



2019

Annual Activity Report

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



Table of Contents

THE DG IN BRIEF	3
EXECUTIVE SUMMARY	4
A) KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF THE COMMISSION'S GENERAL OBJECTIVES AND DG'S SPECIFIC OBJECTIVES (EXECUTIVE SUMMARY OF SECTION 1)	4
B) KEY PERFORMANCE INDICATORS (KPIs) PERFORMANCE EVOLUTION	8
C) KEY CONCLUSIONS ON FINANCIAL MANAGEMENT AND INTERNAL CONTROL (EXECUTIVE SUMMARY OF SECTION 2.1)	11
D) PROVISION OF INFORMATION TO THE COMMISSIONER	11
1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF THE COMMISSION'S GENERAL OBJECTIVES AND DG'S SPECIFIC OBJECTIVES	12
1.1. ENLARGEMENT POLICY	12
1.1.1 WESTERN BALKANS	12
1.1.2 TURKEY	14
1.1.3 CONNECTIVITY AGENDA AND GOOD NEIGHBOURLY RELATIONS	15
1.2. NEIGHBOURHOOD POLICY	16
1.2.1. NEIGHBOURHOOD EAST	16
1.2.2. NEIGHBOURHOOD SOUTH	18
1.2.3. REGIONAL ACTIONS AND CROSS BORDER COOPERATION IN SOUTHERN NEIGHBOURHOOD	20
1.3. MIGRATION MANAGEMENT	21
2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL	23
2.1. FINANCIAL MANAGEMENT AND INTERNAL CONTROL	23
2.1.1. CONTROL RESULTS	24
2.1.2. AUDIT OBSERVATIONS AND RECOMMENDATIONS	43
2.1.3. ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL CONTROL SYSTEMS	45
2.1.4. DECLARATION OF ASSURANCE AND RESERVATIONS	50
2.2. OTHER ORGANISATIONAL MANAGEMENT DIMENSIONS	53
2.2.1. EXAMPLES OF ECONOMY AND EFFICIENCY	53
2.2.2. HUMAN RESOURCE MANAGEMENT	54
2.2.3. BETTER REGULATION	55
2.2.4. INFORMATION MANAGEMENT ASPECTS	55
2.2.5. EXTERNAL COMMUNICATION ACTIVITIES	57

THE DG IN BRIEF

The mission of DG Neighbourhood and Enlargement Negotiations (DG NEAR, hereinafter also referred to as "the DG") is to take forward the EU's neighbourhood and enlargement policies. The DG primarily serves the Commissioner for Neighbourhood and Enlargement Negotiations, Olivér Várhelyi and the High Representative/Vice-President, the President of the Commission, the Vice-Presidents and other Commissioners where appropriate.

The DG is based in Brussels and has 1,791 staff members, of whom a third are located in Headquarters and two thirds in the EU Delegations/Office in the partner countries.

In the neighbourhood region, DG NEAR is responsible for co-ordinating across the Commission the implementation of the revised European Neighbourhood Policy (ENP), working closely with the EEAS. Under the ENP, DG NEAR contributes to resilience in its direct neighbourhood through support to political and economic reforms with the aim of creating a space of stability, security and prosperity. Through its financial assistance, the EU support key priorities of the ENP in its bilateral relations between the EU and its neighbouring countries covering democracy and rule of law, sustainable economic development, security and migration and mobility.

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 strengthening democratic institutions, including public administration reform. In the Western Balkans, the DG develops and implements the Stabilisation and Association process of the European Union as defined by the European Council.

DG NEAR operates five TAIEX-Service Level Agreements (SLAs) within the Commission. Three are sectoral with DG REGIO, DG ENV and the SRSS whereas two are global with FPI and DG DEVCO, which for the first time includes also Twinning.

DG NEAR manages the bulk of the Union's financial and technical assistance to the neighbourhood (European Neighbourhood Instrument - ENI) and enlargement (Instrument for Pre-Accession Assistance - IPA) countries, amounting to EUR 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 each beneficiary country 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.
- Indirect Management, including:
 - o Indirect Management by Beneficiary Countries (IMBC);
 - o Indirect Management by Entrusted Entities (IMEE), notably with International Organisations and with Member State development assistance agencies, including the use of Financial Instruments with International Financial Institutions (e.g. EIB, EBRD).
- Shared Management with Member States: Cross Border Cooperation Programmes under ENI;
- The DG is also the Trust Fund Manager of the EU Regional Trust Fund (TF) in Response to the Syrian crisis and the North of Africa window of the 'EU Emergency TF for Africa'. It is also a financial contributor to both Funds.

EXECUTIVE SUMMARY

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

This executive summary provides (a) the summary of key results and progress of DG NEAR towards the Commission's general objectives, (b) an overview of the evolution of the key performance indicators of DG NEAR, (c) key conclusions on financial management and internal control as well as (d) a provision about the information on this report to the responsible Commissioner.

a) Key results and progress towards the achievement of the Commission's general objectives and DG's specific objectives (executive summary of section 1)

In 2019, the work of DG NEAR continued to be **closely linked to President Juncker's political priorities** contributing to 4 general objectives and 7 specific objectives.

1. A stronger Global Actor	
Specific Objective 1	Increased stability in the Neighbourhood in political, economic and security related terms
Specific Objective 2	Strengthened Eastern Partnership ; support regional cooperation between southern neighbours, including through the Union for the Mediterranean ; promote cross border cooperation between Member States and partner countries
Specific Objective 3	The enlargement countries are more ready to join the EU, in particular on the fundamental areas of rule of law, public administration reform and economic development, reaping the benefits of closer integration with the EU before accession
Specific Objective 4	Enlargement – Improved connectivity within the Western Balkans and with the EU. Improved good neighbourly relations in the region with a view to overcoming the legacy of the past
2. Towards a European Agenda on Migration	
Specific Objective 5	Stem the influx of irregular migrants to the EU, by addressing the root causes of destabilisation, forced displacement and irregular migration in the Enlargement and Neighbourhood countries. Promote mobility and mutually beneficial migration
3. A Resilient Energy Union with a Forward-Looking Climate Change Policy	
Specific Objective 6	Increased energy security and more effective climate policies in the Enlargement and Neighbourhood countries as well as increased energy connectivity between the EU and these countries
4. A New Boost for Jobs, Growth and investment	
Specific Objective 7	Increased prosperity in the Enlargement and Neighbourhood countries and the EU through increased economic and trade opportunities between the EU and these countries

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

The key results in 2019 were as follows:

- **A Stronger Global Actor (General Objective 1)**

The **Western Balkans Strategy** and the related 2018 Sofia Priority Agenda provided a major boost for the region's European path and guided the Commission's work in the region during 2019 (*specific objective 3*), a year which saw an unprecedented level of political dialogue and many high-level events. The region made further progress on reforms and on overcoming the legacy of the past, thus proving the EU's leverage by offering a credible accession perspective to its Western Balkans partners.

The **2019 Enlargement package** included the Commission's opinion on the application for EU membership of Bosnia and Herzegovina, and reiterated recommendations to open accession negotiations with Albania and North Macedonia. The Council decided to revert to it before the EU-Western Balkans Summit in Zagreb in May 2020.

Key achievements in 2019 included: the conclusion of a Regional Roaming Agreement; adoption of a Clean Energy Transition Declaration and the commitment to a Green Agenda for the Western Balkans; adoption of a Roma Declaration aimed at improving the living conditions of this disadvantaged group; completion of negotiations of status agreements between Western Balkan partners and the European Border and Coast Guard Agency; establishment of the seat of the Transport Community Treaty Secretariat in Belgrade; launch of a new Western Balkans Guarantee to crowd in private sector investments; and adoption of a new EUR 180 million connectivity package. In 2019, DG NEAR also programmed and committed assistance for a total value of EUR 1.1 billion under the Instrument for Pre-Accession (IPA II).

In **Turkey**, domestic and foreign policy actions further complicated relations with the EU. In light of provocative actions against Cyprus, the EU suspended high-level sectoral and political dialogues. IPA II assistance for 2020 was reduced to EUR 168 million, a 75% cut. A framework for restrictive measures was also put in place. Turkey and the EU further built on the fruitful cooperation under the Facility for Refugees in Turkey.

Connectivity and regional cooperation are cornerstones of our approach to the Western Balkans (*specific objective 4*) and essential elements of the region's European perspective. DG NEAR continued to work closely with partners, seeking to improve cooperation within the region and with the EU, improving connectivity in all its aspects, including infrastructures, economies and people.

DG NEAR continued to engage with neighbourhood countries in the context of the revised **European Neighbourhood Policy**, with the aim of stabilising and securing its direct neighbourhood. It mobilised significant support for reforms along the four priorities (good governance, democracy, human rights and the rule of law; economic development for stabilisation; security; and migration and mobility), while integrating the principles of differentiation, shared ownership and mutual accountability to deliver tangible results to citizens (*specific objective 1*).

The **Eastern Neighbourhood** saw solid progress in differentiated bilateral relations and within the Eastern Partnership framework, steered by the "20 Deliverables for 2020". Implementation of the Association Agendas for DCFTA countries (Ukraine, Georgia and Moldova) and the Comprehensive and Enhanced Partnership with Armenia continued. The EU deployed exceptional resources in Moldova to support the short-lived reform-minded government resulting from the February 2019 elections. Negotiations continued for a new agreement with Azerbaijan and for new Partnership Priorities with Belarus. The overall environment in **Ukraine** remained favourable following the change in political leadership after the 2019 elections. EU assistance remained well aligned with national priorities, responding swiftly and flexibly to emerging new priorities.

The **Southern Neighbourhood** region continued to face contrasting situations. There were positive signs of stabilisation, with successful presidential elections in Tunisia, and a commitment from the Moroccan government to engage in deeper relations with the EU. By contrast, recent popular movements in Algeria and Lebanon and the deteriorating

security situation in Libya added to protracted crises, such as in Palestine and Syria, demonstrating that the environment in the Southern Neighbourhood remains extremely challenging. DG NEAR continued to address the effects of the **Syria** conflict: in March 2019, it co-organised the third Brussels Conference on Supporting the Future of Syria and the Region. Now in its 6th year of operation, the EU Regional TF in Response to the Syrian Crisis mobilised more than EUR 1.9 billion, including programmes focusing on education, livelihoods, health, protection and the water sector, which benefitted 4.3 million persons.

In 2019, DG NEAR continued to promote **regional cooperation**, under the Eastern Partnership and through the Union for the Mediterranean (UfM) (*specific objective 2*).

- **Towards a European Agenda on Migration (General Objective 2)**

DG NEAR continued to play a key role in driving forward policies and programmes aimed at stemming the influx of irregular migrants to the EU and tackling the migration challenges and their root causes (*specific objective 5*). DG NEAR continued with a balanced approach, with a focus on areas of mutual interest such as the protection of groups in most vulnerable situations; the improvement of living conditions of host communities; the fight against trafficking of human beings and smuggling of migrants, humanitarian evacuations as well as voluntary returns and reintegration of migrants to their countries of origin.

The EU Regional Trust Fund in response to the Syrian Crisis provided significant support in the region, addressing the needs of countries hosting significant numbers of refugees. The pace of implementation of the North Africa window of the EU Emergency Trust Fund for Africa continued to increase with new programmes (EUR 807 million) and engagement in the protection of vulnerable migrants and the fight against trafficking of human beings and smuggling of migrants. The operational budget of the Facility for Refugees in Turkey (EUR 6 billion) was fully committed, including the adoption of a Special Measure on health, protection, socio-economic support and municipal infrastructure, for a total amount of EUR 1.41 billion.

The regional support to protection-sensitive migration management in the Western Balkans entered its second phase, while support continued to countries most affected by migratory pressure in 2019. Bosnia and Herzegovina, after having remained at the margins of the 'Balkan route' during its peak in 2015-2018, has been facing increased migratory pressure since early 2018. To help avoid a humanitarian crisis, DG NEAR allocated EUR 30.2 million in IPA II funds to provide basic accommodation and protection services to over 5,000 migrants and refugees. With EU financial support, Serbia continued to make substantial efforts to meet essential needs of migrants passing through or remaining on its territory, and to further improve its capacity to manage migration flows.

- **A Resilient Energy Union with a Forward-Looking Climate Change Policy (General Objective 3)**

In 2019 DG NEAR continued to promote the external dimension of the Energy Union, to enhance energy security and promote effective climate policies as well as better energy connectivity (*specific objective 6*), by pursuing a strengthened energy dialogue with partner countries and implementing ambitious initiatives and programmes.

In the **Western Balkans**, impetus was given to the development and implementation of a Green Agenda through the adoption of the "Clean Energy Transition" Statement in Podgorica. DG NEAR also provided EUR 880.7 million under regional and national IPA II funding for 39 transport and energy connectivity projects, which is expected to leverage overall investments of more than EUR 3.2 billion.

In the **Eastern Neighbourhood**, the 'EU4Energy' initiative has already delivered new laws and improved governance in the energy sector, notably in Ukraine. Under the High-Level Energy Efficiency Initiative, targeted work started in Ukraine and Georgia, while Armenia and Azerbaijan also joined the Initiative in 2019. The implementation of the

'EU4Climate' programme started in 2019 to support partner countries on their climate-related policies and commitments to the 2016 Paris Agreement on Climate Change.

In the **Southern Neighbourhood**, DG NEAR continued to support Energy dialogue among energy regulators, agencies and gas carriers. Regional projects provided technical assistance to national authorities, with a long-term objective of making transport in the region safer, more efficient and environmentally friendly. Ongoing environment projects have developed the circular economy and contributed to fulfilling the objectives of the Barcelona convention on biodiversity and the depollution of the Mediterranean Sea.

- **A New Boost for Jobs, Growth and investment (General Objective 4)**

DG NEAR further contributed to increased prosperity in the EU and in the Enlargement and Neighbourhood countries through new efforts to increase economic and trade opportunities (**specific objective 7**).

In the **Western Balkans**, DG NEAR continued implementing the Multi-Annual Action Plan for the Regional Economic Area with the support of the Regional Cooperation Council and members of the Central European Free Trade Agreement. DG NEAR launched a guarantee of EUR 150 million under the Western Balkans Investment Framework, financed by IPA II, to further crowd in private sector investments.

The Neighbourhood Investment Platform was reaffirmed as a powerful instrument to leverage significant additional financial resources for EU objectives and to increase co-financing among Financing Institutions. DG NEAR acted through the External Investment Plan (EIP) to promote inclusive growth, job creation and sustainable development.

DG NEAR contributed to the organisation of the **Eastern Partnership** Business Forum in 2019 under the Romanian presidency. Under the "20 Deliverables for 2020", the area of 'economic development and market opportunities' was further advanced. The 'EU4Business' initiative continued to focus on improving SMEs access to finance and the business environment. The Structural Reform Facility started in the areas of business and investment climate, financial infrastructure, economic governance and public finances.

In the Southern Neighbourhood, DG NEAR continued actions to support private sector development, SMEs, business climate, innovation promotion, green economy and assistance for vocational training. Mobilisation of funds and investments for the region contributed in particular to improved access to finance with a focus on SMEs and innovative entrepreneurship. Particular attention was devoted to creating synergies with the EIP in view of the cooperation with and support from the private sector.

b) Key Performance Indicators (KPIs)

The four KPIs presented in the following tables mirror those set in the DG NEAR 2016-2020 Strategic Plan. The first two KPIs relate to Enlargement Policy, the third KPI indicates performance reached through the European Neighbourhood Policy and the fourth KPI provides the Residual error rate (RER) for the IPA and ENI spending instruments.

Strategic Key Performance Indicator 1	
Result/Impact indicator	Target
<p>Enlargement</p> <p>Readiness indicators on fundamental areas of political criteria (Areas: Judiciary, Fighting organised crime, Freedom of expression, Fight against corruption, Public administration reform)</p>	<p>Target 2020:</p> <p>A majority of countries are moderately prepared in these areas, which implies that by 2020 at least 3 more countries will become moderately prepared on the functioning of the judiciary; at least 4 more countries on the fight against corruption; at least 4 more countries on the fight against organised crime; at least 4 more countries on freedom of expression. As for the public administration reform area, a majority of countries are moderately prepared in this area already in 2015.</p> <p>Baseline 2015:</p> <p>Five cases of early stage of preparation in these areas.</p> <p>Interim milestone 2018:</p> <p>Fewer cases of early stage of preparation in these areas.</p>
Latest known Results	
<p>In terms of progress, according to the 2019 country reports, candidate countries and potential candidates made "some progress" (12 cases) and "good progress" (6 cases) towards meeting the political criteria.</p> <p>In Turkey there was backsliding in public administration reform, fight against corruption, functioning of the judiciary and freedom of expression.</p> <p>In terms of readiness, there were six cases of "early stage of preparation" in these areas of functioning of judiciary (Bosnia Herzegovina, Kosovo, Turkey), fight against organised crime (Kosovo), fight against corruption (Turkey) and freedom of expression (Turkey), and four case of "early stage /some level of preparation".</p> <p>Under the "moderately prepared" category, there has been no change since the 2015 baseline, with five cases on public administration reform. However, the 2019 report noted improvement in North Macedonia, which reached "some level of preparation/moderately prepared" in two areas: functioning of judiciary and fight against corruption.</p>	

Performance evolution

This KPI saw limited visible progress towards meeting the 2020 target. Enlargement countries need to implement difficult and time-consuming reforms to advance on the fundamental areas of political criteria, including sustainable and far-reaching political and societal transformation. The Commission put a particular emphasis on these areas in its 2018 Western Balkans Strategy, including enhanced support for the countries.

