
- that the results are achieved at the lowest possible costs (economy).

The objective of effectiveness, efficiency and economy is reached through the constant effort of the DG staff (Delegations and Headquarters) at all levels of the project/programme cycle: planning/ programming (identification, formulation and adoption), award of contracts, execution of contracts, and evaluation of contracts.

At the annual planning/programming stage: Guidelines are available on the preparation of programmes, which are updated annually as appropriate (steps leading to adoption of financing decisions, annotated templates and checklists). At an early stage, a dialogue is set up with the partner countries/beneficiaries to discuss the objectives of the future actions and their related needs and capacities. During the identification/formulation stage, the staff of the DG/Delegations also ensures that objectives are clearly defined, take in due account past evidence and are achievable according to the logical framework approach (i.e. definition of the hierarchy of objectives: inputs, activities, results, specific objective and overall objective etc.). The most adequate management mode and type of financing should also be identified during that phase. Quality assurance is ensured at different stages, the cornerstone of the process being the Quality Review exercise (desk checks and meetings chaired at Director level) that provides peer reviews on programme proposals. Other quality checks are performed before the formal Quality Review (by Delegations and operational units in Headquarters) or after, in particular prior to the launch of inter-service consultations or committee meetings (by contract and finance units and other horizontal units).

Budget support operations involve standard checklists for the quality review at the identification phase (where applicable) and the planning/programming phase. Controls focus particularly on the judgement of the fulfilment of the four general eligibility criteria for budget support, by the country in question, on identification and mitigation of risks, and on the formulation of the specific conditions for the operation. New IPA budget support programmes are also subject to review by the Financial Assistance Steering Committee (FAST) after the identification phase, as well as at the end of the formulation. For ENI programmes, the FAST involvement is determined during the annual process of validating the Risk Management Frameworks for budget support countries.

At the award and contracting stage: The DG staff ensures that the award goes to the most advantageous offer to guarantee the best use of resources, following established procedures. Also, at the contracting stage, the staff of the DG makes sure that the contract is compliant with established procedures.

During the execution/implementing stage: the staff of the DG monitors closely the execution of the projects through on the spot missions, and regular reporting as per contract conditions. Payments are made on the basis of narrative reports, financial



reports, and where required, expenditure verification reports. Any risks related to the running of contracts are also assessed annually. Both monitoring (including ROM) and evaluations are planned as appropriate, during the life cycle of the project, and after the end, to look after impact and sustainability aspects. Reporting, mostly focused on results, is also obtained through monitoring. Headquarter staff conducts regular supervision missions in Delegations to obtain additional assurance on the effectiveness and efficiency of the devolved tasks.

Under budget support, the transfer of funds may only be made after the agreed conditions for payment have been met. Budget support disbursement files involve a process of operational checks at headquarters, and a visa by the AOSD. Guidelines have been established to guide this process. All budget support disbursements in IPA countries are also subject to a review by the FAST committee. For ENI disbursements, the FAST involvement is determined during the annual process of validating the Risk Management Frameworks for budget support countries.

As regards the effectiveness, efficiency and economy of operations, please refer also to the first part of this report that deals with the achievement of the general and specific objectives of the DG.

- ***Management of Human resources in the DG***

2015 saw the creation of the new DG through a merger of DG ELARG and DEVCO.F. This resulted in almost doubling the number of staff managed by the DG, making NEAR the 4th largest DG in the Commission. The merger also posed a number of logistical, organisational and cultural challenges, some of which persist. The basic reorganisation was implemented in 2 stages:

The first reorganisation on 1 January 2015 consisted in transferring the Turkish Cypriot Community (TCC) Task Force out of the DG to REGIO, transfer of the Ukraine Support Group from DEVCO, transfer of the units from Directorate DEVCO.F (Neighbourhood), creation of new Directorates NEAR.B (Neighbourhood South), NEAR.C (Neighbourhood East) and NEAR.D (Western Balkans) and transfer of ELARG and DEVCO.F geographical, regional programmes and finance and contracts units to these respective directorates. The reorganisation also led to the transfer of unit ELARG.B3 (Turkey) to Directorate NEAR.A as NEAR.A5 and a limited transfer of specific functions between units in Directorates NEAR.A and E. In addition, following the decision of the College to re-centralise the internal audit function as of 1 March 2015, the staff of NEAR.IAC were re-deployed internally.