Strategic Key Performance Indicator 2	
Result/Impact indicator	Target
<p>Enlargement</p> <p>Readiness indicators on fundamental areas of economic criteria (i.e. functioning market economy and competitiveness in the EU)</p>	<p>Target 2020: A majority of countries reach a good level of preparation in these areas.</p> <p>Baseline 2015: Four cases of early stage of preparation in these areas.</p> <p>Interim Milestone 2018: Fewer cases of early stage of preparation in these areas.</p>
Latest known Results	
<p>According to the 2019 country reports², candidate countries and the potential candidates made some progress on meeting the economic criteria.</p> <p>In Turkey, there has been backsliding in the area of functioning market economy, although the country remained at a “well advanced” stage of preparation.</p> <p>This indicator remained stable in 2019 compared to the baseline, with four cases of early stage of preparation.</p>	

Performance evolution

This KPI saw limited visible progress towards meeting the 2020 target. Enlargement countries face challenges in advancing on the fundamental areas of economic criteria, interlinked with the political criteria. The Commission put a particular emphasis on these areas in its 2018 Western Balkans Strategy, including enhanced support to the countries.

Strategic Key Performance Indicator 3	
Result/Impact indicator	Target
<p>Neighbourhood:</p> <p>Ranking to measure political stability and absence of violence in the Neighbourhood countries³</p>	<p>Target 2020: Neighbourhood East: Increase the number of countries above 30 Neighbourhood South: Increase the number of countries above 10</p> <p>Baseline (2014): Neighbourhood East: 32.38 - 4 countries above 30 Neighbourhood South: 12.33 - 5 countries above 10</p>
Latest known results	
<p>Neighbourhood East: 29.76⁴ –4 countries⁵ above 30 (+1 compared to previous year) Neighbourhood South: 14.38⁶ –6 countries⁷ above 10 (+1 compared to previous year)</p>	

² This information will be updated upon adoption of enlargement package 2020.

³ This indicator measures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism. Higher values in percentile rank indicate better governance ratings.

⁴ Latest Worldwide Governance Indicators (WGI) data for the year 2018, as 2019 data not yet published

⁵ Belarus, Moldova, Georgia, Armenia

⁶ Latest Worldwide Governance Indicators (WGI) data for the year 2018, as 2019 data not yet published

Performance evolution

In both regions, this KPI has slightly improved compared to last year. However, external factors (political instability, weaknesses in rule of law) continue to negatively influence the achievement of DG NEAR’s policy objectives.

Strategic Key Performance Indicator 4	
Result/Impact indicator	Target
Residual error rate⁸ (RER) for IPA and ENI	<p>Target 2019: The target 2019 for IPA and ENI is that this indicator remains below 2%^o</p> <p>Baseline (2014): DG NEAR’s Strategic Plan 2016-2020 does not include any baseline data for 2014 because the ENI rate was included in the global rate of DG DEVCO in 2014.</p> <p>For comparison the 2018⁹ results were: ENI: 0.41% IPA: 0.91% IPA IMBC: 0.05% NEAR (global) 0.51%</p>
Latest known results	
<p>Global rate DG NEAR: 0.53%, Main DG rate: 0.54 %, IMBC rate: 0.26 %</p> <p>Further to the risk-indices approach duly introduced for the relevant control systems (RCS), RCS-1 (Direct Management of Grants) is identified as being high-risk (RER 2.65%).</p>	

Performance evolution

In 2019, the target of this KPI has been achieved, as the global residual error rate of DG NEAR stayed well below the benchmark of 2%.

Overall, the KPI evolution shows a consistent trend since the beginning of the strategic planning period (2016). For the whole period, the global residual error rate of DG NEAR has remained below the materiality threshold of 2%. However, a reservation is maintained for the segment “Direct Management – Grants” (RER 2.65%) as detailed in section 2.1.4

⁷ Algeria, Egypt, Israel, Jordan, Morocco, Tunisia

⁸ The residual error rate is calculated on a yearly basis by an external contractor through desk reviews and on the spot audits for IPA and ENI instruments and has a coverage of at least 90% of the DG expenditures. The methodology is set out in Section 2.1.1. From 2019, according to the updated manual and methodology there is no longer distinction between ENI rate and IPA rate, but a common rate defined as “main DG rate”

⁹ These are the geographical error rates excluding the thematic lines cross sub-delegated by DG DEVCO in line with the recommendation of the IAS (ARES(2017)2346205.

c) Key conclusions on Financial management and Internal control (executive summary of section 2.1)

In accordance with the governance arrangements of the European Commission, 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.

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The financial regulation requires that the organisational structure and the internal control systems used to implement the budget be set up in accordance with these principles. DG NEAR has assessed its internal control systems during the reporting year and has concluded that it is **partially effective** as internal control principle (ICP) 10 and 12, need major improvement; internal control deficiencies related to them lead to the reservations in the declaration of assurance as detailed in section 2.1.4.

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

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance, albeit qualified by two reservations: one concerning difficulties in monitoring adequately all projects in Libya and in Syria (non-quantified reservation) and the other regarding the expenditure in direct management grants (quantified reservation).

d) Provision of information to the Commissioner

In the context of the regular meetings throughout the year between the DG and the Commissioner on management matters, the main elements of this report and assurance declaration, including the reservations envisaged, have also been brought to the attention of Commissioner Várhelyi, responsible for the Neighbourhood and Enlargement.

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

The objectives of DG NEAR's main spending programmes are stipulated in the programme statements¹⁰ of the ENI¹¹ and IPA instruments¹². They are directly linked to DG NEAR's 7 specific objectives, which contribute to the achievement of 4 of the priorities of the Juncker Commission¹³. In order to show the link between the objectives of the spending instruments and the objectives of DG NEAR's Strategic Plan 2016-2020, chapters 1 (Enlargement policy) and 2 (Neighbourhood policy) of this section follow the logic of the spending instruments, with cross references to the targets of DG NEAR's Strategic Plan.

The achievements of DG NEAR, as described below, are aligned with to the greatest possible extent the performance information included in the programme statements for the Draft Budget 2021.

1.1. Enlargement policy

1.1.1 Western Balkans

Our cooperation with the Western Balkans continued to focus on the implementation of the **Strategy for "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans"**¹⁴ of 6 February 2018, and the related **2018 Sofia Priority Agenda**. Both encompass actions in six priority areas, including rule of law, security and migration, socio-economic development, connectivity, digital agenda and good neighbourly relations. This process saw an unprecedented level of political dialogue in 2019, including a summit, eleven ministerial meetings and a number of high-level events and forums. It promoted new mechanisms to deliver technical and financial assistance and helped integrate the region into EU initiatives.



As illustrated by KPI 1, the main challenges to DG NEAR's policy objectives in this region are related to the slow implementation of reforms in fundamental areas of rule of law, and economic reform and competitiveness, which require high levels of commitment and time to achieve far-reaching political and societal transformations. DG NEAR put a particular emphasis on these areas by enhancing financial support, delivered through IPA II and in the framework of the Western Balkans strategy. In addition, peer-to-peer instruments, such as TAIEX and Twinning, actively contributed to support reforms in line with EU political priorities.

¹⁰ The Programme Statements provide information according to Article 38 of the Financial Regulation, encompassing both the ex-post information on programmes' performance and ex-ante estimations in terms of future outputs and results.

¹¹ The ENI Instrument, Regulation 232/2014 of 11 March 2014 is the main instrument for implementing the Neighbourhood Policy

¹² The IPA II Instrument, Regulation 231/2014 of 11 March 2014, is the main instrument for implementing the Enlargement Policy.

¹³ Cf. table 1 for links between DG NEAR's policy objectives and Juncker priorities

¹⁴ COM(2018)65final

With one chapter left to be opened (8 – Competition) and three provisionally closed, **Montenegro** remains the most advanced country in accession negotiations. Nevertheless, the overall pace of negotiations is determined by progress on the enlargement fundamentals, in particular the interim benchmarks under chapters 23 and 24. In this context, the Commission's non-paper on the state of play regarding the state of play of these chapters was discussed in the Council Working Group in November 2019.

Two chapters were opened in 2019 in the negotiations with **Serbia**: (9 – Financial services, 4 – Free movement of capital), bringing the total number of open chapters to 18, with 2 provisionally closed. The pace of negotiations is determined by Serbia's progress on enlargement fundamentals, notably the rule of law, and the normalisation of relations with Kosovo. The pace of the opening of chapters slowed in 2019, reflecting concern in several Member States that Serbia has not made enough progress on rule of law. In this context, the Commission's non-paper on the state of play of chapters 23 and 24 was discussed in the Council Working Group in November 2019.

As the decision on the opening of accession negotiations with Albania and North Macedonia was postponed until 2020, both countries maintained a focus on delivering on the conditions set in the June 2018 Council conclusions. **North Macedonia** continued to make progress on reforms, including those identified by the Council i.e. judicial reforms, fighting corruption and organised crime, reform of the intelligence and security services and public administration reform. The country continues to implement two key agreements with Greece and Bulgaria, improving good neighbourly relations. The vetting of judges and prosecutors in **Albania** proceeded at steady speed with more than 220 cases processed under the watch of the International Monitoring Operation, led by the Commission. Important operations in the fight against organised crime took place and further efforts were pursued in the fight against cannabis cultivation and trafficking.

In May 2019, the Commission published its Opinion on the EU membership application of **Bosnia and Herzegovina**. This was identifying endorsed by the Council in December 2019, setting down 14 key priorities in the areas of democracy, rule of law, fundamental rights, and public administration reforms that country needs to address in order to advance on the EU path. The EU also closely followed the political negotiations leading to the formation of a state-level government in December.

The domestic political situation in **Kosovo** continued to prove challenging in 2019, with limited progress in further implementing EU-related reforms. The process stalled after the Prime Minister's resignation in July and parliamentary elections in October. The imposition by Kosovo of a 100% tariff on goods from Serbia and Bosnia and Herzegovina in late 2018 - in violation of CEFTA obligations and against the spirit of the Stabilisation and Association Agreement - undermined regional cooperation efforts.

Innovation and Economic development

EU support has been instrumental in providing financing for innovation in Serbia and promoting cooperation between the research community and the private sector. Serbia set up its Innovation Fund to function as a key state institution supporting innovative activities and managing funding for stimulating innovation. The EU is a key contributor to the fund, with EUR 15.8 million allocated from IPA. Together with national co-financing, the fund portfolio currently stands at EUR 20.8 million.

The Innovation Fund is the leading means in Serbia to facilitate access to EU and global markets, and is an important actor in fostering national integration into the EU's innovation ecosystem. Since its inception, 132 innovative commercial projects have been supported with EU funds, ranging from software development to biotechnology, industrial machines and robotics. The results of these innovative projects have led to an increase in revenue of the companies financed by 225% in six years, the creation of 480 high-end jobs, an increase in exports of the financed companies by EUR 8.4 million, and more than 33 national and 25 international patent applications.

The **Western Balkans Investment Framework**, financed through IPA, is increasingly at the core of fostering investments in the region. Together with the Western Balkans Enterprise Development & Innovation Facility (EDIF) and the European Fund for

Southeast Europe (EFSE), DG NEAR launched a EUR 150 million guarantee to enable investors, to scale-up investments in areas contributing to EU policy objectives currently not, or not sufficiently, served. The Western Balkans Guarantee, established in 2019, will be used as a pilot instrument to prepare for larger guarantee schemes expected in the next Multiannual Financial Framework, in particular under the European Fund for Sustainable Development (EFSD+).



Supporting employment through better vocational skills

2019 marked the completion of a large scale Sector Reform Contract for employment and skills in Albania (EUR 29 million). The programme it supported paved the way for significant institutional and structural changes in the financing and governance of the labour market and vocational education and training (VET) systems, developing and implementing the Albanian Qualification Framework, modernising the legislative framework for initial VET and adult training, and supporting the transposition of over 95% of the EU occupational health and safety directives. An Albanian National Agency for Employment and Skills and three Multifunctional Training Centres were established. The National Employment Service was modernised, with the reorganisation of 36 labour offices, improving compliance with international labour standards and a broader range of employment promotion services.

These efforts brought concrete impacts on the Albanian labour market: Beneficiaries of employment promotion programmes increased by 3.8 % between 2014 and 2018, the number of trained VET teachers increased by 95% between 2016 and 2019, and the enrolment rate of pre-university VET students went up from 17.6% in 2014 to 20.6% in 2018, reaching 16,574 students. Finally, the programme contributed to the increase in youth employment by 5.6 %.

1.1.2 Turkey

Relations with Turkey and the realisation of the EU’s policy objectives were challenged by domestic political developments, which included further consolidation of the Presidential system and the erosion of the separation of powers, and further backsliding in the rule of law, fundamental rights and freedoms. Turkish foreign policy actions further complicated relations with the EU and with individual Member States. In light of provocative actions against Cyprus (drilling activities on the Eastern Mediterranean), the EU adopted measures in mid-July, effectively suspending negotiations on an air transport agreement, halting high-level sectoral and political dialogues, further reducing 2020 pre-accession assistance, and inviting the European Investment Bank to review its lending activities in Turkey. A framework for restrictive measures was adopted in November 2019. Turkey’s military incursion into north-east Syria and the signature of bilateral memoranda on maritime delimitation and military cooperation with the Libyan Government of National Accord also put further strain on EU-Turkey relations.

DG NEAR continued to monitor developments in Turkey and manage bilateral relations, notably through numerous bilateral meetings, such as the EU-Turkey Association Council (the first since 2015), the Customs Union Joint Committee, two IPA Joint Monitoring

Committees, seven sub-committee meetings. A new strategy for engagement with Turkey was presented to the newly appointed Commission College.

The above-mentioned political developments affected the programming of financial assistance for 2019 and 2020. The reduction of the 2019 bilateral envelope (by EUR 150 million, resulting in a final amount of EUR 248.7 million), and urgent migration management needs had to be factored in. Two new actions were identified: to enhance the capacity of the Turkish Coast Guard on surveillance and search and rescue operations in shallow seawaters in the Aegean and Mediterranean Sea (EUR 5.95 million); and to support the management of irregular migration (EUR 25.8 million). Even though the IPA Management Committee gave a positive opinion, four Member States voted against, a reflection of the increased concerns on the evolution of the bilateral relations.

For the 2020 budget, in early 2019 the Commission made a proposal for Turkey amounting to EUR 253.2 million. In November, the Parliament and Council agreed on a final figure of EUR 168 million, cutting the Commission proposal by EUR 85 million. Compared to the funds originally envisaged in 2014, the final figure of EUR 168 million represents a 75% cut. Overall, the cuts made since 2017 to the 4.5 billion originally allocated for Turkey national envelope amount to EUR 1.3 billion.

1.1.3 Connectivity Agenda and good neighbourly relations

As a corner stone of our approach, DG NEAR continued to work closely with partners at regional level, seeking to improve cooperation within the region and with the EU (specific objective 4), and improving connectivity in all aspects including infrastructure, economies and people.

Among the highlights in 2019 were the Digital Summit in Belgrade in April and the Poznan Summit in July, which were both high-profile political successes.

To support these regional policy objectives, the EU provided EUR 880.7 million in IPA funds for 39 transport/energy projects that are expected to leverage overall investments of more than EUR 3.2 billion. The latest **Connectivity Agenda** package, endorsed at the Poznan Summit, includes 6 transport projects and 2 energy projects. Their aim is to modernise a joint railway border station, install signalling and telecom equipment on more than 100 km of railway lines benefiting 2 million people living along the routes, build or upgrade of over 30 km of motorways and infrastructure, construct over 100 km of electricity transmission lines, reconstruct connected substations, and construct 68 km of gas pipeline interconnection.



The **Transport Community Treaty Secretariat** was inaugurated in Belgrade. As part of the Digital Agenda for the Western Balkans, the newly signed **Regional Roaming Agreement** will enable a gradual reduction of roaming charges in the region. Impetus was also already given to the development of a **Green Agenda for the Western Balkans** through the adoption of the “Clean Energy Transition” Statement in Podgorica.

Regional cooperation objectives were also promoted through additional funds to key regional organisations such as the Regional Cooperation Council and CEFTA, to support the development of a competitive Regional Economic Area (REA).

In terms of connecting people, the focus on youth has significantly increased, including

doubling the support for **Erasmus+** and the launch of the **Western Balkans Youth Policy Lab**. Work continued on enhanced social inclusion, comprising support to Roma, as well as to the most vulnerable and displaced persons from the 90s conflicts through the Regional Housing Programme. Further support was provided on **media freedom and pluralism**, through new programmes with the European Endowment for Democracy and UNESCO, as well as to enable Civil Society Organisations to advocate for democracy, good governance, a better environment and fighting corruption. A new, stronger focus on culture as a vector of reconciliation was developed. In the field of security, action was taken to reform the **Integrative Internal Security Governance** (IISG).

1.2. Neighbourhood policy

The EU's relations with its neighbours are guided by the **revised European Neighbourhood Policy** (ENP), as the basis for reaching the EU's Global Strategy objectives in the region. Through the ENP, the EU has greater leverage to achieve its goal of **stabilising the Neighbourhood in political, economic and security related terms** (*specific objective 1*). It paves the way to build more effective, differentiated partnerships between the EU and the neighbourhood.

1.2.1. Neighbourhood East

DG NEAR continued to develop the Eastern Partnership (EaP) on the basis of common values, mutual interests, shared ownership, responsibility, differentiation and mutual accountability to deliver tangible results to citizens. 2019 was marked by solid progress in differentiated bilateral relations and within the EaP framework, steered by the "20 Deliverables for 2020". Bilaterally, the political framework is set by the relevant Agreements, such as the Association Agreements with Ukraine, Georgia and Moldova. For these three Deep and Comprehensive Free Trade Areas (DCFTA) countries, implementation of the Association Agendas continued in 2019.

The realignment of multilateral and bilateral actions continued, as the new multiannual programming documents 2017-2020 for Armenia, Georgia, Moldova, Ukraine (and 2018-2020 for Azerbaijan) as well as regional programmes, provided the basis for 2019 financial assistance. Special measures were adopted for Belarus in 2019, due to continuing negotiations on the EU-Belarus Partnership Priorities.

The overall environment for EU assistance in **Ukraine** remained favourable after the political leadership change resulting from the 2019 presidential and parliamentary elections. The new leadership remains committed to a comprehensive reform agenda based on the Association Agreement and DCFTA. EU assistance is well aligned with national priorities and has proven to be able to respond swiftly and flexibly to emerging new priorities such as e-governance and digital economy. The programme to support the implementation of the Association Agreement completed its first phase in July 2019, with many tangible results. These included the development of the Association Agreement implementation architecture, the analysis or drafting of more than 1600 EU and Ukrainian legal acts, the translation of 30 000 pages of legal and Association Agreement implementation documents and the launching of an EU Integration web-portal.

Territorial reorganisation and decentralisation of competences from central and regional authorities is still one of the most successful reforms in Ukraine, supported by the U-LEAD programme, on which a new financing agreement (EUR 40 million) was signed in 2019 to ensure proper continuation. The digital agenda and e-governance become flagship initiatives of the new Government. The implementation of the EU-funded major support programme EU4PFM started in 2019, focusing on reforms in tax and customs.

EU support to Anti-Corruption Reforms in Ukraine



The EU Anti-Corruption Initiative (EUACI) is the largest EU anti-corruption programme in Ukraine to date. It provides substantial support to frontline anti-corruption agencies, local authorities, the civil society and investigative media in the form of technical advice, capacity building, grants and IT solutions, drawing on the EU's and international best practices and experience. Within the last three years, EUACI delivered a number of tangible results that have transformed the way how Ukraine copes with corruption. It played a key role in the selection of independent judges of the High Anti-Corruption Court (HACC) and the court's smooth launch in September 2019 and is part of an integrated approach with the EU Advisory Mission and other EU programmes in the broader good governance and rule of law area.

The "**EU support to the east of Ukraine**" programme was extended with an extra EUR 10 million to strengthen support to the Sea of Azov region, following the November 2018 escalation. It supports activities on decentralisation, governance, business and economic development, community security and social cohesion, education and health reforms.

In **Moldova**, DG NEAR scaled up its financial assistance to support the reform-minded government resulting from the February 2019 elections, including resuming budget support payments and macro-financial assistance, as well as offering substantial policy support. The EU continues to apply strict conditionality in its assistance with respect to the new government formed in November 2019, and to ensure that any aid benefits Moldovan citizens and supports agents of change.

The Comprehensive and Enhanced Partnership Agreement with **Armenia**, the first new EU-Armenia agreement in over two decades, was signed in 2017, and provisionally entered into force on 1 June 2018. Negotiations are on-going for a new agreement with **Azerbaijan**. Negotiations continued on the EU Partnership Priorities, with **Belarus**.

Energy security and energy efficiency continued to be among the key priorities for EU cooperation with EaP countries (*specific objective 6*). The "**EU4Energy**" initiative has resulted in new laws and improved governance in the energy sector. In Ukraine the adoption of the Law on the Unbundling and final certification of the independent system operator is an important milestone. A significant achievement was made on energy statistics with 60% of data from EAP countries now harmonised with EU and international standards under EU4Energy compared to 10% in 2012.

The **High-Level Energy Efficiency Initiative** brought together international financial institutions in upscaling energy efficiency reforms and investments. Targeted work started in pilot countries Ukraine and Georgia, where a dedicated programme will provide technical assistance and investment grants to roll out energy efficiency in public buildings. The initiative was extended to Armenia in March 2019, while Azerbaijan joined the Eastern Europe Energy Efficiency and Environment Partnership.

EU Sustainable Energy Award for Eastern Partnership Countries

NEAR successfully collaborated with ENER and EASME during the EU Sustainable Energy Week in June 2019. NEAR created the new award category and opened the competition to the 6 Eastern Partnership countries. The award recognises inspiring EU-supported energy efficient and renewable energy projects that directly help citizens and communities save energy



or switch to sustainable sources. Integrating EaP as a separate category in the EUSEW award for EU Member States ensured added visibility to our work in the EaP region. The award helped to step up communication on EaP with wide media coverage of the award ceremony that counted 400 participants, and a public voting promotion campaign that reached 185,911 users.

The implementation of the **EU4Climate** programme started in 2019. It will support the development and implementation of climate-related policies which contribute to EaP countries' lower emissions, climate resilient development and their commitments to the 2016 Paris Agreement on Climate Change

1.2.2. Neighbourhood South

In 2019, the Neighbourhood South region continued to be characterised by contrasting situations. There are continuous **positive signs of stabilisation** in Tunisia, where presidential elections were successfully held, and in Morocco, where the government committed to engage in deeper political and economic relations with the EU at the Association Council in June following the resumption of cooperation. A Joint Political Declaration was adopted with Morocco, focusing on four spaces (values; knowledge; social and economic cohesion; political and security cooperation) and two horizontal areas (mobility and migration; the environment and climate change). By contrast, recent popular movements in Algeria and Lebanon, and the deteriorating security situation in Libya, added to protracted crises, such as in Palestine or Syria, serve as a reminder that the overall regional context remains extremely challenging.

Causes of instability across sectors are a key challenge for achieving results, and addressing them remains a crucial objective of the revised Neighbourhood policy. This is done through tailor-made policy frameworks channelling EU financial assistance to the most relevant sectors of the partner countries and using a mix of EU instruments. Annually, NEAR mobilises more than EUR 1.5 billion from the European Neighbourhood Instrument to support partner countries in their reform and development policies or assist populations in need, particularly in crisis situation.

Stability is highly determined by economic and social wealth. In 2019 programmes continued to be devised in the **economic domain** to help private sector development and job creation (in Jordan, Morocco, Tunisia and Libya), particularly for youth and women. In order to respond to varied situations, programmes address rural (in Tunisia or Libya) or urban development, infrastructures, through the Neighbourhood Investment Plan (NIP), or support to economic governance and financial inclusion through a mix of budget support and projects (e.g. in Tunisia, Morocco and Jordan).

DG NEAR's peer-to-peer instruments, TAIEX and Twinning, also actively contributed to support overall reform process in line with EU political priorities.

Shaping the future of entrepreneurship in the Southern Mediterranean

Supporting SMEs as an engine of inclusive growth and job creation has been at the core of the ENP, through a range of instruments improving regulatory frameworks, providing access to finance and to markets, developing entrepreneurial skills and strengthening support organisations to ensure better service delivery. Strengthening the innovation ecosystem has steadily gained importance for DG NEAR, which supports partner countries to tap into their innovation potential through programmes at regional and bilateral level. These programmes advocate policies, rules and regulations, which create an environment conducive to innovation and enable start-ups, incubators accelerators, tech-hubs and others to do business and grow. They help to connect the different actors within a country and across the Mediterranean to find partners, investors and markets.



In countries where populations' resilience is often weakened by political and economic crisis, EU assistance promotes **social inclusion and protection mechanisms** (Jordan, Palestine, Tunisia) and targets key social sectors to alleviate the pressure on the most vulnerable allowing improved access to electricity and water, and to health facilities (Morocco, Libya, Palestine). The EU also supports reforms in the education sector (Morocco, Egypt, Jordan), and contributes ENI funds to Erasmus+. Many cooperation projects in Egypt, Jordan, Morocco, Tunisia and Algeria focus on Youth and women.

Egypt: The Participatory Development Programme in Urban Areas (PDP)

PDP has contributed to the improvement of the living and environmental conditions for the residents of nine urban informal areas in Cairo, Giza, and Qalyubeya Governorates with a target population of two million inhabitants, through 82 projects. It is an Egyptian-German-European Union project supported by the German Federal Ministry for Economic Cooperation and Development (BMZ) (EUR 8.75 million) and where the EU is the largest co-funder (EUR 39.2 million). The programme adopted a participatory and integrated multi-stakeholder, multi-levelled approach to urban development, which ensured the inclusion of relevant stakeholders at national, regional and local levels. It enabled the engagement of governmental authorities, CSOs, private sector and community groups, endorsing the "leave no one behind" principle. This participatory integrated approach guided the planning, design and implementation phases of the projects.

More than 2,200 residents and CSO representatives participated in local decision-making processes. More than 500 staff from the local administration and CSOs were trained on participatory development methods for the development of informal areas. More than 1.6 million residents have access to improved health care services, 56% of them females, through the improvement of 31 health facilities. More than 80,000 students have received better quality education, 50% of them females. More than 8,000 residents were supported in coping with climate change impacts, 67% of them females. The above development results and methodologies that led to their achievement continue to inspire other development measures being implemented and planned under the Urban Development Cluster with a view to enhance policy reform processes at national level.

In parallel, EU assistance addressed issues of **governance, rule of law and Human Rights**, overarching objectives of our cooperation in a region where the space for civil society is shrinking, most strikingly but not only in Egypt and in Algeria. Despite real success in democratic transition in Tunisia, there is a strong need for reform in Southern Neighbourhood countries' public administrations to improve their capacity to deliver as well as their accountability. To address these needs, DG NEAR continued support both at local and central levels. Democratic processes were accompanied via support to relevant instances such as Parliament and the Human Rights National Institution in Morocco. In Syria particular focus was placed on work with non-state actors, while support to civil society is mainstreamed in Lebanon and Jordan.

In **Palestine**, in line with the goal of a two-state solution, EU efforts aim at promoting greater Palestinian control, autonomy and capacity to exercise responsibility to prepare for future statehood. The EU is working to enhance reforms that reinforce the Palestinian Authority's transparency and accountability and helps it meet its recurrent expenditures by contributing to the payments of salaries and pensions of a number of civil servants through the PEGASE mechanism.



DG NEAR continued to address the effects of the **Syria** conflict. It co-organised the third **Brussels Conference on Supporting the Future of Syria and the Region** in March, refocusing attention on the need for political settlement under UN auspices and successfully managed to mobilize significant pledges to address the needs of people inside Syria as well as those displaced in the region/host communities in Jordan, Lebanon and Iraq. The **EU Regional Trust Fund in Response to the Syrian**

Crisis is in its sixth year of operation and mobilised more than EUR 1.9 billion. Programmes focusing on education, livelihoods, health, protection and the water sector benefitted 4.3 million persons.

Under the **Neighbourhood Investment Platform** (NIP), in 2019 DG NEAR used lending to accelerate the green economy transition of Jordan, Lebanon and Tunisia and enhance competitiveness of the countries' private sector by increasing the penetration of high-performing and eco-friendly technologies and practices. This Green Economy Financing Facility covers both climate mitigation and climate adaptation investments. In a region characterised by scarce natural resources, programmes launched in 2019 address natural resources management such as water and energy.

Together with DG DEVCO, DG NEAR continued negotiations under the **European Fund for Sustainable Development** (EFSD) leading to the signature of six new guarantee agreements for a total coverage of EUR 286 million. These agreements will help cities develop public-private partnerships to lower investment costs for urban infrastructure, boost investments in renewable energy and support access to finance for MSMEs in the Neighbourhood and Sub Saharan Africa for a total coverage of EUR 286 million.

Blending through the NIP continued to be a powerful instrument to leverage investments in the region. In 2019, 17 new investments proposals were approved for a total amount of EUR 308 million. These will contribute to tackle climate and environmental challenges with a focus on investments in renewable energy, transport, water, wastewater as well as supporting SMEs in the Neighbourhood South. All in all, this mix of different modalities to implement financial assistance under the European Neighbourhood Instrument directly contributed to DG NEAR's key policy achievements in Neighbourhood countries.

1.2.3. Regional actions and Cross Border Cooperation in Southern Neighbourhood

In the framework of the **Union for the Mediterranean**, an Employment Ministerial meeting in April resulted in the launch of a 'Community of Practice' to be coordinated by the UfM Secretariat. As recommended in the UfM Trade Ministerial Declaration of March 2018, a UfM Business Forum was created in 2019. In October, the UfM Ministers for Foreign Affairs gathered for the fourth UfM Regional Forum which included a presentation on ground-breaking findings of the first-ever scientific report on climate and environmental change in the Mediterranean area.

DG NEAR continued to support **Energy dialogue** among energy regulators, agencies, and gas carriers, regarding the integration of energy markets, the development of renewable energies, the promotion of energy efficiency and the facilitation of regulatory convergence. Similarly, regional projects in the transport sector provided technical assistance to the national authorities, including through the participation in international conventions and regulatory convergence, with a long-term objective of making transport in the region safer, more efficient and environmentally friendly. Ongoing environment projects have developed the circular economy and contributed to fulfilling the objectives of the Barcelona convention on biodiversity and the depollution of the Mediterranean Sea.

A comprehensive package was adopted on trade and investment and the nexus with job creation, to provide support for the implementation of the **External Investment Plan**. Three new programmes with the OECD, ILO and the International Trade Centre focus on the investment climate, mainstreaming of employment into trade and investment policies, and a scale-up of the successful Export Helpdesk for the Southern Neighbourhood.

In view of the **shrinking space for civil society** across the region, DG NEAR deployed significant efforts to increase the capacity of civil society especially in their advocacy work in upholding the accountability of States to their citizens, restoring citizens' trust in their institutions, and supporting Human Rights defenders. Continuous collaboration with the Council of Europe in the Southern Neighbourhood has been key to ensuring this. Engagement with civil society was reinforced through contracts and calls for Youth and

culture and a new programme with the European Endowment for Democracy. The 'Majalat' Civil Society Forum for the Neighbourhood South held in December in Brussels, confirmed itself as a credible and inclusive dialogue platform between civil society, EU institutions and regional entities, to exchange on the regional policy agenda.

1.3. Migration management

DG NEAR plays a key role in managing the migration crisis. It drives forward policies and programmes aimed at **stemming the influx of irregular migrants to the EU** and tackling the migration challenges and their root causes in Enlargement and Neighbourhood countries (*specific objective 5*). The main instruments in this area are two EU Trust Funds (EUTFs) managed by DG NEAR: EUTF in response to the Syrian Crisis, EUTF for Africa - North of Africa window, as well as the Facility for Refugees in Turkey (FRIT).

The EUTF in response to the Syrian Crisis provided significant support in education, livelihoods, health and social protection across the region, with a view to addressing the needs of hosting countries in a situation of protracted and significant refugee presence. In 2019 the EUTF Syria reached a total volume of EUR 1.9 billion.



The pace of implementation of the **EUTF for Africa** continued to increase with new programmes approved for a total amount of EUR 807 million. DG NEAR increased its engagement in the protection of vulnerable migrants and the fight against the trafficking of human beings and smuggling of migrants. Assistance to Libyan municipalities to promote alternative livelihoods and support the resilience of local communities hosting migrants remained a key priority. The EUTF for Africa also adopted a large budget support programme to support the actions of the Moroccan authorities to manage migratory flows. The EUTF adopted new programmes to promote mobility and legal migration from North Africa as a safe alternative to irregular migration, in line with the priorities of the new Commission.