The second reorganisation effective on 1 May 2015 led to the optimisation of the organisational structure, by merging a number of geographical units in the Western Balkans Directorate and creating an additional Geographical unit in the Neighbourhood South. This reorganisation also implemented the new financial circuits of the DG, with the creation of an IPA specific contracts and finance unit within the Western Balkans Directorate. Finally, it led to the creation of 9 centres of thematic expertise. This reorganisation involved the re-deployment of 124 staff & posts (72 officials, 40 contract agents and 12 other external staff) and the creation of 17 new contract agent posts. In addition, 9 Heads of Unit and deputy Heads of Unit were transferred in the interest of the service.

2015 also marked the emergence of new high political priorities, mainly related to the refugee crisis and very substantial financial envelopes that DG NEAR was entrusted to manage in this relation. While external staff for implementation will become gradually available as the respective trust funds receive appropriate contributions, there are also acute needs for statutory staff. DG NEAR has made three requests for significant reinforcement of staff from central services. The latest request for reinforcement was reiterated in the context of the redeployment exercise and a reply is pending

- **Assessment of the efficiency and cost effectiveness of the controls.**

In order to reach a conclusion on the cost effectiveness of controls, a new methodology has been implemented, starting 2016, that follows DG BUDG Guidelines. First a complete list of personnel was obtained, and the cost of personnel per Full time equivalent (FTE) for the different categories of personnel existing was established. Then, the time spent by each unit on control activities was assessed through a consultation process, based on the definition of control as per article 2 of the Financial Regulation: " **"control" means any measure taken to provide reasonable assurance regarding the effectiveness, efficiency and economy of operations, the reliability of reporting, the safeguarding of assets and information, the prevention and detection and correction of fraud and irregularities and their follow-up, and 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. Controls may involve various checks, as well as the implementation of any policies and procedures to achieve the objectives described in the first sentence**". This definition of "Control" and the activities in relation to it have also been detailed further in the Internal Control Strategy (Annex 9 to the Strategic Management Plan) and in this document.

Units were then divided into 3 categories: **Direct costs, Indirect Costs and Overhead Costs**. Thus the cost of control in terms of personnel was obtained. This was added to other costs of control (Audits and Evaluations). Finally, the cost of control per management modes is broken down on the basis of the volume of transactions (contracts and payments) of each management mode.

Based on the estimation done in Annex, the total cost of control for the year 2015 for DG NEAR is of **83,858,574 euros** which can be detailed in the following way:

Cost Human resources in €	Cost of Evaluations in €	Cost of Audits in €
<b>74,880,616</b>	<b>5,172,226</b>	<b>3,805,732</b>

In relation to the overall spending of the DG, the costs of controls represent a percentage of **3.6%**, below the fixed target of 5%. Since it is the first year that this new methodology is implemented and this objective as a percentage is set, the historical perspective is missing. Nevertheless, on the basis of the result obtained, one can conclude on the cost effectiveness of these controls.

As regards the analysis of the cost versus the financial benefits of control, the total ineligible expenditures detected by ex-ante controls are of **68,822,747 euros** (see table below). To this amount must be added the Recovery Orders linked to ineligible expenditures already mentioned above in section 2.1.1 (**3,659,456 euros**) to get to the total figure of **72,482,213 euros** for the financial benefits of control. The financial benefits of control are in any case difficult to grasp completely and do not include other benefits of a non-financial value.

	EU Budget					
	Number of invoices	Gross Amount	Not Eligible	Credit Note	Total Not Eligible	% Not Eligible
Grants in Direct Management	862	288,520,388.78	964,371.36	0.00	964,371.36	0.33%
Budget Support	40	401,874,822.48	62,638,913.79	0.00	62,638,913.79	15.59%
Procurement in Direct Management	1,676	381,327,700.78	0.00	2,967,825.22	2,967,825.22	0.78%
Indirect Management with International Organizations	108	178,274,636.24	504,730.43	0.00	504,730.43	0.28%
Indirect Management with EIB and EIF	3	426,997.39	0.00	0.00	0.00	0.00%
Indirect Management with Development Agencies	24	28,731,130.69	0.00	620.44	620.44	0.00%
Indirect Management with Beneficiary countries	262	221,603,906.95	113,896.33	674,478.71	788,375.04	0.36%
Cross-subdelegations given by NEAR to other DGs	462	80,134,048.76	861,208.91	96,159.58	957,368.49	1.19%
Horizontal codelegations received	5	13,332.90	-12,816.75	0.00	-12,816.75	-96.13%
Shared Management (ENPI)	2	30,820.82	0.00	0.00	0.00	0.00%
Administrative expenditure under EDF and Heading 4 (fully managed by NEAR)	183	3,817,003.32	0.00	8,804.40	8,804.40	0.23%
Administrative expenditure under Heading 5	182	253,915.86	0.00	4,555.07	4,555.07	1.79%
Other payments	53	192,329,135.43	0.00	0.00	0.00	0.00%
<b>Sum:</b>	<b>3,860</b>	<b>1,777,337,840.40</b>	<b>65,070,304.07</b>	<b>3,752,443.42</b>	<b>68,822,747.49</b>	<b>3.87%</b>