The assistance to migrants and refugees stranded in Libya

In 2019, the North of Africa window of the EU Emergency Trust Fund for Africa was able to respond quickly to the increasing humanitarian needs in Libya, in particular following the escalation of fighting in April 2019. Out of EUR 408 million committed for migration related activities under the EUTF: EUR 185.3 million was used for protection and assistance; EUR 135.8 million for stabilisation of Libyan municipalities and EUR 87.2 million for integrated border management. The Trust Fund substantially contributed to the voluntary return of over 50,000 migrants from Libya to their countries of origin with reintegration support and the evacuation of more than 5,500 refugees and asylum-seekers out of Libya. Over 1.7 million people living in Libyan municipalities have improved access to basic services (hospitals, schools).

The operational envelope of **Facility for Refugees in Turkey** (EUR 6 billion) was fully committed. Three new contracts were signed for the construction of water and wastewater infrastructure, and for enhancing employability skills of host communities and refugees. Over 4,000 Turkish language trainers were employed to train some 230,000 children, and more than 52,000 students. 179 Migrant Health centres were also fully equipped, with around 3,000 healthcare personnel recruited to date. Through this support, over 9 million primary health care consultations were carried out.

In July 2019 a special measure of EUR 1.41 billion was adopted on health, protection, socio-economic support and municipal infrastructure.

In the Western Balkans, the **Regional Support to Protection-Sensitive Migration Management** entered into its second phase, with the inclusion of assistance to local communities to enhance social cohesion and inclusion. Migration related support was provided on a bilateral basis to the countries most affected by the migratory pressure.

Bosnia and Herzegovina, after having remained at the margins of the 'Balkan route' during its peak in 2015-2018, has been facing increased migratory pressure since early 2018. To help avoid a humanitarian crisis, EUR 30.2 million in IPA funds was allocated for basic accommodation and protection services to over 5,000 migrants and refugees. It allowed setting up 6 temporary reception centres and the provision of food, clothing, water sanitation, hygiene, health and protection assistance, child protection and education. EU funds also covered outreach to those without proper accommodation, including provision of food, sleeping bags, warm clothing and first aid. Part of these funds contributed to strengthening the border, migration and asylum management capacities.

Serbia continued to make substantial efforts to meet essential needs of migrants passing through or remaining on its territory. 19 government reception facilities provide long-term accommodation for around 6,000 people and temporary shelter for around 1,000 people. Education to migrant children and health services to migrants are provided through their inclusion in the Serbian national education and health systems. Since 2007, pre-accession support to Serbia in the area of border management and migration amounts to EUR 78.6 million. Since September 2015, the EU mobilised EUR 110 million in IPA funds for additional assistance for Serbia, including 24 million of humanitarian assistance and the latest 2019 Special Measure of EUR 27.5 million, allowing Serbia to further improve its capacity to manage migration flows.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

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

The first subsection reports the control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives. It includes all additional information necessary to establish that the available evidence is reliable, complete and comprehensive, appropriately covering all activities, programmes and management modes relevant to the DG. The second subsection deals with the other components of organisational management: human resources, better regulation principles, information management and external communication.

2.1. Financial management and internal control

Assurance is an objective examination of evidence to provide an assessment of the effectiveness of risk management, control and governance processes.

This examination is carried out by management, who monitor the functioning of the internal control systems on a continuous basis, and by internal and external auditors. The results are explicitly documented and reported to the Director-General through several periodical reports, which are listed in section 4 of Annex 10.

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.

DG NEAR also produces an annual report to DG DEVCO on the cross-sub-delegation of DG DEVCO to DG NEAR for the management of the North of Africa window of the EU Emergency Trust Fund for Africa.

This section is for reporting 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 internal control systems, and resulting in (d) Conclusions on the assurance.

2.1.1. Control results

This section is for reporting and assessing the elements identified by management which support the assurance on the achievement of the internal control objectives¹⁵. The DG's assurance building and materiality criteria are outlined in Annex 4. Annex 5 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems.

The 2018 Financial Regulation introduced some additional AAR reporting requirements:

- cases of 'confirmation of instructions' (new FR art 92.3);

¹⁵ 1) Effectiveness, efficiency and economy of operations; 2) *reliability of reporting*; 3) *safeguarding of assets and information*; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 36.2).

- cases of financing not linked to costs (new FR art 125.3);
- Financial Framework Partnerships >4 years (new FR art 130.4) *
- cases of flat rates >7% for indirect costs (new FR art 181.6);
- cases of "Derogations from the principle of non-retroactivity [of grants] pursuant to Art 193 FR" (new FR art 193.2).

There is no case to be reported for the year 2019.

The breakdown of the total amounts paid by DG NEAR in 2019 by management mode is as follows:

	Total payments made in 2019					
	EU Budget (EUR)	%	EU Trust Fund Syria (EUR)	%	Total paid amount (EUR)	%
Grants in Direct Management	510.842.463,76	16%	93.826.137,30	29%	604.668.601,06	18%
Budget Support	424.457.989,42	14%	4.320.000,00	1%	428.777.989,42	12%
Procurement in Direct Management	315.987.876,06	10%	2.293.830,90	1%	318.281.706,96	9%
Indirect Management with International Organisations	658.542.500,92	21%	140.877.866,36	44%	799.420.367,28	23%
Indirect Management with EIB and EIF	31.705.583,85	1%			31.705.583,85	1%
Indirect Management with Development Agencies	283.063.018,71	9%	81.948.265,06	25%	365.011.283,77	11%
Indirect Management with Beneficiary countries Total	528.082.050,28	17%			528.082.050,28	15%
Shared Management	166.130.469,04	5%			166.130.469,04	5%
PEGASE	133.331.661,26	4%			133.331.661,26	4%
Other contracts/payments	8.375.224	0%			8.375.223,55	0%
Administrative expenditure	55.443.922,82	2%			55.443.922,82	2%
Total expenditure (excluding contribution to EU TF)	3.115.962.759,67	100%	323.266.099,62	100%	3.439.228.859,29	100%
Contribution to EU Trust Funds	280.282.500,00					
Total expenditure	3.396.245.259,67					
RSC coverage	2.752.681.483,00	88%	323.266.099,62	100%	3.075.947.582,62	89%
RER coverage	3.060.518.836,85	98%	323.266.099,62	100%	3.383.784.936,47	98%

Cost-effective controls are those, which are effective to fulfil the intended control objectives in an efficient manner and at a reasonable cost. In order to decide whether controls are **cost-effective**, it is necessary to assess their **effectiveness, efficiency and economy**. This sub-part is structured around these three concepts.

1. Effectiveness = the control results and benefits

In order to be considered effective, controls are expected to meet the internal control objectives detailed hereafter and for each of those control objectives result in benefits.

➤ **Legality and regularity of the transactions**

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

➤ **Categorisation of DG NEAR's overall control environment**

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

- High level of risk in partner countries (some more than others), due to the political, institutional, administrative and social environment. Moreover, in recent years conflicts in the area (Ukraine, Syria and Libya) have increased the risks. However, this analysis must be nuanced by country.
- Geographically dispersed activities, covering some 24 countries, with Delegations managing funds for DG NEAR.
- High number of operations and associated financial transactions.

- Two main financial instruments to manage, along with their predecessors, as well as other financial instruments (thematic lines), cross sub-delegated from other DGs.
- Diversity of partners implementing activities, such as beneficiary countries, private firms, entrusted entities, NGOs.
- Diversity of forms and modes of financial implementation (project approach, budget support, sector approach, indirect management with beneficiary country or entrusted entity, blending, trust funds, shared management under Cross Border Cooperation).

➤ **Controls supporting the achievement of the objectives**

The controls put in place by DG NEAR management provide reasonable assurance that the internal control objectives are achieved, the risks related to financial management are adequately managed and the legality and regularity of underlying transactions is ensured. They take into account the multiannual character of the DG programmes as well as the nature of the payments concerned.

DG NEAR's assurance is based on a number of controls, which are implemented either ex ante or ex post. These are: the financial circuits, supervision missions, the control plan (including risk-based financial verifications launched by the Commission, and operational controls such as Results-Oriented Monitoring, evaluations and on the spot checks), contractual verifications launched by the beneficiaries, pillar assessments of entrusted entities, controls in indirect management with beneficiary countries, control body verifications (ECA/IAS) and the residual error rate study.

➤ **The Residual Error Rate Study**

The residual error rate (RER) study allows for the evaluation of the effectiveness of the overall control framework. The RER indicator is designed to identify residual errors not detected by the internal control system, and to conclude on its effectiveness. A residual error rate below the materiality threshold of 2% is a strong indicator that the controls put in place at all levels of the DG are effective. Moreover, besides the overall error rate, the RER study identifies the common types of error, thus helping to better understand their nature and to avoid them in the future.

In order to take into account the recommendations by the Court of Auditors and the IAS, DG NEAR regularly updates the RER methodology. The detailed procedures describing the work performed in an RER exercise are set out in the "Methodology and Instruction Manual". The methodology takes into account the multiannual nature of DG NEAR's programmes.

In order to detect weaknesses, DG NEAR has categorised its portfolio and described five major relevant control systems (RCS) corresponding to management modes. In addition, DG NEAR has developed *risk indices* to better support the assessment by RCS. A notional error rate for each RCS is calculated to add information on risks in the various management modes.

Moreover, as of 2019, following a high error rate identified in grants under direct management, the number of checks was increased and more precise guidelines on checking second-level procurement have been given to the RER contractor. As of 2019, according to the updated manual and methodology there is no longer a distinction between ENI rate and IPA rate, but a common rate defined as "the main DG rate".

The RER study is based on a sample (drawn by monetary unit sampling) of a minimum of 516 intervals in a population of closed contracts in the period September 2018 to August 2019. The multiannual nature of DG NEAR's programmes is taken into account in this methodology, as the contracts closed during the said period and taken into account for

the monetary unit sampling were authorised over a period of several years.

The 2019 Residual Error Rate (0.53%) for the DG is satisfactory, and well below the materiality threshold of 2%.

DG NEAR residual error rate in 2019	
Main error rate:	0.54 %
IMBC rate:	0.26 %
Grants rate:	2.65%
Global error rate: 0.53%	

Upper and lower error limits

The weighted upper error limit is 2.17% and the lower error limit is 0.01%. The breakdown of the upper error limit is as follows:

	Upper error limit	Weighted contribution to limit
Main DG	2.18%	2.08%
IMBC	2.13%	0.09%
Total		2.17%

➤ **Categorisation of the different control environments**

The positive assessment based on the 2019 RER study does not exclude weaknesses in specific parts of the portfolio. To detect them, DG NEAR has categorised its portfolio and described **five major relevant control systems** (RCS). These are defined in terms of *management modes*. A RCS is developed when the total amount contracted or paid represents at least 10% of the total amount of the year for the DG. DG NEAR has also developed risk indices to better support this assessment by RCS, as recommended by ECA. Annex 5 provides more detail on this.

Overview table RCS and RER Study

The methodology for the RER study in 2019 introduced a change in the calculation of the error rates, to distinguish the specific error rates per relevant control system: direct management grants (RCS1); indirect management with beneficiary countries (RCS4); remaining control systems (RCSs 2, 3 and 5) for which the RER is 0.53%.

	RCS1 (Direct Grants)	RCS2 (Procurement)	RCS3 (Budget Support)	RCS4 (IMBC)	RCS5 (IMEE)
% amount paid	16%	10%	14%	17%	31%
Risk level	High	Low	Low	Low	Moderate
RER Calculated	2.65%	0.07%	0.14%	0.26%	0.14%
Reservation	Yes	-	-	-	-

Consequently, the reservation on indirect management – grants is maintained (see section 2.1.4)

Benefits of controls: non-quantifiable benefits relate to sound financial management as confirmed by the low Residual Error Rate (below 2%). In addition, quantitative financial

benefits of controls amount to EUR 135.9 million¹⁶.

A. Direct Management

Under Direct Management, funds are channelled to the final recipients through contracts signed directly by the Commission as contracting authority. Under Direct Management, the control environments are Grants in Direct Management (RCS 1); Procurement in Direct Management (RCS 2); Budget Support (RCS 3). In addition, the Pegase mechanism to channel Direct Financial Support to the Palestinian institutions includes a specific set of controls which has been reviewed in recent years by ECA.

RCS 1: Grants in Direct Management

Control results and risk analysis:

- With a residual error rate for grants that has been just above the materiality threshold of 2% in the last years (2017: 2.80, 2018: 2.26%, 2019: 2.65%), DG NEAR assesses that there is an inherent risk related to grants in its portfolio (around 15%). However, grants are a key modality to implement DG NEAR's policy objectives through reaching out, amongst others, to smaller, local and grass-root non-governmental organisations in fields such as civil society development, human rights or media. In most countries covered by DG NEAR, the space in which the civil society organisations operate has been shrinking over the years, with increasing restrictions on their establishment, operations, development and independence contributing to additional difficulties in managing EU-funded projects. DG NEAR's "risk appetite" when it comes to grants in direct management is therefore higher than for other implementation modalities as it directly linked to its policy objectives. The risk is inherent to the nature of activities.
- Furthermore, the grant reimbursement mechanism is based on eligible actual costs and reimbursement claims submitted by the beneficiaries. Root causes of errors in grants are mainly due to misunderstanding or misinterpretation of the relative complex contractual provisions. In several instances, they relate to the lack of safeguarding of the financial documentary evidence after project completion or the lack of response to the RER auditors. Grants are mostly implemented by non-profit organisations based in partner countries. These entities sometimes lack the necessary expertise for the rigorous application of the general and specific conditions of the grant contracts.
- Root causes of errors may also result from the poor quality of some of the expenditure verification reports prepared by auditors contracted by the fund recipients as part of their contractual obligations. Conclusions of these reports have been questioned on occasion by the ECA or by external auditors contracted by DG NEAR. However, the Terms of Reference have been reviewed in 2018 and now include an obligation for inclusion in audit reports of better information on sampling methods used, the identification of verified transactions in complete transaction listings, and the identification of changes between draft and final verification reports. The impact of this measure will be assessed during the second half of 2020.
- Various mitigating measures were put in place in 2019, but the RER calculated for this RCS is 2.65%

Based on the above, and as the inherent risk under this RCS needs to be considered DG NEAR assessed the level of **risk associated with Grants in Direct Management** as

¹⁶ This is the sum of ineligible expenditure detected by ex ante controls (EUR 127.9 million after verifications/audits) and recovery orders for ineligible expenditure (EUR 8 million).

HIGH.

To mitigate these risks, DG NEAR is implementing several measures:

- Promotion of wider use of simplified cost options (lump sums, unit costs and/or flat-rate financing). Organisation of kick-off meetings for new grantees to explain the contractual provisions, and provide clear information on the most frequent sources of errors in grants.
- Promotion of a preventive approach in the control plans, such as increased on-the-spot checks of grant contracts towards the beginning of projects and increased audits on contracts after final payment and before closure.
- Analysis of the typology of errors and awareness-raising: various actions have been and will continue to be deployed to this purpose, such as dedicated information sessions; increased use of collaborative platforms; seminars for heads of finance and contracts, and heads of operations and financial officers; kick-off meetings for new grantees to explain their contractual obligations and provide clear information on the most frequent sources of errors in grant management and their implications.
- Training on grant invoice processing to operational staff.
- Fine-tuning of the RER methodology. As compared to previous years, the RER study 2019 included more control on grants under direct management.

RCS 2: Procurement in Direct Management

Control results and risk analysis:

- Contractual procedures are transparent, well established, and main contractors are very familiar with them.
- Review of the results of ECA reports of recent years shows that procurement operations have a rather low risk.
- This is confirmed by the result of the 2019 RER study, which identified very few errors in procurement contracts.
- The 2019 RER calculated for this RCS is 0.07%.

Based on the above elements, DG NEAR assessed the level of **risk associated with procurement contracts in Direct Management** as **LOW**.

RCS 3: Budget Support in Direct Management

Control results and risk analysis:

- Review of the results of recent ECA reports shows that budget support operations have a very low risk. This is confirmed by the result of the 2019 RER study (see below).
- The system of ex ante controls including high-level steering mechanism put in place by DG NEAR for Budget Support operations, which prevents any disbursement from being made unless all required pre-conditions and targets have been met by the Beneficiary Countries significantly reduces risk for these transactions.
- The 2019 RER calculated for this RCS is 0.14%.

Based on the above elements, DG NEAR assessed the level of **risk associated with Budget Support operations** as **LOW**. This is consistent with previous ECA reports

stating that the nature of the instrument and of the payment conditions limit the extent to which Budget Support transactions are prone to errors.

B. Indirect Management

Under indirect management, the final recipient receives EU funds through a contract signed with an intermediary to whom the Commission has entrusted the tasks of selecting the final recipients and managing the resulting contracts (so-called budget-implementation tasks). The recipient is either an Indirect Management Entrusted Entity (IMEE), such as an International Organisation or Member State Agency; or an Indirect Management Beneficiary Country (IMBC). It is important to mention that under the ENI instrument, the entrustment to a beneficiary is only partial, as contracts are endorsed and payments are still made directly by the Commission - while for IPA the entrustment is full, including payments. The significant control environments identified and described below are those of IMBC in the IPA zone (RCS 4) and IMEE (RCS 5).

RCS 4: Indirect management with IPA beneficiary countries

Control results and risk analysis:

- The 2019 RER study includes a representative sample of IPA transactions under IMBC. The result of the study shows a total RER of 0.26%.
- DG NEAR receives annual management declarations, annual audit activity reports and annual audit opinions from all IPA beneficiary countries¹⁷.
- In order to safeguard the financial interest of the Commission, the internal control systems of all IPA beneficiary countries are assessed annually by DG NEAR to support the entrustment decisions.
- In 2019 there were full ex ante controls by the EU ***Delegations over procurement and grant procedures managed under IMBC.***

Based on the above elements, the level of **risk associated with operations in Indirect Management with IPA Beneficiary Countries** is assessed by DG NEAR as **LOW**.

RCS 5: Indirect management with entrusted entities

Control results and risk analysis:

- The RER study includes a representative sample of IMEE transactions.
- DG NEAR received annual management declarations at project level¹⁸ from the entities it works with under indirect management, unless the latter have agreed with the Commission to send an Annual Management Declaration covering all contracts implemented in the previous year. The 2019 RER calculated for this RCS is 0.14%.

A key factor when assessing DG NEAR's relationship with International Organisations are

¹⁷ All the documents received cover the year 2019

¹⁸ Delegation Agreements contain the obligation to provide a Management Declaration following the template annexed to the contract with every report. However, it is possible to agree with the Commission to send annually the Management Declaration covering all the agreements signed with the Commission. In this case, the organisation sends within the year n (this could be either the calendar year or the financial year of the organisation) the Annual Management Declaration for year n-1 covering all contracts implemented in that year. This Management Declaration is valid until the end of year n+1, i.e. it serves as the Management Declaration for payment requests/reports submitted until this point in time.

certain peculiarities in the field of financial and operational reporting. Reports submitted by some IOs do not necessarily allow for an in-depth assessment of the reported expenditure, due to differences (identified and acknowledged through the positive assessment of the relevant pillars) between the accounts systems and costs structure of these organisations and those of the Commission.

In 2019, DG NEAR followed up on the assessment of NATO, as it did not obtain positive assessment on certain pillars; NATO had to address the shortcoming identified by the auditors. To this end, nine corrective actions were identified, of which six have been implemented and three are still ongoing. The additional supervisory measures by DG NEAR, as defined at the signature of the delegation agreement, are in place and will continue to apply until the auditors confirm full implementation of the remedial actions¹⁹.

DG NEAR has fully taken into consideration the recommendation issued by the Court of Auditors as part of the 2018 discharge, to improve cooperation with International Organisations in the context of ECA audits²⁰.

Based on the above elements, DG NEAR assessed the level of **risk associated to operations in Indirect Management with International Organisations and Member States' Agencies** as **MODERATE**. To reduce this risk, DG NEAR puts in place the following measures:

- Continue clarifying and simplifying rules, procedures, agreement templates, and framework agreements that apply to its relations with IOs.
- Remain involved in a global assessment of terms of reference and verification missions with all UN Agencies and other External Actions DGs to implement the verification clause as set in the new FAFA²¹.
- As of 2020, undertake regular in-house analysis of non-financial findings stemming from verification missions to international organisations.

C. Expenditure not covered by a specific RCS

Pegase

The protracted crisis situation linked to the stagnation of the Middle East Peace Process and the fact that Palestine has not yet attained 'statehood' continues to require specific temporary support measures to contribute to maintaining the viability of the two-state solution. One measure is the PEGASE Direct Financial Support (DFS) to the Palestinian Authority (PA)'s national budget.

Through PEGASE DFS, the EU has contributed substantially to the recurrent expenditure of the PA national budget, with systematic, predictable and unconditional contributions.

Currently EU support to PEGASE DFS covers three areas:

- Contribution to the payment of salaries and pensions to the PA civil servants in Palestine (West Bank and Gaza Strip) - (PEGASE DFS "Civil Servants and Pensioners" (CSP) programme).

¹⁹ The payment made under IMEE is the pre-financing of EUR 1 million. The second pre-financing is due in December 2020 and will be subject to a positive assessment of the progress made before payment.

²⁰ The resources of the selected IOs are mobilised as early as possible in the audit process; for the 2019 audit work, DG NEAR increased its monitoring of the sampled transactions where the implementing partners are IOs, to support the EU Delegations in their efforts to ensure that they share information with the Court as needed.

²¹ Financial and Administrative Framework Agreement

- Contribution to the PA's national cash transfer programme (CTP) for quarterly payments of social allowances to the poorest and most vulnerable Palestinian families in the West Bank and the Gaza Strip (PEGASE DFS "Vulnerable Palestinian Families" (VPF) programme).
- Contribution to the payment of health referral bills (PEGASE DFS "East Jerusalem hospitals" (EJH) programme).

For each programme, contributions from the EU and other donors are pooled in a sub-account of the PA's single treasury account. Payments to final beneficiaries (i.e. civil servants, pensioners, poor families, hospitals) are made by the PA after prior authorisation of the Commission. To this end, robust ex ante verifications are carried out including in-depth screenings to identify eligible beneficiaries and/or invoices based on prior agreed eligibility criteria. Ex post control activities confirm that funds have been duly disbursed to the eligible beneficiaries. Following a recommendation issued by the European Court of Auditors, in 2018 the EU started applying a system of incentives to PEGASE DFS, specifically by linking part of the disbursements to real progress by the PA on civil service reform and public finance management reform, or other key policy areas jointly agreed by the PA and the EU.

Shared Management

Shared management applies to the Neighbourhood cross-border cooperation (CBC) programmes. The assurance as regards the legality and regularity of operations that are conducted by Member States designated authorities in accordance with their own rules is built on work carried out at two levels:

- At Joint Managing Authority level, the daily control framework includes ex ante financial verifications before declaring expenditure eligible and follow up of audits by external auditors. The annual report is audited by the national audit authority of the host country.
 - At Commission level, the analysis is based on National Authority system audit reports; Audit Authority opinion on the annual accounts; verification missions of CBC programmes by Commission staff; relevant information from ECA and OLAF, any other information, formal or informal, acquired by DG NEAR in the context of day-to-day management of the programmes.

In addition, for the 2014-2020 programming, the Commission has requested an independent opinion on the description of the management and control systems of the designated Managing Authorities for the 16 adopted programmes. A significant modification in the 2014-2020 programming is the role of the Audit Authorities of the countries hosting the Joint Managing Authorities (JMAs) seconded by a group of Auditors (GoA) representing the Audit Authorities of the partner countries.

Based on the above elements, DG NEAR assessed the level of **risk associated to CBC operations** as **LOW**.

DG NEAR contribution to the EU Trust Fund - Syria

The Director General of DG NEAR is Delegated Authorising Officer for the EU Regional Trust Fund in Response to the Syrian Crisis. Related activities and expenditure are therefore reported in the Annual Activity Report of DG NEAR and covered by the Declaration of Assurance signed by the Director-General. He also receives a cross sub-delegation from DG DEVCO for the North of Africa window of the EU Emergency Trust Fund for Africa.

The Commission retains full responsibility for the establishment and the management of EU Trust Funds (TF) for external actions; it sets up the TF and chairs its board (composed of representatives of the Commission and of the donors).

The TFs are managed in full compliance with the applicable provisions of the Financial Regulation, and in particular the principles of sound financial management, transparency, proportionality, non-discrimination and equal treatment.

The EU TFs operate in the general system of internal control defined by the Commission. The rules and procedures developed by DG NEAR for the management and implementation of its operations are equally applicable to the EUTF²².

Once approved by the Operational Committee, actions are implemented in accordance with the implementing procedures provided for in the applicable Commission rules and regulations. The TFs' accounts are subject to an annual external audit.

The TF Managers take into account reports and recommendations of the different control bodies, notably the IAS and ECA, to provide an assessment of the effectiveness of risk management, control and governance processes, in addition to the results of the audits carried out at the level of contractors/beneficiaries.

Amount at risk

In the context of the protection of the EU budget, the Directorate-General's estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at the Commission level.

DG NEAR's data is summarised in the table "Estimated overall amount at risk at payment and at closure" and its accompanying notes, below. The situation is considered as stable, as compared to 2018. The estimated overall risk at closure for the 2019 expenditure is slightly higher than in 2018 (EUR 12.84 million), as the total relevant expenditure increased, as well as the residual error rate (from 0.51% to 0.53%).

The estimated overall risk at payment for 2019 expenditure is EUR 23.91 million. This is the AOD's best, conservative estimation of the amount of *relevant expenditure* during the year (EUR 2846.35 million) not in conformity with the contractual and regulatory provisions applicable at the time the payment was made.

This expenditure will subsequently be subject to ex post control and a proportion of the underlying errors will be detected and corrected in successive years. The conservatively estimated future corrections for 2019 expenditure is EUR 8.82 million. This is the amount of errors that the DG conservatively estimates will be identified and corrected by controls planned for succeeding years.

The difference between the two amounts leads to the estimated overall risk at closure for the 2019 expenditure of EUR 15.09 million.

²² As detailed in the breakdown of payments made by DG NEAR in 2019, a large proportion of the EU TF Syria is implemented through Indirect Management with Entrusted Entities (69%) and Direct Management - grants (29%).

Table of the estimated overall risk at closure²³

DG NEAR	"payments made" (FY; m€)²⁴	minus new prefinancing [plus retentions made*] (in FY; m€)²⁵	plus cleared prefinancing [minus retentions released* and deductions of expenditure made by MS] (in FY; m€)²⁶	= "relevant expenditure" (for the FY; m€)²⁷	Average Error Rate (weighted AER; %)²⁸	estimated overall risk at payment (FY; m€)²⁹	Average Recoveries and Corrections (adjusted ARC; %)³⁰	estimated future corrections [and deductions] (for FY; m€)³¹	estimated overall risk at closure (m€)³²
<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6)</i>	<i>(7)</i>	<i>(8)</i>	<i>(9)</i>	<i>(10)</i>
Total expenditure including contribution to EU TF	3,396.25	2,077.34	1,739.57	3,058.48					
<i>Of which contribution to EUTF In response to the Syrian crisis</i>	250.28	0	0	250.28					
<i>Of which contribution to EUTF Bekou</i>	1.99	0	0	1.99					
<i>Of which contribution to EUTF Africa</i>	30.00	0	0	30.00					
Total expenditure excluding contribution to	3,115.96	2,077.73	1,739.57	2,778.20					

²³ The amount at risk at closure is based on the RER study. It is therefore the starting point for the estimation of the average error rate at payment.

²⁴ Payments made or equivalent, such as after the expenditure is registered in the Commission's accounting system, after the expenditure is accepted or after the pre-financing is cleared. In any case, this means after the preventive (ex ante) control measures have already been implemented earlier in the cycle. In all cases of co-delegations (Internal Rules Article 3), the "payments made" are covered by the delegated DGs. In the case of cross sub-delegations (Internal Rules Article 12), they remain with the delegating DGs.

²⁵ New pre-financing actually paid by out the department itself during the financial year (i.e. excluding any pre-financing received as transfer from another department). The "Pre-financing" is covered as in the context of note 2.5.1 to the Commission (provisional) annual accounts (i.e. excluding the "Other advances to Member States" (note 2.5.2) which is covered on a pure payment-made basis). Pre-financings paid/cleared" are always covered by the Delegated DGs, even in the case of cross sub-delegations.

²⁶ Pre-financing actually having been cleared during the financial year (i.e. their 'delta' in FY 'actuals', not their 'cut-off' based estimated 'consumption').

²⁷ Relevant expenditure during the year: payments made, minus new pre-financing paid out, plus previous pre-financing cleared.

²⁸ 2019 amount at risk at payment divided by the 2019 relevant expenditure.

²⁹ 2019 amount at risk at closure plus 2019 estimated future corrections.

³⁰ Estimated future corrections (average 2019-2018) divided by total payments (average 2019-2018). The 2019-2018 average of the estimated future corrections is based on the historic recovery orders issued by NEAR for the reimbursement of undue payments identified by ex post controls (recovery orders encoded with recovery context "errors", "irregularity" or "OLAF notified") in 2019 and 2018 (NB 2018 with exclusion of some amounts of ex post recoveries erroneously encoded).

³¹ ARC in percentage multiplied by the 2019 relevant expenditure.

EUTF									
EUTF in response to the Syrian crisis	323.27	307.79	52.67	68.15					
Overall, total	3,439.24 mEUR	2,385.24 mEUR	1,792.24 mEUR	2,846.35 mEUR	0.84%	= 23.91 mEUR, and 0.84% of (5)	0.31%	= 8.82 mEUR, and 0.31% of (5)	= 15.09 mEUR, and 0.53% of (5)

Fraud prevention, detection and correction

DG NEAR has developed and implemented its own anti-fraud strategy, based on the methodology provided by OLAF. It was last updated in 2018 and approved for the years 2018-2019³².

The general objectives of this anti-fraud strategy are the following:

- Anti-fraud network, data collection and guidance: to establish a network of OLAF Focal Points within DG NEAR, and develop data and statistics on the OLAF cases that concern the DG.
- 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 the Commissioner, as well as to develop the tools that enable this reporting and to coordinate relations between DG NEAR and OLAF.
- 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.
- Enhanced collaboration with OLAF, fraud prevention awareness campaign in the partner countries and capacity building of OLAF related structures in IPA and ENI countries.

Throughout 2019, bi-monthly updating of monitoring tables was put in place, continued daily support and advice was provided to staff on OLAF issues: awareness raising campaign with OLAF guidance addressed to all staff and trainings, jointly with OLAF, were provided to Heads of Finance and Contracts and Operations during the cooperation days. Training sessions were also provided in coordination with DEVCO. In addition, three video conference training sessions were organised for the NEAR Delegations with OLAF and IDOC. The OLAF manual was updated, shared with all staff and put online. These initiatives further enhanced awareness as evidenced by the results of the survey on anti-fraud where 85.19 % of answers from staff³³ were correct, which is an improvement compared to previous years. .

In line with the new administrative agreement with OLAF, cooperation was ensured throughout 2019 Overall, activities in 2019 enhanced the robust fraud prevention and detection system already in place.

In 2019, 60 cases were closed by DG NEAR and/or dismissed by OLAF. As regards follow-up of OLAF financial recommendations EUR 2.8 million has been recovered in 2019.

³² All relevant guidance documents, in particular the updated OLAF/Anti-Fraud manual, OLAF administrative agreement, guidance notes and DG NEAR OLAF focal point network, are available on DG NEAR intranet.

³³ Participation to the survey: 337 respondents.

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

Reporting

Reporting on activities gives 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. Benchmarking is implemented through the KPIs in the EAMR and AOSD reports.

The objective of this reporting structure is to have a solid basis for the DG's AAR. The risk assessment, audit plan and control plan have been integrated into the DG's Management Plan. The 2019 risk register has been updated for the DG and approved by the Risk Management Committee. A single reporting framework has been introduced for IPA and ENI building on the KPIs and the related EAMRs.

The list of the reports produced by the DGs is provided in the introduction of Part II of this AAR.

Assets

The financial assets of DG NEAR consist of the following elements:

- Pre-financing, long-term and short-term
- Holdings in financial instruments, plus cash and cash equivalents associated with those financial instruments

In order to protect the budget of the Union, DG NEAR procedures require the proper management of its pre-financing (pre-financing paid kept to the minimum possible, clearing undertaken regularly based on the financial reports and audits or contractual benchmarks). Work in recent years to reduce pre-financing granted under IPA and IPA II programmes managed by beneficiary countries has resulted in a significant reduction in the level of pre-financing open in this area. DG NEAR also requests and keeps in safe custody appropriate guarantees on pre-financing.

Partner International Financial Institutions submit annual reports on the financial instruments (including any associated cash holdings). Cash payments to these financial instruments reflect the minimum required for operational effectiveness.

2. Efficiency = the Time-to-... indicators and other efficiency indicators

➤ **Analysis of Financial Key Performance Indicators**

DG NEAR monitors 24 key performance indicators (KPIs) on an annual basis; they are grouped around three objectives related to financial operations:

- Sound Financial Management and Efficient Use of EC Resources (KPI 1 to 13)
- Effectiveness of Internal Controls (KPI 14 to 20)
- Effectiveness of Audit systems (KPI 21 to 24)

These indicators represent an additional layer in the internal control structure of the DG, to ensure that the achievement of the general objectives is sound, efficient and effective.

For each KPI, targets/benchmarks are set at the beginning of the year against which each entity managing funds within the DG (Delegation/Unit/Directorate) needs to deliver. The delivery by all entities contributes to the overall results of

the DG and allows the detection of areas where follow up is required.

➤ **KPI Results 2019**

In 2019, the KPIs reaching the aggregated targets at DG level were 23 out of 24, corresponding to an overall **rate of 96%** (84% in 2018). This result indicates **continuity in the improvement of DG NEAR performance in financial management and control**. An important efficiency indicator is KPI 11 "time to pay" which is reported well above the minimum rate of "85% paid within contractual deadline" since 2017. Thanks to careful and regular monitoring of all open invoices and their deadlines via the existing dashboards, DG NEAR has managed to reach 91.73% of payments within the given deadlines.