The split of cost of control by management mode has been realised using the amount of payments made for each of the management mode and the number of contracts for each of the management modes, with a weighting 80/20 (80 for the payments and 20 for the number of contracts concerned).

The results are shown in the table below. The highest costs of control are obtained for the management modes 'Procurement in Direct Management' and 'Grants in Direct Management', due to a combination of a large amount of payments and a large amount of contracts, time consuming in terms of control of activities. The Management modes IMEE and IMBC present both more moderate cost of control, linked with a more limited number of contracts. At the end of the spectrum, Budget Support activities are the less consuming in terms of cost of control, in line with its mode of implementation.

	<b>Paid Amount by Management Mode (EUR)</b>	<b>in %</b>	<b>Number of Contracts</b>	<b>in %</b>	<b>Weighting 80/20 in %</b>	<b>Split of Cost of Control By Management mode</b>
Grants in Direct Management	471,707,972.09	21.13	505.00	28.06	22.51	18,880,143.13
Indirect Management Other than Beneficiary countries- IMEE	435,766,821.02	19.52	93.00	5.17	16.65	13,961,258.41
Indirect Management with Beneficiary countries	427,870,532.02	19.17	148.00	8.22	16.98	14,236,445.32
Procurement in Direct Management	358,682,234.82	16.07	973.00	54.06	23.66	19,844,384.55
Budget Support	339,235,908.69	15.20	26.00	1.44	12.45	10,436,240.21
Other in Direct Management	199,256,797.68	8.93	55.00	3.06	7.75	6,500,102.38
Total:	<u>2,232,520,266.32</u>	100.00	<u>1,800.00</u>	100.00	100.00	<u>83,858,574.00</u>

In relation to the Key Performance Indicators (KPIs) that deal with sound financial management and Efficient Use of Resources that were introduced for the first time this year for DG NEAR, the results, for DG NEAR as a whole, are stated below.

<b>Nr.</b>	<b>KPI Name</b>	<b>Targets /Benchmarks for 2015</b>	<b>KPI results at 31/12/2015 for DG NEAR</b>
<b>Sound Financial Management and Efficient Use of EC Resources</b>			
1	Accuracy of initial annual financial forecast for payments	Between 90% and 110%	99.11%
2	Accuracy of initial annual financial forecast for contracts	Between 90% and 110%	104.52%
4	RAL absorption period	Less than 4	5.0
7	Reduction of Old Pre-financing	At least 25%	15.40%
8	Expired Contracts as a % of the contract portfolio	No more than 15%	13.32%
9	Reduction of Old RAL	At least 25%	25.92%
10	% of payments paid within the EC internal target of 30 days.	At least 66%	54.81%
20	Ineligible amounts identified by ex-ante controls as a % of amount claimed	At least 2%	3.88%

These results are globally satisfactory except for the following matters, where additional efforts are needed:

-The **RAL absorption period** is missing the target by one year on average. Particular efforts will be deployed to meet the target in the following years.

-The Reduction of **Old-Prefinancing** is not proceeding fast enough.

-The percentage of payments paid within the **internal deadline** set is also below target.

On the positive side, one can reckon that **forecasts are met** (for payments and contracts), that the **old RAL is under control** and that **controls are really effective in identifying ineligible amounts** (almost twice the target set).