KPI Name (*)		KPI result 2019	Annual Target/Benchmark	KPI result 2018
A - Sound financial management and effective use of EC Resources				
K01	Accuracy of initial annual financial forecast for payments	98.80%▲	From 90% to 110%	90.31%▼
K02	Accuracy of initial annual financial forecast for contracts	101.01%▼	From 90% to 110%	111.13%▼
K03	Accuracy of initial annual financial forecast for decisions	97.77%▲	From 90% to 110%	96.13%▼
K04	RAL Absorption Period	4.32▼	Less than 4 years	4.35▼
K05	Time to Grant	38.42▼	No more than 90	71.76
K06	% of Projects with a red traffic light for Implementation Progress.	3.14%▼	Not more than 10%	3.87%▼
K07	% of Projects with a red traffic light for Achieving Results	3.45%▼	Not more than 10%	3.87%▲
K08	Reduction of Old Pre-financing	37.98%▲	At least 25%	35.72%▲
K09	Expired Contracts as a % of the contract portfolio	12.09%▼	Not more than 15%	14.76%▲
K10	Reduction of Old RAL	43.83%▲	At least 25%	22.61%▲
K11	% of payments paid within the contractual deadline	91.73%▲	At least 85%	90.82%▲
K12	% invoices registered within 7 days of the Commission reception date	89.01%▼	At least 80%	90.70%▲
K13	Use of DEVCO/NEAR staff and respect of the flexibility arrangements	100.00%=	Yes for 100% of Delegations	100.00%=
B - Effectiveness of Internal Control Systems				
K14	ICF – Control Environment	94.09%▲	At least 80%	92.47%
K15	ICF – Risk Assessment	93.04%▲	At least 80%	91.98%
K16	ICF – Control Activities	91.30%▲	At least 80%	88.99%
K17	ICF – Information and Communication	93.91%▼	At least 80%	94.11%
K18	ICF – Monitoring Activities	92.61%▼	At least 80%	93.49%
K19	% of projects visited by Commission staff and/or the HoD, by project value	91.83%▲	At least 80%	85.68%▲
K20	Undue payments prevented by ex-ante controls as a % of the claimed amount	3.37%▼	At least 2%	5.12%▼
C - Effectiveness of audit system				
K21	% contracted of the Annual Audit Plan: Year N	72.92%▲	At least 60%	71.33%▼
K22	% implementation of the Annual Audit Plan: Year N-1	73.78%▲	At least 40%	68.98%▼
K23	% implementation of the Annual Audit Plan: Year N-2	86.35%▼	At least 60%	86.45%▼
K24	Ineligible amounts identified by audits as a % of the audited amount	3.30%▲	At least 2%	1.26%▼

The target for KPI 4 'RAL absorption period' was not met at DG level: although there is the slight reduction compared to 2018, it remains above four years. This

reflects the influence of IMBC in the portfolio where the period for implementation allowed to beneficiary countries is longer than four years. If this element of the portfolio were excluded, this KPI would have been achieved and in green.

A – Sound financial management and effective use of EC resources

KPI 04 - RAL Absorption Period

The RAL absorption period is slightly above the target (4.32 years against a target value of less than 4 years). This is in line with the result in 2018 (4.35 years). Due to a combination of high committed amounts and low levels of payments during the reporting year, 16 Delegations did not meet the benchmark for this KPI. .

In ENI certain payments could not be made, largely related to budget support measures, where general eligibility criteria or result indicators triggering payments had not been fulfilled by the beneficiary countries.

For IPA, payments were impacted by delays in implementation of activities under indirect management through the Turkish Authorities.

Given the fact that indirect management through beneficiary countries contributes to the underperformance, DG NEAR will review the best use of this instrument in the next programming rounds and under the new MFF.

B – Effectiveness of internal control systems (ICS)

All KPIs related to effectiveness of internal control systems (ICS) reached the aggregated 2019 targets at DG level.

C – Effectiveness of audit system

KPI24 - Ineligible amounts identified by audits as a % of the audited amount

EUR 29.9 million of ineligible expenditure was detected in 2019, corresponding to 3.27% of the total audited expenditure (EUR 913.3 million). The result is higher than in previous years (1.26% in 2018 and 1.37% in 2017), largely due to a high amount of ineligible expenditure identified through an audit on a grant, representing 42% of the total ineligible amount (EUR 12.6 million out of EUR 29.9 million).

Overall, it can be concluded that contracts are well monitored by both HQ and EU Delegations (EUD) and ineligible costs are detected at earlier stages. This is also reflected in the level of residual error (0.53%).

Results at Delegations level

Out of a total of 22 DG NEAR Delegations signing the EAMR, 21 met the target of minimum 60% green KPIs. Due to the ongoing conflict in the country and as in the previous years, only one Delegation, Syria, did not achieve the benchmark of more than 60% of green KPIs, A detailed analysis of KPIs is provided in Annex 11.

% of green KPIs	2017		2018		2019	
	Number of Delegations	%	Number of Delegations	%	Number of Delegations	%
Total Delegations	22		22		22	
80% and more	15	68%▲	17	77%▲	19	83%▲
60% and more	21	95%=	21	95%=	21	95%=
Less than 50%	1	5%=	1	5%=	1	5%=

3. Economy = the cost of controls

In 2019, the **cost of controls**³⁴ in DG NEAR has been estimated at EUR 78 million³⁵ (EUR 88 million in 2018). The estimation is based on spending on human resources related to internal control, as well as on evaluation and audit³⁶.

Human resource costs are estimated at EUR 60 million (EUR 77 million in 2018) and include direct, indirect and overhead costs. The calculation is based on the number of officials and contract agents in headquarters and officials, contract agents and local agents in EU Delegations, multiplied by the corporate average costs, using allocation keys for each unit.

Evaluation and monitoring costs have been estimated at EUR 12.3 million (EUR 6.3 million in 2018), and *audit costs* at EUR 5.2 million (EUR 5.1 million in 2018)

Staff cost of controls is split by management mode, using a weighting key: 80 (total payments)/20 (number of contracts). Other costs (audits, evaluation, monitoring) are split according to the type of contracts controlled.

The below table provides the specific cost of controls related to the five relevant control systems³⁷.

Management mode		Cost of control	% of expenditure
RCS1	Grants in Direct Management	14.452.629,15	2,83%
RCS2	Procurement in Direct Management	14.466.938,21	4,58%
RCS3	Budget Support	8.779.166,44	2,07%
RCS4	Indirect Management with Beneficiary Countries	11.337.673,84	2,15%
RCS5	Indirect Management with Entrusted Entities	21.454.689,09	2,20%
	Total	70.491.096,72	2,56%

The ex ante controls represent 90% of the cost of control, whilst the ex post represent 10%.

³⁴ Control is defined as per article 2 of the Financial Regulation

³⁵ The total cost of controls includes also costs related to expenditure not included in the five RCSs, hence the different total amount in the table focusing on the RCSs.

³⁶ The calculation of the cost of controls includes only the costs of the Commission and excludes those of the IMBC authorities or IMEE partners

³⁷ More information on the calculation of the cost of controls per management mode is provided in Annex 10, section 2

The RCS showing the highest percentage of cost is procurement in direct management (4.58%), mainly due to the significant ex ante checks and audits required. However, it remains below 5% and consistent with the situation in previous years.

Cost in indirect management with entrusted entities excludes the management fees allocated to these entities (up to max 7%³⁸).

The RER study has included the calculation of an error rate by RCS since 2017 in order to detect any spending area that should require additional controls in the future.

The cost of controls as a proportion of the value of the total funds managed in 2019³⁹ is equal to 2.4%, hence consistent with 2018 results (2.8%) and below the target of 5% set in the management plan. The total cost of controls is assessed also in relation to the benefits of controls (sound financial management as confirmed by the low Residual Error Rate below 2%) and the financial benefits of controls, amounting to EUR 135.9 million⁴⁰. Based on the above, the cost of controls is considered as sound.

4. Conclusion on the cost-effectiveness of controls

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

DG NEAR builds on the effectiveness of its control system, which allows to prevent errors to a large extent, as confirmed by the low error rates. Two reservations are maintained in 2019: a non-quantifiable reservation due to the difficulties in monitoring adequately all projects in Libya and Syria and a quantified reservation on direct management - grants. For the other areas, 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.

In terms of efficiency, the time to-... indicators and the KPIs show continuity and stability compared to last year. In 2019, 23 out of 24 KPIs reached the target⁴¹, with an overall success rate of 96% (84% in 2018). All but one DG NEAR Delegations met the target of minimum 60% of green KPIs.

In terms of economy, the control strategy (stable for the past two years) has a global percentage of cost of controls (2.4%) which is well below the corporate ceiling amount (5%) and stable over time. The control strategy is continuously reassessed through KPIs, RER and other assessments, to enhance control on the most risky transactions, while keeping a balance between the

³⁸ The entrusted entities' cost of control has been estimated at maximum EUR 68 million, based on the management fees set in the agreements. These management fees include however other costs than control costs in the strict sense.

³⁹ Including controls on expenditure not falling under one of the five RCSs.

⁴⁰ This is the sum of ineligible expenditure detected by ex ante controls (EUR 127.9 million) and recovery orders of ineligible expenditure (EUR 8 million)

⁴¹ Improvement is still necessary for KPI 4 (RAL absorption).

financial/reputational impact of errors and the cost of controls.

2.1.2. Audit observations and recommendations

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

European Court of Auditors

During 2019, DG NEAR has ensured the coordination, quality control and follow-up of implementation of the recommendations of the ECA, IAS, EP and Council.

➤ **DAS 2018 (discharge)**

The DAS 2018 exercise again followed the new methodology implemented during DAS 2017. Under this methodology, no error rate was calculated for the 'Global Europe' chapter, as the number of the transactions subject to audit by the Court of Auditors was not statistically representative.

The ECA has put reliance on the RER study commissioned by DG NEAR.

In its annual report on accounts, in relation to DG NEAR's RER study the ECA issued one recommendation: to take steps to adapt the methodology to limit full-reliance decisions, and to monitor its implementation closely. In this respect, DG NEAR has taken the following actions:

- The specific terms of reference for the 2020 RER study have been revised, to include an update to the RER methodology in line with this recommendation.
- Specific measures to reduce the extent to which full reliance is placed have been also adopted.

No findings on DG NEAR detected by the Court in 2018 affected the overall Commission accounts published in 2019.

➤ **Performance Audits**

The detailed analysis of the ECA performance audits published in 2019 is included in Annex 10.

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

Currently DG NEAR has 37 open ECA/EP/Council recommendations as lead DG and 21 as associated. These relate mainly to the performance audits on EU support to Morocco and data quality in budget support, for which action plans are being finalised. Both audit reports were published in December 2019.

In 2019, DG NEAR closed nine ECA/EP/Council recommendations for which it was in the lead and 25 ECA/EP/Council recommendations for which it was an associated DG.

Internal Audit Service

The IAS limited conclusion on the state of internal control in DG NEAR for 2019 is that the internal control systems in place for the audited processes are effective, except for observations giving rise to six 'very important' recommendations

The six very important recommendations stem from the following IAS audits:

- Annual audit plans, report issued in December 2019 (two very important recommendations)
- EC and EEAS coordination, report issued in January 2019 (one very important recommendation)
- Neighbourhood Investment Facility and Western Balkans Investment Facility, report issued in December 2018 (three very important recommendations)

The Action Plan to address the recommendations stemming from the audit on Annual Audit Plans is under IAS review.

The very important recommendation on EC and EEAS coordination has been implemented and the report sent to IAS in February 2020.

Measures to address the recommendations following the audit on Neighbourhood Investment Facility and Western Balkans Investment Facility are being implemented as per action plan.

There are no critical recommendations.

➤ **Audit reports issued by IAS in 2019 and beginning of 2020**

In 2019 and January 2020, IAS issued two audit reports: one covering the establishment (including risk assessment), implementation and overall monitoring and reporting on the implementation of the annual audit plans both by HQ and EU Delegations; the second covering the ex ante control on interim and final payments under ENI and ENPI.

The IAS audit on Annual audit plans concluded that the guidance on the risk assessment leading to establishment of the control plan (and of the annual audit plan, its subset) is well developed, however, weaknesses exist in terms of the follow up of audit results and of the key performance indicators.

As a result, the IAS has issued three recommendations, of which two are very important and one is important.

The IAS audit on ex ante control on payments under European Neighbourhood Instrument (ENI) and European Neighbourhood and Partnership Instrument (ENPI) assessed the effectiveness and efficiency of ex ante control on interim and final payments under ENI and ENPI. It reached an overall positive conclusion and IAS issued two recommendations, both rated as important.

➤ **Follow-up on IAS recommendations from previous years' audits**

In 2019 DG NEAR closed five recommendations. There are currently 19 open⁴² recommendations: all recent, none overdue nor critical.

Conclusion

In 2019, DG NEAR closed nine ECA/EP/Council recommendations for which it was in the lead and 25 ECA/EP/Council recommendations for which it was an associated DG. The two overdue recommendations still existing at the end of 2019⁴³ have been addressed, DG NEAR will report on them during the first quarter 2020.

DG NEAR has also implemented IAS recommendations on schedule, however the open very important recommendations have an impact on the effectiveness of internal control principle 12, so DG NEAR considers its internal control system as partially effective, as reported in detail in section 2.1.3 (below).

2.1.3. Assessment of the effectiveness of internal control systems

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

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

Management assesses the effectiveness of the internal control systems, in order to determine whether they work as intended and ensuring that any control weaknesses in the system are detected, analysed and considered for improvement.

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

Assessment of the internal control systems

Management has assessed the effectiveness of the internal control system following the methodology established in the "*Implementation Guide of the Internal Control Framework of the Commission*". All internal control principles (ICPs) are present and functioning, **except for** ICPs 10, 12 and 15.

⁴² "Open" recommendations include also recommendations on which DG NEAR may have reported already, but are not yet closed by IAS.

⁴³ Two recommendations stemming from the Special Report 7/2018 on EU pre-accession assistance to Turkey

The assessment of effectiveness of the internal control systems has been carried out based on several sources:

- **Review at internal control principle and component level:**

The review included the analysis of the internal control principles based on:

- ✓ **Internal control monitoring criteria (ICMC):** ICMC were revised at the end of 2018 and 40 ICMC were established in order to monitor the effectiveness of the internal control system of the DG. These were reviewed by desk review and using the results of the anti-fraud survey. No major control deficiency was identified based on the ICMC.
- ✓ **ECA/IAS Audits:** Two new very important IAS recommendations on annual audit plans have led to an action plan addressing the underlying issues. Actions on three open very important recommendations on the Neighbourhood Investment Facility and the Western Balkans Investment Framework are being implemented while the deadlines for those are approaching in March and June 2020. These have an impact on the functioning Internal Control Principle 12.

DG NEAR has 37 open ECA/EP/Council recommendations as the lead DG and 21 as associated. 24 of these relate to the results of the recently (mid-December) published 2019 performance audits on EU support to Morocco and data quality in budget support for which follow up action plans are being finalised. There is no residual critical risk on open recommendations that can affect the declaration of assurance.

- ✓ **RER study:** the control objective is to ensure that the residual error rate (RER) is below 2% at the end of the management cycle. The RER study 2019 concluded with the following rates: DG NEAR overall residual error rate is 0.53%, the rate for direct management grants is 2.65% and the rate for IMBC is 0.26%. While the overall rate for the DG remains low, the RER for grants in direct management remains above the material threshold for the third consecutive year. This major internal control deficiency has an impact on ICP 10 as the control objective to ensure that the RER is below 2% at the end of the management cycle was not met for the grants section of the DG's expenditure. It also leads to maintaining a reservation, as detailed in section 2.1.5.
- ✓ **Anti-fraud strategy:** while the implementation of actions of the anti-fraud strategy in 2019 has not revealed major internal control deficiencies, anti-fraud awareness raising actions need to be further intensified.
- ✓ **Validation of local financial management systems:** in 2019 DG NEAR was subject to four reports on validation of local systems. Recommendations have been followed up and some actions are due in the first quarter of 2020: guidance notes on the clearance of pre-financing and on criteria on assessing whether balances on fiduciary accounts are excessive will be prepared. As regards the accounting process DG BUDG reassessed the level of accounting

risk for DG NEAR as medium and the resulting risk score is 39 out of a maximum of 80.

- **Critical risks:** DG NEAR established its 2019 risk register through a risk assessment exercise and conducted a mid-year review in July. 11 risks were identified (three critical and eight significant risks). The critical risk affecting ICP 12⁴⁴ is the risk on adequate monitoring of projects in Syria and Libya. ICP 15⁴⁵ is affected by the critical risk on misinformation. The critical situation on the ground in Libya and security/political concerns in Syria continued in 2019, constraining the ability of the EU to adequately monitor all EU projects. DG NEAR cannot perform all the required checks due to the enduring instability/volatility in the countries. It is therefore not possible to achieve the same level of assurance on legality and regularity as in the cases where such controls and checks have been performed. This major internal control deficiency has an impact on ICP 12 and leads to the reservation reported in section 2.1.5 of this report. However, the risk is beyond control by the Commission and therefore accepted, as no mitigating measure can completely offset the risk of operating in an active conflict zone without presence on the ground.