As regards Audits and the implementation of the Audit plan, the results in 2015 for DG NEAR as a whole are the following:

Nr.	KPI Name	Targets /Benchmarks for 2015	KPI results at 31/12/2015 for DG NEAR
Efficiency of Audit Systems			
21	% implementation of the Annual Audit Plan: year N	At least 60%	> 60%
22	% implementation of the Annual Audit Plan: year N-1	At least 85%	> 90%
23	% implementation of the Annual Audit Plan: year N-2	At least 95%	> 95%
24	Ineligible amounts identified by audits as a % of the audited amount	At least 2%	1.80%

As shown in the table above, the overall implementation of the Audit Plans and ineligible amounts identified by audits, at the level of the DG, meet the established targets/benchmarks. It is to be noted that the data provided is not based on the automatized reporting tool for KPIs but on actual data collected from the different services at HQ and Delegations. The reason is that the audit module was migrated to a new more sophisticated information system, which required some time for adaptation and training of staff. Hence it was not possible to record all audits in the system on time. With the proper use of the audit module since the end of 2015, this situation is now remedied.

In 2015, 78.81% of the payments were made within the contractual deadlines provided by the Financial Regulation. Moreover, as presented in the KPI tables, 54.80% of the payments were paid within the internal target of 30 days.

Time to grant indicator: on the basis of the information extracted from Prospect that has been in use since July 2015 for Call of Proposals, the time to grant on average in DG NEAR is of 356 days from the publication of the call (delay from the publication of the call to the signature of the contract).

Time to inform indicator: : on the basis of the information extracted from Prospect that has been in use since July 2015 for Call of Proposals, the time to inform indicator in DG NEAR is of 23 days on average (number of days elapsed between the sending of the information letter and the signature of the contract).

In relation to the possibility foreseen in Article 66.2 of the Financial Regulation to differentiate the frequency or the intensity of the DG's controls, DG NEAR has not performed such a review as yet. Moreover, some action in that respect has already been implemented nonetheless with, for instance, the progressive drawing down of some ex ante controls and the strengthening of ex-post controls under IPA IMBC management mode in the case of Turkey.

**On the basis of the information presented above on the cost effectiveness of controls, the cost-effectiveness and efficiency of the controls in place in the DG can be assessed, which brings another building block to the Directors' General Declaration of Assurance.**

### 2.1.3 Prevention, detection, correction and follow-up of fraud and irregularities.

At the beginning of the year DG NEAR's OLAF correspondent function was moved from IAC to the resources directorate. A new OLAF correspondent was appointed and oversaw the organisation of the DG's OLAF case load following handover from the IAC and the ELARG-DEVCO.F merger to create DG NEAR. A consolidated monitoring database was created, enabling the OLAF team composed of staff of Unit R.2 to provide senior management with a clear overview of ongoing cases. An OLAF manual instructing staff on how to report serious irregularities or suspected frauds was adopted, as well as a new anti-fraud strategy. Other, awareness-raising, initiatives were carried out.

These initiatives complemented the robust fraud prevention and detection system already in place. Indeed, DG NEAR transmitted 24 suspected cases of fraud to OLAF over the course of 2015, **more than any other Commission service** and approximately 20% of all Commission transmissions. Furthermore, €2.8m related to OLAF recommendations was recovered and 84 cases were closed and/or dismissed.

An Anti-fraud strategy has been adopted on 14/01/2016 (Ares (2016)206453) for the years 2016-2017. This document outlines the anti-fraud strategy of the DG, as a specific strategy within the broader context of the strategies of the other DG's involved in External Relations. It is addressed to all NEAR staff, both in HQ and in the European Union Delegations/Office where DG NEAR staff are present.

This strategy and its action plan will be subject to a regular analysis in order to keep in pace with developments in the legal and financial framework. The strategy will also be aligned with the methodology and guidance that OLAF provides to Commission services.

The general objectives of this anti-fraud strategy are:

- 1) Anti-fraud network, data collection and guidance. To establish a network of OLAF Focal Points within DG NEAR, as well as develop data and statistics on the OLAF cases that concern the DG,
- 2) Management reporting and relations with EU stakeholders. To establish regular reporting cycles on anti-fraud issues at senior management level and at the level of Commissioner, as well as develop the tools that enable such reporting and to coordinate relations between DG NEAR and OLAF; and,
- 3) Awareness raising, procedures and document management. To raise the fraud awareness level of DG NEAR staff, including increasing their knowledge and capacity for performing preventive and detective controls and to develop procedures and guidance on reporting fraud and anti-fraud KPIs for the Management Plan.

### 2.1.4 Reliability of reporting.

In 2015 DG NEAR has introduced a reporting structure, drawing inspiration from the best elements of reporting as undertaken within its two predecessors DGs. Reporting on activities give a true and fair view of the main risks and constraints, the performance of the DG assessed against defined benchmarks and the possible mitigating measures when possible. For this year, benchmarking has been introduced through the Key Performance Indicators in the EAMR and AOSD reports.

The objective of this reporting structure is to have a solid basis for the DG's Annual Activity Report (AAR) to the College. The risk assessment, audit plan and control plan have been integrated into the DG's Management Plan. A mid-year review "Critical Risk Warning Report" has been introduced, that focuses mainly on key risk and internal control issues. A single reporting framework has been introduced for IPA and ENI building on the Key Performance Indicators (KPI) and the related External Assistance Management Report (EAMR), working on the basis of the structure used by DG DEVCO

The list of the reports produced by the DGs has been communicated at the introduction of the second part of this AAR.

### 2.1.5 Safeguarding of Assets.

The safeguarding of financial assets covers mainly the prefinancings and the financial guarantees in relation to said prefinancings. As regards the clearing of prefinancings under IMEE, which was the subject for reservation in last year's AAR, please refer to point 2.4.1 of this report. The safeguarding of assets implies a proper management of the prefinancings and guarantees (clearings made regularly on the basis of the financial reports or contractual benchmarks and 'main levée' granted to guarantees), a particular attention to the storage of the financial guarantees (in a safe) and to the validity of the financial guarantee (check of the issuing entity, check of the end date if need be, check of possible conditions limiting the execution of the guarantee); All guarantees should normally be in conformity with the models provided in the guidance (PRAG, i.e. no formal end date and no conditions to its execution).

## 2.2 Audit observations and recommendations.

Unit R.2 has ensured over 2015 coordination, quality controls and follow-up on implementation of the below mentioned Court of Auditors, IAS, EP, Council recommendations.

### 2.2.1 Court of Auditors

- ***DAS 2014 discharge***

The **DAS 2014** exercise has almost been completed in 2015 and DG NEAR obtained good results. The Court has published its report in November and the Hearing of the Commissioner in front of EP CONT which took place early December was satisfactory.

The Court has once again included a reference to the clearing of pre-financing issue, first identified in the DAS 2013. However, as acknowledged by the Court in the report, the issue has been corrected and that DG NEAR has updated its clearing procedures. Regarding the DAS 2014 reliability of accounts, DG NEAR made a reservation in the 2014 Annual Activity Report in relation to the clearing of pre-financing of International Financial Institutions. An action plan was put in place to remedy the issue. The Court found this issue to have no negative impact on DG NEAR's accounts.

- ***DAS 2013 follow-up***

Regarding the DAS 2013 follow-up on the issue of pre-financing, DG NEAR has introduced a policy whereby clearings are no longer made on the basis of estimates. An action plan enabling the DG to introduce cost-based reporting on the part of beneficiary countries (i.e. Croatia, FYRoM and Turkey) is being implemented. This will ensure conformity with the accrual-based accounting rules of the Commission.

- ***European Court of Auditors Audits***

In addition to the DAS exercise, Unit R.2 has ensured in 2015 coordination and quality review checks on **9 performance audits** which are still on-going (5 as the lead DG and 4 as an associated DG). Thus far, three draft reports, four Statements of Preliminary Findings (SPFs) have been issued and one contradictory process has been finalised. The results are still pending for one audit. An overview of the state-of-play is found in the tables below:

NEAR as Lead DG						
No.	Audit Type	Member	Audit Scope	Country	Execution	Results
1	Performance	Mr Wessberg	Defined	fYRoM	Jan-July 2015	Draft report received
2	Performance	Mr Wessberg	Defined	Montenegro	Jan-July 2015	SPF received
3	Performance	Mr Fazakas	Defined	Ukraine	Feb-July 2015	SPF received
4	Performance	Mr Wessberg	Defined	Moldova	Jan-July 2015	SPF received
5	Performance (IPA Meta-audit)	Mr Fazakas	Defined	Western Balkans	Feb-June 2015	SPF received

NEAR as Associated DG						
No.	Audit Type	Member	Audit Scope	Country	Execution	Results
6	Performance	Mr. Pufan	Defined	Danube River	Mar-June 2015	Pending
7	Performance	Mr. Itälä	Defined	Baltic Sea	Mar-June 2015	Contradictory process finalised (early 2016)
8	Performance	Mrs. Lamarque	Defined	Migration in EU Neighbourhood	2013-2014	New draft report received (early 2016)
9	Performance	Mr. Pinxten	Defined	Results-oriented approach	May-June 2015	Draft report received

- **Follow-up on ECA/EP/Council recommendations**

DG NEAR has closed 24 recommendations in 2015. The table below provides an overview of the state-of-play:

	Open DG NEAR lead	Open DG NEAR Associated	Closed DG NEAR in 2015
Directorate A	3	8	7
Directorate B	1	1	6
Directorate C	0	0	1



Directorate D	3	2	10
Directorate R	3	2	0
<b>Total</b>	<b>10</b>	<b>13</b>	<b>24</b>

## 2.2.2 Internal Audit Service

There are no critical recommendations in DG NEAR with regard to either IAC or IAS audits.