- **All other risks are closely monitored and do not affect the statement of assurance.**

- **Self-assessment:** at headquarters, the self-assessment of the effectiveness of the internal control systems has been carried out as desk review and through the anti-fraud survey. At Delegation level, the self-assessment has been carried out via a survey sent to all Delegations by the EEAS, whose results fed into five internal control KPIs, which are part of the DG NEAR internal control monitoring criteria. Overall, on the effectiveness of all Internal Control Components in the EUDs the level ranges from 94% for control environment to 91% for control activities.
- **Supervision missions:** they provide key elements of assurance to the AOSD, as well as insight into the Delegations' capacity to manage EU external assistance and to achieve their goals. In 2019, five supervision missions took place. A need to reinforce ethics and integrity training and anti-fraud awareness was identified.

- **Exceptions, non-compliance events and confirmations of instruction:**

In 2019, the number of the exceptions and non-compliance events continued to decrease.

	IPA	ENI	Total
Exceptions	14	26	40
Non-compliance events	5	5	10
Total	19	31	50

⁴⁴ ICP12: the Commission deploys control activities through corporate policies that establish what is expected and in procedures that put policies into action

⁴⁵ ICP15: the Commission communicates with external parties about matters affecting the functioning of internal control

The trend went down from 105 in 2017, to 74 in 2018 and to 50 in 2019. For the TFs four non-compliance events were reported in 2019. No major control deficiency has been identified from the register of exceptions and non-compliance events.

There is no confirmation of instruction to be reported for the year 2019.

In conclusion, DG NEAR has assessed its internal control system during the reporting year and has concluded that it is **partially effective, as internal control principles 10 and 12 need major improvements, which could have an impact on the assurance.** Internal control principle 15 needs improvements. In particular, the internal control deficiencies in ICPs 10 and 12 lead to a reservation in the declaration of assurance as detailed in section 2.1.5. For all other aspects, management has reasonable assurance that, overall, suitable controls are in place and working as intended; other risks are being appropriately monitored and mitigated; and necessary improvements are being implemented.

Improvements and remedial measures implemented and planned

For grants in direct management

Several training and awareness raising actions were conducted for EU Delegations in 2019, sharing best practices in expenditure verification for grants, checking cost eligibility and the use of PRAG template for terms of reference applying to expenditure verification. In order to strengthen the checks of payment requests on grants, a training given by NEAR Unit D5, which manages an important grant portfolio was organised. The purpose was to ensure that operational staff processes grant payments consistently.

ENI and IPA Finance and Contracts SharePoint (collaborative platform) has a dedicated part on best practices and guidance on grant contract management. Closer collaboration between the two DG NEAR Contracts and Finance units has enabled to unify approaches towards same grantees, sharing information on problematic cases, common audits, etc. Earlier involvement of the Contracts and Finance units in preparation of grant contracts/budgets is also ensured. Reduction of pre-financing is considered in case of grantees with weaker capacities.

In 2020, additional measures will be adopted: the typology of errors in direct management grants will be analysed in depth, shared and explained in detail to all the actors in the financial circuits and to the grantees. Various actions will be carried out to this purpose: dedicated information sessions, increased use of the collaborative platforms, seminars for Heads Finance and Contracts, Heads of Operations and Financial Officers; kick-off meetings for new grantees to explain both their contractual obligations and clear information on the most frequent sources of errors in grants management and their implications. Further training on grant invoice processing will be provided to operational staff. Preventive approach will be promoted for grant contracts in the control plans.

Concerning the measures related to the reservation on projects in Syria and Libya

Two contracts for "third-party monitoring" of projects inside Syria (for regime-controlled and opposition areas respectively) started in January 2018 and are ongoing. This independent monitoring mechanism is essential to ensure compliance with the EU operational parameters for ENI aid in Syria. The contracts aim to: 1) perform regular monitoring/evaluation of ongoing EU portfolio in Syria, 2) perform context analysis to support informed targeting of assistance, 3) perform vetting of local partners.

For Syria, another contract is ongoing since 2018 that performs detailed and on-demand analyses on trends, local political economy and war economy dynamics. The contract helps to inform ENI decisions on entry points, risks and opportunities.

Furthermore, in view of the perceived increased financial risks on implementation in Syria, all projects in the EU Delegation Syria portfolio are subject to audit or expenditure verification mission.

A contract for monitoring the EU projects in Libya started in August 2018. However, this monitoring contract only covers the health sector and implementation has proved difficult. In October the Commission adopted the 2019 special measure for Libya, which includes another contract aimed at strengthening third party monitoring of EU projects.

Projects in Libya implemented under the Budget and the TF are also subject to regular audit or expenditure verification.

Conclusions on the assurance

This section reviews the assessment of the elements already reported above (in Sections 2.1.1, 2.1.2 and 2.1.3), and the sub-conclusions already reached. It draws an overall conclusion to support the declaration of assurance, and whether it should be qualified with reservations.

The information reported in Section 2.1 stems from the results of management and auditors review. 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 comprehensive coverage of the budget delegated to the Director-General of DG NEAR.

DG NEAR split the population of financial transactions in three segments. The Residual Error Rate (RER) for two segments is far below 2%: the main rate at 0.54% and Indirect Management with Beneficiary Countries at 0.26%. For grants in direct management, the RER is at 2.65 %.

The control instruments in place cover the entire budget expenditure managed by the DG. DG NEAR has described five major control environments (Relevant Control Systems - RCS), covering 88% of the total expenditure. The EU TFs operate in the general system of internal control defined by the Commission. The rules and procedures developed by DG NEAR for the management and implementation of its operations are equally applicable to the EUTFs.

Each RCS has been assessed at low or moderate risk, except for Direct Management Grants, which is considered a high-risk area with the RER for Direct Management Grants at 2.65 %, therefore the reservation is maintained for the third consecutive year.

The accountability and reporting chain in DG NEAR is organised as a pyramid through which the statements of assurance signed by each Head of Delegation set the basis for the assurance provided by the other sub-delegated Authorising Officers at the upper levels of the pyramid. All Authorising Officers by sub-delegation substantiate their statements of assurance in their annual reports taking into account the results achieved for 24 KPIs grouped in three categories: sound financial management, efficiency of the internal control systems and efficiency of the audit system. The KPI results are automatically assessed via the

benchmarks through a “traffic lights” system.

In 2019, 23 green KPIs out of 24 represent another positive result that strengthens the assurance. Only KPI 4 on RAL absorption period failed to reach the 2019 target at DG level.

All DG NEAR Delegations continued to meet the target of minimum 60% of green KPIs, with the exception of the Delegation to Syria. The failure to meet most KPI targets in Syria and the serious difficulties in adequately monitoring projects is the basis for a non-quantified reservation. This conclusion also applies to contracts managed in Libya.

The global cost of control is estimated at 2.4%, it is sound, consistent with previous years and well below the benchmark of 5%.

Continuous efforts have been made throughout 2019 to address past internal (IAS) and external (ECA) audit recommendations. During the 2018 Discharge, the ECA addressed two recommendations to DG NEAR: limiting full-reliance decisions under the RER study and improving cooperation with International Organisations in the context of ECA audits. DG NEAR has fully taken into consideration these recommendations. Efforts to implement the remaining open IAS and ECA recommendations will continue in 2020, prioritising the audited processes with very important IAS recommendations.

Other Internal Control Objectives have been achieved, i.e. an effective Anti-Fraud Strategy and continuous scrutiny of requirements concerning the reports on the financial instruments.

The Internal Control Framework is effective, except regarding internal control principles 10, 12 and 15. However, mitigating actions have been put in place during the risk management exercise and where necessary a reservation made.

DG NEAR’s assessment of legality and regularity for the grants component of ENI and IPA programmes returns a level of detected error which appears to be “persistently high” in terms of potential financial impact (exposure). It should, however, be noted that the error rate has been relatively consistent at a level just above the materiality threshold of 2% (2017: 2.80%, 2018: 2.26%, 2019: 2.65%). The relatively high error rates need to be analysed taking into consideration the particular environment in which DG NEAR operates.

There is an inherent risk related to this key modality, which is linked to DG NEAR’s policy objective of reaching out, amongst others, to smaller, local and grass-root non-governmental organisations in fields such as civil society and media.

The grant reimbursement mechanism is based on eligible actual costs and reimbursement claims submitted by the beneficiaries. The errors detected are mainly linked to the lack of understanding or misinterpretation of the relative complex contractual provisions and most prominently to the safeguarding of the documentary evidence to the cost incurred.

DG NEAR has implemented suitable ex-ante and ex-post controls to the extent that they remain cost-effective and do not affect the other policy/programme objectives.

In addition, DG NEAR is continuously striving to simplify and harmonise the design of grants in collaboration with other Directorates-General and in

compliance with the provisions of the new Financial Regulation.

Therefore, under the prevailing risk environment and from a managerial point of view, DG NEAR's AOD can sign the Declaration, even with a reservation concerning the monitoring difficulties of projects in Libya and Syria and a reservation on grants in direct management.

Overall Conclusion

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by a reservation concerning difficulties in monitoring adequately all projects in Libya and in Syria (non-quantified reservation) and a reservation on grants in direct management (quantified reservation).

2.1.4. Declaration of Assurance and reservations

I, the undersigned,

Director-General of Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR)

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view⁴⁶.

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

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

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

However, the following reservations should be noted: reservation concerning the difficulties in monitoring adequately all projects in Libya and Syria (non-quantified reservation) and reservation concerning the errors in expenditure in Direct Management Grants (quantified reservation).

Brussels, 31 March 2020

"signed"

Christian Danielsson

⁴⁶ True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG.

Reservation 1

DG	NEAR
Title of the reservation, including its scope	Difficulties in monitoring adequately all projects in Libya and in Syria (Non-quantified reservation)
Domain	Direct Management Grants and Procurements, Indirect Management with Entrusted Entities.
Programme in which the reservation made and total (annual) amount of this programme	Part of the programmes specifically targeting Syria (EUR 47 million paid in 2019) and Libya (EUR 14.9 million paid in 2019) under the Budget that is implemented inside these two countries.
Reason for the reservation	<p>Providing financial assistance through ENI in Libya is of high political importance in the context of the establishment of relations with this strategic country (security and migration). Developments on the ground are however making it difficult to adequately monitor all projects for their part implemented in-country.</p> <p>Similarly, the ENI contribution for Syria is important for the implementation of the EU policy on Syria with a focus on addressing some triggers for migration and violent extremism, and ensuring some sort of stability and inclusion at the local level. The Syrian war is in its 9th year and the security context remains volatile, especially along the northern borders and direct monitoring of projects inside Syria is increasingly difficult.</p> <p>The Delegation Syria does not operate via standard monitoring and evaluation activities, as it cannot plan in-country project site visits by its staff or ROM monitors in the vast majority of locations due to the security and political constraints.</p> <p>However, DG NEAR has taken risk-mitigating measures as described below.</p>
Materiality criterion/criteria	The legality and regularity-related criterion of 2%
Quantification of the impact (= actual exposure")	There is no quantification of the impact. For the time being, there is no indication of material infringement of the legality and regularity in these programmes; however, DG NEAR cannot perform all the monitoring of activities it needs to perform, due to the instability in the countries.
Impact on the assurance	<p>The report potentially does not give a true and fair view.</p> <p>Resources may potentially not be used for the intended purpose.</p> <p>Principles of sound financial management may potentially not be respected.</p> <p>The legality and regularity of financial transactions may potentially be at stake.</p>
Responsibility for the weakness	Instability and conflict situation in the concerned countries.

<p style="text-align: center;">Responsibility for the corrective action</p>	<p>In order to mitigate the lack of field monitoring by Commission staff in these conflict zones, contracts have been signed to train independent experts to monitor projects in the field and provide the necessary feedback to the concerned Delegations on a regular basis, in particular:</p> <ul style="list-style-type: none"> • Two contracts for "third-party monitoring" of projects inside Syria (for regime-controlled and opposition areas respectively) started in January 2018 and are ongoing. This independent monitoring mechanism is essential to ensure compliance with the EU operational parameters for ENI aid in Syria. The contracts aim to: 1) perform regular monitoring/evaluation of ongoing EU portfolio in Syria, 2) perform context analysis to support informed targeting of assistance, 3) perform vetting of local partners. • For Syria, another contract is ongoing since 2018 that performs detailed and on-demand analyses on trends, local political economy and war economy dynamics. It helps to inform ENI decisions on entry points, risks and opportunities. • Furthermore, in view of the perceived increased financial risks on implementation in Syria, all projects in the EUD Syria portfolio are subject to an audit or expenditure verification mission. Until now, no particular difficulties linked to access to supporting documents have been reported by the auditors. The auditors have identified in 2019 a marginal 1,13% rate of ineligible expenditure. • 13 out of 31 ongoing projects could be visited by Commission Staff and/or Head of Delegation, for an amount of EUR 40.7 million, representing 27% of the value of all ongoing projects in Syria (EUR 148.4 million). However, the visits took place outside Syria (e.g. Gaziantep) or in Damascus only. • A contract for monitoring the EU projects in Libya in the health sector started in August 2018. However, implementation has proved difficult. In October, the Commission adopted the 2019 special measure for Libya, which includes another contract aimed at strengthening third party monitoring of EU projects. The objective of the "Third Party Monitoring of Results in Libya Framework", signed in 2019, is to conduct regular monitoring activities of EUTF-funded actions throughout Libya with the aim to provide the EUTF team and implementers with rapid feedback on the delivery of programme activities. • Projects in Libya implemented under the Budget and the Trust Fund are also subject to regular audit or expenditure verification. <p>In-country verifications and other controls on the EU-funded programmes will fully resume by Commission staff, or by external experts within the ROM context, as soon as the situation in the countries allows. Cross-checking of oral, written and visual information from project partners and risk-based review of contract portfolio will continue in 2020.</p>
--	--

Reservation 2

DG	NEAR
Title of the reservation, including its scope	Error rate above 2% in Direct Management Grants (quantified reservation)
Domain	Direct Management Grants
Programme in which the reservation is made and total (annual) amount of this programme	All activity-based budgeting (ABB) activities in which the domain is used. The corresponding amount of payments made is equal to EUR 604 687 700,64.
Reason for the reservation	Material occurrence of errors in the underlying transactions (legality and regularity).
Materiality criterion/criteria	The materiality criterion is the residual error rate (RER), i.e. the level of errors that remain undetected and uncorrected by the end of the management cycle. The control objective is to ensure that the RER is below 2% at the end of the management cycle. As long as the RER is not (yet) below 2% at the end of the reporting year, a reservation should be made.
Quantification of the impact (= actual exposure")	The estimated amount at risk for the EU is calculated by multiplying the error rate for direct management grants (2.65%) by the relevant expenditure for grants (EUR 593 616 656.11) in 2019. The actual exposure for 2019 is estimated at EUR 15 730 841.39.
Impact on the assurance	Legality and regularity of the affected transactions. The assurance is affected within the scope of the quantified budgetary impact.
Responsibility for the weakness	Units/Delegations in charge of the respective contracts for which a residual error was found.
Responsibility for the corrective action	<p>The action plan includes the following elements:</p> <ul style="list-style-type: none"> To promote a preventive approach in the control plans (i.e. increased on-the-spot checks of grant contracts towards the beginning of projects and increased audits on contracts after final payment and before closure as necessary). The typology of errors in direct management grants will be analysed in depth, shared and explained in detail to all the actors in the financial circuits and to the grantees. Various actions will be deployed for this purpose: dedicated information sessions, increased use of the collaborative platforms, seminars for heads of finance and contracts administrators, and heads of operations and financial officers; kick-off meetings for new grantees to explain their contractual obligations and provide clear information on the most frequent sources of errors in grants' management and their implications. To provide further training to operational staff on how to deal with grant invoices.

2.2. Other organisational management dimensions

This chapter presents the examples of DG NEAR's initiatives in 2019 to increase its economy and efficiency in achieving its general objectives. In addition, a short summary of the main achievements in the area of human resource management, better regulation, information management and external communication are explained in comparison with the objectives set in the Management Plan 2019. The narrative supports the data presented in Annex 2.

Examples of Economy and Efficiency

As set out in the Management Plan 2019 DG NEAR has implemented a number of initiatives focusing on achieving general DG objectives in a more economic and efficient manner.

Examples of Economy and Efficiency as per Management Plan 2019:

Developing a Finance, Contracts and Audit (FCA) community of practice between HQ and Delegations via an increased use of sharepoint

In order to support financial actors in DG NEAR in applying and interpreting legal and financial procedures in a consistent manner a 'Finance, Contracts and Audit community of practice' was developed throughout 2019. A first joint ENI & IPA Finance and Contracts Seminar took place in March 2019, bringing together more than 80 colleagues from HQ and NEAR Delegations. Support to Delegations has been greatly helped by the setting up of a SharePoint platform to systematise and organise the submission of requests for assistance. The platform contributed to overall coherence in budget implementation and application of rules and procedures for DG NEAR as well as increasing efficiency and effectiveness in addressing requests for assistance.

Migration to OPSYS/IPA-APP IT application

DG NEAR currently relies on a large portfolio of IT applications developed by DG DEVCO or in-house. The Commission's IT rationalisation, 2018 and 2019 marked the start of a transition to a new corporate application (Opsys) developed by DG DIGIT with the help of DG RTD and DG DEVCO. In particular, the result management features previously available in the local MIS application have been made available in the corporate Opsys application, which resulted in savings for IT development, maintenance and support. In 2019, following a gap analysis, the development continued on the path of rationalisation with the migration of the MIS forecasting and procurement planning functions into Opsys.

The development of the IPA-App allowed for a fast modernisation of the IT tool used for IMBC since 2004 (I-Perseus). Thanks to the reuse of components developed for MIS, this modernisation was done at a lower cost. In 2019, IPA APP was fully rolled out in Serbia and North Macedonia. Rollout in Albania, Montenegro and Turkey is foreseen for the first half of 2020. The modernisation addresses IAS recommendations and allows Beneficiary Countries to upload their data, which until now they were unable to do. The development resulted in efficiency gains thanks to the harmonisation of the user interface, which is now based on a Commission standard, as well as due to the gradual reduction in the number of applications used.

OurNEAR

As a result of the activities of Our NEAR in 2019 **working together in an open and inclusive way has been further enhanced**. In 2019, particular efforts were made to involve EU Delegations. Important outputs were achieved using the participatory approach, such as the preparation of the new Commission, discussions with the EEAS on the future of the work with the neighbourhood and strategic reflections on policy and programming with EU Delegations during the DEVCO/NEAR Co-operation Days.

The more systematic use of participatory approaches has greatly contributed to more efficiency and effectiveness of work within DG NEAR as it allowed to achieve outputs involving a high number of stakeholders within a relatively short period.

2.2.1. Human resource management

In line with the objectives outlined in the AMP 2019, DG NEAR's human resource management focused on:

- **Increasing gender balance in middle management representation in DG NEAR:** By the end of 2019, the female representation rate in middle management was 39% in the DG. The new quantitative targets adopted by the College in 2017 (namely two first time female appointments to middle management positions by DG NEAR until 30 November 2019) was surpassed by five. DG NEAR continues to attract applications from female non-management AD officials to ongoing management selection procedures. Monitoring of gender balance will remain a priority for DG NEAR HR Management in 2020. Gender balance in senior management stood at 37.5% (percentage of female representation) at the end of 2019.

- **Addressing the core issues which contribute to the staff engagement index** namely to ensure that all DG NEAR staff have the tools, training and information they need to do a good job and feel valued for the contribution they make to the DG and to the EU project.

DG NEAR has improved staff engagement significantly (with the staff engagement index⁴⁷ increasing to 69% in 2018 from 59% in 2016, in line with the Commission average result). This positive result reflects the work done across the DG, including by OurNear through participatory leadership. The work continued in 2019 and focused further on addressing the concerns of staff about working methods and workload, and in particular by initialising the development of a management charter. This should contribute to good management practices, a highly motivating environment that is enabling, empowering and, healthy, and allows the DG to reach its highest potential both as an organisation as well as on policy. A bottom-up approach, creating ownership by not only management, but also staff, has been followed.

DG NEAR's fifth staff forum with the Director-General took place in April 2019 and focused on preparation for the next Commission. It followed brainstorming sessions organised in March 2019 with the Centres of Technical Expertise, which focused on circular economy, education, fundamentals and trade. On 13 May DG NEAR organised a Staff Seminar within the framework of the DEVCO/NEAR Co-operation days. The seminar was prepared through consultations with

⁴⁷ This Staff Engagement Index result refers only to HQ did not include results in Delegations.

management and staff, including EU Delegations. The seminar focused on the results of the Staff Survey 2018 and its follow-up and participatory discussions around questions relevant to NEAR programming and policy work for the future.

Results of the staff survey in Delegations were analysed in a working group comprising the RELEX DGs and the EEAS. The group started work on a specific menu of actions from which Delegations could choose in order to respond to the needs expressed in the staff survey.

- **Increasing satisfaction amongst staff with work life balance** through the promotion of **appropriate working conditions**:

DG NEAR continued to promote working conditions that are conducive to achieving a better work life balance, by promoting teleworking opportunities – both structural and occasional – not only in Headquarters but also in EU Delegations. The pilot project for teleworking for staff in the Delegations launched by EEAS in 2018 will be rolled out in 2020.

- DG NEAR launched a **Job Shadowing scheme** in 2019, which promotes increased understanding of working methods through traineeships in other units or Delegations, and facilitates mobility and career planning.

Corporate policy of middle management mobility: In 2019 DG NEAR had no middle managers in mandatory mobility.

Annual mobility: The DG NEAR annual mobility exercise in 2019 resulted in the re-assignment of 10 ADs, including both colleagues from DG NEAR on internal mobility as well as staff returning from EU Delegations to DG NEAR. AST staff were not included in this exercise due to the low numbers involved and the diversity of their profiles. The colleagues reassigned included staff in HQ with more than 5 years in the current job, volunteers in HQ and staff returning to HQ in the annual rotation exercise.

- **External staff Budget:** In order to avoid a shortfall in the budget available for external staff in HQ, DG NEAR ensured that a sufficient number of posts remained vacant throughout the year. Decisions on the publication of posts were taken in coordination with all Directorates concerned, balancing budgetary and operational needs.

2.2.2. Better regulation

DG NEAR does not manage regulatory acquis. See Annex 9 for details about major evaluations carried out by DG NEAR in 2019.

2.2.3. Information management aspects

In 2019, the number of documents that remained unfiled in DG NEAR amounted to 2.09%. This high percentage of filed documents remains stable thanks to regular monitoring. The constantly remaining small percentage of unfiled documents for DG NEAR is due to the natural time delay between the arrival of a document and its filing by the responsible entity. In the Management Plan for 2020, the target will therefore be revised to 2%.

The accessibility of files within the DG was further expanded. In 2019, 94,5% of documents filed in Ares were accessible to the whole DG. The remaining 5.5% concerned protected files related to human resources.

Further progress has been made towards a more paperless office. The use of e-signatories concerns 86% of the documents created in DG NEAR HQ, of which 57% have been purely electronic. This has exceeded the annual target of 50%.

Concerning the number of HAN files to be shared with other DGs, some progress has been achieved in comparison with 2018 with a rate of 7.34% by the end of 2019. The target of 20% for 2019 has not been achieved as the nature of DG NEAR's work required the DG to still prioritise the better sharing of files between HQ and EU Delegations.

Concerning shared ARES/Nomcom files between HQ and EU Delegations, the DMO Team provided eight trainings in Brussels for the EU-Delegations local DMOs in 2019. As a result, the sharing of files between the EU-Delegations and DG NEAR HQ is now standard practise (100% achieved).

DG NEAR closely followed the integration of the IT Systems OPSYS and ROM in relation to document management systems. Several meetings organised by DG DEVCO were attended to monitor the integration, which is expected to be put into production in the 3rd quarter 2020.

Data Protection

In 2019, DG NEAR has continued the implementation of the mapping exercise launched by the Data Protection Officer (DPO) in 2018 in order to align the processing of personal data performed by DG NEAR with the new requirements imposed by the Regulation (EU) 2018/1725.

In particular, the Data Protection Coordinator (NEAR R2) has taken the following actions:

- Stock taking of the data processing activities under DG NEAR's responsibility, assistance to the controllers in converting the legacy notifications into records, up-date the records and the privacy statements in accordance to the general principles of Art. 4 of Regulation (EC) 2018/1725, in particular with regard to lawfulness, transparency, data minimisation and storage limitation to reflect the reality on the ground
- Conversion into records the eight legacy notification (in the process of being finalised and published).
- Revision and creation of records focused on processing operations that correspond to DG NEAR's core business and that could entail higher risks.
- Management and staff have been informed and trained to include data protection considerations in the performance of their everyday tasks; guidance and awareness raising on specific data protection trainings was provided.
- Establishment of joint controllership arrangements with EEAS for a specific processing activity for which DG NEAR and an EU Delegation are joint controllers.
- Publication on NEAR intranet of DG NEAR's procedure for handling notifications of personal data breaches on 16 July 2019, and sent to all staff.

- Analysis of the situation concerning restrictions to the data subjects' rights.
- Delivering two reports on compliance on the Commission's Data Protection Action Plan to the DPO in April and November 2019.

2.2.4. External communication activities

Strategic Communication

In 2019, DG NEAR continued to work closely with the EEAS and EU Delegations/Offices to improve strategic communication on the Enlargement and Neighbourhood policies and implemented information and communication activities addressed at audiences both in the partner regions and in the EU, including the organisation of major events, like the 2019 Media Days, training seminars for national authorities and EUD staff on strategic communication and visibility, as well as press trips. This helped to ensure that key stakeholders and the wider public remained aware and had access to information on policy priorities and developments.

Communicating at the regional level in the Neighbourhood

In the Neighbourhood the main activities implemented in 2019 within the two components of the regional Communication Programme included thematic online campaigns, outreach events (EU Neighbours South – campus tours in Palestine and Morocco; and East – events with Young European Ambassadors across the Eastern Partnership region). Following pilot projects in 2018, 2019 saw the further roll out of two projects across the two Neighbourhood regions (Ukraine, Moldova and Tunisia and Morocco). The projects aim to support EU Delegations in adopting a strategic approach to communication: an EU platform integrating all EU projects that will facilitate the management of communications and a comprehensive consultative exercise to improve strategic communication planning.

Communication activities in the Enlargement region

DG NEAR coordinated the programming and implementation of communication activities of EU Delegations/Office in the enlargement region, with a continued focus on promoting EU values and policies, as well as on better visibility of EU funds and their link to the political priorities set out in the enlargement policy. In addition, the unit continued the implementation of the TAIEX pilot on strategic communication, which provides a platform to exchange know-how between the national administrations in the EU Member States and the government communicators in the Western Balkans.

Communication activities implemented directly by DG NEAR/HQ

In 2019, DG NEAR organised a number of events. The most important were the EU-Western Balkan Media Days in Podgorica (with over 350 media participants) and the EU Award for the Roma integration in the Western Balkans and Turkey (over 250 participants). Outreach activities also included seven press trips for journalists from top EU and regional media and four training seminars for project managers on how to communicate on EU funding.

As part of its outreach activities in the Neighbourhood East and South regions,

press trips (amongst others to Ukraine, Lebanon) were organised as well as a number of communication and visibility training seminars to several Delegations and EU implementing partners in the Neighbourhood South region (amongst others to Algeria and Egypt).

Web and Social Media

The dissemination of information through the DG NEAR website and social media continued to be successful with more people reached and a higher number of impressions and engagements than in the previous year.

DG NEAR continued to coordinate the relevant Europa websites and the DG's social media channels, including relaying political messages, ensuring project visibility and providing assistance on social media handling. The outreach and engagement rates were above the targets set, providing the wider public with access to latest information and activities on our policy areas. On **Facebook**, there were 537 000 followers (an increase of 107 000 compared to 2018), with the overall reach of over 23 million. On **Twitter**, DG NEAR had over 72 000 followers, with the overall reach of 7.7 million. 2019 was the second full year of DG NEAR's **Instagram** presence, with more than 12 000 followers and an outreach of 13 million.

Examples of successful performance in 2019 in external communication:

Performance story 1: EU – Western Balkans Media Days

The third edition of the **EU - Western Balkans Media Days**, organised by the communication unit of DG NEAR, took place on 12 and 13 September 2019 in Podgorica, Montenegro.

The objective of the EU - Western Balkans Media Days, launched in 2017, is to **reconfirm that media freedom remains a priority for the European Commission** and to **address the political, economic and social challenges** faced by the media community in the region. By gathering around 350 participants from the Western Balkans region and the EU, the conference is the largest public event of DG NEAR linked to the Enlargement policy with high media visibility throughout the region.



Aleksandar Bogdanović, Minister of Culture of Montenegro and Director-General Christian Danielsson opened the conference. After a video trailer on challenges and opportunities in the Western Balkans media landscape prepared by the Communication unit, the first half of the day continued with a grand panel *“Ensuring media freedom and sustainability of independent media in the Western Balkans”*, with Director Ruiz Calavera representing the European Commission.

The afternoon included three workshops addressing: (i) media development and the donors' assistance approaches; (ii) the exposure of the communication space

to anti-European narratives; (iii) reconciliation by promoting bottom-up professional cooperation of journalists.

The workshops were followed by a series of lightning talks, showcasing past and ongoing EU supported projects for media in the Western Balkans.

The Media Days were extensively covered on all three NEAR social media channels as well as on the Twitter channels of senior management. As expected, outreach and engagement was particularly high on Twitter, with influencers, media representatives and cooperation partners regularly picking up and sharing our messages. Posts related to the Media Days reached more than **200 000 people** on Facebook, 150 000 on Twitter and 45 000 on Instagram. The hashtag of the conference **#EUWMBmedia** was widely used on social media.

Performance story 2:

'Young European Ambassadors' promoting the EU in the Eastern Partnership region

The '[Young European Ambassadors' \(YEAs\) initiative](#) was launched in June 2016 by the EU Neighbours East communication project, with the purpose of fostering cooperation and sustainable links between young people and youth organisations from the EU Member States and the Eastern Partner countries: Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova and Ukraine. Young people are at the heart of the EU's engagement in the Eastern Partnership region. The **EU Neighbours East communication project** has the objective of improving perceptions of the European Union across the Eastern Partner countries.



The initiative includes an online platform, facilitating mutual exchange of ideas and information on the EU, and promotes engagement of young people in **outreach actions**. It focuses on people-to-people contacts and dialogue-driven activities which contribute to an enhanced understanding and perception of the EU and a greater appreciation of its relationships with the Eastern Neighbourhood. [Videos](#) and posts related to YEAs activities

are very successful on social media, reaching high engagement rates. In **2019**, a fourth call for applications was launched with the aim to further expand the YEAs initiative. As a result, the initiative grew from 478 YEAs after three calls for applications to 728 YEAs from the Eastern Partner countries and EU Member States as the driving force of the network. Their activities include for instance supporting the organisation of public diplomacy and dialogue-driven activities and events in the Eastern Partner countries and the EU or organising 'Stronger Together' social-media contests for young people from the region.

Throughout **2019**, regional and in-country actions have taken place in all six Eastern Partner countries – including YEA's participation in the 2019 edition of the EU days, school visits, international conferences, consultation meetings with high-level EU officials – as well as in several EU Member States. These on-the-ground activities have proven to be very successful in having a long-lasting impact on young audiences' awareness of the EU, and particularly its culture, shared values and what it means to be European. The activities have stimulated young people's curiosity and enthusiasm to find out more about their country's partnership with the EU, including the opportunities for young people.

Performance story 3:

EU4YOUth campus tours reach thousands of students across the Southern Neighbourhood

Communication works when it is targeted to the audiences it aims to reach. The **EU Neighbours South communications project** has the objective of improving perceptions of the European Union across the Southern Neighbourhood countries. It strives to do so by using the **stories of real beneficiaries** illustrating the impact of EU projects and actions. It speaks to its **audience (young people)** using the language they speak and tackles themes they are interested in, such as employment and education opportunities. The **#EU4youth communication campaign** was launched in January 2017 and during that year focused on digital campaigning (social media). In 2018, the #EU4Youth campaign was developed further to include **#EU4Youth campus tour events** in the Southern Neighbourhood partner countries. The #EU4Youth campaign continued in 2019 with the same concept of targeting young university audiences.



Campus tour events take place in three universities/campuses per country. Out of these, at least two are held outside of the capital in order to reach young people from rural areas. During the events, the participants get to know the EU's work and projects in their respective country through engaging activities, e.g. social media contests, graffiti artists, artistic performances, a project fair and interactive "fishbowl" debates.

Following the two Campus tour events in Algeria and Tunisia in 2018, in 2019 Campus tours took place in Palestine and Morocco. The total reach of the Campus tours was over 17,000 students as well as an impressive buzz around the campaign hashtag #EU4YOUth on social media. Two more events are scheduled for 2020, one in Egypt and a second edition in Morocco

In 2019, the EU Neighbours South project managed to attract the support of two Arab singers – Yara (Lebanon) and Douzi (Morocco) who are major celebrities in the Southern Neighbourhood region – as "good-will ambassadors" to promote the Campus tours. This cooperation gave very high visibility to the Campus tours and the #EU4YOUth campaign on social media.

To see what the campus tours are about: <https://youtu.be/QWkRa1yiwGM>