DG NEAR has had 102 audit recommendations closed by the IAS in 2015. The IAS is to evaluate a further 81 audit recommendations. 4 recommendations remain open. Furthermore, following the final reports of two IAS audits on "DG NEAR's Control Strategy" and the "Design and Implementation of EU Trust Funds", both issued at end January 2016, a further 22 recommendations are assigned to DG NEAR.

The table below provides an overview of the state of-play.

### IAC-IAS Recommendations

	Open recommendations at end December 2015	Recommendations to be validated by the IAS <sup>26</sup>	Recommendations validated & closed by the IAS in 2015	Recommendations Issued by the IAS in January 2016
Directorate A	1	26	43	1
Directorate B	0	0	0	8
Directorate C	0	0	9	0
Directorate D	0	31	34	10
Directorate R	3	24	16	3
<b>Total</b>	<b>4</b>	<b>81</b>	<b>102</b>	<b>22</b>

NB: Many recommendations are split into sub-recommendations and assigned to 2-3 directorates.

#### IAC Audits

With the recentralisation of IAC Units to the IAS at the beginning of 2015, the former ELARG IAC transmitted a handover of open audit recommendations to the IAS and a screening process began. As a result of follow-up audits carried out by the IAS 35 audit recommendations were closed by the IAS:

- IAS Follow-up audit of DEVCO IAC audit on Cross-Border Cooperation (ex-DEVCO/F audit)
- IAS Follow-up audit of DG NEAR IAC audit on Joint Management in Headquarters

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<sup>26</sup> Part of an ongoing screening exercise by the IAS.

- IAS Follow-up audit of DG NEAR IAC audit on Joint Management in Delegations
- IAS Follow-up audit of DG NEAR IAC audit on Financial Circuits Part I (Centralised HQ & Decentralised)
- IAS Follow-up audit of DG NEAR IAC audit on Ex-Ante Visa on Procurement in Decentralised Management
- The IAS considered that all recommendations issued in the DG NEAR IAC audit on Multi-annual and Annual IPA Programming was implemented by management.

- **IAS Audits**

DG NEAR was subject to four IAS audits in 2015: 1) 'Preparedness for IPA II'; 2) 'Adequacy and Effective Implementation of DG's Anti-Fraud Strategies', 3) the 'DG NEAR Control Strategy' and 4) Design and Implementation of EU Trust Funds.

#### *IAS Audit on the Preparedness for IPA II*

The final report was issued in May 2015 and four recommendations were made, two of which were rated "Very Important" and two "Important." Two of the four recommendations have been fully implemented. One last step of Recommendation 1, "Preparedness for the Assessment of Performance" is to be implemented by end of March 2016 and Recommendation 2, "HR Planning for EU Delegations Implementing IPA II", by year end.

#### *IAS Audit on the Adequacy and Effective Implementation of DG's Anti-Fraud Strategies.*

The IAS conducted a multi-DG audit on DG's anti-fraud strategies (DGs NEAR, EMPL, AGRI, ex-SANCO and DEVCO). Two recommendations, rated as "Important" resulted from this audit. Recommendation 1, "Strengthening the Anti-Fraud Strategy and Reporting on Performance" will be completed in the reporting of the 2016 Management Plan at end February. Recommendation 2, "Streamlining Management and Coordination of the Anti-Fraud Activities" was implemented in February 2015.

#### *IAS Audit on DG NEAR's Control Strategy*

The final report was issued end of January 2016 and DG NEAR has replied to the IAS with an action plan to implement the two recommendations (comprising of several sub-recommendations). Recommendation 1 "Assurance Building Process for Entrustment (IPA)" was rated as "Very Important" and Recommendation 2 "Other Building Blocks of Assurance" as Important". The main findings are related to the entrustment procedure in Indirect Management with Beneficiary countries.

#### *IAS Audit on the Design and Implementation of EU Trust Funds*

The IAS audited DGs NEAR, DEVCO and BUDG and issued the final report at end January 2016. The main findings relate to the overall structure, governance and reporting set up of the Trust Funds. DG NEAR has provided its action plan to the IAS.

As regards the Court of Auditors, the European Parliament and the Council of Ministers, DG NEAR considers that no open recommendations could have an impact on the assurance of the Director General.

As regards the IAS recommendations, and particularly the IAS Audit on the Design and

Implementation of EU Trust Funds<sup>27</sup>, recommendations 1.1 and 1.2 (concerning the Governance of the Trust Fund) DG NEAR considers that part 1.1 has already been implemented and that the proposed action plan will implement recommendation 1.2.

For the Audit on preparedness of IPA II, recommendation 1 (preparedness for the assessment of performance), one last step to close this recommendation to inform stakeholders on the methodology for assessment of performance and informing the MS, the EP and beneficiaries on the performance reward, will be done by the end of the first quarter 2016. Recommendation 2, relating to the completion of a workload assessment, is ongoing and expected to be implemented by year end.

With regard to the audit on DG NEAR's Control Strategy, at the time of writing DG NEAR had drawn up an action plan and submitted it for agreement to the IAS. DG NEAR will implement the recommendations in accordance to the action plan and any remarks that the IAS will make on it.

**In conclusion, no audit recommendation is considered material and could have an impact on the Director's General declaration of Assurance.**

## 2.3 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 NEAR 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 NEAR assesses the implementation of the ICS at **Delegation level** through the KPIs in the EAMR tool and the EEAS survey, and also on the basis of information communicated in the AOSD reports.

The results of the aggregated KPIs related to the Internal Control Standards that concern the EU Delegations are shown below.

Nr.	KPI Name	Targets / Benchmarks for 2015	KPI results at 31/12/2015 for DG NEAR
Efficiency of Internal Controls			
12	ICS - Missions & Values	At least 80%	95.14%
13	ICS - Human Resources	At least 80%	94.84%
14	ICS - Planning and Risk Management	At least 80%	93.06%
15	ICS - Operations & Control Activities	At least 80%	94.49%
16	ICS - Information & Financial Reporting	At least 80%	92.77%
17	ICS - Evaluation & Audit	At least 80%	96.53%

At **central level (Headquarters)**, the assessment has been performed by **desk review** and also at midyear through the **Critical Risk Warning Reports** that focused on the

<sup>27</sup> The IAS made reference to these 2 particular recommendations as part of their contribution to the AAR process, see note ARES (2016) 732458.

prioritised ICS in 2015 Management Plan. Additionally, some directorates have performed their own ICS implementation assessment in 2015 and AOSDs have the possibility to report on ICS issues in their AOSD reports. Further work will continue during 2016.

The desk review which covered **33 requirements** in relation to the **15 ICS** existing at present resulted in the conclusion that the principles are implemented and functioning well. Nevertheless, the following Internal Control Standards and requirements related to these Internal Control Standards were identified for further improvement:

- **ICS 6 Risk Management: Requirement – 11 risk management action plans**  
Risk assessments are prepared at directorate level. DG NEAR is now consolidating the existing information at central level and translating it into a central risk register with related mitigating actions.
- **ICS 5 Objectives and Performance and 14 Evaluation and Audit: Requirement 9 and 31 – on the monitoring of the attainment of the DG's objective and evaluation of activities**  
DG Near is finalising Evaluation and Monitoring guidelines that should be concluded mid-year. 13 specific training seminars covering indicators, monitoring and evaluation are planned during 2016.
- **ICS 7 Operational Structure: Requirement 13 – on the DG sensitive functions**  
A list of sensitive posts has been drawn up and is being finalised. Also as regards Delegations, all the sensitive posts have been identified and will be marked as such during the course of 2016. However as the rotation exercise results in mobility every four years, the requirement for sensitive functions is de facto complied with in the Delegations.
- **ICS 15 Processes and procedures: Requirement 15 – on processes and procedures**  
Following the merger of former DG Enlargement and Directorate F of DG DEVCO, DG NEAR has harmonised and issued instruction notes for policies on financial circuits, sub-delegation and deputation, and prior approvals and derogations, which entered into force on 01/05/2015. The Manual of procedures for financial implementation of the DG is currently being updated and will be finalised by the end of 2016.
- **ICS 12 Information and Communication: Requirement 27 and 28 – on the standard Information Systems Security Policy of the DG and IT system support**  
Following a detailed gap analysis, carried out in 2014, the IT Steering Committee of the DG decided to achieve full compliance over a five year period. The DG is currently being assisted by external consultants to this end.

**In conclusion, the internal control standards are effectively implemented and functioning, with the planned improvements mentioned above which have no impact on the assurance of the Director General. Actions are ongoing to further improve the compliance with the requirements of the Internal Control Standards.**

## **2.4 Conclusions as regards assurance**

### **2.4.1 On the lifting of last year's reservation**

Reservations introduced in the 2014 AAR of DG ELARG are being lifted, based on the following considerations.

A reservation was introduced last year since the RER for IMBC under IPA was considered

to be of 2.67 %, hence above the materiality threshold). As mentioned already in this AAR, the RER rate on IMBC IPA for this year is below the materiality criteria (i.e. 0, 91%). Last year's rate was erroneously considered as high and has been corrected (please see section 2.1.1 above). In addition, in follow-up to this reservation 1, the following main mitigating measures have been implemented:

- The financial exposure and risks have been reduced by clearing pre-financings notably in Turkey and Croatia and making recoveries where necessary.

- DG NEAR increased the involvement of the national Audit Authorities in providing assurance. For that, guidance and support to these authorities was provided and verifications and assessments of their control systems were completed.

- The RER methodology is being reviewed, with a view to establishing a single methodology for direct management both for IPA and ENI and to revise the methodology for IMBC under IPA. A limited review by the IAS on the RER is also currently being undertaken, which results might impact this review. For ENI, the current methodology that covers all management modes should remain mainly unchanged.

A second reservation was introduced last year (Damage to the Commission's reputation due to weakness identified in the procedures for recognising/clearing of interim costs under Indirect Management with Entrusted Entities). DG NEAR considers that the problem which led to this reservation is under control. In follow-up to this reservation, mitigating measures have been implemented:

- DG NEAR provided internal guidance and training to staff on cost recognition (notably on cases when interim costs are reported independently of any request for payment).

- DG NEAR also established a new accounting manual, which clarifies the DG NEAR policy for clearing pre-financing.

- In headquarters, all the existing open Indirect Management with Entrusted Entity (IMEE) contracts, have been examined and costs are being cleared where possible. Further work still needs to be undertaken in the Delegations.

As acknowledged by the Court in its report (see also point 2.2.1), DG NEAR has updated its clearing procedures. Indeed, the Court has acknowledged in the DAS 2014 report (see point 8.21 – page 268) that ex DG ELARG has corrected the wrongly made clearings from their accounts for 2013 and 2014. The Court also revised the instructions laid down in the ex DG ELARG Manual on Accounting which now states that pre-financing should be cleared on the basis of accepted eligible expenditure.

A third reservation to be considered due to the merger of ex DG ELARG with ex DEVCO F is the reservation introduced by DEVCO in its 2014 AAR (Reservation concerning the error rate being above 2%), hence also applicable to ENI. DG NEAR is lifting this reservation as the action plan has been implemented.

## **2.4.2 On this year's reservations**

This report covers all the expenditures under DG NEAR's remit in a complete and reliable way. The detected error rates are below the materiality threshold for 2015. No reputational event or unmitigated risks which could have a significant impact on the assurance have been identified during 2015. Therefore, DG NEAR is not making a reservation in this year's AAR.

DG NEAR recognises that further fine-tuning of the RER calculation methodology for Indirect Management with Beneficiary Countries is necessary and appropriate actions are being taken in this respect. However, this does not affect our overall assurance for expenditure under this management mode. The financial risks are mitigated by the control system in respect of procurement (ex-ante checks) and payments (clearance of accounts).

After having exhaustively described DG NEAR control environment, in relation to its

overall budget, the five internal control objectives and the five different control environments, the control results as regards the error rate in relation to the control environments, the results of audits observations and recommendations and the assessment of the Internal Control System, **no weakness has been identified as significant or material either on a quantitative or qualitative aspect** (c.f. Annex 4 in relation to the materiality criteria).

### **Overall Conclusion**

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

### **3. Declaration of Assurance**

# DECLARATION OF ASSURANCE

*I, the undersigned,*

*Director-General of DG NEAR*

*In my capacity as authorising officer by delegation*

*Declare that the information contained in this report gives a true and fair view<sup>28</sup>.*

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

*This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the opinion of the Internal Auditor on the state of control, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.*

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

*Brussels, 01 April 2016*

*signed*

*Christian Danielsson*

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<sup>28</sup> True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG.